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REVERSE SWEEP ([HTTP://WWW.INFRACIRCLE.IN/CATEGORY/OPINION/REVERSE-SWEEP/](http://www.infracircle.in/category/opinion/reverse-sweep/)) May 12, 2016 |

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Will 'HELP' help?



Iran wants to recover the funds owed by India and other buyers of its oil in euros to reduce its dependence on the dollar.



Overcoming opposition and lobbying, the government of India on 30 March announced the Hydrocarbon Exploration Licensing Policy (HELP), successor to the nearly two-decade-old New Exploration Licensing Policy (NELP). In substance, it replaces the extant production sharing contractual model (actually a post cost recovery profit sharing model) by a revenue sharing contractual model.

HELP aims to revive the moribund oil and gas exploration sector. It is the latest in a series of reform measures undertaken in the hydrocarbon sector during the last 24 months, which, when measured strictly in terms of outcomes, has achieved resounding success.

The failure of NELP to deliver was evident almost a decade back. Production from the NELP fields contributes marginally to the overall production of oil and gas, besides leading to disputes and arbitrations. Despite overwhelming evidence, the reluctance to change was an outcome of risk aversion aggravated by intense lobbying. The blame for non-achievement was conveniently laid on poor implementation. Suggestions to analyse policy shortcomings, where the crux of the problem lay, were considered unworthy of discussion. A sense of sanctity was built around the prevalent production sharing model. Great courage was therefore necessary to dispel the halo surrounding this model.

Change is the *raison d'être* for getting different results. Change is risky. Leadership is about seeing larger benefits beyond risks, particularly in the face of headwinds caused by depressed oil prices especially in an atmosphere where internationally exploration budgets are being axed and pink slips are common. In these circumstances, government's decision to bite the bullet and opt for change deserves credit. More so in the world of oil and gas wherein the only certainty is uncertainty. After all, oil is the most politicised commodity in the world.

This decision sends several messages. The playing field is levelled. Regulatory burden is reduced and a conscious attempt is under way to lower the possibility of disputes arising out of vague and ambiguous contractual provisions, endemic to the contractual regime under NELP. Above all, public interest and not corporate interest would prevail in the policy formulation space.

The new revenue sharing model has been questioned largely on account of its impact on the risk-reward matrix and the recovery ratio. It needs to be mentioned that the production sharing model had elements of revenue sharing since the cost recovery limit was biddable. The distance travelled is, therefore, less than what is being made out to be. The inquisitive ones overlook bidding behaviour factoring in the model's risk-reward ratio. Recovery extent is a function of marginal revenue and cost. HELP incentivizes cost reduction by lowering the regulatory burden, disincentivising gold plating and reducing the possibility of time overruns.

HELP envisages an investor-friendly regime. It is transparent, easy to administer and provides operational freedom. Micro management becomes a historical aberration. The probability of disputes emanating from contentious issues such as cost recovery, calculation of investment multiple, procurement procedure, adherence to rigid timelines for exploration and development of oil and gas discoveries, and pricing of oil and gas have been significantly lowered. It leaves the investor free to solely focus on exploration, development and production activities.

HELP ushers in a progressive and responsive regime. It provides for a single licence to explore, develop and produce both conventional and unconventional hydrocarbons. The requirement of separate permissions to exploit shale formations and coal-bed methane has been dispensed with. The open acreage licensing policy allows for bids to be called for a block, chosen by an interested investor, at any time. There is no longer the

- need to wait for a formal bidding round. By explicitly providing freedom from restrictions on marketing and pricing of gas, ambiguity and controversy on this score has been laid to rest. All long-standing investor demands have finally been met.

Like any policy, this has downsides too. The Indian contracting universe is replete with examples of aggressive bidding to secure a contract, followed by efforts to secure post contractual changes with the implicit threat that non-acceptance may result in no performance, with inevitable consequences of time and cost overruns. Hence a mechanism to disincentivise aggressive bidding for revenue share and minimum work programme will have to be built into the contractual regime.

Simultaneously, the capacity of the staff of the Directorate General of Hydrocarbons will have to be strengthened to bridge the knowledge gap between the regulator and the regulated. The success of the model will also be dependent on putting in place a simple, transparent and non-discretionary procedure for audit of production and revenue.

The intent is clear. A decision has been made after widespread public consultation and due consideration of the pros and cons of alternative models. It is a conscious and concerted effort to change investor perception towards this sector. While doing so, the motto 'minimum government, maximum governance' has been adhered to. It shows a willingness to smell the coffee. Response to the auction of the discovered marginal fields will be the trailer and would set the stage for the next round of bidding, which in turn will enhance domestic exploration. Indian sedimentary is poorly explored. Almost 50% has not been covered by even a two-dimensional seismic survey. There is an imperative need for it because, strategically, energy security is all about reduced import dependence through increased production in the country's backyard.

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