

Chapter 4: Hiring and Acquisition of Rigs

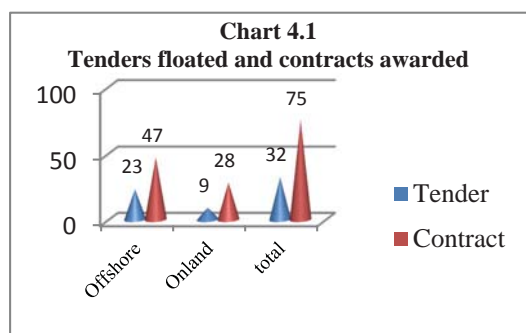
4.1 Hiring of rigs

In line with the five-year Rig Requirement Plan (RRP) in offshore areas, and taking into account the available rig resources with the Company, plans for hiring rigs were initiated in offshore areas. In the absence of five-year RRP in onland areas, the hiring decisions were taken on an annual basis based on the Rig Deployment Plans.

The hiring decisions take into account the rigs owned by the Company. The Company owned eight offshore drilling rigs, 67 onland drilling rigs and 56 onland work-over rigs as on March 2014. During the period of audit (2010-14), no offshore rigs were acquired though the Company acquired six onland rigs.

Based upon availability of rigs (owned and continuing under hire), the Drilling Services section decide requirement for fresh hire. Rigs were generally hired on long term basis for a period upto three to five years through International Competitive Bids (ICB) as per procedure prescribed in the Material Management (MM) Manual.

This rig requirement was communicated to the MM section through an indent. On receipt of



the indent, the MM section initiates the process of hiring the requisite number of rigs. The process involves issuing Notice Inviting Tender (NIT), a two-bid process in which the technically qualified bidders were first shortlisted and the winning bid was selected based on lowest financial bid. During the period 2010-14 the Company floated 32 tenders (23 for offshore and nine for onland areas). Of the 23 offshore tenders, six tenders were on

nomination basis and 17 were International Competitive Bidding (ICB) tenders. The six tenders on nomination basis were completed in time. Against these 32 tenders, a total of 74 contracts were entered for charter hire of rigs.

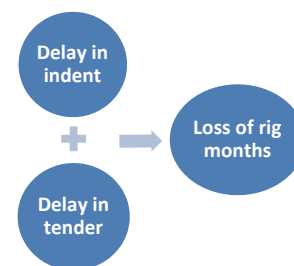
Audit scrutinised all the 32 tenders. Delays and deficiencies noticed are discussed below:

4.2 Delay in hiring offshore rigs

To ensure seamless drilling operations, the Company should hire offshore rigs in a timely manner so that drilling activities were not delayed for want of rigs. As per MM manual, the Company requires a maximum period of 375 days for finalisation of contract and mobilization of an offshore rig (145-195 days for finalisation of contract and 180 days from the date of firm order for the Indian bidders for mobilization of the rigs outside Indian waters). Hence, the tendering process should be initiated well in advance to enable drilling on the locations which have been released after significant cost and time (for acquisition, processing and interpretation of seismic data) and also to achieve the exploration and production targets as planned in the FYP and Annual Plans.

Audit scrutiny of the tendering process in the 23 offshore tender cases (17 ICB tenders and six nomination cases) revealed persistent delays at every stage of ICB tenders. The six nomination cases and three ICB tenders were finalised in time.

Chart 4.2: Impact of delay in tender process



- In 13 contracts, the tenders were initiated late. As against the stipulated 375 days (maximum) requirement for finalisation of tender and mobilisation of rig, these tenders were initiated 311 to eight days before requirement (considering the de-hire dates of existing rigs and drilling needs). Thus, even at the time of initiation of the tendering process, it was clear that the rig requirement could not be met in time.
- NIT has to be finalised and issued within 20 days from the date of receipt of indent (as per the MM manual). Audit observed that in 9 contracts, NIT was delayed, the delay ranged from 11 to 300 days. On scrutiny, it was observed that the delays were attributable to receipt of incomplete indents from drilling section or indents that were received without expenditure sanction.
- Following issue of NIT, the tender should be finalised and the contract awarded within 120 days with an additional 20 days for each round of clarification and 5 days if Director's approval was required and 15 days for EPC approval of Letter of Award (LOA). Of the 17 ICB tenders, only three could be finalised in time. The contracts of remaining 14 tenders were delayed by 20 days to 331 days.
- Delay was noticed even in signing of contracts. As against the time limit of 30 days for signing the contract, the actual time taken ranged from 21 days to 313 days. Further, 15 contracts were not signed at all. Audit noticed that the four contracts arising from the nomination tenders were signed nine months after the completion of the contract period.

The delays on account of late initiation of the tendering process as well as delay in tendering process and mobilization of the rigs resulted in loss of 190.27 rig months (Exploration: 97.5 months and Development: 92.77 months) for offshore rigs.

4.2.1 Out of 23 tenders for hiring offshore rigs scrutinised by Audit, two individual instances of controllable delay in re-hiring and indenting are discussed below along with their effect:

A. Delay in floating tender led to deferment of revenue

The Company floated (November 2009) a tender for hiring seven jack up rigs for Mumbai Region against the rigs that were getting de-hired during January to April 2010. The Company, thus, had 60 to 150 days to finalise the contracts and get the rigs mobilized for continued drilling operations. Hiring of new rigs before de-hire of the existing rigs was not feasible considering the maximum 375 days benchmark for tendering and mobilization as per MM manual. Even then, the Company decided to de-hire all the seven existing rigs 30 days in advance citing downward trend in the rig day rates. In a review meeting (December 2009), the Company anticipated that as a result of de-hiring of rigs, it would suffer loss of 14.7 rig months in 2009-11 along with a shortfall of three development wells (NEA-5H & 6H, B-

134), 4 side track wells (BE-8ZH, NK-2z, 3z and B-173A) and seven work-over jobs on platforms IQ, BE and BA of Mumbai Offshore and that non-completion of these development and side track wells would lead to deferment of production of about 4,000 BOPD⁸.

The contract was finally awarded in April 2010 and the rigs were mobilized between May 2010 and January 2011. As the rig requirement was an urgent one, the Company resorted to hiring rigs on nomination basis in the interim for drilling of these urgent wells. The planned wells could be drilled after a delay of 23 to 291 days and led to cumulative deferment of production for 780 days.

The Company stated (April 2015) that rig hiring indent was a consequence of estimation of workload for the forthcoming period from Assets and Basins and was not directly linked to the forthcoming de-hiring of the rigs. The tender was invited in November 2009 and based on certain queries on modification to technical specifications, amendments in tender clauses were made in January 2010 and it was finalised in April 2010. The Company also stated that the decision for early de-hire of the rigs was made in view of the significant downward trend observed in rig day rates and that the rates at which the nomination hiring was done was at rates lower than the previous hiring rates as well as subsequent tender rates. The Company further added that this led to deferment of production. Decision of the Company to de-hire rigs without making a timely arrangement for replacement of the existing ones was not a prudent practice.

MOPNG in its reply (August 2015) assured that “decision to de-hire rigs without suitable replacement in place” will be kept in mind in future hiring of rigs. The assurance given by MOPNG would be watched in future audit.

B Delay in re-hiring rig led to avoidable expenditure

The Company had hired Rig Badrinath for a period of three years ending 09 October 2010. The rig was de-hired on 8 October 2010. Subsequently, the Company decided to re-hire the rig on nomination basis at the earlier contracted rate for 90 days for drilling well D-11-A. The firm order for re-hire was placed in November 2010 and the rig was mobilised on 3 December 2010. The well was spudded on 11 December 2010. Due to complications faced during drilling the well, the rig took extra time (a total of 204 days) upto 2 July 2011. Rig Badrinath waited on weather for de-anchoring from 3 July to 10 August 2011 (39 days) and the Company, accordingly, incurred an avoidable expenditure of ₹ 10.94 crore.

Audit observed that prior to end of the existing contract, the Company had planned to deploy the rig Badrinath to drill two wells B-100-D (May 2010 to August 2010) and D-11-A (August 2010 to December 2010) in succession. As per terms and conditions of the contract, the contract could have been automatically extended at the same rates for completing the well, if the rig had been deployed on the well 30 days prior to the expiry of the contract *i.e.* 30 October 2010.

The drilling of well B-100-D was actually completed on 26 September 2010. Considering rig move to the new location, rig Badrinath could, therefore, have been deployed at D-11-A

⁸ BOPD – Barrel of oil per day

location within 30 days prior to contract completion date (30 October 2010). As the Company was aware that it had more than 30 days prior to the expiry of contract in September 2010 itself, the rig could have been deployed in location D-11-A as per the contract provisions and the well completed without going in for de-hiring and re-hiring. Instead, the Company initiated the rehiring process in October 2010 and the rig was made available only in December 2010 leading the drilling period up to monsoon. Had the Company deployed the rig in well D-11-A after completion of drilling the well B-100-D in September 2010, the drilling would have been completed by 22 April 2011 (considering 204 days actually taken for drilling the well) and the rig would not have waited for weather for de-anchoring. Due to non-deployment of rig in the well D-11-A in September 2010 which was allowed under the contractual terms *i.e.* 30 days prior to the expiry of the contract and the delay of two months in re-hiring the same rig, the drilling extended upto monsoon period and resulted in avoidable expenditure of ₹ 10.94 crore due to waiting on weather for de anchoring of the rig.

The Company replied (April/May 2015) the following:

- (i) The well D-11-A was planned to be taken up by rig Badrinath after completing well B-100-D. Since there was considerable time available for de-hiring of the rig after completion of the well B-100-D and in view of the contract clause wherein the contract stands extended automatically under the same rates and terms and conditions till the completion of the well/ termination of the well, nomination case for hiring was not thought pertinent to be initiated.
- (ii) As per contract clause 1.3(d) (for the well B-100-D), the Operator (the Company) shall have the option to terminate this agreement, at any time during last 30 days before the expiry date of the Primary Term or any extension thereof, if (a) the last well being drilled was completed or abandoned prior to such expiry date and; (b) in the opinion of Operator, another well cannot be drilled within the remaining agreement period; and (ii) the natural date of de-hiring for the contract was 30th October 2010 as per clause 1.3(a) of the contract.
- (iii) To overcome the problem of delay in indent, as per recommendation of Audit, in future, all efforts would be made to prepare RRP relatively earlier. As per revised Book of Delegated Powers (BDP) and New Integrated MM Manual (applicable from 01 February 2015), administrative and financial powers of CMD, Directors, Key Executives and Corporate Rejuvenation Campaign (CRC) levels had been increased keeping in view to decentralize decision making for expediting tendering processes in an efficient manner and these changes would bring improvement in process of hiring the rigs in future tenders.

Reply is to be viewed in the context that the Company was aware, as early as in May 2010, that rig Badrinath would be available in ordinary course for drilling location D-11-A. In fact, the rig was available for more than 30 days after completing the well B-100 and could have been deployed in D-11-A without the process of de-hiring and re-hiring. However, appropriate action had not been initiated at that stage which resulted in avoidable expenditure of rig for waiting on weather for 39 days. Further, the delay on the part of the Company in

initiating the re-hire process led to two precious rig months being lost which subsequently culminated in waiting on weather and consequent avoidable expenditure of ₹ 10.94 crore.

MOPNG did not offer any further comments (August 2015).

The assurance of the Company regarding corrective steps taken, would be watched in future audit.

4.3 Delay in hiring onland rigs

During 2010-14, the Company had floated nine tenders (four tenders for hiring of onland drilling rigs and five tenders for hiring work-over rigs). The Company was able to finalise only one tender (for work-over rig) within the time specified in MM Manual. The balance eight tenders were delayed, the delay ranged from 23 days to 233 days, which led to loss of 200.84 rig months (Exploration: 12.39 rig months, Development: 33.11 rig months and Work-over: 155.34 rig months) for the Company's onland operations.

Out of nine tenders scrutinised, significant delays at every stage of the tendering including indenting was noticed in five cases which are discussed below:

A. Delay in tender processing and its subsequent cancellation leading to non-availability of onland rigs

Onland Services Group (ONSG), Vadodara of the Company finalises the tenders for the onland rigs. The group received three indents for hiring drilling rigs with services between October 2010 and January 2012. The details regarding indent, invitation of tender and further processing are tabulated below:

Table 4.1: Delay in tender process for onland rigs

Asset/Basin	Indent	NIT date	Price Bid opened on	Time taken in tender process vis-à-vis-MM manual (In days)
Tripura Asset	19 October 2010 (revised thrice with last revision on 30 April 2012)	4 May 2012	8 May 2013	369 (120)
Ahmedabad Asset	2 January 2012	15 March 2012	16 July 2013	488 (120)
MBA Basin	11 August 2011	28 October 2011	17 July 2013	628 (120)

As can be seen from the table above, there was significant delay in all the three tenders. As against the norm of four months for opening the price bid from the date of NIT, the Company took more than a year in all the three cases. At the time of financial bid evaluation, the Company compared the L1 rates quoted against the estimated cost and last purchase rates. As the estimates had been made long back, the rates quoted did not match with them. Resultantly, the Company cancelled all the three tenders. Scrutiny of these tenders revealed the following:

- In respect of Tripura Asset, the indent was repeatedly revised/modified contributing to the delay. Ahmedabad Asset furnished the indent late (in January 2012 for a rig required in July 2012). The processing of the tender for Ahmedabad was also delayed. As against 20 days for each round of clarifications from bidders, the Company took

four months from August to November 2012. In MBA Basin, the tender was delayed after NIT (in October 2011) due to inconsistency in Bid Evaluation Criteria (BEC) clause and excess time taken for clarifications till January 2013. As the norm for tendering time was 160 days and that for mobilisation was 180 days, adherence to time norms would also not have made the rig available on time (July 2012).

- ii. As per the circular No.23/2010 dated 9 July 2010, firms against whom banning process had been initiated were not to be issued any tender enquiry and their offers were not to be considered. M/s Shiv Vani Oil & Gas Exploration Services Limited (Shiv Vani) was banned (28 January 2013) for a period of two years and, hence, Tender Committee (TC) recommended for rejection of its offer which was approved (February 2013) by Director (T&FS). However, based on the request of M/s Shiv Vani, the Company kept on hold all the tenders invited during the period till such time (April 2013) the ban against M/s Shiv Vani was revoked by the Company and its offer became eligible for consideration. In the process, two months were lost.
- iii. In July 2013, TC compared the bids vis-à-vis estimates prepared based on the purchase rate of 2009 (Ahmedabad) and 2010 (MBA Basin). TC also compared the L1 rates with purchase rates of 2010 and 2011 (Tripura Asset and MBA Basin), 2008 and 2011 (Ahmedabad Asset), concluded that the L1 rates were higher than the estimated value and recommended cancellation of all the tenders. Comparing the bids with the estimates which were three to four years old and purchase rates which were two years to five years old, without considering the effect of price escalation and without ascertaining the latest market rates did not appear to be a prudent practice. A similar issue regarding cancellation of tenders had been highlighted in paragraph 13.5.4 of C&AG's Report No. 9 of 2009-10. The Company in its ATN had stated (October 2011/September 2012) that recommendation of audit regarding vetting of estimates was noted and had assured that the cost estimates would be firmed up after factoring in all possible known variables and adequate data. However, no such action was taken in these tenders.
- iv. TC recommendation for cancelling the tenders also took inordinately long to be submitted to the Executive Purchase Committee (EPC). In fact, validity of the bids had already lapsed (between July and August 2013) by the time the case was considered (September 2013) by EPC.

The delay in tendering coupled with the cancellation of tenders imprudently, resulted in non-availability of required drilling rigs. In the MBA Basin, eight shallow locations in five NELP blocks were to be drilled by 22 December 2014 as per the PSC contracts and had been planned for drilling with hired rigs (indented for in August 2011). In the absence of rigs, only one of these locations, Ladhi#1 in block PA-ONN-2005/1, had been drilled, that too by deploying a higher capacity departmental rig resulting in avoidable additional expenditure of ₹ 4.25 crore {88 days x (₹ 9.89 lakh – ₹ 5.06 lakh)}. The balance seven locations could not be drilled. In Ahmedabad Asset, the three planned exploratory wells could not be drilled over the past three years due to non-finalisation of the tender for hiring rigs. The Tripura Asset could not drill four wells planned during 2012-14 due to non-finalisation of the contract.

The Company replied (April 2015) that the delay was due to extra days for obtaining L1 approval, Director's approval, resale of tender, extension of Technical Bid Opening (TBO) at the request of the prospective bidders, seeking clarifications, legal opinions and price negotiations. The price bid opening /short-listing was put on hold as per the instructions of the then Chairman and Managing Director (CMD) on the representation of M/s Shiv Vani. The rates received against the tenders were compared with the last purchase rate and cost estimates as per the existing guidelines.

The Company also stated that the cost estimates vetted by outside consultants were higher and, therefore, the existing practice of preparing in-house cost estimates would be continued as these were reflective of market trends and also relevant to the Company's requirement.

The reply is to be viewed in the context of the following:

- (i) There were inordinate delays at every stage of tender process which point to inefficiency on the part of the Company. The reasons for delay mentioned in the reply were largely controllable and could have been avoided with better planning and coordination.
- (ii) The Company did not comply with its circular (issued in July 2010) which laid down that the offer of banned firms should not be considered. Despite this, the Company suspended the tender process so that the banned firm could participate.
- (iii) While deliberating on the recommendation of TC to cancel the three tenders, EPC expressed displeasure on delay in submission of these cases. With the bids already invalid, EPC could not take any considered decision at that stage. Hence, EPC opined that there was no option except to close all the three tenders and to go ahead with retendering.

MOPNG stated (August 2015) that due to various rounds of clarification, further approvals and legal opinion thereon led to extended additional time taken. However, ONGC has revised delegation of powers with effect from 01 January 2015 and brought in a new integrated MM Manual with effect from 01 February 2015. As per these new company policies, administrative and financial power of CMD, Directors, Key executives etc. have been increased keeping in view the need to decentralize decision making for expediting tendering processes in an efficient manner. It is expected that these changes would bring improvement in the hiring process for future tenders. As per new MM Manual, cost estimation would be done after receipt of final forecast from the user department by set means (depending on applicability).

Audit acknowledges the corrective action taken by the Management. The effect of these actions in ensuring timely completion of the tender process would be watched in future audit.

B. Non-finalisation of tender for charter hiring of drilling rigs leading to shortage of rigs for drilling

Executive Committee (EC) approved hiring of four drilling rigs for Assam Asset in December 2011. The indent for hiring these rigs along with services was received by ONSG, Vadodara only in September 2012. In December 2012, the Company decided to modify its earlier technical condition of not accepting rigs more than 15 years old. With the modification, rigs more than 15 years could be accepted provided a residual life of five years was certified by one of the third party inspection (TPI) agencies approved by the Company. This delayed NIT for the rigs which was issued only in February 2013. On the request of a banned firm, M/s Shiv Vani, who could not purchase the tender document owing to the ban, the tender sale period was extended to 29 April 2013. Audit noticed that LOA for one rig was finally placed in February 2015. The tender for hiring the remaining three drilling rigs was still under process (April 2015).

The delay at every stage resulted in the Assam Asset not having drilling rigs even after 30 months of indenting. Due to delay/non-hiring of drilling rigs, the Asset could complete only 26 wells against the target of 31 wells planned in 2013-14 during XII FYP.

The Company stated (April 2015) that after due deliberation, modification of technical BEC clause regarding age of the rigs was approved by the Company's EC. As regards extension of sale period beyond 06 March 2013, it stated that EPC had accepted its justification in the best commercial and operational interest of the Company. Thereafter, on the request of the firm, sale of tender was again extended up to 11 April 2013, with the approval of EPC. The Company in its supplementary reply (August 2015) justified its action on extension of tender sale period during March/ April 2013 due to representation/ clarification sought by M/s. Shiv Vani (against whom banning procedure was initiated) and for change in scope of tender.

Reply of the Company needs to be viewed in the context of abnormal delay at every stage and also delay due to extension of the tender sale period twice in March/April 2013 at the request of M/s Shiv Vani, a firm against which banning procedure had already been contemplated (January 2013). Besides, the reply is silent with regard to the ten months period that elapsed between the EC approval and preparation of indent.

C. Non finalisation of tenders in time led to hiring of rigs on nomination basis

Mehsana Asset initiated (May 2012) the proposal for hiring of six work-over rigs (five 50 Ton capacity rigs plus one 100 Ton capacity rig) against the contract expiring in December 2013/ March 2014. The indent released in September 2012 was revised twice in December 2012 and March 2013 due to change in estimates and reduction in requirement (four 50 Ton and one 100 Ton). After obtaining approval of EC in July 2013, the final indent was sent to Material Management, ONSG of the Company in October 2013. The tender was floated (January 2014) and subsequently technical bids were opened in April 2014. Technical evaluation was in progress as on 12 September 2014. The contracts were finalised in November/December 2014.

Audit observed that the Asset had forwarded the first indent in September 2012 and the final indent was sent in April 2013 after seven months for approval of EC. EC took three months

for approval. Thus, the Company took inordinately long time of 18 months (May 2012 to October 2013) to finalise the indent. The delay in finalisation of the tender resulted in non-availability of work-over rigs with the Mehsana Asset for nearly three years. As a result, the Company extended the existing contract on nomination basis for 50 Ton work-over rigs, with non-availability of 100 Ton work-over rig with the Asset.

The Company stated (April 2015) that as per guidelines in the existing organisational structure, hiring of rigs fall under category-B item. The requirement of all onshore work centres were sought and consolidated and the indent was placed for processing through MM, ONSG, Vadodara. The Company further stated that in the present case, after obtaining EC approval, the revised final indent, including changes in specifications and scope of work was received only in April 2013 for initiating tendering process. Thus, the delay could not be avoided and resulted in non-availability of work-over rigs in time to replace the de-hired rigs. This further necessitated hiring of rigs on nomination basis for the intermediate period to avoid operational shutdown which would have led to loss in production. The Company further stated (May 2015) that the (i) practice of obtaining EC approval was started since 2012; (ii) efforts were being made to adopt the practice of doing away with requirement of EC approval for replacement rigs to avoid delay and (iii) this would reduce the need for extending the existing rigs or hiring work-over rigs on nomination basis for the interim period. MOPNG reiterated (August 2015) the Company's reply. In supplementary reply (August 2015), the Company further added that it is also proposed to hire work-over rigs for longer period than existing practice of three years.

The assurance of the Company regarding corrective steps would be watched in audit.

4.4 Deficiencies in tendering procedure for offshore rigs

Audit scrutiny of the 23 tenders for hiring offshore rigs revealed deficiencies in four cases which are detailed below:

4.4.1 Bid evaluation criteria relaxed

An indent for charter hire of two modular work-over rigs (modular rig with Platform Supply Vessel - PSV) for Mumbai High Asset was issued in December 2011. Orders for hiring rig 'SAAG Saffron' and rig 'Nandana' was placed in January and February 2013 respectively for a firm period of three years. Both the rigs were required to be mobilised within 270 days of award. The expected mobilization of rig SAAG Saffron was October 2013 and Nandana was November 2013. Neither of the rigs had been mobilised till date (July 2015).

Audit noticed that rig SAAG Saffron was a cold stacked rig. It was built in 2007 and had been lying idle for five years (2007 to 2012) at the time of bidding (5 June 2012). Standard Bid Evaluation Condition of the Company for hiring of rigs stipulated that the bidder should offer only serviceable drilling units and idling period should not be more than 3 years on the date of submission of the bids. However, the Company relaxed this vital BEC in the tender for hiring of modular rigs. Non-mobilisation of rigs led to loss of 33 rig months upto November 2014 when the issue was noticed in audit.

The Company stated (April 2015) that since there were very limited bidders worldwide in modular rig tender, competition was low as was evident from the single successful bidder in last ten years. Competition would be further restricted if rigs lying unused for 5 to 6 years were not considered and, thus, in order to avoid restriction in competition such provision were not kept in the BEC. Further, as per the provision of the tender, the condition of the rig was certified by Company nominated TPI agency.

MOPNG stated (August 2015) that the offshore modular rig is a combination of different modules and not a unitised rig like Jack up/ floater so there was no consideration of idling period of such rigs. Further, the provision of TPI before mobilization was maintained so that there was no compromise in the scope of work and operational efficiency/ safety.

The reply is not acceptable in view of the following:

- a) The decision of the Company to relax the vital standard BEC and accepting a cold stacked rig lying un-used for a long period lacks justification as it involves compromising on the quality of the rig. Besides, the relaxation of this vital standard BEC could not assure availability of the rigs as the same had not been mobilised even after a delay of over a year.
- b) The contention that the standard BEC clause in a modular rig is not applicable is also incorrect. Audit noticed that the BEC clause had not been relaxed in case of Platform Modular rig (which is also a combination of different modules and not a unitised rig) from a single successful bidder.

4.4.2 Award of contract to an ineligible contractor

The Company invited (August 2012) an ICB Tender for charter hire of five 300 feet Cantilever type offshore jack up rigs to meet the requirement of Mumbai Offshore Assets for XII Five Year Plan (2012-17). M/s Jagson International Limited emerged successful bidder offering the rig Deep Sea Treasure in June 2013.

Audit scrutiny revealed the following:

- The Bid Evaluation Criteria (technical) emphasised that bids for only serviceable drilling rig could be offered. At the time of bidding, the rig Deep Sea Treasure was in Bahrain for refurbishment and modifications. The technical evaluation (March 2013) stated that the rig, having been idle since April 2010, required extensive repairs. Further, the certificate issued by TPI stated (December 2012) that equipment on the rig were not in acceptable condition and required refurbishment prior to commencement of drilling activity. Thus, serviceability of the rig was in doubt. The Tender Committee, however, awarded the contract with the assurance of the contractor that the rig would be refurbished before commencement of its operation.
- As per tender specifications, the eligible rig should have minimum power of 6,000 HP. However, rig Deep Sea Treasure had three engines with 1,950 HP capacity and, thus, had a lower power compared to the bid requirement. The bidder agreed to upgrade the power as per requirement and on this basis the contract was awarded.

The inspection of the rig was carried out in three phases after award of the contract (June 2013) for 72 days but it could not be completed. The EPC also observed (post award) that the rig did not have valid class certificate. The upgradation completion certificate approved by TPI was also not submitted.

As per contract conditions, M/s. Jagson International Limited was required to mobilize and deploy the rig along with crew and commence operations within 180 days from date of Letter of Award *i.e.*, on or before 10 December 2013. M/s Jagson failed to mobilise the rig and the mobilisation period was extended with levy of liquidated damages from December 2013 up to May 2014 five times. Finally, EPC in its meeting of May 2014 approved the termination of the contract. Accordingly, the Company terminated (May 2014) the contract with M/s Jagson with forfeiture of Performance Bank Guarantee (PBG).

Acceptance of rig, which did not meet the BEC requirements, led to non-availability of rig. This resulted in loss of more than 450 days (*i.e.* 15 rig months) and non-drilling of 13 wells planned wells during 2013-14 and 2014-15.

The Company replied (April 2015) that as per BEC clause, the bidder should offer only serviceable drilling rigs and idling period of the drilling rig should not be more than three years on the date of submission of bids. However, since the rig was not idle for more than three years, at the time of TBO (Technical Bid Opening), it was technically accepted. Moreover, there was no provision to reject the bid if idling period crosses three years at the time of award of contract. The Company also stated that the bidder had initially quoted three engines with 1,950 HP capacity against requirement of minimum power of 6,000 HP. A letter for upgrading the power of one engine to 2,100 HP was received from M/s Neptune (the authorized agency to provide spares and services). This letter was also endorsed by MODU Spec (TPI) and ABS. So there was no deviation in BEC criteria. The Company also stated that the contract of Deep Sea Treasure was terminated with forfeiture of PBG and TPI charges for entire period of inspection was recovered from M/s Jagson International Limited in the month of June 2014.

While agreeing that there was a loss of rig months, the Company stated that in order to reduce any further delay/ loss, the requirement was incorporated in the ongoing tender as soon as it was decided to terminate the agreement for Deep Sea Treasure and that it was making its best efforts to minimize the loss on this account.

MOPNG stated (August 2015) that the Company accepts the offer for any rig only after compliance of third party pre bid inspection certificate which mainly indicates the status of the drilling units. Mobilization did not include only the rig equipment but also the inventory of various items, various certification etc. as per the tender requirement. All those inventory were also checked by TPI.

The Company/MOPNG's reply needs to be viewed in the context of the following:

- (i) TPI in its inspection report (September 2012) stated that most of the equipment were in unsatisfactory condition and not 'Fit for the purpose' and till its termination (June 2014) the "Fit for purpose" was pending.

- (ii) Even in subsequent inspection of TPI (February 2013), it was stated that shipyard crew at the time of survey was small, overhaul/repair/certification of many of critical drilling and marine equipment were in work order stage and yet to take off.
- (iii) The serviceability of the rig and rig equipment was in doubt at the time of technical evaluation (March 2013).

Eventually, the rig could not be mobilised and this resulted in loss of more than 15 rig months to the Company.

4.4.3 Banned firm allowed to bid

The Company worked out a requirement (September 2009) of one modular rig to carry out work-over operations in Neelam Heera field for the five year period (2010-11 to 2014-15). The requisition for the hiring of rig was released in December 2010 and the tender was floated in February 2011. However, the contract could be awarded only after a year in February 2012 as against the prescribed time period of 120 days. The inordinate delay in tendering process left the field without work-over rigs and the jobs were done by employing costlier jack-up rigs.

The delay in award of the contract was due to Company allowing M/s SAAG RR Infra Limited, Chennai (M/s SAAG), a banned firm (March 2010) to purchase the bid document. As M/s SAAG was not allowed in the subsequent pre-bid meeting, the firm filed (June 2011) a writ petition and the legal proceedings stayed the award of the contract for seven months. Subsequently, the case was dismissed both at High Court, Mumbai and the Supreme Court, though the Company lost precious time in the process.

Had the information regarding the banned firm been properly documented and disseminated through the Company, the purchase of the bid documents by the banned firm and consequent delay in finalisation of the contract could have been avoided. Thus, lack of proper controls in e-tendering to prevent participation of banned firm led to avoidable delay in tender finalisation.

The Company replied (April 2015) that the present tender was an ICB e-tender and there was a provision to buy tender documents online. Although M/s SAAG purchased the tender document online, they were prevented from participating in the tender process right from tender pre-bid stage itself. Even if M/s SAAG was prevented from purchase of tender document, they could still approach courts against ban order and, thus, could have delayed the tender process. Prevention of purchase of tender would not have taken away rights to seek legal intervention.

The Company also stated that as per process now being followed, ICE⁹ section of the Company had incorporated a check in e-tender/SAP to restrict banned firms to even purchase tender document in the ban period. Accordingly, the Company assured that corrective measures had already been put in place to avoid recurrence of such events.

⁹ ICE – Information consolidation for efficiency.

MOPNG stated (August 2015) that the assurance of the Company would be noted for compliance. The corrective action of the Company would be watched in future audit.

4.4.4 Differing standards of evaluation of bids in the same tender

In response to a tender floated in November 2009 for hiring rigs, eleven (11) bids were received. After techno-commercial evaluation, price bids of five consortia who were found to be technically and commercially acceptable were opened in April 2010.

As per BEC, in case of consortium bids, the consortium partners should individually meet the turnover limit in proportion to the percentage of work to be performed by them. In case the information contained in the 'certificate of compliance' was found to be incorrect after opening of price bids, the offer would be rejected and the bidder would be debarred for next three years.

M/s 'A1' had submitted the bid as a consortium partner with M/s 'A2'. However, M/s 'A1' did not satisfy the turnover criteria and fell short by ₹ 48.85 lakh. EPC, in its meeting held in April 2010 considered this to be a valid bid.

In evaluation of the same tender, however, the Company rejected the bid of M/s 'B1' as the average turnover of Parent Company *viz.* M/s 'B2' (the bid having been made on the strength of the parent company) was less than the threshold prescribed in the tender by ₹ 21.13 crore.

Thus, the Company took differing stands in evaluating the 'Turnover', criteria of the two bidders in the same tender. While the bid of M/s 'A1' was accepted despite lower turnover and finally emerged as the successful bidder, the bid of M/s 'B1' was rejected on similar grounds.

The Company replied (April 2015) that as per the BEC clause, M/s 'A1', the leader of the consortium was not meeting the financial criteria. However, Drilling Services (DS), Mumbai Region (MR) had opined that a method was needed to be in place in the tender to avoid complications in future tenders. M/s. 'B1' was placed at L-8 rank and considering the rigs to be hired against this tender and keeping in view their ranking, the bidder was apparently not in contention for award of contract.

MOPNG did not offer any further comments (August 2015).

The reply was to be viewed in the context that the Company used different standards in evaluating bids of two bidders in the same tender which was not an acceptable practice.

4.5 Deficiencies in managing contracts for onland rigs

Scrutiny of the 28 contracts for hiring onland rigs revealed a set of shortcomings in contract formulation and its management in two instances which are detailed below:

4.5.1 Deficiencies in rig hiring contract led to non-penalization of poor performance of contractor

Onshore Service Group (ONSG) at Vadodara entered (October 2008) into a contract with M/s Shiv Vani for charter hiring of eight drilling rigs (Two each Type-II for Tripura and Rajahmundry Assets; Three Type-III and one Type-IV for Assam Asset) with integrated services (including cementing and mud services). The rigs were deployed during 2009-12.

Audit noticed that:

- (i) Non-productive time of these eight rigs was very high ~30 *per cent* (2,532 days out of 8,569 available rigs days).
- (ii) An assessment of non-productive time indicated that its significant component (60 *per cent*) could be attributed to the contractor, M/s Shiv Vani. The three Assets lost 291 rig days due to repair of equipment, 391 days due to shut down of rigs for want of men and material and 842 days due to rigs being out of cycle which were attributable to poor performance of the contractor.
- (iii) Rigs SVUL-2000-27, SVUL-2000-28, SVUL-2000-32, SVUL-2000-33 and SVUL-3000-50 supplied by M/s Shiv Vani remained idle mostly waiting for annular Blow Out Preventer (BOP) rubber element, waiting for choke manifold and pressure gauges, repair of Top Drive System (TDS) and fishing tools, shut down for mud cleaner screen/shale shaker screen, centrifuge, damaged high pressure hose, non-availability of drilling material, mud chemicals and cementing services with the hired rig and shortage of crew *etc.* Maintenance of all these facilities and providing necessary equipment/tools *etc.* was the responsibility of the contractor as a part of associated services with the rigs.
- (iv) The contract did not include penal provision for not providing the associated services like cementing and mud services. Prolonged delays were noticed in the execution of associated services by the contractor but, owing to a deficient contract, no penalty could be imposed on it.
- (v) The contractor had taken an unduly long time vis-à-vis the Company's internal norms for Inter Location Movement (ILM) and Rig Building. However, as the contract did not provide for time norms for these activities too, no penalty could be levied on the contractor. There appears to be a strong case for fixing specific time norms (with respect to distance and type of rig) for ILM and rig building in the contract to act as a deterrent against such delays.

The Company replied (April 2015) that the contractors were paid lump sum amount for ILM and, resultantly, there was no penal provision for delay in ILM. During the period of ILM, no other charges were payable to contractors. It was beneficial for the contractor to complete ILM and start the operation as early as possible so that it could get applicable day rates. However, the Company accepted that timeline for ILM had been included in current tenders for rig hiring in onshore areas, as advised by Audit.

The Company also stated that though the contract was an integrated one and included associated services like cementing and mud services, penalty clauses were limited to mobilisation of the rig alone. The Company admitted that in the instant case, there were prolonged delays in associated services provided by the contractor but these delays could not be penalised in the absence of suitable penal provisions in the contract.

MOPNG stated (August 2015) that the assurance of the Company would be noted for compliance.

Implementation of corrective action taken by the Company would be watched in future audit.

4.5.2 Improper procedure followed for termination of contract

ONGS, Vadodara awarded (February 2009) a contract to M/s Dewanchand Ramsaran Industries (P) Limited, Mumbai (contractor) for charter hire of one 2000 HP drilling rig for Frontier Basin for two years at a cost of ₹ 114.78 crore. The rig commenced operation from December 2009 at the first designated location R-BH-C of Frontier Basin with some deficiencies. In April 2010, the Frontier Basin terminated the contract for failure of the contractor to rectify these deficiencies. The Frontier Basin did not inform ONGS, Vadodara, responsible for hiring onland rigs. The contractor filed civil writ petition in the High Court of Himachal Pradesh, Shimla. The High Court (December 2010) quashed the termination of contract on the ground that the Company had not followed the prescribed procedure.

Audit observed that the Company was aware of the improper procedure of termination of the contract. Legal section, Vadodara opined that the language used in the termination letter (April 2010) was not clear and Frontier Basin should have been more careful in the matter so as to avoid any dispute and legal complications. The Chief Legal Services of the Company also noted that termination of the contract with effect from April 2010 was not in strict compliance with the procedure laid down in clauses 3.5, 3.9 and 22.5 of the contract.

The Company could not encash the performance bank guarantee of USD 863,855 and was forced to extend the contract. The Executive Committee also expressed (January 2011) deep concern over the contract management in the instant case.

The Company stated (April 2015) that the rig was hired for fulfillment of Minimum Work Programme of NELP/PEL Block which was to expire shortly at that point of time. There might have been some shortcomings in strict compliance of termination process, but rig hiring was time consuming.

The Company had agreed that there have been shortcomings in the termination process. These lapses had cost the Company in terms of forced extension of the contract and inability to encash the performance bank guarantee despite deficient services provided by the contractor. Efforts need to be taken to avoid recurrence of such incidences in future.

MOPNG assured (August 2015) that all out efforts would be made by the Company to avoid recurrence of such cases in future. Audit acknowledges the corrective action proposed.

4.6 Acquisition of rigs

4.6.1 Delay in formalizing policy for acquisition of offshore rigs

The offshore Drilling Services group of the Company had initiated a proposal for acquisition of four new jack-up offshore rigs in December 2002. The delay in acquisition of rigs was commented in Paragraph No. 4.2.4 of Performance Audit Report (No. 11 of 2012-13) on 'Hydrocarbon Exploration Efforts in ONGC' tabled in Parliament on 6 August 2012. Decision regarding acquisition of rigs was yet (May 2015) to be taken, even after 13 years.

It was seen that the Company was yet to frame its strategic policy on 'owning versus charter hiring of rigs'. Meanwhile, most of the Company's owned rigs had outlived their useful lives of 30 years. In case the Company does not take a decision on acquisition of rigs early, it may

have to be entirely dependent on CH rigs in near future.

In response, the Company stated (April 2015) that a high level Committee in association with a consultant - M/s McKinsey was constituted to evaluate business model of own versus CH drilling rigs for both onshore and offshore operations. The Committee had submitted (March 2014) its report to EC. After finalisation of the ownership policy of onshore and offshore rigs, further action in this regard would be decided. The Company accepted that considerable time had lapsed in finalisation of the decision. However, it had been stressed that such investment decision for acquiring capital assets worth around ₹ 5,000 crore needed thorough evaluation.

While seriousness of the investment decision was appreciated, it was pertinent to note that four out of six jack up rigs had outlived their economic lives of 30 years as determined by the Company. The two drillships viz. Sagar Vijay and Sagar Bhushan had also outlived their prescribed economic life of 25 years. The Company had highlighted (October 2013) the importance of having a mix of own and chartered hire rigs for a competitive edge. Considering the age, huge cost of major lay-up repairs and poor performance of the owned offshore rigs, the Company needed to decide its policy for owning versus hiring of rigs which has been pending for the last 13 years.

MOPNG stated (August 2015) that most of the offshore rigs owned by the Company had outlived their useful lives and a policy regarding acquisition of rigs would be finalised by the Company expeditiously. Any acquisition would be done after finalisation of ownership policy.

The formulation and implementation of 'rig acquisition policy' as assured by MOPNG would be watched in future audit.

4.6.2 Non-acquisition of five onland mobile drilling rigs

A review of the acquisition of onland rigs over 2010-14 indicated lack of firm policy in this regard. The Executive Committee (EC) of the Company had approved (July 2006) purchase of ten onland drilling rigs (six Type-III, 2000 HP and four mobile drilling rigs of 700 HP). Purchase of all the ten rigs had a negative NPV. The Board, however, approved (August 2011) the procurement of only six Type-III-2000 HP drilling rigs fitted with AC-VFD¹⁰ from M/s. BHEL on nomination basis at a cost of ₹ 795.72 crore.

The requirement of mobile rigs had meanwhile increased to five. The Project Appraisal Committee (PAC) in its 105th meeting held in April 2011 observed the need to establish

Rig	Mfg. Year	Vintage
Jack-up Rigs		
S/Gaurav	1982	33 years
S/Shakti	1982	33 years
S/Jyoti	1983	32 years
S/Ratna	1985	30 years
S/Kiran	1988	27 years
S/Uday	1990	25 years
Drillships		
S/Vjiay	1985	30 years
S/Bhushan	1987	28 years

¹⁰ Alternative Current Variable Frequency Drive.

reasonability of procurement of mobile rigs from M/s. BHEL on nomination basis in view of the negative NPV reflected in the appraisal. The Board (August 2011) recommended ICB tender for procurement of mobile rigs.

Subsequently, EC reviewed (June 2013) the economics of the procurement against hiring of the onland rigs and observed that procurement would lead to negative NPV considering eight *per cent* escalation of hiring charges per annum. The acquisition would yield a positive NPV only if the escalation of hiring charges was considered to be 12 *per cent* per annum. On this basis, EC accorded in principle approval for acquisition of the five mobile drilling rigs. In the same meeting, however, EC directed that no purchase of new rigs or renovation /upgradation of existing onland rigs be taken up unless the revised onland rig discard policy was firmed up. Accordingly, the proposed procurement action of five mobile drilling rigs was not pursued further.

Audit observed that:

- i. The decision regarding procurement of onland rigs had not been consistent. While six AC-VFD drilling rigs were procured (2012) despite negative NPV and lack of rig discard policy, five mobile rigs were not procured on the same ground. The five rigs were required for replacing existing rigs already laid off/ proposed to be laid off and, therefore, the decision affected availability of mobile rigs.
- ii. With the hiring process of mobile rigs also getting delayed, the Company faced a shortage of mobile rigs. In Mehsana Asset, two rigs of the Asset had already been laid off. Similarly, Tripura Asset was facing shortage of rigs to meet the target of providing 6.0 MMSCMD of gas to ONGC Tripura Power Limited (OTPL) and Ahmedabad Asset faces difficulty in meeting targets of Exploratory Drilling.

The Company stated (March 2015) that the decision in this regard was pending finalisation of policy on mix of owned versus hired rigs.

MOPNG stated (August 2015) that discard policy has been approved and rig acquisition process has been initiated, which would be put up to EC within fifteen days. Based on EC decision, the timeline for acquisition would be decided in a phased manner depending upon the number of rigs getting discarded by third party inspection. As regards the tendering process, the Company had revised delegation of powers (January 2015) and brought in a New integrated MM manual (February 2015) and these new policies, decentralized administrative and financial powers would expedite tendering process in an efficient manner for future tenders.

The timely implementation of rig discard policy, acquisition of new rigs in place of discarded old rigs and benefits of revised delegation of powers and new integrated MM manual policies in expediting tendering would be watched in future audit.