



# ASSOCIATION OF SCIENTIFIC & TECHNICAL OFFICERS

OIL AND NATURAL GAS CORPORATION LIMITED, NEW DELHI

Registered with the Registrar of Societies U.P., Lucknow, Registration No. 172 (1967-68)



**AMIT KUMAR**  
President - CWC

No.ASTO/CWC/Pres/2008-10/CMD-48

10.12.2008

To

**Chairman and Managing Director**

ONGC Ltd.

Jeevan Bharati Tower-II

New Delhi

**Subject: Overseas Acquisition by ONGC/OVL – Case of Imperial Energy.**

Sir,

This is in continuation to our letter No.ASTO/CWC/Pres/2008-10/CMD-46 dated 05.12.2008 on the above issue of acquisition of Imperial Energy by ONGC/OVL. From the newspaper reports we have come to know that ONGC is going ahead with the acquisition of M/s Imperial Energy. However, we once again emphasize that this decision should be reconsidered in light of following points:-

- (i) The current production of the company is close to 12000 barrels/day only. This figure is also debatable as the technical team that visited the fields found that the production was around 8000 barrels per day. The upside of production as being planned calls for huge investment in the field in addition to the investment being made to acquire the company. The field terrain is very tough and inhospitable. The access to field for any developmental work and operations remains open for only five to six months in a year that too in winters. In this scenario, the anticipated increase in production is going to be tough and may not meet the targets set forth in coming years. It may also be noted that the production from this field can only be brought to the country at a very high cost. Hence, we are at loss to understand what sort of energy security this deal shall provide to the country.
- (ii) Quality of deal is also questionable as the local Russian company like Rosneft has refused to be partner in the deal – at this cost. It seems that Rosneft is well aware of the real conditions of the field and real worth of the Imperial Energy. It shall be in long term interest of ONGC to avoid such pit falls and guard our financial health in longer run to a healthy level so that we can provide the much needed energy security to the country in times to come. With this kind of deal, we understand the financial health of ONGC shall get jeopardized drastically as we shall have to take loans as well as try to carry out work in a totally unfamiliar terrain that too where the cost of operations are substantially higher.
- (iii) The IRR of the deal is getting reduced drastically from 10% to 4.9% with crude price coming down from \$ 85 to \$ 55 per barrel. The prices are now hovering at nearly \$ 44 per barrel now. With this IRR of 4.9% or lesser, and going into the deal and failing subsequently shall have detrimental effect on the image of the company (ONGC/OVL/country (India)). We feel getting into a deal which is unviable from the beginning does not hold well for the professional image of ONGC. Off

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course no one can predict the prices of crude in future but an average price of last five years can clearly show that this investment shall not be able to cross the hurdle rate. Today, the government is talking about giving sops to industries all across the country except Oil & Gas. In fact we are being forced to share the burden of political decisions of the government in the form of subsidy. On top of this we are being cheated in our pay revision/ schemes by the Government. It is unfortunate that during this period of complete economic turmoil we are going for an acquisition that is not transparent and is clearly financially unviable now. There seem to be a motive of pushing the deal in its present shape under the garb of loss of reputation of the company/country, which is not guaranteed even if the deal in its present shape is executed.

- (iv) Since, the oil market is under turmoil and there is a down trend in the global market. We should wait for this trend to settle and look for firm trends in the current scenario. It is also to be noted that with current meltdown in oil market, there shall be more and better opportunities available in the future.

It is time that the management brings transparency in the overseas acquisitions in front of the employees. Most of us happen to be shareholders of ONGC also. If this acquisition is beneficial to us then we request that the management brings out a white paper on this proposed acquisition bringing out the techno economic feasibility of the acquisition of M/s Imperial Energy immediately under the present scenario.

With regards,

Yours sincerely,

  
10/12/2008  
(Amit Kumar)

**Copy to:**

1. Secretary, MOPNG, Shastri Bhavan, New Delhi.
2. MD-OVL, ONGC Videsh, New Delhi.
3. Director (HR), ONGC, New Delhi.
4. Director (Onshore), ONGC, New Delhi.
5. Director (Offshore), ONGC, New Delhi.
6. Director (T&FS), ONGC, New Delhi.
7. Director (Exploration), ONGC, New Delhi.
8. Director (Finance), ONGC, New Delhi.