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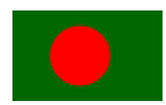

Bangladesh

Bangladesh government finalises model PSC for offshore gas blocks - fourth round bidding in October

13 Sep 2012

The Bangladesh government finalised the model production sharing contract (PSC) Tuesday raising prices for the natural gas to be discovered in offshore blocks, which the country plans to offer in the ***October bidding round***, in an effort to interest the international oil and gas companies in the bidding. The Cabinet Committee on Economic Affairs stamped the seal of approval on the model ***PSC-2012*** on the day. Gas prices are pegged to high sulfur fuel oil (HSFO) prices in Bangladesh.

For the planned ***2012 offshore bidding round***, the floor price for HSFO was raised to $100 per tonne and the ceiling price set at $200 per tonne, Energy Secretary Mohammad Mesbahuddin said Tuesday. The gas price would be around $5.00/Mcf based on the proposed pricing formula, he added. In the 2008 bidding round, the floor price for HSFO in the formula was fixed at $70/tonne and the ceiling price at $180/tonne. Then the gas price was around $2.90-$2.95/Mcf.

The government has planned to launch a new offshore bidding round offering some ***12 offshore gas blocks*** - nine in shallow water and three in deep water - in the Bay of Bengal. 'We have planned to invite bids in the first week of next month (October),' Mesbahuddin said briefing the newsmen after the meeting. This will be the country's ***fourth bidding round*** following those in 2008, 2001 and 1997. 'We have increased the tariff rate to woo a good number of international oil companies to take part in bidding and explore the country's untapped hydrocarbon potential in the Bay of Bengal,' he said.

The heat value of gas was determined in the model PSC at 1025 BTU/scf at the floor and 1045 BTU at the upper ceiling. In the existing PSC, the bottom value is 950 BTU and there is no upper ceiling.

The Energy Secretary said no block was specified or created as yet for the bidding. Only the undisputed area and the areas settled with Myanmar would be included in the bidding jurisdiction, he said. But two discovered gas fields - ***Kutubia and Teknaf*** - have been kept in the bidding as 'ring-fenced', sensing its special prospects.

Bid winning contractors would have to provide 5 per cent extra profit of gas to Petrobangla if gas is produced from these fields, said Imaduddin. 'A map of the bidding area will be placed for the Cabinet approval before the bid invitation,' he added.

Petrobangla would create blocks and demarcate those in light of the ITLOS [International Tribunal for the Law of the Seas] verdict, the energy secretary said. The country's offshore areas, particularly the ones located in the south-west, were kept out of the bidding jurisdiction as a lawsuit between Bangladesh and India remained pending with the Hague's Permanent Court of Arbitration. The verdict of UN's Convention on the Law of the Sea (UNCLOS) is scheduled to be available in 2014.

According to the model PSC for the planned October bidding round, Petrobangla's regular profit sharing structure is as follows: it will get no less than 55 per cent of profit if natural gas production is up to 75,000 Mcf/d; no less than 60pc if production is 76,000-150,000 Mcf/d, no less than 65pc if the output is 151,000-250,000 Mcf/d; no less than 70pc if output is 251,000-400,000 Mcf/d; no less than 75pc if output is 401,000-600,000 Mcf/d; and no less than 80pc if output is above 600,000 Mcf/d.

Other features of the model PSC includes full repatriation of profit; no signature bonus or royalty; no duty for equipment and machinery imported for operations during the exploration, development and production phases; 100pc cost recovery; and production bonuses, state-owned Petrobangla's director for PSC Imaduddin said.

Export of natural gas would totally be prohibited under the new bidding round, he said. In the previous 2008 bidding round export of gas in piped form was banned but in LNG form was allowed, he said.

Exploration period for shallow water gas blocks would be seven years instead of previous eight years and for deep water it would be eight years instead of previous nine years, Imaduddin said. Companies would also be able to sell the gas produced directly to third parties in the domestic market, without going through Petrobangla. But the latter would have the first right of refusal, he said. Currently, Australia's ***Santos*** is the only company having the third-party sales rights. Santos negotiated directly with the Bangladesh Power Development Board to sell gas from its new offshore ***Sangu-11*** well at $4.50/Mcf, 55pc higher than the price set in the production sharing contract.
The government for the first time would include a provision in the PSC to form a 'management committee' for assessing compensation subject to damage to any gas block due to negligence on part of the contractors, Imaduddin said. 'We hope, we could be able to complete the necessary preparations within this month and then go for the bidding early next month,' Mesbahuddin said.
State-owned Petrobangla's director for PSC Imaduddin said the bid documents might be available from October 15-December 15 for sale. The bid closing date might be in February 2013, he said. Petrobangla will prepare two kinds of bid documents -- Information Package and Promotional Package for the 2012 bidding round. The information package will be sold to the interested bidders at US$ 100, while the value of the Promotional Package will be at US$ 7,000.
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