CHAPTER 6

EFFECTIVENESS OF EXPLORATION EFFORTS

In order to determine how far OIL was effective in its exploration efforts in the nomination blocks, audit reviewed the status of conversion of PEL block into PML blocks, and relinquishment of PEL blocks under Nomination Regime during 2009-10 to 2013-14. Out of 16 PEL blocks and 22 PML blocks, audit reviewed 5 PEL and 7 PML blocks respectively.

Audit also reviewed success of bidding by OIL under various rounds of NELP, status of achievement of MWP and payment of liquidated damages (LD) by OIL in NELP blocks during 2009-10 to 2013-14. Blocks relinquished by OIL were also reviewed. Besides, role of MOPNG and DGH and certain illustrative cases related to exploration efforts of OIL have also been highlighted.

6.1 Performance in Nomination Blocks

6.1.1. Status of Conversion of PEL to PML blocks

Under the Nomination regime, OIL was granted Petroleum Exploration License (PEL) in 16 blocks during the period from 1985 to 1999.

Audit reviewed the status of seven of the above blocks and observed that:

- During last five years ended 2013-14, OIL converted only two blocks, that too partially, from PEL into PML. Only 90 Sq. Km (Borhat PEL: 81 Sq. Km and Tinsukia PEL: 9 Sq. Km) was converted out of 1887 Sq.Km. (222 sq.km for Borhat and 1665 sq.km for Tinsukia) allotted.
- Out of five operational PELs, OIL applied for extension in three blocks (Dibrugarh, Tinsukia and Deomali), in respect of which the approval of DGH was awaited (December 2014). In balance two PEL blocks (Jairampur Ext. and Namchik PEL) allotted (May 1990 and April 1999), OIL initiated action to drill only in two locations[41].

[41] JRB and NCK-1

6.1.1.1 Significant issues in management of PEL blocks

The Dibrugarh PEL was granted to OIL in November 1987. The civil work at location DIBH could not be started as the land was acquired only in February 2009. Even after acquisition of land, civil construction could not be started as PEL expired in March 2009. OIL applied for extension, only after expiry of the PEL in April 2009, which was granted in February 2011 and was valid upto February 2013. During the period April 2009 to February 2011, no activity was carried out pending extension of PEL. Further, civil construction could not be commenced due to litigation and demand of higher compensation by the local farmers. This remained unresolved since 2012.

In location DIBC, OIL carried out fresh civil work as the construction work done earlier at a cost of ₹ 1.17 crore was extensively damaged. OIL had to incur an amount of ₹ 0.90 crore for reconstruction of civil work.

MOPNG granted further extension upto February 2015. The PEL is still to be converted into PML (April 2015).

Audit observed that OIL did not take timely action for extension of PEL prior to March 2009. Further, MOPNG took inordinate time of 22 months in granting further extension thereby leading to idling of site and extra expenditure on fresh civil construction.

OIL replied (April 2015) that Dibrugarh PEL is currently under operation with discoveries. Based on the discoveries made in DIBC, presence of positive indication of hydrocarbon in DIBH and presence of identified prospects based on 3D seismic interpretation, 168.30 Sq.Km area was applied in February 2015 for conversion to Dibrugarh extension PML.

The fact remains that OIL held the block for 28 years and is yet to convert the block into PML (April 2015).

6.1.2. Status of relinquishment of PEL blocks

Out of 16 PEL blocks, OIL relinquished nine blocks in phases after holding them from 15 to 26 years without any discovery, even after incurring an expenditure of ₹ 219.11 crore (Annexure-V).

6.1.2.1 Significant issues in relinquished PEL blocks

- Lakhimpur PEL was awarded to OIL in December 1995. Though OIL completed extensive survey work and medium size prospects had also been identified, PEL block was relinquished in March 2009 due to expiry of PEL as MOPNG did not grant further extension.

In Audit view the decision to relinquish the block on the ground of geological constraints (the area being in the Brahmaputra river system) could have been taken earlier without incurring expenditure of ₹ 169.15 crore on survey work and indicates poor planning on the part of OIL.

- Margherita PEL was awarded to OIL in November 1987. OIL incurred expenditure of ₹ 14.46 crore in the block. Tests confirmed presence of gas in the area under the block. Based on the lead obtained, reinterpretation of the area was done and OIL planned to test the untested prospective area by deploying a workover outfit. However, OIL surrendered (April 2009) the block due to expiry of PEL.

In Audit view this reflects poor planning and lack of efforts by OIL as it held the PEL block for 22 years and surrendered the PEL block even after initial signs of presence of hydrocarbons.

OIL replied (April 2015) that Lakhimpur and Margherita PEL were relinquished due to poor hydrocarbon prospects in exploratory well drilled in identified structures.

OIL's reply about Lakhimpur and Margherita blocks, however, is not borne out by facts contained in the records of OIL, which indicated positive prospects of hydrocarbon.

6.1.3. Status of PML blocks

OIL had 22 PML blocks under operation during the period from 2009-10 to 2013-14, out of which six blocks[42] remained idle from 4 to 14 years after conversion into PML. OIL stated the reasons for idling of six blocks which included inter alia the following:

- In Tinsukia, regular production could not be sustained in one of the discovery within the PML due to local issues and few of the discovered/extension wells have been kept shut-in due to inconclusive production behaviour.
- In Borhapjan, due to down-hole problem, inconclusive production behaviour and lack of evacuation facilities, detailed testing of the structure could not be carried out at that time.
- In Dholiya, currently single well Dholiya-1 had been lined up for workover after availability of evacuation facilities.

[42] Ningru Extn. (Kherem), Tinsukia, Borhapjan, Dholiya, Mechaki and Mechaki Extn.

- In Mechaki, commercial production could not be sustained due to reservoir complications.

Audit observed that out of six blocks, in five blocks the reasons cited were not convincing. Conversion of PEL to PML is a result of discovery of hydrocarbon. As such citing of problems like inconclusive production behavior of ground reality at such a later stage does not hold good. OIL could have taken timely action for lining up of facilities as cited above as OIL is a major player in E&P sector and is a cash rich entity.

6.2 Performance in NELP blocks

6.2.1. Success of bidding

Upto Round-IX, GOI offered 360 exploration blocks, out of which 254 blocks were awarded till 31 March 2014. OIL participated in all the nine NELP rounds and submitted bids for 67 blocks and was awarded 40 blocks either alone or in the form of consortium. Out of these 40 blocks awarded, OIL performed as operator in 11 blocks. The details of round-wise blocks offered, bids submitted and blocks awarded to OIL are given in Annexure VI.

Audit observed that:

- The percentage of participation in NELP rounds was quite low except in Round-IX where OIL bid for 50 per cent of blocks offered. The participation ranged between 4 and 50 per cent.
- OIL was successful in acquiring all the blocks for which it submitted bids in four NELP rounds (i.e. NELP-I, II, III and VI). OIL's performance, however, was not very encouraging in NELP round-V and IX, where the percentage of success was 14 and 24 respectively.
- In 27 blocks, OIL lost the opportunity for exploration of hydrocarbon under NELP due to lower work commitments/fiscal package /technical capabilities in the bid proposal as compared to the successful bidders.

OIL stated (April 2015) that the participation in NELP is a function of various factors decided by management i.e. balance of acquiring prospective areas for future reserve portfolio expansion, investment in core areas of operation for revenue generation for maintaining growth, the geological and commercial prospectivity interpretation by in-house/ outside expertise, resource availability (man, material and fund), risk sharing with consortium partners, location and infrastructure suitability etc.

The reply needs to be viewed in the light of the fact that OIL submitted its bid for 2 to 8 blocks in the NELP round I to VII, which is considered to be quite low. However, OIL submitted bid for 14 and 17 blocks in next two rounds of NELP. Further, the success rate of obtaining blocks was not encouraging in NELP round – V and IX. It also lost the opportunity for exploration of blocks due to lower work commitment/ fiscal package/ technical capabilities in the bid proposal. Though OIL itself mentioned that under NELP the operator is benefitted in four ways i.e. (i) it would fetch better price as crude oil price would be determined on international price mechanism, (ii) exemption of custom duties on import of exploration equipment, (iii) rate of royalty would be less, and (iv) exemption from payment of cess etc., it had not been able to participate in the bidding process with all out efforts as evident from above.

6.2.2 Status of adherence to MWP

OIL had participating interest either alone or as consortium in 27 blocks in operation as on 31st March 2014. OIL is operator in 11 blocks out of these 27 blocks.

6.2.2.1 Significant issues in non achievement of MWP

Audit reviewed 7 blocks out of 11 blocks where OIL was operator and significant observations in respect of these blocks are as follows:

i) The block **AA-ONN-2002/3** under NELP-IV in Karbi-Anglong and North Cachar hill districts in Assam was awarded (April 2004) to the consortium of OIL (PI:30 per cent) and ONGC (PI:70 per cent), where OIL was the operator. The PEL was obtained from Government of Assam in February 2005.

OIL awarded (October 2005) a contract for acquiring 300 Ground Line Kilometer (GLKM) 2D seismic survey along with 100 geo-chemical samples to M/s. Shiv-Vani Oil and Gas Exploration Services Ltd., New Delhi (Shiv-vani) at a contract value of ₹ 11.95 crore. Since Shiv-vani did not complete the seismic survey work as per contract, OIL cancelled (July 2007) the original contract. Subsequently, OIL awarded (November 2008) the contract for 2D seismic survey to M/s. Indian Oil Tanking Limited (IOTL) for 150 GLKM only. OIL again awarded 100 GLKM in October 2010 and 50 GLKM in September 2011 to IOTL. IOTL completed the works in January 2012.

Audit observed major lacunae in planning of contract process as detailed below:

- While the termination notice was served in January 2007 to the contractor, the contract was cancelled in July 2007. Thus, OIL wasted six precious months of MWP.

- Inspite of splitting of the initial work of 300 GLKM into three contracts, OIL awarded the work to one contractor i.e. IOTL and as such lost the opportunity to get competitive pricing.
- Consequently, OIL had to award the contract at ₹ 41.79 crore to IOTL for the same work which was originally awarded to Shiv-vani at a contract value of ₹ 11.95 crore only. This resulted in payment of an additional amount of ₹ 29. 84 crore by the consortium where OIL's share was ₹ 8.95 crore.
- Due to delay in completion of Phase-II, a penalty of ₹ 31.78 lakh (upto September 2014) had been imposed by DGH wherein OIL's share was ₹ 9.53 lakh.

OIL replied (April 2015) that after ascertaining the hydrocarbon prospectivity of the area through interpretation of initially acquired 150 GLKM 2D seismic data, both the JV partners (OIL and ONGC) jointly agreed to go ahead for further 100 GLKM acquisition of 2D seismic data (contract amendment done for 250 GLKM) and subsequently another additional 50 GLKM (contract amendment done for 300 GLKM) to narrow down the prospect in the study area. The further extensions were required, to detail certain geological prospects which were assessed to provide suitable drilling location for oil and gas, based on the broad grid seismic data acquisition of initial 150 GLKM.

The reply of OIL is not convincing as it retained the scope and quantum of work at 300 GLKM of 2D survey while splitting the contract in the later instance on hindsight only. Had OIL been justified in such splitting ab initio, it could have avoided delay and escalation. It shows error in long term planning in assessing the viability of block on the part of OIL.

ii) The onshore block **RJ-ONN-2004/2** at Rajasthan was awarded in NELP-VI round of bidding to the consortium of OIL (75 per cent PI) and M/s GeoGlobal Resources (Barbados) Inc. GGR (25 per cent PI).

Audit observed that:

- In October 2008, OIL planned to complete 3D seismic API and twelve exploratory wells by October 2011. However, due to delay in API and release of drilling locations, actual achievement recorded a shortfall of 10 exploratory wells in the original Phase I period. This led to an avoidable payment of LD of ₹ 34.35 crore.
- One more well was drilled during the extended period of Phase I (January 2012 to July 2013).

- GGR stated that under the directions of Management Committee, they signed Operating Committee (OC) Resolution for transfer of PI in the block to OIL and hence it was OIL who had to pay the LD amount even towards GGR's share in the block. Presently, arbitration case is in progress.
- Highly viscous Heavy oil were observed in the well Punam-1 in July 2012. However, even after expiry of more than two years the Declaration of Commerciality (DOC) had not yet (December 2014) been submitted.
- The Phase-II expired in January 2015 without drilling a single well in this phase.

Thus, delay on the part of OIL in API and release of drilling locations with consequential delay of exploratory drilling led to non-monetisation of the discovery in the block till date.

OIL replied (April 2015) that 3D seismic data was acquired in November 2008 and processing was completed in May 2009. Interpretation was completed in April 2010. Further, integrated in-house interpretation was also carried out at OIL's interpretation centre wherein six locations were identified. Thus, there was no delay in finalization of drilling locations. In the first phase, two best locations were drilled during April 2011 to September 2011. Both the wells are abandoned due to poor hydrocarbon prospect. Well Punam-1 was the discovery well of the block. Thus, there was no undue delay in finalization and release of drilling location. Therefore, payment of 10 per cent LD was unavoidable.

While accepting the issue of GGR's breach of contract, OIL added that Declaration of Commerciality (DOC) was supposed to be submitted by June 2014. However, a note comprising G&G review and status of DOC in view of non-availability of suitable technology and drilling rig to complete the appraisal work programme was submitted to DGH in June 2014. OIL's efforts were on and it was carrying out experimental production testing in well Punam-1 by using cold production technique condensate from OIL's gas fields. OIL applied to DGH/MOPNG for grant of 3 years additional period with effect from June 2014 for completion of appraisal work and DOC pertaining to the discovery of highly viscous heavy oil. OIL's efforts were on for production of this type of crude and presently the well was unloading at the rate of around 8 bbls of well fluid after xylene treatment. Although Phase-II of the block expired in January 2015, the well could not be drilled for want of drilling rig.

The fact remains that, firstly, OIL has not been able to justify delayed processing and interpretation work which has a direct impact on ultimate delay in identifying and releasing drilling locations. Secondly, given OIL's status as one of the two major NOCs, OIL should have kept abreast of latest technology. Planning for adopting the right technology should have been initiated much earlier to enable timely deployment of drilling rigs.

6.2.3 Status of relinquishment of NELP blocks

OIL, as operator, relinquished seven blocks, out of which one[43] block was relinquished prior to 2009-10 and six blocks were relinquished during the period from 2009-10 to 2013-14.

OIL paid LD for 6 blocks amounting to ₹ 68.63 crore towards unfinished minimum work programme (MWP) during 2009-10 to 2013-14. Review of all relinquished blocks is summarized in Annexure VII.

6.2.3.1 Significant issues in relinquished NELP blocks

i) The block **AA-ONN- 2004/1 (Amguri)** was awarded to OIL, as operator, with 85 per cent of PI. The MWP comprised reprocessing of 2D, 3D Seismic (API), Geo-chemical sampling and drilling of 3 exploratory wells with a project cycle of 4 years commencing from 2007.

Based on 144 Sq. Km of new 3D seismic data interpretation, 3 locations were identified out of which 1 location (AMG-1) was released for exploratory drilling which was spudded in October 2009. The well was, however, abandoned in April 2010 in view of hydrocarbon discovery.

The land for drilling of second location of exploratory well (AMG-2) was acquired in April 2010 and civil work started in May 2010. OIL took 6 months extension under Phase-I (upto December 2011) in order to complete drilling of AMG-2, which was spudded in July 2011. AMG-2 was abandoned in December 2011 as there was no discovery of hydrocarbon. OIL did not agree to the proposal of availing additional 6 months extension (upto June 2012) to complete drilling and testing of third committed well (AMG-3) by paying 10 per cent LD on the ground that the matter had already been delayed and there was huge liability towards LD.

In the meantime, MOPNG had directed DGH that Phase-I of the Block was expired/terminated in December 2011.

Audit observed that:

[43] MN-ONN-2000/1

- In case of AMG-I the planned date for spud-in was August 2009. OIL spudded the well in October 2009 after a delay of two months.
- Land acquisition for construction of civil work for AMG-2 was not completed timely. OIL did not plan well in advance to allow civil work for AMG-2 to be completed before abandonment of AMG-1.
- OIL incurred a total expenditure of ₹ 83.59 crore[44] without completing its committed MWP and finally relinquished the block.
- OIL did not drill the committed third well (AMG-3) and paid an amount of ₹ 12.32 crore[45] towards LD as cost of unfinished committed minimum work programme to MOPNG due to delay in completion of the works arising out of improper planning.

OIL replied (January 2015) that as a part of expeditious exploration activities in the block, the first well AMG-1 was drilled. AMG-2 was drilled to the northern part of the block, on a separate fault block. Additional geo-scientific studies were carried out prior to drilling of AMG-2. Hence, land acquisition process was not initiated simultaneously to AMG-1. The lapse of one month for starting of civil work was due to finalizing the related contracts. OIL added that more than one year was taken to complete the civil work for AMG-2 because of the involvement of strengthening and repairing of 8.40 Km approach road to facilitate movement of heavy vehicles / rig transportation and carrying rig machineries. Moreover, civil work for AMG-2 had to be carried out during severe monsoon time which also delayed the spud-in of well AMG-2.

Contention of OIL is not convincing as OIL is an entity operating mostly in upper Assam and is technically capable in handling such reasons cited for delay. Since land acquisition of AMG-2 and ancillary civil work was not initiated simultaneously, while AMG-1 was in process, the delay was multiplied. OIL could have simultaneously carried out additional geo-scientific study without losing precious MWP time. The above reflected poor planning on the part of OIL.

Also three locations were identified (AMG-1, AMG-2, AMG-3) at the initial stage based on the 3D seismic data interpretation and 3 wells were to be drilled as per MWP. OIL, however, did not take up AMG-3 and incurred the burden of LD.

[44] 85 per cent of ₹98.35 crore
[45] 85 per cent of ₹14.49 crore

ii) The **Block RJ-ONN-2000/1** in Rajasthan was awarded to OIL under NELP-II. OIL as operator held 100 per cent PI initially. The PSC for the block was signed in July 2001. The PEL was granted in January 2002 and Phase-I was effective from the date of grant of PEL for a period of 3 years. However, the block was relinquished in February 2010 during Phase-III on the ground of poor hydrocarbon prospect.

Audit observed that:

During Phase-II of this block, M/s Suntera Resources Limited (SRL) expressed interest to participate for 40 per cent share. OIL decided to allow SRL to participate through an agreement in August 2006. Proposal for assignment of PI from OIL to SRL was approved by MOPNG in June 2007 at a stage when MWP (i.e. drilling of one well) of Phase-II had already commenced (June 2007).

It was seen that SRL as JV partner had not paid the past cost amounting to ₹ 4.25 crore (bill raised in July 2007 for the period from 17.8.2001 to 31.3.2007), which was payable within 15 days of raising of invoice as per agreement.

Due to non-compliance of contractual obligations, SRL's participation in the block was terminated in August 2009 under provision of Article 29.5 of PSC. Audit noted that there was delay of more than two years by OIL and MOPNG to terminate the contract giving an undue opportunity to SRL to assess the viability of the block without monetary contribution. SRL also took a significant part in the subsequent decision of entering into Phase-III as evident from the fact that the JV partner considering the short time available, not only suggested (September 2007) hiring the services of M/s RPS Energy Ltd., UK (RPS) for a quick look post drilling evaluation of a well of the block but also awarded (September 2007) the job directly to RPS. It has been noted that post facto approval for releasing payment to RPS for carrying out the quick look evaluation was granted by OIL only in November 2007.

OIL replied (April 2015) that the decision to enter into phase –III was a joint decision by all JV partners.

OIL's contention is not convincing as availability of funds during the next phase (which incidentally was not forthcoming from SRL) was none the less a crucial factor for taking the decision whether to enter into next phase or not. It also gave undue advantage to SRL by allowing it to select the consultant (M/s RPS) and taking part in the decision-making without any monetary contribution.

6.3 Status of monitoring by MOPNG/DGH in Nomination and NELP Blocks

6.3.1 Delay in Grant of Petroleum Exploration License

Under NELP-VI, MOPNG awarded the block KG-ONN-2004/1 to the consortium of OIL (90 per cent PI) and Geo Global Resources Inc., Barbados (10 per cent PI). The block covered an area of 549 Sq. Km, out of which 511 Sq. Km in Andhra Pradesh and 38 Sq. Km in Puducherry.

The PSC for the block was signed in March 2007, however, the PEL for 511 Sq. Km area in Andhra Pradesh was granted in February 2008, after a gap of 350 days from signing of PSC, and the PEL for 38 Sq. Km area in Puducherry was granted in June 2010, after a gap of more than three years from signing of PSC.

Thus, the delay in granting of PEL by the concerned State Government also delayed the process of exploration and the goal set in the Hydrocarbon Vision 2025.

6.3.2 Delay in clearances from Ministries/Departments

In order to carry out exploration activities in the awarded blocks under nomination or pre-NELP or NELP period, the contractor is required to obtain various clearances from different Ministries/Departments (i.e. Ministry of Environment and Forests, Ministry of Defence, Ministry of Home Affairs, Ministry of External Affairs and Department of Space).

As on November 2014, the blocks where exploration activities were affected due to delay in getting clearances or non-availability of clearances from the concerned Ministries/ Departments are given in table 6.1:

Table 6.1 - Delay in clearances from Ministries/Departments

Sl. No.	Blocks	Time taken (In days)	Remarks
1	AA-ONN-2002/3	199	Delay in grant of environmental clearance by MoEF
2	AA-ONN-2004/2	713	Delay in grant of forest clearance by MoEF
3	KG-ONN-2004/1	2093	Delay in grant of forest clearance by MoEF
4	Ningru PEL	More than nine years	Delay in grant of forest clearance by MoEF
5	Ningru Extension PEL	More than nine years	Delay in grant of forest clearance by MoEF
6	MZ-ONN-2004/1	More than four years	Delay in grant of forest clearance by MoEF
7	RJ-ONN-2000/1	One year	Delay in grant of clearance by MoD

Audit observed that:

- Delay in getting PEL from State Governments and clearances from concerned Ministries/ Departments adversely affected the functioning of upstream oil companies and their efforts towards achieving goals set under Hydrocarbon Vision 2025 as well.
- There were reported delays in exploration of blocks and non completion of committed MWP within the exploration phase, due to non-obtaining of clearances by the MOPNG from different Ministries/ Departments before carving out of blocks for inclusion in the offer list of NELP round or even award of blocks under Nomination or pre-NELP period. This deprived the upstream oil companies to concentrate fully on their area of specialization (i.e. exploration and production);

Thus, in seven blocks, the exploration efforts of OIL was held up due to delay in getting clearances or non-availability of clearances from the concerned Ministries/ Departments. Besides, in absence of clearance from Ministry of Defence, the block CY-OSN-97/2 was relinquished without exploration, defeating the objective of awarding of block.

The Standing Committee on Petroleum and Natural Gas (2014-15, Sixteenth Lok Sabha) in its 1st Report also recommended (December 2014) that 46 per cent of sedimentary basin had to be assessed for hydrocarbon prospects under the Hydrocarbon Vision 2025. However, due to non-availability of requisite clearances from different Ministries there was delay in exploration activities. The Committee, therefore, recommended that the MOPNG/ DGH should ensure that all the necessary clearances are obtained from concerned authorities for the blocks offered for auction so that the companies which emerge successful can commence their exploration work at the earliest.

However, MOPNG decided (December 2014) that as a matter of policy, it shall ensure in-principle approval from all the concerned Ministries/Department for identified blocks before auction in future.

OIL confirmed (April 2015) the audit remarks in respect of 7 blocks allotted to OIL under NELP. In the Exit Conference (July 2015), MOPNG reiterated the stand taken in December 2014.

6.3.3 Less weightage in MOU for timely completion of MWP

Timely completion of MWP under NELP is of prime importance as delay in completion of MWP attracts penalty in the form of LD. Audit reviewed the weightage given in MOU for exploration activities of OIL and observed the following deficiencies:

During the period from 2009-10 to 2013-14, no parameter was incorporated in the MOU towards timely completion of NELP blocks and payment of penalty in case of default.

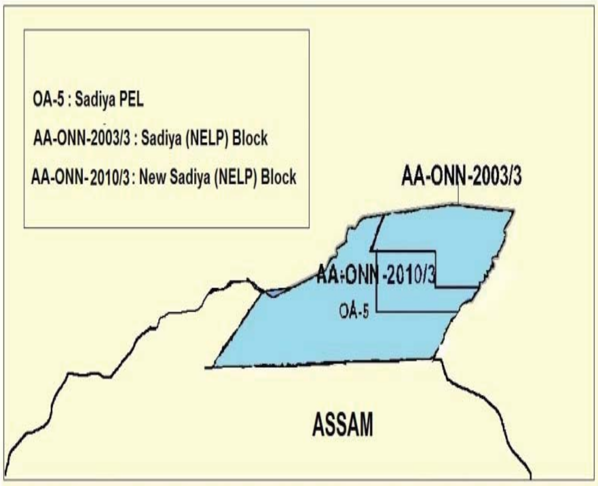
Parameters of MOU with respect to seismic survey and drilling of wells in domestic field particularly blocks under NELP are of high importance being the core activity of an upstream oil company. Further, as per the PSC, OIL was required to pay LD in case it fails to abide by the stipulated time period. These parameters have not been given its due weightage in the MOU[46]. Seismic surveys have been removed from the MOU target since 2011-12. Besides, parameter for drilling of wells under NELP was removed from MOU target since 2012-13.

While accepting the audit contention OIL stated (April 2015) that it is committed to honour the MWP of PSCs. Considering the national and organizational priority, urgency and need, Department of Public Enterprise (DPE) may consider inclusion of such parameter for timely completion of MWP.

In the Exit Conference MOPNG stated (July 2015) that they had tried to give more weightage to exploration activities and the matter was taken up with the Task Force under DPE on previous occasion, however, the same was not accepted by the Task Force.

6.4 Illustrative Cases in Exploration Efforts

6.4.1 Unjustifiable bidding for NELP blocks in known problematic areas



Sadiya PEL was awarded to OIL in November 1995 under nomination regime for exploration in 1130 Sq. Km. Out of this area, 282.5 Sq. Km was relinquished by OIL during 1st re-grant (Nov 2001). The remaining area of the block was finally relinquished by OIL in April 2009 without exploratory drilling due to logistic constraints such as non availability of approach road and bridge over the river Brahmaputra for rig mobilization.

Audit observed that:

- In NELP round-V (2005), OIL bid for the NELP block AA-ONN-2003/3 in Sadiya measuring 275 Sq. Km, which was located in the same area where OIL earlier had relinquished PEL, despite knowing the logistic constraints.

[46] As referred in Table 1.4 of Chapter 1.

- OIL surrendered the above block (AA-ONN-2003/3) in May 2010 due to logistic problems similar to those for which Sadiya PEL was surrendered in April 2009. OIL paid LD to MOPNG for an amount of ₹ 19.79 crore for non achievement of MWP.
- Though the logistic constraints were still persisting as the bridge over river Brahmaputra was yet to be constructed (April 2015), OIL again bid for New Sadiya (AA-ONN-2010/3) block measuring 171 Sq. Km in NELP round-IX (2012) and MOPNG awarded the block to OIL.

Thus OIL's exploration efforts failed repeatedly due to known logistic problems.

OIL confirmed the facts and figures as above and further stated (April 2015) that Sadiya PEL was relinquished without essential exploratory drilling due to logistic constraints. As the bridge over Brahmaputra was currently under construction, the area had been retaken through NELP. OIL also stated that erstwhile PEL block Sadiya was similar to subsequent allotment under NELP in the name of Sadiya and new Sadiya.

The reply of OIL itself is contradictory as logistic constraints as well as non availability of bridge over river Brahmaputra were already known from its experience in nomination regime. Thus, OIL's subsequent bidding for two blocks, Sadiya and new Sadiya under NELP regime lacks justification. The fact remains that the NELP block carved out from earlier nomination block was again surrendered by OIL in May 2010 after payment of LD of ₹ 19.79 crore and further bidding was done for another area which still have the shortcomings of the earlier block.

MOPNG/OIL stated (July 2015) that Sadiya block was re-bid in NELP-X round, as the construction of bridge over river Brahmaputra was started in 2010 and it was supposed to be completed in April 2015.

6.4.2 Unjustifiable relinquishment of blocks having hydrocarbon prospects

Two blocks **(AAP-ON-94/1** and **NEC-OSN-97/2**) were awarded to OIL where OIL was operator under Nomination PEL. These blocks were subsequently relinquished by OIL without any discovery of hydrocarbon. Later, these blocks were awarded to private operators viz. Hindustan Oil Exploration Company Limited (HOEC) and Reliance Industries Limited (RIL)/ Niko Resources Limited (NIKO) under Pre-NELP (AAP-ON-94/1) and NELP-I (NEC-OSN-97/2) where the private operators discovered gas. OIL, however, did not carry out any review to assess the reasons for failure of OIL's exploratory efforts for discovery of hydrocarbon when private operators were successful in discovery of hydrocarbon.

OIL stated (April 2015) that in respect of block AAP-ON-94/1, OIL could not give focused attention to the area due to difficult surface logistics and geological complexities being close to thrust belt area and also priority areas elsewhere. The block was later carved out of Margherita PEL and awarded in the VIII round of Pre-NELP bidding during 1996 to private JV operator HOEC as part of GOI policy. OIL was very much aware of the prospectivity in the area and chose to become active partner with the consortium to fast track the exploration activities with risk sharing. OIL had technically contributed immensely in gas discoveries in the block. The first commercial gas production in the block is slated to begin from August 2016.

In respect of block NEC-OSN-97/2 OIL stated that it held the block area during nomination regime and carried out exploration activities including drilling of one well (NEC-2) which had positive indication of presence of gas. As PEL validity expired, OIL relinquished the block and part of this block was later offered in NELP round–I to the private JV operators who own the block and discovered gas in the block.

OIL accepted the audit contention in respect of NEC-OSN-97/2 block. However, in respect of block AAP-ON-94/1 the reply of OIL is not convincing as it had the opportunity to discover from the block which remained with it for more than 11 years.

In the Exit Conference MOPNG/OIL stated (July 2015) that it was a common global phenomenon to see an oil E&P company failing to hit oil in one exploration cycle and succeed in subsequent efforts.

However, the fact remains that performance of OIL lagged behind peers in the E & P sector as highlighted in para 3.4.

6.4.3 Failure to share the risk and cost of exploration in two blocks

Two blocks viz., **AA-ONN-2004/1** and **AA-ONN-2004/2** in Assam under NELP–VI (2007) were awarded to OIL. The block AA-ONN-2004/1 was awarded to a consortium of OIL (PI 85 per cent) and Shiv-Vani Oil and Gas Exploration Services Limited (Shiv vani) (PI 15 per cent). Similarly, the block AA-ONN-2004/2 was awarded to a consortium of OIL (PI 90 per cent) and Suntera Resources Limited (SRL) (PI 10 per cent).

Subsequently, OIL signed a MOU with Assam Hydrocarbon & Energy Company Limited (AHECL) in September 2006 to transfer 10 per cent PI in both the blocks to AHECL. In return AHECL would reimburse OIL the proportionate share of past cost incurred by OIL on the above blocks as per agreement. The Board of Directors (BOD) of OIL approved (July

2007) the assignment of 10 per cent of its share of PI in the aforesaid two blocks in favour of AHECL.

Audit observed that:

- In case of block AA-ONN-2004/1, AHECL requested (September 2011) OIL to intimate the exact amount required to be paid by AHECL and the detail payment schedule. In reply (October 2011) OIL informed AHECL to share expenditure of ₹ 6.46 crore upto March 2011 being 10 per cent of the total expenditure (₹ 64.61 crore) incurred in the above block. However, no further persuasion was made with AHECL on the above issue. Meanwhile the block was relinquished in December 2011.
- In block AA-ONN-2004/2, DGH terminated (May 2009) SRL's participation as it defaulted in submission of BG. While OIL submitted (May 2009) application for transfer of its 10 per cent PI to AHECL, after lapse of 22 months from the decision of the BOD to DGH, the proposal (May 2009) for transfer of 10 per cent PI to AHECL in the block AA-ONN-2004/2 was returned (February 2010) by DGH as OIL had mentioned 10 per cent PI of SRL erroneously and DGH had directed OIL to resubmit the proposal after necessary correction. OIL is yet to send a fresh proposal in this regard to MOPNG. The total expenditure of the block upto June 2014 was ₹ 61.31 crore. Since OIL did not take any action on correcting the faulty recommendation till date (April 2015), it could not get AHECL's participation of ₹ 6.13 crore (being 10 per cent PI) in AA-ONN-2004/2 block.

Though OIL was interested for transfer of 10 per cent of its PI to AHECL, it failed to avail the opportunity to share the risk and cost with AHECL in both the blocks. Thus due to non transfer of PI to AHECL, OIL lost the opportunity to pass the financial burden of ₹ 12.59 crore to AHECL.

OIL stated (April 2015) that transfer of 10 per cent PI to AHECL in blocks AA-ONN-2004/1 and AA-ONN-2004/2 could not materialize due to lack of response and interest from AHECL.

The reply needs to be viewed in the light of the fact that OIL did not make adequate efforts to recover the past cost from AHECL after October 2011 in respect of block AA-ONN-2004/1. As regards AA-ONN-2004/2 block, OIL's inaction on resubmission of proposal to MOPNG resulted in the impasse. Since the exploration of hydrocarbon is a risky and highly capital intensive business, sharing of risk was considered advisable during exploration phase.

Further, OIL itself opined in a board note (July 2007) that it would also be helpful by way of better relation with the Government of Assam and encourage state level new hydrocarbon exploration company to come up which may be useful in OIL's over all business plan.