CHAPTER V: MINISTRY OF PETROLEUM AND NATURAL GAS

Directorate General of Hydrocarbons

5.1 Failure to recover cost of Unfinished Minimum Work Programme from various contractors in relinquished NELP blocks

The contractor(s) relinquished 54 NELP blocks in which the committed work programme remained unfinished within prescribed timelines including extensions at the end of exploration period/ on termination. An amount of US$ 510.79 million (₹3,652.64 crore[1]) against approved amount of US$ 664.67 million (₹4,753.03 crore) on Unfinished Minimum Work Programme (UMWP) in respect of 45 blocks still remained unrecovered (September 2019). DGH took 15 days to 2,808 days to work out the cost of UMWP whereas MoPNG took 25 days to 1,837 days to approve the same. The cost of UMWP for nine relinquished blocks is yet to be worked out by DGH/ approved by MoPNG.

5.1.1 Background

The New Exploration and Licensing Policy (NELP), announced by the Government of India (GoI) in 1997 and notified in 1999, represented a landmark in hydrocarbon Exploration & Production (E&P) sector in India as the National Oil Companies viz. Oil and Natural Gas Corporation Limited (ONGC) and Oil India Limited, were to compete with private sector companies for obtaining E&P licenses through a competitive bidding, instead of getting them on nomination basis. This policy had the objective of not only attracting private capital to E&P sector but also introducing the technical expertise and efficiency of global players in this field. The basis for the contractual relationship between the GoI and the contractor(s)[2] is the Production Sharing Contract (PSC), which laid down the roles and responsibilities of all the parties and the detailed procedures to be followed at different stages of Exploration, Development and Production. According to the PSCs, the exploration risk i.e. the cost incurred in searching for oil and natural gas, without certainty of discovery, was to be borne by the contractors.

Accordingly, the Government had conducted nine rounds of bidding under the NELP from 1999 to 2010 and only 254 blocks (out of 360 blocks) were awarded to various contractors (both Indian as well as foreign) such as ONGC, IOC, HPCL, GSPC, GAIL, Reliance Industries Limited (RIL), Geo Global Resources, NAFTOGAZ, Welspun, NIKO etc. Position of 254 blocks as on 30 September 2019 was as shown in Table 5.1:

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1 ₹3,652.64 crore {US$ 510.79 million @ ₹71.5096 as on 31 January 2020 as per RBI}.

2 Contractor: Contractor means Company (ies) and Company is party to the Contracts (i.e. PSC) and where more than one Company is Party to the Contract, the term companies shall mean all such Companies collectively, including their respective successors and permitted assigns.

Table 5.1: Position of 254 blocks as on 30 September 2019

Sl. No.	Status	No. of blocks
1.	Relinquished with unfinished MWP	54
2.	Relinquished by completing MWP	139
3.	Operational	61
	Total blocks	**254**

Thus, out of 254 awarded blocks, only 61 blocks were operational[3] as on 30 September 2019 and the contractors failed to complete Minimum Work Programme (MWP) in respect of 54 blocks[4], for which the contractors are bound to pay the cost of unfinished MWP as specified in PSCs.

GoI launched Hydrocarbon Exploration and Licensing Policy (HELP) in 2016, on revenue sharing model, as per which the Government will receive a share of the revenue accrued to the contractor. There is no concept of cost recovery in HELP, whereas in profit sharing model contractors were entitled for cost recovery as per agreed terms and conditions in the PSC. The PSCs signed during NELP rounds, related policies or guidelines etc. issued by the Government from time to time are still in existence.

5.1.2 PSC provision for carrying out MWP

As per Article 5 of PSC(s), the contractor(s) was required to complete the MWP and in the event of failure to fulfil the said MWP by the end of the relevant Exploration Phase or early termination of the contract by the Government for any reason whatsoever, each Company constituting the contractor would pay to the Government, within 60 days following the end of the relevant Exploration Phase or early termination of the contract, an amount equal to the amount required to complete the said MWP. For determination of this amount, available relevant information including the Budget and modern oilfield and petroleum industry practices were to be taken into account. This amount is also known as cost of Unfinished Minimum Work Programme (CoUMWP).

5.1.3 Policy for determination of CoUMWP

The GoI had framed (December 2007) a policy for determination of cost of UMWP for exploration blocks under pre-NELP and NELP contracts. The policy *inter-alia* provided that the contractors would make the balance payments (i.e. differential amount) to the Government within 15 days from the notifications of the amount.

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[3] ***Operational blocks are the blocks which have not been relinquished by the contractors as the petroleum operations under the PSC were continuing in these blocks.***

[4]

NELP Round	*I*	*II*	*III*	*IV*	*V*	*VI*	*VII*	*VIII*	*IX*	*Total*
No. of Blocks	*5*	*8*	*8*	*3*	*5*	*16*	*3*	*3*	*3*	*54*

The policy also provided that the cost of UMWP relating to an exploratory well would be determined on dry well principle[5] and the well depth committed by companies under MWP would be considered for the purpose of computing cost of unfinished well as this has been the criterion for evaluating the bids and award of the blocks. Under the policy, Directorate General of Hydrocarbons (DGH) was required to maintain the cost data for each of the exploration activities, separately for different areas/ regions based on current prevailing market conditions, which will be revised every six months with the approval of the Government. In case, the computed rates of the unfinished work programme by the contractor are lower than the cost data bank maintained by DGH, the amount towards unfinished work programme will be recovered from companies based on cost data of DGH.

The PSCs of NELP VIII and IX *inter-alia* provided for a fixed amount towards cost of UMWP at the rate of US$ one million/ three million/ six million per well in Onshore/ Shallow water/ Deepwater blocks, respectively besides specifying the rates for 2D and 3D seismic data. This provision was not there in the PSCs of NELP I to VII.

5.1.4 Audit Findings

Out of 54 blocks relinquished/ terminated without completing MWP as per PSC, Ministry of Petroleum and Natural Gas (MoPNG) had approved cost of UMWP in respect of 45 blocks of various contractors and in respect of remaining nine blocks, the cost of UMWP is yet to be calculated by DGH and/ or approved by the MoPNG.

5.1.4.1 Non-recovery of cost of UMWP of US$ 664.67 million in 45 blocks

MoPNG approved (November 2009 to August 2019) US$ 664.67 million[6] as cost of UMWP in respect of 45 relinquished/ terminated blocks of various contractors. Audit, however, observed that US$ 510.79 million, which was 77 *per cent*, was not realised by the Government till September 2019 as discussed in the succeeding paragraphs:

(a) Non-recovery of differential cost of UMWP of US$ 19.68 million in six blocks

MoPNG directed (April/ August 2006) DGH to compute and recover the amount of mutually agreed pre-estimated liquidated damages (i.e. cost of UMWP) in respect of 10 relinquished blocks (Operator: ONGC - 6 blocks and RIL - 4 blocks). With no policy or Government guidelines in existence, the cost of UMWP was calculated on dry well

[5] ***Dry well principle: If the well drilled is found without any hydrocarbons, it is said to be a dry well and therefore, the requirement of subsequent activities involving production testing does not exist. Hence, under the dry well principle, drilling days and expenditure incurred only upto drilling are considered for the purpose of calculating the cost of UMWP.***

[6] ***Cost of UMWP of 45 blocks: US$ 664.67 million {US$ 53.56 million (sub-para (a) of Para 5.1.4.1) + US$ 565.16 million (sub-para (b) of Para 5.1.4.1) + US$ 45.95 million (sub-para (c) of Para 5.1.4.1)}***

principle, based on well depth taken upto basement[7] as per the PSC and drilling days calculated based on rate of penetration from the same/ similar/ neighbouring block.

The mutually agreed cost of UMWP of US$ 33.88 million and US$ 19.81 million in respect of six blocks of ONGC and four blocks of RIL was paid by ONGC and RIL along with other consortium partners. However, consequent upon issuance of policy of December 2007 and direction from MoPNG (April 2008), DGH revised the calculation of cost of UMWP in respect of these 10 blocks and intimated (June 2008) to MoPNG stating that benchmarking of the amount based on cost data of each exploration activity desired under the policy guidelines could be possible if sufficient time was available to collect the relevant data. The estimated cost of unfinished work programme recovered earlier and revised as per new guidelines in respect of 10 blocks of ONGC and RIL is in **Appendix-XX**.

MoPNG approved (January 2010) the revised amount [8] and stated that pending finalisation of rates of benchmarking of costs and building of databank in accordance with the December 2007 policy, the revised amount may be treated as provisional and requested DGH to immediately recover the differential amount of US$ 28.27 million[9] from the consortium partners [10] along with interest as per PSC provisions. Further, MoPNG also instructed DGH to submit the finalised rates of benchmarking of costs and building up data bank by 15 February 2010.

In this connection, Audit observed that:

- RIL paid (June 2011) the differential cost of US$ 8.59 million after 532 days from the date of approval by MoPNG without any penal interest. ONGC along with consortium partners had not yet made the payment of differential cost of US$ 19.68 million though 10 years have lapsed since February 2010.
- DGH has not been able to finalise rates of benchmarking of costs and building of databank till date (September 2019).

(b) Non-recovery of approved cost of UMWP of US$ 448.85 million in 33 blocks

According to existing policy of 2007, DGH was required to maintain the cost data for each of the exploration activities, separately for different areas/ regions based on current prevailing market conditions, which were to be revised every six months with the approval of the Government. In case, the computed rates of the unfinished work programme by the contractor are lower than the cost data bank maintained by DGH, the amount towards unfinished work programme will be recovered from the contractors on

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[7] ***Basement: Basement means any igneous or metamorphic rock in and below which the geological structure do not have the properties necessary for the accumulation of petroleum in commercial quantities and which reflects the maximum depth at which any such accumulation can be reasonably expected.***

[8] ***ONGC: US$ 53.56 million and RIL: US$ 28.40 million.***

[9] ***RIL: US$ 8.59 million and ONGC: US$ 19.68 million.***

[10] ***Parties to the Production Sharing Contract.***

basis of cost data of DGH. As no cost data was being maintained by DGH, it calculated costs based on actual cost incurred in the reference well[11] drilled by the contractors in the same block or a well drilled in a nearby block with similar geological conditions. Accordingly, MoPNG approved (November 2009 to August 2019) US$ 565.16 million in respect of 33 blocks (pertaining to NELP round I to VII) against which, US$ 448.85 million[12] (Government companies: US$ 89.99 million and private companies: US$ 358.86 million), was yet (September 2019) to be recovered from the contractors (**Appendix-XXI**). In this connection, Audit observed that:

- Despite provisions of the PSC requiring the contractors to make payment of cost of UMWP within 60 days from end of the exploration period/ termination of the contract, none of the contractors in respect of 33 blocks made the payment within the stipulated period except partial payment received in respect of four blocks operated by RIL.
- In the absence of any internal timeline, DGH took 130 days to 2,808 days to work out the cost of UMWP, whereas MoPNG took 49 days to 1,837 days to approve the cost of UMWP (**Appendix-XXII**). Thus, excessive time taken in the computation and approval of cost of UMWP has delayed realisation of the amount to the Government.
- Cost of UMWP computed by DGH and approved by MoPNG is not strictly in accordance with the policy of December 2007 as the same was worked out without maintaining cost data and its periodical revision.

The major defaulter in case of Government companies was ONGC in respect of 16 blocks with cost of UMWP of US$ 77.40 million. In case of private companies, RIL was major defaulter in respect of 14 blocks with cost of UMWP of US$ 206.30 million.

(c) Non-recovery of approved cost of UMWP of US$ 42.26 million in six blocks

The PSCs of NELP VIII and IX *inter-alia* provided for a fixed amount towards cost of UMWP at the rate of US$ one million/ three million/ six million per well in Onshore/ Shallow water/ Deepwater blocks, respectively besides specifying the rates for 2D and 3D seismic data. However, DGH took time ranging from 15 days to 762 days in determination of cost of UMWP in respect of six blocks and MoPNG took 25 days to 661 days to approve the cost (**Appendix-XXII**) although these blocks were awarded during NELP rounds VIII and IX where cost of UMWP was fixed. Further, as against the approved amount of US$ 45.95 million, only US$ 3.69 million (8 *per cent*) has been recovered so far. Thus, US$ 42.26 million (from private companies) remained (September 2019) unrecovered (**Appendix-XXIII**). The inordinate time taken in working

[11] ***Reference well means a well drilled in the same block or the adjoining block and the cost parameters of this well are to be used for calculation of cost of UMWP of the undrilled well.***

[12] ***Government companies: ONGC, IOC, OIL, GSPC, HPCL, GAIL & NTPC. Private Companies: RIL, NIKO, BPEAL, HEPI, GPI, Brownstone, CRL, GeoGlobal, Hallworthy, Nitinfire, Vasundhara Resources, BEI, Syntax Oil & Gas, PPCL & ABGEL***

out/ approval of cost of UMWP defeated the very purpose of keeping the rates fixed for various items of committed work programme.

5.1.4.2 Non-determination and approval of cost of UMWP in nine blocks

Apart from 45 blocks mentioned above, there were nine relinquished/ terminated blocks with the committed work programme remaining unfinished and consequently, the contractor(s) of these blocks became liable for payment of cost of UMWP. Audit observed that:

- In case of seven blocks, MoPNG had not approved the cost of UMWP despite lapse of 6 days to 2,174 days **(Appendix-XXIV)** from the receipt of DGH recommendation. DGH itself took 264 days to 3,786 days in working out the cost of UMWP. This delay in DGH was on account of issues between DGH/ MoPNG and the concerned contractor(s) regarding (i) restructuring of exploration phase owing to excusable delays, (ii) merger of Phase I & II, (iii) force majeure due to rig repair, (iv) reference well, etc.
- In respect of two blocks, DGH had not worked out the cost of UMWP for approval of MoPNG despite lapse of 4,585 days **(Appendix-XXV)** since relinquishment/ termination of the contract(s) till 30 September 2019. There were several communications between DGH/ MoPNG and the concerned contractor(s) regarding the status of blocks, seeking information and data for working the cost of UMWP. The issues between the DGH/ MoPNG and the contractor(s) remained unresolved resulting in the cost of UMWP remaining uncalculated for 4,585 days.

5.1.4.3 Reasons for delay in determination/ approval/ payment of cost of UMWP

The main reasons for the time taken in these processes in DGH and MoPNG and delay in payment by contractor(s) were as under:

- There were multiple & prolonged communications between DGH and contractors regarding collection of data/ information for arriving at the cost of unfinished work programme and between DGH and MoPNG seeking clarification before approval by the Ministry.
- There were several instances wherein the contractors instead of making the payment, represented to the MoPNG/ DGH against the approved cost. The disposal of these representations delayed recovery efforts.
- Non-maintenance of cost data by DGH, which was required as per Government Policy of December 2007 resulted into seeking/ collection of information and data from the contractors by DGH.
- No regular follow up by DGH for realisation of the approved cost.

5.1.4.4 Inadequate/ Nil Bank Guarantee

Article 29.1 and Article 29.2 of the respective PSCs *inter-alia* states that amount in the form of Bank Guarantee (BG) equal to 35 *per cent* of the Company's participating interest share of the total estimated annual expenditure is to be deposited by the contractor towards MWP. Further, in terms of Article 29.1(d) of PSCs dealing with the bank guarantee from NELP Round I to V *inter-alia* provided exemption in submission of BG by the public sector enterprises and companies having net worth of US$1 billion or more (deepwater blocks)/ US$ 500 million or more (Onland/ Shallow water blocks) towards its MWP as specified in Article 5. However, this stipulation for non-submission of BG was done away with from NELP Round VI onwards. DGH informed (December 2018) that there is no provision in PSC for invoking BG. However, in case the contractor does not make payment of the approved amount towards cost of UMWP within timeline, the BG is invoked towards non-performance of the contractual obligation and thereafter demand is raised for payment of the remaining amount with interest. A detail of the BGs obtained/invoked is mentioned in Table 5.2:

Table 5.2: Detail of the BGs obtained/ invoked

Sl. No.	Particulars	No. of blocks
1.	BGs not required in terms of Article 29.1 (d) of PSCs from NELP I to V	22
2.	BGs amounting to US$ 15.79 million invoked due to non-completion of MWP	7
3.	BGs not required to be invoked as contractors made partial payment	5
4.	Contracts terminated as BGs were not submitted by the contractors	3
5.	BGs not invoked as approval of revised cost of UMWP was in progress	3
6.	BGs not invoked as contract termination was in progress	1
7.	BGs expired before approval of cost of UMWP	4
	Total blocks	**45**

As may be seen from the above, validity of BGs expired in case of four blocks; three blocks were operated by Reliance Industries Limited (RIL) and one block was operated by Bengal Energy International. DGH/ MoPNG failed to keep these BGs valid till approval/ recovery of cost of UMWP from respective contractors. It is pertinent to mention here that DGH/ MoPNG took 637 days to 790 days for calculation/ approval of cost of UMWP of above four blocks from the date of end of exploration phase/ termination of contract.

5.1.4.5 Other options for recovery

As per Article 33.1 of the PSCs, cases of non-settlement of disputes would be referred to sole expert for conciliation/ arbitration. Accordingly, DGH proposed for appointment of an arbitrator on behalf of GoI to MoPNG in respect of 17 NELP blocks. However, no decision on the request of DGH was found in the records till September 2019.

5.1.5 The Ministry stated (February 2019/ January 2020) that:

- Article 5.7 of the PSC required the contractor to compute and remit the amount of Unfinished Work Programme. Hence, the primary responsibility lies with the contractor and the same is to be reviewed and validated by DGH. Further, MoPNG stated that delay was attributed due to providing incorrect or insufficient data by operator/ contractor and their representations.
- Under HELP (Hydrocarbon Exploration and Licensing Policy), there is no concept of cost recovery and even in case of PSCs under NELP Round VIII onwards cost of UMWP is a defined fixed amount, hence, a very few cases are left where cost of UMWP is not determined. Hence, maintaining cost data, which earlier also could not be maintained by DGH because of practical difficulties, may not be a viable option for determining the cost.
- Contractors have been reminded by DGH and MoPNG on periodical basis for payment. Delay in making the payment attract penal interest. Further, to expedite the recovery process, action is being taken as per DPE guidelines dated 22 May 2018 regarding 'Settlement of commercial disputes between CPSEs inter se and CPSEs and Government Department(s)/ Organisation(s) - Administrative Mechanism for Resolution of CPSEs Disputes (AMRCD)'. In addition, the GoI constituted (December 2019) an independent and neutral Dispute Resolution Committee. Any dispute or difference arising out of a contract relating to exploration blocks/ fields in India can be referred to the Committee, if both the parties to the contract agree in writing for conciliation or mediation and further agree not to invoke arbitration proceedings thereafter.
- Policy for determination of cost of UMWP was formulated in December 2007 after observing that some contractors relinquished the blocks by depositing the money towards UMWP, which was calculated and paid based on certain assumptions about various parameters. The Policy was formulated after considering the views of DGH and DGH was required to calculate the Cost of Unfinished Minimum Work Programme (CoUMWP) by reviewing all previous cases. However, DGH could not conclude the process owing to practical difficulties faced by DGH.
- In Blocks awarded under NELP Rounds VIII and IX, the cost of UMWP is required to be calculated for 2D/ 3D surveys as per PSCs. Though PSC provides for fixed rates for working out the cost, there were various other issues, which had to be considered and sorted out before calculation of the cost of UMWP.
- BGs have been invoked in seven cases and in 12 cases however, it could not be invoked owing to various reasons. As regards remaining four blocks, in three blocks operated by RIL, operator did not renew the BG and instead, proposed for

relinquishment. Similarly, the block operated by BEIL, operator did not renew the BG and stated that they have paid the amount of MWP.

- Details such as, logs of drilled wells, International Association of Drilling Contractors (IADC) Report for drilling data and actual 2D/ 3D data for quantification has to be obtained to verify the details given by operators from time to time. Hence, all data is not available with DGH.
- Under ease of doing business, DGH has been further strengthened with delegation of powers and functions to resolve the operational issues. Under this process, DGH has issued Standard Operating Procedures (SOPs) and guidelines for various processes to avoid such disputes in future. Further, DGH is developing a web-based single window clearance system to expedite various processes. With these initiatives, it is expected that no further disputes would emerge and SOPs/ guidelines, wherever applicable, would be used to resolve the pending issues.

5.1.6 Ministry's reply needs to be viewed in light of the following:

- DGH kept calling for information in a staggered manner and information received was not processed expeditiously. Further, in blocks where MWP had been completed, all the details related to wells drilled would have been available with DGH in the form of daily and monthly progress report. Besides, the contractors apprised DGH during the quarterly/ half yearly meetings on the work done by them. Thus, DGH could have taken into account the available data instead of being fully dependent on the contractors.
- Though the proposals for approval of cost of UMWP in respect of two blocks (MN-DWN-2004/3 and MN-DWN-2004/4) from DGH were sent in November 2013, these remained unattended in MoPNG for more than one year i.e., till January 2015. The Secretary, MoPNG had proposed to fix responsibility for not initiating the action for over a year.
- Contractors made representations before and after approval of cost of UMWP, which considerably delayed the realisation of approved amount. In case of one block (AN-DWN-2003/1), the representation was finally rejected after 19 months. ONGC again made a representation (May 2018) for reconsideration which was eventually rejected in August 2018 directing DGH to realise the amount. Such representations were received in respect of 30 blocks.
- Although GoI had launched HELP in 2016, the fact remains that the PSCs signed during NELP rounds, relevant policies or guidelines etc. issued by the Government from time to time in respect of NELP blocks are still in existence for those PSCs. In respect of maintaining cost data, though there is no concept of cost recovery under the contracts signed under HELP, maintenance of cost data was required as per the policy of December 2007 by DGH. Despite DGH pointing out the practical difficulties in maintaining cost data, the subject policy was not amended/ modified. Moreover,

despite having fixed amount of cost of UMWP, DGH utilised 15 days to 762 days for working out the cost and MoPNG took 25 days to 661 days for approval in respect of six blocks awarded under NELP VIII and IX.

- PSC provisions (Article 26.3 and 26.8) emphasize timely submission of data and updates by the contractors. However, these provisions were neither adhered to by the contractors nor followed by DGH/ MoPNG.
- The PSCs of NELP VIII and IX had also provided for fixed amount towards cost of UMWP for 2D/ 3D seismic data. Further, DGH/ MoPNG should have addressed issues (viz. excusable delays, force majeure, etc.) timely, especially in the blocks, where contractors failed to execute committed minimum work programme.
- It was primary responsibility of DGH/ MoPNG to keep the Bank Guarantees (BGs) valid till approval/recovery of cost of UMWP from respective contractors. However, it failed to ensure the validity of BGs and to keep them renewed till fulfillment of the PSC provisions by the contractors.
- As DGH was having daily/ monthly progress reports apart from quarterly/half yearly meetings with the operators on regular basis in respect of the activities of the blocks, rational for obtaining IADC Report for drilling data and actual 2D and 3D data for quantification does not hold good. If there was requirement of some additional data as mentioned in the reply, the same should have been made part of the reports being provided regularly by various operators.
- There is no progress on action taken on DPE guidelines dated 22 May 2018 regarding 'Settlement of commercial disputes between CPSEs inter se and CPSEs and Government Department(s)/ Organisation(s) – AMRCD even after elapse of almost 20 months.
- Though MoPNG/ DGH has introduced various new initiatives in addition to constitution of Dispute Resolution Committee and AMRCD, the fact remains that huge amount is yet to be recovered from various contractors along with applicable interest.

5.1.7 Conclusion

It was, thus, evident from the above that various contractor(s) failed to complete the committed work programme within prescribed timelines including extensions and accordingly, the blocks were either relinquished by the contractors or terminated by the Government. Consequently, the contractors became liable for payment of cost of UMWP amounted to US$ 664.67 million (₹4,753.03 crore) and interest thereon in terms of the PSCs. Out of this, only US$153.88 million (23 *per cent*) could be recovered and balance US$ 510.79 million (₹3,652.64 crore) remained (September 2019) unrecovered from the contractors. The amount calculated by DGH and approved by MoPNG was also not in accordance with the extant policy primarily due to failure of DGH to maintain the required cost data for calculation of cost of Unfinished Minimum Work Programme. As a consequence of inordinate delays in calculation and approval of cost of UMWP, the Government was deprived of unpaid amount of ₹3,652.64 crore and applicable interest thereon despite legally enforceable PSC provisions in this regard. Further, it was unlikely for Government to get interest on unpaid amount for the period of excessive delays on account of DGH/ MoPNG.

Oil Industry Development Board

5.2 Loss of interest due to injudicious investment of surplus funds

Oil Industry Development Board invested surplus funds at lower rate of interest in fixed deposits at nationalised banks and suffered loss of interest of ₹1.22 crore which could have been avoided by judicious investment decision.

Oil Industry Development Board (OIDB) came into existence in 1975 after the enactment of Oil Industry (Development) Act, 1974. Under the Act, the Board is mandated to provide assistance by way of making grants or advancing loans, providing guarantees on loans and deferred payments of oil industrial concerns, underwriting or subscribing to the stock, shares, bonds and debentures of oil industrial concerns. Government of India collects a cess on every tonne of crude oil produced in the country with the intention of using the amount so collected for development of oil industry in India. GoI remitted an amount of ₹902.40 crore to OIDB (till 1991-92; no remittance thereafter) out of ₹2,07,776 crore collected by Government till 31 March 2019. The revenue of the Board mainly comprises of interest on loan extended to Oil Companies and interest earned on term deposits with various banks. Rule 32 of OID Rules, 1975 empowers OIDB to decide the manner and placement of surplus funds in State Bank of India (SBI) and other nationalised banks. Accordingly, OIDB constituted an in-house investment committee for investment of surplus funds in short-term deposits. OIDB deliberated the issue and approved empanelment of all Public Sector Banks including existing bankers for investment of surplus funds to maximise return on deposits. It was also decided that the card rates of all Public Sector Banks would be obtained for investment of surplus funds. In accordance with the above guidelines/ decisions, surplus funds earmarked for investments are being deposited in various nationalised banks from time to time.

Audit observed that due to improper forecast of cash requirements, OIDB failed to invest surplus funds in better yield option and suffered loss of interest amounting to ₹1.22 crore, details of which are discussed below:

- Funds amounting to ₹397.09 crore were available on 4 April 2016 with the Board and interest rates were sought from banks for investment of funds up to ₹408 crore. In response, three Banks viz. i) SBI, ii) Corporation Bank and iii) Indian Overseas Bank submitted their interest rates. The rates quoted by Corporation Bank were highest at 7.40 *per cent* for 91-180 days. However, OIDB invested (5 April 2016) ₹390 crore[13]

[13] ***Balance funds of ₹7.09 crore were kept in saving bank account to meet day to day expenditure.***

for 30 days in Corporation Bank at six *per cent* although the funds could have been invested for more than 91 days at 7.40 *per cent* with the same bank. On maturity after 30 days, the Board invested the same funds for 91 days at 6.50 *per cent* and suffered loss of interest amounting to ₹1.03 crore[14].

- OIDB received ₹295.62 crore from oil PSUs towards repayment of loan on 29/ 30 April 2016. Interest rates for investment in fixed deposit in three Banks i.e. Corporation Bank, SBI and IOB were called for on 3 May 2016. In response, Corporation Bank submitted highest interest rate of 6.50 *per cent* for a period of 91-270 days. However, OIDB invested (May 2016) ₹295.62 crore in SBI and Corporation Bank for 46 days at six *per cent*, although funds were available for investment for more than 90 days and could have been invested at 6.50 *per cent* in Corporation Bank. This resulted in loss of interest amounting to ₹0.19 crore[15]. It is pertinent to mention here that OIDB re-invested these funds after maturity (after 46 days) on 17 June 2016 for 91 days.

The Management stated (October 2019) that:

- Investment of ₹390 crore for 30 days at six *per cent* instead of higher rate of interest at 7.40 *per cent* for 91-180 days was made as per approval of Expenditure Finance Committee, Ministry of Finance, for reimbursement of expenditure towards National Gas Hydrate Programme (NGHP) Expedition-2 was expected at any time in the beginning of the next financial year. While reinvesting the maturity proceeds of the said FDR on 3 May 2019, it was observed that there was inflow of funds amounting to ₹767.58 crore in June 2016 on account of repayment of loan instalments and maturity proceeds of FDR which was sufficient for payment to ONGC towards NGHP Expedition-2. Therefore, due to availability of sufficient funds, it was decided to reinvest on 3 May 2019 for 91 days, which was the best possible arrangement under the circumstances stated above.
- As regards investment of ₹295.62 crore on 3 May 2016 for 46 days, the intention was to make sufficient funds available for payments to ONGC for NGHP Expedition-2.
- The primary objective of OIDB is to finance the projects/jobs pertaining to oil industry as per mandate and in case surplus/ idle funds is available, the same is parked for investment as the next best alternative for fund utilisation. OIDB is not *per se* a financial institution.

The reply of the Management is not tenable in view of the following:

- OIDB had not assessed the actual inflow of funds for the month of April 2016 as it was scheduled to receive funds on loan repayment from Oil & Gas PSUs. OIDB received an amount of ₹352.92 crore during the period 17 April to 30 April 2016.

[14] ***₹1.03 crore (₹390 crore x 1.4 per cent x 30/ 365 = ₹0.45 crore + ₹390 crore x 0.90 per cent x 61/365= ₹0.58 crore)***

[15] ***₹0.19 crore (₹295.62 crore x 0.5 per cent x 46/ 365)***

Thus, funds amounting to ₹390 crore should have been invested at 7.4 *per cent* for 91 days instead at 6.50 *per cent* for 30 days. The funds required for payment to ONGC could have been met out of the instalments scheduled to be received from the PSUs.

- OIDB received scheduled re-payment of loans amounting to ₹220.67 crore during the period 9 May to 31 May 2016. Also, OIDB was scheduled to receive an amount of ₹187.62 crore on account of maturity of FDR during the period from 1 June to 10 June 2016. Thus, OIDB was having sufficient funds for payment to ONGC. It is pertinent to mention here that OIDB paid ₹170 crore on 3 June 2016 and ₹138.48 crore on 18 June 2016 to ONGC towards NGHP. Thus, OIDB should have invested ₹295.62 crore at 6.50 *per cent* for 91 days instead at six *per cent* for 46 days.
- Though OIDB is not a financial institution *per se*, it should have judiciously invested its surplus funds especially in view of the fact that OIDB is not getting funds by way of cess from the Government since 1991-92. Moreover, Rule 229 of General Financial Rules, 2017 (Rule 208 of earlier GFR 2005) inter-alia stipulated that all autonomous organisations 'should be encouraged to maximise generation of internal resources and eventually attain self-sufficiency'.

Thus, OIDB invested funds amounting to ₹685.62 crore at lower rate of interest due to improper forecast of cash flow and suffered loss of interest amounting to ₹1.22 crore.

The matter was referred to the Ministry in December 2019; their reply was awaited (May 2020).