



# Hydrocarbon Exploration and Licensing Policy

## Why in News

- India has offered 14 blocks (around 30,000 sq km) for oil and gas exploration in the latest auction round under which winning bidders can carve out areas for drilling.
- This round will be the second auction under the new Hydrocarbon Exploration and Licensing Policy (HELP).

## Introduction

- India is the 3rd largest consumer of crude oil and petroleum products. India's oil import bill is subject to global prices swings as the country is dependent on imports for around 80% of its crude demand.
- HELP was approved by government in March 2016 replacing New Exploration Licensing Policy (NELP).
- The new policy promises simpler rules, tax breaks, pricing and marketing freedom and is part of a government strategy to double oil and gas output by 2022-23.

## Drawbacks of New Exploration Licensing Policy (NELP)

- There are separate policies for oil and gas, coal-bed methane and shale oil and gas.
- Multiple policies caused inefficiencies in exploiting natural resources. For example, while exploring for one type of hydrocarbon, if a different one is found, it will need separate licensing, adding to cost.
- The issue on pricing of gas witnessed considerable litigation. Earlier there was possibility of gold plating the investment and short changing the government by 'manipulating profit'.

## Key Details of the HELP

- **Uniform Licensing**
  - HELP provides for a uniform licensing system that will cover all hydrocarbons such as oil, gas, and coal bed methane.
  - Under NELP separate licenses were issued for exploring different type of hydrocarbons. This leads to additional costs, as a separate license is required if a different type of hydrocarbon is found while exploring a certain type.
- **Revenue Sharing Model**
  - HELP provides for revenue sharing model, the government will receive a share of the gross revenue from the sale of oil, and gas, etc and will not be concerned with the cost incurred.
  - The NELP was profit sharing model, where profits are shared between Government and the contractor after recovery of cost. Under it became necessary for the Government to scrutinize cost details of private participants and this led to many delays and disputes.
- **Pricing**
  - HELP has marketing and pricing freedom. Before HELP, contracts were based on production sharing with possibility of gold plating (incorporation of costly and unnecessary features) the investment and causing loss to government by 'manipulating profit'. To reduce the complexity of handling contracts, it was changed to revenue sharing.
  - Under the new system, a graded system of royalty rates will be introduced. Under this

system the royalty rates will decrease from shallow water to deep water to ultra-deep water areas.

- While fixing royalties, the present system does not distinguish between shallow water fields (where cost of exploration and risks are lower) and deep water fields (where cost and risks are higher).

#### ▪ **Open Acreage Licensing**

- Under HELP, oil companies can select blocks of their choice under this Open Area Licensing (OAL) regime. Earlier it was the government which selected the blocks where oil exploration can be carried out. It will enable a faster coverage of the available geographical area.
- Under NELP exploration of hydrocarbons was limited only to the blocks which have been put on tender by the government.

#### ▪ **National Data Repository**

- National Data Repository (NDR) is an integrated data repository of Exploration & Production data of the Indian sedimentary basins.
- NDR will provide an important data resource in line with the Digital India initiative.
- A bidder (an Indian or a foreign company) after studying the data through NDR can propose an Expression of Interest (EOI), throughout the calendar year in two windows without waiting for announcement of bids.

## **Advantages**

- HELP provides for marketing freedom for crude oil and natural gas produced from these blocks. This is in tune with Government's policy of "Minimum Government –Maximum Governance".
- Under the earlier profit sharing methodology (NELP), it became necessary for the Government to scrutinize cost details of private participants and this led to many delays and disputes. HELP is in tune with Government's efforts to promote 'Ease of Doing Business'.
- The policy is also aimed at enhancing transparency and reducing administrative discretion.
- HELP marks the biggest transition from an era of government control to government support for upstream E&P in India. OALP removes restrictions on exploration by giving companies both the data and the discretion to explore areas of their choice.

## **Challenges**

- The new policy has failed to attract interest from major players in the sector. From among major participants in the sector, only Reliance Industries has submitted an Expression of Interest (EOI). Pertinently, no foreign company has submitted an EOI.
- The OALP provides discretionary powers to Directorate General of Hydrocarbons (DGH) to accept the area for which EOI has been submitted or alter/modify the area after due evaluation.
- In spite of such modification, EOI applicants will be obliged to participate in the subsequent bidding and obligation to participate will not be waived if the deviation in the area finalized by DGH to be put up for bidding is more than 50% of the area for which EOI is submitted.

## **Conclusion**

- NELP due to inherent complexity of profit sharing model failed to attract large E&P players like Exxon Mobil, Chevron Corp., British Petroleum, and Shell etc.
- The introduction of the concept of revenue sharing and freedom of marketing and pricing under HELP is in line with GOI's policy of - Minimum government, Maximum governance and Ease of doing business.
- HELP also intends to minimize GOI's discretion in decision making, reduce disputes, reduce administrative delays and thus stimulate growth in the oil and gas sector in India.
- Further, as NDR gets adequately updated, required technical information will be available at low cost, helping in promotion of healthy E&P activity.

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