Vedanta Cuts Crude Supply to IOC, Restores After Govt Intervention

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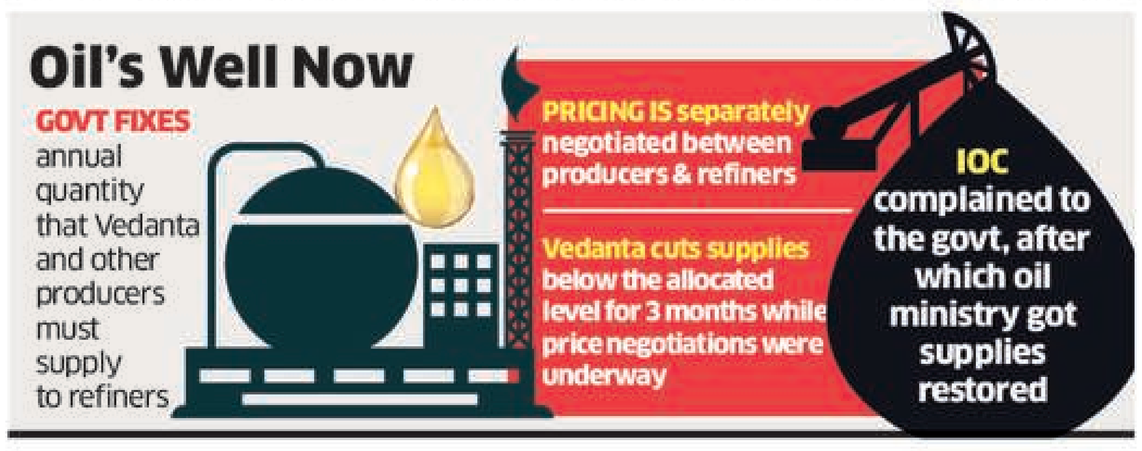

New Delhi: Vedanta reduced crude oil supplies to Indian Oil Corp for about three months until October even as the two negotiated oil rates for the year, and restored it to the officially-allocated level only after the government intervened, according to multiple people familiar with the matter.

The government allocates all locally-produced crude to refineries based on their location, processing capability and transport logistics.

All state-run and private oil producers and refiners must stick to these allocated quantities for the year.

But producers and refiners are free to decide oil price formula between them, which is usually for 12 months and agreed to at the beginning of the financial year. But this year, the price negotiations between IOC and Vedanta stretched on for far too long, concluding only after the middle of the financial year, as per people familiar with the matter.

While price negotiations were underway, Vedanta cut supplies to IOC, in a bid to mount pressure for a higher price, they said. Vedanta also supplies to private refiners, which usually offer higher oil rates compared to state refiners, leaving the private producer with an incentive to serve private refiners better, they said.

"We are committed to all our customers and greatly value our association with them. Commercials such as pricing and volume, therefore, are determined with a view to achieve the most efficient results for all stakeholders," said Sudhir Mathur, CEO, Cairn Oil & Gas, Vedanta Ltd.

Sources close to Vedanta said the production contract with the government mandates an oilfield operator to maximise revenue, which can't be achieved by selling cheaply to a refiner. Higher revenue from oilfields also enhances government's income, they said.

IOC takes about 1.6 million tonnes of crude a year from Vedanta, which operates the prolific Barmer block that accounts for nearly a fourth of the country's oil output. Vedanta's oil is processed at three refineries of IOC, including the ones at Panipat and Koyali.

After Vedanta cut supplies, IOC raised the matter with the government. Following this, the oil ministry officials intervened and got Vedanta to restore supplies to the officially-allocated level.

Vedanta, controlled by mining magnate Anil Agarwal, is the country's biggest private oil producer. It has been aggressively trying to expand its presence in the country's upstream sector. It's putting in billions of dollars in raising output from its fields. It recently obtained 41 exploration licenses of the total 55 auctioned by the government.

ONGC Unit Wins Arbitration Against Daelim

Singapore tribunal asks Korean co to compensate for abandoning project

Dealing with the Deal

OPAL, an ONGC unit, and Daelim sign ₹1,500-cr contract in 2011

Daelim agrees to build an individual plant in petrochem complex in Dehaj

Daelim abandons the project

OPAL cancels contract, initiates arbitration

Seeks compensation for escalation of total project cost from ₹20,000 cr to ₹35,000 cr

Singapore arbitration tribunal upholds claim that Daelim breached contract

Compensation will be fixed at next hearing in April

Tentative award could be 20% of contract (i.e. ₹1,500 cr) as compensation & interest

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New Delhi: ONGC Petro Additions Ltd. (OPAL), a petrochemical company owned by Oil & Natural Gas Corp., won a major international arbitration case against South Korea's Daelim Industrial Company Ltd. for abandoning a high-stakes project.

An international arbitral tribunal in Singapore, ruling in favour of OPAL, said Daelim had breached its contractual obligations by withdrawing from the project and must compensate OPAL.

The compensation amount will be determined at the next hearing in the case – tentatively set for April 4 & 5, said lawyer R Sasiprabhu of RS Prabhu & Co, who appeared for OPAL. Drew & Napier of Singapore represented Daelim.

OPAL, based in Dahej in Gujarat, will claim compensation for loss of net present value with interest thereon. The compensation in the agreement was capped at 20% of the contract cost of ₹1,500 crore.

OPAL cancelled the contract with Daelim on April 28, 2011, and awarded it to the next lowest bidder, Samsung

OPAL awarded the contract to Daelim on January 6, 2011, for constructing a high-density polyethylene plant as part of the Dahej petrochemical complex being set up at a cost of ₹20,000 crore ($2.8 billion). Daelim unconditionally accepted the contract worth ₹1,200 crore but abandoned it, leading to the project cost escalating to ₹35,000 crore.

The contract had been awarded to Daelim on condition that "until the final contract documents are prepared and executed, the bidding documents... and your written acceptance... shall constitute a binding contract between us..."

However, after attending the kick-off meeting and providing the performance bank guarantee, Daelim refused to sign the final contract on the ground that it had unresolved issues with Chevron, which was to provide the technology licence needed to manufacture products and sell them. OPAL cancelled the contract with Daelim on April 28, 2011, and awarded it to the next lowest bidder, Samsung. It also initiated arbitration proceedings in Singapore demanding compensation for loss or damage sustained due to non-fulfilment of the contract.

Daelim first resisted the arbitration proceedings on the ground that the arbitral tribunal had no jurisdiction and there was no concluded contract. Later, it claimed that although there was a binding contract, it had been rendered void. The South Korean company argued that it had been discharged from performance of such contract because it was awarded subject to "conditions subsequent," which could not be fulfilled as a result of Chevron backing out of the venture.

TARIFF-BASED COMPETITIVE BIDDING GUIDELINES AMENDED

Commissioning Time Brought Down for Solar Power Projects

Timeline also changed for financial closure of projects being set up in a park

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New Delhi: The government has reduced the time allowed for commissioning and financial closure of solar power projects, a move that could accelerate the pace of renewable energy capacity addition in the country. This, however, could be a concern for project developers as pressure of acquisition of land and availability of transmission infrastructure continues to mount.

In amendments to the tariff-based competitive bidding guidelines for solar projects, the ministry of new and renewable energy (MNRE) said the timeline for commissioning of solar projects in a solar park and outside of it will be 15 and 18 months, respectively, against the previous timeline of 21 and 24 months.

This, however, is not the first instance of the government tweaking timelines for project commissioning. The initial timeline for commissioning of solar projects was up to 13 months, which was relaxed post industry's demand. Following the latest amendments, project developers complained that such frequent changes to the bidding guidelines create uncertainty in the market. "We feel that this is sufficient time for commissioning of solar projects. Land is not an issue when a project is being built inside a solar park. This will help us adding project capacity at a faster pace," an official told ET on condition of anonymity.

The solar power developers association (SPDA), in a letter dated January 8, had requested MNRE to allow 24 months for commissioning of central transmission utility (CTU)-connected projects, as the process of getting connectivity from the CTU requires substantial time.

The changes in bidding guidelines, issued only a day after SPDA's communication, were made without stakeholder consultation. SPDA in the letter said these changes would bring "much wider participation, with lower tariffs" in solar tenders.

The amended guidelines also call for attainment of financial closure of projects being set up inside a solar park to be brought down to nine months, against 12 months allowed previously.

SPDA in its recommendation said the financial closure of the projects be allowed before the date of commissioning of projects, while developers may be allowed to provide self-declaration on possession of land, connectivity, and sources of funds utilised for the implementation of the project.

MNRE's guidelines would not help project developers at a time when the issue of acquisition and conversion of land is more pressing than ever, experts say.

"From the private sector point of view it is pretty unhelpful because there are already delays across the spectrum as we see and land and transmission are getting more and more difficult by the day," said Vinay Rustagi, managing director at Bridge to India, a renewable energy consultancy.

"There have been several instances in the past where developers have asked for relaxation of timelines from the government where land approvals are taking time, or transmission is not available," Rustagi added.

ET IN THE CLASSROOM

OFF-BUDGET FINANCING

The Comptroller and Auditor General (CAG) of India has pulled up the government for increased use of off-budget financing for schemes and subsidies in its Compliance of the Fiscal Responsibility and Budget Management Act report for FY17. **ET explains** off-budget financing and its implications.

WHAT IS OFF-BUDGET FINANCING?

This refers to expenditure that's not funded through the budget. For example, the government sets up a special purpose vehicle (SPV) to construct a bridge. The SPV will likely borrow money to build the bridge on the strength of a government guarantee. If it's not a toll bridge, the SPV will need government support to meet interest obligations. So, even though the borrowing and spending is outside the budget, it has implications for the budget and for all practical reasons should be included in that document. Since it's not, this doesn't reflect on the fiscal deficit number as well. Governments across the world use this to escape budget controls.

WHY IS OFF-BUDGET FINANCING IMPORTANT? WHAT ARE ITS IMPLICATIONS?

Off-budget financing by its nature isn't taken into account when calculating fiscal indicators. But the cost is borne by the budget through some mechanism or the other. Such financing tends to hide the actual extent of government spending, borrowings and debt and increase the interest burden. In the above example, the borrowing by the SPV should ideally be included in the government's debt. To the extent that this spending is backed by a government guarantee, it entails a fiscal risk. Parliamentary control on such spending is also reduced as its remains outside the budget.


Illustration: Anirban Bora

OFF-BUDGET FUNDING IN FY17

REVENUE SPENDING:

1. Deferred fertilizer arrears/bills through special banking arrangements
2. Food subsidy bills/arrears of Food Corp. of India through borrowings
3. Accelerated Irrigation Benefit Program through National Bank for Agriculture and Rural Development borrowing

CAPITAL SPENDING

1. Indian Railway Finance Corp. borrowing for railway projects
2. Power Finance Corp funding of power projects

WHAT HAS CAG SUGGESTED?

A policy framework for off-budget financing that should include disclosures to parliament about the amount, rationale and objective of such funding.

EEPC for Timely, Affordable Bank Credit

New Delhi: The Reserve Bank and the government need to ensure timely and affordable bank credit for exporters to boost outbound shipments, EEPC India said Thursday. Engineering Exports Promotion Council (EEPC) said there was a sharp annualised drop of over 54% in gross bank credit deployment in the export sector.

"Against a gross credit deployment of ₹434 billion (₹43,400 crore) till October-end 2017, the figure dropped 54.6% on-year to ₹197 billion (₹19,700 crore) in 2018," the council said. — PTI

Transport Subsidy to States Likely

New Delhi: The government is considering providing transport subsidy to states for promoting agriculture exports, commerce minister Suresh Prabhu said Thursday. The issue of providing transport subsidy along with various other matters were discussed at the meeting of the Council for Trade Development and Promotion here, he added. Representatives from several states including Karnataka, Punjab, and Tamil Nadu participated in the meeting.

"We are considering to give transport subsidy to states. It is under active consideration to promote agricultural exports," Prabhu said here. – PTI