Chapter 5
Impact Assessment

5.1. Over payment of Performance Related Pay (PRP) due to over reporting crude oil production

Department of Public Enterprise (DPE) introduced (November 2008) payment of PRP as a variable pay directly linked to the profits of the CPSEs, the performance of the CPSE as well as that of the employees[18]**.** The performance of the CPSE is measured by its MoU (Memorandum of Understanding signed with the respective Ministry) rating. For a CPSE having 'excellent' rating, 100 *percent* of PRP is payable to its employees as against 80 *percent* for 'very good', 60 *percent* for 'good' and 40 *percent* for 'fair' rating.

Audit noticed that the Company was awarded 'excellent' rating during 2011-12 to 2013-14 and was awarded 'very good' in 2014-15. Crude oil production by the Company is a parameter for assessing its performance. It was seen that the Company failed to achieve the MoU target for crude oil production consistently during this period even though the reported crude oil production had been over-stated during these years by inclusion of BS&W and off-gas quantity (as mentioned at paras 3.1 and 3.2 of the report).

Audit reworked the MoU rating of the Company (**Annexure III**) considering the actual crude oil production (i.e. excluding BS&W and off-gas quantity) and observed that during the year, 2013-14, the score of the Company changed from 1.476 (Excellent rating) to 1.508 (Very Good rating). Hence, for 2013-14, the PRP applicable to employees should have been 80 *per cent* instead of the 100 per cent received by them. Considering Company's estimates of PRP payment under excellent rating of ₹854.67 crore, and the eligible amount of ₹748.16 crore (@ 80 per cent) under Very Good rating, the excess payment works out to ₹106.51 crore (approximately) on PRP payments for the financial year 2013-14.

Management replied (January 2016) that the actual production data is reported against target exactly in the same line and with same assumptions as are made while formulating the target. Management pointed out that in the MoU target, no adjustments of BS&W and off-gas was made in formulating the crude oil production targets. The same practice was followed in actual reporting too. Hence PRP has been paid by ONGC for the FY 2013-14 as per DPE guidelines.

The reply of the Management is not convincing in view of following:

(i) Crude oil production target for 2013-14 was fixed in the Task Force meeting held in February 2013. Audit noticed that the crude oil production target did not indicate

[18] Annual PRP amount = Component of PRP (60% from current profit and 40% from incremental profit)*Annual Basic Pay* **MoU Rating** (Excellent-100%, Very Good-80%, Good-60%, Fair-40%)*Grade Incentive (E0 to E3-40%, E4 to E5-50%, E6 to E7-60%, E8 to E9-70% and E-10-10%, Directors-150%, CMD-200%)* Executive Performance Rating*Ratio of required amount available to available amount.

that it was inclusive of BS&W and off-gas quantity. The MoU (2013-14) signed by the Company with the MoPNG on 25th March 2013 is also silent regarding inclusion of BS&W and off-gas in the crude oil production target. Audit noticed that the signed MoU indicated 'Annual Report 2013-14' as documentary evidence and source/origin of document for evaluation of performance of crude oil production target. There was no mention regarding BS&W and off-gas quantity being a part of crude oil production quantity in the Annual report of 2013-14.

(ii) Besides, with ageing of the Company's fields, BS&W quantity is progressively increasing. Inclusion of BS&W quantity in the crude oil production target or achievement would lead to erroneous target setting and reporting, with the quantum of error increasing consistently over time as BS&W quantity increases.

(iii) The MoU targets of the Company for crude oil production are distributed among the offshore and onshore Assets. The production targets of the individual Assets were fixed in the Performance Contracts signed by them with the Management. Audit noticed that these performance contracts defined crude oil production as *"crude oil would include the portion of recoverable oil reserve that is produced and delivered at the custody transfer/delivery meter. It includes the quantity after adjustment of Basic Sediment and Water (BS&W)"*. The JVs (in which the Company had a participating interest) also reported crude oil production exclusive of BS&W and off-gas quantity. This indicates that BS&W and off-gas is not intended for consideration as crude oil production within the Company as well as other domestic JVs.

(iv) Off-gas is a dissolved gas in partially stabilized crude oil dispatched from offshore and same is removed in Uran plant during processing and stabilization of crude oil and added to the gas production and sold as natural gas. As such, it should not have been reported as crude oil production.

5.2. Additional subsidy burden borne by the Company

A. Additional subsidy burden of ₹18626.74 crore due to over-statement of Crude Oil production by inclusion of condensate and off-gas

The upstream National Oil Companies (NOCs, viz., ONGC and OIL) shared the under-recovery of the Oil Marketing Companies (OMCs) arising from sale of refined petroleum products at subsidized rates since October 2003. The methodology for determination of subsidy share of upstream NOCs during the period from 2003 to 2011, did not refer to the actual production of crude oil by these companies. MoPNG, by its order dated 9 January 2012, revised the subsidy sharing methodology. As per the revised system, the subsidy burden of an NOC would be based on its crude oil production (less basic sediment and water, internal consumption and transit loss). Subsidy share of ONGC for the period 2011-12 to 2014-15 (upto September 2014) has been worked out based on the following formula:

USD56 per barrel x Reported crude oil production measured in barrels

For the third quarter of 2014-15 (October to December 2014), the subsidy rate was revised to USD 37.50 per barrel which further reduced to 'nil' in the last quarter (January to March 2015) in view of the falling international crude oil prices.

The Company had to bear a larger share of subsidy due to overstatement of reported crude oil production by inclusion of condensate and off-gas (7.06 *per cent* of condensate and 1 *per cent* of off-gas). The additional subsidy burden borne by the Company was ₹18626.74 crore (*i.e.*, ₹16331.96 crore on account of inclusion of condensate and ₹2294.78 crore on account of inclusion of off-gas in crude oil production) during the period from 2011-12 to 2014-15 (**Annexure-IV**).

Management/Ministry replied (January/April 2016) as follows:

(i) The significant implication of inclusion of condensate for determination of ONGC's share of under-recoveries has been taken up with the Government. ONGC had appealed to Government that in future only crude oil quantity be considered for determination of ONGC's share of under-recoveries and quantity of gas condensate may not be included, as it is neither crude oil nor is it sold. It has also been informed that the issue of exclusion of condensate has been taken up by ONGC with MoP&NG/MoF at various level/forums over the period from October 2012 to May 2014.

(ii) The information regarding off-gas was provided by the Company as per the format made available by MoPNG/Petroleum Planning Analysis Cell. Since the off-gas quantity (though removed subsequently from the crude oil and added to gas stream) is included and reported in gross production of crude oil, the same is considered by Government for determination of ONGC's share of under-recoveries. Since Q3 of 2015-16 quantity of off gas has been shown separatelyin the crude tally statement submitted to MoPNG.

(iii) Government Audit may take up the issue with Government for exclusion of condensate and off-gas for determination of ONGC's share of under-recoveries.

The reply of the Management/Ministry only strengthens the Audit contention that 'condensate' and 'off-gas' ought not to be reported as 'crude oil' production.

(i) The Company had itself stated to the Government (July 2012) that 'condensate' is '*neither crude oil nor is it sold*'. Yet, the Company has been '*reporting production of crude oil inclusive of condensate right from 1990 onwards*'. It is this incorrect practice of reporting condensate as crude oil, even as the Company was aware of the difference of the two, that has led to the present situation of additional subsidy share on this account.

(ii) As the Company itself points out in reply, 'off-gas' is removed subsequently from the crude oil and added to gas stream. It is later sold as natural gas. As such, reporting 'off-gas' as crude production is incorrect. It is noticed that while the Company had taken up the matter regarding exclusion of 'condensate' for working out subsidy share, the issue regarding exclusion of 'off-gas' had not been raised with the Government (except showing it separately after the issue has been flagged in Audit).

The additional subsidy burden on condensate and off-gas quantity has arisen on account of reporting both items (which are not crude as acknowledged by the Company) as crude oil production.

B. **Excess sharing of subsidy burden of ₹160.69 crore due to over reporting of crude oil production**

The impact of excess subsidy borne by the Company in onshore areas due to over reporting of closing stock is detailed below:

- As discussed at Para 4.6-A, the Company over reported crude oil production in Ankleshwar Asset by way of reporting excess closing stock vis-a-vis actual, which resulted in avoidable payment of share of subsidy of ₹153.48 crore (**Annexure V**).

- As discussed at Para 4.6-B, the Assam Asset over reported crude oil production by 2699.54 MT (3139 M^3) which resulted in avoidable payment of share of subsidy of ₹7.21 crore. (**Annexure-V**)

Management agreed (January 2016) with the audit observation on over reporting of closing stock crude oil production and stated that closing stock was corrected in January 2015. In respect of Assam Asset, Management has accepted the audit observation and assured that due care would be taken to avoid such incidents in future. Ministry added (April 2016) that post audit observation, Assets have been sensitized of the issue and close monitoring of closing stock is being done to avoid recurrence of such incidence.

Audit has noted the corrective action taken by the Management subsequently.