

RIL, BP and Niko Issue Notice of Arbitration to Government of India

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Seek implementation of "Domestic Natural Gas Pricing Guideline 2014" notified on January 10, 2014.

CALGARY, ALBERTA--(Marketwired - May 12, 2014) - [Niko Resources Ltd.](#) ("Niko" or the "Company") (TSX:NKO), provides the following update.

Notice of Arbitration

RIL, BP and Niko, the contractor group of the D6 block in India, have issued a notice of arbitration on May 9, 2014 to the Government of India seeking the implementation of the "Domestic Natural Gas Pricing Guideline 2014" notified on January 10, 2014.

The continuing delay on part of the Government of India in notifying the price in accordance with the approved formula for the gas to be sold has left the parties with no other option but to pursue this course of action. Without this clarity, the parties are unable to sanction planned investments of close to \$4 billion this year. In addition, this will also delay the ability of the parties to appraise and develop other significant discoveries made last year. Overall, the parties were planning to invest \$8-10 billion in the next few years to significantly increase production from the D6 block. This domestic production is essential for meeting India's energy needs and will also help conserve foreign exchange which is required for imports of natural gas into India at the present time. All of this requires clarity on pricing.

The three parties shall endeavour to work with the Government to achieve a prompt and efficient resolution of this dispute.

Background

This background note explains the circumstances that forced RIL, BP and Niko, the contractor group of the D6 block, to file a notice of arbitration on the Government of India on May 9, 2014. As can be observed from the facts stated here, the contractor group was left with no other option.

Gas pricing has been debated for over two years with a Cabinet decision that approved a Rangarajan Committee price formula in 2013. This price formula was not an arms-length price as per the Production Sharing Contracts ("PSC"), yet it showed intent to move towards and transition to arms-length pricing. However, implementation of the Cabinet decision has been deferred leading to no clarity on gas price from April 1, 2014 for the contractor group to plan their future investments.

It has been well documented that the contractor group has been working diligently to arrest the decline from currently producing fields. In addition, the contractor group has an estimated 5 trillion cubic feet of discovered gas resources in the D6 block that await investment and development to be able to bring them to market. As has been stated before, these resources need clarity on long term gas prices to be developed economically.

Exploration and development activity is based on a pricing structure that enables investments. The PSCs promise an 'arm's-length, market determined' price for domestic gas. Having made a major discovery in 2013, the contractor group was getting ready to start investing in the development of discovered resources. The contractor group was upbeat over the opportunity to invest over \$8-10 billion in development of discovered resources over the next 3-4 years. These investments could have significantly increased production by 2019. This would also help the country of India avoid LNG imports of more than \$75 billion.

With this in focus, the contractor group had requested the Government in early 2012 to provide clarity on prices after 1Q 2014 (when the current price formula approved by the Government and the contracts to sell gas expired) to be able to progress development of discovered resources and increase exploration activities to find more gas in India.

The Rangarajan Committee, appointed by the then Minister of Petroleum & Natural Gas, Jaipal Reddy, proposed a formula for pricing of gas based on market prices of gas across the world for a period of 5 years before transitioning to gas-on-gas competition. This was to facilitate a transition to arms-length market prices.

The Cabinet Committee on Economic Affairs ("CCEA") in June 2013 endorsed the Rangarajan Committee formula as pricing for all domestic gas produced in India from April 1, 2014. The Ministry of Petroleum and Natural Gas (the "MoPNG") published guidelines for implementation of Rangarajan Committee formula as the new gas price formula in January 2014. The D6 Block is the only NELP block that is selling gas today and the contracts to sell gas from the D6 block at \$4.2/mmbtu expired on March 31, 2014. Following expiry of the contracts, the new gas price was supposed to be calculated using the CCEA-approved formula.

The MoPNG was mandated to compute and notify the new gas price for the quarter April to June 2014 by early March 2014. The Election Commission, on March 24, 2014, advised deferment of announcement of the new gas price for the quarter starting April 1, 2014 till the Model Code of Conduct is lifted, due to elections and the matter being sub-judice in the Supreme Court. The Supreme Court, however, did not defer/delay notification of gas prices.

Hence, there is no gas price from April 1, 2014 for the current gas sales from the D6 block.

This resulted in an arbitrary decision by the MoPNG to force the contractor group to keep selling gas at \$4.2/mmbtu after April 1, 2014. This is in contravention of the PSC and detrimental to the economic interests of the contractor group and the government.

Under protest but in good faith, the contractor group has kept supplying gas at \$4.2/mmbtu to the customers.

The contractor group requested the government to announce the gas prices as soon as the Model Code of Conduct was over, with effect from April 1, 2014 as per the Cabinet decision and given that fact that the gas sales contracts had expired on March 31, 2014. The MoPNG indicated gas prices would only be announced for the 2nd quarter 2014, completely ignoring the Cabinet decision to change prices from April 1, 2014.

This contradictory move has resulted in a loss to the contractor group and the government of approximately \$50 million per month.

Most capriciously, there is no clarity on what the gas price would be in the future, failing which all of the Contractor group's current and future investment plans are in jeopardy. The contractor group that was getting ready to sanction the first major project with an investment of \$4 billion in June/July 2014 is now forced to halt activities. This major investment decision would have resulted in first gas from the project coming to Indian markets in 2017. One quarter's delay this year will delay this project by one year due to the construction weather window in the Bay of Bengal being lost. This will result in an increasing dependence on expensive LNG imports. A complete lack of clarity on gas prices going ahead has hence thrown all the contractor group's plans in disarray.

All such arbitrary, contradictory and contravening moves to deny contractually promised prices will deter

future investments in the Indian E&P sector. The three Parties have, as a result, filed an international arbitration claim to secure a market price for gas as per the PSC.

The contractor group hopes for an early resolution of this dispute. The contractor group continues to be committed to delivering gas from the existing fields. The partnership will always act in the best interests of the people of India.

Forward-Looking Information

Certain statements in this press release constitute forward-looking information. Specifically, this press release contains forward looking information relating to the Company's planned capital program; expenditures, including those for development, appraisal and exploration; exploration results; gas prices; and governmental approvals. Undue reliance should not be placed on forward-looking information. Such forward-looking information reflects the Company's current beliefs and assumptions and is based on information currently available to the Company. These forward looking statements are based on certain key expectations and assumptions, including expectations and assumptions regarding its future growth; the outcome of potential asset sales and farm-outs; results of operations; production; future capital and other expenditures; business prospects and opportunities; prevailing commodity prices and exchange rates; applicable royalty rates and tax laws; future well production rates; the performance of existing wells; the success of drilling new wells; the availability of capital to undertake planned activities; general economic, market and business conditions; decisions or approvals of regulatory or administrative bodies; risks and uncertainties associated with the debt and equity capital markets. The reader is cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be incorrect. Actual results achieved during the forecast period may vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors and such variations may be material.

Such factors include, but are not limited to: the risks associated with the oil and natural gas industry in general, such as operational risks in development, exploration and production, delays or changes in plans with respect to exploration or development projects or capital expenditures, the uncertainty of estimates and projections relating to production rates, costs and expenses, commodity price and exchange rate fluctuations, marketing and transportation risks, environmental risks, competition, the ability to access sufficient capital from internal and external sources, changes in tax, royalty and environmental legislation, the impact of general economic conditions, imprecision of reserve estimates, the lack of availability of qualified personnel or management, stock market volatility, the risks discussed under "Risk Factors" in the Company's most recent Annual Information Form and in the Company's public disclosure documents, and other factors, many of which are beyond the Company's control. This forward-looking information contains future-oriented financial information that is based on assumptions that in management's view are reasonable in the circumstances but readers are cautioned that this future-oriented financial information may not be appropriate for other purposes. Niko makes no representation that the actual results achieved during the forecast period will be the same in whole or in part as those forecast. The forward-looking information is presented as of the date of this press release, and the Company assumes no obligation to update or revise such information to reflect new events or circumstances, except as required by law.

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