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NELP-IV

As part of the effort to attract investment for exploration of oil and gas in India, Union Minister for Petroleum and Natural Gas Ram Naik, launched the **New Exploration Licensing Policy (NELP) IV** road show in Perth. Twenty-four blocks – 12 deep-water, 11 on land and one shallow water – are on offer. This comes against the backdrop of the recent huge deepwater gas discoveries made in the Krishna-Godavari basin on the east coast of India.

Emphasising the highly attractive opportunities offered under NELP-IV, Naik asked companies to participate in the bidding process to enter into a long-term beneficial relationship by becoming part of India's growing and vibrant petroleum sector.

The bid closing date for NELP-IV is September 30, 2003. Mr Naik also said that India has launched the second round of coal bed methane (CBM) exploration offering nine blocks. India and Australia are key players in CBM. The bid closing date for CBM-II is October 15, 2003. Welcoming delegates from 38 companies, including representations of **BHP Billiton**, **Chevron Texaco** and **Japan Oil National Corporation**, Indian High Commissioner to Australia R S Rathore stated that cooperation between the two countries in the energy sector spanned over two centuries in coal and over decades in the oil and gas sector.

French oil giant **Total**, British oil and gas major **BG**, the US' **Exxon Mobil**, and Russia's **Gazprom** are likely to bid for Indian exploration blocks on offer. Recent oil and gas finds have changed the international perception about Indian geology. The deepwater blocks, particularly the ones in Andaman Sea, are likely to be sought after by the foreign firms.

Total and BG are courting state-owned **Oil and Natural Gas Corporation (ONGC)** for joint bidding for some of the deepwater blocks on offer while Gazprom is talking to gas firm **GAIL India Ltd (GAIL)**. Exxon Mobil too has conveyed in no uncertain terms its interest in the Andaman deepwater blocks AN-DWN-2002/1 and AN-DWN-2002/2, which are perceived to be 'floating on gas' estimated at around 610 million tonnes. **Royal/Dutch Shell** is reviewing the data before deciding on bidding.

Domestic players, ONGC and **Reliance Industries Ltd (RIL)**, are likely to bid aggressively for the maximum number of blocks. Both the firms are expected to bid for more than 20 of the total 24 blocks on offer. Nine discoveries over the last couple of years, including last year's gigantic gas find in Krishna Godavari basin by RIL, have added over 300 million tonnes of oil plus oil equivalent gas reserves to the country's hydrocarbon base.

Along with Andamans, blocks in Krishna Godavari basin, Mahanadi basin and Mumbai offshore deep-water hold promise of big hydrocarbon reserves. Besides natural gas reserves, seven gas hydrates bearing zones have also been mapped in the Andaman Sea. The free gas in the region is believed to be of the order of 23 billion cubic metres (bcm). India's domestic gas production at present is around 29 bcm. The 24 blocks on offer include 11 on land blocks located in Assam, Bihar, Gujarat, Manipur, Nagaland, Rajasthan, Tamil Nadu and Tripura; 12 deepwater blocks on both east coast (eight) and west coast (four) and one shallow water blocks on the east coast.

Reliance Gas Reserves

US consultant **Degolyer and MacNaughton (D&M)** has assessed the in-place gas reserves at **Reliance Industries Ltd's (RIL)** deep-water block D6 in Krishna Godavari basin at 10 trillion cubic feet (tcf) - lower than the company's claim of 14.5 tcf reserves. D&M, which performed an assessment of the reserves on behalf of RIL's partner **Niko Resources** of Canada, has assigned gross in-place gas reserves of 10 tcf in the KG-DWN-98/3 block (also called D6). The study said the 10 tcf comprises 3.4 tcf of technically proven reserves, 3 tcf of probable and 3.6 tcf of possible reserves.

The 10 tcf reserves as of April 1, 2003, do not include results from the A2 well - the last of the eight wells drilled by RIL in the first phase of exploration - under evaluation when the study was being undertaken. D&M has estimated the net value of the field for Niko's 10 per cent share to be US\$ 300 million, which translates into a US\$ 2.5 billion value for Reliance's 90 per cent share.

The valuation includes the cost of extraction and the current value of gas. The report vindicates RIL's early optimism about the field when the first well was drilled last year, and the company stands by its assertion that the block's in-place resources are in excess of 14 tcf of gas. It states that the numbers would near these levels over time when ongoing analysis is completed.

The oil major believes the gas reserves in D6, which are equal to 2.3 billion barrels or 300 million tonnes of oil, are set to produce 2.12 billion cubic feet (bcf) per day versus combined output of 2.2 bcf per day from all of India's other gas fields. Both Niko and RIL have been granted a seven year tax holiday for the exploratory prospects. Under the production sharing agreement, the government has the right to back in (pick up a stake) to the field to the extent of 85 per cent, but not before the partners have recovered 300 per cent of their capital costs for the development of the field.

Under NELP, favourable terms to prospectors include reduction of royalties to the government to 10 per cent for offshore fields and 5 per cent for deepwater blocks such as the D-6. RIL has already embarked on a giant 3D seismic survey for the 2,500 m area in D-6. Plans are also afoot to build a pipeline network to ferry the gas right up to the company's headquarters in Mumbai.

International energy groups like **Shell, Exxon, Petrobras** and financial investors like **CVC Capital** and **Citibank Private Equity** have entered the fray to consider equity participation in the RIL gas property. Discussions have been held between the parties and investment bankers. While the concept of farming in of equity to finance the commercial exploitation of gas is being explored, RIL is also evaluating the option of financing the investment on its own balance sheet.

Transocean Bags ONGC Contract

Transocean Inc, the global offshore drilling contractor has declared that it has bagged a US\$ 200 million contract for three jackup rigs from **Oil and Natural Gas Corporation (ONGC)**.

The ONGC contracts for the three jackup rigs, Trident XII, Ron Tappmeyer and Randolph Yost, are each for a duration of three years.

The expected commencement date is October 2003, following the completion of each unit's current drilling programme and mobilisation to India. Revenues expected to be generated from the three contracts total US\$ 203 million, exclusive of

mobilisation fees.

The jackup rig Trident XII is a Baker Marine BMC-class unit with a maximum water depth of 300 feet. The unit is currently operating offshore Vietnam and is expected to complete its current drilling assignment in August 2003.

The jackup rigs Ron Tappmeyer and Randolph Yost are Marathon Le Tourneau Class C-116 units, also with a maximum water depth of 300 feet.

The Ron Tappmeyer is expected to complete its current drilling assignment offshore Indonesia in August 2003, while the Randolph Yost, operating offshore Equatorial Guinea, will complete its current drilling programme in July 2003.

IOC, OVL Seek Allies

Indian Oil Corporation (IOC) and **ONGC Videsh Ltd (OVL)** are in talks with global oil majors **British Petroleum, Chevron** and **Exxon Mobil** to forge a consortium and bid for a oil producing block in Kuwait. The oil companies have also decided to take up the role of a non-operating partner in the US\$ 7 billion North Kuwait project, in which they plan to take a 10 per cent stake. IOC and OVL will be pumping in investments as a financial partner in this oil-producing project if the bid is selected.

If the Indian companies manage to bag the bid along with their consortium partner, it will ensure oil equity from Kuwait as well. India received its first cargo of oil equity from Sudan in Mangalore.

The proposed consortium with one of the global oil majors will help them include the operator. A final decision on the consortium will be taken soon.

The project is a producing field, which currently has four producing blocks with a total production of about 450,000 barrels per day. The Kuwaiti authorities are now interested in expanding the facilities in this field and increasing the production to 900,000 barrels per day.

Kuwait Petroleum Corporation (KPC), the national oil-company, operating these fields had called for expressions of interests (EoI) for expanding their facilities. The view of the close business links IOC has with Kuwait, it decided to participate in this exploration and production project (E&P) along with OVL.

OVL Bags Syrian Blocks

ONGC Videsh Ltd (OVL), has bagged an oil exploration block in Syria. OVL, in partnership with US firm **IPR International**, has been awarded the on land block 24 against stiff competition from Chinese and European firms. A medium-sized oil discovery was earlier made in Block 24, but the field was hived off from the original Block and is not part of the acreage awarded to OVL.

The block has good prospects and peak production could be as high as 3 million tonnes a year.

ONGC Exploration in Libya

ONGC Videsh Ltd (OVL), the wholly owned subsidiary of **Oil and Natural Gas Corporation (ONGC)**, has decided to push ahead with exploration in Libya, having finally got Tripoli's approval for stakes in two blocks.

In August last year, OVL signed a farm-out agreement with **Turkish Petroleum Overseas Company (TPOC)** to acquire 49 per cent stake in two on land oil and gas exploration blocks in Libya. The deal was, however, awaiting formal government approval. Under the deal OVL will invest around US\$ 15 to 20 billion in the exploration blocks and will drill the first exploration well within three months.

The Libyan firm will invest an equal amount in the exploration blocks, which are expected to yield good results as they are close to major finds. Given the close ties between India and Libya, OVL has not been asked to pay premium for getting a stake in the exploration blocks. While awaiting formal approval, OVL carried out seismic surveys of the blocks. One of the exploration blocks is located in prolific Sirte Basin of Libya and measures about 2,100 km, while the second block is located in upcoming Ghadames basin, spread over 6,600 sq km. Early surveys have been completed and are encouraging. OVL hopes to get the results of the first exploration well within 2003-04 and plans to drill the second exploration well early next year.

ONGC Wells in Rajasthan

Encouraged by striking of high quality oil in Kharpar area of Jaisalmer district recently, **Oil and Natural Gas Corporation (ONGC)** has decided to drill four more wells in the border area. The recent find in Kharpar area is not normal crude oil that is used after refining, but a special grade white oil which can be used directly in aviation. The high quality oil struck early this year has been sent to ONGC's laboratory in Dehradun for chemical analysis. Since the oil and gas has been found in a pocket, four more wells have been planned after geological survey. The oil and gas reserves found in

Rajasthan desert are opposite Gabbar area of Pakistan where the neighbouring country has been exploiting the huge gas potential of its Sui gas field. Meanwhile, **Oil India Limited (OIL)** is also planning to deepen the wells drilled earlier, using new techniques. OIL is currently producing 500,000 cu m of gas from its five wells in Tanot and Dandewala areas in Jaisalmer district and supplying it to Ramgarh power project of the state

Work on new wells for exploration of oil and gas by ONGC in Rajasthan is however held-up due to the Corporation's dispute with desert national park here. While the Standing Committee of Wild Life Board is seeking Rs 50 million compensation for drilling the wells in the park areas, ONGC is ready to pay only Rs 10 million. After a survey indicated huge reserves of oil and gas near Birmani village in Myajlar area of Rajasthan, ONGC had planned to dig deep wells. But the desert national park officials objected to any activity in the reserve area on the grounds that it would disturb wild life habitat and flora. The issue is now pending before the Supreme Court.

Cairn to Sell to ONGC

Cairn Energy of UK has offered to sell its 85 per cent stake in two oil and gas blocks in Krishna Godavari basin to **Oil and Natural Gas Corporation (ONGC)** for US\$ 100 million and 15 per cent equity in state-run firm's two blocks. Rejecting ONGC's US\$ 200 million non-binding bid for its two KG basin blocks and CB-OS/2 block in Cambay basin, the Scottish explorer gave the corporation time till July 15 to respond to its offer. Cairn has decided to withdraw CB-OS/2 block, where five oil and gas discoveries have been made to date, from its offer of sale. The company has 100 per cent stake in KG-DWN-98/2 deep-sea block that lies adjacent to **Reliance Industries Ltd's (RIL)** gigantic gas find, and a 50 per cent stake in KG-OS/6. **Videocon Petroleum Ltd (VPL)** on the remaining stake. Current reserve estimates for the acreage stand at between 100 million and 300 million barrels of crude and up to 1.5 tcf of gas. ONGC is considering the latest Cairn offer.

EOL – Conditions on Ratna, R-Series

Essar Oil Ltd (EOL) has agreed to the government's condition not to raise any funds against Ratna and R-series oil fields for its beleaguered refinery project, so as to expedite signing of the long-delayed contract for the field. The company, which was awarded the fields in 1995, will provide a letter from ICICI 'to the effect that Ratna R-Series field will not be pledged as a security for the loans taken against the refinery project'.

The company has also given an undertaking that it will not sell its stake in the field till the development plan stipulated in the production sharing contract (PSC) is achieved or for a period of three years, whichever is later.

The government had in April asked EOL to free Ratna and R-Series fields within three months from loans it had taken from banks and financial institutions for construction of its troubled refinery in Gujarat by pledging the receivables from the fields as collateral.

Senior **Essar Group** officials met Mr Naik to expedite signing of the contract for the fields. Following this, EOL wrote to him stating the company would establish a bank guarantee for the minimum investment committed in the field from the date of signing. EOL wants to start development of the field at the earliest so that it is ready to deliver crude to meet the requirement of its 10.5 million tonne refinery, which will be in operation by early 2005. EOL has 50 per cent interest in the oil fields while state-owned **Oil and Natural Gas Corporation (ONGC)** holds 40 per cent. The remaining is with **Premier Oil Plc.** of UK.

GAIL in Argentina, Mozambique

GAIL India Ltd (GAIL) is eyeing a stake in oil and gas exploration blocks in Argentina and Mozambique, and planning city gas projects in several countries to expand its international operations. GAIL which already has a 10 per cent stake in A-1 gas field off Myanmar's northwestern coast, is also talking to **Shell** for picking up stake in two city gas distribution companies in Egypt.

ONGC Capital Expenditure

Oil and Natural Gas Corporation (ONGC) has chalked out Rs 162 billion expenditure for the current fiscal, of which Rs 40 billion each will be spent on exploration survey and production.

The capex for last year was Rs 110 billion. The exploration major will spend Rs 17 billion on development drilling and Rs 3 billion on research and development (R&D). It has earmarked Rs 62 billion for its fully owned subsidiary **ONGC Videsh Ltd (OVL)**.

ONGC has also made a one-time provision of Rs 16 billion for well-abandonment costs. The move will offer a tax benefit of Rs 6 billion. On its downstream foray, ONGC will enter the retail market in a phased manner. Only one or two pumps will be put up this year under the ONGC brand. **Mangalore Refinery and Petrochemicals Ltd (MRPL)** has not applied for permission for oil retailing.

Exploration in Bengal

Unable to locate a suitable rig for deep-water exploration, **Oil and Natural Gas Corporation (ONGC)** has decided to defer its plan to start exploratory drilling in the Bengal offshore block till the next fiscal. After calling for a global tender to locate a suitable drill for deep-water exploration on the high seas of Bay of Bengal, ONGC has now decided to go for a global re-tendering, later during the year.

However, ONGC has started preparatory work to kick-off drilling activities at its Bengal onshore block, the licence for which it has been holding for many years. The corporation will be initiating drilling activity for one exploratory block in Contai on August 20.

ONGC's rig, which was operating at Madhya Pradesh is in the process of being shifted to Contai with bulk of the equipment already at the proposed well site. Investment for drilling one exploration well at Contai is estimated at Rs 150 million. As per ONGC's licensing agreement with the government for the Bengal onshore (Gobindapur-Contai block), the company has agreed to surrender about 25 per cent of the block area for its latest renewal.

ONGC has already spent about Rs 1.7 billion in data processing and seismic mapping for the Bengal offshore block. Another Rs 3 billion was estimated to be invested for drilling four exploratory wells initially.

Experts have been finding it difficult to locate a suitable floating rig

for the deep-water block which is supposed to have one of the roughest seas among the blocks offered under the NELP.

ONGC will begin its search for reserves along West Bengal's coast and in the Sundarbans the world's largest delta, and the Moogberia and Contai areas by the Bay of Bengal soon. It has so far drilled at 48 sites across West Bengal, but is yet to hit commercially viable reserves. The last time ONGC had unsuccessfully drilled for oil in the state was seven years ago.

The total cost of the exercise is estimated at Rs 4 billion. ONGC has identified 1,100 sq km of area in the Sunderbans for exploration. It hopes to finish spudding in two years.

The agency has started moving its heavy equipment and drilling machinery into Moogberia and has completed building a bridge in the area to facilitate movement of its men and materials. While states like Gujarat, Maharashtra and Tripura have been identified as 'asset zones' and some other areas as 'support service zones,' ONGC identifies West Bengal as a 'basin zone.'

Besides ONGC's exploration plan in the east, the **GAIL-Gazprom** consortium, which carried out a detailed survey at its Digha offshore block, has decided to go ahead with the second phase work. After being 'positively' assessed by **PetroTel** of US, GAIL-Gazprom consortium is all set to kick-off exploration work after the current monsoon season. Digha offshore gas block awarded to GAIL-Gazprom is about 200 km off the popular beach destination of Digha in West Bengal.

ONGC Offshore Programme

Oil and Natural Gas Corporation (ONGC) will kick off its deep-water exploration programme with five wells on the east and west coast. Three wells will be drilled on the east coast while the other two will be drilled in Maharashtra.

The corporation has set a target of drilling 35 deep-water wells during the course of the year. The expenditure on each deep-water well will be in the region of Rs 800 to Rs 1,000 million. ONGC plans to spend about Rs 18 billion for deep-water drilling activities in the current year. It has decided to focus on deep-water exploration to increase its crude production. It is in the process of hiring two rigs for its exploration activities. It takes about 40 days to drill a deep-water well.

The corporation will also begin drilling the 37 wells awarded to it under NELP, by the end of this year. It bagged 37 of the 70 exploration wells thrown open by the government under the first three round of NELP.

The company is going bullish on the exploration front and has decided to invest another Rs 17 billion to develop three discovered fields in India. It has also decided to open up oil and gas fields for exploration to other companies. It has opened up 94 discovered but unexploited fields.

The exploration major has estimated more than 200 million tonnes of oil in these fields. While the gas reserves are expected to be more than 120 bcm, ONGC has chalked out a number of programmes to increase the crude production. It will be spending about US\$ 1.2 billion every year in exploration related activities and is focussing on early production system and higher recovery.

Indian Oil Corporation (IOC) and **GAIL India Ltd (GAIL)** have submitted bids for construction of the \$2.5 billion Turkmenistan-Afghanistan-Pakistan (TAP) pipeline, which will move natural gas from Turkmenistan's Dauletabad fields via Afghanistan to Pakistan's Multan. While IOC has tied-up with Russian construction firm **Stroytransgaz (STG)**, GAIL has roped in **Gazprom**, also of Russia, for putting in the joint bid.

Mumbai High Re-development

Oil and Natural Gas Corporation (ONGC) plans to infuse around Rs 18 billion in its ongoing Mumbai High re-development plan in the current fiscal. The company's planned investments this fiscal equals the total investments on the Mumbai High re-development since the revival plan was kicked off in 2001.

The corporation has so far made a cumulative investment of Rs 18.305 billion on both Mumbai High North and South re-development. It plans to invest another Rs 7.85 billion in Mumbai High North and roughly Rs 10.27 billion in Mumbai High South.

The field has contributed almost 35 per cent of ONGC's total revenues at Rs 353.86 billion in the financial year ended March 31, 2003. Of the 227 wells scheduled to be drilled as part of the programme, ONGC has completed drilling 67 wells and has recovered incremental oil and oil equivalent gas of 4.5 to 5 million tonnes. It hopes to add around 2 million tonnes of oil and oil equivalent gas every year.

Mumbai High re-development, which began in 2001 with the aim of improving and maintaining the oil and gas field, is scheduled for completion in 2005 for Mumbai High North and 2006-07 in the case of Mumbai High South. The total investment in the project stands at US\$ 1.7 billion.

Hyundai at Mumbai High

Oil and Natural Gas Corporation (ONGC) has placed an order worth US\$ 220 million with South Korea's **Hyundai Heavy Industries** to build and install an offshore gas processing platform at the Mumbai High oil fields.

The 14,000 tonne platform, dubbed MSP, will be bridge-linked to the existing Mumbai High South platform off the western coast, and will have facilities for gas compression, dehydration, treatment, utility and oil handling.

The workscope includes modifications to existing platforms and decommissioning of a flare system, but Hyundai plans to sub-contract this part of the work to an Indian company.

The US\$ 220 million award is part of the US\$ 2 billion redevelopment of Mumbai High.

Equity in Myanmar Blocks

ONGC Videsh Ltd (OVL) is pursuing equity participation in five new exploration blocks in Myanmar. These are A-2 and A-3 on the Rakhine coast and M-1, M-7 and M-9 exploration blocks in the Gulf of Moattama in Myanmar.

The first round of discussions have already taken place between OVL and the **Myanmar Oil and Gas Enterprise (MOGE)** and the latter has agreed to set up a data room for detailed data review of all these blocks. The blocks, finally selected by OVL, will be awarded on negotiation basis. Presently, OVL and **GAIL India Ltd (GAIL)** jointly hold 30 per cent equity in the offshore block A-1 of **Daewoo International** in Myanmar.

Alongside, GAIL is examining the feasibility of setting up an LPG extraction plant and a petrochemical unit based on the Yetagun gas field in Myanmar. The Yetagun field is presently producing 340 mmscf of gas and is scheduled to produce 400 mmscf of gas by 2004, having potential LPG recovery of 4 per cent. **Myanmar Petrochemical Enterprise (MPE)** has estimated that this could give a production of 300,000 tonnes per annum of LPG.

GAIL is also studying the possibility of LPG exports from this unit to India. MPE has informed that ethane recovery to the extent of 7 per cent is possible from this gas and GAIL will examine the feasibility of setting up a gas cracker for polymer production based on this.

On the upstream side, it has also been agreed that a joint study by specialists from OVL and MOGE of the geological basins in the proximity of the India-Myanmar border will be undertaken to comprehensively evaluate such basins for developing future exploration strategy.

To begin with the study will focus on two regions - Hukaung and Chindwin. Deep-water exploration blocks continuing towards Andaman side will also be studied subsequently, as MOGE has significant seismic coverage. On the downstream side, **Indian Oil Corporation (IOC)** is examining the feasibility of revamping Thanlyin refinery of MPE, which is

currently operating three refineries with a total refining capacity of 57,000 barrels per day.

Thanlyin refinery with a capacity of 25,000 bbls/day is situated near Yangon River and processes imported low sulphur crude (from Malaysia) and condensates. The other two refineries - Chauk and Thanbayakan - are situated in upper Myanmar near oil fields. IOC may take up revamping Thanlyin refinery along with changes required in the refinery configuration to process high sulphur crude (which is a cheaper crude) besides looking at cost effective ways of transporting crude oil to the Thanlyin refinery.

ONGC - Saudi Oil Fields

The Saudi government has invited **Oil and Natural Gas Corporation (ONGC)** to take up exploration and production in that country. The invitation from the Saudi government assumes importance in view of the fact that oil industry operations in Saudi Arabia are primarily state-owned, and there are limited foreign players.

Although the details will be known only after the meeting, the invitation does indicate that Saudi Arabia is planning to open up and allow new players like ONGC to take up both the development of oil fields and stakes in existing producing fields. It is also felt that a close collaboration between India and Saudi Arabia will place the former in a better bargaining position vis-a-vis OPEC.

Indian Oil Corporation (IOC) and **ONGC Videsh Ltd (OVL)** will mount a joint bid for acquiring South Ghawar gas field, one of the largest onshore fields in Saudi Arabia. Saudi Arabia has terminated contract with **ExxonMobil**-led consortium for developing the South Ghawar gas reserves. ExxonMobil consortium, which also included **Shell**, **BP** and **ConocoPhillips**, was to invest US\$ 15 billion in bringing gas to production.

The companies wanted access to more gas than the Saudis were offering. OVL will have a majority stake in the consortium bidding for South Ghawar field that is estimated to hold 35 tcf of gas reserves. IOC has indicated its interest in taking up the Ghawar gas project along with associated petrochemicals and power projects.

ONGC Discoveries in 2002-03

Oil and Natural Gas Corporation (ONGC) has discovered oil and gas reserves at six places in the country during 2002-03: at **Vasai West** (oil and gas) western offshore, **GS-49** (gas) and **GS-KW** (oil and gas) in Krishna Godavari offshore, **Chinnewala Tibba** (gas) in Rajasthan, **Laipling-Gaon** (oil and gas) and **Banamali** (oil) – both in Assam.

While Vasai West holds 240 million barrels of in-place oil reserves, Laipling-Gaon is estimated to contain 100 million barrels of in-place oil. In its biggest drilling effort in the past five years, ONGC drilled 150 exploratory wells and 186 developmental wells in 2002-03, including 64 offshore wells.

For the third year in succession, ONGC recorded positive reserve replacement with accretion of approximately 130 million tonnes of oil plus oil-equivalent gas from domestic and foreign assets.

ONGC's Plans

Oil and Natural Gas Corporation (ONGC) is informally exploring the possibility of increasing its float by persuading the government to offload part of its stake to investors. **ONGC Videsh Ltd (OVL)**, a 100 per cent subsidiary for ONGC's foreign operations and investments, has plans to list on the New York Stock Exchange in two to three years time. It has drawn up major expansion plans of acquiring equity and exploration blocks abroad.

OVL, which has a 20 per cent stake in the Sakhalin-I exploration block, has earmarked US\$ 1.7 billion for this project. The company hopes to earn a return of 20 per cent million dollar terms in this project, once production begins. The listing of OVL is being planned in such a way that it will coincide with the production at Sakhalin.

On the Greater Nile Sudan project, where OVL has also taken an equity exposure, the company expects a return of around 13 per cent to 14 per cent in dollar terms. The first ever oil equity was received from this exploration project in Mangalore last month. OVL acquired its first gas property last year in Vietnam, where it has a participating interest of 45 per cent.

The project began commercial production in December. Prospects for the company will only improve in the coming years as it is going ahead with very aggressive plans. It will add significant reserves over the next year and its profits will see a manifold increase too.

However, some doubts still dog the

Iraq block. Although it had been awarded to OVL and the then Parliament had vetted it, the current US regime is reviewing all contracts.

The corporation has a very small float in the market. While the government holds a majority 84.11 per cent stake, IOC and **GAIL India Ltd (GAIL)** have a combined holding of close to 10 per cent. FIIs hold about 0.52 per cent, while domestic banks and mutual funds have a 0.90 per cent stake. There is enough scope for some divestment in the near future.

The Centre has maintained that ONGC with IOC and GAIL will be flagship companies in the oil sector, where the government will continue to hold 51 per cent stake. Given the bullish trends in oil stocks and growing FII interest in oil scrips, companies like ONGC do not want to miss the opportunity of attracting foreign investments. FIIs look at a company's free float before making an investment and their participation is important for increasing international visibility and achieving higher market capitalisation.

This in turn will enable ONGC to leverage its valuation for mergers and acquisitions abroad. Financial experts feel that the possible divestment in ONGC is likely to be done through the book-building route to get the best possible price like the recently concluded **Maruti Udyog Ltd (MUL)** issue.

ONGC has over the years increased its global presence by acquiring blocks and oil equity abroad. Financial analysts stated ONGC's strategy over the years will be to increase this trend, and a higher float with a more realistic valuation will only help the company.

Ravva Satellite Gas

The first ever market priced gas sales in April from **Ravva Satellite Field**, off the Andhra Coast, fetched US\$ 3.30 per million btu (British thermal unit).

Gas sales from **Cairn Energy**-operated Ravva Fields against US\$ 2.96 per mmbtu for existing **Ravva Gas** till now was on administered pricing system. Moving towards deregulation of gas pricing, the government had recently stipulated that incremental natural gas production from joint venture fields like Ravva would be sold at market price. The 18.342 mmscm of Ravva satellite gas was sold for US\$ 2.069 million in April while 32.746 mmscm from the existing field went for US\$ 3.586 million.

GAIL India Ltd (GAIL) has signed deals with three fertiliser and power firms for 0.9 mmscm per day of gas from Ravva satellite fields at market price. GAIL sells gas from the Ravva satellite fields to **Nagarjuna Fertilisers**, **Lanco Group's** power project in Kondapalli and **GVK's** Spectrum Power Project, located in Andhra.

Canoro Stake in Assam

Canadian exploration firm **Canoro Resources** has stated that it has increased its stake in the onshore Amguri oil and gas block in Assam from 35 per cent to 60 per cent and gained operatorship of the block. The Assam Company is the other partner with an interest of 40 per cent.

The acquisition will also enable the company to attain operatorship of the Amguri Production Block and to create and implement a development programme for the Amguri Field. The acquisition of this additional interest and the role of operator are subject to certain approvals, including that of the Government of India, which the company expects to obtain during the third quarter of 2003.

Operations are slated to commence on the Amguri Production Block during the fourth quarter of 2003. The Amguri Joint Venture has already received notification from the Assam Government that the application for the issuance of the Amguri petroleum mining lease (PML) has been approved.

GAIL – Stealing GSPC's Thunder

GAIL India Ltd (GAIL) stole the thunder from the Gujarat State Petroleum Corporation (GSPC) by using no less a person than the Union Minister for Petroleum and Natural Gas Ram Naik, in Mumbai to make a pre-emptive announcement of the oil and gas strike at the Ahmedabad Exploration Block (AEB). This was just the first salvo in the gas transmission company's initiative in carving a larger role for itself in Gujarat. It transpires that GAIL has been mounting pressure on GSPC to shed 10 per cent equity in the exploration block, CB-ONN-2000/1, in its favour so that both entities enjoy 50 per cent stake each.

The GAIL interest in the lucrative exploration field follows Joshi Technologies Ltd (JTL), the third member of the consortium that bid for the block under NELP II, selling its 20 per cent stake to GSPC.

It is understood that GAIL has the backing of Ministry of Petroleum and Natural Gas (MoPNG) in the bid to augment its stake in the field, though it is not pressing any claim for change in status of the operatorship that rests with GSPC. However, GSPC is wary that once GAIL is allowed to hike its stake in AEB to 50 per cent it will be merely a matter of time before GAIL attempts to takeover the operatorship of the field.

GAIL interest in the field is underscored by prognosticated reserve estimates in one of the wells estimated at 10 million barrels of oil and 300 billion cu ft of natural gas. While only one exploratory well has been drilled till date, the drill stem testing (DST) of the well has found oil and gas at four levels. GSPC is planning to drill up to 2000 m before commencing the drilling of the second well later this month.

It is not for the first time that GAIL has evinced interest in seeking a major role for itself either in GSPC or of its sister companies. The gas transmission major already has a 11 per cent equity

stake in the GSPC-promoted Gujarat State Energy Generation (GSEG), 156 MW power project at Hazira. And the equity sale of the Gujarat State Petronet Ltd (GSPL), yet another GSPC-promoted company has been stuck as some of the interested parties, including GAIL, have been seeking 33 per cent stake as against a 11 per cent ceiling that the GSPC wants to impose.

The gas major has never hidden its interest in becoming a serious player in laying transmission pipelines in Gujarat. Towards this, it has been carrying on parleys with GSPL to iron out a co-operation agreement.

However, with the GSPC subsidiary indicating its unwillingness to await a pan-India Gas Transmission Act and laying trunk route pipelines which will in the next phase bring gas up to Ahmedabad, GAIL seems to have played out its hand as far as its Gujarat aspirations go, unless it manages to get into a position of power with GSPC by gaining equal foothold in lucrative fields such as the AEB. The GSPC-GAIL consortium, according to the production sharing contract (PSC) with the Union Government, is required to pump in Rs 1 billion towards the development of the block. Of this, Rs 350 million is earmarked for the development of the 7 exploratory wells. The consortium has already acquired the 3-D seismic data for a 200 sq km area at the CB-ONN-2000/1, which is located near Ingoli village in Dholka region of Ahmedabad district.

It has been GSPC's stand that the DST data concerning the flow of oil/gas at AEB is currently under evaluation and the commercial viability of the strike will be announced in due course, indicating its displeasure at GAIL, till date a junior and non-operating partner, making an announcement on the oil/gas strike without taking the operating partner into confidence.

The Gujarat Government's decision to play down the strike comes even as GAIL has increased pressure on GSPC and its sister companies for a larger role than it enjoys at present.

Reliance's Product Pipelines

Reliance Industries Ltd (RIL) plans to invest over Rs 45 billion in laying product pipelines across the country to facilitate retailing of petrol and diesel.

RIL, which is setting up 5,849 petrol stations across the country, will lay 5,895 km of product pipelines to feed the retail network.

A formal proposal to this effect has been submitted to the Ministry of Petroleum and Natural Gas (MoPNG). Gas Transportation and Infrastructure Co.

(GTIC), a wholly-owned subsidiary of RIL, has proposed to lay the Rs 16.4 billion Jamnagar-Patiala pipeline, Rs 17.8 billion Jamnagar-Kanpur pipeline, Rs 4.6 billion Goa-Hyderabad pipeline, Rs 3.25 billion Chennai-Bangalore pipeline, Rs 1.1 billion Kakinada-Vijayawada pipeline and Rs 2.6 billion Haldia-Ranchi pipeline.

The 1,580-km Jamnagar-Patiala and 2,540-km Jamnagar-Kanpur pipelines will feed petrol stations in Rajasthan, Uttar Pradesh, Delhi, Madhya Pradesh and Chattisgarh, directly from the Jamnagar refinery in Gujarat. RIL is most likely to transport petrol and diesel from its refinery in Gujarat to ports at Goa, Chennai, Kakinada and Haldia through ships.

From the port cities, four different pipelines will evacuate the products for feeding petrol stations in Karnataka, parts of Maharashtra, Tamil Nadu, Andhra Pradesh, Kerala, Bihar and Jharkhand.

RIL will construct the pipelines on common carrier principle with 25 per cent excess capacity than it needs, which will be offered to any firm willing to share the capacity on firm take or pay clause. The project is to be financed on a 2:1 debt-equity basis, but the details are yet to be firmed up. Other private companies like Essar Oil Ltd (EOL) have also chalked out plans to enter the retail market with transportation fuels.

Indian Oil Corporation (IOC) plans to bid for a share in six new pipelines being built by RIL.

After Indian Oil Corporation (IOC), Oil and Natural Gas Corporation (ONGC) is planning a bid to take over petrol stations in Sri Lanka and begin retailing fuel from its subsidiary Managalore Refinery and Petrochemicals Ltd (MRPL), in the island nation. Sri Lanka has invited expressions of interest from oil companies in Ceylon Petroleum Corporation's (Ceypetco) 100 petrol stations.

AP Rethinking ATF Tax

After more than a year of tax concession being extended to the aviation industry, including the lowering tax on aviation turbine fuel (ATF) the Andhra Pradesh Government is contemplating reverting to the old sales tax regime.

The state commercial taxes department and the finance ministry are likely to revert to the old 32 per cent sales tax on ATF. State Chief Minister N. Chandrababu Naidu, in an effort to attract more airliners to touch base at Hyderabad ahead of the proposed Greenfield international airport project at Shamshabad, had brought down the tax on ATF to 4 per cent in April 2002.

The present bias towards reversal is based on the realisation that while the state itself had not gained much from addition of new flights, it has actually lost out on revenues.

Significantly, the state exchequer gained by additional revenue of about Rs 400 million, but in real terms, it lost due to lower tax extended to carriers. The slowdown faced in the global aviation industry along with the recent development including the Iraq war and SARS-related developments leading to travel advisories and airlines delaying expansion decisions have also proved unfavourable.

'AAA' rating for RIL

Crisil has assigned 'AAA' rating to **Reliance Industries Ltd (RIL)** debentures and bonds aggregating Rs 105.6 billion and reaffirmed 'P1+' rating to RIL's Rs 16 billion short-term debt programme, even as it opined that the group's telecom business outlook 'remains uncertain'. The affirmations of RIL's instruments and debt programme continue to reflect its dominance in domestic petrochemicals industry and its strong competitive position in the oil refining business.

According to the rating agency RIL derives sustainable competitive advantage from its world-scale capacities, broad product portfolio, cost-efficient manufacturing facilities and highly integrated operations.

These further translate into cash accruals (Rs 60 billion in fiscal 2003) and comfortable cash debt service coverage measures (interest cover of

5.7 times and cash debt service coverage ratio of 1.5 times in fiscal 2003). However, these are partly offset by the price volatility in both RIL's businesses, coupled with its absence in marketing petroleum products, where margins are expected to be stable than in pure refining.

Moreover, RIL is investing 'heavily' in developing new businesses (telecom, oil and gas), where its position is 'significantly weaker' than in its existing businesses.

Reliance, Shell Bid to Supply to NTPC

Reliance Industries Ltd's (RIL) new found gas reserves at Krishna Godavari basin may have a bulk consumer in the state-run power major **National Thermal Power Corporation (NTPC)**. RIL and multinational energy giant **Shell** have placed offers to the power major to supply natural gas equivalent of 3 million tonnes of LNG per annum for its Kawas Gandhar thermal power stations.

The 17 year-firm contract proposed by NTPC would mark the biggest NG/LNG market in India so far with a size of over Rs 320 billion. Also, the contract will signify the attempt of the power major for global sourcing of fuel via competitive bidding.

This will end its dependence on domestic gas supplier **Oil and Natural Gas Corporation (ONGC)**, which is threatening to hike prices by linking domestic price of gas to benchmarked import parity price of furnace oil. The contract size could become bigger, as NTPC reserves the option to extend the contract for no specified tenure.

The requests for qualification (RFQ) from RIL and Shell are among a total of 9 RFQs accepted by the power major. Two RFQs have been rejected. NTPC has issued techno-commercial /price bid documents to five energy majors who offered to build LNG re-gasification terminals. RIL and Shell offered to supply NG as well as LNG.

BG, Petronas, RasLaffan, Yemen LNG and Petronet are among those whose RFQs have been cleared. All of them, however, have to face one more hurdle before making the actual price bid, as techno-commercial clearance is mandatory for consideration of a price bid. The state-owned power major is

set to receive the price bids on August 12. The contracts - either an NG supply contract or a LNG contract or a LNG plus re-gasification contract would be sealed within two to three months after receipt of the bids.

NTPC is proposing a fixed price system for gas /LNG under the contracts with a limited exposure to global inflation rate. It and is aiming at a price at par with variable cost of domestic coal, i.e., Rs 1.1-1.5 per kwh. It has also invited RFQ for import, re-gasification and supply of 2 million tonnes per annum of LNG equivalent for its Kayamkulam station.

While 23 companies have bought the RFQ documents for this contract, which is for 17 years, NTPC has incorporated a major change in its terms for inviting proposal for natural gas or LNG for expansion of its gas-based Gandhar and Kawas power projects. As per the new request for proposal documents issued by NTPC, the price of natural gas or LNG would be indexed up to 15 per cent with the consumer price index of the US in case the price is quoted in dollars.

However, in case gas price is quoted in Indian rupees, the price would be indexed up to 15 per cent with the Indian wholesale price index (WPI). In the original document, NTPC had demanded a fixed price for gas for 17 years. However, after the pre-bid conference held on May 15-16, the corporation decided to revise its RSP document in line with the suggestions received. The capacity of both gas-based Gandhar and Kawas power projects is being increased from 650 MW each to 2,000 MW each. The last date for submission of proposals is August 12.

Petronet LNG Ltd (PLL), the domestic consortium of oil PSUs, which plans to have a LNG terminal in Kochi, has also bought the RFQ document. While Petronet has the advantage of an existing port and infrastructure facilities in Kochi, other potential bidders can set up the re-gasification terminal near the power plant and save on transportation cost.

TotalFinaElf, Punj Lloyd, Chevron of Australia have also purchased the RFQ documents from NTPC. Kayamkulam thermal power station has a capacity of 350 MW. The plan is to increase the capacity by 1,950 MW.

Consortium for Iran

The government has formed a consortium of leading national oil and gas companies – **Oil and Natural Gas Corporation (ONGC)**, **Indian Oil Corporation (IOC)**, **GAIL India Ltd (GAIL)** and **Oil India Limited (OIL)** – to finalise a gameplan that will put in place specific strategies for cooperation with Iran in the oil and gas sector.

The consortium will first prepare a model for discussion with the Iranian side. The guiding parameters laid by the ministry for developing this model includes India's long-term oil security (for a period of 25 years), LNG price at customer's door not to exceed US\$ 3 per mmbtu besides the 'most favoured customer' treatment to India by the Iranian side.

While a consortium approach will be followed in negotiating all deals with the Iranian authorities, it has been decided that for discussing equity participation in Iranian oil and gas fields, ONGC will take a lead role as the operator with IOC, GAIL and OIL as its partners. For the gas sector related deals, including imports of LNG from Iran and development of CNG infrastructure in Iran, GAIL has been designated as the operator with the other three companies as its partners.

IOC will be the nodal agency for setting up petrochemical projects in Iran besides exploring other business opportunities in the downstream sector. The operator will have a high share. The exact details on the shareholding pattern will be decided shortly by the petroleum ministry. The ministry has asked the consortium to negotiate and finalise a total package on crude and LNG with Iran as LNG would need to be subsidised.

These decisions were taken at the steering committee meeting, held recently under the chairmanship of Petroleum Secretary, B K Chaturvedi, to review the progress made on the points agreed at the first meeting of the Indo-Iran joint working group (JWG) meeting in May. In the JWG meeting, the two countries had agreed on a package of cooperation including exports of 5 million tonnes of LNG from Iran to India, equity participation in Iranian oil and gas fields and setting up of petrochemical projects in Iran.

Differential Oil Pricing Plan

Oil marketing companies will have to increase prices of petrol and diesel by anything between 60 paise to Rs 3 a litre in the inland markets if import parity prices is introduced. As of now, most coastal areas, particularly consumers in Gujarat, Maharashtra, Vizag and Chennai are paying more than the import parity levels for the products. Considering that the excise duty is levied at the depot point in the petroleum sector after all the costs are built in, the consumers of the coastal markets should actually get a huge advantage in pricing.

The government has not allowed the oil companies to change over to a differential pricing mechanism. Among other reasons, which could be going against the differential pricing mechanism, are the upcoming elections in some of the land-locked states like Delhi, Madhya Pradesh. But coastal consumers, particularly bulk consumers have begun feeling the pinch and are moving away. The Railways and **Gujarat Transport** have stopped sourcing fuel from **Indian Oil Corporation (IOC)** which sells at a higher price to cross-subsidise the inland consumers. With private companies like **Essar Oil Ltd (EOL)** already calling for bulk consumers for whom they are importing products at the coastal states, the PSU companies would have to find a way out or lose business.

ONGC's foreign arm, **ONGC Videsh Ltd (OVL)**, will undertake the necessary groundwork in identifying and short-listing Iranian oil fields under two categories (discovered and semi discovered) and then start discussions with its Iranian counterpart so that the terms including type of award can be negotiated and finalised.

Although the deregulation is likely to bring market-driven pricing, but the full impact of deregulated pricing will only be felt when **Reliance Industries Ltd (RIL)** enters into retail marketing and **Hindustan Petroleum Corporation Ltd (HPCL)** is privatised.

The **National Iran Oil Company (NIOC)** has invited GAIL and IOC for jointly negotiating import of 2.5 MMTPA of LNG from Iran. The Sale and Purchase Agreement will be signed jointly by GAIL and IOC with the **National Iranian Gas Export Company (NIGEC)**, a fully owned subsidiary of NIOC.

NIOC is also eager to enter into marketing arrangement with domestic firms for selling its products in India and is reportedly considering several proposals in this regard.

The Iranian company has large business interests in India especially in the fertiliser and petrochemical sectors. NIOC has monopoly control over all upstream operations of the Iranian petroleum industry spanning exploration, drilling, production and operation of oilfields and gas-fields.

Gulf Oil in Bangladesh

Gulf Oil Corporation Ltd (GOC), the Hyderabad-based manufacturer of lubricants and explosives with manufacturing units at Mumbai and Hyderabad, has entered into a joint venture (JV) with **Oil Bangladesh Ltd (OBL)** and formed a new company, **Gulf Oil Bangladesh Ltd (GOBL)**.

GOC will hold 51 per cent stake in the new venture, while OBL will hold 49 per cent. According to an agreement signed in Dhaka, a lube blending operation will be started in Bangladesh. With this JV, GOC becomes the first Indian lubricant company to invest in the international market.

Subsequent to the opening of lubricants market in Bangladesh in 1997, GOC appointed OBL as its sole distributor in 1999. Since then, sales have peaked at 200 KL per month, which represents a market share of 3.5 per cent. In order to take advantage of duty differentials between raw materials and finished products, GOC has decided to start a lube blending operation in Bangladesh.

The total size of the lubricants market in Bangladesh is estimated at 70,000 MMTPA with an annual growth rate of 6-8 per cent. In the first year of operations, GOBL is targeting a market share of 7.1 per cent, which will translate into a turnover of US\$ 5.4 million. The JV will blend and exclusively market Gulf-branded lubricants in the country.

HPCL, BPCL Import

After the private sector received a nod to import petro products independently, public sector oil majors **Hindustan Petroleum Corporation Ltd (HPCL)** and **Bharat Petroleum Corporation Ltd (BPCL)**, too, will no longer be dependent on **Indian Oil Corporation (IOC)** for import of transportation fuels like motor spirit and high-speed diesel for their retail outlets.

The Ministry of Petroleum and Natural Gas (MOPNG) now proposes to allow HPCL, BPCL and IBP to directly import their petroleum product requirements. Till now, the two companies had to canalise all their import requirements through IOC, which had an international trading desk. The government is expected to bring about an amendment in its Exim Policy to allow public sector oil companies to directly import petro products without going through the state trading enterprise route.

The Exim Policy had previously allowed petro companies marketing transportation fuels through their retail chain to import petro products directly if they had started their operations after March 8, 2002. This excluded public sector companies like BPCL, HPCL and IBP from the direct import route as they had been marketing these transportation fuels even before that date. Earlier, the government had also done away with IOC's monopoly on importing crude oil for refineries in the country with the dismantling of the administered price mechanism (APM).

The oil companies that have been granted marketing licences to directly import petroleum products, rather than use the canalised route include **Essar Oil Ltd (EOL)**, **Shell, Oil and Natural Gas Corporation (ONGC)** and **Numaligarh Refineries Ltd (NRL)**.

Canalising petro product imports through state-owned agencies like IOC often leads to procedural difficulties with the marketing company unable to source its products. Though these companies have now been allowed to directly import their petro product requirement, the quantum of imports would be restricted to only the amount for which a licence has been issued. Also, since the imports would be

restricted to the capacity mentioned in the marketing licence, trading in products is still not being allowed.

The move of allowing BPCL, HPCL and IBP to directly import would also help them cut down on transportation costs as it is cheaper to supply imported products.

Short-term Dealerships

In a bid to ease the restrictions on public sector oil marketing companies setting up retail outlets for selling petrol and diesel, the government is considering a proposal to amend the policy on retail outlets that are owned as well as operated by the PSU oil marketing companies.

With a government ban on appointment of permanent dealers for retail outlets, the petroleum ministry is now planning to allow contractors to operate new retail outlets on a short-term basis for a year or two. This follows a meeting between the petroleum secretary and persons from the public sector oil marketing companies. The delay in lifting the ban on appointment of dealership is purely political in nature.

The reason for the delay in taking a decision is not far to find - over one in four dealers belong to the reserved category. Of the 19,049 retail outlets operating today, which are entirely in the public sector fold, around 5,078 outlets or 26 per cent are in the reserved category.

On the one hand there is the political compulsion to retain control over the appointment of dealers and, on the other hand, the prospect of providing a non-level playing field to the public sector oil companies vis-à-vis private companies in expanding retail networks. The government has decided to weigh the option of allowing dealership on a short-term basis, involving purchase of land by the public sector oil companies.

Kochi LNG Terminal

The recent environment clearance for the Rs 20 billion **Petronet LNG Ltd (PLL)** terminal in Kochi and the state government order to revenue officials to assist **GAIL India Ltd (GAIL)** in its survey for laying pipelines appears to have suddenly breathed life into the project.

Even as skepticism remains owing to the lack of takers for the gas with **National Thermal Power Corporation (NTPC)**, the anchor customer, keen on going ahead with an independent terminal, intends to. It took nearly two years for getting the environment clearance go ahead and the company has spent over Rs 300 million by way of readying the DPR, the EPC and also marine land and terrestrials studies. In the meanwhile company is in talks with Qatar-based **Ras Gas** and a final gas pricing will be arrived at soon.

When the project was envisaged and the Kerala government took a 11 per cent stake in it, there were a slew of power projects like NTPC, **BSES Kerala**, **Kannur Power** and the **Vypeen Power Project** promoted by **Siasin Energy Ltd**. However, the Kannur Power is yet to find a promoter and the Vypeen project had been shelved.

NTPC is likely to float its tenders for the LNG terminal sometime in August. This will involve construction of an LNG-based generating station with a combined cycle of 1,950 MW. The present capacity is 350 MW.

Stupp Consultants have completed the field studies and are likely to submit the report soon. Only after studying the report will NTPC invite tenders for the terminal. The consultant will look into prospects of setting up the terminal either at Puthuvypu or near Kayamkulam. In case it goes for the first option, the expenditure for laying pipelines for a length of 120 km would come to Rs 2.4 billion.

Residue Coke to Petrol

Indian Oil Corporation (IOC) may set up a plant for converting refinery residue coke into LPG and petrol. The plant is likely to be at its Koyali refinery. The decision to set up such a unit was based on the success of the company's in-house R&D technology 'Indmax', at a Rs 1.5 billion pilot plant set up at Guwahati. Out of 100 litres of coke, roughly 40 per cent could be converted into LPG. Of the rest, only 10 per cent remained as residue while the remainder was converted into gasoline.

EOL – Diesel Retail

Essar Oil Ltd's (EOL) ambitious plans to begin selling imported diesel in Mumbai have come unstuck, all because of a stuck pig. Essar imported 18,000 tonnes of diesel a month ago, but has been unable to supply it.

The story began when the company contracted for diesel with a sulphur content of 0.24 per cent, but instead received a product with a much higher sulphur content, not allowed to be sold in India. So EOL had to import 5,000 tonnes more of diesel with an even lower sulphur content (0.05 per cent) and blend it with the earlier diesel, to reach the required consistency.

The Dubai-based refining and trading company Petroplus supplied the diesel. However, problems arose when the ship carrying the 5,000 tonnes of diesel was unable to discharge at JNPT. This is because a 'pig' was stuck in the pipeline between the jetty and the **Indian Oil Tanking Ltd (IOTL)** tank farm at the port.

The company is unable to move its ship to another location because the high sulphur diesel is in the IOTL tanks. Essar Oil is making a claim on IOTL for the damages. Meanwhile, IOTL is trying hard to remove the pig, a polyurethane device using nitrogen, natural gas under high pressure and other means.

RasGas Team to Visit

Senior officials of **RasGas**, Qatar will visit India soon to finalise the price at which the firm will sell LNG to public sector **Petronet LNG Ltd (PLL)**.

PLL 's discussions with RasGas would focus on getting LNG at fixed price, not linked to international crude oil or basket of fuel oil prices. PLL promoter firms have cut re-gasification, marketing and transportation cost of imported fuel by 70 cents per mmbtu, a pre-condition set by RasGas for reopening pricing of LNG.

PLL wants RasGas to sell LNG at price equivalent of US\$ 20 per barrel, i.e. US\$ 2.53 per mmbtu. This would mean a delivered cost of US\$ 3.8 per mmbtu. In other terms, the delivered cost would be Rs 7,400 per thousand cu m as opposed to prevailing market price of about Rs 5,600 per thousand cu m.

Oil Products Price-Hike

After a rash of price cuts in the past two months, industrial fuel prices have started firming up. The three public sector oil companies **Indian Oil Corporation (IOC)**, **Bharat Petroleum Corporation Ltd (BPCL)** and **Hindustan Petroleum Corporation Ltd (HPCL)** have hiked prices of naphtha, furnace oil, benzene and toluene.

The prices of benzene and toluene, two major inputs for the chemicals industry, have gone up significantly. While toluene prices have increased 17 per cent to Rs 25,100 per tonne from Rs 21,400 per tonne, benzene prices are up to Rs 23,400 per tonne from Rs 21,650. Meanwhile, naphtha prices are up to Rs 14,040 per tonne from Rs 13,680 a tonne. Furnace oil prices went up 3.4 per cent to Rs 11,300 per tonne from Rs 19,920 a tonne.

Oil companies collectively revise prices of all petro products every fortnight, in tandem with international price movements. The prices are basic ex-supply location figures, i.e. the price at the point where the products are manufactured.

Imports – SBI Syndication

Reliance Industries Ltd (RIL) has raised US\$ 100 million for import of crude oil through a syndication led by **State Bank of India (SBI)** which includes five SBI associate banks. This is the first time that SBI has completed such syndication for RIL.

The US\$ 100-million buyer's credit facility has been priced at London Inter Bank Rate plus 30 basis points, much lower than the going rates of between LIBOR plus 35 to 40 basis points. The consortium includes **State Banks of Bikaner & Jaipur, Indore, Hyderabad, Saurashtra and Patiala**. SBI has earlier completed similar funding deals for **Indian Oil Corporation (IOC)** and **Bharat Petroleum Corporation Ltd (BPCL)** where the bank has assumed 100 per cent risk exposure as it is a stakeholder in both companies.

SBI had set up a separate desk for syndication of credit and treasury products in March 2003. The desk has since completed deals worth Rs 19 billion under syndication and expects the syndication activity to grow substantially in the near future.

CPCL Expansion

The Rs 23.6 billion, 3 million tonnes per annum expansion project of **Chennai Petroleum Corporation Ltd (CPCL)**, that is 92.5 per cent complete, is expected to give the company two significant advantages. First, the company will be able to process more of high sulphur crude, which costs less, and yet produces the same quality end products as with low sulphur crude. Second, because of the 'hydro-cracker

unit', the yield of high value distillates will increase - by about 7 per cent. Again, as part of the project, the hydro-cracker unit has been introduced and the fluid catalytic cracking unit (FCCU) has been revamped, to handle a variety of crudes.

The hydro-cracker plant has been linked up with all the three units of CPCL's Manali complex (the two existing and the new one), so that crude from all the three units can be processed by the hydro-cracker. At present, crude oil first passes through the atmospheric crude distillation column (CDU), where some of the products are recovered.

Then the output of the CDU goes into the vacuum distillation unit (VDU), where more distillate products are recovered. After this, the output of the VDU goes through the FCCU, where some more of the products are extracted. Now, the output of the VDU, instead of being put through the FCCU, will first be put through the hydro-cracker unit, where more of the high value products will be extracted.

Then what comes out of the hydro-cracker unit will be processed through the FCCU. By doing this, the refinery would be able to get about 7 per cent more yield of higher value products, even on the existing throughput of 6.5 million tonnes.

At present, 67.5 per cent of the throughput of 6.5 million tonnes comes out as distillates (LPG, petrol, kerosene, naphtha and ATF). Because of the hydro-cracker unit, 72 per cent of the output will be the distillates, or 300,000 tonnes which translates to 6.8 per cent more.

ONGIO to Fold

Oil and Natural Gas Corporation (ONGC) is planning to dissolve its consultancy joint venture **ONGIO International**, formed in 1999. ONGIO is a joint venture between ONGC and **Indian Oil Corporation (IOC)**, to offer training, consultancy and services in the hydrocarbon sector, both upstream and downstream.

According to Chairman Subir Raha, ONGIO has been unable to justify its existence because its promoters are bidding against it in international tenders. The organisation is yet to win any major international order and has been reduced to conducting seminars in India and West Asia.

ONGIO was hyped as being the precursor to greater co-operation between ONGC and IOC, that would lead possibly to an eventual integration between the two. However, the ground reality turned out to be different, with the roles overlapping. IOC is now making upstream forays in India and abroad while ONGC entering petroleum refining and marketing with the acquisition of **Mangalore Refineries and Petrochemicals Ltd (MRPL)**. ONGC board has approved ONGC's pullout, citing conflict of business interest with IOC.

Gasohol Plans

Despite another deadline the supply of gasohol-ethanol-blended fuel is yet to take off in the southern states. Oil companies and sugar mills that run the distilleries are unable to reach common ground on ethanol pricing. While the tenders were called for in Karnataka, Andhra Pradesh and Tamil Nadu, suppliers have not been identified in any of these states.

Central to the issue are high price of ethanol quoted by the sugar mills, and a problem unique to Tamil Nadu – high state levies. The state government and the sugar mills will have to cut down on the pricing involved and simplify supply procedures for gasohol supply to become a reality. For instance, Tamil Nadu collects a sales tax of 12 per cent, surcharge of 5 per cent and an administrative fee of Re 1 per litre. The levies are much lower in Andhra Pradesh and Karnataka.

In addition, there are some official procedures that are complicated or expensive e.g. a police escort for the ethanol tankers. In the case of Karnataka and Andhra Pradesh, the programme cannot be carried forward because the base price of ethanol is high. While the tender process is generally aimed at identifying a low priced supplier, the oil companies are faced with similar bid prices that they feel are unjustifiably high. The Rs 17.50 per litre quoted by sugar mills is

unviable for the oil companies.

While this rate was acceptable as a short-term measure for pilot projects, it is not sustainable in the long term. The approximate requirement of ethanol for the one-year period tendered for is 39,820 KL for Andhra Pradesh, 33,540 KL for Karnataka and 48,648 KL for Tamil Nadu. Five companies in Tamil Nadu have been licensed to manufacture anhydrous ethanol.

The government has extended the deadline for covering nine states and four Union territories under its programme of blending 5 per cent of ethanol with petrol by three months.

The programme, launched on January 1, was to be completed by June 30. It now stands extended till September 30 'in view of the ongoing expansion of manufacturing capacities in various target states.' A total of 255 districts in the notified nine states and four Union territories was to be supplied with ethanol-blended petrol.

Of these, 157 districts have been covered so far. Petroleum Minister Ram Naik has said that for the programme to be successful, states and union territories have to encourage increased production of anhydrous ethanol. They also need to adopt a uniform sales tax of 4 per cent for blended petrol, abolish all export and import fees to ensure free inter-state movement of the product and simplify excise procedures.

IFC Invests in Niko

The **International Finance Corporation (IFC)** has signed a US\$ 40 million loan agreement with **Niko Resources Limited** for expansion of its production base in Gujarat.

This investment is the first for IFC in the Indian petroleum sector in several years. Niko was one of the first private companies to operate in India's petroleum sector after the government took steps to deregulate the market in the 1990s. Today, the company generates 99 per cent of its revenues from its Indian operations and has over 80 per cent of its assets base located in the country.

Niko's commitment to the Indian petroleum sector over the years has not only been a profitable investment for the company but has also helped boost the prospects for further private sector investment in oil and gas projects in the country. The expansion will more than double Niko's production of natural gas and enable it to supply a larger industrial customer base.

Petronet Pipeline Trial

Petronet India Ltd's (PIL) Mangalore-Hassan-Bangalore pipeline is expected to begin trial runs. The project, which was scheduled for completion last year, seems to have finally cleared all hurdles. Although actual commissioning was expected last December, a number of hurdles slowed down the project.

Oil and Natural Gas Corporation (ONGC) recently picked up 23 per cent stake in the project after it acquired the **AV Birla Group's** 37 per cent stake in **Mangalore Refinery and Petrochemicals Ltd (MRPL)** - the refinery, which is to supply products through the pipeline.

The 364-km pipeline, capable of transporting 8.5 million tonnes of products, has been acknowledged as passing through very difficult terrain and has been put up at a cost of around Rs 7 billion.

Not only was the project dogged by environmental issues, it has seen delays because of financial constraints. The pipeline will supply petrol, diesel, naphtha, kerosene and ATF from the Mangalore refinery to markets in Karnataka and Andhra Pradesh.

Exporting Naphtha

Bharat Petroleum Corporation Ltd (BPCL) has entered into a term contract with **Petrovietnam** to export 200,000 tonnes of naphtha, over the next nine months. The high aromatic naphtha (HAN) will be exported in parcels of 35,000 tonnes from the company's Mumbai refinery, every alternate month, beginning July.

The export has been tied up at a US\$ 7 premium to the mean of Platts Arabian Gulf (MOPAG) price. The company had so far followed the strategy of approaching the market for sporadic exports whenever it had a surplus. Oversupply of naphtha in the Indian market has prompted the company to go in for a term export contract, to lock in a customer (as well as the premium) for the product.

About 150,000 tonnes of naphtha is expected to be exported through the regular spot deals. BPCL produces naphtha at its three refineries in Mumbai, Kochi and Numaligarh.

The tender for naphtha export was floated for national oil companies (NOCs) earlier this month and received several bids for the product. This is the first time that BPCL has had a relationship with the Vietnamese national oil-company. **Reliance Industries Ltd (RIL), Mangalore Refineries and Petrochemicals Ltd (MRPL)** and BPCL are among the large exporters. The product is sometimes hauled by rail all the way from Numaligarh in Assam to Mumbai for export.

The Green Award

The Irugur terminal of **Indian Oil Corporation (IOC)** has been presented with the 'Golden Peacock Environment Management Award 2003 (Service-SME)' instituted by the New Delhi-based World Environment Foundation. The terminal has already received IS/ISO 14001:1996 certification for Environment Management System. IOC had initiated several measures in the terminal to safeguard environment, including complying with relevant environment legislation and regulations, conserving water, electricity and oil, minimising impact of noise, effluent and land contamination, increasing the green belt and motivating employees.

Legal Opinion – LPG & Kerosene Payments

Public sector oil marketing majors **Indian Oil Corporation Ltd (IOC), Hindustan Petroleum Corporation Ltd (HPCL)** and **Bharat Petroleum Corporation Ltd (BPCL)** have told the government that they are not liable to pay **Reliance Industries Ltd (RIL)** market rates for the LPG and kerosene purchased from the latter from November, 2002 to June this year. The three oil majors have furnished legal opinions to this effect.

RIL sells around 12.5 million tonnes of products on a committed basis to the three oil majors and has obtained a legal opinion that claims that the dues amounting to Rs 6 billion on account of remuneration at below market rates, are valid. Faced with the contrary views, the petroleum ministry has sought the law ministry's opinion.

The public sector oil companies have made their case on the basis of a clause in the purchase contract, which makes payment to the producer, RIL, contingent on the subsidy scheme for LPG and kerosene approved by the government. The subsidy scheme computes a flat rate of subsidy based on the product prices on April 1, 2002, and states that should the product prices rise, the marketing companies can pay the increased costs to the producers or refiners through hikes in consumer prices. The public sector oil companies have, however, argued that since the government has not allowed any hike in prices, they need not honour RIL's claim.

The public sector oil majors were facing losses right from the beginning of the fiscal, though they applied the brakes only in November when they froze the prices paid to the producers, RIL, **GAIL India Ltd (GAIL)** and **Oil and Natural Gas Corporation (ONGC)**. The latter two producers account for around 30 per cent of the total country's LPG demand. The brakes were eased early this month when the product prices dropped to the November levels again.

ONGC – Brand Exercise Petronet LNG

The deregulated oil scenario is forcing **Oil and Natural Gas Corporation (ONGC)** to plan a makeover of a different kind. The corporation is chalking out a major branding exercise to reflect its new status as an integrated, global energy company. It has begun working on a plan to introduce multi-brands for products that are coming out of its new forays into oil retailing, LPG and petrochemicals (through the recently acquired **Mangalore Refinery and Petrochemicals Ltd (MRPL)**). All these brands will be under a mother brand. The company is in the process of identifying consultants for the branding strategy. The consultants are expected to conceptualise a catchy brand name to truly reflect the corporation's businesses and build different logos to go with them. This brand exercise is expected to be unfolded when ONGC sets up its first retail outlet later this year. ONGC also wants to market petroleum products from the recently acquired MRPL under ONGC's brand.

Petronet LNG Ltd (PLL) is close to taking a final decision on doubling the existing capacity of its Dahej LNG terminal from 5 MMTPA to 10 MMTPA. It is exploring the option in view of the expected rise in demand for LNG. Petronet is also in the process of negotiating reduction in the price of LNG from its supplier RasGas. It is believed to have agreed to reduce its rate of return on investment, cut costs on the infrastructure, re-gasification terminal and transportation.

In its last budget, the Centre had reduced customs duty on import of gasification plant and machinery from 25 per cent to 5 per cent. This sop alone is expected to translate into a price drop of US\$ 0.5 per mmbtu. The government has also initiated the process of implementing a uniform sales tax of 4 per cent on LNG. **GAIL India Ltd (GAIL)** has plans to extend the 450 km Dahej-Uran pipeline to Ratnagiri and Pune. This could create an additional demand for Dahej LNG. GAIL has to market 60 per cent of the total LNG landing at PLL's Dahej terminal.

Core Group for Competition Panel

The government, while taking the first step towards setting up of the Competition Commission of India (CCI) under the Competition Act, 2002 has formed a core group of officers for this purpose. The core group is contemplating intensive advocacy to build a strong competition culture.

The CCI is mandated to prohibit practices having adverse effect on competition, to promote and sustain competition in markets, protect the interest of consumers and to ensure freedom of trade carried on by other participants in Indian markets.

The Commission's role covers competition advocacy, prohibition of anti-competitive agreements, prohibition of abuse of dominant position, and regulation of combinations (mergers and acquisition, etc above the prescribed threshold limits). In the beginning the Commission will confine its activities to competition advocacy and gradually take on other roles.

The core group of officers has taken in hand preparatory steps required for establishing the Commission such as its offices, recruitment and training of staff. It is also undertaking preparatory steps for formulation of rules, regulations and procedures.

Trading Desks

As part of its efforts to make Indian firms globally competitive, the government has allowed refiner **Indian Oil Corporation (IOC)** and exploration firm **Oil and Natural Gas Corporation (ONGC)** set up oil trading and risk management desk.

ONGC plans to set up a trading desk in New Delhi for optimising procurement of crude oil for its subsidiary **Mangalore Refinery and Petro-chemicals Ltd (MRPL)**, marketing crude oil received from investments in oil fields abroad and exporting products.

IOC wants to scrap its current system of importing crude oil through tenders and adopt modern practices. The government has allowed ONGC to procure crude oil for its subsidiary MRPL directly.

Presently, IOC imports crude oil, including 5 million tonnes from Iran annually on term contract, for MRPL. With this, ONGC would import all crude including the term contract with Iran, for MRPL.

IOC is studying a report of **KPMG**, the consultant it appointed to suggest options for setting up oil trading desk in India. IOC also plans to operate in the Singapore over-the-counter (OTC) market for risk management.

The company, which buys almost half of its 32 million tonnes of crude

oil imports from the spot market, had been talking to **British Petroleum** for a year on cooperating in crude imports and risk management. Last year it abandoned talks and decided to go alone.

IOC chose India over London as it provided the advantage of operating in both Asian and European time zone. A trading desk in India would be able to capture the Singapore market when it opens in the morning (Singapore being ahead of India in time) and the American market when it closes.

ONGC wants to optimise export of surplus products like jet fuel, gas oil and fuel oil from MRPL along with its own production of value added products like LPG, kerosene and naphtha, which till now are being done through tenders that give little margins.

Besides managing risk and hedging volatilities in the international oil market, the desk will also help the firm locate buyers for 3 MMTPA crude oil it would receive from a Sudan oil field. ONGC is bringing 1.3 million tonnes of Sudan crude for processing at MRPL this year and has hired **Trafigura** of London to trade its remaining share in the Greater Nile Oil Project in Sudan.

The consultant will help ONGC decide on the software and hardware needed for its desk and recommend suitable infrastructure for its operation.

BPCL – Dual Float

The domestic and overseas issues of **Bharat Petroleum Corporation Ltd (BPCL)** may open simultaneously if the Securities and Exchange Board of India (SEBI) firms up guidelines on dual float.

The inter-ministerial group (IMG) on BPCL has considered various options for offloading the 35.20 per cent to retail and institutional investors in domestic and overseas market and it was decided that 25.20 per cent will be offloaded in the US market as an ADR issue. The balance 10 per cent is to be offloaded in the domestic market.

The government and its advisors felt that the extra-territorial jurisdiction of the Sarbanes Oxley Act enacted by the US Government after the accounting scandals should not be a consideration for opting for a GDR float. The government may consider opening one fungible book for the book-building exercise to discover the price investors will be willing to pay, if the SEBI guidelines permit. The government hopes to complete the public issues by February-end.

The Initial Public Offering (IPO) of BPCL is likely to be priced at Rs 500-600 per share. BPCL's overseas offering is expected to be at a 20-25 per cent premium over the IPO price. As the divestment will be by way of a market deal, much also depends upon the market valuation at that point of time.

Incidentally, the BPCL stock will also be split from the current face value of Rs 10 to Rs 2 per share. This means that the offering will range at Rs 100-Rs 120 per share, making it more accessible to the retail investors.

Bio-diesel Trains

In a couple of years, trains may run on derivatives of non-edible vegetable oils. The Railways has successfully tested bio-fuel on a Shatabdi Express between New Delhi and Amritsar, while stationary locomotives are gearing up to run on the eco-friendly fuel. The Railways has already tested 5 per cent to 20 per cent blends of bio-diesel fuel on engine test beds at the Research Design and Standards Organisation, Lucknow. Though fuel efficiency for the blends is 1 per cent lower than for high-speed diesel, improved lubrication more than compensates.

Pricing Natural Gas

The petroleum ministry has suggested that natural gas prices be increased on ad-hoc basis with immediate effect because they have remained static since October 1999. A tariff committee should be appointed to study the cost structure of the **Oil and Natural Gas Corporation (ONGC)** and **Oil India Ltd (OIL)** for natural gas and suggest a reasonable price till a complete deregulation of gas prices is completed.

The petroleum ministry has suggested that the gas pool account be limited to Rs 1 billion a year in accordance with the actual requirement of compensation for concessional gas prices in the northeast and other purposes. It is of the view that with the subsequent increase in gas prices, the figure of Rs 2,066 per mcm also requires revision.

The current consumer price of gas is Rs 2,850 per mcm. Taking into account royalty and taxes, the total price of gas works out to Rs 3,219 per mcm, which is the present cost of fuel for **GAIL India Ltd (GAIL)**, against the then cost of Rs 2,066 per mcm.

At this price, fuel cost works out to be 6 per cent of the total transportation charges. Considering these factors, there is need to increase the HBJ transportation charges at the rate of Rs 3.35 for every Rs 100 per mcm increase in gas prices. The process of linking the calorific value and the provision for compensation on account of inflation should continue without any change, the ministry has suggested.

The suggestions were circulated among members of the Group of Ministers on gas pricing, and were to be discussed at the panel's meeting on July 7, which was postponed. The ministry has also said the 8 mmscm of gas produced per day at the Tapti and Panna-Mukta fields may be sold by GAIL or the producer at market-determined prices. However, GAIL may take 1 mmscm of gas per day from the Ravva project, and adjustment for the higher cost made as per the existing arrangement.

The ministry also suggested that the gas produced by ONGC and OIL from new gas fields could be sold at a price determined in terms of NELP contracts. That will provide a level

playing field for these public sector oil units. In the northeast, consumer price is Rs 1,700 per mcm, which works out to 60 per cent of the general consumer price. It has been proposed that the price of gas for the northeast be pegged at 60 per cent of the revised price for the general consumer.

The difference between the producer price and the consumer price in the Northeast region may be reimbursed to OIL from the gas pool account as is being done under the existing arrangement.

Gas transportation charges along the HBJ pipeline system were set at Rs 1,150 per mcm from October 1, 1997, based on the recommendations of the Sankar Committee. At that time, the cost of natural gas as fuel for GAIL was estimated at Rs 2,066 per mcm. This included the then basic consumer price of Rs 1,850 per mcm (Rs 1,500 per mcm as producer price and Rs 350 per mcm as gas pool contribution) and royalty with taxes payable on the gas.

As the Group of Secretaries entrusted with the work of determining the prices of natural gas for user industries such as fertiliser and power and petroleum could not agree on the price, Planning Commission Deputy Chairman K.C. Pant, who is also the Chairman of the Group of Ministers on the issue, will take up the matter with the concerned ministers shortly.

While there was a broad consensus on the need to increase the natural gas

prices on an ad hoc basis with immediate effect, there were differences of opinion on the quantum of increase between Rs 3,250 mcm and Rs 3,500 mcm.

In the meanwhile, Chief Minister N. Chandrababu Naidu, has urged the Prime Minister A.B. Vajpayee, to put in place a market regulator to 'consider the complex parameters for the pricing of natural gas, and to arrive at the optimal pricing based on actual cost plus reasonable profit in a transparent manner'. In a letter to the prime minister, the chief minister suggested that a specific provision should be made in the Act to empower the regulator to fix prices initially, and to mandate the regulator to 'gradually introduce competition in the market, leading to eventual de-regulation'. Mr Naidu stated, 'We are of the strong view that a consultative process with states must be initiated so that all factors are considered and subjected to public debate before determination of the pricing of natural gas.'

He brought four issues regarding natural gas to the notice of the prime minister. The first issue pertained to the impact on the overall economy due to the proposed increase in the gas prices. The second was the basis for proposing parity between the price of natural gas and the international price of a basket of fuel oils. The third one related to the economic pricing of natural gas and the fourth related to the market structure of natural gas.

Petro Products' Demand

India's petroleum products demand slumped 2.7 per cent to 22.10 million tonnes in the first quarter of the current fiscal as opposed to 22.70 million tonnes consumed in the same period the previous year.

Diesel consumption, which is a reflection of the state of the economy, fell by 5.8 per cent to 9.17 million tonnes in April-June when compared to 9.73 million tonnes in the first quarter of 2002-03.

With petro demand growing at just over 2 per cent to around 103.6 million tonnes in 2002-03, the oil industry had earlier this fiscal revised downward the growth estimate for the terminal year of the 10th Five Year Plan (2007) to 111 million tonnes from the Planning Commission's projection of 124 million tonnes.

Kerosene consumption during Q1 fell 3.2 per cent to 2.35 million tonnes while naphtha sales were down 13 per cent to 1.52 million tonnes in April-June. The only silverlining was LPG, which saw a robust 9 per cent growth to 1.96 million tonnes from 1.80 million tonnes in the previous fiscal.

HPCL Due Diligence

The Indian Government (the disinvestment ministry) has sent letters to the bidders for a stake sale in **Hindustan Petroleum Corporation Limited (HPCL)**, namely **Saudi Aramco, BP, Shell, Petronas, Reliance Industries Ltd (RIL), Kuwait Petroleum, Exxon and Chevron** for starting the due diligence exercise from August 1. The government plans to sell 34.1 per cent of its equity in HPCL to a strategic buyer and transfer management control.

The letters stipulate the timetable, manpower needs and other details for the due diligence process. Each bidder will get a span of 15 days to finish the exercise. Confidentiality agreements have already been signed with the bidders. The entire process will be completed by September 30 and the financial bids are likely to be invited in November. This is a move forward for the HPCL sale process, which has been moving a little slowly owing to various problems including strong political opposition.

The Supreme Court will soon hold a crucial hearing on the HPCL divestment process, after which the picture will be clearer. The court is hearing a petition challenging the validity of the government decision to privatise **Bharat Petroleum Corporation Ltd (BPCL)** and HPCL without seeking parliamentary approval. The petition says the decision to privatise oil companies could have only been taken through an Act of Parliament.

The Inter-ministerial Group (IMG) on divestment met and given finishing touches to the draft share-holders agreement for circulation among bidders for their comments. Meanwhile **Exxon Mobil** has declared that it is not in the race as HPCL does not fit into their plans for downstream oil business in India. Earlier **Total** too had denied being in the race.

The information memorandum has been e-mailed to the bidders and schedule for the due diligence intimated. Tough negotiations are likely between the government and the bidders over the terms of the shareholders agreement. The agreement in its current form is broadly perceived to be loaded in the

government's favour, despite the fact that the government will be left with less than 17 per cent stake post-disinvestment. The department of disinvestment, which has sent a draft shareholders' agreement to all the bidders – has listed 28 hypothetical situations that need affirmative consent from the government directors. T

his means that any board resolution pertaining to these 28 situations will need the government directors to vote in their favour, irrespective of the level of government's residual stake in the company. As long as the government holds even a 5 per cent stake in the company, it will nominate two directors to the HPCL board, the draft shareholders agreement ('golden share' clause) states. "If the government ceases to own at least 5 per cent of the shares, but as long as it is a shareholder of the company even if it holds only one share, the government shall have the right to nominate one non-retiring government nominee direct on the board".

This provision was absent from the shareholders agreement for IBP, which was privatised earlier. The bidders have been given until July 24 to respond with their comments. One of the most contentious issues is the ambiguity about the proposed 9-MMT, Rs 90 billion, Bhatinda refinery project.

The draft agreement says a decision on the Bhatinda project will be taken and communicated to bidders later. Special clauses have been inserted to prevent the strategic investor from altering the company's memorandum of association, changing its share capital, winding up the company, disposing of existing assets and pursuing a new line of business.

In Brief

- **Kochi Refineries Ltd (KRL)** has approved a dividend of 100 per cent. Last year the dividend was 22 per cent.
- **GAIL India Ltd (GAIL)** has begun leg work to lay down the 350 km natural gas transportation pipeline between Dahej in Gujarat and Uran in Maharashtra. GAIL had already initiated the process of survey work and has approached various ministries for clearances. Work is expected to be completed by the end of 2004 or early 2005.
- The shipping ministry has allowed **National Thermal Power Corporation (NTPC)** to alter the transportation clause in its tender for buying 3 million tonnes of LNG for use as feedstock for generating power. Accordingly, NTPC will buy LNG from its preferred supplier on cost, insurance and freight (c.i.f) basis. NTPC has extended the last date for submission and opening of bids for the supply of 2 million tonnes of LNG annually from its 2,000-megawatt Kayamkulam project in Kerala. This is the third time NTPC is extending the deadline.
- **Royal Dutch Shell and GAIL India Ltd (GAIL)** have decided to jointly explore opportunities for transporting imported natural gas to India in the form of CNG via the sea route. They have signed a letter of co-operation to jointly conduct a study by using the volume-optimised transport system (Votrans) technology developed by EnerSea Transport LLC.
- In a bid to augment tax revenue, Punjab government has increased the sales tax (ST) on petrol from 20 to 25 per cent and decided to implement value added tax (VAT) from April 2004.

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