

## India Launches Bid Process for Largest Auction of Oil and Gas Blocks

### IN SHORT

**The Situation:** Under a new licensing policy, India is set to begin an auction for exploration and development of 55 oil and gas blocks.

**The Action:** Bidders are invited to bid for the identified blocks spread over a 59,282 sq. km area by April 3, 2018.

**Looking Ahead:** With oil prices looking up and the high quality of blocks on auction, India expects significant interest in the auction from international and domestic oil and gas companies.

On January 19, 2018, the Indian Ministry of Petroleum and Natural Gas ("MPNG") launched the first round of bids under the new Hydrocarbon Exploration and Licensing Policy. The auction is open to all domestic and international bidders for exploration, development, and monetization of 55 blocks of conventional and unconventional hydrocarbon resources consisting of 46 onshore blocks, eight shallow water blocks, and one deep water block, totaling an area of 59,282 sq. kms. This is the largest tender of oil and gas blocks by the Government of India.

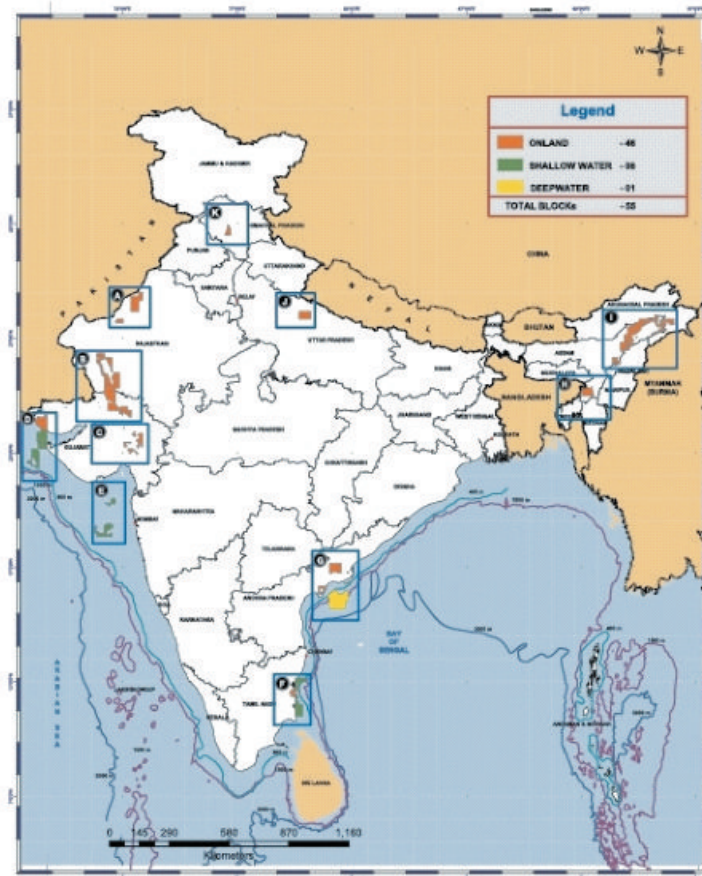
#### Key Features of the Tender

The MPNG has published the Notice for Inviting Offers ("NIO") and the Model Revenue Sharing Contract ("MRSC"). The NIO sets out the terms of the bid and qualification criteria and the MRSC provides guidance for the contract between the successful bidder and the government.

**Timeline for bids.** The key dates for the bids as indicated in the NIO are as follows.



**Areas.** The locations of the 55 blocks are identified in the map below.



Credit: Notice Inviting Offers for Exploration and Development of Oil & Gas Blocks in India, issued by the Ministry of Petroleum and Natural Gas, Government of India.

**Foreign Participation.** One hundred percent foreign direct investment is permitted in upstream, midstream, and downstream activities in the oil and gas sector. Under the NIO, bids are also invited from bidders that may be incorporated or unincorporated joint ventures between domestic and international companies.

**Technical Qualification Criteria.** Proposed operators are required to have a minimum of one year of operatorship experience, positive minimum acreage holding, and positive average annual production.

**Financial Qualification Criteria.** The net worth requirements are based on the type of block for which the bids are tendered and range from US\$5 million for onshore blocks to US\$60 million for deep water blocks.

**Key Evaluation Parameters.** The two key bid evaluation criteria includes the 'biddable work program' (i.e., the committed work program for exploration and production as set out in the NIO) and the biddable government share of revenue (as described below).

**Revenue Sharing.** Bidders are required to pay the government a share of the revenue (net of royalty and sales tax) from the onset of production. Bidders are required to bid the percentage share of revenue offered to the government at the lower revenue point (equal to or less than US\$0.05 million of revenue per day) and higher revenue point (equal to or more than US\$7 million of revenue per day). There is a provision for constant revenue sharing at the lower rate quoted by the bidder, irrespective of the revenue, for the initial two years for onshore blocks, three years for shallow water blocks, and five years for deep water blocks.

**Royalty.** The royalty rates set out in the NIO are as follows.

| Type of Block | Duration      | Royalty Rates (Oil) | Royalty Rates (Gas) |
|---------------|---------------|---------------------|---------------------|
| Onshore       | -             | 12.5%               | 10%                 |
| Shallow Water | -             | 7.5%                | 7.5%                |
| Deep Water    | First 7 years | No royalty          | No royalty          |
|               | After 7 years | 5%                  | 5%                  |

**Pricing and Supply.** Bidders are required to sell 100 percent of the entitlement from each awarded block in the Indian domestic market until such time as India becomes self-reliant in petroleum. Sale is permitted through a competitive bidding process on an arm's length basis.

**Exploration Period.** The exploration period for each block is six years with extension periods as follows.

| Exploration Phase | Onshore and Shallow Water Blocks | Deep Water Blocks |
|-------------------|----------------------------------|-------------------|
|-------------------|----------------------------------|-------------------|

|                                     |                            |                                 |
|-------------------------------------|----------------------------|---------------------------------|
| <b>Initial Exploration Phase</b>    | 3 years + 1 year extension | 3 years + (1+1) years extension |
| <b>Subsequent Exploration Phase</b> | 3 years + 1 year extension | 3 years + (1+1) years extension |
| <b>Total Exploration Period</b>     | 6 (+2) years               | 6 (+4) years                    |

**Assignment.** Assignment of participating interest is possible with prior government approval.

**Disputes.** All disputes shall be resolved through arbitration under the Indian Arbitration and Conciliation Act, 1996.

### THREE KEY TAKEAWAYS

1. India's Ministry of Petroleum and Natural Gas has called for bids for 46 onshore blocks, eight shallow water blocks and one deep water block, totaling an area of 59,282 sq. kms.
2. All interested parties must submit e-bids in accordance with the Notice for Inviting Offers by April 3, 2018.
3. Interested parties will be required to furnish information, including technical and financial qualifications, revenue sharing matrix with the government, and bid bond.

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