CHAPTER IX: MINISTRY OF PETROLEUM AND NATURAL GAS

Balmer Lawrie & Company Limited

9.1 Inadequate due diligence resulting in non-recovery of dues

Balmer Lawrie & Company Limited (Company) acquired a loss making concern, M/s Vacations Exotica Destinations Private Limited (VEDPL) at ₹13.50 crore without ascertaining the accuracy of its financial statements. Reconciliation was not carried out prior to release of final instalment which resulted in unrecovered dues amounting to ₹3.99 crore.

Balmer Lawrie & Company Limited (Company) was approached (November 2012) by M/s Vacations Exotica Destinations Private Limited (VEDPL) for acquisition of upto 50 *per cent* of its equity stake. VEDPL, engaged in tours and travel business, had been established in 2007 as a partnership firm and subsequently converted (2012) into a private limited company. The Company decided (November 2013) to acquire the entire travel and tour business of VEDPL rather than 50 *per cent* of its equity with the primary objective of acquiring the brand "Vacation Exotica". The rationale for the acquisition was that it would provide the Company with the opportunity to enter into tours and leisure travel business.

The Company appointed experts to carry out valuation of the business of VEDPL, on standalone basis as well as considering its synergies with the Company. Two experts were appointed, M/s BOB Capital Markets Limited (BOB) and M/s KPMG India Private Limited (KPMG), who recommended that the value of VEDPL would range between ₹13.50 crore to ₹30.40 crore when considered on a stand-alone basis and ₹63.00 crore to ₹79.80 crore considering synergy with Company.

Audit noted that the valuations were done based on the information provided by the Company which included high projected growth of the business of VEDPL during 2014-18 (rate of growth considered being 27 to 30 *per cent* on standalone basis and 33 to 114 *per cent* considering synergy with Company), even though VEDPL had been incurring losses since inception (2007-08). Finally, the Company acquired the business of VEDPL in January 2014 at an agreed consideration price of ₹13.50 crore. Post-acquisition, the tour & travel business of VEDPL has not generated any profit and the total loss incurred by the Company on such business was ₹26.94 crore during the period from January 2014 to September 2017, belying the high growth projections.

Audit noticed that the Board of Directors (BoD) of the Company, while considering the acquisition proposal (April 2013), had expressed concern over the liquidity position of VEDPL. The Company had assigned financial due diligence of VEDPL to Grant Thornton India LLP, preparatory to the acquisition. The financial due diligence revealed (November 2013) that the accounting software of VEDPL was prone to data entry errors and lacked proper systems and controls. The BoD of the Company decided (November 2013) to conduct a detailed audit of the accounts of VEDPL for first half year ended 30 September 2013. M/s Deloitte Haskins & Sells was appointed for the audit (February 2014).

The BoD of the Company simultaneously decided (November 2013) on an audit of VEDPL and negotiations for acquisition. The Chairman & Managing Director along with the whole-time Directors of the Company were authorised to carry out negotiations with VEDPL. However, without waiting for the report of the auditor, the Company acquired VEDPL (January 2014), at a consideration of ₹13.50 crore. Post-acquisition, the auditor in its report of May 2014 pointed out deficiencies in the books of accounts of VEDPL relating to maintenance of fixed assets registers, accounting of debtors, loans & advances and advertisement expenditures etc. However, the payment for the acquisition had commenced by then (February 2014) with the final instalment released in August 2014.

As per the terms of the acquisition, all billings and corresponding costs of sales for the erstwhile VEDPL business were to be booked on the Company's account from 1 January 2014 while the existing entries were to be transferred from VEPDL books to the Company's books at a later date and reconciled. On reconciliation, the Company noticed dues of ₹3.99 crore from VEDPL. By then, the Company had already released the entire consideration of ₹13.50 crore.

The outstanding dues of ₹3.99 crore had been shown in the Company's accounts as recoverable from VEDPL (even as on December 2017). As the business of VEDPL has already been acquired by the Company and full payment has been made for the transaction, the possibility of recovery of this amount is remote.

The Management stated (December 2017) that dues amounting to ₹3.99 crore from VEDPL arose on reconciliation after releasing final payment of purchase consideration and informed that in case the amount is un-recovered by March 2018, it would be provided for in the accounts of Company.

The reply of the Management indicates the lack of due diligence on its part while acquiring a loss making private company. The readiness of the Management to provide for this amount, even though the promoter of VEDPL is presently in the employ of the Company as the Chief Operating Officer of its tour business also underscores the fact that its recovery is remote.

Thus, the Company acquired a loss making concern, VEDPL, at ₹13.50 crore. The business continued to suffer losses, post-acquisition, with cumulative loss of ₹26.94 crore to the Company over January 2014 to September 2017. Due diligence regarding the accounts of VEDPL was not carried out before the acquisition. Though an audit was initiated, the Company did not wait for its results before releasing payments for the acquisition. Subsequently, post reconciliation, outstanding dues of ₹3.99 crore were noticed, recovery of which appears remote.

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

Bharat Petroleum Corporation Limited

9.2 Irregular payment to employees in contravention of DPE Guidelines

Bharat Petroleum Corporation Limited made payment of ₹20000 to each of its employees amounting to ₹25.14 crore on the occasion of completion of 40 years by the Company and 50 years by Kochi Refinery which was not as per DPE guidelines.

Upon completion of 40 years by Bharat Petroleum Corporation Limited (Company) as well as 50 years by Kochi Refinery, the Company approved (October 2016) grant of reward of ₹20000 to all its employees. The amount of ₹20,000/- per employee was paid to of 12572 employees[1] on the roll of the Company, thereby incurring an expenditure of ₹25.14 crore on this account.

In this regard, Audit observed that :

i. The Union Cabinet had directed in March 1978 that awards should not be granted on occasions of Silver/Golden Jubilee celebrations of the Public Sector Enterprises.

ii. The Bureau of Public Enterprises (BPE) had also instructed (February 1983) the Public Sector Undertakings to follow the above directions of the Cabinet.

iii. DPE guidelines (November 1997) specifically stipulated that no payment of ex-gratia, honorarium or reward should be paid by the Public Enterprises to their employees over and above the entitlement under the Bonus Act or the executive instructions issued by DPE in respect of ex-gratia, unless the amount was authorised under the duly approved incentive scheme in accordance with the prescribed procedure.

iv. There were no specific guidelines on rewards/mementos to employees of CPSEs on Commemorative occasions in the Compendium of guidelines, issued (November 2015) by the Department of Public Enterprises (DPE), Ministry of Heavy Industries and Public Enterprises.

v. Ministry of Petroleum & Natural Gas (MoPNG) had instructed (November 2012) all Oil Marketing Companies (OMCs) that all applicable guidelines on the issue be strictly followed without any exception till the guidelines on payment of awards in cash/kind to employees on Commemorative Events were framed. Audit observed that based on the instructions of MoPNG, draft Guidelines on the subject were prepared by ONGC for employees of all CPSEs and submitted to MoPNG in October 2015, approval for which was pending (November 2017). The Ministry intimated Audit that it did not consider necessary to issue separate guidelines on payment of awards in cash/kind to employees on Commemorative Events. Thus no further action was taken by the Ministry to prohibit payment of such allowances that were not as per the DPE guidelines.

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[1] ***Management: 5684 and non-management: 6888***

The Management in its reply (October 2017) stated that the award of commemoration given by the Company was in line with the extant practice and continued collective wisdom of Oil Companies. It was further stated that decision taken for award was also in line with the intended proposal of the Oil & Gas Companies submitted to MoPNG.

The reply is not acceptable as the incentive was beyond the provisions of the DPE guidelines issued in November 1997.

Thus, the payment made by the company to its employees in violation of the extant DPE guidelines and instructions of the Ministry of Petroleum & Natural Gas, to follow the applicable guidelines without any exception resulted in irregular expenditure of ₹25.14 crore.

The matter was referred to the Ministry in October 2017; their reply was awaited (February 2018).

GAIL (India) Limited

9.3 Delay in completion of Minimum Work Program leading to avoidable payment of liquidated damages

Due to lack of planning, consortium partners could not complete the Minimum Work Programme within the license period which led to avoidable payment of liquidated damages of ₹11.31 crore.

A consortium[2] consisting of three Central Public Sector Enterprises (CPSEs) viz. GAIL (India) Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, one State Government PSU (Gujarat State Petroleum Corporation Limited) and two private firms acquired block RJ-ONN-2004/1 in Rajasthan and entered (2 March 2007) into Production Sharing Contract (PSC) with Government of India. Consortium received (November 2007) Petroleum Exploratory License (PEL) for Phase-I of exploration of the block. Consortium partners made GAIL (India) Limited (the Company) the operator for this exploration block.

As per PSC, the consortium was required to complete the 2D seismic API[3] in the grid size of 8 KM X 8 KM covering the entire contract area under the Minimum Work Programme (MWP). Further, reprocessing of 2D/3D seismic data, Geo chemical survey, Gravity Magnetic survey and drilling of six wells were to be completed within four years i.e. by 5 November 2011. However, extension of time up to six months could be granted for completion of MWP.

Clause A 1 (b & c) of the Policy for extension in exploration phase in the New Exploration License Policy (NELP) (April 2006) of Government of India stipulated that extension of time for additional six months (2[nd] extension) could be given subject to

[2] *GAIL with participation interest (PI) of 22.225 per cent, Gujarat State Petroleum Corporation with PI of 22.225 per cent and other JV partners viz. HPCL with PI 22.22 per cent, BPCL with PI 11.11 per cent, Hallworthy Shipping Limited with PI 11.11 per cent and Nitin Fire Protection Industries Limited with PI 11.11 per cent formed consortium*

[3] *Acquisition, Processing and Interpretation of data*

submission of 100 *per cent* bank guarantee and 10 *per cent* cash payment as agreed pre-estimated liquidated damages (LD) for unfinished MWP as reasonably determined by Director General of Hydrocarbon. Any extension beyond 12 months and up to 18 months (3rd extension) could be considered subject to submission of 100 *per cent* bank guarantee and 30 *per cent* cash payment as agreed pre-estimated liquidated damages for unfinished MWP as reasonably determined by Director General of Hydrocarbon.

The Company applied (17 June 2010) to Rajasthan State Pollution Control Board (RSPCB) for Consent to Establish industry (CTE) as per section 21 of the Air (Prevention and Control of Pollution) Act, 1981. RSPCB pointed out (7 July 2010) deficiencies such as filing of common application for all 6 exploratory drilling wells falling under different locations instead of separate application for each location, non-submission of requisite fee, lack of proof of capital investment, land allotment letter, commitment for compliance with environmental clearance and the details of the source of raw water to assist in securing clearance from Central Ground Water Authority. Some of the requisite documents were submitted during August 2010 to September 2010. Remaining documents along with requisite additional fee were submitted during January 2011 to February 2011. RSPCB observed (March 2011) that the Company did not submit certificate confirming the estimated cost of project for drilling on one site, land conversion letter of the competent authority, information about mode of disposal of hazardous waste etc. Finally, the Company submitted all the requisite documents/fees on 11 April 2011 and RSPCB granted CTE on 27 April 2011.

The Consortium completed all the committed work under MWP except drilling of five wells by November 2011. Therefore, in line with the provisions of PSC and New Extension Policy (NELP), it sought three[4] extensions for a period of six months each upto 5 May 2013. The Consortium in accordance with the share of participating interest (PI) paid ₹5.65 Crore[5] (including share of CPSEs of ₹3.63 crore[6]) towards LD for unfinished MWP to Director General of Hydrocarbon (DGH) along with bank guarantee for USD 6.947 million[7]. The Company applied (April 2013) for fourth extension for an additional period of six months but no response was received from Ministry of Petroleum and Natural Gas (MoPNG). The consortium could drill only four wells and drilled the 5th well partially i.e. upto 334 meter depth against the targeted depth of 1100 meters as at the expiry of the third extension of license period on 5 May 2013,. The unfinished MWP was 766 m in fifth well and 1200 m depth in sixth well. In view of the unfinished MWP of two wells against the committed depth, the Company again requested (1 May 2013) the DGH for grant of permission to continue the drilling and testing operations beyond 5 May 2013. However, DGH refused (10 May 2013) to grant permission as there was no provision either in the PSC or in the NELP for fourth extension. But the consortium continued drilling of the 5th well and completed it on 2 June 2013. However, DGH considered the work done till 5 May 2013 only for calculation of LD towards unfinished MWP. Accordingly, three CPSEs paid ₹7.68 crore (GAIL ₹3.03 crore, HPCL ₹3.16 crore and BPCL ₹1.49 crore) towards LD for unfinished MWP.

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[4] ***September 2011, September 2012 and December 2012***

[5] ***₹nil +₹2.35 crore +₹3.30 crore = ₹5.65 crore***

[6] ***₹1.45 crore (GAIL) +₹1.45 crore (HPCL) +₹0.73 crore (BPCL)= ₹3.63 crore***

[7] ***USD Nil +USD 4.328 million + USD 2.619 million = USD 6.947 million***

Audit observed that exploration activities were time bound and committed MWP was required to be completed within the defined time frame. The consortium, however, took almost entire license period of four years for completion of seismic data analysis, Geo-chemical survey and Gravity Magnetic Survey. Drilling of first well started at the end of June 2011 as a result of which, drilling of only one well could be completed within the license period i.e. till 5 November 2011. Further, receipt of CTE from RSPCB took long time due to non-submission of requisite documents/fees along with the original application. Further, the Company initiated action for collection of certificates/clearance from various authorities only after RSPCB pointed out non-submission of those documents in July 2010.

The Management stated (September 2017) that an additional period of 15 months was taken due to mud loss, drilling of wells in two phases and time consumed to decide whether to continue or stop drilling the 5th well after completion of 4th well. Further, it was not possible to stop drilling of well on 5th May 2013 by terminating the well in the middle of operations without achieving the target of the well especially as light oil was observed in the nearby well (Bajuwala–1). Getting Consent to Establish from Pollution Control Board of Rajasthan Government caused delay of 211 days and was claimed as an excusable delay. The decision of the MoPNG on not agreeing to excusable delay was conveyed vide letter dated 15 October 2013.

Further, the Ministry stated (January 2018) that during various meetings with DGH/ MoPNG, it was understood that the request for time extension beyond the third extension i.e. 5 May 2013 would be considered favourably as light crude oil was discovered for the first time in the area and activities were carried out with the expectation that time extension would be granted.

Reply of the Ministry/Management needs to be seen in the light of the fact that mud loss is an inherent risk associated with E&P business. Further, second and third extension of 6 months each were allowed only on payment of LD and there was no provision either in the PSC or in the NELP for extension of license period beyond 18 months. So far as excusable delay in getting CTE from RSPCB is concerned, DGH had informed in August 2012 that excusable delay on this account was not approved by MoPNG.

Thus, due to lack of planning and delay in compliance with formalities for obtaining CTE, the Consortium could not complete the MWP and therefore three CPSEs incurred avoidable expenditure of ₹11.31 crore towards liquidated damages.

Hindustan Petroleum Corporation Limited

9.4 Avoidable payment of surcharge on excess drawn of water

Visakh Refinery of Hindustan Petroleum Corporation Limited decided to draw water required by the refinery from three reservoirs in a phased manner instead of drawing the whole quantity together. Consequently, it made an avoidable payment of ₹7.07 crore due to surcharge levied on excess drawal of water from one reservoir.

The Visakh Refinery of Hindustan Petroleum Corporation Limited (HPCL) was drawing 33 lakh imperial gallons[8] of water per day (LIGD) from three reservoirs of Greater

[8] *One imperial gallon is equivalent to 4.54609 litres*

Vishakhapatnam Municipal Corporation (GVMC), viz. Raiwada (12 LIGD), Meghadrigedda (15 LIGD) and Thatipudi (6 LIGD). Three separate agreements were entered into (September 2013) with GVMC for supply of water from the three reservoirs. The agreements were effective till 31 March 2017. As per the terms of each of the agreements, GVMC charged ₹36 per kilo litre (KL) of water which was enhanced to ₹60 per KL from December 2015 onwards. HPCL was obligated to pay a minimum charge of 60 *per cent* of agreed quantity under each agreement or the actual quantity whichever was higher. Any excess drawal of water would result in payment of surcharge at 100 *per cent* of the agreed rate.

Additional requirement of water for the new projects of the Refinery viz., Diesel Hydro Treater (DHT) project and Flue Gas Desulphurisation (FGD) Unit I & II which were in advanced stage of commissioning, was assessed initially at 16 LIGD. Accordingly, consent of GVMC was obtained (August 2011) for supply of additional water on payment of capital contribution charges and advance payment of water charges. However, the additional requirement was re-assessed (June 2013) as 12 LIGD[9] instead of 16 LIGD with the total water requirement increasing to 45 LIGD from 33 LIGD. Accordingly, the Executive Committee for Mega Projects (ECMP) of the Refinery approved (February 2014) proposal for entering into water supply agreements with GVMC for obtaining additional 12 LIGD of water. The Management, however, subsequently decided (December 2014) to enhance the agreed quantities in a phased manner with initial enhancement of 6 LIGD from Meghadrigedda reservoir on the ground that major repairs were required to be carried out on Thatipudi and Raiwada lines which would take time. Accordingly, the Refinery revised (May 2015) the agreement with GVMC for enhancement of agreed quantity of water from 15 LIGD to 21 LIGD in respect of Meghadrigedda reservoir effective from March 2015 till 31 March 2017.

During the period from March 2015 to March 2017, the Refinery incurred an additional expenditure of ₹14.90 crore towards surcharge on account of excess drawal of 28.85 lakh KL of water from Thatipudi reservoir.

Audit observed that the decision of the Management to enhance the requirement of water in a phased manner instead of drawing the whole quantity together was not based on realistic assessment due to the following:

a) During March 2015 to March 2017, the total volume of water actually drawn from all the reservoirs together ranged between 38.48 LIGD to 48.02 LIGD. This constituted more than the minimum chargeable quantity of 60 *per cent* of the agreed quantity taken individually for all the three reservoirs. Further, in 20 out of 25 months under consideration, the actual drawal was more than 40 LIGD against the enhanced quantity of 39 LIGD.

b) The percentage of water drawn by the Refinery from Meghadriggeda reservoir during March 2015 to March 2017 ranged from 70 *per cent* to 92 *per cent* of the enhanced quantity of 21 LIGD. Thus, the enhanced quantity of water from the reservoir was not availed of.

[9] ***6 LIGD from Meghadrigedda, 4 LIGD from Thatipudi and 2 LIGD from Raiwada***

c) While revising the agreement with GVMC in March 2015, the Refinery was already paying surcharge for water drawn from Thatipudi reservoir due to drawal of water in excess of the agreed quantity of 6 LIGD. During December 2014 to February 2015, the Refinery drew 1.98 lakh KL of water in excess of the agreed quantity from this reservoir and incurred ₹71.53 lakh on account of surcharge.

d) Consequent to the remedial measures such as sectional line and air valve replacements etc. carried out, during the years 2013-14 and 2014-15, there was substantial increase in quantity of water supply from Thatipudi reservoir from 2014-15. This was further corroborated by the fact that the actual drawal of water from Thatipudi reservoir ranged between 9.21 LIGD to 18.58 LIGD during the period March 2015 to March 2017 as against the agreed quantity of 6 LIGD.

The Refinery could have avoided the surcharge of ₹7.07 crore **(Annexure-X)** out of the surcharge of ₹14.90 crore paid for the enhanced quantity if it had drawn the total additional water requirement of 12 LIGD [10] from all the three reservoirs together (as approved by the ECMP) instead of drawing 6 LIGD only from the Meghadriggeda reservoir. The water that could be drawn from Thatipudi reservoir in this arrangement would have been 10 LIGD instead of 6 LIGD.

The Management stated (August 2017) that it was prudent to enhance the water quantity in phases as the DHT facilities were just commissioned and their operations were under stabilisation. Thatipudi and Raiwada reservoirs were connected to public distribution system and in case of shortage of water, preference would be given to public distribution and bulk supplies would be shutdown.

The reply of the Management is not acceptable since it was a general condition in all the agreements with GVMC that top priority would be accorded to supply of drinking water to the public, if there was any shortage in the availability of treated water.

The Ministry stated (November 2017) that considering the savings of ₹6.82 crore in the Capital Contribution Charges (CCC) and ₹1.80 crore in the Advance Consumption Charges (ACC), it was thought prudent to enhance the agreement quantity by 6 LIGD, which was basically due to uncertainty on the exact additional water requirement for DHT facilities. The payment of CCC and ACC for additional 6 LIGD amounting to ₹8.62 crore would have been infructuous had the actual additional consumption been lower than 12 LIGD.

The justification advanced by the Ministry was not found mentioned in the records of the Company. Further, the contention of the Ministry is not acceptable as the CCC and ACC of ₹8.62 crore for additional 6 LIGD of water were not saved but only deferred to the next phase of enhancement in April 2017. As the ACC portion was refundable, the Company could have saved only the interest amounting to ₹1.16 crore[11] on the CCC portion by opting for the phased enhancement. Further, the Company had actually incurred (April 2017) additional expenditure of ₹1.36 crore being the CCC at increased rate of ₹30,000/- per KL as against the prevailing rate of ₹25,000 per KL in March 2015. Thus,

[10] ***6 LIGD from Meghadrigedda, 4 LIGD from Thatipudi and 2 LIGD from Raiwada***
[11] ***₹6.82 crore x 8.5% x 2 years based on the maximum rate of interest prevailing in April 2015***

the Company would have benefitted more by entering into agreement for enhanced quantity of 12 LIGD in May 2015 itself instead of drawing so in two phases i.e. one in May 2015 and other in April 2017.

9.5 Extra payment of ₹17.93 crore towards Discount/Incentive

HPCL made extra payment to its reseller M/s Haresh Agencies while extending discounts and by including credit cost as part of discount in violation of its policy. The company while assessing the discount entitlement, adopted the highest slab relevant to the total volume of sales of Furnace Oil (FO) and Light Diesel Oil (LDO) achieved in 2015-16 instead of aggregate of eligible discounts admissible under each slab for volume of sales covered under such slab.

Hindustan Petroleum Corporation Limited (HPCL) appointed (1977) M/s Haresh Agencies as its reseller. Apart from kerosene and Industrial Diesel, the agency was also a reseller of the Company for Furnace Oil (FO) and Light Diesel Oil (LDO). In order to encourage the resellers to achieve higher sales margin, the Company extended discount on the basis of volume of products lifted by the resellers. The resellers were eligible for discount at the rate of 70 *per cent* of discount applicable for customers directly supplied by the company for the year 2015-16. No credit was to be extended to the reseller.

The Company introduced (April 2015) slab wise discount scheme on volumes lifted by the reseller for the year 2014-15. The slab-wise discount rates were revised in October 2015 as indicated below.

FO Vol./Annum (Thousand Metric Ton)	Reseller Discount including credit cost of ₹250 per MT	LDO Kilo Litre per annum	Reseller Discount including credit cost of ₹250 per KL
Upto 6	425	**Upto 100**	425
Above 6, Upto 12	600	**Above 100, Upto 500**	600
Above 12, Upto 25	775	**Above 500, Upto 1500**	775
Above 25, Upto 50	950	**Above 1500, Upto 5000**	950
Above 50, Upto 75	1125	**Above 5000, Upto 10000**	1125
Above 75, Upto 100	1300	**Above 10000, Upto 15000**	1300
Above 100, Upto 125	1475	**Above 15000**	1475
Above 125, Upto 150	1650		
Above 150, Upto 175	1825		
Above 175,	2000		

The Company paid (March 2016) ₹34.86 crore towards discount on total volume of 174335 MT of fuel oil and ₹2.73 crore on total volume of 18497 KL of Light Diesel Oil lifted by the reseller M/s. Haresh Agencies during the year 2015-16.

Audit analysis of the payment indicated the following:

(A) The reseller lifted 174335 MT of FO during the Financial Year (F.Y.) 2015-16. Instead of arriving at total discount payable after aggregating the eligible discount admissible under each slab for the volume covered under such stratified slab, the Company calculated the admissible total discount, by applying the discount rate applicable for total volume lifted on the entire volume lifted by the reseller. If the discount was calculated by aggregating the eligible discount under each stratified slab for volumes pertaining to such slab, the reseller was eligible for a total discount of ₹22.31 crore only for 174335 MT of FO lifted by the reseller **(Annexure-XI).** Thus the reseller was granted an additional discount amounting to ₹12.55 crore[12] for FO lifted during F.Y. 2015-16.

(B) The reseller lifted 18,497 KL of LDO during the F.Y. 2015-16. Instead of arriving at the total discount payable after aggregating the eligible discount under each stratified slab for the volumes pertaining to such slab, the Company calculated the admissible total discount by applying the discount rate applicable for total volume of LDO lifted, on the entire volume of LDO lifted by the reseller. If the discount was calculated by aggregating the eligible discount applicable for volume pertaining to each stratified slab, the reseller was eligible of a total discount of ₹2.17 crore only, for 18,497 KL of LDO lifted by the reseller (**Annexure-XI**). Thus the reseller was granted an additional discount amounting to ₹0.56 crore[13] for LDO lifted during F.Y. 2015-16.

(C) As per Action Plan for the year 2015-16, Business tie-ups issued in April 2015 by the Strategic Business Unit –Direct Sale – (SBU-DS) HQ of the Company, only the direct consumers were eligible for credit facility, the cost of which was assessed as ₹250/- per MT/KL. The policy did not permit credit facility to the resellers. However, the Company included credit cost at the rate of ₹250 per MT while fixing the rate of discount payable to reseller under each slab of volume lifted. M/s Haresh Agencies was granted undue discount of ₹4.82 crore due to inclusion of the credit cost while calculating the total discount payable for the year 2015-16, as shown below:

Items	Volume of actual sale	Credit cost (in ₹)	Extra payment due to credit cost (in ₹)
FO	1,74,334.85 MT	250	4,35,83,712.50
LDO	18,496.50 KL	250	46,24,125.00
Total			**4,82,07,837.50**

(D) While calculating the discount payable at the highest slab for the entire quantity lifted, the Company adopted the wrong slab rate. The slab applicable for volume of sales of 174335 MT of FO was slab bracket "150000 MT to 175000 MT" and the reseller was eligible for discount at the rate of ₹1825/- per MT pertaining to this slab. However, the company applied the rate of ₹2000/- per MT applicable for volume of sales in the next slab pertaining to "175000 MTs. and above". Thus even while applying the discount for the total volume of sales achieved, in the manner adopted by the company, the reseller was granted higher discount at the

[12] ***₹34,86,70,000 (-) ₹22,31,36,375 = ₹12,55,33,625***

[13] ***₹2,72,83,075 (-) ₹2,16,65,575 = ₹56,17,500***

rate of ₹175 per MT on the of 174335 MTs lifted by the reseller during the year 2015-16. The extra payment on this ground amounted to ₹3.05 crore.

The Management stated (November 2017) as follows,

1) While seeking approval for the higher discount rates, the net retained margins for sale had been computed after considering the incentive applicable for the total volume of sales at the highest slab rate and not on the basis aggregated payments due under each stratified slab for volume of sales covered under such slab. It is therefore clear that the intention of Management while granting approval of discount/margin erosion was to extend the incentive on the full volume and not on the basis of slab wise stratified discount.

2) The credit cost of ₹250 was included in the discount to reseller considering the stature of the reseller's business. The dealer was also directed to switch over to payment through RTGS[14] and with two days credit, i.e. transaction date plus two days for payment with effect from 1 August 2013. The Strategic Business Unit (SBU) Credit Committee approved these credit terms in its meeting held in July 2013. Further, this credit facility did not result in any additional cost since payment by cheque was permissible under the approved facility for payment, in which case the company would have received the payment only after clearance of the cheque. The Company was, however, receiving the payment on the same day through RTGS.

The reply needs to be seen in the light of the following facts.

i. During F.Y. 2014-15 the 'average net retained margin' was negative in the case of F.O. and the margin for LDO was ₹2250. The overall Marketing margin (Profit contribution) was negative at approximately (-) ₹10.5 crore. The Company while submitting (April 2015) the proposal for revised discount for approval of the Competent Authority, indicated the estimated 'net retained margin' for the year 2015-16 as ₹375 per MT for FO and ₹ 4250 per KL for LDO leading to an overall retained positive margin of ₹13.12 crore. The proposal, however, did not include detailed calculation of the 'overall retained margin' and hence, there was no disclosure of the manner of calculation of overall retained margin in the proposal submitted for approval.

   Even while calculating the discount payable as per the method adopted by the company, the rate pertaining to wrong slab was adopted. The reseller was eligible for discount at the rate of ₹1825/- per MT only for sale of 174335 MTs and not at the rate ₹2000/- per MT on the entire quantity.

ii. The proposal submitted on 3 April 2015, also specified that slab-wise discount and incentive scheme was being recommended and the proposal included slab wise volumes with corresponding rate of discount in the tables forming part of the proposal. Thus, it cannot be concluded that the approval for proposals submitted on

[14] ***Real Time Gross Settlement (RTGS) is an electronic form of fund transfer where the transaction takes place on a real time basis***

3 April 2015 and 31 October 2015 (revised) envisaged payment for total sales applicable for the entire quantity lifted by the reseller.

iii. The contention of Management that the credit facility did not result in any additional cost is not acceptable since payment towards credit cost involved cash out flow for the company and was against the policy circulated by Executive Director – Direct Sales, of the Company on 27 April 2015.

Thus, the Company made an extra payment of ₹17.93 crore to its reseller M/s Haresh Agencies by extending discounts and credit cost by including this discount in violation of its policy.

The matter was referred to the Ministry in January 2018; their reply was awaited (February 2018).

Indian Oil Corporation Limited

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

Indian Oil Corporation Limited 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 extension of undue favour to the distributors of RGGLV to the tune of ₹280.45 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 of setting up small size Liquefied Petroleum Gas (LPG) distribution agencies in order to increase the 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 customers on Cash and Carry basis at the Retail Selling Price (RSP)[15] from the authorised LPG godown and would not be required to deliver LPG cylinders to the residence of the customers.

MoPNG revised the commission payable to the distributors for refilling of cylinders from time to time and the same rate of distributor's commission was made applicable to distributors' under RGGLV scheme also. MoP&NG increased (October 2012) the distributors' commission to ₹37.25[16] per cylinder and bifurcated the same into two components i.e. establishment cost ₹22.25 and delivery charges ₹15. It was also clarified that customers who collected the cylinders directly from the distributors' premises would not be charged the delivery charges.

It was observed vide *Para no. 10.3 of Report no. 9 of 2017 of CAG of India* that other oil marketing companies (BPCL and HPCL) did not exclude delivery charges while

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

[16] ***Subsequently revised to ₹40.71 in December 2013, ₹44.06 in October 2014, ₹45.83 crore in December 2015 and ₹47.48 in October 2016 (including ₹16.47, ₹18, ₹18.50 and ₹19 towards delivery charges respectively)***

communicating RSP to their RGGLV distributors which resulted in additional burden on the consumers and undue financial benefit to the distributors to the tune of ₹168.04 crore. Audit further observed that Indian Oil Corporation Limited also did not exclude the delivery charges component from the distributors' commission while communicating the RSP to its Vitraks for RGGLV scheme, though distributors were not required to deliver cylinders at the residence of RGGLV customers. As a result, the Vitraks collected delivery charges as part of their commission though they did not deliver the LPG cylinders to the residences of rural customers. Over the period October 2012 to March 2017, the Vitraks of the Company received an undue benefit of ₹280.45 crore on delivery charges.

The Management of Indian Oil Corporation Limited stated (July 2017) that Oil Industry, in view of bifurcation of distributor's commission by MoP&NG in October 2012, deliberated upon the applicability of delivery charges to be passed on to the customers for the then RGGLVs and it was decided that the existing practice in vogue would be continued and distributors would be entitled to establishment charges as well as delivery charges without passing on any rebate to the customers. Further, if delivery charges were not allowed to be passed on the distributors of RGGLV, it would not be viable to them.

The reply of the Company is not tenable as MoP&NG, while revising (October 2012) distributors' commission, categorically stated that delivery charges would not be collected from customers who collect the cylinders directly from distributors' premises. Therefore, the decision taken by the Industry, as stated by the Management, to allow distributors to charge establishment charges as well as delivery charges from the RGGLV customers was against the orders of the MoP&NG.

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, the Company extended undue favour to the Vitraks which resulted in an additional burden on the RGGLV customers to the tune of ₹280.45 crore (over October 2012 to March 2017). The undue benefit to the Vitraks and burden to the rural LPG customers was still continuing (August 2017).

The matter was referred to the Ministry in August 2017; their reply was awaited (February 2018).

9.7 Extra cost due to laxity in finalisation of tender

Indian Oil Corporation Limited could not finalize the tender for a pipeline project within the validity period of the bid and awarded work at extra cost of ₹63.86 crore after retendering.

Indian Oil Corporation Limited (Company) floated (26 November 2012) an open e-tender for Composite Mainline & Combined Station Works (CSW) for Paradip-Haldia-Durgapur LPG pipeline project with a scheduled completion time of 15 months from the issue of specific notice. The work consisted of two parts i.e. Group A (pipeline & station work in the states of Odisha and West Bengal) and Group B (pipeline & station work in the state of West Bengal). Due date for submission of online tender was 26 December 2012 (subsequently extended twice to 14 January and 24 January 2013 as per the request of prospective bidders). The bids were opened on 24 January 2013 and all the four participant bidders in respect of Group A and five in respect of Group B were found qualified on techno-commercial evaluation (30 April 2013). Initially, the validity of the bid was up to 24 May 2013. However, on a request (20 May 2013) by the company it was extended up to 24 July 2013. After completion of pre-price bid meeting and negotiation with the qualified bidders, Tender Committee (TC) recommended (9 July 2013) for award of group A & B work to M/s Kalpataru Power Transmission Limited (KPTL) being the lowest bidder at ₹124.65 crore and ₹128.87 crore (including Service Tax) respectively. Pending approval of award of work, KPTL was requested to extend the period of validity of their offer from time to time. The last extension was sought up to 31 August 2013 but KPTL refused to extend the bid validity beyond 29 July 2013. As the Company could not finalize the award of contract within the extended bid validity period, it was decided (26 August 2013) to request the second lowest (L2) bidders[17] to match the offer of KPTL to avoid any extra cost. However, both the L2 bidders refused to reduce their offered price and therefore the Company cancelled the tender on 30 August 2013.

Subsequently, the Company divided the work of pipeline laying and stations work and invited (Oct 2013) two separate tenders. Both the pipeline laying and stations work were further bifurcated into Group A (Paradip-Haldia section) and Group B (Haldia-Durgapur section). The contracts were awarded to the lowest bidders as under:

Particulars of work	Month of award	Name of the contractor	Contract Amount (including service tax)	Scheduled completion Month
Pipeline laying work for Group A (351.26 Km)	April 2014	M/s Jaihind Projects Limited (JPL)	₹120.58 crore	August 2015
Pipeline laying work for Group B (318.40 km)		M/s Corrtech International Private Limited	₹108.35 crore	September 2015
Station work (Group A &B)	July 2014	M/s Furnace Fabrica (India) Limited	₹42.57 crore (Group A) and ₹45.88 crore (Group B)	October 2015

Audit observed that the Company could not award the contract under the initial tender even within extended bid validity period i.e. 186 days[18] from bid opening date and subsequently awarded the work through the second tender leading to an extra cost of ₹63.86 crore[19]. It was also observed that the Work Procedure Manual of the Company did not specify any time limit for finalisation of the contract award process though the Company stated that normally the parties are asked to keep the bid valid for 4 months after techno commercial bid-opening and during two years ended on 31 March 2012, pipeline division of the Company had taken average of 127 days for finalisation of award processing.

The Company replied (July 2017) that the delay in processing of the subject tender was not attributable to any single individual or department; rather it was a cumulative delay attributable to action of officers from various departments, which has occurred for

[17] ***M/s. Kazstory service Infrastructure India Private Limited being L2 bidder for Group A and M/s. ACE pipeline contracts Private Limited being L2 bidder for Group B***

[18] ***From 25 January to 29 July 2013***

[19] ***Contract amount after retendering i.e. ₹317.38 Crore (120.58 + 108.35 + 42.57 + 45.88) minus Contract amount finalised at the time of first tender – 253.52 Crore (124.65 + 128.87)***

meeting the system requirements. However, in order to sensitize the officers concerned, counselling of senior officers of tendering and indenting department has been done and corporate displeasure letters have also been issued to some senior level retired officers.

The reply needs to be viewed in the light of the fact that the Company completed the contract award process within 127 days normally. In this case, however the Company failed to finalise the first tender even within the extended bid-validity period of 186 days and as a result incurred extra cost in awarding the work through the second tender at a higher cost of ₹63.86 crore. Further, a portion of work awarded to M/s JPL was subsequently offloaded to M/s Nandini Impex (Pvt) Limited (October 2016) and KPTL (January 2017) and the work could not be completed till October 2017 despite a time over-run of two years and nine months[20].

While appreciating the action taken by the Company in sensitising the officers on the need for timely finalisation of tender, Audit recommends that the Company may lay down time limit within which process of awarding work should be completed.

The matter was referred to the Ministry in September 2017; their reply was awaited (February 2018).

9.8 Irregular payment to the executives in the form of Project Allowance

Indian Oil Corporation Limited made an irregular payment of ₹11.38 crore towards project allowance to its executives in violation of DPE guidelines as well as directives of Ministry of Petroleum and Natural Gas.

Department of Public Enterprises (DPE), Government of India (GoI) vide its Office Memorandum (OM) dated 26 November 2008[21] formulated the policy for revision of pay and allowances of Board level and below Board level executives in Central Public Sector Enterprises (CPSEs) with effect from 1 January 2007. The said OM inter-alia provided that the Board of Directors of the CPSEs would decide on the allowances and perks admissible to the executives, subject to a maximum ceiling of 50 *per cent* of the basic pay by following 'Cafeteria Approach' allowing the executives to choose from a set of perks and allowances. Only four allowances, viz. North East allowance, Allowance for underground mines, Special Allowance for serving in difficult and far flung areas as approved by the Ministry and Non practicing allowance for Medical Practitioners were kept outside the purview of ceiling of 50 *per cent* of basic pay.

Further, difficult and far flung areas were also notified by DPE vide its OM dated 22 June 2010[22] read with OM dated 29 August 2008[23]. As per these guidelines, specified areas in different States and Union Territories were categorised as A, B, C and D and special allowance was admissible at the rate of 10 *per cent*, 8 *per cent*, 6 *per cent* and 4 *per cent* of basic pay. DPE also directed vide OM dated 22 June 2010 that if an area was considered difficult and far flung by the administrative Ministry/Department of the

[20] ***Worked out with reference to scheduled completion if Company had awarded contract within bid validity period***
[21] ***No. 2(70)/08-DPE (WC)-GL-XVI/08 dated 26 November 2008***
[22] ***OM No. 2(77)/09-DPE(WC)GL-XII/2010 dated 22 June 2010***
[23] ***OM No. 3 (1)/08-E-II (B) dated 29 August 2008***

respective CPSEs and was not covered under the OM dated 29 August 2008, decision in this regard may be taken by the respective Ministry/Department in consultation with their Financial Adviser. Ministry of Petroleum and Natural Gas (MoPNG) while forwarding (1 July 2010) the DPE OM dated 22 June 2010 to all upstream, downstream oil companies and other companies under the Ministry directed that in case any area was considered difficult and far flung by the CPSE and was not covered under DPE OM dated 29 August 2008, the same was to be brought to the notice of MoPNG for consideration.

Audit observed that Indian Oil Corporation Limited (the Company) executed/ was executing grass root projects in 16 states[24] which were not covered under the above mentioned O.M. dated 29 August 2008. It was also observed that the Company was paying project allowance @10 *per cent* of basic pay per month to its executives posted at the above sites of grass root projects and kept the same outside the purview of ceiling of 50 *per cent* of basic pay. Above allowance was paid from the date of approval of the project by the Board or from the date of joining the project site, whichever was later, till the employee was posted at the project site or till the project's completion by way of commercial production, whichever was earlier. During 2013-14 to 2016-17, the Company paid project allowance of ₹11.38 crore to its executives for locations not covered under DPE OM dated 29 August 2008.

The Company stated (August 2017) that grass root project sites were extremely harsh, as these were geographically remote and at logistically difficult places which did not have basic infrastructure for living whereas the employees had to put in prolonged hours of concentrated rigorous work amidst numerous challenges in a new work atmosphere unlike in routine office assignments. If Project Allowance was to be provided within Cafetaria Approach as a choice of individual employees, then it was not a compensation for working in Project site. Moreover, posting at a project site was a difficult duty and thus payment of project allowance was more in the nature of North-East allowance/Special allowance for serving in difficult and far flung areas allowed under the DPE guideline.

The reply of the Company needs to be viewed against the fact that difficult areas were also notified by DPE OM dated 29 August 2008 and option was also given to concerned Ministry/ Department to decide special allowance for areas not covered under above OM in consultation with their Financial Adviser. Hence, payment of allowance for difficult and far flung areas other than those covered under OM dated 29 August 2008 required prior approval of MoPNG as instructed by DPE vide OM dated 22 June 2010, which was not obtained by the Company.

Thus, payment of ₹11.38 crore made by the Company towards project allowance to its executives was in violation of DPE guidelines/directions of MoPNG and therefore, irregular.

The Ministry accepted (March 2018) the audit observation and instructed the Company to recover the payment made to their executives in contravention to DPE Guidelines/ Instructions.

[24] ***Odisha, West Bengal, Rajasthan, Jharkhand, MP, Chattisgarh, Uttar Pradesh, Bihar, Punjab, Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh, Kerala, Karnataka and Delhi***

Oil and Natural Gas Corporation Limited

9.9 Payment of Performance Related Pay in contravention of DPE guidelines

ONGC did not comply with the DPE instructions regarding payment of Performance Related Pay directly out of profits and based on the MOU ratings of CPSEs resulting in an overpayment of PRP of ₹5.55 crore to the employees of OVL during 2010-16.

As per the instructions of Government of India (GoI), Ministry of Heavy Industries and Public Enterprises, Department of Public Enterprises (DPE) (November 2008), the Performance Related Pay (PRP) payable to the executives of Central Public Sector Enterprises (CPSEs) was directly linked to the profits of the CPSE and rating for achievement of targets, prescribed in the Memorandum of Understanding (MoU) signed by the enterprises with the concerned Ministry of Government of India (GoI) as under:

MoU Rating	PRP Eligibility Level
Excellent	100%
Very Good	80%
Good	60%
Fair	40%
Poor	NIL

The instructions further stated that the PRP would be based on physical and financial performance and would be paid out of the Profits earned by the CPSE. Further, 60 *per cent* of the PRP would be given with the ceiling of 3 *per cent* of Profit Before Tax (PBT) and 40 *per cent* of PRP would be from 10 *per cent* of incremental profit[25] earned for the year. Total PRP, to be paid was to be limited to 5 *per cent* of the year's PBT (available kitty).

It was observed that the payment of PRP to the executives and staff of both Oil and Natural Gas Corporation Limited (ONGC) and ONGC Videsh Limited (OVL) was being decided annually by the Remuneration Committee of ONGC wherein combined profits of ONGC and OVL were being considered for working out the available kitty and the MoU rating achieved by ONGC alone for a given year was being considered for making PRP payments to the employees of OVL as well.

Due to considering the combined profits of both ONGC and OVL and MOU ratings of ONGC alone, for working out PRP admissibility of both the CPSEs, instead of considering the individual profits and MOU ratings of the CPSEs separately, Audit observed an overpayment of PRP to the employees of OVL[26] during 2010-16 as below:

[25] ***Incremental profit would mean the increase in profit as compared to previous year's profit***

[26] ***Though the system was flawed in respect of ONGC as well, the PRP paid to executives of ONGC was within the maximum ceilings as per DPE instructions and therefore there was no overpayment***

(₹ in crore)

Year	MoU Rating		MoU Rating taken for PRP	PRP paid to OVL Executives	PRP due as per MoU Rating and profitability of OVL	Excess/(less) payment to the Executives of OVL
	ONGC	OVL				
2010-11	Very Good	Excellent	Very Good	7.63	9.54	(1.91)
2011-12	Excellent	Very Good	Excellent	10.76	8.61	2.14
2012-13	Excellent	Very Good	Excellent	6.93	5.54	1.39
2013-14	Excellent	Excellent	Excellent	11.33	11.33	Nil
2014-15	Very Good	Excellent	Very Good	5.98	7.48	(1.50)
2015-16	Very Good	Excellent	Very Good	5.43	Nil[27]	5.43
Total				**40.43**		**5.55**

The Management stated (November 2017) that common PRP scheme was made applicable to ONGC and ONGC Videsh because they have combined manpower pool and employees are frequently transferred between ONGC and ONGC Videsh. Pay structure, manpower requirement, recruitment and personnel policy etc. were largely centralised and governed by ONGC and that manpower belonged to ONGC and personnel were only seconded to OVL for supporting operations. In the year 2015-16, there was profit on a combined basis for ONGC and ONGC Videsh Limited. Therefore, as per the common PRP scheme, PRP was paid to employees of OVL out of profits.

The reply needs to be seen in view of the fact that ONGC and OVL both were separate CPSEs, signing separate MOUs with Government of India under performance evaluation mechanism. As per DPE instructions the PRP payable to the executives of CPSEs was directly linked to the profits of the CPSE and Memorandum of Understanding (MoU) rating achieved by that CPSE. Therefore, it was incorrect to club the profits of both the CPSEs and apply MOU ratings of ONGC for both the CPSEs for payment of PRP. Further, PRP was payable only out of profits and therefore, PRP was not payable to executives of OVL in the year of loss (2015-16).

Thus, incorrect consideration of combined profit of ONGC and ONGC Videsh Limited for working out the PRP admissibility of executives resulted in excess payment of ₹5.55 crore to the executives of OVL during 2010 to 2016.

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

9.10 Delay in hiring of low pressure gas compressor resulting in avoidable flaring of gas

Delay in hiring of low pressure gas compressor by Oil and Natural Gas Corporation Limited, led to avoidable flaring of gas and consequent loss of revenue of ₹9.83 crore during the period from March 2015 to March 2016.

Associated gas of low pressure (LP) produced by Oil and Natural Gas Corporation Limited (ONGC) along with oil is compressed to increase its pressure and thereby

[27] *ONGC Videsh Limited did not make profit during the year 2015-16. The Loss (Before Tax) for the year 2015-16 was ₹16852. 67 crore. As per DPE instructions, the PRP payable to the executives of CPSEs was directly linked to the profits therefore no PRP was payable to executives of OVL was 'Nil'*

facilitate free flow for its subsequent use. The LP gas which was not compressed was flared. The LP gas produced from Ankleshwar Area-1[28] of ONGC was compressed at Central Tank Farm (CTF) and transmitted to LPG plant for its subsequent sale to GAIL (India) Limited. After extracting Value Added Products at LPG plant of the Asset, approximately 62.66 *per cent*[29] of the quantity of Gas, received at CTF, was sold to GAIL.

The Gas Compression Plant (GCP) of CTF Ankleshwar Area-1 was provided with three LP gas compressors with a total capacity of 3.09 LCMD[30]. Out of the three compressors, one compressor with capacity of 1.17 LCMD suffered major breakdown in July 2014. The damaged compressor had to be dismantled and examined by the representative of Original Equipment Manufacturer (OEM) in order to assess the possibility of repair of its engine. Audit observed that dismantling process commenced only three months after the breakdown of engine, i.e. on 7 October 2014 and examination by the Manufacturer was carried out in December 2014. Since repair of the engine was not found feasible, ONGC, decided to replace the engine and initiated the process (December 2014) for replacement. However, due to delay in the tendering process, the Notification of Award (NOA) could be issued to the OEM, M/s Clarke Energy India Private Limited, after 17 months (May 2016) from the date of decision to replace the engine. The engine was supplied to ONGC on 05 June 2017.

In the meantime, an alternative arrangement should have been in place to compress the associated gas received at the CTF, in order to prevent flaring of entire associated gas produced. This arrangement should have been in place by December 2014, after it was decided to replace the engine. Audit observed that the Company, however, initiated action to hire a compressor only in November 2015. The Company initiated proposal (3 November 2015) for hiring of gas compression facility, with a capacity of one LCMD to compress excess gas at Ankleshwar CTF for a period of one year through Board Purchase[31] 11 months after decision taken to replace the engine. Audit observed that the Letter of Award (LOA) for hiring of compressor was issued on 11 January 2016 and gas compressor was commissioned in March 2016. The Company flared the LP gas till the date of commissioning of the hired compressor.

The quantity of 13471485.82 SCM gas flared, which could have otherwise been sold to GAIL, constituting 62.66 *per cent* of total quantity of 21499339 SCM gas received at CTF during the period from March 2015[32] to March 2016 and was valued at ₹9.83 crore after deducting the cost of hired compressor **(Annexure-XII)**.

The Company stated (October 2017) that:

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28 ***Ankleshwar Asset of Oil and Natural Gas Corporation Limited spreads in four areas and Ankleshwar area was covered in Area-I***

29 ***As intimated by the Management, based on the average gas sold during the period from April 2014 to June 2014***

30 ***Lakh cubic meter per day***

31 ***Purchase by a board of Officers only in exceptional circumstances when the materials/services/works either required urgently to overcome an exigency or because the indentor is not able to give firmed up/detailed specifications so that procurement cannot be made under the normal procedure***

32 ***Considering three months for in-house efforts for repairing of engine from July 2014 followed by five months (actual time taken) for hiring & commissioning of compressor by February 2015***

1. The engine of one LP compressor had undergone major breakdown in July 2014 and that several attempts made to repair the engine were not successful. The Company decided on 29 December 2014 to replace one engine which was beyond economic repairs.

2. Although action to replace the damaged engine was initiated in December 2014, the Asset[33] did not initiate action for hiring compressor, as it was expected that a new compressor, planned in Western Onshore Redevelopment Plan[34], could replace the old one. Even if the Asset decided to hire the compressor in December 2014, tender finalisation and mobilisation of compressor through the emergency board hiring method would have taken at least six months and hired compressor could have been put in operation not before May-2015. Therefore, during this period, in all circumstances, flaring of the LP gas produced was unavoidable.

3. Hazira-Motwan gas line feeding lift gas to Area-I installations, which supplies recycled low pressure gas to CTF, was ruptured in April 2015. As a result, limited quantity of LP gas was available for compression at CTF. This resulted in reduced gas flaring at CTF during April-July 2015. Due to this, quantity of LP gas being received at CTF became uncertain till alternate options for running gas lift wells were explored and finally lift gas arrangement was put in place by hiring gas lift compressors at Motwan in August 2015.

While confirming the Management's reply, the Ministry further stated (January 2018) that flaring of gas was due to non-availability of low pressure gas compressor and that the Company had been advised to carry out necessary preventive maintenance and implementation of Standard operating procedures strictly in respect of similar operations in future to ensure gas flaring minimised and also conservation of natural resources.

The Ministry further added that after development of problems in engine-1 on 3 July 2014, all the troubleshooting jobs like inspection (barring of engine, crank shaft) were carried out with in-house available manpower with the help of OEM expert during 3 July 2014 to 24 July 2014. OEM service engineer advised to dismantle the complete engine and on receipt (24 July 2014) of Budgetary Quotation from OEM, the proposal was initiated (25 July 2014) for dismantling of the engine. All immediate possible actions to assess the repairability and restore the engine back in operation without any time delay had been taken by ONGC. Hiring/procurement of new compressor was delayed as the Asset was waiting for board approval of the project of WORP having options of installation of new compressors, which was not considered on later date.

The reply needs to be viewed in the light of the following:

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[33] ***Asset is a producing property (oil producing field) of the Company. In the present case Asset is referred to Ankaleshwar Asset of ONGC***

[34] ***Western Onshore re-development plan was envisaged by ONGC during 2008 for future expansion with respect to future production profile of the Ankleshwar Asset from 2008 to 2028. ONGC had envisaged cumulative incremental gain of oil 2.483MMt and gas 6034MMSCM for the period between 2009-10 and 2024-25; The total capital cost of revamping of surface facilities was estimated to be ₹1222.13 crore and ₹967.50 crore for drilling 75 development wells. However, in view of the low productivity of wells the ONGC Board approved closure of Western Onshore Redevelopment Plan in its 269 meeting held on 28 May 2015***

i) The Company decided on 29 December 2014 to replace one engine of the compressor, which was beyond economic repairs. Considering the longer lead time required for tendering and actual purchase and installation of the Compressor, the Company should have taken prompt action for alternative arrangement to conserve gas by hiring alternative compressor. However the Company initiated action to hire a compressor only in November 2015. Delay in hiring of Compressor even after recognition of need to replace engine, had resulted in flaring of substantial quantity of gas.

ii) Western Onshore Redevelopment Plan was closed on 8 August 2014 and therefore by taking timely action as indicated above, the hired compressor would have been available to the Asset by March 2015, even after considering the time taken for hiring & commissioning of the compressor as stated by the Management. The flaring from March 2015 to March 2016 could thus have been avoided.

iii) The contention of the Management regarding rupturing of Hazira-Motwan gas pipeline as well as idling of compressor due to reduced availability of LP was a subsequent and unforeseen incident which could not be considered while planning. Reduction in the flaring of gas due to rupturing of Hazira-Motwan gas pipeline was already taken into consideration while assessing the quantity and value of gas flared. Further, payment was to be made for actual quantity compressed, as per Letter of Award placed for hiring of gas compressor. Under utilisation of hired compressor due to rupture of pipeline would not, therefore, have caused any additional financial burden on the Asset.

iv) Audit appreciates the action taken by the Ministry to advise the Company to carry out necessary preventive maintenance and implementation of Standard operating procedures strictly in respect of similar operations. Audit also recommends that the Company may assess the need for standby compressor to avoid recurrence of the incidence. The company may also contemplate the option of creating a panel of approved suppliers from whom compressor could be hired without loss of time.

Thus, delay in assessing the repairability of the damaged engine and omission to hire compressor early, resulted in loss of revenue of ₹9.83 crore to the Company, due to avoidable flaring of gas during the period from March 2015 to March 2016.

9.11 Failure to recover the pending cash calls and loss of interest thereon

ONGC was designated as the Operator in respect of 10 blocks in Western Offshore, allotted under various rounds of New Exploration Licensing Policy (NELP) of the Government of India. Joint Venture (JV) partners of these Blocks, were liable to pay to ONGC their respective share of the monthly billing, within fifteen days after receipt of cash call as per Joint Operating Agreement (JOA). Non-payment of cash call would attract interest, as per Article 7.6.1(d) and 7.6.2 of JOA. However, ONGC failed to recover pending cash calls of ₹100.17 crore and interest of ₹92.45 crore thereon from its Joint Venture partners in respect of ten NELP blocks. ONGC had not considered invoking the dispute resolution clause of the Joint Operating Agreement.

Oil and Natural Gas Corporation Limited (ONGC/Company) was designated as the Operator in respect of 10 NELP[35] blocks **(Annexure-XIII)** in Western Offshore[36], allotted under various rounds of New Exploration Licensing Policy (NELP) of the Government of India. A Joint Operating Agreement (JOA) was signed by ONGC and six other Joint Venture partners **(Annexure-XIII** for details of partners and their respective share in JV). As per Clause 3 of Exhibit A of JOA dealing with Accounting Procedures, the Operator was entitled to issue cash call notice reflecting requirement of total cash required to finance operations pursuant to the approved work programme and budget. The other JV partners were required to pay their respective share of the same to the Operator before due date. Further, as per clause 3 (F) Article 1 of the JOA dealing with Accounting Procedure, the other JV partners were liable to pay their respective share of the monthly billing, within fifteen days, after receipt thereof, if the Operator did not request for advance funds. As per Article 7.6.1(d) and 7.6.2 of JOA, non-payment of cash call would attract interest at applicable base rate of State Bank of India plus five *per cent* points. Accordingly, ONGC raised bills each month for cash call from the Joint Venture partners.

Audit observed that there were outstanding dues from the partners, pending from 2004/2007-08 onwards, though clause 3 (F) of Article 1 of the Accounting Procedure of JOA, required payment of the billed amount within 15 days by the other JV partners to ONGC. The Company, however, raised the claim for interest on all the Joint Venture partners only from the Financial Year 2013-14 onwards. The total cash call pending (30 November 2017) from partners including interest was to the extent of ₹192.62 crore (Principal amount of ₹100.17 crore and interest amount to ₹92.45 crore).

Audit further observed that:

1. Gujarat State Petroleum Corporation (GSPC) was a partner in respect of JV for five [37] offshore Blocks. GSPL failed to pay an amount of ₹7.27 crore towards its share of expenditure in these blocks and ₹60.42 crore towards interest on the same (November 2017), although there was no dispute relating to cash calls raised by the Company. ONGC acquired entire 80 *per cent* Participating Interest (PI) of GSPC in another block KG-OSN-2001/3 [38] in the Deen Dayal West field (March 2017) for a consideration of ₹6454.26 crore. The Company, however, did not consider adjustment of the pending cash calls of ₹69.69 crore from the consideration made to GSPC towards the acquisition of the block KG-OSN-2001/3.

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[35] ***New Exploration Licensing Policy (NELP) was formulated by the Government of India, during 1997-98 to provide a level playing field to both Public and Private sector companies in exploration and production of hydrocarbons. Under NELP, blocks were awarded to Indian, private and foreign companies through International Competitive Bidding process. Total 254 Blocks were awarded under nine rounds of NELP during the period from 1999 to 2012***

[36] ***Offshore basins located on the western continental shelf of India between Saurashtra in NNW and Kerala Konkan in the south***

[37] ***KK-DWN-2005/2, MB-OSN-2005/5, MB-OSN-2005/6, MB-OSN-2005/1 and GK-OSN-2009/1.***

[38] ***Block, KG-OSN-2001/3. Was a separate Block, awarded under NELP - III to the Consortium of GSPC(80), GGR(10), JOGPL(10). Operator, Gujarat State Petroleum Corporation Limited ONGC was not partner in the JV , however ONGC acquired (March 2017) entire (80 per cent) share of the GSPC in the Block***

2. The Company was involved in a dispute with the Joint Venture partner Cairn India Limited (CIL) over the cost of excess depth of well, over the depth committed in the Minimum Work Programme (MWP) and over allocation of Main Office Expenses included in the cash calls in respect of block GS-OSN-2003/1 and KK-DWN-2004/1. CIL had withheld an amount of ₹12.25 crore towards share of its expenses in the Block. The interest on the total amount withheld amounted to ₹21.92 crore as of November 2017.Though, the Company had provided (September 2013) the required documents to the finance team of M/s. Cairn, the Joint Venture partner did not pay the outstanding dues, despite clarifications given by the Company to the objections raised by the Partner on the expenses. The Company had proposed (August 2014) to invoke the arbitration clause of the PSC/JOA. However, the same was not pursued.

3. As per Clause 7.7 of JOA, the Company was entitled to issue a written notice of default prohibiting the defaulting Partner to vote on any matter coming before the Operating Committee (OC) in case of continuation of default, for more than 30 days from due date of payment of cash calls. In case the default continued for more than 90 days, a proportion of the PI of defaulting party could be forfeited. Though an amount of ₹192.62 crore was pending from six Joint Venture Partners relating to the ten Blocks, ONGC exercised this right only in respect of unpaid dues of ₹58.66 crore towards cash calls pending since April 2016 and ₹5.77crore towards interest there on by Essar Exploration & Production (Essar) relating to its participating interest in Block MB-OSN-2005/3, by issuing notice for forfeiture (November 2017). Based on the notice, Essar agreed (December 2017) to resolve the issue amicably in an Operating Committee (OC) meeting. No payment was however, received by the Company (31 January 2018), even though Essar agreed in the Operating Committee meeting (December 2017) to resolve the pending cash calls.

4. Article 19 of the JOA provided for resolution of disputes by way of (i) Conciliation by a Joint Experts Committee (ii) Resolution through arbitration and (iii) Resolution of disputes between Government Companies in accordance with guidelines issued by the Government. ONGC, however, did not invoke the above clause in any of the ten blocks.

5. As per Article 12.1 of JOA, payment of interest, applicable as per the provisions of the JOA and as reasonably determined by the operator are required to be made by the partner on delayed payments, before withdrawing from the Joint Operating Agreement. Out of the total 10 blocks, licenses in respect of 6 blocks had already been relinquished and the blocks stood surrendered to the Government of India. As the 6 blocks were surrendered, the chances of recovery of even the principal amount of ₹13.35 crore from the defaulting partners of these blocks was remote.

Total cash calls pending from partners (31 November 2017) including interest was to the extent of ₹192.62 crore **(Annexure-XIII** for Block/ Partner wise details of pending amount).

The Management stated (November 2017) that:

i. Agreement with GSPC for the acquisition of interest of GSPC, in the block KG-OSN-2001/3, did not have any provision for adjustment of dues from any other blocks. However, GSPC paid undisputed cash call of ₹15.19 crore.

ii. In respect of Cairn, the Partners' disputes were being replied with detailed justification given by the Company to the JV partner.

iii. Efforts were being made by the Company to recover the remaining cash call and interest outstanding

The reply needs to be seen in the light of following:

- The dues from Cairn India Limited were pending for recovery for a period of over 10 years due to disputes. Reasons for not initiating legal action to recover the amount were not stated by the Management.

- Company had not taken action under Clause 7.7 of JOA, to forfeit proportion of the PI of any of the defaulting parties.

- Clause 19 of the JOA provides for resolution of disputes by way of (i) Conciliation by a Joint Experts Committee (ii) Resolution through arbitration and (iii) Resolution of disputes between Government Companies in accordance with guidelines issued by the Government. ONGC, however, did not invoke the provisions of the above clause.

The dues outstanding as of November 2017 amounted to ₹100.17 crore. The failure to take timely action for recovery of cash calls has also resulted in loss of interest amounting to ₹92.45 crore. Further, 6 out of 10 NELP blocks were already surrendered to Government of India, thereby rendering the chances of recovery of the balance amount further remote. However, no action for recovery of the pending dues had been initiated under Clause 7.7 or Clause 19 of the Joint Operating Agreement.

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

9.12 Wasteful expenditure on an unviable project

ONGC commenced pre-project activities relating to development and evacuation of oil from Block CB-OS-1 and engaged consultant for geotechnical and pre-engineering survey at a total cost of ₹16.60 crore. Subsequently, in an internal review of the Project, the Company noticed the requirement for work-over operations for three wells involving additional operating expenditure of USD 285.60 million which was inadvertently overlooked by the Company while preparing the development plan, prior to engagement of Consultant for Geotechnical[39] survey. Due to this additional cost of work-over operations, the project became financially unviable with negative IRR. Thus, expenditure of ₹16.60 crore (ONGC's share ₹9.17 crore) on Geo technical survey incurred in the Block was rendered wasteful.

The Government of India (GoI) awarded (19 November 1996) the block CB-OS-1 in the Gulf of Cambay for exploration and development to a consortium of Vaalco Energy Inc., Hindustan Oil Exploration Company Limited (HOEC), Tata Petrodyne Limited (TPL) and Oil and Natural Gas Corporation Limited (ONGC) for a period of 25 years, under the 6th exploration round of bidding. The JV had drilled, by 2004, seven exploratory wells in the Block, committed under Phase –I of the Production Sharing Contract. ONGC became the operator of the block in December 2004 when M/s. Hardy Exploration & Production (India) Inc., the operator, decided not to enter Phase –II of the exploration period. Subsequently (February 2008) ONGC acquired additional 30 *per cent* Participating Interest (PI) in the JV and increased its PI to 55.26 *per cent*. The redefined area of the Block constituted D-ridge (656 sq km) and A-ridge (190 sq km) and the exploration phase was 24 months.

The Management Committee (MC) of the Block, approved (17 December 2007) the commerciality of A-ridge[40] and also decided to relinquish D-ridge. The Plan of Development (POD) of A-ridge proposed by ONGC was approved by MC on 27 March 2009. The Plan of Development of the Block required clearance from the Ministry of Environment & Forests (MoEF) since the proposed route for approaching drilling pad was through mangroves. Since the required clearance could not be obtained from MoEF, a revised Plan of Development (RPOD) through offshore option was prepared by the Company based on data collected by the Company up to 1996. The RPOD was approved by MC on 13 June 2014. After approval of RPOD, the Company commenced pre-project activities and awarded the work of geotechnical and pre-engineering survey of the area to M/s COMACOE[41] on 28 March 2015. M/s COMACOE carried out the survey work and submitted their final report in June 2015 for which the Company paid ₹16.60 crore.

In the meanwhile the Company again reviewed (August 2014) the Project internally and observed that the approved RPOD included drilling of three wells which were to be connected to off shore installations for evacuating the produced oil and gas. Further, the wells required installation of Electrical Submersible Pump (ESP) for artificial lift of the

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[39] Geo Technical Study / survey is carried out for exploring subsurface stratigraphy (in this case up to 130.30 m) below seabed level by soil sampling to evaluate the pertinent engineering properties of the sub surface materials for the purpose of Leg penetration analysis for shallow water jack- up rig and pile capacity analysis for installation of the platform

[40] A long, narrow, elevated section of the earth's surface

[41] M/s Coastal Marine Construction & Engineering Limited

oil. Audit observed that though in the approved RPOD, the Company had considered installation of the ESP, cost of two to four 'work-over' operations required to change the ESP periodically, including cost of mobilisation/demobilisation of work-over rig was not considered while carrying out the economic evaluation of the Project. The additional operating expense (OPEX) due to identification of work-over requirements was USD 285.60 million. Audit observed that, the OPEX proposed and approved in the RPOD was only USD 64.22 million. Considering the additional cost of USD 285.60 million required for work-over operations in the area, the net present value (NPV) which was positive figure of USD 44.61 million as estimated by the Company in RPOD proposal turned out to be negative figure of USD 62.31 million.

In view of the meltdown of crude oil prices and consequent adverse economic viability of the project, the Company decided (October 2015) to exit from the project. The proposal was approved by the Director (Onshore) of the Company; however, the Company did not obtain approval of the Board of Directors of the Company. The matter was discussed in the meeting of Operating Committee held on 12 January 2016 when it was decided to refer the issue of unviable techno economic scenario to MC for deliberations. Accordingly, a request letter was sent (04 July 2016) to Director General Hydrocarbons (DGH) for informing the MC of the adverse techno-economics of the Block. Since the DGH did not convene the MC meeting, the Company intimated (March 2017) the DGH that it was considering exit from the Block.

DGH advised the Company (June/August 2017) to relinquish the Block by 31 August 2017, since the development of Gulf A could not commence due to lack of financial commitment, and thereby enable Government of India to take further action. DGH sent (5 September 2017) a proposal to MoP&NG, for termination of the PSC for the block CB-OS-1-Gulf A, due to failure of the Operator to prepare and implement work program as well as to submit Work Program & Budget for the year 2016-17 and 2017-18. Accordingly, MoP&NG advised (31 October 2017) the Company to show cause within 90 days as to why the PSC should not be terminated by the Government of India under Article 30.2 (g) of the Contract for breach of the terms of contract, failing which the Government of India would take necessary action as per the provisions of the PSC without any further reference to the Company. Details of action taken by MoP&NG was awaited (January 2018).

Audit observed that while assessing the economic viability of the project, the requirement of work-over and the consequent additional operating cost of USD 285.60 million for the Block was overlooked by the Company. Thus, the project economics proposed by the Company and considered by MC while approving RPOD were flawed due to incorrect projection of OPEX. If the Company had assessed the OPEX correctly, the development of the Block would have been unviable; and there would be no necessity for awarding the consultancy for geotechnical and pre-engineering survey of the area. Thus failure to include the work-over requirement at the time of submission of RPOD, led to an avoidable expenditure of ₹16.60 crore (ONGC's share: ₹9.17 crore) on geotechnical survey and pre-engineering survey work in the CB-OS-1 Block.

The Management in its reply (November 2017) stated that:

i. RPOD was prepared based on the historical data collected by the Company 18-19 year ago up to 1996. Therefore, in the Management Committee Meeting held on 13 June 2014 to approve the RPOD, DGH had recommended that the contractor should generate PVT, SCAL and Well Test data since no new/additional data had been provided. Subsequently, in a meeting held on 29 December 2014 the JV partner also stated that Operator should immediately go ahead with the pre-project requisites which were already part of approved RPOD. Pre-project development activities were also approved in the Work Program for 2014-15 and 2015-16 by Management Committee on 20 March 2015.

ii. When the approved RPOD was reviewed internally by ONGC it was found that it had certain shortcomings and the results indicated were not very correct, which was informed by the Company to DGH vide letter dated 29 July 2015.

iii. The Company in its letter of 29 July 2015 to DGH also categorically stated two options. The first option of the Company was that at least 2 to 3 work-over jobs would be required every year for 3 weeks necessitating hiring of the shallow water rig. The second option proposed by the Company was that an island of about half a kilometer long and 100 metres wide to be constructed at the site wherein drilling can be taken up by any on land rig of ONGC. The second option was be more expensive by about USD 28 million in the CAPEX and was non-viable.

The reply of the Management needs to be seen in light of the following:

1. The RPOD submitted by ONGC for approval of MC on 13 June 2014 itself was flawed as the cost of USD 285.60 million for work-over jobs was not considered therein. Had the estimate for RPOD been worked out correctly after considering the workover cost, the project was not economically viable *ab-initio* and the RPOD as well as related work programme involving pre-project development activities would not have been approved by MC.

2. The Company accepted Project proposals only if the projected Internal Rate of the Project was equal to or more than 14 *per cent*. However, after considering the work-over operations cost, the IRR for development of the CB-OS-1 was negative with a Net Present Value of USD (-) 62.13 million in case of first option. The Second option proposed by the Company was more expensive by USD 16 million. Thus both of the options given by the Company in its letter dated 29 July 2015 to DGH for development of CB-OS-1 block were non-viable. Breakeven level of Option –I and Option –II would be achieved only at crude price of USD 83.58 and USD 91.56 per barrel respectively.

3. The issue was again brought to the notice of DGH in February 2017 who stated that the estimate towards mobilisation/ demobilisation at the rate of USD 12 million and work-over cost of USD 0.16 million /day for three wells were inadvertently missed out.

Thus, omission by the Company to include work-over cost for the 3 wells in the RPOD resulted in a wasteful expenditure of ₹9.17 crore on an unviable project.

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

ONGC Petro additions Limited

9.13 Avoidable payment of rent for unutilised facility

Delay in execution of LPG Pipeline project resulted in avoidable payment of ₹22.91 crore by ONGC Petro additions Limited (OPaL) to Gujarat Chemical Port Terminal Company Limited (GCPTCL), towards rental for unutilised LPG receipt and storage facility at Dahej during the period from December 2015 to April 2017.

A Petrochemical complex, to be set up at Dahej, by ONGC Petro additions Limited (OPaL), was designed to operate on Ethane (C2), Propane (C3) and Butane (C4) feed from extraction plant of ONGC at Dahej. Engineers India Limited (EIL) was appointed (2009) as Project Management Consultant (PMC) for construction of the plant.

OPaL had entered into arrangements with ONGC, for supply of C2, C3 and C4 for its Petrochemical plant. As per the original plan, the gaseous feed stock of C2, C3, C4 was to be received from the extraction plant of ONGC, located at Special Economic Zone, Dahej. However, the volume of C2, C3 and C4 expected to be received from the Dahej facility of ONGC was sufficient for operation of the Petrochemical complex of OPaL at 76 *per cent* of the designed capacity only. Since, continuous operation of OPaL plant, required uninterrupted supply of feed, OPaL planned (October 2014) an alternative arrangement for supply of feed, through sea route. This arrangement required a storage facility at Dahej port as well as a dedicated pipeline to transport the feed to the Petrochemical complex from the storage facility at Dahej.

OPaL entered into an agreement (December 2014) with Gujarat Chemical Port Terminal Company Limited (GCPTCL) for storage facility at Dahej at an annual throughput charges of ₹1300 per Metric Ton (MT) for actual throughput or Minimum Guarantee Throughput (MGT) per month, whichever was higher, payable with effect from (w.e.f.) June 2015[42]. The charges for MGT, for the year 2015-16, were fixed at ₹210 per KTA[43] and at ₹270 per KTA for the years 2016-17 and 2017-18. Subsequently (February 2016), OPaL learned that, Bharat Petroleum Corporation Limited (BPCL) was also using the GCPTCL facility from April 2015 onwards and requested GCPTCL to reduce the MGT charges. GCPTCL agreed to the request and reduced the MGT charges from ₹270 KTA to ₹110 *per* KTA w.e.f. June 2016.

OPaL also decided (October 2014) to award to EIL, the work of design, engineering and project management consultancy for transportation of feed through pipeline from GCPTCL to OPaL, since, they were also the Project Management Consultant for the OPaL Petrochemical complex, being set up at Dahej. The laying of pipeline was scheduled to be completed by June 2015. Though the Company approved the proposal for award of additional work to EIL, a separate Change Order to the agreement, signed earlier with EIL for project management consultancy of the Petrochemical Complex, was not

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[42] ***However, due to non-laying of pipeline, no invoice was raised by GCPTCL till December 2015***
[43] ***Kilo Ton per Annum***

issued by the Company. Resultantly, EIL stopped (September 2016) activities relating to the project for transportation of feed, after partial completion of work, due to payments kept pending for want of requisite change orders. In a meeting with OPaL (28 September 2016), EIL agreed to complete the pending work, if payment for the LPG project was ensured and submitted budgetary quotations for the work. Based on the budgetary quotation received from EIL in October 2016, administrative sanction and financial concurrence of competent authority for an amount of ₹1.49 crore was obtained and notice inviting tender (NIT) for hiring EIL as a consultant on nomination basis was issued during June 2017. In response to the NIT, EIL sent (03 July 2017) its proposal of ₹7.91 crore (₹3.78 crore for Head office services *plus* ₹4.13 crore for site supervision charges) against the earlier estimate of ₹1.49 crore. EIL intimated that proposal of ₹7.91 crore was inclusive of site supervision charges whereas earlier estimate was only for Head office services. During negotiations, EIL reduced its head office charges from ₹3.78 crore to ₹3.15 crore and agreed to charge site supervision charges as per actual manpower deployed on requirement basis as per the PMC rates to be mutually agreed at a later date. After the agreement, a Change Order, for hiring EIL as the consultant on nomination basis, was issued in August 2017.

The Company foreclosed the agreement with GCPTCL w.e.f. May 2017, in order to avoid payment for unutilised storage facility. However, the storage facility hired from GCPTCL remained idle during the period from December, 2015[44] to April 2017. GCPTCL raised invoices on the Company, for MGT charges for this period. OPaL made the payment (April/July 2017) of ₹22.91 crore to M/s GCPTCL towards the rental charges of LPG storage facility, for the period from December, 2015 to April 2017. Delay in issue of change order to PMC agreement for construction of the Plant, resulted in consequent delay in laying of the pipeline and payment of ₹22.91 crore as rental charges for storage facility availed from GCPTCL.

The Management while admitting the payment to GCPTCL stated (July 2017/ September 2017) that:

1. EIL was the Project Management Consultant for the Petrochemical complex (appointed during 2009), to be set up at Dahej. The work of laying pipeline from the storage facility to OPaL unit was not in the original scope of work awarded to EIL. OPaL had to issue change order/purchase order for this work. This requirement was noticed at a later stage by EIL and they stopped the work on LPG pipeline project. The issue with EIL was resolved in September 2016 by issue of a separate Purchase Order. The original plan to lay LPG pipeline was, therefore, deferred on account of constraints from the consultant's side. However, as per revised schedule, it was envisaged that LPG pipeline work would be completed by 1 April 2018.

2. Total payment of ₹22.91 crore had been made (April/July 2017) towards rental for the invoices received up to April 2017. In the meeting held on 11 April 2017 an amicable solution was arrived at and apart from payments already made, the

[44] ***Though the charges were payable w.e.f. June 2015, no invoice was raised by GCPTCL till December 2015, due to non-laying of pipeline***

balance amount of ₹63 lakh[45] only was to be paid to GCPTCL. In order to avoid payment of unutilised facility of LPG storage, OPaL had foreclosed the LPG agreement with GCPTCL with effect from 1 May 2017 and that invoices were not generated for the period from 01 May 2017 onwards.

The Management's reply is to be viewed in light of the following:

1. The change order was issued only in August 2017 and not in September 2016 as stated in the reply. In September 2016 a meeting was held between OPaL and EIL, wherein EIL agreed to complete pending documents/job if payment for the LPG project was ensured and it was decided in the said meeting to issue separate Purchase Order (PO) to EIL for the LPG pipeline work on nomination basis. However, due to delays at various stages of release of Purchase requisition, as well as of Tendering process, the said PO/Change order was actually issued in August 2017 i.e. eleven months after the meeting.

2. The consultant (EIL), had commenced data collection, basic engineering and tender preparation work for pipeline in view of approval (October 2014) of Board of Directors of OPaL. However, no formal 'change order/purchase order' for inclusion of PMC job of LPG transportation facilities in the scope of work of the already existing PMC contract with EIL was issued by OPaL. Resultantly, after partial work EIL team stopped all LPG pipeline project related activities. Hence, the delay was on the part of OPaL and not EIL.

Thus, hiring the storage facility for feed (C2, C3, C4) before planning for laying of transportation as well as issue of change order to the consultant resulted in avoidable rental payment of ₹22.91 crore towards unutilised LPG receipt, storage and transfer facility at GCPTCL

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

[45] ***The balance payment of ₹63 lakh was made by the Company to GCPTCL on 4 July 2017***