

**GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA**

UNSTARRED QUESTION NO:444

ANSWERED ON:14.07.2014

VIOLATION OF CONTRACTUAL COMMITMENTS BY RIL

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Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

- (a) whether the Government has imposed penalty against the Reliance Industries Limited (RIL) for loss of gas production from Krishna-Godavari basin;
- (b) if so, the production of gas anticipated and the actual production achieved during each of the last three years and the current year along with the steps taken by the Government to recover the penalty imposed on RIL;
- (c) whether the Directorate General of Hydrocarbons (DGH) had made any finding against RIL regarding violation of contractual commitments in extraction of gas from KG basin;
- (d) if so, the details thereof along with the recommendations of DGH for violation of contractual obligation and follow-up action taken by the Government in this regard; and
- (e) whether RIL opted arbitration after imposition of penalty and if so, the details thereof along with action taken by the Government in this regard?

Answer

MINISTER OF STATE (INDEPENDENT CHARGE) IN THE MINISTRY OF PETROLEUM & NATURAL GAS (SHRI DHARMENDRA PRADHAN):

(a) & (b) M/s RIL is the operator of the deepwater block KG-DWN-98/3 in the Krishna-Godavari Basin. The gas production from D1 & D3 fields in this block is much less than the production rates approved in the Addendum to Initial Development Plan (AIDP). The Contractor had set up production facilities to produce gas to a maximum level 80 MMSCMD, but has failed to adhere to the approved Field Development Plan in terms of drilling and putting on stream the required number of wells and consequent achievements of projected gas production profile in AIDP. The Government has issued notice for proportionate disallowance of cost of production facilities amounting to US \$ 1.797 Billion as on 31st March 2013. Further, a notice has also been issued on 10.07.2014 whereby a cumulative cost of US \$2.376 billion upto 31st March, 2014 has been disallowed. The issue is currently under arbitration

MoP&NG has also raised a claim of additional Profit Petroleum to the tune of US\$ 115 million to be paid by the contractor, on account of disallowance of cumulative contract costs of US\$ 1,797 million, till 2012-13

This Ministry has issued notices to the Contractors on 02.05.2012, 14.11.2013, 04.02.2014 and 10.07.2014 and advised contractor to comply with the approved AIDP to meet the targets with respect to the committed Gas Production rates and to forthwith remedy the default and to remit the additional Profit Petroleum of US \$ 195 million cumulative upto 2013-14. Further, Gas Authority of India Limited (GAIL) and Chennai Petroleum Corporation Limited (CPCL) have been directed to remit the sale proceed of crude oil/condensate/Natural Gas from KG-DWN-98/3 (KG-D6) block which falls due immediately into the Government account so as to recover an amount of US\$ 115,263,612 at the rate of 50% by each company and deposit the same with the Government.

The gas production rate (in MMSCMD) during the last three years (2011-12 to 2013-14) and the current year from D1 & D3 fields in KG-DWN-98/3 block, visvis the production rate approved in AIDP, are as under:

(in MMSCMD)

| Year | Gas Production Rate as per AIDP of D1 & D3 fields | Actual Gas Production from D1 & D3 fields |
|---------|---------------------------------------------------|-------------------------------------------|
| 2011-12 | 61.88 | 35.33 |
| 2012-13 | 80 | 20.88 |
| 2013-14 | 80 | 9.77 |
| 2014-15 | 80 | 8.05 (till June,14) |

(c) & (d) The Contractor has not adhered to the PSC provisions in the following areas:

PSC provides that so far as is practicable and consistent with efficient and economical operation, only such material shall be

purchased or furnished by the Contractor for use in the Petroleum Operations as may be required for use in the reasonably foreseeable future and the accumulation of surplus stocks shall be avoided. Material and equipment held in inventory shall only be charged to the accounts when such material is removed from inventory and used in Petroleum Operations.

The Contractor has created production facilities for a gas production rate of 80 MMSCMD from D1 & D3 fields. However, the actual gas production has been much less, resulting in underutilization of facilities and creation of surplus inventories. The Government has issued notice for proportionate disallowance of cost of production facilities based on the cumulative shortfall in gas production visvis AIDP targets.

PSC also provides that the Contractor should submit the Annual Work Programmes and Budgets for Development and Production Operations for approval by the Management Committee (MC) subsequent to approval of the Field development Plan. However, the Annual Work Programmes submitted by the Contractor subsequent to the approval of AIDP were not in line with the approved development plan, both in terms of drilling of the required number of producers as well as the projected gas production profile for D1 & D3 fields. The Contractor was repeatedly asked to adhere to the approved AIDP. The MC, while approving the Budgets did not agree to the production profile submitted by the Contractor.

(e) The contractor of the block KG-DWN-98/3, M/s RIL, has invoked arbitration against the action of MoP&NG of disallowing the cumulative development costs. The Government has also appointed its Arbitrator and the issue is currently under arbitration.