

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

STARRED QUESTION NO:255

ANSWERED ON:18.08.2011

CAPITAL INVESTMENT FOR PRODUCTION IN KG D6 BLOCK

Hegde Shri Anant Kumar; Roy Shri Arjun

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

- (a) whether the attention of the Government has been drawn to reports that Reliance Industries Ltd. (RIL) had grossly overstated its development costs/capital investment for production in KG D6 Block;
- (b) if so, the details thereof and the reaction of the Government thereto;
- (c) whether the exchequer had incurred losses as a result thereof and if so, the details thereof;
- (d) whether the price of the produced gas was fixed at a higher rate RIL by inflating the amount of capital investment;
- (e) if so, the details thereof along with the prices ; and
- (f) the prices at which gas was being sold by the public sector oil companies at the time the said prices were fixed?

Answer

Minister of PETROLEUM AND NATURAL GAS (SHRI S. JAIPAL REDDY)

(a) to (f): A statement is laid on the table of the House.

STATEMENT REFERERED TO IN REPLY TO PARTS (a) TO (f) OF LOK SABHA STARRED QUESTION NO. 255 TO BE ANSWERED ON 18th AUGUST, 2011 REGARDING CAPITAL INVESTMENT FOR PRODUCTION IN KG D 6 BLOCK ASKED BY SHRI ANANTKUMAR HEGDE AND SHRI ARJUN RAY, M.P.s

(a) to (c): The Comptroller & Auditor General (C&AG) had submitted a draft report. The Draft audit observations received from C&AG have been replied by this Ministry on 8th July 2011 along with relevant comments received from the contractor in respect of KG-DWN-98/3 block. An exit conference was held by O/o C&AG on 12th July 2011 with the contractors, with the Directorate General of Hydrocarbons (DGH) and also this Ministry. CAG would consider the replies and discussions of exit conference before finalizing the audit report. As the report is yet to be finalized by C&AG, no comments can be made on the contents of the draft report.

(d) to (e): No Madam. The price of natural gas produced by RIL is not linked to capital investment. Under the Production Sharing Contract (PSC), Article 21.6, the price is determined on the basis of formula approved by the Government. The contractor after discovering the price, proposed the price basis or formula for approval of the Government.

Accordingly, the Empowered Group of Ministers (EGoM), after considering the price proposal submitted by the parties, has approved a price formula for the gas produced in the block KG-DWN-98/3 contracted to RIL-NIKO Consortium, in its meeting held on 12.9.2007 for 5 years from the date of commencement of supply. The formula is as under:

$$SP \text{ (USD/mmBtu)} = 2.5 + (CP - 25) \text{ to the power } 0.15$$

Where SP = Selling Price

CP = Crude Price

The cap for CP in the formula has been frozen at US \$ 60 per barrel. The price obtained from the formula comes to US \$ 4.20 per Million Metric British Thermal Unit (MMBTU) for crude oil price equal to or greater than US \$ 60 per barrel.

(f): The prices at which gas was being sold by the public sector oil companies at the time the said prices were fixed :

Sector APM Price before revision
Rs./mscm \$/mmBtu

Power & Fertilizer outside North East 3200 1.79

Power & Fertilizer in North East 1920 1.08

City Gas & Small Consumer outside North East 3840 2.15

City Gas & Small Consumer in North East 2304 1.29

After the decision of EGoM, the prices of APM and non-APM gas were also revised with effect from June 2010.