Everything you need to know about Discovered Small Fields Bidding Round – 2016

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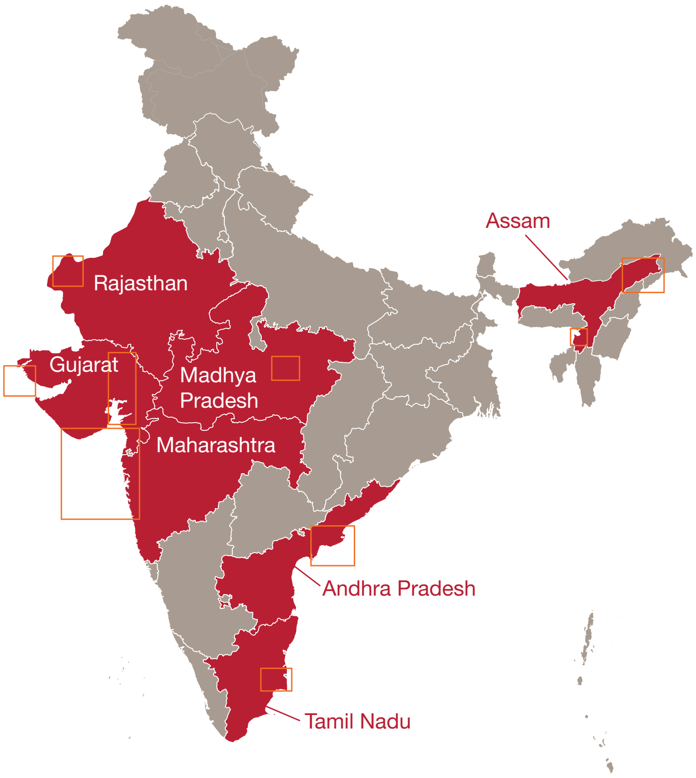
What is on offer

On 25 May 2016, the Government of India launched the 'Discovered Small Fields (DSF) Bidding Round – 2016', an international competitive bidding round of acreage award. On offer are 46 contract areas comprising of 67 oil and gas fields distributed across nine sedimentary basins. Out of the 46 contract areas, 26 are located on land, 18 are in shallow water and two in deep water offshore. While the on land fields are spread across eight sedimentary basins, shallow-water offshore fields are concentrated in the Mumbai offshore in the west coast region and the deep-water fields are located in the east coast Krishna-Godavari basin.

Snapshot of the discovered small fields on offer



Basin	Contract areas	Fields	OIIP, MMt	GIIP, BCM
Cambay	5	5	1.38	0.03
Cauvery	2	2	0.41	0.04
KG (on land)	7	8	0.03	0.74
Assam-Arakan	9	13	16.03	5.79
Rajasthan	2	2	-	0.10
Vindhyan	1	1	-	0.51
Onshore	26	31	17.85	7.20
Mumbai offshore	13	27	27.02	27.95
Kutch offshore	2	2	2.61	0.11
KG (offshore)	5	7	0.56	3.12
Offshore	20	36	30.19	31.18
Total	**46**	**67**	**48.04**	**38.38**

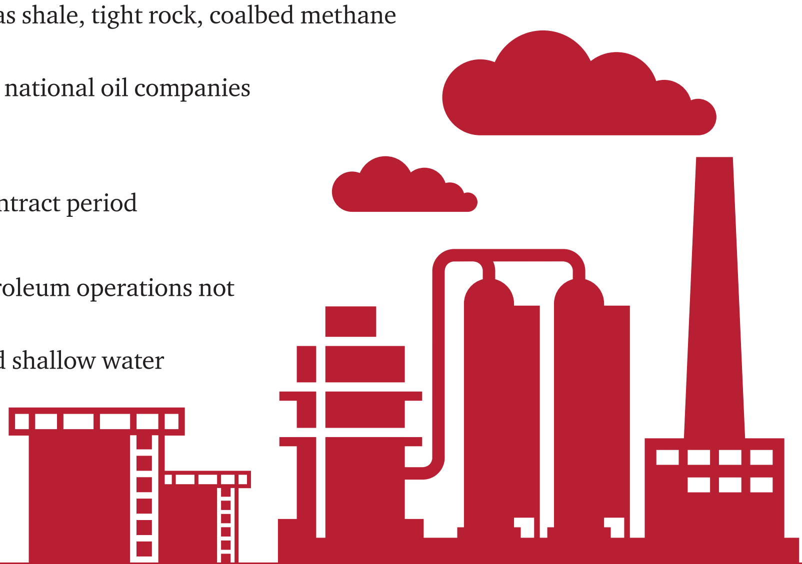
OIIP: Oil initially in place | GIIP: Gas initially in place
MMt: Million metric ton | BCM: Billion cubic metre

Source: Directorate General of Hydrocarbons

The key policy terms

The new DSF policy is based on the principle of 'ease of doing businesses'. This policy is an outcome of a long consultation process between the government and the industry. Some of the key highlights of the DSF policy are as follows:

- Revenue sharing with the government instead of the existing cost-recovery based production sharing
- Freedom of marketing and pricing for both oil as well as gas
- Permission to explore all kinds of hydrocarbons such as shale, tight rock, coalbed methane (CBM), etc.
- International competitive bidding with no mandatory national oil companies (NOC) participation
- Prior technical experience not required for bidders
- No restrictions on exploration activities during the contract period
- Favourable royalty rate and waiver of oil cess
- Customs duty on goods and services imported for petroleum operations not to be imposed
- Royalty on crude oil is 12.5% and 10% for on land and shallow water respectively. Royalty on natural gas is 10% for both on land as well as shallow-water blocks. Royalty on crude oil and natural gas for deep water blocks is 5% for the initial seven years and thereafter the rate will be 10%.



Who can bid

The bidder must be a company. Up to 100% participation by foreign companies is permitted. Domestic companies, including NOCs are also permitted to bid. Companies, either alone or in association with unincorporated or incorporated joint ventures, may bid for one or more contract areas.

The bidder need not have any exploration and production industry experience. This has been introduced in order to promote new companies to enter the E&P sector. The bidder is required to have an adequate net worth. The net worth of the bidder should be equal to or more than its share of the value of the biddable work programme commitment cumulated across all its bids.

Availability of technical data

Field information dockets prepared by the Directorate General of Hydrocarbon (DGH) and the Oil and Natural Gas Corporation/Oil India Limited for each of the fields on offer are available. These dockets contain information on regional and local geology, concerned field description, hydrocarbon discovery, well data, reserves and a brief write-up of the field. Basin information dockets containing geological information about the sedimentary basins are also available for purchase in soft version. The digital data set comprising seismic data, navigation data and well log data, special reports such as well completion reports, etc., wherever available for the individual contract area are available for purchase.

The evaluation process

	Work programme	Revenue share
Biddable parameter	20%	80%
Evaluation methodology	The bidder with the highest total number of development or appraisal wells will be assigned 20 points and the other bidders will be assigned points on a pro-rata basis.	Bidders will bid the percentage share of the revenue offered to the government at the two revenue points namely, lower revenue point (LRP) which is less than or equal to 0.0100 million USD per day and the higher revenue point (HRP) equal to or more than 1 million USD per day. The bidder with the highest net present value (NPV) of revenue share offered to the government will get 80 points. For calculating the NPV price, production scenarios have been provided in the notice inviting offers (NIO)

The next steps for successful bidders

Once a bidder is declared successful it has to coordinate with the NOC in order to obtain the Petroleum Mining Lease (PML) or Petroleum Exploration Licence (PEL), as the case may be, the same in its name. The contractor will then have three, four and six years for on land, shallow offshore and deep water areas respectively to drill the committed number of wells and to commence commercial production. In case production does not start within these timelines the contract area will stand relinquished. Within six months of signing the contract, the bidders are expected to pay the NOCs the book value of the wells and facilities which the NOCs will transfer to the bidder on 'as-is-where-is' basis. There is also an in-principle agreement by the NOCs to share their infrastructure in the adjacent areas under mutually acceptable commercial terms.

Opportunity to market and price hydrocarbons

The contractor or producer is free to sell both oil as well as gas produced from the contract area exclusively in the domestic market through a transparent bidding process on arm's length sales principle. The price of gas for calculating the government's share of revenue will be higher of the price actually obtained or the price determined by the government from time to time under the Domestic Natural Gas Pricing Guidelines. Similarly, the price of crude oil for calculating the government's share of revenue will be higher of the price actually obtained or the price of the Indian basket of crude oil as published by the Petroleum Planning and Analysis Cell (PPAC) on a monthly basis.

Term of the contract

The contract will be valid for 20 years from the date on which the PML/PEL, as the case may be, is transferred to the bidder. On mutual agreement, the contract duration can be extended by another 10 years. The government reserves the right to terminate the contract if production ceases for over one year at any instance. Assignment is permitted with prior approval of the government. Approvals for requests will not be unreasonably withheld subject to suitable guarantees as may be required on a case-to-case basis.

How we can help

We will support you on every aspect of the DSF bidding process right from strategy formulation to the final bid preparation. Our support involves advice on the overall as well as field-wise bid strategy; partner search as well as partner evaluation support; review of joint bidding agreements; development of comprehensive financial models in order to evaluate each asset; preparation of bids as per the format prescribed by the DGH; and post bid assessment of the round.

Our dedicated oil and gas industry experts carry significant experience of advising companies on bidding for E&P acreage licensing. PwC is known for its pragmatic advice based on thorough analysis of risk and rewards. We have successfully advised multiple companies on successive NELP bid rounds. We have also, from NELP V onwards, critically evaluated the performance of each round and made suggestions for improvements to the government for successive bid rounds.

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