

Chapter 8: Audit Conclusion and Recommendations

Audit Conclusion

‘Marine Logistic operations’ is a vital support service for the offshore operations of the Company through deployment of vessels. It included storing, supplying various material/equipment, performance of standby duties near rigs/platforms and towing of rigs from one location to another. The Company had its own shorebase at Nhava (near Mumbai) while it operated on a hired shorebase at Kakinada.

While acquiring its own OSVs, the Company awarded contract to M/s. Pipavav Shipyard which was selected solely on the basis of the experience of their foreign technical collaborator. The contractor delivered only seven of the 12 OSVs with a delay of more than six years. This led to continued dependence on hired vessels. The contract was terminated by ONGC in June 2018.

The Offshore Logistics Group of Company proposed the vessel strength for a three year period which did not consider the updated Annual Drilling Plans resulting in disproportionate estimate of vessel requirement. The shortage of OSVs during the period 2012-13 to 2015-16 was also due to non-inclusion of the requirement of Offshore Defence Advisory Group while estimating requirement of OSVs.

Consultant’s recommendations on fixed scheduling of vessels to achieve optimum utilisation and economic operation of vessels and efficient supply chain management at NSB were not implemented. This resulted in redundant trips to offshore duty points.

Audit observed that costlier PSVs meant for supply duty were increasingly deployed for standby duty resulting in higher cost of operation. Further, substantial portion of bulk cargo carried from the shorebase returned undelivered as Returned on Board (ROB). Failure to provide requisite logistic support resulted in idling of rigs.

The downtime of the new OSVs owned by the Company was higher than that of older chartered vessels. Audit observed that the Company did not have a cadre of marine professionals for monitoring of Vessels. The owned vessels were operated and maintained through short term contract with Shipping Corporation of India. There was no performance linked penalty in these contracts. The Company did not have a system of monitoring the fuel consumption which was provided free to all chartered vessels.

With old and fragile infrastructure, inadequate warehousing facilities and space constraints, Nhava Supply Base (NSB) could not meet the increasing requirements of the offshore installations, resulting in increased cost of shorebase operations and vessel requirements. The Company envisaged an additional supply base to which some of its operations could be shifted and an integrated upgradation of NSB at par with international standards could be taken up,

which did not materialize. Instead of the integrated approach, civil works were being carried out by the Company on an adhoc basis.

As against the global benchmark Turnaround Time (TAT) of six hours at shorebase, the average TAT at NSB was in the range of 11.51 hours to 15.58 hours and the TAT showed an increasing trend. In Kakinada supply base, the TAT was higher than the global bench mark, as the Company failed to ensure that requisite facilities were in place.

The Company provided water for vessel consumption and drill water for rigs free of cost. NSB could not meet the offshore requirements of water due to shortage of supply. There were unauthorised tappings in the pipeline laid, the single source of water for NSB, as a result of which NSB received only 18 *per cent* of the water pumped. The Company was, however, required to pay for the entire quantity of water pumped at source at commercial rate. The water-makers in owned rigs of the Company were not operational. Audit noticed instances where the requirements of water for the rigs were not met while the vessels arrived at port with substantial backload of water.

The internal control procedures relating to warehouse management at NSB was not effective. Failure to monitor through the SAP system, items sent to external agencies for repair, resulted in these items remaining unreturned for a period of 2 years against a norm of 90 days. Quantity delivered to vessels from shorebase was considered as supplied irrespective of the acknowledgement by the rigs resulting in significant discrepancies as seen in the case of HFHSD.

The physical verification of materials at shorebase was not carried out in an effective manner. Significant lapses in the storage of materials, their accounting and reconciliation were noticed during an independent physical verification. Backload of material brought from offshore was not segregated and was stored in a haphazard manner and was treated as scrap irrespective of their condition.

The operation of the owned and chartered vessels is governed by provisions of United Kingdom Offshore Operators Association (UKOOA) guidelines and Petroleum & Natural Gas (Safety in Offshore Operations) Rules with regard to safety and emergency response. Reporting of vessel related incidents (near miss) were not in line with statutory requirements or provisions of Marine Operating Manual of the Company. Vessels were allowed to continue operations even after failure of critical equipments like Dynamic Positioning System compromising safety. The provisions of Manual were diluted to match the lower safety requirements of DP1 system as against erstwhile DP2 system where redundancy of vessel stability system was ensured. The standby vessels deployed were not in conformity with the UKOOA guidelines considering the manpower and size of the installations.

The financial impact of the Audit findings in this report is ₹2,021.19 crore (consisting of ₹1,716.57 crore on account of excess expenditure/cost of operations and ₹304.62 crore on account of revenue foregone/loss of interest) and are summarised in the Annexure IX.

Recommendations

Audit recommended the following:

- 1. Assessment of vessel requirement should be reviewed with reference to the Annual drilling plan.*
- 2. Introduce fixed scheduling of vessels and improve the planning for prompt delivery of the required cargo by coordinating with the duty stations/users thereby avoiding redundant vessel trips. Deploy Platform Supply Vessels for supply duty in place of Offshore Supply vessels.*
- 3. Use of Cargo Carrying Units (CCUs) for optimum deck space utilization may be considered. Ensure that loading of bulk cargo is restricted to field requirements and to meet consumption by the vessel.*
- 4. Include cost and consumption pattern of HFHSD by the vessels as a parameter in evaluation of the bids for hiring of vessels.*
- 5. Standard Operating Procedures for Shorebase Operations need to be finalized and implemented. To take steps, within the framework of agreement with M/s. Kakinada Seaports Limited (KSPL) to reduce the Turnaround Time at Kakinada Supply Base (KSB) by optimising operations.*
- 6. Devise and implement an integrated up-gradation plan for Nhava Supply Base (NSB) in line with the international best practices, and operate NSB as an integrated Material Management warehouse. Evaluate alternative options to ensure timely and adequate supply of water for offshore operations.*
- 7. Ensure full compliance with the safety, rescue and emergency response standards adopted by the Company. Develop a cadre of marine professionals with vessel related competency.*

Response of the Ministry

The Ministry of Petroleum and Natural Gas (MoPNG) accepted all the recommendations and issued (December 2017) specific directions to Company to ensure compliance with the recommendations in a time-bound manner.

The Ministry also directed ONGC to (i) prepare Standard Operating Procedures for supply of material for offshore operations, (ii) take necessary action for modernisation of supply bases for offshore operations including NSB as per international standards and best practices including inventory management through relevant software, (iii) ensure compliance with statutes, rules and regulations governing environment, safety and security of installations, and (iv) strengthen the offshore operations by deploying adequate manpower including marine professionals for monitoring of quality of services provided by the O&M contractors.

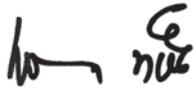
Audit appreciates the positive response from the Ministry.

New Delhi
Dated: 24 June, 2019


(VENKATESH MOHAN)
Deputy Comptroller and Auditor General
(Commercial)

Countersigned

New Delhi
Dated: 24 June, 2019


(RAJIV MEHRISHI)
Comptroller and Auditor General of India