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DSF-III likely to see more oil and gas discoveries, fewer new players

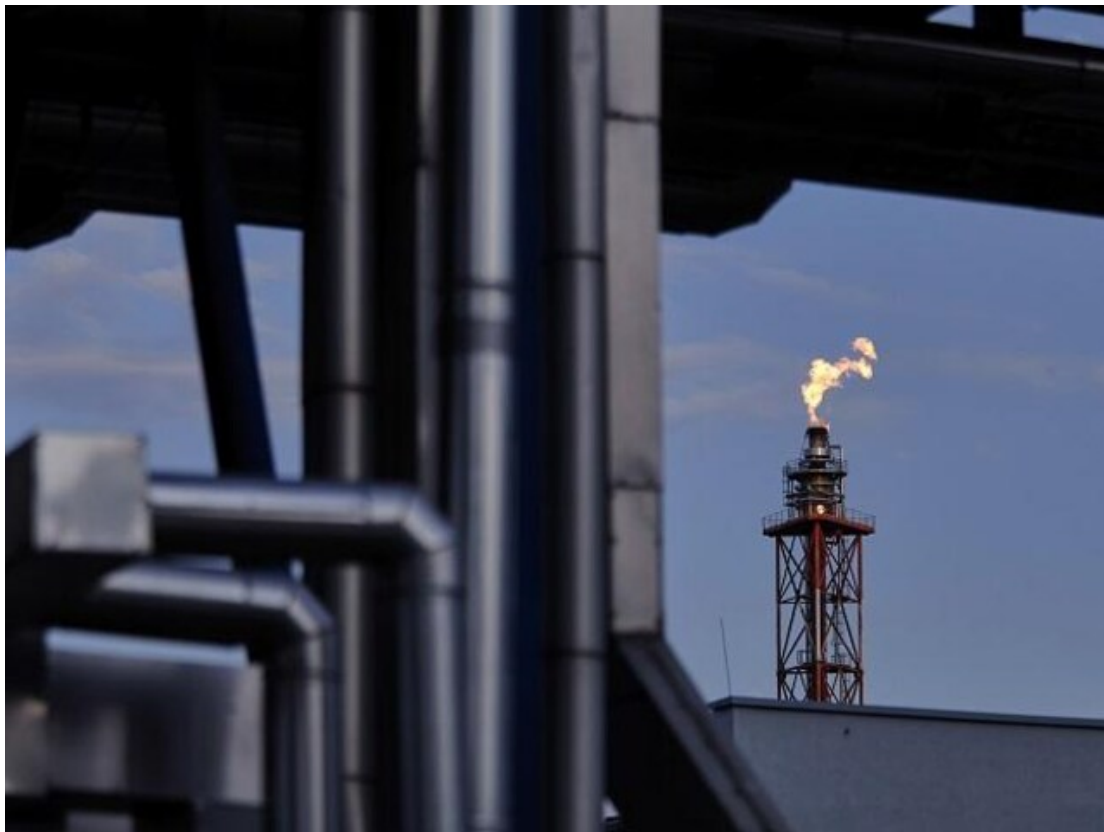
It is expected that the third round of DSF auctions will have 32 contract areas on offer for bids spread across 75 fields

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Twesh Mishra | New Delhi

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THIS IS BECAUSE MOST EXISTING DSF PLAYERS HAVE BEEN AT loggerheads with the Centre, citing delay in approvals and unfavourable regulatory regimes. There are also concerns about securing finance for these projects.

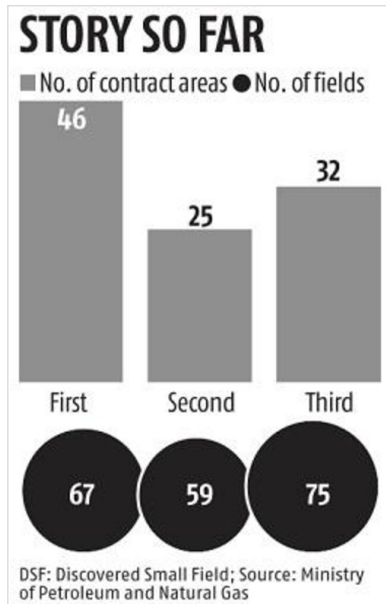
It is expected that the third round of DSF auctions will have 32 contract areas on offer for bids spread across 75 fields.

There will be 11 onshore and 19 offshore contract areas in this round. In the first DSF round, the Centre offered 46 contract areas spread across 67 fields. There were 25 contract areas covering 59 fields in the second round.

According to existing DSF participants, the large number of offshore contract areas on offer will dissuade new or smaller players. "These DSF projects have been stuck for around 20-25 years with national oil companies. So, their viability is questionable. Further, there may be even lesser participation because of the large number of offshore

contract areas on offer since they require even more investment than onshore areas," an official from a medium-sized oil and gas exploration company said.

Oil and gas sector analysts, too, are cautious about this round of bids, especially for smaller players. "Crude oil is mainly sold to refineries of public sector undertakings at a price they practically dictate. For natural gas, the government has put a cap on the sale price, despite promises of market freedom and auctioning of produce from domestic discoveries," an analyst at a domestic ratings agency said.



"The general sense in the industry is that only larger players such as ONGC and Oil India (OIL) would be making gains or sustaining in the regulated pricing regime that the Centre has maintained," said the analyst quoted above.

Existing DSF players frustrated

An issue plaguing DSF operators is getting financing for their projects. "There is a lack of understanding about the nature of this business within the banking sector and that complicates matters," said D N Singh, secretary general of the Association of Discovered Small Field Operators (ADSFO).

According to Singh, public sector banks find these oil and gas projects as being risky and this makes it difficult to fund them.

To bridge the financing gap, the ADSFO has suggested that they be allowed to tap funds available with the Oil Industry Development Board. "The Oil Industry Development cess is paid by both public and private sector players. But the funds accrued are at the disposal of public sector companies. This needs to change and with the present situation, the DSF players should be allowed to access the funds," Singh added.

Pending promises

Singh said the Covid-19 pandemic has hurt the prospects of existing discovered small-field

ers. They had sought a bank guarantee relaxation to free up working capital. This request has been pending with the ministry of petroleum and natural gas for a long time now," Singh said.

DSF players had asked for a 75 per cent cut in bank guarantee commitments to free up working capital. This request was granted till February 2021.

According to Singh, the issue of specific relaxations, like bank guarantees, were brought to the notice of Union petroleum minister Dharmendra Pradhan in December 2020 but an extension was not granted yet.

Tauktae delays launch

The ministry of petroleum and natural gas had planned to conduct the virtual launch ceremony for the discovered small field bid round-III on May 18.



But the date of the ceremony coincided with Cyclone Tauktae hitting the Arabian Sea off the coast of Mumbai on May 17. ONGC's major production installations and drilling rigs are located here and this led to five vessels carrying 714 personnel being caught in the cyclone, resulting in loss of lives.

This incident is said to have made the ministry reassess the timing of launching the third DSF round.

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