CHAPTER X: MINISTRY OF PETROLEUM AND NATURAL GAS

GAIL Gas Limited

10.1 Implementation of City Gas Distribution Projects by GAIL Gas Limited

10.1.1 Introduction

GAIL Gas Limited (the Company) was incorporated in May 2008 by GAIL (India) Limited, as its wholly owned subsidiary, with the objective of downstream distribution and marketing of Natural Gas (NG) including implementation of City Gas Distribution (CGD) projects across India. CGD network supplies Compressed Natural Gas (CNG) predominantly used as auto-fuel and Piped Natural Gas (PNG) used in domestic, commercial and industrial sectors.

In India, available NG can be broadly classified into two categories *viz.* (i) Domestic NG and (ii) Imported Re-gasified Liquefied Natural Gas (R-LNG). Keeping in view the shortage of NG in the country, domestic NG is allocated to various sectors based on the Policy Guidelines issued by the Government of India (GOI) from time to time. In case of imported gas, the gas/oil marketing entities are free to import LNG and sell the R-LNG to customers. With a view to develop CGD sector in the country and promote CNG vehicles and PNG in households, Ministry of Petroleum and Natural Gas (MoPNG) decided (February 2014) to raise the share of domestic NG to 100 *per cent* requirement of CNG and PNG.

Petroleum and Natural Gas Regulatory Board (PNGRB) was constituted under PNGRB Act in 2006 to regulate the refining, processing, storage, transportation, distribution, marketing & sale of petroleum, petroleum products and NG so as to ensure uninterrupted and adequate supply of petroleum, petroleum products and NG in all parts of the country. As per the mandate, PNGRB invites bids from entities interested in laying, building, operating or expanding a CGD network for any specified Geographical Area[1] (GA). The Act also enables PNGRB to accept authorisation of GAs given by MoPNG to the entities which were already running CGD business before incorporation of PNGRB.

As on March 2016, PNGRB had awarded authorisations for 74 GAs to 31 entities. Out of these five GAs *viz.* Bengaluru (Karnataka), Dewas (Madhya Pradesh), Kota (Rajasthan), Meerut (Uttar Pradesh) and Sonipat (Haryana) had been awarded to the Company. Further, two GAs *viz.* Haridwar (Uttarakhand) and North Goa (Goa) had been awarded to the consortium of GAIL Gas Limited and Bharat Petroleum Corporation Limited (BPCL) with equal stake. In addition, Firozabad TTZ GA, (Taj Trapezium Zone[2]) was accepted by PNGRB (September 2011) which was authorised by MoPNG.

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[1] ***Geographical area is specified area for a city or local natural gas distribution network authorized under PNGRB regulations***

[2] ***GOI declared Taj Trapezium Zone, covering an area of about 10,400 sq. km. (including Satellite towns like Mathura, Firozabad, Hathras, Bharatpur, etc.) as a controlled development zone so as to protect Taj Mahal from pollution.***

10.1.2 Audit Objectives and Scope

Audit was conducted to assess whether:

- CGD Projects were planned in an effective manner;
- The implementation of CGD projects was done timely and in an effectively manner; and
- Billing and recovery of charges were made in an efficient and effective manner.

Audit examined the records of the Company available at its Corporate Office, NOIDA with respect to five authorized GAs *viz.* Dewas, Kota, Meerut, Sonipat and Firozabad (TTZ). Audit covered the implementation of CGD projects and operational performance of the Company in these GAs for the period from April 2013 to March 2016.

Bengaluru, Haridwar and North Goa GAs have been awarded to the Company in February and July 2015 and June 2016 respectively. As work for these projects were at an early stage and the Company was having an exclusivity[1] period of five years to complete the Minimum Work Program (MWP) targets, these GAs have not been covered under this Audit.

10.1.3 Audit criteria and methodology:

The audit criteria included provisions of:

- Policy of MoPNG on allocation of NG to CGD Sector;
- Regulations and Guidelines governing development of CGD Network issued by PNGRB;
- Policy of the Company on establishment of CNG retail outlet, Pricing, Uniform Pricing Mechanism in TTZ area;
- Memorandum of Understanding (MoU) signed with GAIL;
- Management Information System Reports and CGD Project execution reports submitted to PNGRB; and
- Agenda and Minutes of meetings of the Board of Directors and Committee of Directors.

10.1.4 Audit Findings

10.1.4.1 Planning & Execution of CGD Projects

(I) Targets vis-à-vis achievement for development of CGD network

PNGRB authorized GAs *viz.* Dewas, Kota, Meerut and Sonipat in 2009 and Firozabad (TTZ) in 2011 to the Company for creating the infrastructure and its operationalisation.

[1] ***Period of exemption allowed by PNGRB from the purview of common carrier or contract carrier***

As per the authorisation orders, the Company was required to accomplish the MWP as committed by it in the bid documents, within a period of five years from the date of respective authorisation orders in the four GAs and in three year exclusivity period in Firozabad (TTZ) GA. The Company furnished Performance Bank Guarantee for ₹45.88 crore in four GAs and ₹3 crore for Firozabad (TTZ) GA to PNGRB for timely commissioning of the projects and for meeting the service obligations during the operating phase of the projects.

Audit observed that the Company had not accomplished the targets set by PNGRB in any of the GAs except laying of steel pipeline in four GAs. Details of actual achievement *vis-a-vis* targets set by PNGRB as on March 2016 is as under:

Geographical Area	Steel pipeline (in LKM)			Number of CNG stations			Infrastructure creation for Domestic connections			
	Target	Actual	Achievement (in %age)	Target	Actual	Achievement (in %age)	Number of connections			Achievement (in %age) (Created vis a vis Targeted)
							Target	Created	Connected	
Dewas	320	375	117	2	1	50	40000	15687	1032	39.22
Kota	343	355	103	6	4	67	100000	15805	192	15.81
Meerut	644	719	112	5	4	80	125000	23572	3659	18.86
Sonipat	329	396	120	3	4	133	60000	32000	4234	53.33
TTZ	522	98.4	19	7	2	29	24000	200	200	0.83
Total	**2158**	**1939.4**	**89.87**	**23**	**15**	**65.22**	**349000**	**87264**	**9317**	**25.00**

The Company had been able to complete the targeted laying of steel pipeline in all the GAs except in Firozabad (TTZ) where only 19 *per cent* progress had been achieved. However, even after a lapse of 5-7 years from the date of authorisation, the company failed to install targeted number of CNG stations in Dewas, Kota, Meerut and Firozabad (TTZ) GAs and commission the targeted number of domestic PNG connections in all GAs.

Consequent to non-achievement of targets for setting up of CNG stations and creation of infrastructure for domestic connections, PNGRB encashed (2013) Bank Guarantee to the extent of ₹3.54 crore in respect of four GAs.

While accepting the facts, the Management stated (October 2016) that encashment of Bank Guarantee by PNGRB had been challenged in the Honorable High Court of Delhi by the Company and the Honorable High Court had ordered to maintain status quo.

The Management's reply was not tenable as status quo orders were for TTZ GA only. PNGRB had already forfeited PBGs in respect of other four GAs.

(II) Non-development of CGD infrastructure in Geographical Areas

CGD network consists of City Gate Station[1] (CGS), steel pipeline and MDPE[2] pipeline network, online compressors for compressing of NG into CNG, CNG dispensing stations, allied equipment etc.

The Company failed to complete the Minimum Work Programme for setting up of CNG stations and infrastructure creation for domestic PNG connections. The position of the CGD network development as on March 2016 was as under:

Particulars		**Dewas**	**Kota**	**Meerut**	**Sonipat**	**Firozabad**
Date of Authorisation		June 2009	June 2009	June 2009	June 2009	September 2011
Exclusivity Period		June 2014	June 2014	June 2014	June 2014	September 2014
CNG online stations	Target	2	6	5	3	5
	Actual	1	4	4	4[3]	2
Targeted domestic connections		40,000	1,00,000	1,25,000	60,000	24,000
Actual Infrastructure creation for domestic connections		15,687	15,805	23,572	32,000	NA
No. of domestic connections	Awarded	4,675	5,113	13,250	6,775	4,000
	Connected	1,032	192	3,659	4,234	200

Audit observed that non achievement of MWP was mainly due to poor contract management, shortcomings in planning & execution and deficiencies in monitoring. It was observed that:

(i) There was delay in awarding the contracts. The projects were authorized in June 2009/September 2011 but the contracts were awarded only in June 2010/November 2012.

(ii) The contracts were awarded for less number of domestic connections against the targets in all GAs.

(iii) Either necessary permission for laying MDPE pipelines were not obtained from the concerned agencies (Kota) or contractors were not allowed to lay the pipeline where permissions were available (Firozabad).

(iv) No action was initiated against the contractors for slow work execution and breach of contractual obligations in all GAs.

(v) No inspections were carried out by the Company during execution of work and payments were made on the certification of Project Management Consultant in all GAs.

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[1] ***Point where custody transfer of natural gas from natural gas pipeline to the CGD network takes place.***
[2] ***Medium Density Polyethylene***
[3] ***Based on market demand additional station was installed.***

(vi) The work orders were unauthorizedly sub-contracted by the contractors (in Dewas and Meerut). These contracts were subsequently terminated and the works remaining to be executed were not re-awarded.

(vii) Though after a fire accident in Meerut CGD in January 2012, Vigilance Department of GAIL (India) Limited had conducted surprise checks and noticed irregularities in the execution of project like absence of sand padding around pipeline, inadequate depth of pipeline, non-installation of casing and warning mat etc., no corrective actions were taken.

The Management stated (October 2016) that the contractors were responsible for obtaining necessary permission/approvals from the concerned agencies and there were instances of denial/delays in granting of permissions by the statutory authorities and obtaining of land from the land allotting agencies or issue of stoppage of work which was beyond the control of the company.

The Management's reply is not acceptable as there was delay in awarding contracts and there was inadequate supervision/inspection during execution of work by the contractors.

(III) Operational loss due to setting up of CNG stations outside authorized GAs

The Company commissioned three CNG stations in Panvel (October 2010), Vijaypur (January 2011) and Dibiyapur (December 2013) outside its authorized GAs. As such, GOI did not allocate domestic gas for these stations despite efforts by the Company upon declaration of the domestic PNG and CNG as priority sectors. Resultantly, the Company had been running these stations on costlier imported R-LNG. Due to competition with alternate fuel prices the Company had sold CNG at a price lower than the R-LNG cost in contravention of its pricing policy which resulted in operational loss of ₹8 crore during the period 2011-12 to 2015-16. The Company (April 2015) transferred the Panvel CNG station to Mahanagar Gas Limited (MGL) as it had allocation of domestic NG for its CGD project in Mumbai GA.

The Management stated (October 2016) that investment made for these stations cannot be kept idle. Accordingly, the CNG pricing had been done on Long Term R-LNG price.

The Management's reply is not acceptable as the Pricing Policy of the Company clearly stated that at any instance the selling price should not be below the cost price.

(IV) Setting up of CNG station without necessary permissions

The Company decided (2008) to set up a CNG station at BPCL Jubilee Retail Outlet (RO), Mathura adjacent to NH-2 *viz.* Delhi-Mathura-Agra corridor along with laying of 4" spur pipeline across NH-2 for catering supply of gas to this station and envisaged completion of work by December 2008. The Company sought (August 2008) permission from National Highways Authority of India (NHAI) to lay pipeline along NH-2. However, NHAI refused (June 2009) to grant permission on the plea that BPCL was running RO in Mathura for the last few years without permission from Ministry of Shipping Road Transport & Highways and a notice was issued to de-energize the RO. As such, the Company could not lay the steel pipeline.

Pending receipt of permission from NHAI, the Company procured (November 2008) the major equipment required for setting up of the CNG station *viz.* compressor, dispenser, cascade etc. at a value of ₹1.94 crore. The erection and completion of installation of the equipment at the above said CNG station was completed in 2009. But the Company was unable to commission and start the business from this CNG station due to non-laying of steel pipeline.

The work for laying and construction of 4" spur dedicated pipeline for the said CNG station and associated terminal works adjacent to Mathura Refinery was also awarded (December 2008) with a completion schedule of 30 days. Accordingly, the contractor commenced the work like terminal piping and lowering of land for laying pipeline across NH-2. However, the work could not be completed since formal permission from the NHAI was not obtained.

The Company incurred an expenditure of ₹4.05 crore (September 2016) towards establishment expenditure including cost of CNG equipment without deriving any benefit from it. Besides business loss, the risk of deterioration of such machinery cannot be ruled out since the CNG compressor and other machinery are lying idle.

The Management stated (October 2016) that the CNG station on Delhi-Mathura-Agra Highway was to be commissioned by December 2008, therefore it had procured compressor and other equipment. Further, laying of steel pipeline from Mathura Refinery was initiated well in advance and work order was placed in December 2008 to commission the CNG station at the earliest.

The Management's reply is not tenable as the Company had without obtaining NHAI permission, initiated process of procurement of major equipment. The CNG station was not commissioned since steel pipeline from Mathura Refinery to CNG station was not laid. The Company could get in-principle approval from NHAI and permission to lay the pipeline inside Mathura refinery only in February 2016 and April 2016 respectively.

10.1.4.2 Marketing of CNG and PNG

(I) Pricing of PNG and CNG

According to PNGRB regulations[1], in the CGD network the network tariff[2] (NT) for transportation of natural gas and the compression charges (CC) for CNG shall be fixed as per the bid submitted for laying, building, operating or expanding of CGD network over the economic life of the project and shall be recovered from all categories of customers of PNG and CNG. It was observed that apart from gas cost, NT and CC, the Company recovered various other charges from its consumers as discussed below:

[1] ***Notification G S R 196 (E) dated 19 March 2008.***

[2] ***Network Tariff means the weighted average unit rate of tariff (excluding statutory taxes and levies) in rupees per million British Thermal Units (₹/MMBTU) for all the categories of consumers of natural gas in a CGD Network.***

(a) Recovery of distribution charges, dealers' commission, non-gas cost etc.

Segment-wise details of distribution charges, dealers' commission, non-gas cost[1] etc. charges recovered by the Company during the period 2013-14 to 2015-16 were:

(₹ in crore)

Particulars	**Segment**				**Total**
	CNG	**Industrial PNG**	**Commercial PNG**	**Domestic PNG**	
Selling and Distribution expenses	1.69	11.66	0.09	0.10	13.54
Dealers' Commission	10.63	0	0	0	10.63
Non-gas cost	25.82	0	0	0.60	26.42
Premium @ 20 *per cent*	0	0	0.56	0	0.56
Total	**38.14**	**11.66**	**0.65**	**0.70**	**51.15**

The Management stated (October 2016) that pricing had been done considering the approved pricing policy, market dynamics and business strategy of the Company and the entities were free to decide the price.

The Management reply was not acceptable as the PNGRB regulations provide for recovery of NT and CC only.

(b) Recovery of marketing margin and legal expenses in TTZ region

i. The Company signed (May 2009) a Gas Sales Agreement with GAIL for supply of R-LNG. As per agreement, GAIL shall charge Contract Price along with charges for Re-gasification, Trunk Line Transmission, Other Transmission along with Other Charges and Duties and Taxes from the Company.

   GAIL had never charged marketing margin as 'Other charges' from the Company but w.e.f. January 2016, the Company, had started charging marketing margin @₹11.82/MMBTU[2] from its TTZ customers on behalf of GAIL. The Company unauthorizedly recovered an amount of ₹0.65 crore for the period from January 2016 to March 2016.

ii. The Company, in contravention of PNGRB Regulations, had included (March 2014 onwards) an amount of ₹0.10 per SCM as legal expenses in the price of Industrial PNG in TTZ region under the head of 'other charges' and had unauthorizedly recovered an amount of ₹9.32 crore during March 2014 to March 2016.

The Management replied (October 2016) that GAIL was in the process of taking approval for levying of Marketing Margin and may raise the demand. Further, the commercial terms and conditions of an agreement which were solely between two parties were out of the purview of MoPNG/PNGRB.

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[1] ***Non-gas cost includes various charges like power and fuel surcharge, consumables stores & spares, repair & maintenance, administrative, production selling & distribution overheads, interest and financing charges***

[2] ***Million Metric British Thermal Unit***

The Management accepted that GAIL was in the process of taking approval for levying of marketing margin on LT-RLNG, thus, recovery of marketing margin was unjustified.

(II) Billing and other Marketing Activities

(a) Non-adherence to the PNGRB Regulations on Security Deposit

(i) Non-recovery of interest-free Security Deposit from domestic PNG consumers

Regulation 14(1) of PNGRB Regulations, 2008 states that entities may take an interest-free refundable Security Deposit (SD) from domestic PNG customers towards security of the equipment and facilities including the labour cost of installation in the customer's premises for an amount not exceeding ₹5,000 for a single connection. Accordingly, Board of Directors of the Company approved (May 2010) the "Term Sheet for Domestic Registration" and "Housing Society Domestic PNG Agreement" to be signed with the domestic PNG consumers and approved an interest free refundable security deposit of ₹5000 per domestic connection.

The Company had failed to comply with the PNGRB Regulations and had either not recovered or short-recovered security deposit of ₹33 lakh from eight *per cent* of its domestic PNG customers, as under:

Amount of interest-free SD Not recovered/short recovered	**Number of customers (as on August 2016)**						**Total Non/short charged SD amount (in ₹)**
	Dewas	**Kota**	**Meerut**	**Sonipat**	**Firozabad**	**Total**	
₹ 0	28	0	200	219	0	447	22,35,000
Less than ₹ 500	1	0	1	0	0	2	9,000
₹ 500 to 1000	102	1	3	154	0	260	10,40,000
₹ 1001 to 2000	3	0	0	0	0	3	9,000
₹ 2001 to 3000	2	0	0	0	0	2	4,000
₹ 3001 to 4000	0	0	0	0	0	0	0
₹ 4001 to 4999	3	0	0	9	0	12	0
₹ 5000	948	186	3,553	4,024	121	8,832	0
Total	**1,087**	**187**	**3,757**	**4,406**	**121**	**9,558**	**32,97,000**

The Management replied (October 2016) that they were reconciling the data and if there was any need for recovery on account of short charge, the same would be recovered.

(ii) Unauthorised recovery of Security Deposit and application fee

PNGRB Regulation authorised the entities to recover an amount not exceeding ₹5,000 as interest-free refundable SD per connection from its domestic PNG consumers. However, the Company had charged an additional amount of ₹300 as application money (non-refundable) and ₹500 as bill payment SD (refundable) from its domestic PNG consumers in all GAs. The Company, thus, in contravention of PNGRB Regulations had unauthorisedly recovered an amount of ₹1.20 crore[1].

The Management replied (October 2016) that in order to ascertain seriousness of PNG customers, it had been collecting non-refundable application fee. Further, PNGRB does not prohibit collection of payment security towards gas consumption and hence MoPNG/PNGRB permission was not required for collection of ₹500 on this account.

The Management's reply is not acceptable as there was no provision in PNGRB Regulations for collection of application money or payment security charges from the customers.

(b) Deficient billing mechanism

The Company had been suffering financial loss on account of blocking of funds due to failure to raise bills on time and non-payment by the consumers. It had been observed that

i. Bi-monthly bill were to be raised on the customer on the basis of actual meter reading. However, there was considerable delay in the generation of invoices ranging from six months to four years due to non-implementation of an evolving system for meter reading, bill generation and cash collection.

ii. The Company had to raise six invoices per consumer per year. However, average invoicing per year during 2013-14 was 2.9, in 2014-15 it was 1.3 and in 2015-16 it was only 2.8.

iii. There are variations between the number of connected and billed customers. As on March 2016, of the 9,317 PNG consumers only 8,482 consumers were billed.

iv. In case a customer fails to pay two consecutive bills, gas supply was to be discontinued without any notice and supply to be resumed only after clearance of all the outstanding bills with applicable interest. However, company continued supply of PNG even to customers having outstanding balances for more than one year in approximately 1,000 cases.

v. Company had been accepting bill payments from its consumers only through cheques whereas its approved Term Sheet provided for other alternate payment solutions like RTGS / ECS, Mobile app payment, Cash payment / collection center/ kiosk.

The Management stated (October 2016) that the Company was in process of floating tender for data verification of domestic customers and recovery of dues. It was also stated that in case of outstanding dues, the Company cannot disconnect the customers due to uncertainty of outstanding amount. Further, implementation of on line payment gateway to start collection of payment through net banking or credit card was in an advanced stage.

[1] ***₹71,76,900 (₹300 x 23,923 no. of consumers) as application fee and ₹47.79 lakh (₹500 x 9,558 no. of consumers) as additional security deposit from all consumers to whom gas connectivity was provided.***

10.1.4.3 Other topics of interest

(I) Non-adherence to PNGRB Regulations for maintaining separate books of accounts

As per Regulation 14 (5) & (6) of PNGRB Regulations, 2008 the authorized entity had to maintain separate books of accounts including detailed activity-based costing records to segregate direct, indirect and common costs along with the basis of allocation and the revenues earned in respect of purchase, transportation, compression, marketing etc of NG and CNG.

It was observed that the Company had maintained city-wise (Business Area wise) books of accounts for each GA under the ERP system and CNG cost records as per Cost Accounting Record Rules under Companies Act, 2013. However, no segregation had been made for domestic, commercial, industrial and CNG segments and all the costs and revenue involved had been clubbed under a single head. Thus, segment wise expenses, revenue and profit/loss could not be determined/ascertained.

Management while accepting the audit finding stated (October 2016) that it had been using SAP as the ERP system for accounting purposes. However, maintaining separate books of accounts for different activities as desired was not possible in the present accounting system of SAP.

(II) Idle expenditure on laying of HDPE[1] duct

The Company identified laying of OFC[2]/Duct along with CGD network for any future potential business as one of the primary objectives. Accordingly, the Company, while awarding (2010) the work of laying of MDPE pipeline network to the contractors in Dewas, Kota, Meerut and Sonipat GAs included procurement and laying of 40 MM HDPE duct for a total length of 239.82 km in their scope of work.

The Contractor however, could lay only 177.74 km of HDPE duct out of the total required length of 239.82 km, as the laying of MDPE pipeline network in the respective GAs had not been completed. Thus, the Company's objective of earning potential business could not be achieved. As a result, the expenditure of ₹1.39 crore incurred on laying of HDPE duct remained idle.

Particulars	Dewas	Kota	Meerut	Sonipat	Total
Total length of HDPE duct laid (in Km)	61.477	23.83	50.161	42.27	177.738
Expenditure incurred (in ₹)	57,16,266	42,83,842	39,39,584	0	1,39,39,692

The Management stated (October 2016) that there was no financial loss to the Company since the supply of duct was in the scope of the contract and in case same was not

[1] High Density Polyethylene
[2] Optical Fiber Cable

commissioned in totality, no payment would be made to the contractor while making the final settlement of bills.

Reply is not acceptable as the contract did not contain any such provision for non-payment or adjustment of payment made for completed works in case of non-commissioning of work in totality.

Conclusion

Audit of "Implementation of City Gas Distribution Projects by GAIL Gas Limited" revealed:

(i) Failure of the Company to execute CGD infrastructure projects in various GAs as per PNGRB milestones which resulted in encashment of PBG by PNGRB and operational loss;

(ii) Failure to obtain permissions from statutory authorities led to delay in CGD projects;

(iii) Unauthorised recovery of different charges from the customers;

(iv) System lapses in billing/collection mechanism.

The matter was reported to the Ministry in December 2016; their reply was awaited (January 2017).

GAIL (India) Limited

10.2 Irregular payment of special monetary appreciation

GAIL (India) Limited paid Special Monetary Appreciation of ₹16.56 crore to its executives in violation of DPE guidelines.

Department of Public Enterprises (DPE) had issued (November 1997) instruction to all Central Public Sector Enterprises (CPSE) stating that the employees of CPSEs would not be paid bonus, *ex-gratia*, honorarium, reward and special incentives, etc. unless the amount was authorized under a duly approved incentive scheme. Further in November 2008, DPE has laid down guidelines for payment of Performance Related Pay (PRP).

These guidelines were violated by GAIL (India) Limited (the Company) which made payment of special monetary appreciation to executives amounting to ₹16.56 crore during 2015-16 on completion of Petrochemical Expansion Project at Pata (UP).

This was granted to all executives of the Company recognizing their significant contribution in achieving key milestones irrespective of whether they were actually engaged in execution of the Petrochemical Expansion project or not, including employees on secondment/deputation to Joint Ventures/Subsidiaries and their Joint Ventures/other organisations/Government Departments. The amount so paid was in addition to the payment made under the PRP Scheme.

Recommendation to the Board justified payment of special monetary appreciation on the following grounds also:

(i) The Company could not earn incremental profits during Financial Year 2014-15 resulting in lower entitlement for PRP.

(ii) The grading of the Company as 'Very Good' instead of 'Excellent' in MoU grading leading to lower PRP.

The Management stated (October 2016) that special monetary appreciation for completion of the petrochemical project was allowed to the executives in recognition of the extra efforts made by them and also to keep their morale high for achieving significant business milestones. Further, it was not linked to PRP which is disbursed after due deliberation and approval of Nomination and Remuneration Committee (NRC) in accordance with the approved PRP Scheme of the Company based on different parameters such as Financial Performance, overall MoU rating of the Company, individual performance rating, grade wise applicable percentage ceiling and annualized basic pay etc. Payment of special monetary appreciation to executives was in the form of one time token appreciation for recognizing the efforts made by them, and as such not being a regular payment, the same was allowed with the due deliberation and approval of Board of Directors.

Reply of the Management is not acceptable because as per the DPE guidelines, payment of special incentive could be made only under a duly approved scheme. Further, special monetary appreciation is in the nature of PRP and any payment over and above the PRP as per DPE guidelines issued in November 2008 was not admissible.

Thus, payment of ₹16.56 crore towards special monetary appreciation to its executives was irregular.

The Ministry of Petroleum and Natural Gas accepted (February 2017) the audit observation and advised GAIL to take corrective action.

Bharat Petroleum Corporation Limited and Hindustan Petroleum Corporation Limited

10.3 Additional burden on RGGLV consumers due to incorrect declaration of Retail Selling Price of LPG

The Companies did not exclude the delivery charges while communicating Retail Selling Price of LPG to its RGGLV distributors, which resulted in additional burden on the consumers and undue financial benefits to the distributors to the tune of ₹168.04 crore.

The Rajiv Gandhi Gramin LPG Vitrak (RGGLV) scheme was launched (6 August 2009) by Ministry of Petroleum & Natural Gas (MoP&NG) with the aim to set up Liquefied Petroleum Gas (LPG) distribution agencies in order to increase rural penetration of LPG. As per the scheme, the LPG distributors (Vitraks) were to operate at rural locations with a potential of 600 refill sales per month. The Vitraks would supply LPG cylinders (weighing

14.2 Kg) to rural consumers on Cash and Carry basis at the Retail Selling Price (RSP)[1]. The RSP for LPG cylinders was revised by MoP&NG from time to time and communicated to the Vitraks by the respective Oil Marketing Companies.

As per the RGGLV scheme, the Vitraks were eligible for distributors' commission for refilling of LPG cylinders. The distributors' commission includes two components - the establishment cost and delivery charges which were revised by MOPNG from time to time. MOP&NG increased (5 October 2012) the distributors' commission to ₹37.25 per cylinder which comprised of an establishment cost of ₹22.25 per cylinder and delivery charges of ₹15 per cylinder. It was also clarified that delivery charges would not be collected from consumers who collect the cylinders directly from distributors' premises. As RGGLV consumers collected the cylinders directly from the Vitrak's premises, on cash and carry basis, delivery charges were not payable by them.

Audit observed that while communicating the RSP to its Vitraks for RGGLV scheme, Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL) did not exclude the delivery charges component from the distributers' commission. As a result, the Vitraks collected delivery charges as part of their commission though they did not deliver the LPG cylinders to the rural customers. Thus, the Vitraks of the Companies enjoyed an undue benefit of ₹168.04 crore[2] on delivery charges over the period October 2012 to March 2016.

HPCL (August 2016) and BPCL (January 2017) stated that as per the scheme dated 6 August 2009, LPG cylinders would be supplied to the RGGLV customers on cash and carry basis with no rebate. Accordingly, full commission was being passed on to the RGGLV's distributors.

Replies of HPCL and BPCL are not acceptable as MOPNG had clarified (5 October 2012) that consumers who collect the cylinders directly from distributors' premises would not be charged the delivery charges. The quantum of the delivery charges was also clearly specified. Such delivery charges were payable by LPG customers in lieu of the service provided by distributors by delivering cylinders at the consumer's premises. As RGGLV consumers did not receive this service and had to collect their LPG cylinders from the premises of the RGGLV distributors, the question for payment of delivery charges by such customers did not arise.

Thus, by allowing Vitraks of RGGLV scheme to charge the entire distributors' commission, including the delivery charges from rural customers who did not avail of delivery services, HPCL and BPCL gave undue financial benefits to its Vitraks and imposed additional burden on the RGGLV consumers to the tune of ₹168.04 crore. The undue benefit to the Vitraks and burden on the rural LPG customers is still continuing.

The para was issued to the Ministry for HPCL in August 2016 and for BPCL in February 2017. Replies are awaited.

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[1] ***RSP is the price, OMCs sells the regulated products to the consumers which was decided by the MoP & NG and includes all taxes as well as distributors' commission.***

[2] ***₹88.81 crore in respect of HPCL and ₹79.23 crore in respect of BPCL.***

Indian Oil Corporation Limited

10.4 Inability to operate newly constructed Liquefied Petroleum Gas Bottling Plant due to lack of Environmental Clearance

Indian Oil Corporation Limited could not operate a Liquefied Petroleum Gas Bottling Plant since its completion in November 2014, as it failed to obtain prior Environmental Clearance for the Project. Consequently, investment of ₹75.58 crore was lying idle and the envisaged savings of ₹14.48 crore per annum could not be realised.

In September 2006, Ministry of Environment and Forests (MoEF) had notified that projects involving isolated storage and handling of hazardous chemicals (above notified threshold storage limits) fall under Category 'B' and such projects would require prior Environmental Clearance (EC) from the State/Union Territory Environment Impact Assessment Authority (SEIAA). Further, any project specified under Category B, if located within 10 km from the boundary of protected areas notified under Wild Life (Protection) Act, 1972, would be treated as Category 'A', which would require prior Environmental Clearance (EC) from MoEF. Manufacture, Storage and Import of Hazardous Chemical (MSIHC) Rules, 1989 issued by MoEF provided for threshold storage limit of 50 tonne for flammable gases and LPG being a flammable gas falls under that category. Thus, any storage beyond the prescribed threshold limit of 50 tonne of LPG gas required prior EC.

Indian Oil Corporation Limited (IOCL) approved (June 2011) construction of a 60 TMTPA capacity Liquefied Petroleum Gas (LPG) Bottling Plant, with a storage capacity of 1,800 MT, at an estimated cost of ₹74.58 crore, at Tirunelveli, on land taken (September 2011) on lease for 99 years from State Industrial Promotion Corporation of Tamil Nadu. Besides catering to the packed LPG requirements of Tirunelveli, it was envisaged that the project would result in a saving of ₹14.48 crore per annum in logistics cost.

M/s. Environmental Technical Service Pvt. Ltd. (ETSPL), whom IOCL had appointed (August 2011) for conducting Hazard and Operability Study, Risk Assessment Study, Environment Impact Assessment, preparation of disaster management plan and providing assistance to IOCL in obtaining approvals from statutory bodies, opined (December 2011) that the project did not require EC from the State or the MoEF. However, in January 2012, IOCL, while giving the details of the Project to MoEF and Tamilnadu Pollution Control Board (TNPCB), sought clarification as to whether prior EC was required. Without receiving any clarifications in this regard, IOCL requested (February 2012) TNPCB to issue 'Consent to Establish' order, which was issued (September 2012) by TNPCB subject to various conditions, including obtaining necessary clearances from Department of Fire and Safety, Explosives, Forests, etc. IOCL commenced the construction of the project and completed the project in November 2014 at a cost of ₹75.58 crore.

In December 2014, IOCL submitted an application to Petroleum and Explosives Safety Organisation (PESO), Ministry of Commerce and Industry, for grant of license for storing of LPG at the plant. PESO sought (April 2015) a copy of EC for processing its application. IOCL took up (April 2015) the issue of applicability of EC with MoEF. It was clarified (April 2015) by MoEF that the EC was required for the project as it was listed under Category 'B' of the MoEF notification issued in September 2006. Thereafter, when IOCL applied (September 2015) to SEIAA for the EC, it was informed (October 2015) by SEIAA that the project would be classified under Category 'A' as the same was located within 5 km of a Deer Sanctuary (notified on October 2013) and that the EC needed to be processed by MoEF. The Expert Appraisal Committee (Industry-2) of MoEF, while processing the EC application of IOCL, observed (February 2016) that the project violated the provisions of Environment (Protection) Act, 1986 and MoEF Notification, 2006. In addition, it also observed that the project required clearance from National Board for Wild Life (NBWL). As clearance certificates were yet to be received from the statutory bodies, IOCL could not operate the plant despite lapse of more than two years since construction. Further, TNPCB had also initiated (May 2016) legal action against IOCL under Environmental (Protection) Act, 1986.

The Management stated (September 2016) that prior EC was not taken as per the advice of environment consultant. In addition, it stated that TNPCB had granted 'Consent to Operate' the plant in June 2015 and license from PESO had also been received in June 2015.

The reply needs to be weighed against the facts that when IOCL sought clarifications (January 2012) from MoEF and TNPCB as to whether prior EC was required, the argument that, prior EC was not taken solely based on the consultant's opinion, is contradictory. In fact, IOCL should have followed up with the above authorities and obtained necessary clarifications in the matter prior to construction of the project. Further, the plant could not be operated even though TNPCB issued 'Consent to Operate', as the EC was yet to be obtained. The license granted by PESO was also subject to IOCL obtaining other statutory clearances which IOCL failed to secure.

Thus, due to non-compliance with statutory requirement, IOCL could not operate (January 2017) the plant constructed at a cost of ₹75.58 crore. Consequently, the envisaged savings of ₹14.48 crore per annum in logistics costs could not also be realised.

The matter was reported to the Ministry in September 2016; their reply was awaited (January 2017).

10.5 Idle investment of ₹15.30 crore

Despite being aware of the fact that suitable crude would not be available, the Company installed LPG production facility which could not be used since commissioning, resulting in idle investment of ₹15.30 crore.

The Bongaigaon Refinery (BGR) of Indian Oil Corporation Limited (Company) implemented Motor Spirit Quality (MSQ) improvement project to produce Motor Spirit as per Euro-III specifications. The MSQ improvement project included installation of Light Naptha Isomerisation Unit, Purification section and a LPG recovery unit to be implemented in phase-IIA and phase-IIB of the Project. Phase-IIA of the improvement project was commissioned in September 2011. Liquefied Petroleum Gas (LPG) Recovery Section forming part of Phase-IIB envisaged retrieval of LPG from LPG Recovery Unit by absorption and stripping process at low temperature and high pressure. One refrigeration unit was necessary to maintain the required low temperature. Accordingly, the Company placed (February 2009) an order on Kirloskar Pneumatic Company Ltd. for supply, erection and commissioning of refrigeration package. The refrigeration unit was commissioned in December 2011 at a total cost of ₹15.30 crore.

The refrigeration unit operated for only 55 days and the LPG recovery unit produced only 77.8 MT of LPG during the year 2011-12. The production of LPG has been stopped since then due to negative margin. Subsequent cost benefit analysis of producing LPG from MSQ improvement project also indicated that the LPG production was unviable and there was no production of LPG from LPG Recovery Unit during the period from 2012-13 to 2015-16.

Audit observed that the crude mix pattern proposed in the Feasibility Report (2008) for MSQ project consisted of Assam crude and Ravva crude which had higher LPG potential. Management, however, was aware even in 2006 that the availability of Ravva crude to the refinery was declining and that other crudes had to be processed. The availability of Ravva crude to BGR stopped in June 2012. After commissioning of MSQ improvement project and refrigeration package, Ravva crude was not processed at the Refinery and imported crude was supplied to the Refinery from 2012-13 in order to maximize the corporate gross refining margin. The imported crude, however, had lower LPG potential. It was, therefore, un-economical to operate the LPG recovery section of MSQ Project in view of the negative contribution from this operation. This resulted in idling of LPG recovery section immediately after commissioning.

The Management stated (November 2015) that:-

- Exact information as to when Ravva crude would not be available was not known at the time of project formulation.
- The price of Ravva crude in comparison with other crudes increased over the years, making it uneconomical for processing at BGR.
- A new Modification programme was being implemented to utilize the idle facility by 2016-17.

The Ministry (August 2016) while explaining reasons for under-utilisation of LPG production facility endorsed the views of the Management and stated that a modification scheme is under implementation for effective utilisation of the idle facility.

The reply is not acceptable in view of the following:-

- The Company was aware from 2006 that the availability of Ravva crude to the refinery would decline.
- The price of imported crude also rose during that period along with increase in the cost of Ravva Crude.

- Additional LPG from the modified system might be available after another period of 17 months but the viability of the system would be assessed in future. In the meanwhile, LPG recovery facility is lying idle for more than fifty six months. (September 2016).

Thus, despite knowing the fact that the suitable crude would not be available for viable operation of LPG recovery unit, management took the decision to install LPG production facility which resulted in idle investment of ₹15.30 crore.

Oil and Natural Gas Corporation Limited

10.6 Extra expenditure of ₹18.52 crore on pipeline replacement project due to shortcomings in the Bid Evaluation Criteria

Oil and Natural Gas Corporation Limited (Company) had to close the tender for replacement of five trunk pipe lines Project due to lack of clarity in the Bid Evaluation Criteria of tender. The tender was subsequently re-invited and the contract was awarded at a higher cost resulting in extra expenditure of ₹18.52 crore.

Oil and Natural Gas Corporation Limited (ONGC) invited (October 2010) bids for replacement of five trunk pipe lines[1] (project) of Assam Asset. Price bids were opened in March 2011. However, the tender was cancelled as the lowest bidder (L1) failed to submit Performance Bank Guarantee.

Tender for the project was re-invited by ONGC in August 2012, against which, seven bids were received. Out of the seven bids received, four bids were technically qualified. Out of the three bids that did not qualify, the bid submitted by consortium led by M/s Sai Rama[2] was not accepted for want of required experience. The price bids of four technically qualified bidders were opened (March 2013) and the bid submitted by consortium of M/s IOT Infrastructure & Energy Services Limited, Mumbai and M/s ACE Energy Infrastructure Ltd, Mumbai was found to be the lowest (L1) at the quoted price of ₹149.43 crore. The Tender Committee (TC) of ONGC recommended (10 April 2013) awarding the contract to the consortium led by M/s IOT Infrastructure & Energy Services Limited, Mumbai.

Meanwhile a representation was received (April 2013), from consortium of M/s Sai Rama, against disqualification of their bid. The case was referred to Independent External Monitors (IEMs) who opined (August 2013) that considering the experience of all of the consortium partners, the bid of M/s Sai Rama, did not constitute a violation of the qualifying criteria, and suggested reconsideration of the case. Tender Committee (TC) noted (22 August 2013) the opinion of IEM and stated that more clarity was needed in the Technical Bid Evaluation Criteria (BEC) and recommended that the Executive Purchase

[1] *Central Tank Farm (CTF), Geleki to CTF-Jorhat, CTF Geleki to Dekhow Junction Point (DJP), Gas Compression Facility (GCP) Geleki to DJP, Group Gathering Station (GGS)-I Rudrasagar (RDS) to DJP and GCP RDS to DJP*

[2] *Joint Venture of M/s Sai Rama Engineering Enterprises, Hyderabad and M/s Megha Engineering and Infrastructure Ltd., Hyderabad and M/s Gazstroy, Moscow*

Committee (EPC), to re-invite the tender. The EPC in its deliberations (24 September 2013) stated that clarity was required in the Technical BEC. EPC also noted that the validity of the offers submitted by the four qualified bidders had expired and thus, approved the recommendations to re-invite the tender.

Fresh Notice Inviting Tender (NIT) was published (June 2014) with minor changes in the length of the existing pipelines and addition of one 4" pipeline (estimated cost of ₹5.17 crore), against which, six bidders submitted (September 2014) their bids. Of the six bids received, four bids were technically qualified. The bid of M/s Sai Rama did not qualify again for want of required experience. Price bids of four technically qualified bidders were opened (5 December 2014) and the bid submitted by consortium of M/s OIL-IOT Infra & Energy Services Limited, Mumbai with negotiated price of ₹211.58 crore emerged as the lowest bid. Meanwhile, M/s Sai Rama again, represented (15 December 2014) to IEMs, against rejection of their bid. IEMs, in the light of completion of a pipeline project awarded to M/s Sai Rama in an earlier tender, recommended (07 January 2015) to review the decision to reject the bid of M/s Sai Rama.

The TC (January 2015), however, differed from the recommendations of IEM and recommended retendering of the job. Therefore, the matter was referred to Legal section of ONGC, which opined (23 February 2015) that it would be inappropriate to open the bid of the bidder who did not fulfil the technical criteria and it would create legal complication if challenged in court. However, in view of the delay in implementation of project, Director (Onshore) of ONGC agreed with the views of IEM and suggested opening the tender of M/s. Sai Rama Engineering Enterprises, which was agreed (April 2015) to by the EPC. The bid of M/s Sai Rama, at an overall price of ₹177.88 crore, was the lowest. After negotiations, the contract was awarded (10 April 2015) to consortium led by M/s Sai Rama at the lump-sum value of ₹173.28 crore.

Thus due to lack of clarity in the technical BEC of the earlier tender, ONGC had to re-invite the same which resulted in approximate additional project cost of ₹18.52 crore {₹173.28 crore – (₹149.43 crore + ₹5.33 crore[1])}.

The Management replied (October 2015) that Joint Venture of M/s Sai Rama Engineering Enterprises, represented to the nominated IEM against his disqualification. IEM opined (August 2013) that the bid submitted by the petitioner was not exactly in violation of the qualifying criteria.TC deliberated (22 August 2013) the opinion of IEM and was of the view that more clarity was needed in the Technical BEC to avoid present scenario and recommended re-invitation of tender. In view of requirement of clarity in the Technical BEC to avoid recurrence of present scenario as well as considering that the validity of all qualified bids had expired, the EPC (24 September 2013) decided to re-invite the tender. The tender was re-invited (June 2014) after incorporating appropriate changes in the technical BEC.

The Management reply substantiates the fact that the tender had to be re-invited due to deficiencies in the BEC/tender criteria of the earlier tender. Thus due to lack of clarity in

[1] ***After taking into consideration the cost of ₹5.33 crore quoted by M/s. Sai Rama, towards additional 4" pipeline from Well at Kasomari Gaon (KSAB) to T point Borhalla Khorghat, scope of which was included subsequently while issuing the revised tender.***

Bid Evaluation Criteria, ONGC had to re-invite tenders, which resulted in additional cost of ₹18.52 crore.

The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).

10.7 Supply of gas without security resulted in non-recovery of dues

ONGC failed to ensure the submission of valid Letter of Credit as security for the required amount as per the Gas Supply Agreement and continued the gas supply to a private customer without security resulting in non-recovery of ₹7.36 crore.

Oil and Natural Gas Corporation Limited (Ankleshwar Asset[1]) entered into a Gas Supply Agreement (GSA) with M/s Siddhi Vinayak Power Generation and Distributors Private Limited (the buyer) on 11 January 2013 for supply of 90,000 SCMD[2] gas.

As per Article 13.12 of the GSA, before commencement of gas supply, the buyer was required to submit irrevocable, revolving, and without recourse Letter of Credit (LC) from any nationalized/scheduled commercial bank of equivalent to the value of 60 days of gas supply. Further, as per Article 13.14 of the GSA, the buyer was required to ensure the validity of the LC by getting extension duly issued by the banker at least one month before the expiry of the validity of existing LC. In case of failure by the buyer to do so, ONGC had the right to invoke the LC and keep the amount as deposit till the LC was renewed. Further ONGC also had the right to stop the supply of gas for not keeping the LC valid. In terms of Article 6.01 of the GSA, ONGC had the right to stop gas supplies without prejudice to its rights to recover the price of minimum guaranteed off-take (MGO).

Audit observed that ONGC failed to recover ₹5.54 crore towards gas supply and MGO charges for the month of March 2015 and April 2015 and interest on delayed payment of the gas bills amounting to ₹1.82 crore as on 31 March 2016, due to the following reasons.

1. The buyer had submitted four LCs for ₹6.87 crore (3 LCs worth ₹4.72 crore issued by Andhra Bank[3] and one for ₹2.15 crore issued by Punjab National Bank) during January/March 2014 valid till July/September 2014. The three LCs issued by Andhra Bank for ₹4.72 crore were submitted for encashment by ONGC on 11 July 2014. However, the LCs were not honored by the bank, stating that the said LCs had been reversed and closed. The buyer had not renewed the validity of the three LCs issued by the Andhra Bank. Instead, the buyer submitted (19 August 2014) Bank Guarantee (BG) worth ₹4.72 crore as security in lieu of LC. However, ONGC returned (21 August 2014) the BG stating that as per the GSA only irrevocable, revolving and without recourse LC was acceptable and BG could not be accepted as security deposit. It was requested to renew the LCs. However the LCs were not renewed by the party.

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[1] *Asset is an entity entrusted with development and production of hydrocarbon*
[2] *Standard Cubic Meters per Day (SCMD)*
[3] *LC dated 01 March 2014 for ₹2.20 crore dated 05 March 2014 for ₹1.00 crore and dated 11 March 2014 for ₹1.52 crore with expiry date 30 September 2014*

2. The LC issued by the Punjab National Bank (PNB) for ₹2.15 crore was renewed by the buyer, till 20 July 2015. Thus ONGC had an opportunity to encash the LC issued by PNB and secure payment of ₹2.15 crore. However, ONGC failed to encash the same during its validity period.

3. ONGC intimated the buyer only on 11 December 2014 and 16 January 2015, to renew the LCs for revised amount ₹7.77 crore[1]. ONGC also intimated that in case of failure to do so, the supply of gas would be stopped as per the terms of the GSA. However, the supply of gas was continued, even though the buyer did not renew the LCs. ONGC served (5 February 2015) notice under Article 13 of the GSA and requested to submit the LCs for ₹7.77 crore and to clear the outstanding dues. However, the buyer did not renew the LCs for the required amount and did not also pay for the gas supply for the month of March 2015. The Company stopped supply of gas with effect from 24 April 2015. The buyer did not pay the amount of ₹5.54 crore[2] towards supply of gas and MGO charges for the period from March to April 2015. ONGC terminated the GSA in February 2016.

Thus, ONGC failed to ensure renewal of valid LCs issued by Andhra Bank and also failed to encash the LC issued by PNB during its validity period, despite the buyer having reversed and closed the LCs issued by Andhra Bank. ONGC did not use its right to stop the gas supplies for not keeping the LCs valid and continued the supply of gas. Subsequently, though it stopped the gas supply to the buyer and terminated the GSA, ONGC had not so far (December 2016) initiated legal action to recover its dues towards supply of gas to the buyer.

The Management stated (December, 2016) that:

1. LC(s) amounting to ₹4.72 crore submitted by the consumer were presented on 11 July 2014 well within the validity for encashment but were not honoured by Andhra Bank. Andhra Bank informed that the said LCs were closed by the consumer.

2. The consumer submitted a Bank Guarantee of ₹4.72 crore and requested it be accepted it as security deposit. Subsequently it was decided to return the BG since as per GSA only revolving LC is to be accepted as security deposit. A meeting was held with the consumer on 22 September 2014. As discussed in the meeting, the BG was returned to the consumer after an undertaking was given by the consumer to provide the required LC towards security deposit within 7 days' time and if it failed to do so then gas supply would be stopped by ONGC. Based on the assurance given by the consumer, the gas supply was continued.

3. There was lapse in encashment of LC issued by PNB.

The reply of Management is not acceptable due to the following:

1. ONGC accepted the LC for ₹4.72 crore issued by Andhra Bank with validity period of seven months *i.e.,* upto 30 September 2014 which was in contravention

[1] ***Equivalent to price of 60 days of gas supply of relevant period***
[2] ***₹5.26 crore towards gas supply and ₹0.28 crore towards MGO charges***

of Article 13.12 of GSA which stipulated that the LC should be valid for a period of one year. Supply of gas to the consumer should have commenced only after receipt of LC with one year validity period towards payment of security. Further, consumer closed the LC for ₹4.72 crore before expiry of LC validity which the Management was not aware of.

2. Though LCs issued by Andhra Bank had been reversed and closed by the buyer, ONGC failed to encash the LC issued by PNB for an amount of ₹2.15 crore even though the same was renewed till 20 July 2015. The Management has accepted that the failure to encash the LC issued by PNB was a lapse on their part.

3. The supply of gas was continued on assurance from the buyer (22 September 2014) to submit the LC within 7 days. Although, the Company had the right under GSA to stop gas supply in case of failure to submit valid LC, ONGC continued to supply gas from 1 October 2014 to 24 April 2015 without valid LC.

Thus, by not adhering to the contractual provisions prescribed in GSA, ONGC failed to receive the payment of gas supplied to the consumer resulting in non-recovery of ₹7.36 crore[1].

The matter was reported to the Ministry in September 2016; their reply was awaited (January 2017).

10.8 Delay in repair of critical HP flare tip led to extra expenditure of ₹16.11 crore due to replacement of repairable HP flare tip

ONGC observed (June 2014) burning of gas below the High Pressure (HP) flare tip (MNF1[2]) at distributor cross arms. The same was intimated to Original Equipment Manufacturer (OEM) and was inspected after four months (October 2014). The flare tip could have been repaired if ONGC had taken up the matter immediately after the incident. Due to delay in reporting the incident, ONGC had to replace the flare tip resulting in an extra expenditure of ₹16.11 crore.

Contract for construction of Mumbai High North (MHN) Process platform and Living Quarters was awarded to M/s Larsen and Toubro Hydrocarbon Engineering Limited (LTHE), Mumbai on 31 July 2009. The HP flare tip[3] for the platform was supplied by M/s Callidus Technologies LLC and was commissioned in October, 2012.

During June 2014, ONGC observed gas burning below the HP flare tip (MNF1) at distributor cross arms. The matter was taken up with the contractor, M/s LTHE on 1 July, 2014 for remedial action. Since warranty of the flare tip had expired, LTHE in turn suggested taking up the issue directly with M/s Callidus, the original equipment

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[1] ₹5.26 crore towards Gas supply, ₹0.28 crore towards the MGO charges and ₹1.82 crore towards interest on the outstanding amount

[2] Mumbai North Flare 1

[3] A flare tip is used for the disposal of waste combustible gases and consists basically of a high grade alloy tube. Usually it is mounted on the top of a steel stack so that the heat of combustion and its products will not cause danger to life and property on the ground.

manufacturer (OEM). However ONGC did not intimate the OEM and again (September 2014) informed M/s LTHE that the flare tip had tilted to one side due to the fire at tip bottom. In response, M/s LTHE informed (25 September 2014) that representative of M/s Callidus would be mobilised in the first week of October 2014. During October 2014, the representative of M/s Callidus inspected and reported that the damages were repairable at the time when detected but had worsened over time and hence needed to be replaced. The flare tip vendor, M/s Callidus, submitted its final report on 28 January 2015.

Considering the urgency of replacement, Company requested M/s LTHE with sub-vendor, M/s Callidus to carry out the replacement during pre-monsoon 2016. The contract was awarded to M/s LTHE on 16 December 2015 for a total lumpsum price of USD 2,404,575 (₹16.11 crore) including service tax but excluding taxes & duties. The flare tip has been replaced on 30 November 2016 after 29 months delay from the incidence took place in June 2014.

The Management replied (October 2016) that burning of gas was observed below the MNP HP flare tip on 26 June 2014 and the matter was taken up with Contractor M/s LTHE immediately on 1 July 2014 for remedial action. After continuous persuasion, OEM representative visited MNP on 10 October, 2014. Hence, the delay in inspection of flare tip was due to delayed response from LTHE and OEM.

The reply of Management is not justifiable since ONGC did not take up the issue immediately with the OEM, despite LTHE's request (July 2014) to do so. During September 2014, ONGC again contacted LTHE when the flare tip had tilted. Thus, due to delay in intimation of the incidence of burning of gas below the HP flare tip, ONGC was compelled to replace the same resulting in an extra expenditure of ₹16.11 crore to the Company.

The matter was reported to the Ministry in November 2016; their reply was awaited (January 2017).

10.9 Failure to obtain the share of cost of Immediate Support Vessels purchased by ONGC for security of offshore assets from private Exploration and Production (E&P) operators

Ministry of Petroleum and Natural Gas (MoPNG) directed (October 2009) Oil & Natural Gas Corporation to procure 23 Immediate Support Vessels from its own funds for operations by Indian Navy relating to security of offshore assets. The cost of this was to be shared by all companies engaged in Exploration and Production of oil, having a foot print in offshore areas. Though ONGC purchased all 23 ISVs at a total cost of ₹349 crore and delivered them to the Navy in July 2015, MoPNG had not finalised the cost sharing mechanism of the ISVs by other private and public sector Exploration and Production (E&P) Operators. This resulted in blocking of funds of ONGC to the tune of ₹136.84 crore relating to share of Capital expenditure pertaining to other Operators and loss of interest thereon to the tune of ₹15.39 crore.

In a meeting held on 10 September 2007, between Ministry of Petroleum and Natural Gas (MoPNG) and private and public sector companies engaged in exploration and production of petroleum products, on security of offshore installations in the Exclusive Economic Zone of the country, it was decided that cost of security of offshore assets would be shared by all exploration and production (E&P) companies having a foot print in offshore areas. The Cabinet Committee on Security (CCS) approved (February 2009) early procurement of Immediate Support Vessels (ISVs) required for offshore security. MoPNG directed (October 2009) ONGC to procure all the 23 ISVs from its own fund for operations by the Navy. MoPNG also directed (June 2011) Director General of Hydrocarbons (DGH) to take up the issue with Private Operators for effective implementation of cost sharing of ISVs among the Operators.

Though, various meetings were held (January 2014, July 2014, and December 2014) between DGH and representatives of E&P Operators[1], to discuss the cost sharing mechanism of ISVs to be procured by ONGC, no progress relating to finalising cost sharing mechanism relating to ISVs purchased by ONGC was made. Subsequently, DGH also suggested (March 2015) a formula for cost sharing, taking into consideration, protection of physical offshore assets, oil and gas production and insured value of the asset. However, the E&P operators in the private sector expressed (03 June 2015) their reservations and disagreement on participating in the cost sharing mechanism of ISVs, stating that it was the sovereign duty of a nation to provide security to all its assets.

DGH therefore, proposed (December 2015) to MoPNG, that, being sovereign responsibility of the State, Government may consider paying Capital Expenditure (CAPEX) of the ISVs through Oil Industry Development Board (OIDB) funds as a onetime measure. However, no further decision was taken on the same by MoPNG.

Meanwhile, as directed by MoPNG, ONGC purchased and delivered all 23 ISVs registered as warships to Navy (July 2015). As on 30 June 2015, the total cost of procurement of 23 ISVs amounted to ₹349 crore.

Subsequently, the private operators (in the meeting dated 2 February 2016), agreed in principle with the Ministry to share the CAPEX cost of ISVs. It was further agreed that DGH would, in consultation with the operators, develop an agreeable formula for sharing of CAPEX. It was also decided that RIL would act as a coordinator for ISVs in East Coast and all stakeholders would share the CAPEX and operating expenditure (OPEX) of ISVs. However the private E&P operators still maintained (March 2016) that there was no agreement amongst the stakeholders on the need for deployment of ISVs and in the absence of agreement, issue of sharing of cost incurred by ONGC unilaterally did not arise.

In the subsequent meeting of DGH (10 August 2016) with private oil and Gas Operators issue of sharing only OPEX on East Coast was discussed. DGH did not raise the matter relating to sharing of CAPEX with the private operators. The coordinator M/s. RIL also addressed (October 2016) only the issue of sharing of OPEX relating to the ISVs. No further decision was taken by MoPNG as well as DGH with regards to sharing of CAPEX of ISVs purchased by ONGC and handed over to the Navy for security of offshore assets of all the public and private operators operating in Indian Exclusive Economic Zone.

[1] ***Reliance Industries Limited (RIL), Gujarat State Petroleum Corporation (GSPC) and Cairn India Limited (E&P operators from producing offshore assets)***

The Management stated (November 2016) that the procurement was done as per the directives of MoPNG and E&P operator's share of ISV costs could only be decided and recovered after the DGH firms up the mechanism of cost sharing. The Management reply had to be viewed against the fact that the private E&P operators expressed inability to share the cost of ISVs citing the sovereign duty of the Government.

Thus, even after a period of seven years from the date of its directions (October 2009) to ONGC to procure 23 ISVs, MoPNG could not finalise the reimbursement of capital cost of ISVs either through sharing mechanism with the other E&P operators or through OIDB funds. This resulted in blocking of ONGC funds to the tune of ₹136.84 crore without any reimbursement from the other Operators/ MoPNG towards the CAPEX cost of ISVs related to other operators for providing security to installations, other than that of ONGC and loss of interest of ₹15.39 crore (@7.5[1] *per cent* per anum) thereon for a period of one and half years (from July 2015, date of handing over of ISVs to Navy).

The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).

ONGC Videsh Limited

10.10 Wasteful expenditure on idling of rig

ONGC Campos Limitada (subsidiary of ONGC Videsh Limited) failed to submit Operational Safety Documents prior to 90 days of starting of drilling, as required. This led to idling of rig for 118 days and consequent wasteful expenditure of ₹134.73 crore.

ONGC Videsh Limited (the Company) through its subsidiary, ONGC Campos Limitada (OCL) acquired Block BM-S-73, Brazil and entered (2008) into the concession agreement with the Brazilian Oil and Gas Regulator (ANP[2]), for the exploration, development and production of oil and natural Gas. The concession agreement gave OCL a 100 *per cent* interest in the block. OCL, after retaining 43.50 *per cent* farmed out participation interest of 43.50 *per cent* and 13 *per cent* respectively to Petrobras and Ecopetrol in January 2010 and accordingly entered (May 2010) into a Joint Operating Agreement (JAO). According to the JAO, OCL was appointed as the Operator with day to day responsibility for conducting operations on behalf of the members of the consortium. Non-operators were obliged to pay cash calls issued by the operator for the expenses incurred without prejudice to their rights to later contest the charge and indemnify the operator against any loss or damage, even if caused by the Operator's own fault except, for gross negligence or wilful misconduct.

OCL was required[3] to submit Operational Safety Documents (OSD) 90 days before drilling operations were to start. However, OCL did not submit OSD as required and started drilling activity of exploratory well after obtaining (April 2011) environmental

[1] ***The rate at which ONGC had invested (July 2016) its surplus funds in mutual funds.***
[2] ***Agentia Nacional do Petroleo, Gas Natural e Biocombustiveis, the 'ANP' –Brazilian Oil and Gas Regulator***
[3] ***As per Resolution No. 43/2007 of the Brazilian Oil and Gas regulator (ANP)***

clearance from Environment Regulatory Authority of Brazil (IBAMA[1]). ANP suspended drilling operations with effect from 24 June 2011 for non-submission of OSD. OCL submitted OSD on 19 July 2011 and after inspection of rig, ANP lifted the suspension on 19 October 2011.

In the meantime, IBAMA withdrew (September 2011) the drilling license on the grounds that the Individual Emergency Plan submitted by OCL failed to deal with level three oil spill. The drilling licence was restored on 9 November 2011 on submission (October-November 2011) of several documents containing the information which was requested by IBAMA. The drilling operations again started on 9 November 2011. In the process, the rig remained idle for 118 days (24 June to 19 October 2011) on suspension of drilling operations by ANP and for 19 days (20 October to 8 November 2011) on account of withdrawal of drilling license by IBAMA. Drilling was completed on 25 November 2011 but no oil was found in the well. The consortium members agreed (January 2012) to relinquish the concession agreement.

As per terms of the JAO, OCL issued (May 2011) cash call No. 1 in Brazilian currency (BRL) 121.71 million[2] for the expenditure incurred[3] and the same was paid by the consortium members. Cash call 2 for BRL 45.09 million[4] was issued (August 2011) and paid by all the consortium members. Subsequent cash calls (3 and 4 amounting to BRL 50.70 million) were also paid (December 2011/February 2012) by Petrobras (BRL 22.05 million) and Ecopetrol (BRL 6.59 million) under protest and with express reservation of their rights to contest it as it related to the Non-productive period. However, demand made under cash call 5 in July 2012 for Petrobras's share of BRL 49.58 million and Ecopetrol's share of BRL 14.82 million was refused by them on the plea that the cash call contained costs related to the non-productive operative period caused by suspension of drilling activities due to negligence of the operator which should be exclusively borne by the operator. Further, the consortium members demanded reimbursement of the non-productive period cost included in cash calls 2 to 4.

OCL made several efforts through negotiation meetings with consortium members/supplier of rig from July 2012 to settle their dues. The negotiation failed and, therefore arbitration proceedings were initiated (November 2013) by OCL. During arbitration proceedings, OCL stated in its defence that it was not aware of the substances of the requirements of the notification issued by ANP and possible implication of failing to comply with those requirements. Petrobras stated that OCL ignored its communication forwarding the copy of ANP Resolution twice (together with an English translation) to comply with those requirements and accordingly drilling was suspended due to negligence of OCL.

International court of Arbitration pronounced (December 2015) that ANP's suspension of the drilling operations should be attributed to OCL's gross negligence and therefore OCL should bear the cost of USD 51.59 million equivalent to ₹238.46 crore being idle

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[1] ***Instituto Brasilerio do Meio Ambiente e dos Recursos Natuaris Renovaveis - Environment Regulatory Authority of Brazil***

[2] ***Share of OCL, Petrobas and Ecopetrol was BRL 52.94 million, BRL 52.94 million and BRL 15.82 million respectively***

[3] ***Drilling and General & Administrative expenses***

[4] ***share of OCL –BRL 19.62 million, Petrobras - BRL 19.61 million and Ecopetrol BRL 5.86 million***

rig charges (USD 16.82 million) and other expenses (USD 34.77 million) incurred from 24 June to 19 October 2011. This included ₹ 103.73 crore share of OCL and ₹134.73 crore share of Petrobras and Ecopetrol together. The Court also added that the cost incurred during the period of suspension of drilling activities by IBAMA *i.e.,* from 20 October to 8 November 2011 should be shared by all the consortium members according to their share of participation interest as it was not attributed to OCL's gross negligence. On accepting the award, OCL settled the dispute with consortium members on 10 March 2016. This resulted in wasteful expenditure of ₹134.73 crore being idle rig charges and other expenses which could not be passed on to other members of consortium.

The Management stated (September 2015) that all compliances as per checklist available on ANP website were complied with by OCL. The Management also stated that OCL had several meetings with ANP and got a verbal message conveying that the entire requirement was complied with.

The reply of the Management is not acceptable as it was duly considered by the International Court of Arbitration and the Company was held responsible for suspension of drilling operations due to non-submission of OSD before starting of drilling operations. OCL, instead of having relied on the verbal confirmation regarding compliances of all requirements, should have adequately safeguard its interests by promptly acting on the communication of Petrobras to comply with regulatory requirements as per ANP Regulations.

Thus, due to gross negligence, OCL failed to submit Operational Safety documents 90 days before starting of drilling which resulted in idling of the rig for 118 days with consequential wasteful expenditure of ₹134.73 crore.

The matter was reported to the Ministry in November 2016; their reply was awaited (January 2017).