

CHAPTER 8

CONCLUSION & RECOMMENDATIONS

MOPNG formulated the Hydrocarbon Vision–2025 in March 2000 emphasizing the vital role of hydrocarbon sector in the economic growth of the country having a long-term policy of 100 per cent exploration coverage of the Indian sedimentary basins by 2025.

Keeping the above in view, a performance audit on Oil India Limited (OIL)'s hydrocarbon exploration efforts (2009-10 to 2013-14) was conducted. Audit attempted to see whether OIL's exploration efforts had been taken up with proper planning and executed with efficiency and effectiveness to achieve its own and the nation's envisioned hydrocarbon goal.

8.1 Conclusion

Audit noted that OIL's contribution to the net increase of hydrocarbon reserves was only under probable category, as reserves under 2P category (i.e. probable) increased, and decreased under 1P (i.e. proved) category. Further, oil reserves under 3P (i.e. possible) category decreased indicated no new fields were being added through exploration activities. Gas reserves under all the categories also declined. OIL did not achieve the target for reserve accretion fixed in its MOU. Though OIL achieved RRR of more than 1 as prescribed, Ultimate Reserve Accretion registered a downward trend.

OIL failed to monetize three discoveries in nomination regime due to non-availability of latest technology. In spite of being one of the major NOCs and having both financial resources and experience in E&P sector, performance of OIL lagged behind peers in the industry as it had made only one discovery in July 2012 under NELP which was not monetized till April 2015.

OIL achieved neither its own targets of 2D survey in any of the five years, nor its own target in 3D survey in three out of five years. There was delay in completion of API cycle, absence of time schedule for in-house survey and outsourced survey. Contracts were not awarded in a

timely manner. Survey contracts also revealed deficiency in contractual clauses leading to undue benefit to contractor and payment of penalty towards unfinished work programme.

There were significant shortfalls in exploratory drilling as well as development drilling. OIL did not place the desired emphasis on its core exploration activities. Further, there were anomalies in MOU target setting and reporting as well as performance measurement (through RRR). OIL's performance in drilling depth was also not satisfactory. There was abnormal fluctuation in commercial and cycle speed of both own and hired rigs.

The vintage of own drilling rigs were ranging between 9 and 36 years. While reviewing contracts for acquisition of own rigs and for chartered hiring of rigs, Audit found several deficiencies, including inordinate delay, avoidable time allowed for mobilization of rigs, violation of contractual terms and conditions, preference to a supplier over manufacturer of rigs and procurement of rigs without resorting to tender procedure etc. leading to lack of transparency.

Audit observed that OIL's performance in nomination blocks have been unsatisfactory and has given very few discoveries to add to the hydrocarbon reserve of the country. It converted very few blocks from PEL to PML, held PEL blocks for as long as 28 years without converting them into PML, relinquished PEL blocks after holding them from 15 to 26 years without any discovery and kept many PML blocks idle.

Under NELP regime, the participation and success of OIL in the bidding process remained low. In awarded NELP blocks where OIL was operator, it under-achieved MWP and paid LD to MOPNG in many cases. It also relinquished NELP blocks without completing committed work. Interestingly OIL also bid for NELP blocks in the same area where it had relinquished an earlier PEL block for logistic constraints. Audit also noticed that in two PEL blocks relinquished by OIL, hydrocarbon discovery was made by private operators under Pre-NELP/NELP regime.

OIL had persistent shortfall in financial achievement/utilization of budgetary outlay. OIL did not have adequate technology to monetize its discoveries of highly viscous heavy oil till date.

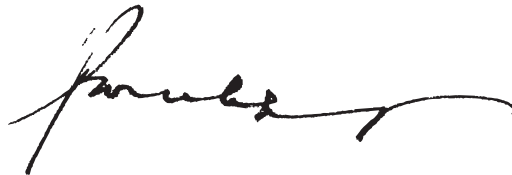
8.2 Recommendations

OIL as well as MOPNG may ensure that OIL's core business, i.e., hydrocarbon exploration as an upstream NOC is given priority as recommended below:

- OIL may build necessary capability to ensure proving of reserves by commensurate upgradation from 3P to 2P and 2P to 1P category of reserves;
- In the MOU the weightage given to "accretion to recoverable reserves" may be increased by MOPNG to emphasise higher importance of the core activity of exploration;
- Norms for the API cycle may be formulated and linked with performance parameters. OIL may closely monitor its survey contracts to ensure timely completion of exploration;
- MOPNG should take necessary steps to ensure that NOCs abide by the exploration targets assigned to them;
- OIL may finalize its procurement plan in time to replace the vintage rigs, both drilling and workover;
- OIL should be able to use its experience and resources to be able to operate in the competitive NELP regime and bid judiciously for prospective blocks;
- OIL should adhere to MWP schedules so as to fully explore the blocks and avoid liquidated damages;
- MOPNG should ensure availability of clearances for carrying out the exploratory activities before awarding the blocks;
- Proper monitoring on utilization of budget is called for to avoid shortfalls;
- OIL should pay attention to its R&D activities and keep abreast of latest technologies especially in view of the fact that it is a cash rich company;
- OIL should quicken its action on recruiting executives in technical departments as well as in internal audit department;
- The contract manual may be updated and the awarding of contracts needs to be in line with CVC guidelines; principles of financial prudence and monitoring of contracts execution may be made more stringent;

- Reporting mechanism of OIL needs to be strengthened for creating MIS and monitoring of them by the different bodies culminating in the BOD.

MOPNG accepted (July 2015) the recommendations and assured to take appropriate action.



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Countersigned



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Dated: 13 November 2015