
ONGC Videsh to seek CCEA nod for 27pct more CAPEX in Brazil

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ONGC Videsh Ltd the overseas arm of Oil and Natural Gas Corporation which acquired a 15% participating interest in a Brazilian oil and gas block in 2006 for USD 165 million has seen its share in the capital expenditure going up by over 27% from USD 313 million to USD 400 million due to imposition of fresh taxes and additional well costs.

A government official said that OVL will have to get the additional expenditure approved by the Cabinet Committee on Economic Affairs. The additional expenditure has been recommended for approval to the CCEA by an empowered committee of secretaries last month. The block, BC-10, is located in the Campos Basin.

Shell is the operator in the block with a 50% interest, while Petrobras has 35% interest. The total capital expenditure is estimated at USD 4.98 billion.

By July 2008, the CCEA had approved investment of USD 478 million, which included an acquisition cost of USD 165 million, with a condition that OVL's internal rate of return on the investment shall not be less than 10 per cent.

The official said that "Oil production from the block has commenced in July this year, two months ahead of the September schedule. The production is expected to be ramped up to about 42,000 barrels per day by December this year, with seven wells. The oil reserves in the block have been revised downwards from 520 million barrels to 378 million barrels. OVL's share in the reserves shall be about 57 million barrels."

Though the project is expected to turn cash positive in 2010, the economics have been affected due to a downward revision in reserves, he added. Still, OVL expects a 10 per cent rate of return, since crude oil prices have moved up. Moreover, Shell has informed OVL that there is a possibility of finding more reserves.

(Sourced from Business Standard)

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