Cairn to invest $700 million in India oil & shale assets in FY23

Cairn Oil & Gas, a Vedanta Group company, has drawn up plans to invest $700 million to boost drilling infrastructure at its around 100 exploratory wells in the country, including in the pilot project for shale oil/gas in Rajasthan's Barmer region.

The investments are part of Cairn's $4-5 billion capex planned over the next three-four years, Prachur Sah, deputy CEO, told FE.

The company has hired Halliburton and Schlumberger to prepare a detailed report on estimates of in-place shale reserves and how production activities could be taken forward. "Going by initial estimates, there are in-place shale reserves of around 3-4 billion barrels (in Barmer region). Although the entire reserves are not recoverable, even if we take typical industry recovery of 10%, it will be 300-400 million barrels of hydrocarbon," added Sah.

Cairn's average daily production was at 159,000 barrels of oil equivalent during the three months that ended December 31, 2021, and it plans to triple this in the next three years with the planned investments.

The pilot for shale is expected to begin by June. Thereafter, it will take at least 3-4 months for drilling and to understand if the activity is commercially viable. "By the end of 2022, we will get a fair idea of the reserves. The investments could increase with successful discoveries," Sah said.

Cairn has spent over $2 billion on exploratory activities in the last three years. This includes exploration for the “tight oil and gas” production in Barmer.

“The board has approved an investment of $700 million out of this for FY23 on activities related to exploration drilling, in-field drilling at Mangala-Bhaghyam-Aishwarya (MBA) field and new blocks,” Sah said. The cost of production is around $30-$35 per barrel and 70% of the revenue goes as levies to various governments. “It would help if the government reduces the levies to 40%,” Sah added.

If the government incentivises existing blocks to increase domestic output, then, even if the cost of production goes up a little, India would benefit as increased domestic production will ultimately help in cutting import costs.

India imports around 85% of its crude requirement on average above $80 per barrel. In situations such as the current Ukraine war, the price of the import basket is even higher at $110 per barrel.

The company is equally focused on open acreage licensing policy (OALP) blocks. They have announced the monetisation of two blocks one in Rajasthan and one in Cambay, and plan to monetise one in Assam as well.