CHAPTER XIII: MINISTRY OF PETROLEUM AND NATURAL GAS

Bharat Petroleum Corporation Limited

13.1.1 Avoidable payment of lease premium for regularisation of lease-hold plots

Failure to execute lease agreement with CIDCO after making full payment of lease premium resulted in extra expenditure of Rs.10.40 crore and an additional liability of Rs.17.76 crore towards allotment of alternate plot.

Bharat Petroleum Corporation Limited (Company) was allotted two plots of land by the City Industrial Development Corporation of Maharashtra Limited (CIDCO), one for commercial purpose (November 1995) and another for residential purpose (January 1996) located at Kharghar, Navi Mumbai on a long term lease of 60 years. As per the terms of allotment, possession of land was to be handed over to the Company after payment of full lease premium and execution of lease agreement. Accordingly, the Company made a payment of Rs.14.02 crore[♣] towards lease premium for the two plots as per the schedule given in the terms of allotment. In July 1997 and January 2000, CIDCO asked the Company for execution of the lease agreement for the two plots. However, the Company was lackadaisical in taking action for execution of the lease agreement.

In August 2002, the Management identified both the commercial and residential plots as surplus to its requirements. Although the lease agreement for both the plots had not been executed, the Company offered the plots for sale through newspaper advertisements and also without having consulted its Legal Department. Since response to the advertisements was poor, the Company decided to hold the plots for another two years.

In July 2007, the Company noticed that its residential plot had been occupied by two private parties and filed (2007) a writ petition in the High Court of Mumbai requesting the Court to direct CIDCO to execute a lease agreement in its (Company) favour as per the allotment. The Court decreed (December 2007) that both parties should resolve the matter by mutual negotiations. The Company and the CIDCO agreed (January 2008) that the Company would pay an additional lease premium of Rs.10.40 crore to regularise the allotment of the commercial plot and request for the fresh allotment of a residential plot in Kharghar at market rates. Accordingly, the Company paid (November 2008) Rs.10.40 crore towards additional lease premium for the commercial plot and was in the process (August 2009) of executing the lease agreement with CIDCO. As regards the residential plot, the Board of the Company approved (September 2008) purchase of an alternate plot by paying an amount of Rs.17.76 crore.

[♣] ***Towards commercial plot–Rs.10.35 crore and towards residential plot –Rs.3.67 crore.***

Audit observed that the Company did not:

- Execute the lease agreement with CIDCO even after payment of the lease premium as per the terms of allotment.

- Take requisite action even after CIDCO reminded the Company in January 2000 for execution of lease agreement for the plots for which the Company had paid an advance of Rs.14.02 crore to CIDCO in 1995-96.

- Initiate action to execute the lease agreement till it was noticed that the residential plot had been occupied by private parties. This indicated poor monitoring by the Management of its real estate activities.

The Management stated (May 2009) that the factors leading to the purchase of the commercial and residential plots at Kharghar were on account of, *inter alia*, an increase in the activities of the Company over the years and lack of availability of suitable land for construction of an office building within the city of Mumbai at cheaper rates.

In respect of the commercial plot, the Management further stated that:

- The process of executing the lease agreement with CIDCO was delayed, among other things, due to non receipt of clarification from CIDCO regarding the effect of the Coastal Regulation Zone (CRZ) on the plot.

- Delay in obtaining clarification sought from CIDCO as regards construction of training centre etc.

- The additional lease premium and other charges have already been paid to CIDCO and the execution of lease agreement and registration is in process.

As regards the residential plot, the Management stated that:

- The matter regarding demarcation of the residential plot and execution of lease agreement was continuously followed up with CIDCO and it was only in January 2000 that CIDCO had requested the Company to come for execution of the lease agreement.

- The proposal for shifting of the offices and residential quarters to Kharghar was deliberated upon due to major changes in the job profiles at various levels, infrastructure around the area was inadequate and there was no clarification from CIDCO about the applicability of CRZ on the plot.

The Ministry while endorsing the views of the Management stated (October 2009) that the recommendations of legal department were sought for making payments as demanded by CIDCO as a normal process and payment effected thereafter.

The replies are not convincing on account of the following:

- The Company had not sought the advice of its legal department before making the full payment of the lease premium. The applicability of CRZ or any other limitations/factors which might affect the development of the plot in future should have been ascertained by the Company before proceeding with the purchase of the plots.

- Subsequent to making the full payment of Rs.14.02 crore for both the plots as per the terms of allotment, the Company vacillated in deciding their actual utilisation and started taking into account other subsequent/extraneous factors. As a result, during the period between 2000 and June 2007 the Company failed to take purposeful action for execution of the lease agreement with CIDCO.

- The Company proceeded to take action towards executing the lease agreement for both the commercial and residential plots, only after it became aware that the residential plot had been encroached upon by private parties.

Thus, inadequate internal controls coupled with lack of timely action on the part of the Management in safeguarding the assets for which full lease premium had been paid to CIDCO, resulted in an avoidable expenditure of Rs.10.40 crore and an additional liability of Rs.17.76 crore.

GAIL (India) Limited

13.2.1 Under realisation in Gas pool account

Non-implementation of Ministry's directives for billing of gas utilised in production of products other than fertilizer at the market rates resulted in under realisation of Rs.40.48 crore in the Gas Pool Account besides avoidable extra burden on subsidy.

GAIL (India) Limited (Company) was supplying Natural Gas (NG) to its customers at prices determined by Government of India (GOI). The pricing structure for sale of NG, effective from 1 July 2005, restricted sale of NG at subsidised price[1] to power, fertilizer sector and other eligible consumers for priority usage only. After considering the usage of subsidised gas by fertilizer companies like Rashtriya Chemicals and Fertilizers Limited (RCF) and Deepak Fertilizers and Petrochemicals Limited (Deepak Fertilizers) for production of chemicals not covered under the Government orders, the Ministry of Petroleum & Natural Gas (Ministry of Petroleum) directed (July 2006) the Company to charge market price[2] of NG used for manufacturing products other than fertilizers by obtaining the quantities so consumed from the consumers concerned.

Audit noticed (September 2007) that despite correspondence with the RCF and Deepak Fertilizers, the Company failed to obtain the quantities of NG utilised for production of non-fertilizer products. Further, the Company did not evolve a mechanism for ascertaining the quantities of NG consumed for fertilizer and non-fertilizer products.

[1] ***Rs.3200 per Million Metric Standard Cubic Meter per day***
[2] ***Market price of Regasified Liquified Natural Gas(RLNG) for Rs.6899 per MCM***

Consequently, NG consumed for non-fertilizer products continued to be charged at subsidised rates. In April 2009, Ministry of Fertilizers and Chemicals assessed non-fertilizer usage in respect of RCF, Trombay only at 20 *per cent* of total consumption and recommended for its implementation from January 2009. Ministry of Petroleum approved (October 2009) for billing as follows:

- NG used for non-fertilizer purposes from January 2009 to be charged at market price.
- As regards period prior to January 2009, financial implication of charging rates for chemicals, both for gas pool account and the Company in terms of revenue foregone, as well as for the government subsidy and losses to the concerned companies to be worked out by the Company and intimate the same to Ministry of Petroleum.

The Management in its reply stated (March 2008/August 2009) the following:

- The Company would have implemented the order in letter and spirit, if the information would have been made available by the fertilizer units. The same was communicated (June 2007) by it to the Ministry of Petroleum for advice on the issue, which was awaited.
- The Company has not caused any loss to the gas pool account as the matter is to be resolved between the Ministry of Petroleum and Department of Fertilizers while the Company would act as per government directives.

The reply of Management is not convincing as:

- Being a custodian of Gas Pool Account, it was the responsibility of the Company to devise a system suitable to their requirement for correct billing and realisation of the legitimate dues from consumers as per the directives of its Administrative Ministry instead of taking shelter under the excuse of non-availability of segregated quantity of NG used for purposes other than fertilizers.
- Misuse of NG for a purpose other than those prescribed in the aforesaid order of Ministry of Petroleum was indicative of sub-optimal managment of the gas pool account by its custodian, i.e., the Company.

Thus, lack of co-ordination between the two Ministries and laxity on the part of the Company in charging the market rate for NG used for purposes other than those prescribed in Ministry's order resulted in loss of revenue estimated at Rs.40.48 crore[♥] in the Gas Pool Account for the period 1 January 2009 to 31 October 2009 in respect of Trombay unit of RCF only. The amount of under realisation in the Gas Pool Account would be much more than this considering all the units using NG for non-fertilizer purposes including RCF and Deepak Fertilizers. Also for the period prior to 1 January

[♥] ***0.36 (20 per cent of NG allocation of 1.8 MMSCMD) x Rs.3699 per MCM (Rs.6899-Rs.3200) x 1000 x 304 days***

2009 (from July 2006 to December 2008), there was considerable revenue foregone by the Company/gas pool account as well as Government subsidy paid to these companies.

The matter was reported to the Ministry in August 2009, their reply was awaited (November 2009).

Hindustan Petroleum Corporation Limited

13.3.1 Loss of interest due to delay in availing of customs duty exemption

Delay in utilisation of advance licence for availing exemption of import duty resulted in borrowings and consequent loss of interest of Rs.8.43 crore.

According to the Foreign Trade Policy (FTP)[♣] 2004-09, an advance licence may be issued to a manufacturer for duty free import of inputs which were physically incorporated in the export product. The export obligation was required to be discharged within the period prescribed in the licence.

The Mumbai Refinery, a unit of the Hindustan Petroleum Corporation Limited (Company), imported crude and exports processed petroleum products viz., Furnace Oil, Naphtha, LSHS, HSD, HEXANE, etc. The Company was, therefore, entitled to customs duty exemption on the crude import under the Advance Licence Scheme.

A scrutiny by Audit of the advance licences obtained by the Company for the period 2003-04 to 2007-08 revealed delay in the utilisation of advance licences obtained by the International Trade and Supplies Department of the Company for the unit. Eight advance licences were obtained for customs duty exemption for import of crude during the period 2003-04 to 2007-08 for exports of finished products in the near future by the unit. Despite holding the licences to claim custom duty exemption benefit at the time of import of crude oil for its production requirements, the unit paid an amount of Rs.87.27 crore towards customs duty during the period April 2003 to November 2006 without utilising advance licences in five cases. The exemption from customs duty was, however, claimed belatedly against subsequent imports of crude oil. The delay in utilisation in respect of five out of the eight licences ranged from 55 days to 627 days. Consequently, the Company incurred loss of interest of Rs.8.43 crore on the customs duty paid out of borrowed funds due to delayed utilisation of the advance licences.

The Management in reply stated (June 2009) that:

- The refinery manufactured several joint products and due to operational constraints it was not possible to satisfy the requirement of the FTP that the exported product was out of a particular earmarked raw material.

- The exports could not be planned in advance since export was only on the surplus production over domestic demand.

[♣] ***Para 4.1.3***

- Sometimes customs authorities do not allow utilisation of advance licences in order to protect their revenue collection targets; and to impose penalty in case of default in fulfillment of export obligations.

The reply is not convincing on account of the following:

- The FTP does not specifically mention that the export products should be out of the earmarked raw material and the quantity. Value of imports and exports were worked out as per Standard Input Output Norms.

- The Company obtains the advance licences only after getting intimation from the Mumbai Refinery of its intention to export the products.

- There was nothing on record to prove that the Customs Authorities had denied the utilisation of advance licences. The time provided for fulfilling the export obligation under the Advance Licences scheme was 18 months to 24 months. Hence, the possibility of imposition of penalty arising in case of non-fulfillment of export obligations was not convincing.

- Despite advice by the concerned Ministry (April 2006) to streamline the procedure to avoid recurrence of delays in utilisation of the advance licence, no efforts were made by the Company to formulate such procedure.

Thus, due to weak internal controls the Company failed to ensure prompt utilisation of licences and avail the benefit of exemption from payment of customs duty on imports. Consequently the Company resorted to borrowed funds for payment of customs duty resulting in avoidable loss of interest of Rs.8.43 crore during the period 2003-04 to 2007-08.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

Indian Oil Corporation Limited

13.4.1 Loss of revenue and additional expenditure

Barauni Refinery suffered loss of revenue of Rs.212.71 crore by diverting high value product components for generation of low value product and also it could not process cheaper high sulphur crude due to the constraint in its processing unit resulting in additional expenditure of Rs.180.32 crore.

Indian Oil Corporation Limited (Company) approved (February 1999) the capacity expansion of Barauni Refinery (refinery) to six MMTPA[♦]. This would involve processing of one MMTPA high sulphur (HS) imported crude and five MMTPA low sulphur (LS) imported crude. Elimination of generation of Light Diesel Oil (LDO), a low value product, was also a part of project. The project was commissioned in December 2002.

[♦] ***Million Metric Ton per Annum***

(a) During the period from 2003-04 to 2007-08, the refinery diverted 3.7 lakh MT High Speed Diesel (HSD) components for generation of LDO instead of production of HSD, a high value product. This diversion of HSD components had resulted in revenue loss of Rs.212.71 crore[1] to the Company.

Accepting the diversion, the Management/ Ministry justified (June/ October 2009) the generation of LDO and stated that:

- HSD components were diverted during 2003-04 and 2004-05 as secondary unit was not stabilised.
- LDO was produced in later years to meet the requirement of customers (power plants) as per Supply Plan.

The above contention is not convincing as:

- The secondary processing unit was stable from 2003-04 as evident from its high capacity utilisation[2].
- Supply Plan was formulated by the Company independently based on profit maximisation.
- The design product pattern of the refinery after expansion does not include LDO, the realisable value of which is lower than cost of crude.

There was no economic justification to generate LDO by sacrificing the production of high value HSD.

(b) The refinery design required it to handle 20,100 MT of sulphur[3] for processing one MMTPA HS crude. During the period from 2003-04 to 2007-08, the refinery could not process the desired quantity[4] of HS crude due to metallurgical constraint of major equipments[5] of Coker A unit which were not modified to process HS crude residues. This limited[6] the ability of the refinery to handle the sulphur in the HS crude. The actual processing of HS crude by the refinery was lower than the design by 8.12 lakh MT during the period from 2003-04 to 2007-08. This was substituted by higher processing of LS crude. LS crude being costlier than HS crude, the refinery had to incur additional expenditure of Rs.180.32 crore during the above period.

While accepting this the Management stated (June 2009) that:

- Due to increased processing of LS crude the distillate yield was higher than the design yield of 84.9 *per cent* resulting in a gain of Rs.254 crore.

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[1] Difference in realisable value of HSD and LDO less variable cost of further processing of HSD components in secondary processing unit
[2] 99 per cent in 2003-04 and 101 percent in 2004-05
[3] 2.01 per cent of 1 MMTPA
[4] 36,59,285 MT (Actual processed 28,47,030 MT + Deficit in processing 8,12,255 MT)
[5] Coke drum, Quench column, Kero stripper, LDO stripper and CFO stripper
[6] Deficit in handling of sulphur ranged between 2207 MT and 4632 MT

- Action to remove the constraints in Coker A was not taken on economic considerations.

The contention of the Management is not convincing due to the following:

- The Company has derived the distillate yield considering the production of LDO. The design yield with which it has been compared does not include LDO. Excepting in 2005-06, the refinery's distillate yield did not increase beyond the design yield.

- The Company will continue to incur the additional expenditure on crude till the proposed Coker A modifications are completed.

Thus, diversion of high value product components for generation of LDO resulted in revenue loss of Rs.212.71 crore and the Management's inaction cost the Company Rs.180.32 crore while also frustrating the refinery expansion objective of optimising the processing of cheaper HS crude.

The matter was reported to the Ministry in June 2009; their reply to the part (b) of the para was awaited (November 2009).

13.4.2 Avoidable payment of paralleling charges

Lack of planning and foresightedness for synchronisation of demand and paralleling facility for electricity at the time of entering into a fresh contract with UPCCL resulted into avoidable payment of paralleling charges amounting to Rs.16.76 crore.

Mathura refinery of Indian Oil Corporation Limited (Company), in order to meet its power supply requirement, entered into an agreement (January 1982) with the erstwhile Uttar Pradesh State Electricity Board, now UP Power Corporation Limited (UPPCL), for supply of 4000 KVA[1] power. Subsequently, with a view to ensuring uninterrupted parallel power supply to the various processing units fed from its 37.5 MW[2] thermal power station, the refinery entered into a supplementary agreement (1985) with the UPPCL which, *inter alia*, included clause 5 stipulating the terms governing paralleling charges providing for payment of Rs.22,05,900 per month as additional charge. Meanwhile, the refinery installed two Gas Turbo Generators GT-I (1998) and GT-2 (1999); thereby increasing its installed power generation capacity to 78.1 MW. With the enhancement in the power generation capacity, the refinery became self reliant, not requiring paralleling facility from UPPCL. Also, the Company decided to reduce its own contract demand from 4000 KVA to 3000 KVA in November 1999.

Audit noticed (February 2009) the following:-

- The very purpose for which parallel facility/operation was arranged with UPPCL was no longer required especially after enhancement in the power generation

[1] ***Kilo Volt Ampere***
[2] ***Mega Watt***

capacity in 1999; however, the Company while entering into a fresh agreement with UPPCL (November 1999) for reducing the contract demand to 3000 KVA, failed to obtain deletion of clause 5 of the agreement governing paralleling arrangement which therefore, remained in operation.

- The matter of withdrawal of paralleling clause was taken up with UPPCL by the Company for the first time only in August 2001 after it was pointed out by audit in March 2001, though in response thereto, the Company stated that paralleling facility was necessary for operational purposes. Provisional approval for deletion of the paralleling clause was obtained by the Company in December 2007. This resulted in avoidable expenditure of Rs.16.76 crore.

The Management and Ministry stated (June and October 2009) the following:-

- The paralleling connection had nothing to do with self-sufficiency in power generation and it was in place right from inception of the refinery even when power generation was adequate. Action for deletion of clause 5 was taken once the confidence about capability of the generating system was gained.

- The payment of paralleling charges was stopped from January 2008 after the Chief Engineer, UPPCL issued directions to his officials for deletion of clause 5.

The reply of the Management and Ministry is not convincing as the Company continued to pay paralleling charges from September 2001, when the Company itself took up the matter with UPCCL for deletion of clause 5 after gaining confidence about its capability and could have avoided by stopping payment after giving one month's notice under clause 19 of the agreement.

Thus, the Company not only erred in the first place by incorporating a paralleling clause in the revised agreement but also failed subsequently to take timely appropriate remedial measures in the best interests of the Company leading to an avoidable payment of Rs.16.76 crore.

Oil and Natural Gas Corporation Limited

13.5.1 Loss due to purchase of condensate at crude oil price

Company's decision to buy condensate produced by the Tapti Joint Venture at crude oil price instead of gas price resulted in a loss of Rs.853.09 crore from April 2005 up to March 2009.

The Tapti gas field is a joint venture (JV), jointly operated by Oil and Natural Gas Corporation Limited (Company), Reliance Industries Limited (RIL) and British Gas Exploration and Production India Limited (BGEPIL) as per the Production Sharing Contract (PSC) executed in December 1994. The production of gas from the field started in June 1997. The field is also producing condensate[♠] along with gas. The PSC, however,

[♠] ***'Condensate' is the low vapour pressure hydrocarbon obtained from natural gas through condensation or extraction.***

did not provide for the disposal of Tapti condensate (JV condensate) and the Government of India (GOI) also did not appoint its nominee for purchase of the condensate. At the instance of the GOI, an 'interim arrangement' was made (May 1998) whereby the Company retained the JV condensate and in turn delivered its own gas to GAIL (India) Limited[1] on energy (MMBTU[2]) equivalent basis. GAIL was paying for the total MMBTU of gas to the JV as per the PSC gas pricing mechanism. The Company in turn was using the JV condensate for extraction of value added products (VAPs) *viz*., Naphtha, Superior Kerosene Oil (SKO), Liquified Petroleum Gas (LPG) etc., at its own plant at Hazira. This arrangement continued till 31 March 2005.

The Company was the transporter and processor of JV gas and its issues on fixation of transportation and processing charges were outstanding with the JV. Other two JV partners (viz., RIL and BGEPIL) insisted on valuation of condensate at crude oil price instead of gas price as a precondition for settlement of these issues. In December 2005, the Company entered into a 'settlement agreement'[3] (effective 1 April 2005) with Panna Mukta and Tapti(PMT) JV on pricing of condensate at crude oil price including other related issues like fixation of transportation and processing charges and delivery point etc. The Company apprised (March 2006) its Board of Directors (Board) that on valuing the condensate at crude oil price, the Company would gain Rs.131 crore (US$29.11 million) in terms of value of VAPs to be extracted from the condensate production profile of 2.021 MMT for the period from April 2005 to 2019. The proposal to value condensate at crude oil price under the 'settlement agreement' was approved by the Board in March 2006.

Audit observed (June 2008) that:

- The decision of the Company to purchase condensate at crude oil price was inconsistent with the directives (May 1998) of Ministry of Petroleum and Natural Gas (MOPNG) to treat the condensate as gas. MOPNG had reiterated its decision in November 2003 and informed the JV that the existing system would continue. Further, a study conducted (February 2005) by Engineers India Limited at the instance of MOPNG also concluded (March 2005) that condensate obtained from Tapti field could be treated as gas which was accepted (April 2005) by the MOPNG. Besides, the Company was valuing the condensate generated from its own Bassein gas field[4] at gas price and paying royalty[1] as applicable to gas.

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[1] ***Gail (India) Limited - Government nominee for purchase of gas***

[2] ***Million Metric British Thermal Unit.***

[3] ***'Settlement Agreement'- Tapti and Panna-Mukta JV gas is being transported through Company's pipeline from offshore to onshore at Hazira. Further, JV gas is also processed at Company's Hazira onshore plant before re-delivering to GAIL i.e. Government nominee. The production from these JV fields commenced from 1997 and 1998 respectively. However, the transportation tariff and processing charges for Tapti gas and processing charges for Panna-Mukta gas could not be finalised due to disagreement between JV and ONGC over its calculation. Company also could not get transportation charges for Panna-Mukta gas due to dispute between JV and GAIL (Buyer) over delivery point of gas as PSC did not indicate any delivery point. After allowing the direct marketing rights to JV to sell JV gas to private domestic parties, a settlement agreement was entered into between JV (seller) and Company (transporter) on transportation charges and processing tariff. In the settlement agreement Company also agreed to purchase the JV condensate at crude price.***

[4] ***The gas as well as condensate of Company's Bassein gas field and JV's Tapti field is transported in co-mingled form through Company's trunk line from offshore to onshore and processed at Hazira.***

- The Company's decision to treat condensate as crude was imprudent as it had resulted in a loss of Rs.853.09 crore[2] (upto March 2009) to the Company. Considering the average price paid for condensate (i.e., US$69.56 per barrel), loss to the Company over the remaining contract period (2009-2019) was estimated at Rs.1091.58 crore[3]. The net gain of Rs.131 crore on the VAPs apprised to the Board was in fact loss of Rs.202 crore (US$45 million) as the Company had not considered the subsidy element on domestic LPG and SKO which it was bearing as per the Government directives.

The Management in reply stated (May 2009) that:

- A comprehensive package deal was conceptualised to address all pertinent issues of JV partners involving transportation and tariff of PMT gas and Panna-Mukta processing charges which involved sale/purchase of Tapti condensate at a bench marked condensate price;

- All the details of the 'settlement agreement' were informed to the Ministry and Directorate General of Hydrocarbons (DGH) by the PMT-JV in January 2006;

- The valuation of Tapti condensate was derived from the provision of PSC which stipulated the mechanism for the valuation of crude oil and also that determination of price of sale of crude oil would apply *mutatis mutandis* to condensate;

- While seeking approval of Board, the estimated benefit to accrue was provisionally assessed based on past average crude oil and condensate price index and that the subsidy element was independent of the quantum of production of crude; and

- The GOI had benefited by sale of condensate as liquid as its share of profit petroleum and levies were greater than before.

Reply of the Management is not convincing in view of the following:

- The decision of the Company to purchase condensate at crude oil price was not in accordance with the GOI's directives. Further, the reply of the Management does not address the inconsistency in the pricing of the condensate being produced from the Company's own Bassein gas field and that from the Tapti field under the JV.

- The intimation by the JV in 2006 to the GOI was silent as regards the pricing of condensate. As per the PSC, the JV was a 'contractor' and GOI is the owner of JV field. The GOI had only given the mining lease to the contractor to explore and exploit hydrocarbon resources on certain terms and conditions. The JV which is the seller and the Company which is the buyer cannot independently decide the

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[1] In case of crude oil both royalty and cess are payable, whereas, in case of gas, only royalty is payable.
[2] Considering the differential price of crude oil and price of gas
[3] Under the settlement agreement, the loss upto March 2009 and for the remaining contract period would be Rs.825.21 crore and Rs.1093 crore respectively.

pricing of the hydrocarbon resources, including that of condensate. Hence, the Company, being a buyer of JV condensate, should have sought the approval of the GOI before agreeing to purchase the condensate at crude oil price.

- As per Article 1.18 of the PSC, for the condensate produced from an oil field, the provisions of the PSC shall apply to such condensate as if it were crude oil. Tapti being a gas bearing field, the provision of Article 19.11 of the PSC on valuation of oil did not apply to condensate.

- The valuation of the Tapti condensate at crude oil price was a pre-condition of the JV partners for resolution of transportation charges and processing fees through the 'settlement agreement'. Therefore, it was necessary for the Company to assess the incremental benefit considering the differential in the existing pre-settlement and revised post-settlement tariff/processing charges on the basis of pricing the condensate at crude oil price. However, the Company apprised the Board only to the limited extent of the likely revenue that would accrue in view of the revised transportation/processing charges and benefits from extraction of value added products from purchase of condensate at crude oil price.

- The net loss to the Company, even after taking into account the additional benefit of Rs.154.35 crore till March 2009 which accrued to the Government by sale of condensate as liquid, works out to Rs.670.86 crore.

Thus, the decision to buy condensate produced by the JV at crude oil price instead of gas price from April 2005 was in contravention of the GOI directives which benefited the private parties of the JV at the cost of the Company.

The matter was reported to the Ministry in July 2009, their reply was awaited (November 2009).

13.5.2 Loss due to suspension of operations by the Directorate General of Shipping

Failure of ONGC to oversee compliance with the statutory requirements by the operation and maintenance contractors resulted in suspension of operations of offshore supply vessels by the Directorate General of Shipping and consequent expenditure of Rs.576.29 crore on idling of rigs.

The operational requirements[♣] of offshore installations and rigs of Oil and Natural Gas Corporation Limited (Company) were being met by a fleet of 59 (31 owned and 28 hired) offshore supply vessels (OSVs). The Company had awarded (May 2007) the Operation and Maintenance (O&M) contract for its owned OSVs to SICAL Logistics (17 Samudrika series OSVs) and HAL Offshore (14 Sindhu series OSVs) for a period of three years. The OSV, Samudrika-10, after being put in operation had capsized in July 2007. Consequently, the Directorate General of Shipping (DGS) reviewed all the other 30 OSVs and observed that the OSVs were being operated without valid statutory

[♣] ***The OSVs undertake supply duties (supply of cargo, equipment, water, fuel etc) rig towing, anchor laying, transport of crew, inter-field transfer of men and material, fire fighting and standby duties.***

certificates and, therefore, withdrew (July 2007) the Document of Compliance (DOC)[1] of both SICAL and HAL. Due to suspension of the DOC, the Company recalled (July 2007) all the 30 OSVs from the operators.

The Company assigned (October 2007) the O&M contract of the 16 Samudrika series OSVs to The Shipping Corporation of India Limited (SCI) on nomination basis. SCI took over the vessels from SICAL after attending to the preliminary defects brought out in the Handing Over Taking Over Note during November 2007 and April 2008. However, these vessels could not be fully put into operation till May 2009 as they were sent for repairs, scheduled annual survey and statutory dry docking. The Company decided to continue the contract with HAL for the Sindhu series OSVs. HAL could get the certificate renewed only for 10 out of 14 OSVs. However, 10 vessels were under repairs and dry docking. Thus, all the 30 OSVs were on downtime since July 2007 and as of May 2009 only 19 (14 Samudrika and 5 Sindhu series OSVs) were in operation.

The short supply of the OSVs resulted in idling of 27 chartered and owned rigs for a total of 27,875 hours (1,161 days) from July 2007 to May 2009. The loss due to idling of rigs on account of non availability of OSVs was Rs.576.29 crore.

It was observed (January 2008) in Audit that:

- Both SICAL and HAL[2] had not obtained the interim Safety Management Certificate (SMC) for the OSVs resulting in invalidation of DOC by DGS. Though SICAL was required to obtain an interim SMC for 10 vessels, it had a valid SMC for only four vessels as on the date of issue (July 2007) of show cause notice by the DGS. Similarly, in respect of the 14 Sindhu series vessels, HAL had an interim SMC only for one vessel. The interim SMC/Ship Security Certificate for nine vessels was obtained during February 2008 and September 2008. SMC for the remaining five vessels was yet (May 2009) to be obtained as these were in dry dock.

- Both SICAL and HAL had subcontracted the Master and crew for the OSVs through non DGS registered firms. As per the contract, the operators were to furnish along with the monthly invoices a list of crew deployed on board the OSV indicating, *inter-alia*, Continuous Discharge Certificate number[3] assigned by the DGS. The list was to be signed by the operators and countersigned by the in-charge of Nhava Supply Base of the Company. The operators were submitting the list after a delay of three to four months. The Company, however, failed to ensure the timely submission of the list of the Master and crew for verifying the credentials of the crew.

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[1] DOC is a document issued to a company which complies with the requirements of ISM (International Safety Management) Code, 2002 which provides an international standard for the safe management and operation of ships and for pollution prevention.

[2] As per the Bid Evaluation Criteria the bidders immediately after award of the contract and before taking over the OSVs from the previous operator were to obtain an interim SMC for the OSVs.

[3] Continuous Discharge Certificate-cum- Seafarers Identity Document shall apply to persons, who fulfill the eligibility conditions for employment as seamen (as defined under clause (42) of section 3 of the Merchant Shipping Act, 1958), on board the ships.

- As of May 2009, only 19 of the 30 owned OSVs were in operation. Though the Company hired (October-November 2007) an additional eight OSVs to meet the operational requirement, as per the Company's own assessment on an average, there was a shortfall of 29 vessels which adversely affected the operations of rigs resulting in idling expenditure of Rs.576.29 crore.

The Management stated (May 2009) that:

- The vessels were allowed to sail only after obtaining written confirmation from the Master of the vessel for full compliance of crew on board and ensuring that machinery and equipment in operation and all certificates were valid. It was the responsibility of the operator to ensure compliance to DGS requirement. The Master of the vessel, however, gave a false undertaking and the operator did not bring it to the knowledge of the Company.

- To be more vigilant, the Company had reinforced the vessel checking by appointing an international third party inspection agency and also by posting a safety officer to ensure safety and statutory requirements before sailing of the vessels.

Reply of the Management is not convincing in view of the following:

- The Company cannot absolve itself of the responsibility of exercising due diligence to ensure that its vessels were seaworthy at the time of sailing.

- The Company did not insist upon the timely submission of the list of crew on board the OSVs and countersigned the same without verifying the credentials of the crew on board the vessels.

- The Company also did not verify possession of an interim SMC by the operators which led to suspension of operations by the DGS. In respect of the tenders for hiring of vessels, the bidders were required to submit the SMC within 10 days from the date of notification of award of the contract. The Company failed to incorporate a similar condition in the O&M contract for the owned OSVs.

- Though the Director (Offshore) had desired in June 2006 that a mechanism be developed for monitoring the health of the owned OSVs, the Company finalised the contract for Third party inspection only in August 2008. Timely action would have prevented the suspension of operations by the DGS.

Thus, failure of the Company to effectively oversee the operations of OSVs by the O&M operators resulted in suspension of operations and consequent rig idling expenditure of Rs.576.29 crore on account of non availability of OSVs.

The matter was reported to the Ministry in June 2009; their reply was awaited (November 2009).

13.5.3 Loss due to non recovery of terminal charges from Oil Marketing Companies

Failure to bill terminal charges to oil marketing companies despite incurring a corresponding cost incidental to supply of LPG to them resulted in a loss of Rs.78.50 crore to the Company.

In view of the proposed dismantling of the administered price mechanism from 1 April 2002, a Memorandum of Understanding (MOU) on sharing of LPG[1], infrastructure and facilities was signed on 31 March 2002 between Oil and Natural Gas Corporation Limited (Company) as 'seller' and Oil Marketing Companies (OMCs[2]) singularly or collectively as 'buyer' under the direction of the Ministry of Petroleum and Natural Gas (Ministry). As per the MOU, supply of LPG by the Company and distribution thereof amongst OMCs was to be decided in the monthly industrial logistic plan meetings. The Company was to supply LPG from its Uran Plant directly to all the OMCs. As per the minutes of the meeting (March 2002) held by the Ministry, terminal charges[3] were payable to the seller in addition to the import parity price (IPP) of the LPG. The MOU stated that the terminal charges would be governed by the directives of the Government of India.

Based on the MOU, the Company supplied LPG to the OMCs. However, as the Company was not having its own facilities for handling, storage and operations for transportation of LPG to OMCs at Uran, it had hired the terminal facilities of BPCL under a 'safe keeping agreement' since April 2002. The safe keeping agreement also provide for payment of terminal charges by the Company as per the directives of the Ministry.

Audit observed (April 2007) that as per the minutes of the meeting held by the Ministry in March 2002, the terminal charges were to be recovered by the Company from the buyers of LPG over and above the IPP. Without resolving the matter in consultation with the Ministry regarding terminal charges to be billed by the Company to the OMCs under the MOU, the Company billed the OMCs on the basis of IPP price which did not include terminal charges. While HPCL and IOCL remitted the amount as per the invoices, BPCL deducted Rs.210 per Metric Ton (MT) towards terminal services provided by it under the 'safe keeping agreement'. Thus, though the Company was incurring terminal charges of approximately Rs.10 crore per annum at the rate of Rs.210 per MT, it failed to bill the same to the OMCs. From 2002-03 to 2009-10 (upto August 2009) the Company had suffered a loss of Rs.78.50 crore by incurring expenditure on hiring of the facilities without recovering the same from the OMCs.

The Management in its reply (June 2007) did not offer any comments on its failure to approach the Ministry for directives on the terminal charges to be recovered from OMCs soon after entering into an MOU in March 2002. However, based on the audit observation, the Ministry convened (November 2007) a meeting of all the oil companies and advised the Company and BPCL to enter into an appropriate commercial arrangement for hiring/leasing of BPCL facilities at Uran Plant, negotiate the rates for terminal charges and recover the same from the OMCs including BPCL for the use of

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[1] ***Liquified Petroleum Gas***
[2] ***Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL) and Indian Oil Corporation Limited (IOCL)***
[3] ***Charges for receipt, storage, loading and handling of LPG***

hired/leased facilities. As the Company was yet to resolve the issue despite lapse of two years, the matter was again referred to the Management/Ministry (September 2009).

The Management stated (December 2009) that:

- The terminal charges in the safe keeping agreement are inter linked to the terminal charges to be reimbursed by the OMCs and that the Management was taking steps with all concerned for early resolution of the matter so that the charges are recovered from the OMCs at the earliest.

- OMCs continued to maintain that terminal charges were payable to refineries and not to the fractionators♠.

Reply of the Management is not convincing since:

- The Company failed to resolve the matter in consultation with the Ministry on the terminal charges to be recovered from OMCs from April 2002 onwards. Advice of the Ministry to the Company and the OMCs, at the instance of audit, did not yield any results as no agreement as per the Ministry's advice had been entered into so far (December 2009). The Company had suffered loss of Rs.60.26 crore from April 2002 to November 2007. Even after the advice by the Ministry, the Company suffered further loss of Rs.18.24 crore from December 2007 to August 2009.

- The MOU and the directive of the Ministry of March 2002 did not specify that terminal charges were not recoverable by fractionators/the Company. It was logical that the cost incurred by the Company towards usage of BPCL's terminal facilities for supply of LPG to the OMCs (including BPCL) should have been billed to the buyers (OMCs) in addition to IPP.

The matter was reported to the Ministry in September 2009 again, their reply was awaited (November 2009).

13.5.4 Extra expenditure due to re-tendering

Incorrect cost estimation and consequent decision to go in for re-tendering resulted in an extra expenditure of Rs.35.42 crore.

Oil and Natural Gas Corporation Limited (Company) invited (May 2007) a limited tender for acquisition of 81,822 line kilometres (LKM) of 2D seismic data and onboard processing in the Krishna Godavari and Cauvery offshore areas during the field seasons 2007-08 and 2008-09. The Company prepared (May 2007) the cost estimate at US$60.51 million based on budgetary quotes received from five parties. The Company received three offers. The offer of L1 bidder was at US$94.99 million. On finding the L1 offer

♠ ***Includes Unit/plants of the Company***

higher than the cost estimates by 57 *per cent*, the tender committee (TC) of the Company held (August 2007) negotiations with L1 bidder who offered a discount of 3 *per cent* and also intimated (28 August 2007) that its offer would be valid till 7 September 2007.

Due to the urgency of work, TC decided to accept the offer and asked (7 September 2007) L1 bidder to extend the validity of the offer upto 6 October 2007 which was not accepted by the bidder who however, informed that its original offer, i.e., without discount, was valid upto 6 October 2007 as stipulated in the bid. The TC inferred that the bidder might not mobilise the vessel by the stipulated date (15 November 2007) and, therefore, decided (September 2007) to cancel the tender and re-invite the tender after distributing the volume of work into two sectors to ensure larger participation and competition.

Accordingly, the Company invited (October 2007) limited tenders with the volume of work distributed into two sectors♣ for data acquisition and on-board processing during the field seasons 2007-08 and 2008-09. Out of four bids received, the offer of SeaBird Exploration (SeaBird) was L-1 at US$45.32 million for Sector I and US$59.77 million for Sector II. Although the quoted rates were higher than the initial estimates of US$60.51 million (May 2007), the TC submitted the case to the Executive Purchase Committee (EPC) recommending award of contract to SeaBird for both sectors considering the market trend, steep increase in crude oil price and scarcity of vessels in the world market. On the suggestion of EPC, the TC held (December 2007) negotiations with SeaBird who, however, refused to offer any discount. Considering the urgency of the work and no guarantee of reduction in prices after re-tendering, the Company awarded the contract to SeaBird for Sector I and II at a total cost of US$104.91 million.

Audit observed (October 2008) that as the last purchase rate was two years old the Company had called for budgetary quotes from five parties. The cost estimates prepared were based on the lowest quote, i.e., US$60.51 million although there were wide variations in the budgetary quotes ranging from 6.5 to 75 *per cent* with reference to the lowest quote. Hence, the rationale of the Company in taking the L1 budgetary quote to be the cost estimate does not appear to be reasonable. The fact that the party (GSI) whose budgetary quote was L1, and was taken to be the basis for the cost estimate, did not participate in the tendering process itself. This indicated that the said party did not submit a realistic budgetary quotation. The said party (GSI) also did not participate even in the re-invited tender which was further reflective of its credibility vis-à-vis the tendering process. The Company had, however, assessed the rates received in the tender based on the budgetary quote of GSI which were found to be unrealistic and, hence, not comparable.

Due to incorrect cost estimation, the Company cancelled and re-invited the tender. As a result of difference of US$10 million in the quotes between the two tenders of May 2007 and October 2007, the Company had to incur an extra expenditure of Rs.35.42 crore.

♣ ***Sector I –35262 LKM and Sector II–46560 LKM***

The Management stated (May 2009) that:

- Based on the data available at that time the budgetary quotes of GSI were considered reasonable and, hence, need for reassessing was not felt;
- It was expected that the Letter of Award (LOA) would be issued before the bid validity of 6 October 2007 had L1 bidder of May 2007 tender extended the bid validity of the revised offer. Though the tender document mentioned 60 days for MOD clearance, generally the clearance was given in 30-45 days; and
- The Company had been awarding seismic acquisition contracts for three decades and possessed fair knowledge of rate variation and estimates thereof and, hence, no need was felt for a consultant.

The reply of the Management is not satisfactory on account of the following:

- The Company did not assess the reasonableness of the budgetary quote of GSI and had directly taken the same for estimating the cost. As GSI did not participate in the original tender, the Company should have exercised greater caution before firming up the cost estimates on the basis of the lowest budgetary quote received from GSI. The EPC also observed (December 2007) that the cost estimates were unrealistic since the rates quoted against both the tenders were quite high.
- The Company stipulated the mobilisation period of the vessels as 15 November 2007 with expected date of LOA in October 2007, although the minimum time required for clearance by the Ministry of Defence was 60 days. A test check of six tenders[♣] invited during May 2005 and June 2008 also revealed that the Company had stipulated 60 days for mobilisation. The L1 bidder party of May 2007 tender had accordingly requested for placement of LOA by 7 September 2007. However, the Company asked that bidder for an extension on 7 September 2007 itself.
- A test check of the six tenders ibid also revealed that the Company had estimated the cost either by escalating the last purchase price ranging from 5 to 20 *per cent* or by inviting budgetary quotes. Consequently, there were variations ranging from (+) 8.5 to 167.7 *per cent* in five tenders and (-) 29 to 43 *per cent* in one tender in the cost estimates. Despite finding the offers higher than the cost estimates even after re-inviting the tender, the Company had justified acceptance of the offers citing reasons such as non availability of the vessels, increasing trend in market price etc., which was indicative of *adhocism* in the preparation of cost estimates.
- The Company was unable to prepare the cost estimates on its own and had to rely on the budgetary quotes given by outside parties. The budgetary quotes of those parties were not found comparable with the offers received in the tendering process. Hence, vetting of the cost estimates by a consultant on the pattern adopted by the Engineering Services of the Company would have made possible the estimation of the cost as per the rates prevailing in the international market.

The matter was reported to the Ministry in June 2009; their reply was awaited (November 2009).

[♣] ***Tender Nos. LT/99/EB 2088, EB 2094, EB 2105, 2136 P96DL 07004, 2134 P96DL 07002 and PL/LT-805***

13.5.5 Extra expenditure due to incorrect cost estimation and consequent re-tendering

Incorrect cost estimates by ONGC and failure to engage a consultant for vetting of the estimates resulted in re-tendering and consequent extra expenditure of Rs.15.49 crore due to cost escalation.

Oil and Natural Gas Corporation Limited (Company) invited (May 2007) a global tender for installation of a bridge between two offshore platforms (MNW and BHF) for providing support services at the standalone platform NA on removal of the rig Sagar Samrat[♣]. Engineering Services of the Company had estimated (June 2007) the cost of the works at US$21.914 million. The Company opened (August 2007) the price bids and found that the price of the L1 bidder, after negotiations, was US$36.340 million, as against the cost estimate of US$21.914 million. On finding that the rates were not comparable, the Company decided (November 2007) to close the tender and to re-invite the same. The Executive Purchase Committee (EPC), keeping in view that in-house estimates were not being drawn accurately, recommended (July 2005) that Engineering Services, Mumbai should engage a consultant for vetting of the cost estimates for all its upcoming projects. This was reiterated in the Virtual Corporate Board Meeting held in August 2006, while approving amendments to the cost estimate methodology.

The Company re-invited (December 2007) the tender and subsequently, after vetting by a consultant, prepared (April 2008) revised cost estimates at US$40.50 million. On opening the price bids, the rates (US$40.59 million) were found comparable with the revised estimates and the Company awarded the contract (May 2008) to the L1 party at the negotiated cost of US$40.187 million. The difference in the cost of the closed tender and that awarded in May 2008 was Rs.15.49 crore.

Scrutiny in Audit revealed the following:

- As per the cost estimate methodology (August 2006), the rates of the material and fabrication cost were to be updated periodically. The cost estimates of June 2007 were, however, incorrect with regard to the installation barge, steel and fabrication cost. As per the two recently awarded contracts (Heera project-January 2007) and (NQ project- June 2007) the rate of 2,000 ton capacity installation barge was US$320,000 and US$395,000 respectively. The Company, however, considered (June 2007) the day rate of the installation barge as US$175,000 for 1,000 ton capacity even though deployment of 1,000 ton capacity barge was not economical for small projects. The variance in cost estimates on this account was to the extent of US$3.72 million.
- Similarly, as against the estimated (June 2007) cost of material and fabrication of US$7.53 million, the rate quoted by L1 bidder was US$12.01 million, i.e., a difference of US$4.48 million (Rs.18.30 crore). Thus, the estimates of the Company were not correct.

[♣] ***The BHN Process Platform was lost in a fire incident in July 2005. The BHF platform which was adjacent to BHN platform was also damaged in the fire. BHF platform was located between MNW (constructed under Mumbai High North Redevelopment plan) and NA platforms. Jack-Up Rig 'Sagar Samrat' was deployed at NA platform for providing support and utility services after the loss of BHN platform. As this rig was to be moved from NA platform for its conversion to a mobile offshore production unit, laying of a bridge between MNW and BHF was proposed to facilitate provision of support facilities from MNW to NA platform which was already connected by a bridge to BHF.***

- The in-house estimates for Heera and B-193 project were got vetted by a consultant in November 2006 and December 2007 respectively. The Company, however, failed to do the same for the tender invited in May 2007 for construction of the bridge. The Company subsequently got the estimates for the re-invited tender of December 2007 vetted through a consultant. On the suggestion of the consultant, the estimates were revised to US$40.50 million which were found comparable with the quotes received.
- The rates of installation barges increased from US$395,000 per day in June 2007 to US$440,000 in March 2008 i.e., a total increase of US$450,000 (Rs.1.81 crore) and that of steel and fabrication rates had increased from US$14,063 to US$14,845 per ton i.e., an increase of US$3,068,752 (Rs.12.37 crore) for 1426 tons. This resulted in a higher quote by US$4.25 million in the re-invited tender as compared to the earlier tender of May 2007 and consequent extra expenditure of Rs.15.49 crore to the Company.

The Management stated (April 2009) that:

- The estimates were prepared considering the barge capacity of 1,000 ton as the single largest weight required to be lifted was not more than 600 ton. However, for the revised estimates the consultant conveyed that availability of 1,000 ton capacity barge for small duration may not be practicable.
- For the barge, being the main component of cost, the rates were taken from an external agency whereas the project cost being low, mainly the estimates were got vetted internally.
- Vetting of cost by an external consultant would not have changed the estimate substantially and, hence, was not required.

Reply of the Management is not convincing on account of the following:

- The installation barge comprised only one of the elements of the cost estimation. Moreover, as deployment of barges with a capacity of 1,000 ton was not economical for projects of small duration, ascertaining the rates for such barges was ill-considered. The Company had also not specified the requirement of 1,000 ton capacity barge in the tender documents. In the finally awarded contract, the contractor offered barges of 2,000 ton capacity as well as less than 1,000 ton capacity at the same rates. This was accepted by the Company.
- The cost estimates prepared by the Company in June 2007 in respect of steel and fabrication cost were not based on the then prevailing rates and, hence, the rates received varied by approximately 60 *per cent* leading to decision for re-tendering.
- Notwithstanding the low cost of the project, the Company had got the cost estimates for the re-invited tender vetted by the consultant and revised the estimates from US$31.42 million to US$40.50 million. These were found comparable with the quotes received i.e., US$40.59 million.

The matter was reported to the Ministry in June 2009; their reply was awaited (November 2009).

13.5.6 Avoidable payment of hiring charges

Delay in finalising the contract by the Company for revamping of own compressors resulted in hiring of compressors and consequent payment of hiring charges of Rs.8.14 crore.

Oil and Natural Gas Corporation Limited (Company) was using gas lift as one of the modes of artificial lift for oil production in Mehsana Asset for which it was required to inject about four lakh cubic meter (M^3) of compressed gas into the gas lift wells. The requirement of two lakh M^3 of compressed gas was being met by the Company through hired compressors, for which a contract valid upto July 2007 had been entered into with an Ahmedabad based private party in July 2004. For meeting the requirement of the balance two lakh M^3 of gas per day, the Company decided to modify three of its idle air compressors into gas compressors. The proposal was approved in August 2005 and the job awarded (August 2005) to the Original Equipment Manufacturer (OEM) viz. Dresser Rand (India) Private Limited on nomination basis. In June 2006, the Company moved another proposal for modification of additional three air compressors into gas compressors which was envisaged to be completed before expiry of the existing hiring contract i.e., by July 2007. The contract was, however, awarded in December 2007 with scheduled date of completion by October 2008. Meanwhile, the Company continued with the hiring contract extended in July 2007.

Audit observed (February 2008) that while the administrative approval for modification of the second batch of compressors was obtained on 1 July 2006, the Company took more than three months (16 October 2006) to constitute a Committee for obtaining expenditure sanction and finalisation of Request for Quotation (RFQ). The Committee submitted the case for expenditure sanction in February 2007 which was approved by the Director (Onshore) stating that the conversion of compressors be taken up only after assessment of sustainable service and benefit of first three compressors. The Company submitted the performance report in July 2007. Thereafter, other activities like calling for RFQ/tender, technical assessment of offer, obtaining of approval of Director (Onshore) and Executive Committee were carried out during August and November 2007. The contract was finally awarded to the OEM only in December 2007 i.e., after 18 months from date of initiating the proposal.

Thus, due to delay in awarding of the contract, the second batch of modified gas compressors could be made available only in October 2008. Consequently, the contract with the private party for hiring of compressors had to be re-entered into for the period from July 2007 to October 2008 which led to avoidable payment of hiring charges of Rs.8.14 crore[♠].

The Management in reply (June 2008) stated that:

- Initially there were failures/breakdowns in the compressors modified in the first batch which required repairs.

♠ ***Hiring charges for compressors for the period from August 2007 to October 2008 = Rs 9.38 crore less operation and maintenance charges (Rs.1.24 crore) of modified compressors.***

- The delay was on account of exploring better options, assessment of sustainable service and benefit of the first three air compressors after their conversion into gas compressors.

The reply is not convincing in view of the following:

- The total running hours (May 2006 to May 2007) of the three compressors modified in the first batch were 18843.32 hours as against the available 19008 hours i.e., shortfall of only one *per cent*. This was on account of liquid carry over in the third compressor and not because of any defect in modification.

- The contract for the first batch of conversion of air compressors into gas compressors was placed (30 August 2005) on the OEM by taking less than a month's time from the date (10 August 2005) of administrative approval. Whereas, in the second batch of conversion of compressors, as against the envisaged time of two months, the Company took 18 months in finalising the contract on the same party i.e., the OEM.

The reply does not address the delay of three months (July 2006 to October 2006) after administrative approval in setting up the committee for obtaining expenditure sanction and finalisation of RFQ despite the instructions (July 2006) of the Executive Director-Asset Manager to fulfill the actions on a fast track.

Further, the Committee, set up in October 2006, submitted the case for expenditure sanction only in February 2007 i.e., after four months despite the Executive Director-Asset Manager reiterating (October 2006) that since considerable time had already been lost further action be taken on a fast track. This delay has also not been addressed in the reply.

The Director (Onshore) while approving the proposal had directed (February 2007) to assess the performance over a sustainable period. However, by this time the compressors were running successfully for over 10 months.

At the time of proposing the first batch of conversion of air compressors, the Company had already made a cost benefit analysis of hiring of compressors versus owning and conversion of compressors and had concluded that it was much cheaper to convert the idle air compressors.

The matter was reported to the Ministry in June 2009; their reply was awaited (November 2009).

GAIL (India) Limited, Indian Oil Corporation Limited and ONGC Videsh Limited

13.6.1 Short recovery of house rent

Three central public sector undertakings short recovered rent from employees provided with leased/self-leased accommodation in violation of DPE guidelines resulting in extra expenditure of Rs.68.70 crore.

Department of Public Enterprises (DPE) issued guidelines (June 1990) fixing the ceiling for leased/self-leased accommodation provided by the Public Sector Enterprises (PSEs) to its executives and recovery of rent at the rate of 10 *per cent* of the basic pay. On revision of pay scales with effect from 1 January 1997, DPE provided (June 1999) that the rent recovery on leased accommodation would be computed on revised basic pay at the percentages in practice before 1 January 1997 or on the basis of standard rent to be fixed by the Company. In October 2003, DPE clarified that in all cases where company provides leased accommodation or even allows self leased accommodation to its executives, the Board of Directors must fix the plinth area and ceiling in terms of values which such area might attract keeping in view the categories of the cities.

Audit observed that in violation of the aforesaid guidelines of DPE, three PSUs viz. GAIL (India) Limited, Indian Oil Corporation Limited (IOCL) and ONGC Videsh Limited had been recovering rent since August 1991 on slab rates depending upon the pay scales of the executives which were far below 10 *per cent* of basic pay resulting in short recovery of rent amounting to Rs.68.70 crore during the last three years period ending March 2009, as detailed below:-

Sl. No	Name of the PSU	Amount of short recovery (Rs. in crore)
1.	Indian Oil Corporation Limited	66.10
2.	GAIL (India) Limited	2.40
3.	ONGC Videsh Limited	0.20
	Total	**68.70**

The Management of GAIL (India) Limited did not furnish any reply while the Management of IOCL and ONGC Videsh Limited stated the following:-

- The Ministry of Petroleum and Natural Gas conveyed (June 1991) that rent recovery would be made at 10 *per cent* of revised basic pay or standard rent, which ever is lower.

- The principle of rent recovery on fixed rates had been adopted within the flexibility provided by the DPE guidelines of June 1999.

In respect of IOCL, the Ministry in its reply stated (August 2009) that as per DPE guidelines dated 4 April 1990, rent recovery, in respect of housing accommodation

provided by the PSE from executives was to be made at the rate of 10 *per cent* of the revised basic pay or standard rent, whichever was lower and it approved the same in case of accommodation provided by IOCL to its employees.

The replies are not convincing in view of the following:-

- The standard rent was applicable in respect of township accommodation only while the Company fixed slab rates for recovery in respect of leased accommodation, which was against the spirit of the DPE instructions. This is further corroborated by the fact that when a reference was made by Audit, DPE clarified (November 2009) that in case of accommodation provided on lease basis, rent would be recovered at the rate of 10 *per cent* of revised basic pay, and confirmed that audit observation was fully justified.

- The flexibility provided in DPE guidelines of June 1999 was with reference to fixation of entitlements for executive's leased accommodation depending on classification of city and not for recovery of rent, which had not been complied with by the Management.

Thus, GAIL (India) Limited, IOCL and ONGC Videsh Limited short recovered rent from the employees provided with leased/self-leased accommodation in violation of DPE guidelines resulting in extra expenditure of Rs.68.70 crore.