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Oil & Gas News

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Governmental and Regulatory Updates

1. Gas producers to be allowed to charge market rates: 12th Five Year Plan

The 12th Five Year (2012-17) Plan adopted by National Development Council (NDC) on 27th December, 2012 said, "Natural gas prices charged to producers must be determined by market forces". "The concept of uniform gas price across consuming sectors also needs to be examined afresh as the desire to keep prices low for certain sectors tend to distort pricing; it is inconsistent with the principle that the price of gas will be determined by market forces". Addressing the NDC Prime Minister Manmohan Singh stated that "If domestic energy prices are too low there will be no incentive to increase energy efficiency or to expand supply," and that, "Immediate adjustment of prices to close the gap is not feasible, but some phased price adjustment is necessary."

2. Government to float Oil India's INR 2,500-crore issue by January 15, 2013

The government has decided to sell its 10% stake in oil explorer and producer Oil India by January 15, 2013 after some government and industry officials said it would be difficult to hold effective roadshows abroad because of the Christmas-New Year break.

HIGHLIGHTS

1. Gas producers to be allowed to charge market rates: 12th Five Year Plan
2. Government to float Oil India's INR 2,500-crore issue by January 15, 2013
3. Oil ministry to allow Cairn India to further explore Rajasthan oilfields
4. The Rangarajan panel suggests a Complex gas pricing formula
5. Rangarajan panel proposes real-time audit for USD 1 billion oil blocks
6. DGH rejects RIL's proposal to do single test in 3 discoveries in KG-D6 block
7. Rangarajan panel: No need for CAG audit of RIL's CBM blocks
8. Government bars oil PSUs from setting up self-funded petrol pumps
9. Oil Ministry directs Reliance Industries to drill more wells
10. Calcutta High Court rejects international arbitration plea for TCG
11. RIL's plea for consent order in 'insider trading' case rejected

3. Oil ministry to allow Cairn India to further explore Rajasthan oilfields

The oil ministry has decided to allow Cairn India to further explore Rajasthan oilfields. Government officials said that this decision could raise the block's output by over 70% and would intensify exploration activities in other producing fields operated by Oil and Natural Gas Corporation (ONGC), GSPC and Reliance Industries Limited (RIL).

Cairn, which produces 175,000 barrels of oil every day from oilfields in Rajasthan, has been unable to raise its output because of an earlier interpretation of the production-sharing contract (PSC) by the oil ministry that limited exploration activities to the first 7 years after a contract is awarded. After examining Cairn's proposal afresh, the oil Minister Veerappa Moily came to the conclusion that the PSC does not prohibit exploration in producing fields.

4. The Rangarajan panel suggests a Complex gas pricing formula

The Rangarajan panel was tasked to suggest design of future contracts for exploration and production of oil and gas as well as basis or formula to price domestically produced gas. It is believed to have suggested a complex pricing formula that will lead to near doubling of natural gas price to about USD 8. However, it is unclear if this will override the price discovery mechanism set out in current oil and gas contracts. The panel is believed to have suggested pricing of natural gas based on weighted average of the fuel in North America, Europe and Japan markets as well as imported liquefied natural gas (LNG).

5. Rangarajan panel proposes real-time audit for USD 1 billion oil blocks

The Rangarajan panel has proposed creating a mechanism to carry out "concurrent audit" of blocks where companies have invested over USD 1 billion, enabling the government to keep a real-time vigil on the books of oil and gas producers. In its final report on December 16, 2012 it has also recommended that audits by the Comptroller & Auditor General (CAG) of India should be carried out within two years of the closing of annual accounts of oil and gas blocks.

RIL's KG-D6 block, the Rajasthan oilfields operated by Cairn and ONGC, and GSPC's deep-water blocks will be covered under simultaneous audits, government officials said.

6. DGH rejects RIL's proposal to do single test in 3 discoveries in KG-D6 block

The Directorate General of Hydrocarbon (DGH), the technical arm of the oil ministry, has rejected RIL's proposal to do a single test to confirm three natural gas discoveries in the flagging KG-D6 block, saying separate tests are required as the three finds are distant and unconnected. The DGH has since February 2010 not recognised the D-29, 30 and 31 as discoveries as RIL had not performed its prescribed tests to confirm the finds. RIL and its partner BP on 8th October had proposed to do a single Drill-Stem Test (DST) on the three finds to establish them as commercially viable finds. However, DGH wants three separate DSTs to be done before approving their declaration of commerciality (DoC).

7. Rangarajan panel: No need for CAG audit of RIL's CBM blocks

The Rangarajan Committee stated that official auditor CAG need not audit RIL's Coal Bed Methane (CBM) blocks as they are governed by different contractual regime. The panel headed by Chairman of Prime Minister's Economic Advisory Council, C Rangarajan, said in its report of 16th December, 2012 that CBM blocks do not have elements of cost recovery and so CAG audit "may not be required".

RIL, which had over the past few months bickered over the scope of second round of audit of its spending on the flagging KG-D6 fields, has two CBM blocks in Sohagpur in Madhya Pradesh for which it is seeking a price of almost USD 13 per million British thermal unit.

It upheld RIL's contention that CAG audit should be as per Section 1.9 of the Production Sharing Contract that provides for only a financial scrutiny and not a commentative performance audit which can question technical decisions.

8. Government bars oil PSUs from setting up self-funded petrol pumps

The government has barred oil Public Sector Undertakings (PSU) from setting up new outlets at their investment. The Petroleum Minister in the first week of December issued an order which stated that "It has now been decided that henceforth oil marketing companies will not invest in opening of new retail outlets and the investment is to be made by prospective dealers only".

9. Oil Ministry directs Reliance Industries to drill more wells

The oil ministry has directed Reliance Industries (RIL) to drill more wells in the producing gas fields of KG-D6 block to reverse declining output and has approved its plan to install compressor at to increase gas recovery, Minister of State for Oil and Natural Gas Panabaaka Lakshmi said.

The contractor's proposal to install compressor at onshore terminal to increase gas recovery from D1 and D3 fields has been approved by the management committee (MC), subject to contractor agreeing to CAG audit.

10. Calcutta High Court rejects international arbitration plea for TCG

The Calcutta High Court dismissed Purnendu Chatterjee's move to take up the Haldia Petrochemical share transfer issue to the International Court of Arbitration. Purnendu Chatterjee of The Chatterjee Group (TCG), one of the principal promoters of HPL had moved the International Court of Arbitration in Paris on the issue of transferring shares of HPL as it wanted to buy 155 million shares to control majority stake in HPL which was rejected by the state government. The Court has now said that the option of international arbitration by The Chatterjee Group has been superseded by subsequent agreements which confers jurisdiction to Courts at Kolkata.

11. RIL's plea for consent order in 'insider trading' case rejected

Capital market regulator SEBI has rejected a third attempt by RIL, for an out-of-court settlement of insider trading charges. The regulator has also issued a supplementary show-cause notice, incorporating new findings, to RIL on the same matter. SEBI has completed its investigation into trades carried out in November 2007 by entities allegedly linked to RIL. It is learnt that the investigation report has been submitted to the SEBI board and the regulator is going ahead with its inquiry proceedings on the matter.

SEBI is probing the sale of Reliance Petroleum Limited (RPL) stock futures in the first week of November 2007, days before parent RIL began trimming its stake in the refining arm. The sellers were not well-known market players, but were allegedly located at the address of some RIL group companies, according to information provided to SEBI by unknown complainants. The regulator's investigations revealed that RIL made a profit of INR 500 crore from the sale of Reliance Petroleum shares. RIL has been trying to settle the case through consent orders but its proposals have been rejected twice by the regulator, which felt the amount put up by the company was inadequate. In the first consent application, RIL offered to pay a penalty of INR 3 crore while on the second occasion it offered to pay less than INR 10 crore as penalty, which was unacceptable to the regulator.

Market updates

1. L&T Hydrocarbon wins INR 781 crore contract from ONGC

Larsen & Toubro (L&T) Hydrocarbon secured an offshore contract valued at INR 781 crore from ONGC. The contract was won against international competitive bidding and encompasses total 'EPCI' - Engineering Procurement Construction & Installation of three wellhead platforms, spread over Heera and South Heera fields of ONGC. The project is a part of ONGC's strategy to meet India's rising energy demands.

2. GAIL to get Dabhol commissioning cargo

GAIL India Ltd in the last week of December imported LNG from Gazprom (of Russia) for commissioning of the beleaguered Dabhol facility in Maharashtra. The 5 million tons a year LNG import plant, which was built about 15 years back, is likely to be commissioned by January end.

3. BPCL, Videocon to make LNG plant in Northern Mozambique

The huge natural gas discovery in a Mozambique block where BPCL and Videocon Industries are partners will be turned into LNG at a plant to be jointly built with neighbouring gas field operator Eni SpA of Italy. Anadarko Petroleum Corp, the operator of Offshore Area 1 where BPCL and Videocon hold 10 % each, and Eni will join forces to build a single liquefaction plant that will turn gas in the two fields into liquid so that it can be exports in cryogenic ships.

HIGHLIGHTS

1. **L&T Hydrocarbon wins INR 781 crore contract from ONGC**
2. **GAIL to get Dabhol commissioning cargo**
3. **BPCL, Videocon to make LNG plant in Northern Mozambique**
4. **Barmer refinery unviable without all crude from Cairn: HPCL**
5. **Hindujas' unit Gulf Oil buys US-based Houghton International**
6. **ADB's 5.2% stake in Petronet offered to Qatar**
7. **Rosneft offers India's ONGC role in two Magadan blocks**
8. **BP begins first drilling in 16 months after RIL investment**

4. Barmer refinery unviable without all crude from Cairn: HPCL

Hindustan Petroleum Corp Ltd (HPCL) told the Oil Ministry that its proposed INR 24,000 crore refinery at Barmer in Rajasthan will be unviable unless it is given all of the crude oil that Cairn India produces from oilfields in the state. During the first week of December, 2012 the company had asked the ministry to give firm allocation of Rajasthan crude oil for at least 10 years for it to begin work on the 9 million tonne a year refinery.

5. Hindujas' unit Gulf Oil buys US-based Houghton International

Hinduja Group's lubricants subsidiary Gulf Oil Corp acquired US-based specialty chemicals company Houghton International from a private equity fund for \$1.05 billion. The acquired company is nearly four times as big as Gulf Oil in revenues and six times bigger in terms of EBITDA (earnings before interest, taxes, depreciation, and amortization). This is the largest acquisition by an Indian company this year.

The acquisition was announced on Tuesday, 6th November, 2012. On the same day an agreement was signed for the acquisition by its wholly-owned subsidiary in the UK, with the sellers, a US-based private equity fund. Gulf Oil Corporation Ltd (GOCL) will operate Houghton as a separate company and the rest of Gulf's operations will be able to leverage Houghton's extensive base of industrial customers to offer them a complete end to end range of lubricants. The acquisition fits extremely well with Gulf's Lubricant portfolio. Houghton has a very strong industrial portfolio, which perfectly complements Gulf's very strong presence in the automotive lubricant sector.

6. ADB's 5.2% stake in Petronet offered to Qatar

India has offered Qatar a 5.2 % stake that Asian Development Bank (ADB) held in Petronet LNG Ltd, the nation's largest liquefied natural gas importer. Petronet, which is registered as a private company even though public sector oil firms hold 50 per cent stake has approached Qatar Petroleum International (QPI) offering ADB's 5.2 % stake.

7. Rosneft offers India's ONGC role in two Magadan blocks

Russia's Rosneft has offered a stake and invited the overseas investment arm of India's state-run Oil and Natural Gas Corp to jointly explore two blocks in the Sea of Okhotsk. The firm, ONGC Videsh Ltd, is evaluating data relating to the Magadan-2 and Magadan-3 blocks. Rosneft had last year got licence to explore in five areas in the Sea of Okhotsk namely, Magadan-1, -2 and -3, Lisyansky and Kashevarovsky. The area is estimated to hold 2.8 billion tons of oil and oil equivalent natural gas.

8. BP begins first drilling in 16 months after RIL investment

In its first well in more than 16 months after it got approval to invest USD 7.2 billion, BP of UK along with its partner Reliance Industries begun drilling on a satellite discovery surrounding the now flagging gas fields in the KG-D6 block. BP had in July last year won government nod for investing USD 7.2 billion in taking 30 per cent interest in 21 oil and gas blocks of RIL including the gas discovery areas of KG-D6 and NEC-25 in Mahanadi basin. But it could not drill a single well till now because the Oil Ministry refused to give approvals. This is part of the USD 1.529 billion plan to develop four satellite gas fields around the now producing Dhirubhai-1 and 3 or D1 & D3 fields in the Krishna Godavari basin KG-D6 block.

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