GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA

STARRED QUESTION NO:286
ANSWERED ON:28.07.2014
PRODUCTION SHARING CONTRACT IN HYDROCARBON
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Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

(a) the salient features of the existing gas pricing policy;

(b) whether the Government had set up a Committee under the Chairmanship of Dr. C. Rangarajan to review profit sharing mechanism and Production Sharing Contract in hydrocarbon explorations; and

(c) if so, the details of recommendations made by the Committee and follow-up action taken thereon?

Answer

MINISTER OF STATE (INDEPENDENT CHARGE) IN THE MINISTRY OF PETROLEUM & NATURAL GAS (SHRI DHARMENDRA PRADHAN):

(c) A statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (c) OF LOK SABHA STARRED QUESTION No. 286 TO BE ANSWERED ON 28.07.2014 REGARDING PRODUCTION SHARING CONTRACT IN HYDROCARBON

(a) There are several pricing regimes for gas in the country. The natural gas produced by ONGC and OIL from nominated blocks comes either from existing or new fields. There are separate prices regimes for the two viz. Administered Pricing Mechanism (APM) and Non Administered Pricing Mechanism.

Administered Pricing Mechanism (APM):

Gas produced from existing fields of the nominated blocks of National Oil Companies (NOCs), viz., OIL & ONGC, is covered under this mechanism. This gas is being supplied predominantly to fertilizer plants, power plants, court-mandated customers, and customers having a requirement of less than 50,000 standard cubic metres per day at APM rates. The price for APM gas was initially fixed on cost plus basis. However, with effect from 01.06.2010, the Government fixed APM gas price in the country at $ 4.2/mmbtu (inclusive of royalty), excepting in the Northeast, where the APM price is $ 2.52/mmbtu, which is 60% of the APM price elsewhere, the balance 40% being paid to NOCs as subsidy from the Government Budget.

Non-APM Gas produced by NOCs from Nominated Fields:

National Oil Companies (NOCs), viz., ONGC & OIL, are in principle free to charge a market- determined price for gas produced from new fields in their existing nominated blocks. However, Government has issued a pricing schedule & guidelines for commercial utilization of non-APM gas produced by NOCs from their nominated blocks. Four supply zones have been identified in the guidelines and the prices of non-APM gas sold by NOCs in these zones are as follows:-

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Area/Zone   Price ($/mmbtu)
Western & Northern Zones 5
Southern Zone - KG Basin 4.5
Southern Zone -Cauvery Basin 4.75
North-East   4.2
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Further, a premium of $ 0.25/mmbtu for production of non-APM gas from offshore fields has been provided, as higher investment is required for development of and production from offshore fields.

Pre-NELP Gas: Certain blocks where discoveries were made by NOCs were auctioned to private sector E&P companies. Under these PSCs, viz., Panna-Mukta, Tapti (PMT) and Ravva, the entire gas produced has to be sold to the GOI nominee (viz., GAIL), as per the price formula specified in the PSC. In case of Panna-Mukta & Tapti PSCs, the price formula for gas is linked to an internationally traded fuel oil basket, with a specified floor and ceiling price of US$ 2.11 /mmbtu and US$ 3.11/mmbtu respectively. These PSCs further have a provision to revise the ceiling price after 7 years from the date of first supply, to 150% of 90% of the fuel oil basket (average of the preceding 18 months). With this revision, the revised ceiling price in case of Panna-Mukta gas is US$ 5.73/mmbtu and in case of Tapti, it is US$ 5.57/mmbtu.

As regards Ravva & Ravva satellite fields, under the provisions of their PSC, on expiry of five years from the date of first delivery of gas, the JV and the Government are required to enter into good-faith negotiations to determine the basis for calculation of the purchase price, taking into account all reasonably relevant factors. The present price of the Ravva field is US$ 3.5/mmbtu and that of Ravva satellite is US$ 4.3/mmbtu.

Pricing under Small-sized Discovered Fields & Pre-NELP Exploratory Blocks: Production Sharing Contracts (PSCs) have been signed with private E&P companies (viz. Hazira, RJ-ON-90/1 etc.) for 24 small-sized discovered fields and 28 pre-NELP exploratory blocks (of which 17 are in operation). These PSCs provide for the sale of gas in the domestic market at prices obtained as per the arms length principle, in case the gas is sold other than to the Government nominee. There is no price formula specified under the PSCs and the price formula does not require prior approval of the Government before sale of gas by the Contractor, unlike under NELP.

Pricing under NELP regime:

Under this PSC regime, the existing formula approved by the Government in 2007 for gas produced under New Exploration Licensing Policy (NELP) is:

SP (USD/mmbtu) = 2.5 + (CP-25)0.15

Where, SP=Sales price/mmbtu [Net Heating Value (NHV) basis]; CP=Average price of Brent crude oil in US$/barrel for previous financial year.

The cap for Brent Crude Price in the formula would be frozen at US $ 60 per barrel.

The gas produced from KG-D6 Block operated by Reliance Industries Limited (RIL) is priced according to this formula.

Pricing for gas imported from international market:

The prices of gas imported in the country from the international market are not administered by the Government and these prices are market determined.

(b) & (c) Yes, Madam. The Government of India constituted a committee under the chairmanship of Dr C. Rangarajan, the then Chairman, Economic Advisory Council to the Prime Minister in May, 2012, to look into the Production Sharing Contract (PSC) mechanism in petroleum industry. The Committee submitted its report in December, 2012. The complete report of the Committee is available at http://eac.gov.in/reports/rep_psc0201. However, the summary of recommendations of the Committee is annexed.

The Committee recommended that the price for domestically produced natural gas may be average of the price obtained through calculation of producers netback price for Indian importers and average price prevailing at major trading points in the World. Based on the recommendations of Rangarajan Committee Report, natural gas pricing guidelines were approved by the previous Government in meeting of Cabinet Committee on Economic Affairs (CCEA) held on 27th June 2013. Subsequent to this approval, Ministry of Finance had sent a letter on 4th July, 2013 in which certain issues related to financial implications and contractual obligations were raised. These issues were again deliberated by CCEA on 19th December, 2013. As per approval of the CCEA, the Domestic Natural Gas Pricing Guidelines, 2014 were notified by Government on 10.1.2014 which envisaged the revised gas price to be applicable from 1st April, 2014. Meanwhile, the schedule for Lok Sabha elections 2014 was announced and Model Code of Conduct for the Guidance of the Political Parties and Candidates came into effect w.e.f. 5.3.2014. The Election Commission vide its letter dated 24th March, 2014 deferred the notification of Gas Price till the election process. Accordingly, the revision of prices as per these guidelines (Natural Gas Pricing Guidelines for Domestically produced gas notified on 10.1.2014) was deferred by MOPNG vide order dated 28th March, 2014.

The new Government considered gas price issue in the CCEA meeting held on 25th June, 2014 noted that the whole issue of gas pricing would need comprehensive re-examination and directed that the Domestic Natural Gas Pricing Guidelines, 2014 will be kept in abeyance up to 30.09.2014 and till that time, the domestically produced gas continue to be priced at the rate prevailing on 31.03.2014.

In respect of the recommendations pertaining to a new contractual system and fiscal regime on post-royalty payment revenue sharing basis, the Uniform Licensing Policy has been drafted and sent for inter-ministerial consultation. With regard to the recommendation on codification of Good International Petroleum Industry Practices (GIPIP) for exploration and production sector, a Committee has been constituted for identifying areas required for codification and for preparing national codes for petroleum operations.