

## Policy IV/ CBM extension/2007

### **POLICY FOR EXTENSION OF EXPLORATION PHASES FOR EXPLORATION AND PRODUCTION UNDER COAL BED METHANE CONTRACTS**

The Government of India has signed 26 contracts for exploration and production of coal bed methane under three rounds of CBM which are currently under various stages of exploration. These have been signed within the framework of Coal Bed Methane Policy (CBM) and generally provide 6 months extension in each of exploration phases I& II to complete the unfinished Minimum Work Programme (MWP), with the approval of Steering Committee. The objective of the CBM policy has been to stimulate exploration and production of coal bed methane in the country.

2. In the past, a number of proposals seeking extension in the exploration phases have been received by the Government from contractor parties citing numerous reasons. The main reasons for seeking extension in Exploration Phases are:

- Delays in getting environmental clearance from the State/Government authorities.
- Procedural delays in acquisition of land for performance of CBM activity.
- Law and order problems in the State
- Delays because of non availability of suitable deep core hole drilling rigs in the market
- Delays on account of Force Majeure conditions

3. As per the model CBM contract, the duration of exploration phase (Phase I &II) is maximum up to 8 (3+5) years. However, in order to encourage early exploration, there is a provision in the Bid Evaluation Criteria (BEC) to secure a maximum of 3.5 points (1 year in phase-I & 2.5 years in phase-II) by reducing the exploration period by 3<sup>1</sup>/<sub>2</sub> year from a total exploration period of 8 year under phase –I & II (i.e.0.5 points for each 6-month reduction in the period). In order to secure maximum points, the companies while bidding have been offering expeditious exploration by reducing the exploration period.

4. The non-completion of committed work programme within the scheduled time as specified in the respective Contracts has several tangible and intangible effects on the

entire process of exploration endeavors. Some of the major implications are:

- The very purpose of accelerating and increasing the efficiency in exploration will be defeated and it may trigger complacency.
- The blocks are awarded on the basis of Phase wise committed work programme along with timeframe. Extensions vitiate the integrity of the bidding process and spirit of contracts.
- The principal aim of equal opportunity, fair chance to all, transparency of the system is affected by frequent extensions.

5. In order to adopt a transparent and consistent framework for granting extension in exploration phases, the Government in line with the existing policy of extension under NELP contracts, has framed an extension policy for considering proposals seeking extension in exploration phases under CBM contracts, which are either pending with the Government or may be received in future. The extension in phases under CBM Contracts in terms of these policy guidelines would be considered within the validity of the exploration period of 8years. The broad objective of the extension policy is as under:

- i) To maintain the integrity of the bidding process and the spirit of the Contract to explore and produce CBM gas early.
- ii) To grant reasonable extension of time so as to enable contractors to complete MWP or additional exploration work programme.
- iii) Not to delay the execution of development plan or production or the life cycle of the entire project and payment of Royalty, taxes and contractual payments.
- iv) To act as deterrent for seeking unnecessary extension or holding on acreages without doing any or little exploration activities or activity at slow pace.
- v) The policy envisages a system of penalty by way of submission of bank guarantee and pre-estimated agreed Liquidated damages (in some cases/ situations) in lieu of un-finished or additional work programme. While proposing the amount of Bank guarantee, situations/factors such as whether extension is for completing MWP or additional Work Programme, whether commerciality has been established in the contract

area, whether contractor wants to retain the area for further exploration have been kept in mind.

- vi) Up to 6 months extension may be given by the Steering Committee or the Government on merit in terms of the provisions of the respective Contracts.
- vii) Demonstrable delays on account of getting Government approvals /permits / clearances which are not attributable to the contractors will be counted as excusable delays and such delays shall be condoned. In this regard, if some extensions have already been granted by Steering Committee/Government on account of excusable delays, which took place from effective date of the Contract i.e. including delays prior to the extension policy coming in force, the same will be regulated as per this CBM extension policy.
- viii) In case, the contractor does not fulfill the work programme within the stipulated period or extended period, as may be the case, he shall be required to pay money for the unfinished work programme, if any, to the Government in terms of the respective provisions of the contracts.

1. With the above broad objectives in view, the Government has decided to put in place the following policy for grant of extensions. The proposals falling in various categories enumerated below in the table will be considered by the Government as per the respective terms and conditions stipulated against each such category.

Sl No	Type of proposal (applicable for extension in Phase-I & Phase-II)	Terms and conditions
1.	Extension sought due to delay in issuance of Government clearances/permits:	Any demonstrable delays will be counted as excusable delays and extension granted shall not be set off .
2	Where Minimum Work Programme (MWP) of the relevant phase has	<b>Applicable both in Phase-I &amp; Phase-II</b> First six months may be granted by Steering Committee in terms of respective Contract.

	<p>not been completed within the stipulated period of that phase and extension is sought in Phase-I &amp; II to complete MWP (excluding excusable delays)</p>	<p>7-12 months</p>	<p>An additional up to 6 months extension may be granted on the following terms &amp; conditions:</p> <p>(i) The contractor will provide 50% Bank Guarantee (BG), the amount to be calculated keeping in mind the relevant factors in computing the cost of such un-finished work programme.</p> <p>(ii) The period of extension will be set off from next phase.</p> <p>(iii)The contractor would be required to relinquish the area as per contract.</p>
		<p>13-18 months</p>	<p>Any extension beyond 12 months and up to 18 months may be considered subject to following:</p> <p>(i) The contractor will provide 75% Bank Guarantee (BG) and 15% pre-estimated agreed Liquidated damages for the remaining MWP , the amount to be calculated keeping in mind the relevant factors in computing the cost of such un-finished work programme as per Contractual provisions.</p> <p>(ii) The period of extension will be set off from next phase</p>
<p>3</p>	<p>Where MWP has been completed and extension has been sought for completing additional Work programme in Phase-I and phase-II.</p>	<p><b>Applicable both in Phase-I &amp; Phase-II</b></p>	
		<p>0- 6 months</p>	<p>First six months may be granted by Steering Committee in terms of Contract.</p>
		<p>7-12 months</p>	<p>An additional up to 6 months extension may be granted on the following terms &amp; conditions:</p> <p>(i) The contractor will provide 35%</p>

			<p>Bank Guarantee (BG) for the remaining additional work programme , the amount to be calculated keeping in mind the relevant factors in computing the cost of such work programme.</p> <p>(ii) The period of extension will be set off from next phase.</p> <p>(iii) The contractor would be required to relinquish the area as per contract.</p> <p>(iv) The additional work programme will be reasonably decided by DGH in consultation with the contractors.</p>
		13-18 months	<p>Any extension beyond 12 months and up to 18 months may be considered subject to following:</p> <p>(i) The contractor will provide 50% Bank Guarantee (BG) for the remaining additional work programme, the amount to be calculated keeping in mind the relevant factors in computing the cost of such work programme.</p> <p>(ii) The period of extension will be set off from next phase,</p> <p>(iii) The additional work programme will be reasonably decided by DGH in consultation with the contractors.</p>
4	Where MWP has been completed and Commercial viability has been established as per terms of contract;	<b>Applicable both in Phase-I &amp; Phase-II</b>	
		0- 6 months	First six months may be granted by Steering Committee in terms of Contract.
		7-12 months	An additional up to 6 months extension may be

	<p>and Contractor wants to carryout additional work programme</p>		<p>granted on the following terms &amp; conditions:</p> <ul style="list-style-type: none"> <li>(i) The contractor will provide 35% Bank Guarantee (BG) for the remaining additional work programme , the amount to be calculated keeping in mind the relevant factors in computing the cost of such work programme.</li> <li>(ii) The period of extension will be set off from next phase.</li> <li>(iii) The contractor would be required to relinquish the area as per contract.</li> <li>(iv) The additional work programme will be reasonably decided by DGH in consultation with the contractors.</li> </ul>
		<p>13-18 months</p>	<p>Any extension beyond 12 months and up to 18 months may be considered subject to following:</p> <ul style="list-style-type: none"> <li>(i) The contractor will provide 40% Bank Guarantee (BG) for the remaining additional work programme, the amount to be calculated keeping in mind the relevant factors in computing the cost of such work programme.</li> <li>(ii) The period of extension will be set off from next phase,</li> <li>(iii) The additional work programme will be reasonably decided by DGH in consultation with the contractors.</li> </ul>

5.	Where MWP has been completed, however commercial viability has not yet been established and Contractor wants to carry out additional Work Programme. <b>( For Phase-II only)</b>		
		0- 6 months	First six months may be granted by Steering Committee in terms of Contract.
		7-12 months	<p>An additional up to 6 months extension may be granted on the following terms &amp; conditions:</p> <p>(i) The contractor will provide 35% Bank Guarantee (BG) for the remaining additional work programme , the amount to be calculated keeping in mind the relevant factors in computing the cost of such work programme.</p> <p>(iii) The period of extension will be set off from next phase.</p> <p>(iii) The contractor would be required to relinquish the area as per contract.</p> <p>(iv) The additional work programme will be reasonably decided by DGH in consultation with the contractors.</p>
		13-18 months	<p>Any extension beyond 12 months and up to 18 months may be considered subject to following:</p> <p>(i) The contractor will provide 50% Bank Guarantee (BG) and 10% pre-estimated agreed Liquidated damages for the remaining additional work programme, the amount to be calculated keeping in mind the relevant factors</p>

			<p>in computing the cost of such work programme.</p> <p>(ii) The period of extension will be set off from next phase,</p> <p>(iii) The additional work programme will be reasonably decided by DGH in consultation with the contractors.</p>
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