

**GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA**

UNSTARRED QUESTION NO:4201

ANSWERED ON:19.08.2010

PRICING MECHANISMS FOR NATURAL RESOURCES

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Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

- (a) whether the Supreme Court has suggested that the Government has an unfettered right to determine the price of natural resources;
- (b) if so, whether the Government proposes to evolve a natural resources policy covering the exploration, extraction, exploitation and pricing mechanisms of natural resources particularly for oil and gas; and
- (c) if so, the details thereof?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF PETROLEUM & NATURAL GAS (SHRI JITIN PRASADA)

(a): The Supreme Court of India delivered judgment on 7th May, 2010 in Civil Appeal No. 4273 of 2010 [Reliance Natural Resources Limited (RNRL) versus Reliance Industries Limited (RIL)] and Civil Appeal No. 4277 of 2010 (Union of India versus RIL). Two separate but largely concurring opinions were delivered by Justice P. Sathasivam, on behalf of himself and the Chief Justice, and Justice Sudershan Reddy. The salient findings are briefly summarized as follows:

- (i) All natural gas vests in the Union of India by virtue of Article 297, and title vests to the delivery point in accordance with Article 27.1 of the PSC.
- (ii) Since some functions of the Union relating to the exploration and supply of natural gas have been privatized, such private parties are also bound by other Constitutional obligations that would have been applicable to the Union of India if such functions had not been privatized.
- (iii) The power of the Union of India to regulate supply and production of natural gas is paramount under the Constitution, relevant statutes and the PSC itself and this cannot be superseded by a private arrangement.
- (iv) Allocation of natural gas made by the EGOM cannot be overridden by a contractor through a private arrangement.
- (v) Supplies of natural gas can only be made in accordance with the policies of the Government.

Thus, it emerges from the above that, the Hon'ble Supreme Court has upheld the stand of the Union of India completely from a perspective of PSC and Policies of Utilization of Gas and Pricing approved by the EGOM. The Court has unanimously upheld the overriding powers of regulation of natural gas exercised by the Union of India and reiterated that all private arrangements will be subservient to the Government's policies and legislation in this respect, apart from the PSC entered into with the contractors. The procedure currently being followed by the Government in allocating natural gas among consumers has been upheld by the Court and strengthened against future challenge in very categorical terms.

(b) & (c): In respect of the petroleum resources vested in the Union of India, the Oil Fields (Regulation and Development) Act, 1948 and the Petroleum and Natural Gas Rules, 1959 made there under, provide for regulation of the petroleum operations and grant of licenses and leases to explore, develop and produce petroleum. The Government may grant Petroleum Exploration License (PEL) and Mining Lease (ML) for exploration, extraction and exploitation of petroleum resources underlying the land or the ocean. License or lease for petroleum resources underlying the ocean within the territorial waters or continental shelf or Exclusive Economic Zone (EEZ) of India is granted by the Central Government. License or lease on any land vested in the State Government is granted by the respective State Government with prior approval of the Central Government.

Rule 5 of the Petroleum & Natural Gas Rules, 1959 provides for an agreement between the Government and the Licensee or Lessee for additional terms, covenants and conditions with respect to the grant of License or Lease. These terms, covenants and conditions of the agreement are stipulated in the Production Sharing Contracts (PSC) which are signed by the Government with the Contractor within the framework of extant New Exploration Licensing Policy (NELP).

NELP was launched in the year 1999 and so far eight rounds have been concluded for award of Petroleum Exploration Licenses (PEL) under this Policy. Two Hundred and Thirty Five (235) PSC have so far been signed by the Government up to NELP-VIII.

The Articles on "Natural Gas" and "Valuation of Petroleum" in PSC cover the pricing mechanism for natural gas, crude oil and

condensate produced from the lease area.