

# Executive Summary

## Background

The Ratna and R Series (R&RS) medium sized hydrocarbon fields are located in the Western Offshore area (at an average water depth of 45 metres) 130 kilometres southwest of Mumbai city. These fields were discovered and partially developed by the Oil and Natural Gas Corporation Limited (ONGC) in November 1979. ONGC had drilled 35 exploratory wells and 9 development wells and had installed one well cum production platform in one of the fields viz. R-12. Commercial production of Crude Oil and Natural Gas was started by ONGC from R-12 field in February 1983. The Government of India (GoI) decided in 1991 for inviting private parties in upstream oil sector. In 1993, GoI issued notice inviting offers for development of R&RS fields. ONGC stopped production of Petroleum from these fields from September 1994.

Following invitation of bids from private parties by GoI, the Cabinet Committee on Economic Affairs (CCEA) approved (February 1996) award of contract in respect of R&RS fields to a Consortium of Successful Bidders (CoSB). Accordingly, the Ministry of Petroleum and Natural Gas (MoPNG) issued (March 1996) a Letter of award of R&RS fields to CoSB. Thereafter, CCEA approved (March 1999) negotiation to be held by the Negotiating Team of Secretaries (NTS) for finalising and concluding Production Sharing Contract (PSC) within six months.

Records pertaining to R&RS fields of MoPNG and ONGC were examined.

## Highlights

The process of reaching upto a decision to finalise the PSC was not completed despite more than 16 years having passed (as of August 2015) since the CCEA approval for entering into negotiations with CoSB. Analysis of sequence of events for finalisation of PSC by MoPNG revealed the following:

- (i) NTS kept setting targets for completion of negotiations and signing of PSC. In November 1999, the NTS decided that the entire process of negotiations would be completed by 15 February 2000. In March 2000 meeting, NTS decided that negotiations should be completed by 30 April 2000 and in 7 September 2000 meeting, NTS decided to conclude the negotiation process by 18 September 2000. However, NTS did not adhere to its own targets for completion of the negotiations. NTS held 20 meetings between November 1999 and June 2013. During the period from May 2010

to July 2015, only two meetings of NTS were held and on both occasions, it was decided to hold another meeting to take a final decision in the matter.

**(Paragraphs 5.1 and 5.2)**

- (ii) Frequent deliberations were held on certain techno-legal issues from February 2001 to April 2005 among the Ministry of Petroleum and Natural Gas (MoPNG), the Ministry of Law and Justice (MoL&J) and the Ministry of Finance (MOF). Various rounds of clarifications and confirmations were sought though the Secretaries of all these three ministries were the members of NTS.

**(Paragraph 6)**

- (iii) CCEA had approved (9 March 1999) freezing of the rates of levy of royalty and cess prevailing at the time of bidding. Draft PSC was initialled by all the parties in April 2001 with the same rates of royalty and cess. NTS advised (April 2005) that Consortium of Successful Bidders (CoSB) may be asked to confirm payments of statutory levies at the current level rather than those prevailing in 1995. It recommended that the consequential changes to PSC subsequent to the above may be initialled after vetting by MoL&J. However, CoSB did not agree to the change in the rates of royalty and cess. The Government was advised (June 2005) by the Attorney General of India (AGI) to proceed with signing of PSC in relation to R&RS fields, with the successful bidder on the basis of royalty and cess as fixed in the draft PSC. NTS in its various meetings till March, 2008 advised to maintain the cess and royalty at old rate. However, the issue was raised and referred among various ministries and had been repeatedly sent for opinion of the MoL&J and AGI who reiterated their earlier opinion.

**(Paragraph 7)**

- (iv) Financial capability of CoSB was evaluated in 1995 before award of contract to it. After assignment (March 1999) of work to NTS by CCEA for negotiation on the terms and conditions and signing of PSC with CoSB, NTS decided (March 2000) to assess the updated financial strength of the CoSB. This was carried out in June 2000 and NTS gave its go ahead for processing the PSC in February 2001. Thereafter, assessment of financial capability was again carried out in October 2004 and January 2012. Delays in taking final decision on various matters and raising of already settled issues led to the need for fresh assessments of the financial capability of CoSB, which contributed to further delays which were avoidable.

**(Paragraph 8)**

- (v) While approving the proposal in March 1999, CCEA approved conclusion of contract keeping the cess and royalty at the levels prevailing at the time of inviting bids. Despite the above decision of CCEA and the fact that PSCs for rest of 11 fields from the bundle of 12 fields offered simultaneously under similar terms and conditions had been finalised and signed till the end of 2004, opinion of AGI to go for finalisation of PSC and recommendation of NTS (April 2006) for conclusion of PSC, the case was

sent (January 2008) to CCEA for an appropriate decision. CCEA Note was returned by the Cabinet Secretariat to obtain unambiguous recommendations of NTS. NTS forwarded its unambiguous recommendations in March 2008. MoPNG submitted (June 2008) the Note to CCEA, agreeing with NTS recommendations. Cabinet Secretariat again returned (July 2008) the Note to make certain modifications/corrections relating to some deficiencies. A proposal for modification in the Note to CCEA was approved on 09 July 2008. However, the matter was again re-examined in MoPNG and it was decided that NTS should consider the matter once again, with a view to analysing in detail the various alternatives available along with their financial implications. Thereafter no final decision was taken.

**(Paragraph 9)**

- (vi) ONGC had created facilities in Ratna R-12 field at a cost of ₹ 472.55 crore. These facilities were used by the Company for production since February 1983. Following stoppage of production from the field (September 1994), ONGC did not maintain the facilities though specific directions were issued by MoPNG/NTS with an acceptance to reimburse the cost by the Consortium Partners. ONGC's own inspections reported the facts of serious deterioration in the condition of the facilities and 'Plundering and looting' of platform utilities and equipment. The estimated repair cost for the existing facilities at current exchange rates (September 2015) would be ₹ 1085.70 crore.

**(Paragraph 10)**

- (vii) For want of requisite details, Audit attempted to work out the financial implications on indicative basis assuming that (a) PSC for R&RS mid-sized fields could have been finalised in 2001 along with nine other small sized fields and (b) the production from the R&RS fields would have started in four years eight months (eight out of nine fields started production and maximum time taken to start production in these fields was four years eight months) from October 2005. In this scenario, based on development plan submitted by CoSB to GoI, domestic production of 56 mbbls of Crude Oil (valuing ₹ 25650 crore) and 920 mmscm of Natural Gas (valuing ₹ 550 crore) had been deferred during October 2005 to March 2015. GoI's take to the tune of ₹ 1050 crore on account of royalty and cess on Crude Oil and ₹ 55 crore towards royalty on Natural Gas for the said period also remained deferred and unrealised.

**(Paragraph 12)**