

ONGC may shelve shale gas exploration programme due to 'limited success'



BY KALPANA PATHAK

kalpana.p@livemint.com

MUMBAI

Barack Obama's doodles sold for over \$11,000 at auction

bit.ly/2z13CA9

State-run Oil and Natural Gas Corporation (ONGC) may shelve its shale gas exploration plans, two executives from the company said, citing the firm's "limited success" in the exploration programme.

"We have drilled around 22-23 wells as part of our shale gas exploration programme. We have had some limited success and the results are not very encouraging," said Shashi Shanker, chairman and managing director, told *Mint* during a media interaction on 11 November in Mumbai. Shale gas, an unconventional source of energy found in non-porous rocks, has drawn increasing international attention after becoming an important source of natural gas in the US and Canada.

One of the two officials cited above said conditions for shale gas exploration are not conducive in India as the availability of huge water resources, needed for shale gas operations, remains a formidable challenge, requesting anonymity.

ONGC had initiated exploration for assessing the shale gas/oil prospects in four basins—Cambay, Krishna Godavari, Cauvery and the Assam-Arakan Basin.

According to its 2016-17 annual report, the company had identified 50 blocks under first phase of the programme. Shale gas exploration not only involves the use of fresh water but land acquisition, which also emerges as a potential issue due to the large tracts of land required for fracking that may lead to displacement of people.

Fracking is the process of using water for breaking up the rock, also known as hydro-fracturing. "Even if you have geologically good results for shale exploration, the main issue is availability of land. In the US, the land owner has an incentive to give the land on lease, while it's not the case in India. Besides, India is densely popu-



ONGC chairman and managing director, Shashi Shanker.

BLOOMBERG

lated whereas, the US and Australia are not. Also, shale gas exploration might impact agricultural activities and lead to water contamination. So it is a big challenge in India," said K. Ravichandran, senior vice-president and group head (Corporate Ratings) at ICRA Limited.

Meanwhile, analysts say that higher gas realizations, increasing domestic volumes, and lower operating expenses will drive ONGC's profitability going forward, as the state-run firm expects gas production to increase 12-14% in FY18 and beyond, with several offshore fields coming on stream.

After a lull of almost a decade, the state-run explorer will see incremental gas production coming in from five of its fields—Daman, Vashishta, Bassein, Cauvery and Tripura.

This month, ONGC will press into production its deep water field of Vashishta, which will be fully operational from the fourth quarter of this fiscal year. Incremental production of 3.5 million metric standard cubic metres per day (mmscmd) of natural gas is expected from the field.

"Production from our offshore fields including Daman, Vashishta, Bassein, Cauvery and Tripura will increase gas output. We expect domestic gas production to increase around 12% for FY18 and 14% for FY

19," said ONGC in a presentation.

In a media presentation, ONGC on 11 November said the company has 35 major projects worth around Rs92,000 crore under implementation currently. Of these, 14 are field development projects for monetizing new fields; six are redevelopment projects and 15 are for creation of infrastructure. Added to these are the lower services cost and rig rates (due to lower crude oil prices), which would further lower ONGC's operating cost by 10-15% on year.

"Despite the ONGC stock already run-up by 13% during the past three months, we believe ONGC would outperform with rising gas production, increase in gas prices and control in operating expenses," said Gagan Dixit and Harshraj Aggarwal of Elara Capital in a report dated 30 October.

According to a 31 October note from Care Ratings, domestic production of natural gas has been falling at a CAGR (compounded annual growth rate) of 6.14% in the last five years, from FY2012-13 to FY2016-17. Net production was 39.8 BCM (billion cubic metres) in FY2012-13, declining to 30.8 BCM in FY2016-17.

ONGC is investing over \$10-11 billion in exploration, a major chunk of which would go towards developing its Krishna-Godavari block.