

Hydrocarbon Exploration and Licensing Policy (HELP)

The Hydrocarbon Exploration and Licensing Policy or HELP, approved by the cabinet in March 2016 is aimed at increasing the transparency and decreasing the administrative discretion in granting hydrocarbon licenses.

The license will permit contractors to explore conventional and unconventional oil and gas resources that comprise of shale gas/oil, CBM, gas hydrates and tight gas under one single license. In this article we will discuss the importance of HELP and also read about the flaws in the New Exploration Licensing Policy that had been in force since 1997, to better understand the need for The Hydrocarbon Exploration and Licensing Policy.

What is HELP?

HELP is a uniform policy for granting licenses for exploration of hydrocarbons inside India and its Exclusive Economic Zone. The following are the main features of this policy:

- A single licensing format for exploration, production and subsequent marketing of all hydrocarbons.
- Open acreage policy for granting exploration blocks.
- Easy to understand revenue sharing model which is also easy to administer.
- Freedom from government regulation in pricing and marketing on hydrocarbons produced from such exploration.

The policy is designed to enhance domestic oil and gas production, bring additional investment into the sector and generate employment. As discussed earlier, it also aims to increase transparency and decrease the administrative discretion in granting hydrocarbon licenses. Open Acreage will allow E&P Companies to choose blocks from a designated area.

Why is HELP Needed?

The earlier policy that regulated exploration and production companies, called the New Licensing and Exploration Policy (NELP) was framed in 1997 and was enforced in 1998. It had a few drawbacks as explained below:

- The policy regime of NELP dealt separately conventional oil and gas, shale oil, coal bed methane and gas hydrates.
- The fiscal terms in force for acreage allocation were different for different types of hydrocarbons.

- Hydrocarbons derived from shale fracking and other unconventional hydrocarbons were not discovered when the NELP was formulated.
- The fragmented nature of the policy inherent in NELP leads to inefficiency. For example, when prospecting for crude oil, if an E&P company found natural gas, it had to apply for a separate license, adding to cost and opening the process to corruption.
- The NELP mandated government regulation of oil and gas prices leading to loss of revenue, court cases and arbitration. NELP also did not make any distinction for shallow water and deepwater/ultra-deepwater fields, thus imposing a uniform regulatory structure on sectors with different risk/return profiles.

HELP essentially retained the structure of NELP and fixed the loopholes and disadvantages in the earlier policy by introducing the following changes:

- A single license for all hydrocarbons granted once under a single policy and licensing regime.
- Open Acreage licensing means that any E&P company wishing to bid on an exploration block currently not covered by any exploration license granted to another party. The Government examines the Expression of Interest and justification. If it is suitable for the award, the government calls for competitive bids after obtaining necessary clearances from environmental and other agencies.
- Contracts will be granted on the basis of bids in which the bidders will need to quote revenue sharing at two levels designated “lower revenue point” and “higher revenue point”. Revenue share at any revenue point between these points should be calculated by linear interpolation. The bidder sharing the highest revenue at net present values with the Government will get maximum weightage in this parameter.
- Deepwater and ultra-deepwater areas will be covered under a regime of concessional royalty for revenue sharing. Seven years of operation will be royalty-free at first for these areas and thereafter the concessional royalty rates would be 5% for deepwater and 2% for ultra-deepwater areas. Shallow water fields will also have concessional rates at 7.5% instead of 10% keeping in mind the risk /return profile of the exploration block.
- The contractor has the freedom to price and market hydrocarbons produced and sold in the domestic market. The revenue share of the market is calculated based on international crude oil prices or actual price.

The new HELP will stimulate the creation of exploration business for oil and gas by simplifying the petroleum exploration license and reduce import dependence. This, in turn, will create new job opportunities in the oil and gas sector as well as reduce disputes and corruption as the government will not have too much discretionary power over petroleum exploration licenses.