

InConversation

'US-Iran pact will ease crude supply constraints'

With the government unleashing a slew of policy reforms in the recent past, Essar Oil Ltd has chalked out plans to extend its footprints in the upstream oil industry in India. The company's managing director and chief operating officer **LK Gupta** talks to **Neeraj Dhankher** about their plans for shale gas exploration and how the normalisation of US-Iran relations is expected to ease the crude situation for India. Excerpts:

What kind of problems is your company facing with respect to imports from Iran? What arrangements are being made to tide over these difficulties?

The recent US-Iran agreement is a big step towards normalizing relationship between two key players and is expected to ease supply constraints. We are following all government of India regulations regarding import of crude oil from Iran. Further to that, I would not like to comment.

India is hopeful that crude oil supplies from Iran would increase following a deal between Tehran and major world powers. How do you see it impacting crude imports to India?

We welcome the US-Iran deal and are confident that this will go a long way in improving global supplies. Iran has shown eagerness to join the global supply pool and this is likely to ease prices and either or completely take out the uncertainty premium on global crude oil prices. A lower crude oil price will definitely help Indian economy.

What are your plans for shale gas exploration in India? What, according to you, are the chief concerns?

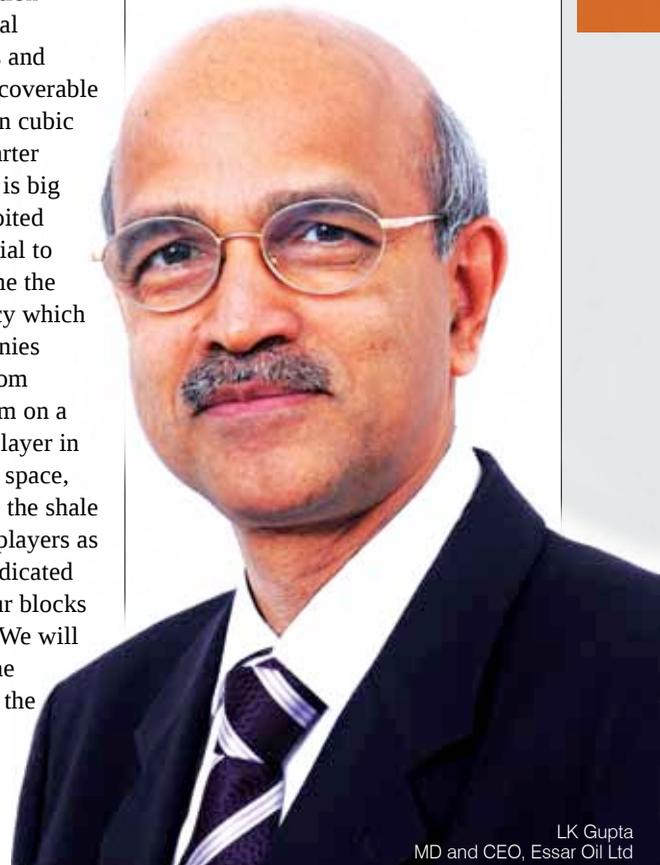
As per EIA (Energy Information Administration) — US federal authority on energy statistics and analysis, India's shale gas recoverable estimates are about 96 trillion cubic feet (tcf), equivalent to a quarter century of gas demand. This is big resource and should be exploited in a manner which is beneficial to all stakeholders. We welcome the government's shale gas policy which has allowed state-run companies to explore shale resources from onland blocks allotted to them on a nomination basis. As a key player in the non-conventional energy space, we are now eagerly awaiting the shale policy statement for private players as well. Our initial study has indicated shale potential in a few of our blocks like Mehsana and Raniganj. We will undertake the full study of the potential and feasibility post the policy announcement.

In our view, the government should allow existing owners of oil

and gas blocks to explore shale gas within their blocks. This will bring in a lot of synergy in their existing operations and lower costs by avoiding duplication of resources in the same blocks. Also, linking the sale price to market price is a very healthy move. It will provide better revenue visibility to the operator and help in managing his risks.

How has rupee depreciation impacted your business and debt situation?

Typically refiners are immune to forex



LK Gupta
MD and CEO, Essar Oil Ltd

fluctuation. We have a dollarized revenue stream, wherein, all our purchases (crude oil) are in dollars and our sales (of finished products) are also in dollars, paid to us in rupees after converting at existing rates. However, since the refining margins are calculated in dollars and all our costs are in rupees, a strong dollar means we get more rupees for processing each barrel of crude. Hence for the refiners, a weak rupee is marginally positive.

Specifically for us, a weak rupee is beneficial. We are in the process of dollarizing our debt and hence a weak rupee reduces our overall debt in dollar terms. Till now we have dollarized about \$875 million of rupee debt and would like to further dollarize \$2 billion over the next few quarters. By doing so, we will reduce our interest cost by about \$150 million annually.

The coal bed methane (CBM) industry in India seems to be facing uncertainty over a clear and transparent policy on pricing. What are your views and suggestions on this issue?

In an energy hungry country like India, non-conventional energy sources like CBM and shale can play a key role in bridging the demand-supply gap. Coal bed methane could be a promising energy solution for India, which has large deposits of coal and limited oil and gas reserves. India has the fourth-largest proven coal reserves in the world and holds significant prospects for exploration and exploitation of CBM. The prognosticated CBM resources in the country are about 92 tcf, out of which only 8.92 tcf have so far been established. Commercial production of CBM in India has now become a reality with current CBM gas production of about 0.28 million metric standard cubic metres



Vadinar RefineryGate

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per day (mmscmd).

Essar Oil has a portfolio of five CBM blocks with a total of 10 tcf or about 1.7 billion barrels of oil equivalent of reserves and prospective resources, making it the largest CBM player in the country. With the new gas price regime kicking in from April 1st, 2014, gas price is expected to be much better from current \$4.2 / mmbtu. Our understanding is that

this policy is applicable for CBM players as well. We see this as a welcome reform by the government which would boost investments in exploration and production (E&P) leading to ramp-up in production, decline in expensive imports and increase in government revenues. This will also be positive for E&P companies as their profitability will increase and new gas fields will become viable, thereby boosting domestic gas production.

With diesel price de-regulation on the cards, what kind of retail expansion plans have you prepared? What are the major impediments in this regard?

Essar Oil has a retail network of about 1,400 outlets nationwide with another 200 under various stages of completion. We are encouraged by the government's resolve to bring retail diesel prices to market linked prices. On full implementation of diesel deregulation, the network will prove to be great value booster. We have now begun to plan for the next phase of our retail expansion and are looking at having a network of 3,000 outlets in the next three-four years. We have now invited interested parties to apply for

Essar Oil dealership in a few states and have received encouraging response.

With the Gujarat High Court directing the petroleum ministry to ensure uniform gas pricing for city gas distribution entities, do you have any plans to enter the CGD segment?

We currently have no such plans.

NELP-X bidding rounds are planned to be announced in January 2014. What are your plans in this regard?

We will enter the fray only after studying the quality of blocks on offer.

Essar Oil is facing issues over payment of sales tax in Gujarat. The Supreme Court recently rejected the company's plea for extending time to pay tax dues to the state. What are your major concerns in this regard and what recourse are you planning now?

Recently a new refinery investment in Rajasthan has been offered an incentive package of almost ₹55,000 crore. Essar Oil also approached the Supreme Court on October 3, 2013, to seek directions on constituting an expert committee to make recommendations for extending a package. Vadinar Refinery is the only refinery in the country to be denied any incentive, and coupled with a very competitive refinery environment, this is putting us in a disadvantageous position. Hence the expert committee was to recommend a suitable package. However, hon'ble Supreme Court has not considered our plea and we are paying the sales tax dues as per the original SC order of September 2012.

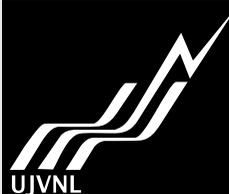
What are your expansion and investment plans in India? Given that India has refining surplus, does it make sense for you to add

to existing refining capacity?

Essar Oil's current refining capacity is 20 mmtpa and there are no plans at the moment to increase it. Our focus is on running the refinery in the most optimized manner. Taking on the demand-supply situation at the national level, India processed about 220 million tonne of crude in 2012-13, against a demand of about 155 million tonne. Net of 38 million tonne SEZ refinery capacity (dedicated for exports), refinery fuel loss and net of imports, India's net surplus is less than 20 million tonne. At current

growth rate of approximately 5 per cent per annum, this capacity will get absorbed in about next three- four years. Future expansion, unless it is brownfield, is going to be extremely challenging given the issues relating to land acquisition etc. At present, IOCL's Paradep Refinery (15 mmtpa) and Nagarjuna's Cuddalore Refinery (6 mmtpa) are the ones likely in the next two to three years. ▣

For full version of the interview, visit www.infraline.com
For suggestions email at feedback@infraline.com



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CORRIGENDUM No - 2

E-Tender Notice Reference: 01/DGM (M&U-GV)/2013-14

Clause 20.1 and 23.1 of Section 1 is hereby revised as follows:-

1. Last Date/Time for receipt of bid in the portal : 26.02.2014. up to 16:00 Hrs
2. Date of opening of bid (Part-I) on the website : 28.02.2014 at 11:00 Hrs

Other terms and conditions will remain unchanged. For eligibility criteria and further details please visit website <https://uktenders.gov.in>

DGM (M&U-GV)

पत्र संख्या: 631/यूजेवीएन लि० म.प्र.(प्र०नि०का०)/विज्ञापन दिनांक 26/11/2013

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