Chapter 4: Acquisition and Hiring of Vessels

4.1 Acquisition of Vessels

The Company has adopted a business strategy of deploying mix fleet of owned and chartered vessels so as to avoid total dependency in charter vessels. It planned to acquire new OSVs to replace its own aged vessels. Considering the availability of vessels and the assessment of expected work load, the Company hired vessels from market, whenever required.

4.1.1 Delay in acquisition of vessels

Out of 31 OSVs owned by the Company, 28 OSVs had completed[12] 20 years of economic life (determined by the Executive Committee) during the period from 2004 to 2007. Since total dependence on chartered vessels for supply and safety was not advisable from a strategic perspective, the Company proposed (August 2006) acquisition of 12 OSVs for replacement of old vessels in a phased manner. The Board of Directors approved (July 2007) the proposal at an estimated cost of `736.65 crore with a supply period of 42 months from the date of approval. Thus the building and supply of 12 OSVs was required to be completed by December 2010.

Audit observed that there was a delay of one year in inviting tenders and a further delay of 19 months in award of the contract. The Company awarded the contract (June 2009) for building of 12 OSVs to M/s Pipavav Shipyard Ltd (PSL) with scheduled delivery of all vessels by December 2011. Review of the contract indicated the following:

- As per tender requirement, the bidder was required to have at least five years' experience in building self-propelled ocean going vessels. M/s PSL did not possess the requisite minimum experience of five years. However, they were qualified at the bid opening on the basis of their technical collaboration with M/s Jurong Shipyard, Singapore, which had the requisite experience. The awarding of contract to an inexperienced contractor on sole basis of its technical collaboration with M/s Jurong led to abnormal delay in acquisition of the vessels.

- M/s PSL submitted the Memorandum of Understanding (MOU) with M/s Jurong, along with the bid. The MOU stated that it was valid for the period provided for in the Company's tender document and that if the tender was awarded to M/s PSL, a Definitive Agreement would be submitted within 30 days from the date thereof or as parties mutually agreed. As stated by the Company, the notarized agreement was submitted to the Company only on 01 February 2017.

- Delivery of the **12 OSVs** was to be completed within 30 months of the date of award of contract i.e. by December 2011 as per the agreement. Two vessels were first delivered

[12] *Sindhu series vessels were acquired by the Company during the period 1984-87 and Samudrika series vessels during 1986 to 1993. Thus economic life of the Sindhu series vessels was completed during 2004-07 and Samudrika series during 2006 to 2013. EC gave approval for phasing out of all these old vessels in a phased manner and gave in principle approval for building of 12 OSVs in the first phase.*

during February/March 2013, two during September 2013/March 2014 and another two vessels were delivered during August 2014/April 2015. M/s PSL sought (November 2015) extension of time upto October 2016, for delivery of the remaining six vessels. However, by December 2016, PSL could deliver only one vessel and on expiry of last extension (till 31 May 2018) for delivery of vessels, the Company terminated the contract in July 2018. Though the Company has invoked the bank guarantees (April/May 2018) amounting to USD 74.68 million (₹500.05 crore @ ₹66.95 per USD), the contractor has gone in for arbitration (March 2019) and the outcome is awaited. Audit noticed that the non-delivery of five vessels and delayed delivery of seven vessels adversely impacted operations since the Company had to utilise costlier Platform Supply Vessels (PSVs) for mandatory standby duty (Performed by OSVs) resulting in extra cost of logistic operation. This has been dealt with in Para 3.2 and Para 5.2.

Management stated (September 2017) that as per decision of the Board of Directors, the supply should have been completed by December 2010 and there was delay in execution of the contract by more than 6 years. Ministry did not offer any specific remarks on this issue.

During the Exit Conference (October 2017), Management stated that the Company has now strengthened the Bid Evaluation Criteria (BEC) relating to financial strength/ consortium to avoid recurrence of such events in future.

4.2 Hiring of vessels

Hiring of vessels was one of the methods adopted by the Company to address the shortage of vessels. The vessels were hired generally through International Competitive Bidding (ICB) on a long-term basis for a period of three to five years. During the period from 2012-13 to 2016-17, the Company awarded 134 contracts for chartering vessels through 26 different tenders. Review of the hiring process of vessels indicated the following:

4.2.1 Delay in finalization of tenders for hiring of vessels

The Integrated Materials Management (MM) Manual of ONGC prescribed a period of 165 days for processing of tenders as shown in the diagram below:

Fig. 4.1 Time limits prescribed in MM Manual for processing of tenders

The period from publication of Notice Inviting Tenders (NIT) to Notification of Award of Contract (NOA) was 120 days. Further, 20 days each were assigned for maximum two rounds of clarifications and five days for seeking approval of the concerned Director, wherever necessary.

Audit compared the actual time taken by the Company to complete the various stages of processing of the 134 contracts awarded under various tenders issued during the period from 2012-13 to 2016-17, with the normative period prescribed in the MM Manual. Delays were observed in the processing of these tenders as indicated in the table below:

Table 4.1: Delay in finalization of tender

Process	No. of contracts in which delay was observed	Prescribed Period as per MM Manual	Median delay (days)
Award of Contract	62	120 days from publication of NIT	39
Signing of Contract	97	30 days from date of issue of NOA	38
Submission of Performance Bank Guarantee (PBG)	15	15 days of placement of NOA	9

Of the above, in 13 contracts the delay in award of contract was more than 90 days and in eight contracts the delay in signing contracts was more than 90 days.

Management stated (September 2017) that all efforts would be made to finalise the tenders on time and that delay in submission of Performance Bank Guarantee (PBG) led to delay in signing of the contract. The delay in submission of PBG was not entirely within the control of the Company. Management also stated that it was difficult to cancel a contract on account of delayed submission of PBG when there was requirement for the vessel. Management, however, assured (May 2018) that all efforts would be made to ensure timely submission of PBG and timely signing of contracts. Ministry endorsed the reply of the Management.

4.2.2 Sub-optimal performance of tanker hired on nomination basis leading to purchase of costlier High Flash High Speed Diesel (HFHSD)

Company decided (July 2015) to procure HFHSD for supply to vessels/rigs in the Western Offshore, on waterfront delivery[13] basis for its twin tax advantages viz., payment of lesser tax of Central Sales Tax as compared to Value Added Tax and non-applicability of entry tax, as sale was transacted on waterfront without use of shorebase facilities.

It was necessary for the Company to hire a tanker and barge for this arrangement. But the

[13] *Sale/purchase of HFHSD on the edge of a body of water, especially an ocean; wharf or dock section without use of shore base facilities.*

Company took more than two years in finalizing the tender and as a result, the Company had to hire an oil tanker, B.C.Chatterjee, from Shipping Corporation of India (SCI) on nomination basis during the period November 2015 to December 2016. The hired oil tanker had defects in its engine, generator and boiler leading to frequent downtime. Jawaharlal Nehru Port Trust (JNPT) also intimated the Company that the tanker was not safe to be anchored in JNPT due to intermittent non-operation of its main engine and generator. Frequent failure of the tanker denied the Company the benefits of lower prices of HFHSD on water front basis as the Company had to procure HFHSD from Oil Marketing Companies (OMCs) at higher rates at an additional cost of `163.44 crore (incurring VAT and entry tax). The Company also incurred standby cost of `1.54 crore to chartered barge during the downtime of oil tanker (**Annexure II)**.

Management stated (June/September 2017) that the oil tanker was not a routine vessel being hired by the Company and there were very few responses to the Expression of Interest (EOI). In the absence of other alternatives, the tanker from SCI was hired on nomination basis to save procurement cost of HFHSD from OMCs at higher costs. Ministry did not offer any specific response in this regard.

Audit holds that the Company had regularly hired oil tankers for storage and transportation of crude oil from Mumbai offshore fields during the period from 2007 to 2016. Besides, the EOI floated in September 2015 indicated that oil tankers of various capacities were available in the market. Had the company finalized the tender within the prescribed period, the need to hire the tanker on nomination basis would not have arisen.

4.2.3 Non-deployment of two barges for supply of HFHSD

The Company hired one barge to cater to the requirement of HFHSD sourced from Mangalore Refinery and Petrochemicals Limited (MRPL). However, a single barge alone was inadequate considering the barge loading time at Nhava Supply Base (NSB) and the voyage time between NSB and MRPL and back. At times, JNPT also instructed the Company to vacate the anchorage to accommodate other vessels on emergency. During this period, costlier HFHSD sourced from other OMCs, after payment of VAT and entry tax, was being supplied to vessels as single barge was not sufficient to meet the requirement.

In order to avoid sourcing of costly HFHSD from OMCs, the Company considered (August 2016) hiring of an additional barge for a period of two years. The Company assessed the savings from hiring additional barge at `11.83 crore per month. The proposal was approved by the Virtual Corporate Committee (VCC)[14] in December 2016.

Audit observed that the Company had sourced HFHSD from MRPL during the period 2006 to 2011 and deployed two barges for the transportation of HFHSD. In the present arrangement also, NSB had assessed the requirement of two barges. However, the indent was placed for engagement of only one barge. Non deployment of two barges, from initial stage itself resulted

[14] *VCC is constituted at work center level for taking decision for operational requirements*

in foregoing potential savings of `307.58[15] crore from November 2015 to December 2017.

Management stated (June/September 2017) that transportation of HFHSD from MRPL through oil tanker and barge was done after a long gap. In the earlier arrangement also, two barges of combined capacity of 2500 KL were used and the system was working perfectly. Thus, it was considered prudent to hire a single barge of 2500 KL. However, during operations with more downtime of oil tanker B.C. Chatterjee, the need for a second barge was felt. Ministry did not offer any specific remarks on this issue.

Audit holds that even assuming that the performance of the SCI tanker was as per contractual requirement, deployment of one barge was not sufficient for efficient and economical operations.

In the updated reply after the exit conference, Management stated (May 2018) that the issue of deployment of two barges was rectified and second barge was also deployed with effect from January 2018.

[15] *`11.83 crore per month x26 months (Contract Period November 2015 to December 2017)*

A Platform Supply Vessel (PSV)