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Oil & Gas News

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Governmental and Regulatory Updates

1. Competition Commission of India (“CCI”) to investigate against oil marketing companies for suspected cartelisation

The CCI may soon ask its investigation wing to carry out a detailed investigation into the alleged cartel-like behaviour of oil marketing companies increasing and decreasing prices of petrol in unison. After carrying out an initial enquiry on the matter, the CCI found that 'there was no valid reason why Indian Oil, Hindustan Petroleum and Bharat Petroleum were increasing and decreasing price of petrol in unison.

2. Government approves Reliance Industries Limited (“RIL”) proposal to triple gas prices from April 2014

The government on 30th September, 2012 approved RIL’s proposal to triple its KGD6 gas prices from April 1, 2014 after the current below market rate of \$4.205 per mmBtu expires. The said proposal was submitted for government’s approval in June 2012 for a new crude oil-linked pricing formula to be used in new sales contracts for the period commencing April 1, 2014. The proposed formula was based on the pricing formula under a contract for long term import of LNG into India and was universally accepted by arm's length buyers who bid in large numbers in an open price discovery process.

3. Reliance Gas Transportation Infrastructure

Limited’s (“RGTIL”) permits for laying four gas pipelines have been cancelled by the Oil Ministry

The Oil Ministry has cancelled permits issued to Mukesh Ambani’s privately owned RGTIL for laying four natural gas pipelines, stating there were inordinate delays in construction of the 2,175-km lines. These orders were issued in the first week of October, 2012. The Ministry has mentioned that their decision is based on a recommendation made by the regulator Petroleum and Natural Gas Regulatory Board. Relogistics Infrastructure Limited, a subsidiary of RGTIL, had in 2007-08 won government authorisation to lay Kakinada-Basudebpur-Howrah pipeline, Kakinada-Chennai line, Chennai-Bangalore-Mangalore pipeline and Chennai-Tuticorin line but work on these pipelines hasn't yet started.

4. India and Japan launch joint research project to study LNG pricing

Japan and India launched a joint research project into pricing structures in LNG markets by signing an agreement in Tokyo on the 7th October, 2012. Asian buyers pay far more than those in North America because the price is index-linked to oil on the continent. Under the present pricing structures in LNG markets, the price in North America is determined on the basis of supply and demand.

5. Oil Ministry rejects change in RIL's KG-D6 gas price before April 2014

The Oil Ministry has rejected any change in price of RIL's eastern offshore KG-D6 gas

before April 2014 on the basis of the Attorney General's advice that revision of prices is a matter would have to be determined not as a matter of law but as a matter of policy. The Ministry has stated that a higher price of fuel would result in USD 6.3 billion rise in subsidy burden on power and fertilizers.

6. The 10th round of New Exploration Licensing Policy ("NELP") to be launched by the year end

India plans to launch the tenth bidding round of oil and gas exploration blocks by the end of this calendar year after making some investor-friendly changes. The basis of change would be recommendations of the Rangarajan Committee, which is examining existing production sharing contracts and matters related to pricing of gas. There is a probability of a production-linked payment mechanism rather than the cost-recovery mechanism to be adopted in the NELP.

7. Oil ministry rejects Aviation ministry demand to include Aviation Turbine Fuel ("ATF") under Petroleum and Natural Gas Regulatory Board ("PNGRB") regime

The Oil ministry has rejected the demand of the Civil Aviation ministry to include ATF under the regulatory regime of PNGRB. The Civil aviation ministry had sent the proposal on the grounds that ATF infrastructure being majorly controlled and owned by public sector oil companies; transparency and fair competition is being hindered by them. In response the Oil Ministry has stated that ATF is fully decontrolled and oil marketing companies including private players have been participating in various tenders floated by airlines for fuel supply, question of unfair practices doesn't arise.

8. Directorate General of Hydrocarbons

("DGH") wants RIL to share marketing margin for approving spending

Oil regulator DGH has refused to approve RIL's spending accounts on the KG-D6 block unless the RIL shares with the government a part of the marketing margin it charges on sale of natural gas. The DGH wants the government to get a share of the USD 0.135 per million British thermal units (mmBtu) marketing margin RIL charges over and above the government approved gas price of USD 4.205.

Market updates

1. Reliance Global to buy British Petroleum's ("BP") Malaysian petrochemical plant for USD 230 million

Reliance Global Holdings will acquire BP's Malaysian petrochemical plant for USD 230 million. BP has agreed to sell all its interests in purified terephthalic acid (PTA) production in Malaysia to Reliance Global Holdings Pvt. Ltd, Singapore (an associate firm of Reliance Ports and Terminals Ltd). Reliance Ports and Terminals Ltd. is owned by Mukesh Ambani. Reliance Global Holdings will take over BP's 100 per cent equity in BP Chemicals (Malaysia) Sdn Bhd (BPCM), located at Kuantan on the east coast of Malaysia. The deal is planned to be completed in 2012. The purified terephthalic acid plant in Kuantan, Malaysia is based on BP's proprietary PTA technology whereas Reliance Industries' PTA plants in India are based on Invista's Technology.

2. Gujarat State Petroleum Corporation's ("GSPC") acquisition of Gujarat Gas Corporation Limited ("GGCL") from BG Group aimed at emerging as an integrated player in gas

Acquisition of BG's 65.12% stake in GGCL by GSPC for Rs 2460 crores will create India's largest city gas distribution venture which would serve up over 8 mmscmd of gas to over 7 lakh customers. This will make it bigger than Delhi's Indraprastha Gas and Mumbai's Mahanagar Gas put together.

3. RIL signs agreement with Venezuela for heavy oil project 3Oct

On 3rd October, 2012 RIL disclosed that it has signed an agreement with Venezuela for a project to produce heavy oil in the South American Organization of the Petroleum Exporting Countries ("OPEC") nation. RIL signed a Memorandum of Understanding with Venezuelan state oil monopoly Petroleos de Venezuela ("PDVSA"), to develop a project in the Orinoco extra heavy crude belt. Further, RIL has signed a new agreement by which PDVSA will supply between 300,000 and 400,000 barrels per day of Venezuelan heavy crude oil to RIL's two refineries in Jamnagar under a 15-year crude oil supply contract.

4. Oil India and Indian Oil Corporation ("IOC") buy stake in US-based Carrizo Oil & Gas's Niobrara shale asset

Oil India Ltd and IOC have jointly bought a 30% (at the ratio 20:10 respectively) stake in Houston-based Carrizo Oil & Gas's Niobrara shale asset in Colorado for USD 82.5 million. This would be the first investment by the two state companies in shale assets in the United States. The total investment by the two companies would be around USD 82.5 million, including an upfront cash payment of USD

41.25 million and a carry amount of USD 41.25 million, linked to Carrizo's future drilling and development cost.

5. RIL-BP ("British Petroleum") relinquishes 9 oil and gas blocks on poor hydrocarbon prospects

BP had last year bought 30% stake in a total of 23 oil and gas blocks of RIL including the gas discovery areas of KG-D6 and NEC-25. However, due to poor hydrocarbon prospects BP has relinquished 9 out of the 21 oil and gas blocks where it had bought 30 per cent stake from RIL for USD 7.2 billion. The joint venture is currently focused on reviving the eastern offshore KG-D6 fields and bringing the Mahanadi basin NEC-25 discoveries to production.

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