CHAPTER: 4
PARAGRAPHS ON TRANSACTION AUDIT OBSERVATIONS

Engineers India Limited

4.1 Project Planning and Execution

4.1.1 Loss due to recommending incorrect specifications

The Company suffered a loss of Rs.2.60 crore in recommending incorrect specifications in the consultancy work relating to transfer pipelines.

Engineers India Limited (Company) entered (February 1998) into a contract with Indian Oil Corporation Limited (IOCL) for undertaking project management, process design, detailed engineering, procurement, tendering for construction work, inspection and expediting for AU-V project at Gujarat Refinery. The Company prepared the material requisition (August 1998) for transfer pipelines of Feed Preparation Unit (FPU) Revamp as per the terms of the contract and recommended procurement of SS-410S (32" dia) transfer pipelines to IOCL. IOCL placed orders on the suppliers (January 1999) at a cost of Rs.1.05 crore, which were received in October 1999. IOCL, however, raised doubts on the correctness of SS-4l0S clad metallurgy for FPU transfer lines on account of high corrosion rates with an expected life of one year only. It, therefore, became necessary to replace the transfer lines with SS-316 L clad metallurgy. Accordingly, IOCL requested the Company (October 1999) to take immediate corrective action besides compensating the loss. The Company accepted the mistake (November 1999) and IOCL placed orders with the revised specifications at a total cost of Rs.l.20 crore (January 2000). The work was completed in April 2000 after a delay of four months.

IOCL recovered an amount of Rs.l.32 crore (October 2002) as landed cost spent on the pipelines with incorrect specifications from the amount payable to the Company against another project besides levying liquidated damages of Rs.1.28 crore. The efforts made by the Company to re-utilise the transfer line material in some other project or to sell the same did not materialise. These pipelines continued to lie at the project site in an open area for more than four years.

The Management stated (March 2004) that such error in consultancy business could not be totally eliminated. They further stated that there was chance of utilising the pipelines in some of the future jobs to be taken up by them. They also stated that the Company would be liable only to the extent of 20 per cent of the modification cost on account of any error or omission. The reply is not tenable as the contract provided that in the event of faulty engineering i.e. error or commission in technical studies performed by the consultants, they shall furnish corrective technical studies and engineering as might be required without any additional cost to the owner. Since the changes warranted in this case were due to the mistake on the part of the Company, the entire loss was to its account. Besides, the Company as a Project Management, Design and Engineering

Consultant was not expected to make fundamental errors in recommending technical specifications. IOCL had since recovered the full amount from the final payment of another project and conveyed to the Company that the matter was closed (October 2002). The Company also provided for the amount as bad debts in its accounts during the years 2000-01 to 2003-04.

The Company, thus, suffered a loss of Rs.2.60 crore due to recommendation of incorrect specifications for the transfer pipelines for the work executed for IOCL.

The matter was reported to the Ministry in March 2004; its reply was awaited (January 2005).

Indian Oil Corporation Limited

4.1.2 Infructuous expenditure in replacement of pipeline

Defective planning and lack of foresight of the Management resulted in infructuous expenditure of Rs.8.95 crore on replacement of pipeline with higher diameter at Kandla Port.

In October 2000, Indian Oil Corporation Limited (IOCL) completed laying of 24" diameter pipeline, in replacement of the existing 16" diameter pipeline from Kandla jetty to the main terminal at Kandla Port at a cost of Rs.8.95 crore. The Board of Directors of IOCL had approved the project in May 1998 and the work thereon commenced in June 1999, on the premise that the demand for Petroleum, Oil and Lubricants (POL) at the main terminal of Kandla Port Trust owned by IOCL would rise from 9.10 MMTPA♦ in 1996-97 to 18 MMPTA by the turn of the century. Contrary to this, the actual quantity handled by IOCL at the main terminal as well as foreshore terminal at Kandla Port during the years 1999-00 to 2001-02 ranged only from 0.118 MMT to 3.04 MMT, rendering the entire expenditure of Rs.8.95 crore infructuous.

Audit revealed (October 2001) that the projection of demand of 18 MMTPA made by IOCL was based on the Report (December 1996) of the Industry Working Group on Kandla Port. However, at the time of approval and initiation of the work, IOCL did not take into consideration subsequent significant developments in the region like (a) enhanced refinery capacity in the country with the commissioning of Panipat Refinery, Essar Refinery, expansion of Gujarat Refinery and Reliance Refinery at Jamnagar and (b) impact anticipated with the commissioning of Jamnagar-Kandla pipeline by the end of 1999. Since, as a result of these developments, POL traffic to Kandla Port was likely to fall steeply, the projected viability was at a very high risk from the beginning. Though the Management, in September 1999, did consider a proposal to abort the pipeline project, the decision was taken to go ahead with the work as about 85 per cent of the work had already been completed and extra expenditure was involved in dismantling the facilities already created. However, the scope of work was reduced by dropping establishment of a booster pumping facility that was expected to cost Rs.18.17 crore.

♦ ***Million Metric Tonnes Per Annum***

The Management stated (August 2004) that the project work relating to replacement of the pipeline with higher diameter was part of recommendation submitted by the Industry Working Group in December 1996, which was approved by the Government. The Management further stated that had Reliance Refinery (commissioned in July 1999) been delayed, the facility could have been of vital importance for maintaining product supplies to North and Northwest.

The reply of the Management is not tenable as it failed to take due cognisance of inherent risks of the project, which were examined and clearly identified by IOCL's Project Appraisal Group in September 1997 and its Shipping Department in February 1999, and foresee, well in time, the apparent underutilisation of the facility in future. The Shipping Department had intimated to the Engineering Department as early as in February 1999 that there would be no traffic to Kandla. Had the progress of the Reliance Refinery and other industry developments identified by various groups of IOCL been given due cognisance in time, i.e. before approval or commencement of the work, the infructuous expenditure of Rs.8.95 crore could have been avoided.

The matter was reported to the Ministry in June 2004, its reply was awaited (January 2005).

4.1.3 Infructuous expenditure due to wrong estimation of demand

Indian Oil Corporation Limited (Company) purchased land to set up a LPG bottling plant at Bhilwara (Rajasthan) without carrying out detailed feasibility study. The project was subsequently abandoned, thereby resulting in blockage of Rs.2.78 crore and infructuous expenditure of Rs.37.90 lakh.

The Company envisaged (June 1996) setting up of LPG bottling plant at Bhilwara in Rajasthan in order to bridge the gap between projected demand and availability of the LPG bottling capacity in the State of Rajasthan. Accordingly, the Company acquired (July 1998) 40 acres of land on 99 years lease from the Government of Rajasthan, for Rs.2.78 crore (including Rs.18.22 lakh registration charges). In addition, the Company also spent Rs.37.90 lakh towards construction of boundary wall. The lease deed was executed in November 1998. At the time of acquiring the land in 1998, the Company did not review the validity of the demand projections considered in June 1996.

Within three months of acquisition of land, the Executive Director, Marketing (Northern Region) of the Company recommended (September 1998) deferment of the project as it would be profitable to continue the existing arrangement of supplies from Ajmer instead of Bhilwara. Again in December 1998 he recommended dropping of the proposal stating that the available bottling capacity in the State in 2002 would be more than the estimated demand and the proposal was not economically viable. The Company, therefore, deferred the project. The project was again reviewed by the Company at the end of the year 2000 and was dropped (February 2001). The Company made efforts to return the land to the Government of Rajasthan and obtain refund of the money paid. However, no refund could be obtained (July 2004).

The Management stated (January 2004) that:

- demand projections were worked out assuming per capita consumption of 147 kg per annum from 1995-96 and an increase of two kg per year till 2001-02. However, the projections could not materialise and the actual consumption came down to around 136 kg per annum in 1998-99;
- the matter of refund had already been taken up with the Government of Rajasthan.

The reply of the Management is not tenable because:

- as admitted by the Management no detailed feasibility and financial viability study had been conducted for Bhilwara Plant prior to acquisition of land. The detailed feasibility study should have preceded the purchase of land and pre-project activities;
- no refund had been received from the Government of Rajasthan (July 2004).

Thus, abandonment of the LPG plant which was taken up without any detailed feasibility study, resulted in blockage of funds amounting to Rs.2.78 crore for the last six years apart from an infructuous expenditure of Rs.37.90 lakh on the boundary wall.

The matter was reported to the Ministry in February 2004; its reply was awaited (January 2005).

4.1.4 Infructuous expenditure due to defective planning and decision making

IOCL incurred an infructuous expenditure of Rs.2.17 crore on an abandoned project as it decided to shift its depot from Satna to Bagha without considering liability of providing employment to local people and without entering into contract with HPCL for sharing cost of railway siding, which were necessary for economic viability of the depot.

In May 2000, Indian Oil Corporation Limited (IOCL) decided to shift its depot at Satna to a nearby land at Bagha in Madhya Pradesh at an estimated cost of Rs.27.12 crore, including the cost of railway siding for unloading of products that was proposed to be shared with Hindustan Petroleum Corporation Limited (HPCL) which were also resiting their depot at Bagha. The decision to shift the depot was taken keeping in view a notice served by the District Collector, Satna on IOCL to shift the depot to a safer place away from main town, after occurrence of a fire accident in the depot in June 1997. The land at Bagha, on which the depot was to be shifted, had been acquired by IOCL at a cost of Rs.1.50 crore on the basis of an agreement with the District Administration to use the land exclusively for construction of an Liquified Petroleum Gas bottling plant and give employment to 28 project-affected persons (PAPs). The plan to construct the bottling plant was, however, dropped subsequently (August 1998).

It was noticed in audit that the liability on account of employment to be given to 28 PAPs was not disclosed in the proposal submitted to the Board of Directors for approval of shifting of the depot. The profitability and the cash flow analysis was worked out without taking this factor into account. Further, IOCL started the project at Bagha and incurred an expenditure of Rs.5.42 crore without entering into a contract with HPCL for sharing cost of railway siding. Meanwhile, HPCL backed out of the project on the issue of offering

employment to PAPs. They maintained that they would join only if PAP problem was not thrust on them. Resultantly, IOCL had to re-examine the economic and project justification taking into account the PAP and HPCL factors. In March 2001, while reviewing economic viability of the project, IOCL observed that they did not need any additional manpower at the depot, as it was a case of resitement only and decided to drop the resitement of Satna depot to Bagha.

In September 2002, the Board of Directors decided to drop the project, transfer the material valuing Rs.3.25 crore to other locations and write off the balance expenditure of Rs.2.17 crore (Rs.5.42 crore minus Rs.3.25 crore).

In June 2004, the Management stated that the District Magistrate was approached for takeover of the land by the State Government who clarified that in terms of the agreement, in case the land at Bagha was not used for the purpose of acquisition or the use was stopped subsequently, the land along with the property/building constructed thereupon was liable to forfeiture and no compensation was payable to the Company. However, the matter of surrendering the land and refund of the deposit was being pursued with the Advocate General of the State Government.

Thus, due to defective planning and decision-making, IOCL incurred an infructuous expenditure of Rs.2.17 crore.

The matter was reported to the Ministry in June 2004; its reply was awaited (January 2005).

4.1.5 Infructuous expenditure on idle computerised loading facilities

Creation of computerised loading facilities at Karnal bottling plant without proper planning resulted in an infructuous expenditure of Rs.2.01 crore out of which only facilities costing Rs.79 lakh could be purposefully used.

Indian Oil Corporation Limited (Company) proposed to pump the entire LPG production of Panipat refinery through pipeline to Karnal from where the surplus LPG, after meeting the bottling requirements of Karnal bottling plant, was proposed to be dispatched to other plants. The Company accordingly decided (June 1995) and created computerised facilities for LPG tank truck loading at a cost of Rs.2.01 crore at the Karnal bottling plant {Tank Lorry Filling Shed, pump house, purging unit for bulk trucks and centralised control room at a cost of Rs.1.22 crore (July 1998) and loading arms[♣] for tank lorry filling at a cost of Rs.79 lakh (September 2000)}. Before creating the facilities the Company did not assess/project the availability of the surplus quantity of LPG proposed to be dispatched to other locations.

These facilities could not be put to use as adequate surplus LPG for loading to other locations was not available after meeting the requirements of Karnal bottling plant. Subsequently, the Company used loading arms as a replacement to the existing Tank

[♣] *Attachment used for loading /unloading of products*

Lorry Decantation facilities♦ in Karnal and centralised control room for housing the Karnal Area Office which was earlier located in the Company's own marketing complex adjoining the Panipat Refinery. The other facilities continued to remain idle (July 2004).

The Management stated (January/May/July 2004) that the LPG bottling plant at Karnal was utilised to the maximum capacity (upto 149 TMTPA♠ against the rated capacity of 88 TMTPA) resulting in reduced availability of surplus LPG at Karnal for loading to other locations. Though it resulted in idling of the loading facilities, the LPG demand of the adjoining consumption zones was met economically because movement to other locations would have resulted in additional transportation cost. As per the latest projections, the LPG production at Panipat Refinery was expected to increase from the present level of 200 TMTPA to 900 TMTPA from the year 2006-07 and it was expected that these facilities could then be put to use. The Ministry also reiterated (September 2004) the views of the Management.

The reply of the Management/Ministry is not tenable as: -

- the Company did not assess/project the availability of the surplus quantity of LPG that was proposed to be despatched to other locations;
- the Company was aware that the actual bottling capacity was generally much more (130 per cent to 150 per cent of the rated capacity) than the rated capacity of the LPG bottling plants; this aspect should have been considered before setting up of the handling facilities;
- the computerised control room was being used for housing the Area Office which was earlier in the Company's own building; this was not the purpose for which it was originally envisaged;
- the facilities had idled for four to six years.

Thus, improper planning resulted in an infructuous expenditure of Rs.2.01 crore out of which only facilities costing Rs.79 lakh being the value of the loading arms could be purposefully used (March 2004).

Oil and Natural Gas Corporation Limited

4.1.6 Loss due to avoidable flaring of gas

Failure to consider financial position of vendors before award of contracts and consequent delay in supply/installation of gas compressors led to flaring of low-pressure gas and consequent loss of revenue of Rs.71.02 crore during the period between August 2001 and December 2003.

Due to increased production of low-pressure gas in Gandhar fields and non-availability of gas compression facility, Oil and Natural Gas Corporation Limited (ONGC) was flaring

♦ ***Facilties used for unloading LPG in case of sick wagon/tank lorry/tank trucks.***

♠ ***Thousand Metric Tonne Per Annum.***

the gas in the air. In order to arrest the flaring, the Board of Directors of ONGC approved (November 1998) installation of compressors within 32 months i.e. by July 2001. After finalisation of bid evaluation criteria, ONGC invited tenders in May 1999 and placed work order on Bharat Pumps and Compressors Limited (BPC), in September 2000 for supply of seven compressors within 12 months and on Engineering Projects (India) Limited (EPI), in October 2000, for installation and commissioning of the compressors by 5 January 2002.

BPC supplied only one compressor in time and the remaining compressors were supplied in phases between October 2001 and December 2002 against the contractual date of September 2001. The compressors were commissioned, also in phases, between December 2002 and January 2004, more than one year later than the scheduled date of July 2001 approved by the Board. During the interim period, ONGC hired two compressors. The capacity of the hired compressors was not adequate to compress the entire quantity of the available low-pressure gas and hence, ONGC had to flare the remaining gas in air. The value of gas flared during the period between August 2001 and December 2003 worked out to Rs.73.72 crore. The delay in adhering to the time schedule led to loss of revenue of Rs.71.02 crore to ONGC (after taking into consideration liquidated damages of Rs.2.70 crore recovered from BPC).

Audit observed that ONGC not only took excessive time in placement of the work orders but also selected parties (BPC and EPI) that were facing financial problems right from the beginning, which led to further delay in execution of the project. In fact, BPC did not have funds to open letters of credit (LC) for import of necessary parts like gas engine. It could not provide even bank guarantee for obtaining ten per cent advance payment from ONGC as per the terms of supply order and ONGC paid the advance against indemnity bond to arrest the delay. In March 2002, when BPC again asked for extra-contractual financial support from ONGC for opening of LC, ONGC had to make an extra contractual advance payment of Rs.6 crore in June 2002 in order to arrest further delays. In the case of EPI also, ONGC had to agree to release the progressive payments of bills within 15 days, against 45 days as per the contract.

In August 2004, the Management/Ministry stated that ONGC had followed standard established procedure for procurement of high value compressors through International Competitive Bidding. The contractors fulfilled the bid evaluation criteria and were found to be techno-commercially acceptable.

The reply is not tenable because the essence of the project was the timely commissioning of the compressors, as it involved the commercial interests of ONGC as well as the proper utilisation of valuable natural resources of the country. Therefore, due consideration should have been given to the state of financial affairs of the vendors in their selection for the project. It was noticed in audit that, while BPC had a negative networth in 1998-99 and stood referred to Board of Industrial and Financial Reconstruction since 1992, EPI also had huge negative networth and consistently incurred huge loss in the three years ended March 1999 (i.e. the period before the award of contracts). Thus, there were adequate indications that these parties might default in timely execution of the project, which ONGC failed to consider in selection of the vendors.

Bharat Petroleum Corporation Limited

4.2 Asset Acquisition and Utilisation

4.2.1 Idle investment due to unrealistic assessment of requirement

Imprudent decision of the Management to augment the tankage capacity at Haldia without realistic assessment of its requirement led to an idle investment of Rs.11.35 crore.

Bharat Petroleum Corporation Limited (Company) was having a tankage capacity of 45,200 Kilo litre (KL) for the storage of various petroleum products at its Haldia coastal terminal. Although, the tankage capacity of 25,000 KL earmarked for High Speed Diesel (HSD) and 3,000 KL earmarked for Superior Kerosene Oil (SKO) was more than sufficient to meet the requirement due to low throughput in the terminal, the Company assessed (February 1999) that the existing tankage capacity would be inadequate for receiving multiple products, full tanker parcel size or for handling simultaneous operation of product receipt from Haldia Refinery and tanker discharge. Despite the low capacity utilisation of existing facilities, the Company augmented its capacity by constructing (April 2000) additional capacity of 31,000 KL (HSD–2 X 12,500 KL and SKO-2 X 3,000 KL) at a total cost of Rs.10.43 crore. These additional capacities could not, however, be put to use due to low throughput in the terminal and the Company, for smooth evacuation of Naphtha from Numaligarh Refinery Limited (NRL), converted (March 2003) two tanks of HSD of 12,500 KL each into Naphtha tanks at a total cost of Rs.92 lakh. This facility also could not be utilised yet (August 2004) due to non finalisation of evaluation work with NRL.

The Management contended (June 2003) that the tankage at Haldia was augmented to meet the demand of West Bengal and neighbouring States, which were economical to feed from Haldia in order to meet the future demand. It further contended that additional tankage had been created keeping in mind the long-term requirement of the Company in the deregulated scenario and that it was essential for the export/coastal evacuation of the increased production of NRL Naphtha through Haldia. The Ministry endorsed (January 2005) views expressed by the Management.

The contention of the Ministry/Management is not tenable in view of the fact that (i) the assessment was made without analysing the data relating to the utilisation of capacities in earlier years and any market survey was not conducted to assess the future requirement of petroleum products in the hinterland locations that could economically fed ex-Haldia and (ii) the existing tankage capacity remained underutilised during the last two years prior to taking decision for augmentation of capacities in February 1999 as the Company handled 16,055 KL and 15,547 KL of HSD, 3,662 KL and 3,132 KL of SKO on an average monthly basis during the years 1997-98 and 1998-99 respectively. This low utilisation of existing facilities did not warrant further augmentation of the tankage capacity at Haldia.

Thus, the imprudent decision of the Company to augment the tankage capacity without realistic assessment of its requirement led to an idle investment of Rs.11.35 crore.

4.2.2 Infructuous expenditure on development of land

The Company incurred an infructuous expenditure of Rs.1.88 crore on development of land subsequently earmarked for surrender.

The Hubli POL[♦] depot of Bharat Petroleum Corporation Limited (Company) did not have adequate infrastructure facilities. The Railways as a part of their gauge conversion policy were also requesting the oil industry to resite the existing depots located on meter gauge at Hubli to new location on broad gauge line.

The Company acquired 63,602 square metres (15 acres) of land at Navalur in July 1997 from Karnataka Industrial Area Development Board (KIADB) at a tentative cost of Rs.67.50 lakh on lease for a period of 11 years. The lease could be converted into sale subject to payment of cost finally fixed. The Company incurred an expenditure of Rs.4.64 crore towards land development (Rs.90 lakh), construction of compound wall (Rs.56 lakh), materials (Rs.2.92 crore), security cabin (Rs.3 lakh), lube oil godown (Rs.17 lakh) and other expenses (Rs.6 lakh).

However, the Company decided (February 2002) to abandon the Depot project at Navalur on the ground that the project was economically unviable in the rapidly changing market conditions. The Company approached KIADB (May 2002) to surrender 56,779 square metres of land after retaining 6,823 square metres for lube oil godown. However, the land was yet to be surrendered (September 2004). This resulted in avoidable expenditure of Rs.1.31 crore being the proportionate cost of land development and construction of boundary wall on the land subsequently earmarked for surrender.

The Company stated (July 2003) that they had made a review of the project proposal in the light of impending deregulation and changing scenario and it was found economically unviable and hence decided to abandon the project. The Company added that certain risk elements were inherent in the changing business and could not be avoided. The Ministry endorsed the views of the Management (August 2004).

The reply is not tenable as dismantling of the Administered Pricing Mechanism and move to Market Determined Pricing System was anticipated even in 1997. Hence the decision to undertake the work of land development and construction of compound wall should have been carried out prudently after a thorough review of the utilisation aspects.

Thus, procurement of land without proper study and the subsequent decision to abandon the Depot project resulted in an avoidable expenditure of Rs.1.31 crore and loss of interest to the extent of Rs.57 lakh calculated at the rate of 12 per cent per annum (July 2004).

[♦] ***Petrol, Oil and Lubricants***

Hindustan Petroleum Corporation Limited

4.2.3 Avoidable expenditure due to offloading of bitumen filling work while keeping in house facility idle

The Company incurred additional expenditure of Rs.1.39 crore on outsourcing the bitumen filling work when its own plant remained idle.

The Visakha Refinery of Hindustan Petroleum Corporation Limited (Company) has a Bitumen Filling Plant (BFP) originally commissioned in May 1985 at a cost of Rs.8.18 crore. The BFP was operational till September 1997 when it was damaged due to a fire accident. After carrying out repairs at a cost of Rs.25.85 lakh, it was put back into service in January 1999.

Despite having its own BFP, the Company decided to outsource the work of bitumen filling. It placed (June 2001) a work order retrospectively on M/s. Baba Containers Manufacturers (BCM) for filling bitumen into drums, loading them into trucks, invoicing the customer etc. at a cost of Rs.128 per MT for a period of one year from 1 October 2000. This was extended from time to time and in December 2003 without re-tender, it was extended upto 30 September 2005 with a provision to extend it for a further period of two years at the same price, terms and conditions. For transportation of the bitumen in bulk from the Visakha Refinery/Visakha Terminal to the contractor's site, the Company entered (November 2000) into a contract with another party. The Company spent Rs.1.85 crore from 1 October 2000 to 30 April 2004 on transportation and filling of bitumen while its own bitumen filling plant was lying idle, which lacked justification.

The Management stated (May 2004) that:

- The decision to outsource the bitumen filling activity was taken in view of low offtake of 6.269 TMT[♣] during 1998-99 and 12.486 TMT during 1999-2000 and safety aspects of running bitumen drum filling plant in proximity to a major refinery processing unit;
- There were no idling costs as the BFP had 'fully paid out'. The manpower was also redeployed elsewhere;
- As against the outsourcing cost of Rs.128 per MT, the in house filling cost was about Rs.200 per MT based on packing of 36 TMTPA[♦].

The contention of the Management is not tenable due to the following:

- the low offtake in the years immediately after fire accident was a temporary phase as is evident from the fact that the Company placed orders on BCM at an average of 54 TMTPA in subsequent years;

[♣] ***Thousand metric tonne***

[♦] ***TMTPA–Thousand Metric Tonnes per Annum***

- as regards the safety aspects, the BFP was functioning in the same place for 15 years without any problem. If there were any such concerns, the Company should not have invested Rs.26 lakh on its repair and refurbishment;
- the Company's contention that outsourcing was more economical than doing it in-house is not correct since while the cash outflow on account of outsourcing was Rs.128 per MT, the cash element (variable expenses) of in house cost of Rs.200 per MT was only Rs.56.20 per MT. Further, there was nothing on record to show that the decision to outsource was taken after due consideration of comparative advantage as above;
- 'BFP had fully paid out' is not factual since its written down value as on 31 March 2003 was Rs.83.23 lakh and Rs.47.07 lakh had been charged as depreciation thereon during 2003-04;
- deployment of manpower elsewhere is also not correct as Rs.7.33 lakh had been charged as salary and wages to BFP during 2003-04.

Thus, the Management's decision to outsource the filling of bitumen without any analysis of costs of alternatives, resulted in an additional expenditure of Rs.1.39 crore (Rs.1.85 crore minus Rs.46 lakh being the cost of in-house filling) on 82,805 MT of bitumen filled/handled by the outsourcing agency during October 2000 to April 2004.

The matter was reported to the Ministry in May 2004; its reply was awaited (January 2005).

IBP Company Limited

4.2.4 Avoidable expenditure due to delay in surrender of land

Delay in surrender of land to Railways resulted in an avoidable payment of rent and other expenses amounting to Rs.3.66 crore.

IBP Company Limited (Company) was having a petroleum product depot on 8309 square metres land at Shakurbasti on lease from Railways. Due to changed policy of Railways for moving the petroleum products on full rake basis and inadequate tankage capacity at the depot, the Railways had stopped (1985) loading tank wagons to the Shakurbasti depot. Consequently, the major operations of the depot were closed and the depot was used as a Central Inventory Point for storage of lubricants/greases and for filling of lubes in barrels. In October 1998, the Board of Directors decided to shift the activities of Business Group (Petroleum) to Manesar and as such Manesar became the Central Inventory Point for storage and distribution of lubricants and filling of small containers etc. After a delay of two years the Company decided (March 2000) to close the Shakurbasti depot and dispose of the balance stock. The Company finally handed over the land on 22 November 2002.

The delay in surrendering the land cost the Company Rs.3.66 crore (rent Rs.2.38 crore, property tax provision Rs.25.35 lakh, Central Industrial Security Force-deployment expenses Rs.1 crore and power and fuel Rs.2.16 lakh) from April 2000 to November 2002 for the lease hold land.

The Management stated (February 2003) that though the decision to close the depot was taken in 1999, the process of redeployment of staff and shifting of stock etc. involved time.

The Ministry stated (July 2003) that the Company had a large stock of lubricants worth Rs.4.50 crore and engineering goods worth Rs.one crore and decided to clear this stock and also decided not to receive product from any location. Further the labour union had resorted to agitational approach to shifting of Shakurbasti operations and hence the Company needed time to resolve the issue of redeployment of manpower.

The reply of the Management /Ministry is not tenable since the Management had delayed the decision of closure of the Shakurbasti depot from October 1998 to March 2000 and further delayed handing over of land. The Management could have better planned the closure of Shakurbasti depot with an eye on the high cost of retaining the land unnecessarily. Even after settlement with the labour union in July 2001, the Management took more than 15 months to close the depot and surrender the land. Thus, delay on the part of the Management resulted in an avoidable expenditure of Rs.3.66 crore.

4.2.5 Blockage of funds due to acquisition of unsuitable land

The decision of IBP Company Limited to take possession of an unsuitable piece of land and delay in deciding to dispose it of resulted in blockage of Rs.1.08 crore since 1993.

IBP Company Limited (Company) approached Meerut Development Authority (MDA) for allotment of approximately ten acres of land at Partapur, Meerut, to develop a storage/distribution depot to meet the requirements of petroleum products in the areas of Uttar Pradesh. MDA offered a plot of 8.397 acres of land in April 1992 at a cost of Rs.1.08 crore. The Company accepted the offer of MDA and deposited Rs. one crore as an advance in June 1992. The Company considered the plot as just sufficient to accommodate the facilities and requested MDA to allot additional land of approximately seven acres in contiguity of the earlier plot for additional tankage to be built by 1999-00. MDA then allotted total land in two plots measuring around 16 acres (including plot offered in April 1992) for the value of Rs.2.06 crore payable by July 1992. However, the allotted land was in two non-contiguous plots separated by a public road.

In spite of not getting contiguous plots the Company released a further payment of Rs.90 lakh in July 1992 followed by Rs.10 lakh in August 1993 and also took possession of the smaller plot (7.53 acres) in July 1994 and larger plot (8.397 acres) in October 1994. MDA, thereafter, demanded balance payment in November 1994. The balance amount was withheld by the Company as MDA did not make the two plots contiguous. The amount of Rs.32.93 lakh representing balance cost of land (Rs.6.34 lakh), freehold charges (Rs.4.13 lakh), lease rent (Rs.20.63 lakh), fencing and documentation charges (Rs.1.83 lakh) was however, released in January 2000 though the plots were not made contiguous. The Company also paid an interest of Rs.53.77 lakh on the withheld balance to MDA. The Company constructed the depot on the smaller plot, while the larger plot was lying unutilised (July 2004).

Though the plot could neither be made contiguous nor could be utilised since 1994, the Company decided to dispose it of only in 2002. The possibility of surrendering the land to MDA also did not materialise as MDA had surplus land available with them and were not interested in taking back the land from the Company.

The Management stated (July 2004) that:

- MDA had assured that they would resolve the matter of closing down the said road;
- smaller plot which was offered subsequently and on which facilities were put up was more suitable being next to Indian Oil Corporation Limited and Hindustan Petroleum Corporation Limited and resulted in saving of railway siding and pipeline receipt facility;
- in the event they were able to dispose of the land to Bharat Petroleum Corporation Limited (BPCL), the current price would fetch a substantial amount which would be many times more than the total cost paid for both the plots.

The reply of the Management is not tenable as:

- the Company paid for and took possession of the land without settlement of the material issue of contiguity of land;
- the amount of Rs.1.08 crore remained blocked since 1994. It is not correct for the Company to try to compare it with the current price of land. The Company is not in real estate business;
- BPCL informed Audit (April 2004) that they had not made any formal proposal for purchase of land at Partapur from the Company. They were examining the feasibility of purchasing the land (April 2004).

The incorrect decision of the Company to take possession of an unsuitable piece of land and delay in decision to dispose it of resulted in blockage of Rs.1.08 core.

The matter was reported to the Ministry in May 2004; its reply was awaited (January 2005).

4.2.6 Extra expenditure due to delay in surrendering vacant quarters

As a result of Management indecision, 140 vacant quarters could not be surrendered in time, which resulted in avoidable expenditure of Rs.82.68 lakh towards maintenance and service charges.

IBP Company Limited (Company) was having 197 quarters of different categories in the housing colony of National Thermal Power Corporation Limited (NTPC) at Korba. These quarters were constructed by NTPC at the request of the Company at a cost of Rs.2.17 crore. As per agreement (September 1982), the quarters were licenced for a period of 40 years and the Company was to pay licence fee at the rate of Rs.2.65 per square meter per annum, in addition to service charges, for sharing of common amenities at mutually agreed rates on monthly basis. Further, in terms of the agreement, the Company could surrender all or any of these quarters with the consent of NTPC after giving six months notice of its intention and, in such an event, NTPC would refund the amount paid by the

Company for construction after deducting depreciation as per the Income Tax Act and Rules made thereunder.

As the occupancy rate of these quarters started to decline due to transfer and voluntary retirement scheme for employees, the Company wanted (December 1998) to surrender 36 quarters. NTPC was willing to accept the surrender provided the quarters were handed over in blocks (January 1999). The Company, however, did not take any action and in the meantime the number of vacant quarters increased to 140 by May 2002 on which it had to incur extra expenditure of Rs.82.68 lakh towards maintenance and service charges before surrendering the same in December 2003.

The Management/Ministry, while accepting (December 2003/May 2004) the loss, attributed the delay in handing over the vacant quarters to NTPC, which took a long time in deciding the depreciation rate to be charged. They further contended that since NTPC desired to accept quarters in blocks, quarters lying vacant in the block could not be surrendered due to occupancy of other quarters in the same block.

The contention of the Ministry/Management is not tenable in view of the fact that (i) NTPC had given its consent to take back the vacant quarters in January 1999 whereas the Company decided only in June 2002 to give six months' notice as per provisions of the agreement for surrender of quarters (i.e. after a delay of about 41 months), (ii) though NTPC's desire to accept the flats in blocks was outside the scope of the agreement, the Company did not pursue the matter accordingly and (iii) even to honour NTPC's desire in its own interest, the Company could have made entire block vacant by shifting the occupants from the blocks sought to be surrendered expeditiously to other blocks.

Thus, due to delayed action of the Management, the Company had to sustain an extra expenditure of Rs.82.68 lakh towards maintenance and service charges of vacant quarters.

Indian Oil Corporation Limited

4.2.7 Investment in idle assets

Indian Oil Corporation Limited constructed LSHS♣ tanks and railway siding at a cost of Rs.8.40 crore at their Wellington Island terminal. Barring movement of two rakes during commissioning in March 2001 the siding had not been utilised, resulting in idle investment of Rs.5.60 crore besides payment of lease rental of Rs.70 lakh as of December 2003. The tanks constructed at a cost of Rs.2.80 crore remained severely under-utilised.

The Board of Directors of Indian Oil Corporation Limited (Company) approved (January 1996) a proposal for construction of 24,500 KL LSHS storage tanks and railway siding along with total revamping of terminal at a cost of Rs.22.35 crore at Wellington Island terminal. The Company envisaged a demand for LSHS at 5.7 lakh MTPA♦ for three

♣***Low Sulphur Heavy Stock***
♦***Metric Ton Per Annum***

power plants being set up by the Kerala State Electricity Board and one plant of Karnataka Electricity Board at Yelahanka.

The storage and handling facilities were meant for import of LSHS for further distribution. The railway siding was intended to move LSHS by rail to Yelahanka, near Bangalore. The Company procured (December 1998) 2.99 acres land on lease from Cochin Port Trust for construction of the railway siding.

The storage tanks and railway siding constructed at a cost of Rs.2.80 crore and Rs.5.60 crore were commissioned during December 1999 to February 2001 and March 2001 respectively.

Scrutiny in audit (October 2002) revealed that against the envisaged movement of 1.5 lakh MTPA, only 2 rakes totaling 1,965.299 MT of LSHS were moved to Yelahanka in March 2001 during commissioning of the railway siding. The rake movement since then had not taken place as the product was moved from the Company's Gujarat refinery (Koyali) to Yelahanka directly. As against the proposed LSHS off-take of 4.2 lakh MT per annum for the power plants in Kerala, the total movement during the last four years (2000–01 to 2003–04 upto January 2004) was meagre 1.43 lakh MT for the plant at Brahmapuram only. The demand for LSHS for the other two power plants did not materialise. The Company had no firm commitment of demand for these two power plants from the Kerala State Electricity Board.

Thus, the railway siding constructed at a cost of Rs.5.60 crore remained virtually idle since commissioning. Besides, the Company incurred an expenditure of Rs.70 lakh on lease rental (@ Rs.14 lakh per annum) for the idle railway siding during the period from January 1999 to December 2003. Also, the storage tanks constructed for LSHS were grossly underutilised as the projected demand for LSHS did not materialise.

The Management stated (July 2004) that the railway siding was not in use and they were able to meet the demand of the power plant only because of the storage capacity available at Wellington Island.

The reply of the Company is not tenable as domestic production of LSHS was sufficient to meet the demand and there were no imports during the period 1990-91 to 1998-99. Further, the Company failed to take cognisance of the impact on the supply of LSHS subsequent to commissioning of their own refinery at Panipat in October 1998, which resulted in surplus at Koyali. This was before the award of Letter of Intent (March 1999) placed with RITES for construction of the railway siding. The Company also did not review the project for downsizing after Bharat Petroleum Corporation Limited entered into fuel supply agreement (January 1999) with the Kerala State Electricity Board for supply of LSHS to one of their power plants. Further, the Company had sufficient storage capacity available at Wellington Island besides the four tanks specially constructed for imports.

Thus, the expenditure of Rs.8.40 crore incurred on storage tanks and the railway siding during the period 1999 to 2001 was avoidable, as the Company failed to comprehensively assess the demand for LSHS with reference to the facts available with them before incurring the said expenditure.

The matter was reported to the Ministry in April 2004; its reply was awaited (January 2005).

4.2.8 Idle investment in bitumen emulsion plant

Company's inability to make a proper assessment of future demand for bitumen emulsion led to an idle investment of Rs.4.03 crore in bitumen emulsion plant.

The Haldia unit of Indian Oil Corporation Limited (Company) had been marketing small quantities of bitumen emulsion, an improved quality of conventional bitumen, by processing bitumen as per formulations of the Company, through private parties. In the light of the directions of the Ministry of Surface Transport (Road Wing) to their field staff to use bitumen emulsion for repairs during monsoon and renewal coat in the immediate pre monsoon period and recommendation for using the same for tack coat work also, the Company anticipated that the demand of bitumen emulsion in the eastern region would become ten thousand metric tonne (TMT) per annum by the year 1998 which would gradually increase to 25 TMT by the year 2009. In anticipation of the above requirement, the Company decided (February 1997) to set up its own bitumen emulsion plant (Plant).

Accordingly, the Company set up the Plant of 47.5 TMTPA[♦] capacity (the minimum size available in the market) in April 1999 at a cost of Rs.4.03 crore. As per the demand projections made in the initial proposal, the Company should have produced and marketed 53 TMT of bitumen emulsion during the period from April 1999 to March 2003. Against this projected demand, the Company could produce 6.07 TMT of bitumen emulsion only during the above period. As such there was a gross underutilisation of capacity, which led to an idle investment of Rs.4.03 crore made on the plant.

The Management stated (July 2003) that (i) in case the demand of bitumen shifted from conventional bitumen to eco-friendly bitumen emulsion, as expected, it would have lost both bitumen sales and crude throughput; as such it felt necessary to set up its own facility for bitumen emulsion to safeguard its throughput loss and (ii) it was expected that demand would shift towards bitumen emulsion with the growing concern towards environment. The Ministry endorsed (April 2004) the views of the Management.

The contention of the Ministry/Management is not acceptable due to the reasons that (i)) no data with respect to the market size of bitumen emulsion was available with the Company for making future projections, (ii) against the existing installed capacity of 1.31 lakh MT in the country, actual production of bitumen emulsion was only 22.5 TMT during the year 1995-96 and the target for 1996-97 was only to the tune of 32 TMT. As such, in the absence of any reliable data and with such a low utilisation of existing installed capacity in the country, the Company did not have any reason to believe a spurt in demand of bitumen emulsion to the extent that would require more installed capacity after utilising the existing installed capacity in full and (iii) future expectation of increase in demand with the growing concern towards environment was not based on any authentic data and thus, did not merit investment of Rs.4.03 crore.

[♦] ***Thousand Metric Tonne Per Annum***

Oil and Natural Gas Corporation Limited

4.3 Exploration

4.3.1 Infructuous expenditure on a single exploratory well

ONGC incurred an infructuous expenditure of Rs.38.86 crore during 1999-00 to 2001-02 in setting up offshore facilities and re-entry in a well without assessing fully the hydrocarbon potential of the gas field.

Oil and Natural Gas Corporation Limited (ONGC) had, in mid-nineties, drilled three exploratory wells in GS-23 field in Krishna-Godavari offshore. Out of these only one well 'GS-23-1' was found gas-bearing and was temporarily abandoned for re-entry at a future date. In July 1996, the Southern Region of ONGC, in consultation with IOGPT[♣], IEOT[♦] and IRS[♥] developed a scheme for exploitation of gas from GS-23-1 and its contiguous field GS-15 by setting up two independent offshore platforms with a connecting sub-sea pipeline for the gas collection. At this stage, however, delineation activities of the two fields were in progress and estimation of integrated hydrocarbon potential was yet to be completed.

A Feasibility Report on the above scheme was prepared in March 1997, which envisaged a total production of 218.62 MMSCM[♠] gas from the well GS-23-1. Based on the fact that the field was still being explored and the reservoir behaviour was yet to be fully understood, in July 1997, the Director (Finance) asked the Director (Exploration) to ensure fully that after the facilities were put in place, the actual hydrocarbon reserves would not fall much below the projected level and, in case of any doubt, advised to wait for 3D seismic survey or any other exploratory data before undertaking the scheme. In response, the Director (Exploration) stated (September 1997) that the scheme was reviewed and found viable. The proposal was then put up to the Chairman and Managing Director, who also advised a 3D seismic survey of the gas fields before undertaking the project. The Southern Regional Management, however, communicated (February 1998) that the scheme was independent of any 3D survey as it involved exploitation of gas from the existing wells. ONGC's Board of Directors approved the scheme in June 1998.

The work of creation of offshore platform and the sub-sea pipeline was awarded to M/s. Clough Engineering Limited, Australia, in October 1999 without conducting the 3D survey. The total cost incurred in building the offshore platform for GS-23-1 along with construction of the sub-sea pipelines was Rs.28.08 crore. After installation of the platform and the sub-sea pipeline, ONGC re-entered the well GS-23-1 in September 2001 at a cost of Rs.10.78 crore and put the well on production. Within five months, i.e. in February 2002, the well ceased to produce gas due to low hydrocarbon potential and high water-loading. The well could produce only 3.26 MMSCM of gas as against the projection of 218.62 MMSCM i.e.1.49 per cent of the total estimated gas production. The actual revenue generated from gas and oil sales from this well was only Rs.1.24 crore. In

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[♣]*Institute of Oil and Gas Production Technology*
[♦]*Institute of Engineering and Ocean Technology*
[♥]*Institute of Reservoir Studies*
[♠]*Million Metric Standard Cubic Metres*

April 2003, the Reserve Estimate Committee (REC) stated that the recoverable reserve in the entire GS-23 field was 'Nil'.

Thus, creation of offshore facilities and re-entry of the well without fully assessing hydrocarbon reserve potential of the field led to an infructuous expenditure of Rs.38.86 crore (Rs.28.08 crore plus Rs.10.78 crore).

The Management stated (July 2004) that (i) uncertainties with regard to predictive aspects of reservoir behaviour and production patterns had only limited relationship with the acquisition and interpretation of seismic data, (ii) the producing sand in GS-23-1 was tested conclusively and based on the results the gas production scheme was finalised, (iii) GS-23 field had ultimate reserves of 223 MMSCM of free gas of which GS-23-1 accounted for 168.6 MMSCM.

The reply is not tenable as 3D seismic data indicates a better picture of geological formations, which help in ascertaining the hydrocarbon potential more accurately. In fact, the Director (Exploration) had approved, in June 1994, a proposal for inviting tender for carrying out 3D seismic survey in GS-23 and GS-15 field. However, ONGC invited the tenders in June 1999 and awarded the work order in November 2001. Thus, the scheme was not independent of 3D survey. The 3D seismic data collected during 2001-02 was yet to be interpreted. Had ONGC conducted 3D seismic survey, obtained the data and interpreted it expeditiously in order to obtain a complete and more reliable assessment of the hydrocarbon potential of the field or waited for its results before creation of the offshore facilities, it could have avoided the infructuous expenditure in GS-23-1 well. As regards the revision of the recoverable reserves from 'Nil' in April 2003 to 223 MMSCM subsequently, the basis of such revision was not made available to audit. The fact remains that the expenditure of Rs.28.08 crore incurred on creation of offshore facilities and Rs.10.78 crore on the well became infructuous.

The matter was reported to the Ministry in June 2004; its reply was awaited (January 2005).

4.3.2 Infructuous expenditure due to negligence in measuring length of casing pipes

ONGC incurred an infructuous expenditure of Rs.9.32 crore on re-entry of an already drilled exploratory well due to negligence in measuring length of casing pipes and consequential short-landing of the casing in the well.

Oil and Natural Gas Corporation Limited (ONGC) drilled an exploratory well 'MRAB' in Assam Arrakan Basin and lowered casing pipes in the well during February 1998 to May 1998. However, the actual length of the pipes used was shorter than the required length mentioned in the drilling plan. This resulted in short-landing of the casing pipes in the well by 11 metres and termination of the drilling in June 1998, after testing only two 'objects[♣]' out of six identified 'objects' for assessing the potential oil-bearing zones. To complete testing of the remaining four objects, ONGC re-entered the well on 6 December

[♣] ***'Objects' are those strata of the drilled well which are not covered by the casing pipes and used to test for presence of hydrocarbons on the basis of geophysical examination reports.***

1998 by 'sidetracking[♦]'. The rig deployed in the well remained occupied on the well till 20 June 1999 when it was transferred to another project. In this process, due to the short-landing of casing pipes, ONGC used up additional 179 days (197 days between 6 December 1998 and 20 June 1999 less 18 days planned for testing of the remaining four objects), which could have been avoided had ONGC engineers taken special care in measurement of the casing pipes to avoid short-landing of the casing pipes, as required by the guidelines to achieve success in lowering of casing in deep wells. The infructuous expenditure on re-entry worked out to Rs.9.32 crore, on the basis of proportionate allocation of the total expenditure of Rs.25.76 crore incurred on the project (in 495 days between 10 February 1998 and 20 June 1999) to the additional 179 days (i.e. Rs.25.76 crore x 179/495 days=Rs.9.32 crore).

A departmental enquiry into the case conducted by ONGC concluded (June 1999) that even though the required number of casing pipes had been lowered into the well, the length written (after measurement) on the body of the casing pipes was more than the actual length measured. This resulted in short-landing of casing pipes by 11 meters. However, no individual responsibility could be fixed and the personnel in charge were let off with mere warning to exercise more care in future.

In June 2004, the Management stated that the sidetracking of the well was not entirely necessitated by short-landing of casing alone but also because of technical complications arising due to failure of setting the bridge plug at the desired depth for block cementation. It also stated that an enquiry was set up which weighed the overall situation and serious punishment on the entire crew was not felt appropriate, as stringent penalisation of entire crew could have severely affected the morale of other officers in an already disturbed area.

The reply is not tenable as the well completion report clearly stated that the sidetracking was resorted to because of the short-landing and subsequent parting of casing. Further, the prescribed guideline for taking special care in measurement of the casing pipes was not followed and though the personnel responsible for the negligence were identified in the enquiry report, no action was taken by the Management to avoid recurrence of such expensive negligence in future.

The matter was reported to the Ministry in June 2004; its reply was awaited (January 2005).

[♦] ***By sidetracking is meant a situation when drilling is carried out obliquely from a depth shallower than upto which the well has been initially drilled.***

Bharat Petroleum Corporation Limited

4.4 Production Performance

4.4.1 Supply of sub-standard material and resultant loss

Supply of sub-standard bitumen to the Public Works Department, Bikaner without carrying out adequate quality control tests and delay in its disposal by Bharat Petroleum Corporation Limited resulted in a loss of Rs.96.70 lakh.

Bharat Petroleum Corporation Limited (Company) supplied (December 1996) 1500 MT bitumen valuing Rs.1.25 crore (including taxes and freight) to the Public Works Department (PWD), Bikaner. The bitumen supplied was not found to be in conformity with the standards as it had lower ductility[♦]. Accordingly, PWD claimed refund (December 1997) of full amount paid by them including freight charges. The Company proposed to improve the quality of bitumen supplied by blending it with a higher grade bitumen at the site itself but this was not accepted by PWD (December 1997).

The Company, therefore, refunded (March 1998) the full amount deposited by PWD to them. The bitumen returned by PWD was finally disposed of for Rs.63 lakh in September 2003 after more than five years. The delay in disposal of the bitumen for five years also cost the Company a rent of Rs.34.70 lakh towards storage.

The Management stated (May/December 2003) that:

- ductility tests were not carried out so frequently as ductility was normally within the permissible limits;
- based on the observations during this incident the ductility test was being carried out on all the product quality certification samples;
- bringing the product back to Mumbai was costly and they were not able to firm up a viable proposal for correcting the product, resulting in delay in disposal of the product.

The reply of the Management is not tenable since:

- failure to conduct ductility tests on the presumption that ductility was normally within the permissible limit, led to the supply of sub-standard bitumen;
- the Company failed to initiate timely action to dispose of the material and took more than five years resulting in an avoidable payment of rent of Rs.34.70 lakh.

Thus, inadequate quality control tests before supply of material followed by inordinate delay in disposal of material, resulted in a loss of Rs.96.70 lakh to the Company (Rs.1.25 crore being value of bitumen plus Rs.34.70 lakh rental charges less Rs.63 lakh recovered on disposal of bitumen).

[♦] *flexibility*

The matter was reported to the Ministry (January 2004); its reply was awaited (January 2005).

GAIL (India) Limited

4.5 Contract Management

4.5.1 Avoidable expenditure due to contracting more demand than required

Contract demand of 2,800 KVA against the requirement of 1,800 KVA resulted in avoidable expenditure of Rs.92.95 lakh to the Company due to service line charge and fixed power supply charges.

GAIL (India) Limited (Company) got power requirements for its Samakhiali Intermediate Pumping Station assessed (August 1999) from Engineers India Limited (Consultant). Though the Consultant had assessed the requirement of the Station as 521 KVA to 1,654 KVA per month for the years 2001 to 2008 and 1,906 KVA to 2,889 KVA per month for the years 2009 to 2012, the Company entered into a contract (July 2000) for a demand of 2,800 KVA from a 66 KV feeder with the Gujarat Electricity Board (GEB). The actual consumption of power at the Station during December 2000 to March 2004 ranged between 212 KVA and 1,751 KVA per month except from November 2003 to January 2004 when it ranged from 1,823 KVA to 1,932 KVA. Based on the actual power consumption, the Company approached GEB (March 2001) for reduction in the contract demand, which was rejected by GEB as the minimum agreement period of two years was not over. The Company then had to approach GEB again in December 2002 whereby GEB agreed to reduce the demand to 1,800 KVA subject to installation of specified Current Transformer and Potential Transformer. The Company installed these transformers in December 2003 after placing purchase order and work order and the demand was accordingly reduced by GEB with effect from 1 January 2004.

As the fixed demand charges and service line charges were based on the contract demand, the Company could have saved Rs.92.95 lakh (Rs.83.95 lakh on account of fixed demand charges and Rs.9 lakh on account of proportionate service line charges) during the period from December 2000 to December 2003 if it had initially entered into contract for a demand of 1,800 KVA considering the assessment by the consultant for the initial years.

The Ministry stated (April 2004) that:

- the Consultants had calculated the power requirement as 2,800 KVA;
- obtaining power from GEB is a very time-consuming exercise and hence even prior to selection of the main equipment, power requirements were calculated by the Consultants based on the average/worst scenario basis;
- the Company had requested (March 2001) GEB for reduction in the contract demand but GEB rejected their request because of their voltage level policy under which the contract demand for 66 KV supply was to be 2,500 KVA. As a special case GEB agreed for reduction in contract demand from 2,800 KVA to 1,800 KVA.

The reply of the Ministry is not tenable as:

- the demand of 2,800 KVA was required during the year 2012. For the initial eight years i.e. from 2001 to 2008 the maximum demand assessed by the consultant ranged between 521 and 1,654 KVA only;
- in the present case, the Company got the power allocation from GEB (December 1999) within four months of its application in August 1999;
- the GEB had declined (March 2001) to entertain the request of the Company for the reason of minimum agreement period of two years not being over. The Company could have obtained the contract demand load of 1,800 KVA from GEB initially in 2000 itself as it did subsequently.

Thus, the Company incurred an avoidable expenditure of Rs.92.95 lakh by entering into an agreement for 2,800 KVA instead of 1,800 KVA.

Hindustan Petroleum Corporation Limited

4.5.2 Failure to supply necessary inputs timely to the contractor resulted in foregoing the benefit of price reduction

Delay in providing free issue materials and utilities to the Contractor resulted in foregoing the right of price reduction benefit of Rs.14.95 crore.

In order to conserve and upgrade the environment, Visakh Refinery of Hindustan Petroleum Corporation Limited (Company) was setting up therein Diesel Hydro de-sulphurisation Unit (DHDS) Project and associated utilities so as to supply High Speed Diesel with 0.25 percent weight (max) sulphur with effect from 1 April 1999, as per the commitment given to the Supreme Court of India. In order to de-sulphurise the diesel, several processing units were proposed to be put up under DHDS Project for which Engineers India Limited (EIL) were consultants. The Company invited tenders (June 1997) and based on the recommendation of the consultants (December 1997), awarded the contract upon Larsen & Toubro Limited (Contractor), being the lowest bidder at a total lumpsum contract price of Rs.304.16 crore against EIL's estimate of Rs.325.62 crore and the work was completed at a cost of Rs.309.46 crore (May 2000).

The contract stipulated the following milestones for achievement:

- Sea Water Cooling Tower ready for commissioning by due date of 24 December1998;
- DHDS Block ready for commissioning (except reformer and sea water cooling tower) by 24 April 1999;
- Commissioning of the entire DHDS Block i.e., DHDS Unit, Hydrogen Unit (excluding reformer) utilities and offsite to be completed within one month from the date plant made ready for commissioning.

While the first milestone was achieved on 11 December 99 as against the contractual date of completion of 24 December 1998, the second milestone was achieved on 21 May 2000 against the due date of 24 April 1999. The third milestone was, however, achieved in time as stipulated in the contract. Against the delay, the Company levied total damages of Rs.21.66 crore. After successful completion of the project (June 2000), a Committee was constituted by the consultants to review the request of the Contractor (February 2000) for granting extension of time till actual date of completion of each milestone.

The Committee recommended (December 2001) granting of extension of time till the actual date of achieving the first milestone upto 11 December 1999 and in respect of second milestone upto 19 May 2000 as the major delay was attributable to the Company in providing site clearance, engineering inputs, free issue of materials and utilities for pre commissioning and a delay of two days only was on the part of contractor for which the Committee recommended (May 2003) price reduction and levying of damages, which worked out to Rs.6.64 crore.

The functional directors considered the views of the consultants and recommended to the Board (May 2003) extension of time for completion of the contract and levy of penalty of Rs.6.64 crore and refund of net damages of Rs.15.02 crore as against the original damages of Rs.21.66 crore imposed on the contractor. The Board of Directors approved the proposal (June 2003). It was, however, observed that a sum of Rs.6.71 crore was actually levied as penalty and accordingly a refund of Rs.14.95 crore was made to the Contractor (September 2003). Thus, due to its failure to supply the necessary inputs in time, the Company suffered a loss of Rs.14.95 crore on this account.

The Management stated (November 2004) that the delay in free issue of materials and utilities was due to delay on the part of the sub-vendors against whom suitable action was taken as per the provisions of respective purchase orders. It further stated that a fire accident in September 1997 was the prime reason. The replies of the Management are not convincing, as the Management had not furnished the amounts recovered from the sub-vendors against the loss of Rs.14.95 crore. Further, attributing the delays to the fire accident is also not correct as this contract was awarded in December 1997 by which time the impacts and implications of the fire accident were well known to the Management.

The matter was reported to the Ministry in October 2004; its reply was awaited (January 2005).

IBP Company Limited

4.5.3 Avoidable loss in hiring of tank

Due to delay in surrendering the tank of higher capacity, the Company had to sustain a loss of Rs.1.28 crore towards rental charges for idle facilities.

In view of deregulation of Furnace Oil (FO) with effect from 1 April 1998, IBP Company Limited (Company) felt it desirable to facilitate the import of FO for a few large FO consumers. Accordingly, the Company hired (March 1999) a storage tank for FO of 10,157 KL capacity at Budge Budge initially for a period of three years at a hire charge of Rs.75 per KL per month. The Company, however, signed a faulty agreement to the

extent that it did not include any provision for premature exit in its interest from the contractual obligation.

Meanwhile, the Oil Marketing Companies reduced their selling prices of FO and the Government of India put a ban (June 2000) on interstate movement and also on appointment of agents for selling such products. These developments made imports of FO unattractive and the Company's plan for FO import facilitation for actual users collapsed. Thus, in the changed circumstances it became obvious to the Company that the hired capacity of 10,157 KL would not be utilised. But due to contractual obligation the tank could not be de-hired before the expiry of the agreed period of three years. The Company's stocks of FO decreased from 8,203 KL in August 2000 to 520 KL on 1 March 2001 when it again procured two small consignments of 555 KL in March 2001 and 1,648 KL in November 2001. After selling 1,508 KL therefrom during the period of two years (346 KL in 2001-02 and 1,162 KL upto December 2002), the Company surrendered the tank on 1 January 2003 by disposing of the leftover quantity to IOCL (holding Company) and incurred avoidable hire charges of Rs.1.67 crore from April 2001 to December 2002 and suffered a loss of 1.28 crore (after adjusting Rs.39.26 lakh contribution received from sale of FO during the above period).

The Company could have avoided this loss, had it included the exit clause in the agreement of hiring the tank or else it could have at least reduced the loss by Rs.42.53[♣] lakh had it surrendered the tank immediately on expiry of contract period in March 2002.

The Management stated (June 2003) that it was genuine business failure on account of unexpected market development in a deregulated scenario. It, however, remained silent on the issue as to (i) why the agreement was signed without any exit clause and (ii) why the tank was not surrendered in March 2002 (immediately after the expiry of contract period) especially when FO import facilitation plan collapsed after the ban was imposed on interstate movement of FO/appointment of agent etc. in June 2000. However, no attempt was made to fix responsibility for this loss.

The matter was reported to the Ministry in May 2004; its reply was awaited (January 2005).

Oil and Natural Gas Corporation Limited

4.5.4 Loss due to award of a contract to an incompetent party

Infirmities in bid evaluation criteria and inadequate due diligence in assessing the financial capability of the bidders led to award of work for operation and maintenance of three multi support vessels to an incompetent party. Subsequent poor performance of the contractor led to non-availability of the vessels. The loss to ONGC on account of non-availability of vessels worked out to Rs.205.05 crore.

In February 2000, Oil and Natural Gas Corporation Limited (ONGC) invited tenders for Operation and Maintenance (O & M) of its three Multi Support Vessels (MSVs) meant to

♣Hire charges of Rs.75.42 lakh for April 2002 to December 2002 minus Rs.32.89 lakh corresponding contribution from FO sale during the above period.

service and operate in Mumbai High Oil Fields, with the due date for submitting the bids by April/May 2000. However, some of the Hon'able Members of Parliament (MsP) in their communications to the Ministry expressed (May/June 2000) doubts about the appropriateness of Bid Evaluation Criteria (BEC), in as much as it did not make it essential for the prospective bidders to prove their financial capability. The Regional Tender Committee (RTC) of ONGC, in pursuance of this concern, asked the bidders (June 2000) to submit letters from Nationalised/Scheduled Indian Banks supporting their creditworthiness for a sum of Rs.10 crore per vessel, the estimated investment required by the contractors towards O & M cost per vessel before being re-imbursed by ONGC. In September 2000, RTC approached the Executive Purchase Committee for adopting the above criterion in assessing financial capability and short-listing of the bidders, which was in addition to the existing criterion based on past turnover of the bidders. However, in October 2000, the Executive Purchase Committee asked for fresh tenders to be invited after incorporating in the BEC suitable parameters to judge the financial capability of the prospective bidders. In November 2000, ONGC was also advised by the Ministry to re-formulate the BEC in regard to financial capability of prospective bidders, as the matter pertained to costly vessels that provided various important services to offshore platforms, which yielded half the production of ONGC.

Audit revealed (May 2004) that the BEC incorporated in the fresh tender invited in December 2000 did not make it mandatory for the prospective bidders to prove their creditworthiness and the bidders were required to qualify with reference to either of the two financial parameters viz. minimum turnover of Rs.18 crore during the two preceding years or creditworthiness of Rs.10 crore per vessel.

On evaluation of eight bids that were received in response to the fresh tenders, the bids of Ganesh Benzoplast Limited (GBL) for two vessels and Ganesh Anhydride Limited (GAL) for one vessel, being the lowest financial bids for the three MSVs, were found acceptable and the contracts were awarded to them in April 2001. Both the parties were, however, sister concerns as they belonged to the same group of companies.

GBL and GAL were not able to run and maintain the MSVs satisfactorily due to lack of adequate working capital, as they could not make payment to their back up contractors who in turn withdrew their support. The dockyards where the vessels were dry-docked and the statutory authorities were also not paid their dues, as a result, the authorities withdrew the seaworthiness certificate of the vessels. As of March 2003, the liability accrued by both the contractors aggregated to Rs.24.53 crore and the three MSVs were not available for a total of 375 vessel days upto March 2003 and the same were in need of major repairs. The non-availability of the vessels, in turn, seriously affected the work relating to release of drilling locations and installations of new platforms, besides accumulation of inspection, maintenance and repairs jobs. Further, the oil installations of ONGC in Mumbai High were put to grave risk owing to inadequate coverage for fire fighting facilities. In March 2003, ONGC terminated the contract with both the parties and awarded the contract to Shipping Corporation of India Limited, a public sector undertaking, on nomination basis. Meanwhile, ONGC had to meet its critical requirements by charter hired vessels. It estimated a loss of Rs.205.05 crore (on the basis of the chartered rate per day of the vessels) due to the non-availability of its vessels, on account of the under performance of the contractors.

Audit observed (May 2004) that in one of the Hon'able Member of Parliament's communications to ONGC, it was clearly cautioned (March 2001) that GBL was a very unscrupulous company, which had forged (September 1999) a letter on ONGC letterhead to get their bank guarantee, related to an earlier tender, released. The forgery case was under investigation (November 2004) by Central Vigilance Commission (CVC). He further stated that the requirement of turnover alone could not be an appropriate criterion for assessing the financial soundness of the contractors as the same could be manipulated by booking dummy transactions. However, ONGC did not attend to the matter with due seriousness and it failed to ensure the financial soundness of the bidders since the creditworthiness of the bidders was made only an optional parameter. Sufficient scope was, thus, left open for the bidders to pass through the tender process without proving their financial capability.

In July 2004, the Management stated that:

- upto July 2003, the financial criterion was never a standard condition in ONGC for determining the BEC;
- GBL had qualified the creditworthiness criteria against the first tender invited in February 2000 when clarifications were sought from all the bidders, even though, GBL/GAL qualified on the basis of operational turnover against the fresh tender invited in December 2000;
- its vigilance section had already investigated the forgery case but it could not establish the involvement of GBL.

The fact remains that (i) GBL/GAL were shortlisted on the basis of turnover despite all the cautions received by ONGC to bring stringent criterion in BEC for ensuring financial soundness of the bidders (ii) the significance of the parties having been exonerated by the initial internal vigilance enquiry diminished as the forgery case against GBL was referred to and was under investigation by CVC. It was apparent that ONGC failed to show due diligence in formulation of BEC and undue bias in favour of the parties could not be ruled out.

The matter was reported to the Ministry in July 2004; its reply was awaited (January 2005).

Bongaigaon Refinery and Petrochemicals Limited

4.6 Statutory Levies

4.6.1 Failure to avail of the benefits of excise duty exemption

Due to delay in requesting IOCL for marketing its products within the country instead of exporting, so as to avail benefit of excise duty exemption on domestic sales granted for north-eastern refineries, the Company had to suffer a loss of Rs.4.09 crore.

Bongaigaon Refinery and Petrochemicals Limited (Company) entered into an agreement with M/s.Indian Oil Corporation Limited (IOCL) (March 1999) for marketing its

petroleum products. As per the agreement, IOCL would ensure evacuation of the entire product of the Company produced in its Refinery as per the production schedule.

In order to overcome the constraints of small-sized units of the northeast, the Government of India granted 50 per cent excise duty exemption from 1 March 2002 to the north-eastern refineries. The exemption was, however, not available for any petroleum products, if exported. Though the excise duty exemption was available since 1 March 2002, the Company requested IOCL as late as in August 2002 not to export its products but to market the same within the country to avail the benefits of excise duty exemption. Meanwhile, IOCL had already exported 17,984 KL of High Speed Diesel and 3,572 KL of Motor Spirit of the Company during the period from May to September 2002 after which it stopped exporting the Company's products. Consequently, the Company had to forgo the benefits of excise duty exemption of Rs.4.09 crore on the exported quantity.

The Management, while accepting the loss, stated (June 2003) that (i) IOCL took the decision of export of Company's products keeping in view the overall economics as export of their own Barauni refinery products would have been costlier and (ii) had IOCL not exported Company's products, the same would have to be carried over a long distance resulting in considerable freight under-recovery. The reply is, however, silent as to why the Company requested IOCL so late in August 2002 not to export its products but to market the same within the country for availing the benefit of excise duty exemption.

Further, the reply is also not tenable in view of the fact that (i) the impact of freight under- recovery was negligible as it was only 2.26 per cent of the total revenue during the year 2002-03 as compared to excise duty exemption not availed of 9.29 per cent and (ii) export had caused the Company to suffer a loss of Rs.4.09 crore. The matter was referred to IOCL (May 2004) for comments; their reply was awaited (January 2005).

Thus, due to delay in making the request to IOCL not to export its products but to market the same within the country to avail the benefit of excise duty exemption granted by the Government of India, the Company had to forgo the benefit of excise duty exemption on its products exported during the period from May to September 2002 and suffer a loss of Rs.4.09 crore.

The matter was reported to the Ministry in June 2003, its reply was awaited (January 2005).

4.6.2 Avoidable payment of sales tax

The Company failed to avail exemption of sales tax benefits on export sales and thereby incurred avoidable expenditure of Rs.1.21 crore.

Bongaigaon Refinery and Petrochemicals Limited (Company) entered into an agreement with M/s.Indian Oil Corporation Limited (IOCL) (March 1999) for marketing its petroleum products. As per the agreement, IOCL would furnish exemption certificate of sales tax to the Company for all export sales at the end of the month to enable the Company to finalise the payment of sales tax as per provisions of the Central Sales Tax Act, 1956, according to which export sales did not attract sales tax.

During the period from July 2000 to August 2001, the Company transferred 36,289 MT of light diesel oil (LDO) to IOCL out of which IOCL exported 27,534 MT. As per the arrangement, the Company raised invoices against IOCL by charging Central Sales Tax (CST) at the rate of four per cent on ex-refinery price and deposited the same to Sales Tax Authorities. This included Rs.1.21 crore in respect of the proportionate CST on the quantities of LDO exported by IOCL. The Company could not claim sales tax exemption benefits available for export sales as the export of its product was neither recorded separately by IOCL for the fulfillment of the provisions of the agreement nor the Company made/asked IOCL for any arrangement for keeping separate records for export of their products to enable them to avail/claim this benefit. As such the Company had to suffer a loss of Rs.1.21 crore by not availing sales tax exemption benefits on export sales. The matter was referred to IOCL (May 2004) for comments; their reply was awaited (January 2005).

While accepting the loss, the Management contended (June 2003) that what happened was beyond their control as the export was made from the pool of LDO which consisted of products of the Company and other North Eastern Refineries and it was not possible for IOCL to identify particular consignment of the Company from which the LDO was to be exported.

The Management's contention is not tenable in view of the fact that in terms of the provisions of the agreement, the Company was to obtain exemption certificate of tax for all export sales at the end of the month and for this purpose identification of the consignment of the Company from which exports were made should have been done as per contract. The matter was not taken up by the Company vigilantly in order to watch their own financial interest.

Thus, the Company had to incur an avoidable expenditure of Rs.1.21 crore by paying CST on export sales which were otherwise exempted and could have been avoided had the Company requested IOCL to maintain proper documentation of export of their product immediately after noticing (June 2000) that IOCL was planning for export and when they gave their consent for the export.

The matter was reported to the Ministry in June 2003; its reply was awaited (January 2005).

Hindustan Petroleum Corporation Limited

4.6.3 Delay in availing of customs duty exemption resulting in blocking up of borrowed funds and consequent loss of interest

Lack of efficient day-to-day administration resulted in delays in utilisation of customs duty exemption benefits leading to additional interest cost of Rs.3.36 crore.

In terms of para 7 (2) of the Export and Import Policy 2002-2007, prior to manufacture of export products an exporter can apply for an advance licence to import permitted inputs free of duty under Duty Exemption Scheme and can latter discharge the export obligation within the allowed time period mentioned on the licence.

The Visakha Refinery (the Unit) of the Company imports crude and exports petroleum products viz. furnace oil, low sulphur heavy stock, motor spirit and naphtha processed from it. As such it is entitled to custom duty exemption benefits on the import of crude under Annual Advance Licence Scheme even before exporting the petroleum products. The Unit applied and obtained two Annual Advance Licences, one in November 2001 and the other in October 2002. The first licence was for exemption of custom duty on the import of crude of FOB value US$ 93.75 million (Rs.455.63 crore) after 7 November 2001. The Corporate Office, Mumbai transmitted the licence to the Unit only on 3 January 2002 i.e after a delay of 56 days. The Unit, which received the licence on 8 January 2002, got it registered on 21 February 2002 i.e. after a further delay of 43 days. As a result, the Unit could not utilise the licence on crude, which was imported between 23 November 2001 to 20 January 2002. It availed the duty exemption of Rs.45.49 crore on subsequent imports of crude from 9 February 2002 to 19 June 2002.

It received another licence for exemption of customs duty on import of crude of FOB value US$ 103.20 million (Rs.494.33 crore) after 25 October 2002. The second licence was issued on 25 October 2002, the Unit received it on 1 November 2002. It needed correction in the name of Port, which took about 53 days i.e. 25 December 2002. The Unit got it registered and availed it on 28 March 2003 after a further delay of 93 days. As a result the unit could not avail customs duty exemption on import of crude received from 12 November 2002 to 30 December 2002. It utilised the licence for duty exemption of Rs.48.95 crore on import of crude only from 28 March 2003 to 10 April 2003.

Thus, there were delays ranging from 78 days to 159 days in availing the customs duty exemption to which the Company was entitled to under the advance licences. Consequently, Rs.94.44 crore of borrowed funds of the Company were blocked with an avoidable additional interest burden of Rs.3.36 crore thereon @ ten per cent per annum from November 2001 to April 2003.

The Management stated (April 2004) that due to wrong indication of port of registration and address of the Company in the advance licences issued by DGFT[♦], Mumbai, there was delay in obtaining the advance licences duly rectified. Further, the delay was primarily due to customs authorities not allowing them to utilise advance licences for import on account of custom revenue targets and it was not attributable to improper planning.

The contention of the Management is not tenable as the delays were due to lack of internal controls of the organisation and could have been avoided had the Management been sensitive to controlling costs and having an efficient day to day administration. As for the revenue authorities denying the benefits, the matter has been taken up separately.

The matter was reported to the Ministry in May 2004; its reply is awaited (January 2005).

[♦]***Director General of Foreign Trade***

Indian Oil Corporation Limited

4.6.4 Avoidable expenditure on purchase tax

Indian Oil Corporation Limited resorted to purchase of petroleum products at their Visakha terminal from Hindustan Petroleum Corporation Limited for transfer to its locations outside Andhra Pradesh which attracted avoidable purchase tax amounting to Rs.10.39 crore.

As per the provisions of Andhra Pradesh General Sales Tax Act, 1957 sale of petroleum products from one Oil Marketing Company (OMC) to another is exempt from tax within Andhra Pradesh (AP). However, sale of products from one OMC to another within AP and its subsequent stock-transfer by the purchasing OMC to its locations outside AP, attracts purchase tax @ 10 per cent for Motor Spirit (MS), High Speed Diesel (HSD) and Light Diesel Oil (LDO) and eight per cent for Superior Kerosene Oil (SKO). Product movement from one OMC to another by way of sale outside AP is subject to four per cent Central sales tax.

Indian Oil Corporation Limited (Company) purchased petroleum products (MS, HSD, LDO and SKO) at their Visakha terminal from Hindustan Petroleum Corporation Limited (HPCL) and despatched these products to locations outside AP during April 2002 to June 2003. The Company purchased these products from HPCL without payment of sales tax, as transactions between OMCs within AP are exempt from payment of sales tax. During the said period the Company, after purchase from HPCL, despatched these products to its units by way of stock-transfers outside AP. This attracted purchase tax amounting to Rs.18.80 crore. Had the Company placed the order on HPCL for the supply of products to its various locations as final destination, it would have incurred only Rs.8.41 crore as Central sales tax on the movements of these products. Thus, the system of stock-transfer of products by the Company to its locations outside AP resulted in avoidable expenditure of Rs.10.39 crore (Rs.18.80 crore minus Rs.8.41 crore) on account of purchase tax.

The Management stated (April 2004/January 2005) that because of purchase tax involvement, HPCL was requested for direct supply of products from Visakha refinery to the Company's interstate locations and accordingly stepped up its tank wagon loading at HPCL siding. This led to bunching/idling of tank wagons due to non-availability of night shift operation at HPCL siding. Efforts made with HPCL for third shift operation were not fruitful due their internal labour problems. Subsequently, after resolving internal problems, HPCL introduced three-shift operation on need basis for ~~in~~ tank/wagon loading from its siding and the process became streamlined gradually.

The reply of the Company is not tenable as supply from HPCL refinery directly to the Company's interstate locations was in vogue earlier also. Further, HPCL confirmed (September 2004) that its railway siding was operating in two shifts since April 2000 till date which was more than sufficient to meet the product requirement of IOCL as well as other industry members.

Therefore, failure of the Company to co-ordinate supplies to its interstate locations directly through HPCL during April 2002 to June 2003 resulted in avoidable expenditure of Rs.10.39 crore.

The matter was reported to the Ministry in May 2004; its reply was awaited (January 2005).

Oil and Natural Gas Corporation Limited

4.6.5 Failure to avail zero customs duty benefit

Oil and Natural Gas Corporation Limited incurred an avoidable expenditure of Rs.22.19 crore due to its failure to avail exemption of customs duty on goods imported for use in non-designated areas.

The Customs Act, 1962 provides for transshipment of imported goods, without payment of customs duty, to offshore operational areas that do not fall under the jurisdiction of Indian Customs, unless the Government has notified these areas as 'designated areas' for bringing the same under the Customs Act. The goods cleared on a transship permit under Section 54 or warehoused in a customs bonded warehouse under Section 59 of the Customs Act and subsequently taken to the 'non-designated areas' were exempt from customs duty provided an Export Shipping Bill is filed with customs authorities under Section 69 of the Customs Act.

During 1999-00, Neelam project of Oil and Natural Gas Corporation Limited (ONGC) shipped three solar mars gas turbines to M/s.Solar Turbine International Company, USA, on 'repair and return' basis. The gas turbines were re-imported after repairs between June 1999 and April 2000 by paying Rs.5.29 crore as customs duty. Similarly, SHG platform of ONGC shipped five gas turbines/generators during October 1999 to December 2000 to M/s.Rolls Wood Group, UK for overhaul and re-imported the same between April 2000 and July 2001 by paying Rs.16.90 crore as customs duty. Audit observed that the Neelam project and the SHG platform were located in the non-designated areas but ONGC failed to avail the zero customs duty benefit, resulting in avoidable expenditure of Rs.22.19 crore.

In July 2004, the Management stated as follows:

- since ONGC had already forwarded the list of these offshore platforms to the Government for notification thereof as designated areas as early as 1994, it was improper and incorrect to take the customs duty benefit in respect of such locations;
- to reduce the cost of production per barrel of oil, its experts in the field advised in October 2000 that the zero customs duty benefit could be availed on goods imported for consumption in non-designated areas. Therefore, Neelam project availed zero customs duty benefit for around one and a half years till February 2002 when the Customs Act was extended to these locations by notification of the Government and thus, the payment of the customs duty in the past was an one-time event.

The reply is not tenable because until the offshore locations were notified as designated areas by the Government, the zero customs duty benefit was available to ONGC if the

prescribed procedure was followed, even though it had written to the Government for notification of its offshore locations as designated areas. Further, even after the clear advice of the experts in October 2000 for availing the zero customs duty benefit in respect of Neelam project and SHG platform, ONGC paid, in May 2001 and July 2001, the customs duty on turbines re-imported after repairs for use in its SHG platform. This indicated that there did not exist proper internal control to ensure availing of maximum customs duty benefit.

The matter was reported to the Ministry in June 2004; its reply was awaited (January 2005).

4.6.6 Non-availing customs duty benefit

Due to lack of proper follow up Oil and Natural Gas Corporation Limited could not obtain essentiality certificate from the Directorate General of Hydrocarbons for availing the benefit of 'Nil' customs duty, which resulted in avoidable expenditure of Rs.3.82 crore.

Customs Notification of February/April 1999 exempted payment of customs duty on the goods meant for use in areas for which Petroleum Exploration Licence (PEL)/Mining Licence (ML) was issued or renewed after April 1999. For availing the concession Oil and Natural Gas Corporation Limited (ONGC) had to produce an Essentiality Certificate (EC) from Directorate General of Hydrocarbons (DGH). However, due to lack of co-ordination in following up with concerned agencies, ONGC could not avail the benefit of exemption resulting in avoidable payment of customs duty amounting to Rs.3.82 crore during May/ July 2000.

ONGC had placed orders in October 1999 for import of goods meant for use in Assam and Krishna Godavari (KG) projects for which it had already applied for grant/re-grant of PEL. These goods arrived at the Indian ports between May 2000 and July 2000 and ONGC got them cleared after payment of aggregate customs duty amounting to Rs.3.82 crore. Audit, however, observed that PEL for KG project was granted on 14 February 2000 (for block-1A) whereas the goods were cleared from Chennai port on 9 May 2000. In respect of Assam, the PEL was granted on 22 May 2000 while the goods were received at Kolkata port on 6 July 2000. Thus, it was possible for ONGC to complete the processes necessary for availing the benefit of 'Nil' customs duty.

The Management replied (July/October 2003) that though the date of issue of PEL for KG project was 14 February 2000 it was actually received on 20 April 2000. Similarly PEL of Assam Project was actually received on 3 July 2000. Therefore, time available for obtaining EC from the DGH was insufficient.

The reply is not tenable since DGH interacts with ONGC to finalise the work programme requirement in the PEL areas before recommending issue of PELs to the Government. EC is made available to the ONGC at short notice (in a matter of a day or so). In the case of KG project ONGC had 20 days time to obtain the EC even after considering the date of receipt of PEL as 20 April 2004 as stated by ONGC. In the case of Assam Project the reply is factually incorrect since PEL was issued by the Government on 22 May 2000 and

only an amendment had been issued on 12 June 2000 and ONGC could have applied and obtained EC based on the PEL of May 2000.

Had the ONGC monitored and followed effectively the issue of PELs with respective State authorities, the payment of Rs.3.82 crore as customs duty could have been avoided by availing the Nil customs duty benefit.

The matter was referred to the Ministry in March 2004: its reply was awaited (January 2005).

Bharat Petroleum Corporation Limited

4.7 Marketing and Credit Policy

4.7.1 Undue favour to a customer

Injudicious concessions extended by Bharat Petroleum Corporation Limited to a private sector company in supply of Naphtha resulted in undue favour of Rs.28.81 crore to a customer and loss of Rs.54.22 crore.

BPCL, while having accepted the decision (June 2000) of the Oil Industry to withdraw credit and discount facilities from customers, went against the decision by agreeing to give National Organic Chemicals Industries Limited (NOCIL) a discount ranging from Rs.200 per MT to Rs.600 per MT on declared price as well as credit of 60 days during the period between July 2000 and March 2001. On the request of NOCIL, BPCL further increased the credit period to 90 days and offered a discount of Rs.570 per MT with effect from 1 April 2001 with a condition that, as security, NOCIL should create mortgage on its property in favour of BPCL. On 15 August 2001, BPCL temporarily suspended the credit supplies as NOCIL had failed to create a mortgage on its property and the outstanding dues had gone upto Rs.134.61 crore.

In the hope of recovering the accumulated dues, BPCL resumed supplies on 21 August 2001 on cash and carry basis, at heavy discounts ranging between Rs.1,433 and Rs.1,748 per MT, with the condition that NOCIL would make the payment towards outstanding dues in mutually agreed instalments. Also, it was reiterated that NOCIL should mortgage its property in favour of BPCL but NOCIL failed to meet its commitment and the plant of NOCIL was shut down on 22 November 2001. NOCIL's plant again worked for a brief period from 5 March 2002 to 16 April 2002 and supply of Naphtha was made this time by BPCL at Refinery Transfer Price (RTP)[♦] against advance payment resulting in discount of Rs.1,105 per MT to Rs.1,170 per MT.

NOCIL's plant was closed down in May 2002 and was not reopened (June 2004). Finally BPCL initiated legal action in June 2002 and filed a winding up petition for realisation of outstanding dues. The issue of payment of outstanding dues of Rs.111.22 crore was mutually settled with NOCIL in December 2003 for a full and final payment of Rs.57 crore and the balance of Rs.54.22 crore was approved for write off by the Board of

[♦]***Refinery Transfer price is the price at which the products are transferred from Refinery to Marketing.***

Directors of BPCL. NOCIL paid Rs.57 crore as full and final settlement by December 2004.

Thus, BPCL's decision to extend discounts and credit facilities to NOCIL, despite the decision of Oil Industry to withdraw both discount and credit facilities from the customers, resulted in undue benefit of discounts of Rs.28.81 crore between July 2000 and April 2002 besides loss of Rs.54.22 crore due to non-recovery of billed dues.

The Management/Ministry (March 2003/January 2004) replied that:

- NOCIL consumed 25,000 MT Naphtha per month and any change in the consumer would have created containment problem in BPCL refinery;
- export of Naphtha by BPCL, as an option, would have reduced its sale realisation;
- continued operation of NOCIL plant was essential for recovery of outstanding dues;
- the winding up petition would put pressure on NOCIL to dispose of its properties and settle BPCL's dues.

The reply is not tenable in view of the facts that (i) NOCIL was in deep financial crisis since 1999 and could, therefore, in no way import Naphtha without a credit facility (ii) containment in its refinery would not have been a major problem for BPCL as it met 52 per cent of Naphtha requirement of NOCIL by drawing the same from HPCL refinery during the year 2000-01 (iii) though the option of exporting Naphtha was not attractive, it would still have been financially a better proposition, as the loss due to lower export price would have been only marginal. Also, BPCL did exercise the option of exporting Naphtha after the closure of NOCIL plant in May 2002. It clearly failed to secure its financial interests.

Hindustan Petroleum Corporation Limited

4.7.2 Loss due to extension of unsecured credit facility

Failure of the Company in reviewing its credit policy to FACOR resulted in loss of Rs.3.69 crore plus interest.

Visakhapatnam Regional Office (Unit) of Hindustan Petroleum Corporation Limited (Company) supplied its products to Ferro Alloys Corporation Limited (FACOR), Vishakhapatnam. The Unit used to extend an unsecured interest bearing (@ 18.5 per cent per annum) credit facility to FACOR. While this arrangement continued, FACOR's financial conditions worsened with the networth getting completely eroded due to losses. By the time FACOR was referred (November 1998) to Board of Industrial and Financial Reconstruction (BIFR), it already owed the Unit Rs.66.45 lakh plus interest against the supplies made prior to 1998. Of this, Rs.38.20 lakh related to period before March 1995. However, disregarding the above pointers, the Unit extended the credit facility without recording any reasons therefor and made further sales of Rs.3.03 crore from December 1998 to March 1999 on credit, taking the total dues from FACOR to Rs.3.69 crore plus interest. In December 2000, the Company filed a petition before BIFR to include its name under creditors list of FACOR and also sought permission to take legal action against the

party with no result. The Company has been unable to realise Rs.3.69 crore plus interest due from FACOR so far (April 2004).

The Management stated that credit facility to FACOR was continued as it was a major customer having a long association of over two decades and the storage facility was already set up by the Company at FACOR premises. The credit facility beyond 1998 was further extended with a view to supporting the customer during bad times and not to lose business to the competitors. The Ministry confirmed (July 2004) the views of the Management.

The reply is not tenable as FACOR had been defaulting on payment of principal amount for as many as three years and it had not paid any interest at all. This should have made the Unit review its policy of further extending unsecured credit. Once it was known that FACOR was referred to BIFR, prudence required that the Unit should have avoided making further credit sales to FACOR.

Thus, the Company suffered a loss of Rs.3.69 crore plus interest due to its failure to review its credit policy to FACOR.

Oil and Natural Gas Corporation Limited

4.7.3 Non-realisation of dues towards sale of natural gas

ONGC could not realise sales dues of Rs.509.07 crore towards supply of natural gas to 27 consumers in private sector (Rs.78.57 crore) and six consumers in public sector (Rs.430.50 crore) for the period from April 1979 to May 1992 as well as interest thereon amounting to Rs.1,875.07 crore due to disputes raised by these customers in regard to the revised price remaining unresolved.

Dues from consumers in private sector:

ONGC was directly marketing natural gas produced by it to industrial consumers, both in private and public sector, under formal contracts till the marketing function of the gas was handed over to Gas Authority of India Limited (GAIL) in May 1992. In 1979, ONGC increased the natural gas price based on thermal equivalence of alternate fuel. However, 19 consumers in the private sector formed an ‘Association of natural gas consuming industries of Gujarat’ and challenged (March 1979) the increased price in the Gujarat High Court. The Court passed an ex-parte interim order restraining ONGC from discontinuing the gas supply and also permitting the consumers to continue to pay the price of Rs.504 per thousand cubic metres i.e. the rate contained in the then existing contracts. In November 1982, the High Court fixed an interim price of Rs.1000/- per thousand cubic metres for the consumers and in July 1983, it gave the judgment in favour of the consumers. Thereupon ONGC appealed in the Supreme Court (September 1983) and in May 1990 the Supreme Court upheld the right of ONGC to charge the gas price based on the thermal equivalence with alternative fuel for the period upto 29 January 1987. In July 2001, the Supreme Court also upheld the claim of ONGC for interest on delayed payment, as per the terms of contracts. From 30 January 1987, the Government fixed the gas price under Administered Price Mechanism (APM) but all the consumers

including 19 consumers forming the Association continued to pay only the interim price fixed by the High Court. The status of dues from these 19 gas consumers (grouped under categories I, II and III) and 14 other consumers in the private sector not covered under the Consumers' Association, as on 30 September 2004, was as follows:

Category –I: Consisting of 10 gas consumers who offered to pay principal arrears.

ONGC could realise an amount of Rs.28.92 crore towards principal arrears and interest thereon from five consumers only. One consumer who was referred to BIFR made a one-time payment of Rs.4.97 crore. The recovery of interest at compounded rate from the remaining four consumers was pursued through the Supreme Court, as they did not accept ONGC's offer of April 2002 to accept the interest even at simple rate. The Supreme Court, however, upheld (April 2004) ONGC's decision to recover the interest at simple rate and directed ONGC to reduce its claim in respect of two consumers covered under Drug Price Control as per their demand. Further development in regard to settlement of dues from these four consumers was awaited (December, 2004).

Even after fixation of APM price by the Government, effective from 30 January 1987, these four consumers continued to pay at the interim price. The principal arrears of Rs.9.47 crore on this account remained un-realised (December 2004). The claim was being pursued through a legal suit filed in District Courts of Gujarat since 1993.

Category –II: Consisting of four gas consumers who did not offer to pay even the principal arrears

In May 1994, ONGC filed a petition in the Gujarat High Court for execution of the Supreme Court's decision against the four consumers who did not pay even the principal arrears. The decision of the court on this petition was awaited (December 2004). The principal arrears of Rs.10.84 crore and interest thereon of Rs.42.15 crore remained unrealised (December 2004). One of these consumers (principal arrears: Rs.9.36 crore and interest thereon: Rs.36.34 crore) was under liquidation since January 2001.

Category –III: Five gas consumers who were either facing BIFR proceedings or were under liquidation at the time of Supreme Court's decision of May, 1990

In respect of these parties, ONGC filed claims (August 1990 to November 1999) with the official liquidator for recovery of principal arrears of Rs.41.99 crore and interest thereon (Rs.165.63 crore at simple rate). However, no recovery could be made so far (December 2004).

14 consumers in private sector who were not covered by the 'Consumers Association' and the Supreme Court's order of May 1990. These consumers had not paid the principal arrears of Rs.16.18 crore (including Rs.1.75 crore pertaining to pre-APM price) and interest thereon of Rs.55.04 crore at the simple rate. Having no financial security/commitment to recover the dues, ONGC filed legal cases against these consumers, which were also pending in various courts in Gujarat since 1993.

Thus, as ONGC had not obtained any financial security/commitment to ensure recovery of dues it could not recover the principal arrears of Rs.78.57 crore and interest of Rs.398.30 crore from private sector consumers as per details given below:

(Rs. in crore))

Details of dues from Private Parties	Principal arrears			Interest (at simple rate) upto September 2004
	Supplies prior to 30 January 1987	Supplies after 30 January 1987	Total	
Four consumers of category-I	0.09	9.47	9.56	135.48
Four consumers who did not offer to pay principal arrears (category-II)	7.59	3.25	10.84	42.15
Five consumers which were either sick or under liquidation (category-III)	27.93	14.07	41.99	165.63
Other 14 consumers not covered by Supreme Court decision	1.75	14.43	16.18	55.04
Total	**37.36**	**41.22**	**78.57**	**398.30**

Dues from PSU consumers

Seven gas consumers in the public sector had not agreed to pay the revised price fixed by ONGC, the interim price fixed by the Gujarat High Court in November 1982 and even APM price fixed by the Government in January 1987. ONGC since recovered an amount of Rs.63.88 crore (October/November 2004) towards the principal arrears from the Gujarat Electricity Board and the interest amount was settled at Rs.86.99 crore to be received in 60 instalments, the first instalment of which was received in December 2004. The principal arrears from the other six consumers amounted to Rs.430.50 crore as per details given below:

(Rs. in crore)

Name of PSU	Principal dues for supplies upto 29 January 1987	Principal dues for supplies from 30 January 1987 to May 1992 (APM price)	Total	Dues towards interest at simple rate
Central Government PSU				
IFFCO[♣]	217.52	0.33	217.85	728.16
Heavy Water Plant	49.82	9.20	59.02	247.16

[♣]*Indian Farmers Fertiliser Cooperative Limited.*

Gujarat State PSU				
GSFC[♣]	112.74	5.36	118.10	391.92
GNFC[*]	0.00	0.10	0.10	0.43
GIDC[♦]	0.41	0.00	0.41	1.71
BMC[♠]	20.01	15.01	35.02	107.39
Total	**400.50**	**30.00**	**430.50**	**1476.77**

In terms of the Government's order of 30 January 1987, ONGC submitted (May 1987) details of dues from PSU consumers to the Ministry and requested it to take up the matter with the Administrative Ministries and the Committee of Secretaries for recovery of the arrears. The PSU consumers, except Heavy Water Plant (under the Department of Atomic Energy), did not even sign the contract for supply of gas due to non-settlement of arrears for the period from April 1982 to 30 January 1987 but ONGC continued supply of natural gas to them till May 1992 without insisting on contract or settlement of price arrears. Heavy Water Plant, however, signed the contract with a provision that the decision of the Government would be binding in respect of arrears on gas supply upto 29 January 1987. The final decision of the Government was still awaited (December 2004).

Meanwhile the marketing of natural gas was taken over by GAIL from May 1992 from ONGC. As per the memorandum of understanding (MOU) entered into between ONGC and GAIL in December 1990 for handing over of marketing activities, GAIL was to provide all assistance to ONGC to liquidate the above arrears, including stoppage of supply of gas to any specific consumer. Yet, ONGC was unable to recover the dues. It was only in December 2002 that ONGC requested GAIL to examine the possibility of coercive action, like stoppage of gas, against the defaulting consumers. ONGC also requested the Ministry (February 2002/April 2003) to take up the matter with the Administrative Ministries and the Committee of Secretaries.

In May 2004, ONGC also issued a legal notice to IFFCO, presently being non-PSU, demanding settlement of dues within 30 days from date of notice. However, IFFCO denied its liability and the recovery of dues was awaited (December 2004).

It was observed that there was no financial security/commitment from these PSU consumers for payment of dues. Further, ONGC did not have any business relation with them that could be leveraged for settlement of dues.

The Management stated (December 2004) that ONGC was taking all possible efforts to realise the dues by initiating all the available legal recourses. It added that the process was time consuming and considering that the dues were very old, it would take time to

[♣] ***Gujarat State Fertiliser Corporation Limited.***
[*] ***Gujarat Narmada Valley Fertiliser Corporation Limited.***
[♦] ***Gujarat Industrial Development Corporation.***
[♠] ***Baroda Municipal Corporation.***

recover the dues. In case of PSUs, based on the notice of stoppage of supply issued by GAIL, it was expected to coerce the consumers for payment of dues.

The fact remains that a large amount of dues remained unrealised due to continued supply of gas without financial security/commitment from the defaulting consumers. Also, the dues became old because no resolute action was taken during 1990 to December 2002 either by ONGC or the Ministry against the defaulting PSUs to effect recovery of the dues.

The matter was referred to the Ministry in January 2005; its reply was awaited (January 2005).

Indian Oil Corporation Limited

4.8 Entitlement

4.8.1 Indiscriminate payment of overtime allowance to some employees at Haldia Refinery

Absence of effective controls on overtime resulted in abnormal payment per employee per month from 251 hours to 440 hours involving financial implication of Rs.78.03 lakh.

According to the rules of the Company, overtime should be authorised only under exceptional circumstances. On an average, there are 720 hours per month out of which normal shift hours at the rate of eight hours per day for 26 days work out to 208 hours. A normal worker also needs some time for rest and sleep for which the Factories Act, 1948 (Section 52) and West Bengal State Factories (Exemption) Rules, 1982 prohibits working for more than ten days consecutively without a full day holiday and for more than two shifts continuously respectively. This leaves a balance of only 224 hours for which an employee can avail overtime. Therefore, any figure of overtime in excess of 250 hours is not only in contravention of these enactments but also is prima facie suspect.

A test check of overtime records for the years 2001-02 and 2002-03 revealed that in contravention of the statutory provisions Haldia Refinery engaged workers to perform shift duty in excess of two shifts continuously which ranged from three shifts to even 14 shifts and paid overtime allowance (OTA) upto 440 hours per month. A further scrutiny of payment of overtime involving 251 hours or more per month per employee for the years 2001-02 and 2002-03 revealed the following:

Overtime hours per month	**No. of employees**		**OTA amount (Rs. in lakh)**	
	2001-02	**2002-03**	**2001-02**	**2002-03**
401 and above	-	1	-	0.83
351-400	2	3	1.30	1.75
301-350	16	5	9.11	2.84
251-300	90	45	41.97	20.23
Total	**108**	**54**	**52.38**	**25.65**

From the above, it would be seen that Haldia Refinery paid overtime allowance for 251 hours to 440 hours in 162 cases involving a financial implication of Rs.78.03 lakh for the years 2001-02 and 2002-03.

The Management stated (April 2004) that increase in the number of overtime hours was due to exigencies of work or absence of reliever and shortage of manpower. However, the Management has decided to form a Committee of Senior Officers to investigate the entire matter.

The reply of the Management is not tenable as the payment of overtime for such number of hours was improbable and indicated fraud in booking and payment of OTA and absence of effective controls.

The matter was reported to the Ministry in May 2004, its reply was awaited (January 2005).