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JUMP CUT

Geological Surprise?

It's strange the govt seems keen on giving Reliance an alibi for the gas production shortfall in KG basin.

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The petroleum ministry has moved a cabinet note for not applying the revised gas price of \$8.4 per mmBtu to the output from Reliance's KG-D6 block until the production shortfall is made good or it is proven that the causes for it were beyond Reliance's control. Planning Commission deputy chairman Montek Singh Ahluwalia was quick to oppose it: "It could adversely impact the investment climate the same way retrospective tax amendments did." He rapped the ministry for not appointing an international consultant to examine the issues, a suggestion petroleum minister Veerappa Moily is looking at.

"Geological surprise" is cited as the cause of Reliance's production shortfall. KG-D6 block commenced production in September 2008 with 0.58 million standard cubic meters per day (mmscmd) reaching a peak of 69.43 in March 2010 and then declined to 13 mmscmd currently. Reliance attributed the decline to substantial variance from prediction in reservoir behaviour, higher than envisaged pressure decline and unpredicted early water production in some wells. Was there a geological surprise? In an article published 10 years ago in Business Standard on January 13, 2003, I wrote, "Producing even 40 mmscmd for 10 years will need an unusually large number of wells...." The latest thinking on such reservoirs is that one can expect unpleasant surprises even after 3D surveys confirm the 'structure' because it cannot confirm the 'reservoir'. I had then stressed: "There is a big question mark over the projected recoverable reserves of the Dhirubhai fields."

Reliance's response then was, "All announcements of estimated reserves...have been based on studies by the internationally well-known agencies engaged by Reliance..." In December 2006, Reliance further enhanced the reserves and the production profile before commencement of production. The government was privy to the modified field development plan (FDP).

Logically, SEBI should investigate Reliance, because this apparently false disclosure is affecting investor interest. The KG-D6 announcement of the gas find falls under the category of Shell's downgrading of its proven petroleum reserves in 2004. Also, the question of "appointing an international consultant" anew does not arise because Reliance has based its projections on the data and study by "internationally well-known agencies". In any case, the onus of proving its case is on Reliance. Why is the government keen to provide an alibi to Reliance?

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