Overview of Fiscal, Legal and Regulatory Framework of E & P Industry.

- An Indian Perspective
Revenue sharing under HELP licensing process allows bidders to offer two gross Govt. revenue shares – LRP & HRP.
The main Legislations that govern the Indian Petroleum Industry are:

**The Petroleum Act, 1934**: Regulates import into India, transfers within, storage, production, refining and blending of petroleum and deals substantially with midstream activities.

**The Oilfields (Regulation and Development) Act, 1948**: The basic statute for licensing and leasing of petroleum and gas blocks by Government of India with provision for regulation of oilfields and for development of mineral oil resources. Along with Petroleum and Natural Gas Rules, 1959, the Oilfields Act governs the grant of Production Exploration Licenses and mining leases. (Royalties)

**The Petroleum and Natural Gas Regulatory Board Act, 2006**: Provides for setting up of the Petroleum and Natural Gas Regulatory Board to regulate refining, processing, storage, transportation, distribution, marketing and sale of petroleum, petroleum products and natural gas (excluding production of crude oil and natural gas).

**Tax Laws**: Various taxes, deductions and allowances are applicable to oil and gas business as per Indian Tax Laws covering, Direct Taxes (Corporate Tax), Indirect Taxes (Customs duty, VAT, etc.), Double Taxation Avoidance Agreements, etc.
FISCAL REFORMS IN E & P SECTOR

- Crude Price realization linked to international benchmarks since 2002.
- Policy intervention in petroleum subsidy now allows Indian Upstream PSUs realize market prices. (Subsidy burden on upstream PSUs discontinued from September 2015)
- New Domestic Natural Gas Pricing mechanism implemented in 2014 with international price linkages.
  - Current Gas Price $3.06/mmbtu domestic gas.
- Calibrated marketing freedom for gas produced from discoveries in Deepwater, Ultra Deepwater and High Pressure High Temperature areas.
  - Current price ceiling $6.78/mmbtu.
- Upto 100% FDI permitted in upstream oil and gas sector to attract foreign investment.
- Ad-valorem cess on crude oil, a positive step
  - Currently 20% of crude prices; earlier fixed at INR 4500/ MT)
- Revenue Sharing model under HELP to significantly reduce disputes relating to cost recovery.
FACTS AND FIGURES OF PSC REGIME (NELP & PRE-NELP)

- Removal of any carried interest of the State (in NELP Rounds)
- Reduction of royalty rates - from 15% in Pre-NELP era to 12.5% for onshore oil and 5% for deep water offshore Oil.
- Exemption from payment of import duties on goods imported for petroleum operations
- Seven-year tax holiday.
- Cost recovery up to 100%
- 254 blocks awarded in nine NELP rounds covering 1.50 MM Sq. Km area
- Cumulative production from PSC regimes (NELP & Pre-NELP) till 2016-17
  - 134.75 MMT of oil and 183874 MMSCM of gas;
  - US$ 26.20 Billion invested till 01.04.2017

Key Issues
- Delay over consideration of financial issues related to budgets
- Cost recovery disputes leading to litigation and arbitration.
- Lack of a strong Data Repository
Government of India introduced HELP in 2016 to revamp the regulatory framework in the upstream sector with a view to:

- promote ease of doing business;
- address various industry concerns in the NELP regime;
- attract foreign investment;

It provides for:

- Change to **Revenue Sharing Model** from Production Sharing Model;
- Single license for exploration and production of all forms of hydrocarbon resources;
- Open Acreage Licensing Programme: Freedom to carve out Blocks;
- Marketing & Pricing Freedom;

![Graph showing OALP (Round 1)](image_url)
Implementation of Production Enhancement Contracts (PECs)

- Increasing trend of PECs globally over the past 10-15 years.

- Collaboration between Operator companies with Service companies to increase and accelerate production from mature oil and gas fields for significant improvement in the recovery.

- Globally, NOCs of various countries Petronas (Malaysia) Romgaz (Romania) Pemex (Mexico) Ecopetrol (Casabe) in Colombia, PetroEcuador KOC Kuwait and various NOCs in China have adopted this mode for increasing production.

- Action on PECs recently initiated in India with ONGC and OIL soliciting EOIs.
REFORMS INTRODUCED & FURTHER REQUIREMENTS

MARGINAL FIELD CONCESSION

- A marginal field is defined as any field that has reserves booked and reported but does not have commercial production;
- Government encouraged NOCs to surrender their marginal fields;
- Provided special incentives to marginal field operators;
- 31 Contract Areas awarded under DSF 2016 Bid round out of 67 blocks offered;
- DSF Bid Round –II with 60 blocks on offer expected to be launched soon;

WHAT IS FURTHER REQUIRED?

- Extension of fiscal benefits for incremental oil (Tax and other incentives) from EOR projects which are needed for declining fields (producing for last 45 to 50 years) of the Nomination regime and are cost intensive, time consuming and risky in nature. Laboratory and Pilot projects need to be considered as R&D activities;
- Moderation in Cess & Royalty rates to strengthen financial position of NOCs and enable increased investments;
- Stability in fiscal regime;
- Incentives/ support for Overseas acquisition/ collaboration in E & P sector through Sovereign Wealth Fund (as in case of China);
Acreage Acquired: NELP ~ 1,55,000 sq km, Overseas ~ 78,000 sq km

Policy reforms in the Post Nomination era has paved the way for increased activities in exploration acreages and HELP will provide further impetus to the same.
Thank You