After the Director General of Hydrocarbons (DGH) went public last month with his disappointment over Reliance Industries Limited's (RIL) failure to increase gas production from the KG Basin, DGH's decision not to approve RIL's capex for 2010-11 and 2011-12 shouldn't come as a surprise—output has fallen from 61 mmscmd reached last year to around 42-43 mmscmd now and is expected to fall to 38 mmscmd in 2012-13, a far cry from the 80 mmscmd talked of at one point. DGH had said, last month, that RIL's output could rise to 67 mmscmd by April if it drilled four more wells. DGH has also rejected two of RIL's gas finds, but not too much should be made of that since all it means is that RIL will have to drill some more and submit more data to convince DGH to certify the reserves in its new discoveries. The refusal to clear capex, however, will have obvious financial implications for RIL and could further slow work on the KG Basin—the CAG report on the allegations that earlier capex was goldplated will be out in the monsoon session of Parliament. But the important question is what happens when there is a disagreement between the operator (in this case, RIL) and DGH.

Under the law, DGH is the custodian of the health of the reservoirs and that is why the management committee of every operator has a DGH representative. The operating committee that comprises the representatives of the companies submit a field development plan to DGH, which studies it keeping in mind whether this will adversely affect the reservoir, whether the right number of wells are being drilled (drilling too many will increase capex and hence reduce the government's share of profits from the field but too few will lower oil/gas production), and so on. So, DGH is within its rights to tell RIL it has to drill more wells in keeping with what it promised in the field development plan. RIL is understandably not too keen since it has a pretty good idea of what lies in each reservoir and feels drilling more wells will unnecessarily add to capex, and at a time when the price it is getting doesn't look so lucrative. The option, in such a case, is arbitration, but it's unlikely any company would take a decision on taking a regulator to court in a hurry. In which case, the tug-of-war between the two will probably continue for a while.