



Bangladesh Revising PSC Terms For Deepwater Blocks

By Ravi Prasad, Special To Hart Energy Monday, April 15, 2013 - 1:45pm

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After lukewarm response to the December 2012 bidding round, Bangladesh is preparing to offer deepwater oil and gas blocks with revised, attractive production-sharing contract (PSC) terms for exploration and development.

“Petrobangla (Bangladesh Oil, Gas and Mineral Corp.) will offer the deepwater blocks before the

end of this month with revised PSC guidelines,” Petrobangla director Muhammad Imaduddin said. The state-run upstream company would re-seek bids for the three deepwater blocks it offered in December 2012 bidding round.

The deepwater blocks, located in the Bay of Bengal, are: DS-12, 3,516 sq km (1,358 sq miles); DS-16, 3,335 sq km (1,288 sq miles); and DS-21, 3,190 sq km (1,232 sq miles).

“We want to ensure that the terms and conditions of the PSC for our deepwater blocks are competitive with those of neighboring countries like Myanmar and India,” Imaduddin said.

After the poor response to the December 2012 bidding round, Petrobangla suggested a series of changes in the existing model PSC terms with the main objective to attract investments from international oil companies (IOCs), the director said.

The proposed changes include:

- Contractors will be allowed to sell half of their explored and extracted volume of oil or gas to the third parties without Petrobangla’s right of first refusal;
- The cost recovery limit will increase to a maximum of 70% per calendar year, instead of 55%, of all available oil, gas, or condensate from the contract area;
- Wellhead gas price will be pegged to high sulfur fuel prices. The ceiling of floor price for HSFO would be fixed at \$220 per ton, compared to the existing \$200 per ton. This proposed mechanism would offer a maximum price for gas of \$6.5 per thousand cubic feet (mcf).; and
- Contractors will enjoy a tax holiday during the entire exploration, development, and production phases.

These changes will be included in the revised model PSC along with other features such as zero import duty for equipment and machinery imported for petroleum operations during, exploration, development and production phases; no signature bonus or royalty; full repatriation of profit; provision for assignment of interest and share transfer; prohibition on export of gas; and 100% cost recovery.

Petrobangla already has moved a proposal to amend the existing model PSC to the Ministry of Power, Energy and Mineral Resources for approval. “The proposed changes will be notified after the final approval by the Cabinet Committee on Economic Affairs (headed by Prime Minister),” Imaduddin said.

Round Gets Poor Response

Petrobangla was forced to change model PSC terms after poor response to Bangladesh Offshore Bidding Round 2012. Of the 12 oil and gas blocks offered, it received bids from the two companies for only three offshore blocks.

India's ONGC Videsh Ltd. placed bids for two blocks (SS-07 and SS-09), while ConocoPhillips for one (SS-04). Blocks attracting no bids were SS-2, SS-03, SS-06, SS-08, SS-10, and SS-11 in shallow waters and DS-12, DS-16, and DS-21 in deep water.

As many as 14 IOCs, including Chevron, Royal Dutch Shell, Santos, Statoil, Cris Energy, Eni, Premier, Cairn India, Bahrain Petroleum Co. (BAPCO), and China National Offshore Oil Corp. (CNOOC), purchased the bid documents, but only two had submitted the bids even after deadline was extended.

During the pre-bid meeting, the IOCs raised a series issues relating to product pricing, taxation, cost recovery, and sale of gas to Petrobangla, calling them not attractive to make investments.

They said the ceiling price for gas, based on high sulfur fuel oil price at a maximum of US \$200 per metric ton, was not lucrative. The ceiling would offer a maximum gas price of about \$5.5 per mcf, which operators termed non-remunerative and less in comparison to the price offered by the neighboring countries like Myanmar and India. In addition, the contractor must pay a 32.5% corporate tax.

Participants also raised questions about Petrobangla's right of first refusal on gas sales. They said the first right of refusal would deny operation of market forces and realization of better price for gas. Some pointed out that the previous model PSC was more investor friendly than the new one. The model PSC 2008, unlike the new one, allowed the export of gas in LNG form after government approval.

None of the IOCs showed interest in deepwater blocks. After the pre-bid meeting, Petrobangla issued a statement that the terms and conditions for deep sea blocks are being reviewed.

"Accordingly, bid submission deadline for deep sea blocks will be notified at the later date together with reviewed terms [and] conditions," it said.

Offshore Bidding Round 2008 was more successful, attracting bids from seven IOCs for 15 offshore blocks of 28 (20 deep water and eight shallow water) offered.

Petrobangla chairman Hussain Monsur admitted the response from IOCs to the latest round bidding was not good. The company needs to fine-tune policies to attract investment from global companies, he said.

ONGC, ConocoPhillips Place Bids

ONGC Videsh and ConocoPhillips are the only two companies that have placed bids for three blocks. They have committed to invest a total of more than US \$183 million during the exploration period.

The Indian company would invest \$58 million for block SS-04 to carry out 2-D seismic survey of 2,700 line km (1,678 miles), 3-D survey of 200 sq km (77 sq miles), and drill two wells under the initial mandatory exploration program. It would spend \$85 million to conduct 2-D survey of at least 2,850 line km (1,771 miles), 3-D survey of 300 sq km (116 sq miles), and drill three wells under the mandatory exploration program.

ConocoPhillips has committed to conduct 2-D seismic survey of at least 2,347 line km (1,458 miles), 3-D survey of 500 sq km (193 sq miles), and drill one well in the block SS-04 under the mandatory program.

The US-based firm, if awarded, will have the right to explore the Kutubdia field, Bangladesh's first discovered offshore prospect. The prospect was included in the SS-04 block as a special package in the 2012 bidding round. As part of the deal, the contractor must give Petrobangla an additional 5% of the profit share of gas produced from the fields on top of its regular profit sharing structure.

California-based Union Oil discovered Kutubdia gas field in 1977 during the exploration phase but left it undeveloped due to the lack of demand for gas at that time. The Kutubdia field is estimated to have gas reserves of around 45 Bcf.

"Petrobangla will complete evaluating bids within this month and award the blocks to ONGC Videsh and ConocoPhillips by July," Imaduddin said.

