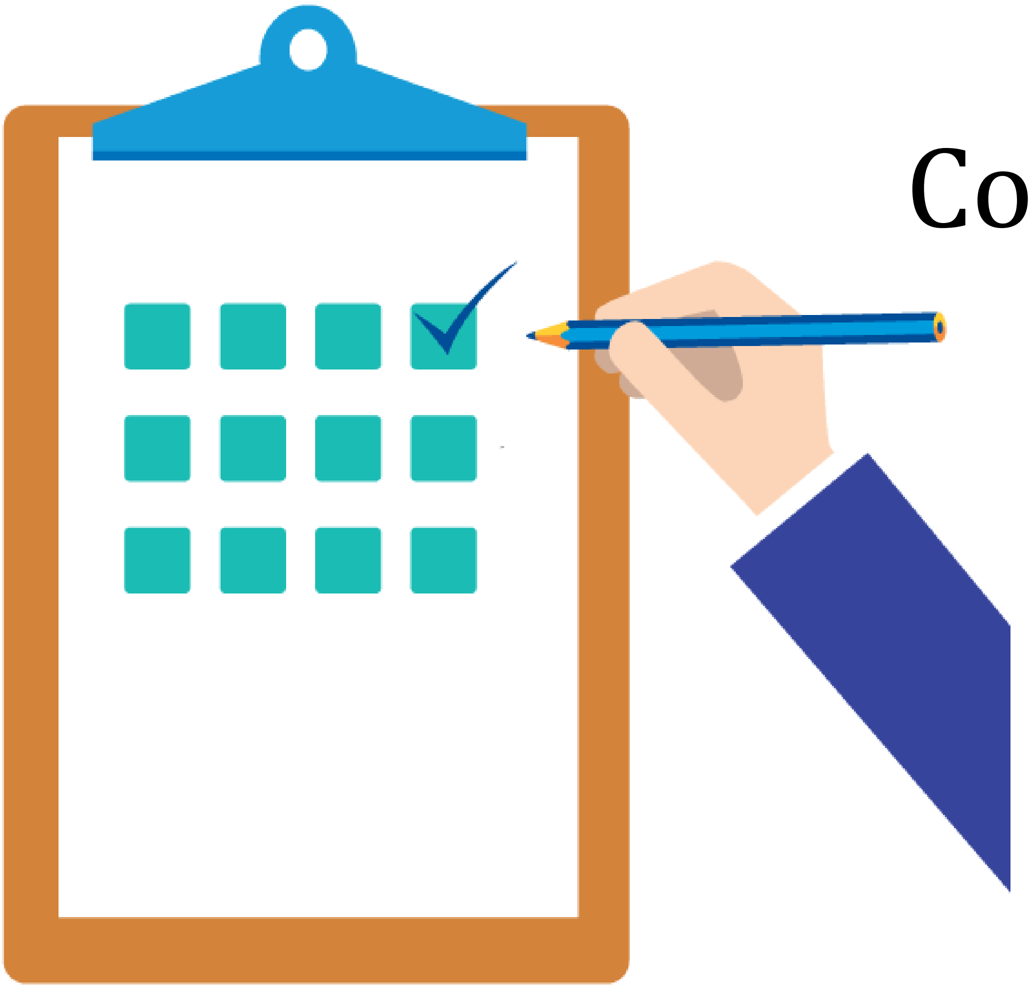
# Contract Queries



Outreach event,
New Delhi

19th October 2016

## Query

In case of Crude oil and Condensate produced from the contract area comprising of more proportion of Sour Grade crude and or less proportion of Sweet Grade than the ratio of the Sour and Sweet grade crude used by PPAC to derive Indian Basket Price of Crude oil & Condensate, in such cases, whether the Contractor shall get minimum Indian Basket Price?

## Reply

Indian Basket Price of PPAC will be applicable for the purpose of computation of government share of revenue, if price realized by contractor is lesser then Indian basket price. However, price realized by contractor would be the discovered market price.

## Query

Will the price of condensate be considered same as price of crude oil?

## Reply

Valuation of condensate will be done in line with valuation of crude oil

**Query**

In case the lease is not for 20 years of contract duration, will there be any modification done in the lease term to full 20 years of the contract duration at the time of the transfer of the lease to the successful bidder?

**Reply**

Government of India has provision for extending the existing Lease, which successful bidder may apply once contract area has been awarded.

**Query**

What will happen in case of non-submission of bank guarantee post signing of contract by successful bidder?

**Reply**

Bank guarantee : Non submission of BG would result in contract being ineffective.

**Query**

Requested for link for downloading the sample calculator of revenue sharing for DSF

**Reply**

The sample calculator is available on : http://58.68.49.84/dsf/downloads

## Query

Clarification on :

1. Applicability of Excise Duty on DSF
2. Back-in-rights, if any, by NOCs

## Reply

1. Excise duty as applicable in NELP will be applicable in DSF
2. There are no Back-in rights of NOCs under DSF

## Query

Request to provide formats for the following documents as mentioned in Letter of presentation and commitment from the bidding company, and/or the parent company, wherever applicable (Pt. No. 3) pt. No. XII (page 43) of Notice Inviting Offers (NIO)

## Reply

There is no prescribed format for this letter of presentation and commitment. However, this has to be in a letter that meets the presentation and commitment requirements of the NIO

## Query

1. Break-up of revenue is not shown i.e. whether Revenue considered is after deduction of Production Cost or CAPEX, is not clear from the Calculator.
2. The Calculator shown during the Mumbai Roadshow on the 6th June, 2016 is not the same one available at your website http://58.68.49.84/dsf/Content/file/Excel_Calculator_DSF.xls
3. Sample Production Profile is not available.
4. A brief write-up on the Calculator would be of great help to comprehend.

## Reply

1. The profiles shown in the calculator is only Notional and will be used for bid evaluation purpose only.
2. In this regard, you may kindly refer to the latest versions of the calculator available on the DGH website: www.dghindia.gov.in
3. Actual production profile is to be drawn by bidder based on their understanding however the bid evaluation will be done as per notional revenue profile given on the website.
4. Calculator is devised based on bid evaluation methodology provided in NIO using four notional revenue profiles displayed on DGH website. The NPV of revenue share offered to government by applying 10% discount rate will be computed under 4 scenarios by taking into account 4 notional revenue profiles. A simple average of the 4 figures of NPV of government share arrived under the 4 scenarios will be used for evaluation.

**Query**

Under the Bid Qualifying Criteria, payment of Tender Fees must be made, by bidding company or any member of the consortium, by way of purchase of Information Docket for Onshore and /or Offshore Contract Areas. Under the Price List, Field Information Docket in case for all On land Contract Areas is for USD 1000. Please advise, if 1000 USD is together for all the on-land contract areas or each one of the contract areas

**Reply**

The USD 1000 tender fee is for all on-land contract areas together.

**Query**

For the existing facility, wells etc. of ONGC or Oil India in the contract area on the date of Effective date, do the Contractor also need to arrange for site restoration fund for the already existing facility for their proper abandonment, decommissioning etc. or if some restoration fund for existing facility shall be provided by ONGC / OIL

**Reply**

No charges are being charged to the bidder for the facilities/wells. The bidders are free to use the existing facilities/wells, if any. However, subsequent to the usage, the responsibility of site restoration would be of the operator.

**Query**

In the Model RSC, Article 3, duration of the contract from effective date shall be lessor of a) 20 years from effective date or b) till economic life of the Block as per Development plan submitted in the Bid. Whereas, under the NIO, in IX. Other Terms and Conditions, point no. 14, Contract Duration, it is mentioned that contract duration would be maximum of 20 years from effective date or till economic life of the Block as per Development plan submitted in the Bid. Please clarify the duration.

**Reply**

The contract duration would be either 20 years or economic life of the field as provided in the bid by the bidder, whichever is less.

**Query**

For calculating the economic life of the contract area to be submitted in the Bid, please advise what Oil Price need to be considered? If a bidder assume an oil price to calculate the economic life of the field, shall the Government question the rationale of the same before evaluation of the bid?

**Reply**

Oil price is market determined. The oil price and the economic life may be as per the bidder's own assessment.

## Query

Under Article 25, Title to Petroleum, Data and Assets, Clause 25 says that *Government shall have the right to require vesting of full title and ownership in it free of charge and encumbrances, of any or all assets, whether fixed or movable, acquired and owned by the Contractor for use in Petroleum Operations, inside and outside Contract Area, upon expiry or termination of the Contract Area*. Since, this field round is based on Revenue Sharing Model and not on Cost Recovery Model wherein, Contractor takes Cost Recovery of the Assets used in Petroleum Operations, therefore the Title to the Assets used in the Petroleum Operations should vest with the Contractor.

## Reply

Upon expiry or termination of the contract, the government shall have the right to require the vesting of full title and ownership in it as per article 25.4 of the MRSC.

**Query**

As per section IX clause 4 (page 7) of NIO, bidders are required to furnish a bid bond at the time of submission of the bid. While the clause mentions about the release/forfeiture of bid bonds of successful bidders, we would like to seek a clarification on when would bid bond of unsuccessful bidders be released?

**Reply**

Bid Bond of all the bidders will be released after signing the contract by the successful bidder (maximum 1 year)

**Query**

Are there any restrictions with regard to members of the consortium who is submitting the bid bond? Can a company not a member of the consortium also submit the bid bond on behalf of the bidder?

**Reply**

As per page 42 of NIO, the bid bond needs to be submitted by the bidder or any member of the bidding consortium

## Query

Whether DGH plans to remove/dilute Net Worth requirement condition? As per the current NIO conditions, recently incorporated companies/start-up are NOT eligible to bid as net worth requirement is by 31 March 2016.

## Reply

The bidders can submit the BG for the shortfall of the Networth as per amendment. If a bidding company either bidding alone or in a consortium is a domestic company and does not have adequate net worth as mentioned above or its networth is negative, it may submit a bank guarantee (BG) to fulfil its net worth requirement as above, along with the bid in the format prescribed in Annexure-II. The BG can be submitted for the whole networth requirement or in partial fulfilment of the same. In such cases, the negative networth will not be considered.

However, every bidder, including every consortium member should have a net worth of US$ 1 million

## Query

What is the total investment required for Plant for Small Oil and Gas Fields? Whether the Govt. is going to give any kind of subsidy or any other facility to put up this Plant?

## Reply

DGH has uploaded an indicative viability model on its website at http://58.68.49.84/dsf/downloads to help investors understand some of the potential factors that impact the viability of projects. Bidders would need to make an assessment of the investment required based on factors such as technology to be deployed, bidder's own assessment of the reserve potential etc.

Customs duty has been exempted on import of specific goods and services for petroleum operations for DSF. No oil cess is applicable. Further, royalty rates will be as applicable:

- Onshore = 12.5%
- Offshore (Shallow water) = 10%
- Offshore(Deep water) = 5%

Aligned with its endeavor of improving ease of doing business in India, government is taking various initiatives to make Indian business environment favorable for investors. Bidder may appreciate that government/ DGH shall only be responsible for facilitating the process and the onus of securing financial assistance would rest with the respective contractor.

**Query**

As per Clause X (Pg. 42) of the NIO, "*WHERE A COMPANY OR A CONSORTIUM HAS SUBMITTED BIDS FOR MORE THAN ONE CONTRACT AREA, PRIORITY RANKING IN TERMS OF THE COMPANY / CONSORTIUM'S RELATIVE INTEREST IN DIFFERENT CONTRACT AREA INCLUDING ALL ONLAND, SHALLOW WATER AND DEEP WATER CONTRACT AREAS, SHOULD BE INDICATED*..." What is the relevance of the priority of Contract Areas? In case a Bidder wins the bid for more than one Contract Area, what will be the procedure for award?

**Reply**

If the net worth of the bidder is inadequate for awarding all multiple blocks where the bidder has been evaluated as highest bidder, the priority given by the bidder in respect of the block will be used for deciding the blocks to be awarded within the available net worth.

**Query**

Field development plan with the details as indicated in NIO is required to be submitted online through MSTC website or hard copy submission in DGH along with the bid will satisfy the bidding requirement

**Reply**

No Field development plan is to be given at the time of bidding however, FDP will be submitted as per MRSC Article 10

## Query

1. One time payment to ONGC/OIL
2. Taxes, Cess, Royalty and Duties
3. Primacy of RSC over General law

## Reply

1. Book value for the all offered Contract areas is **NIL.**

2. Taxes, Royalty etc are covered under Article 16 of MRSC. Further, Point No 9 of Marginal Field policy, later rechristened as 'Discovered Small Field Policy' states that "No oil cess shall be applicable from crude oil production from Marginal fields".
Regarding exemption from customs duty in line with NELP, necessary notifications have already been issued by Ministry of Finance.
Further, royalty rates will be as applicable:

- Onshore = 12.5%
- Offshore (Shallow water) = 10%
- Offshore(Deep water) = 5%

It may be noted that taxes, duties etc are as per the fiscal legislations of the country and the Finance Ministry guidelines in this regard may be followed

3. RSC has to be interpreted in harmony with the Law of the Land

**Query**

We will be planning to bring in a Farm In partner next year after winning the blocks. Please apprise on the process and time-frame for approval of Farm In partner.

**Reply**

Process and time frame for approval of Farm –in partner is detailed in Article 26 and Article 32 of MRSC. In case the government doesn't give its consent to a request to assignment or transfer within 120 days of such requests and receipt of all information, the consent shall be deemed to have been given by the government.

**Query**

specified in Article 5.2 of MRSC in respect of Biddable Work Programme. Article 5.2 states that the Liquidation Damages in case of non-completion of Biddable Work Program shall be limited to $1 Million for on-land wells. Will the bank guarantee amount then be limited to $1 Million per on-land well as committed in the Biddable Work Programme?

**Reply**

Liquidation damages in case of non-completion of work programme is as per Article 5.2 and BG shall be for the biddable work programme but not less than $ 1 million per onland well as per Article 27 of MRSC

**Query**

Mining Lease is transferred from one party to another, I understand Stamp Duty is levied on the value of the mine. How will the value of the mine (in this case oil field) be calculated and what will be the consequent Stamp Duty liability?

**Reply**

To get a lease, application fee, processing fee & security fee are to be deposited one time yearly dead rent to be paid as per area. After grant of lease, royalty is to be paid depending on the production. Stamp duty is to be paid at the time of registering the lease, which depends on the dead rent value. For offshore areas, no stamp duty is applicable. As per the amendment to PNG rules (1959) issued in 2009, inter alia states "applicable that dead rent is **Rs. 25 per hectare** or part thereof for the first 100 sq kms…."

**Query**

Two FDPs have been asked as per NIO. Kindly let us know what is the difference between the two?

**Reply**

FDP is not required at the time of submission of the bid. However, FDP as defined in Article 10 of MRSC is to be submitted by the Contractor.

**Query**

If I opt for not bidding for work programme commitment at all, and thus would like to restrict to 80 Marks in BEC, will my BID rejected. This is not clearly stated in Bid Rejection criteria.

**Reply**

Refer NIO clause III (biddable terms) ,IV (bid qualifying criteria), and V (bid rejection criteria). For not submitting any work programme, no bid would be rejected. In such cases, the bidder would lose 20 marks meant for biddable work programme. However, the bid is liable to be rejected if its deficient on any other parameter.

**Query**

The Royalty @12.5 % for on-land blocks is required to be paid on total production obtained (daily) before govt. share is deducted or after government share is deducted.

**Reply**

Refer Article 15.1 (II) of MRSC for Determination of Revenue Share where where "Revenue for the purpose of determining the Government's share of Revenue under this Article shall be:

- All amounts that are accruing to the contractor, net of taxes on sales, on account of or in relation to the Petroleum and Saved from the contract area, including the stock in hand, during a month after the effective date; less
- Royalty for that month"

**Query**

Requested clarification if Forest Clearance has been obtained in case of Concession Area falling within Forest Land for onshore blocks. If so, is there a Royalty payment required by the Forest Department to approve Clearance?

**Reply**

Status of Forest Clearance in the Onshore Contract Area will be given to the winning bidder at the time of award of block along with modalities for transfer of the same from existing holder to new user and also modalities for applying for FC afresh if required. Details of the procedure for diversion of forestland, the assessment of NPV to be paid, procedure for transfer of permission from one user agency to other agency etc are available on the portal of MOEF&CC: www.envfor.nic.in and the fee structure for getting these clearances is very nominal.

**Query**

In case of bid parameter related to no. of wells, will sidetrack wells be considered as separate wells?

**Reply**

Sidetrack of an existing well will not be treated as a separate well

**Query**

It will be very helpful if the basis of revenue profiles can be shared. I want to know how parameters considered for the revenue profiles displayed. Does bidder has to consider the same revenue profiles while bidding ?

**Reply**

The revenue profiles displayed on the DGH website are notional for bid evaluation purpose only

**Query**

MSRC Clause 15.1 - the portion on stock on hand - how will revenue be treated if the hydrocarbon has not been sold and revenue accrued to the contractor?

**Reply**

Closing stock also will be valued and included in revenue account, where "Revenue for the purpose of determining the Government's share of Revenue under this Article shall be:

- All amounts that are accruing to the contractor, net of taxes on sales, on account of or in relation to the Petroleum and Saved from the contract area, including the stock in hand, during a month after the effective date; less
- Royalty for that month"

## Query

Kindly clarify the methodology of determining the processing and tolling charges of available infrastructure. It is further suggested that such charges may be pre-determined on a per unit volume throughput basis to avoid uncertainties and delays in development of the fields. Also inform if DGH would play a facilitator role in finalizing such charges subsequent to award of contract areas?

## Reply

Details of processing and transportation infrastructure is uploaded in the download section of our website http://58.68.49.84/dsf/Content/pdf/ONGC_Facilities_Road_Show_Mumbai_6_June_2016.pdf Since the facility owners are PSUs under Government of India , they are expected to charge legitimate and reasonable tariff due to government control thereof. DGH may also look into it in case of unreasonability of rates, at a later date.

## Query

In case a Bidder meets the net worth criteria, does it need to submit the Financial and Performance Guarantee from the Parent Company? If yes, at what stage - before bidding or after award of contract?

## Reply

As per Article 27.1 (b) of MRSC, which states that "financial and performance guarantee in favour of the Government from a parent company acceptable to the Government, in the form and substance set out in Appendix D-1, or, where there is no such parent company, the financial and performance guarantee from the company itself in the form and substance set out in Appendix D-2". Note that this financial and performance guarantee is not a Bank Guarantee and has to be given within 30 days of award of contract.

## Query

Under the Biddable Terms in the NIO, work programme commitment consist of number of Development/Appraisal wells (physical quantity) only and estimated expenditure for the same to be given for evaluation of the adequacy of the Net Worth of the Company. However, there is no provision to mention the depth of the committed wells by the bidder, which shall be used by the Management Committee (MC) to determine completion of the committed work programme (drilled depth of the well).

## Reply

The depth would be on the basis of data available with DGH and the target depth and well coordinates as given By the bidder in the FDP which will be submitted to MC.