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32

**THIRTY SECOND REPORT
COMMITTEE ON PUBLIC UNDERTAKINGS**

(2008-2009)

(FOURTEENTH LOK SABHA)

**OIL AND NATURAL GAS CORPORATION LIMITED – LOSS DUE TO
SALE OF CRUDE CONTAINING BASIC SEDIMENTS AND WATER
CONTENT ABOVE THE NORMS**

MINISTRY OF PETROLEUM AND NATURAL GAS



Presented to Lok Sabha on 16-12-2008

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LOK SABHA SECRETARIAT

NEW DELHI

December 2008 / Agrahayana 1930 (S)

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COMPOSITION OF
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(2008-2009)

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2. Smt. Anita Jain - Director
3. Shri Ajay Kumar - Deputy Secretary-II
4. Shri Paoliental Haokip - Executive Officer

* Ceases to be Member of the Committee consequent on his retirement from Rajya Sabha w.e.f. 25.11.2008

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to present the Report on their behalf, present this Thirty Second Report on "Oil and Natural Gas Corporation Limited – Loss due to sale of crude containing basic sediments and water content above the norm" resulting in a loss of revenue of Rs. 96.96 crore.

2. The subject was selected for examination by the Committee on Public Undertakings (2008-2009). The Committee's examination of the subject was based on Paragraph 14.7.1 of the Report on Union Government (Commercial) of the C&AG of India No. 11 CA of 2008.

3. The Committee took oral evidence of representatives of the ONGC on 2nd June, 2008. The Committee then sought written replies from the Ministry of Petroleum & Natural Gas to a list of questionnaires.

4. The Committee on Public Undertakings (2008-09) considered and adopted the Report at their sitting held on 2nd December, 2008. The Committee feel obliged to the Members of the Committee on Public Undertakings (2008-09). They would also like to place on record their deep sense of appreciation for the valuable assistance rendered to them by officials of Lok Sabha Secretariat attached to the Committee.

5. The Committee wish to express their thanks to the Ministry of Petroleum and Natural Gas and Oil and Natural Gas Corporation Limited for placing before them the material and information they wanted in connection with examination of the subject. They also wish to thank in particular the representatives of the Oil and Natural Gas Corporation Limited who gave evidence and placed their considered views before the Committee.

6. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in Part-II of the Report.

**New Delhi
2 December, 2008
11 Agrahayana 1930**

**RUPCHAND PAL
CHAIRMAN
COMMITTEE ON PUBLIC UNDERTAKINGS**

PART A

A. Overview

Para No. 14.7.1 of Comptroller & Auditor General's Report (Commercial) No. CA 11 of 2008 contained an observation highlighting loss due to sale of crude oil containing basic sediments and water (BSW) content above the norms in Oil and Natural Gas Corporation Limited (ONGC). As per the audit observation, failure to upgrade and create facilities to contain the Basic sediments and water content in the crude oil supplies within limits resulted in loss of revenue of Rs. 96.96 crore.

2. The main contentions made in the audit observation are;

- (i) ONGC entered into a Memorandum of understanding (MOU) with Indian Oil Corporation Limited (IOCL) in April 2002 for sale of crude oil from April 2002 to March 2004, under which the sale price was subject to discount at slab rates in case BSW content in the crude exceeded 0.2 percent by volume.
- (ii) Prior to the dismantling of the Administered Price Mechanism (APM) in March 2002, the admissible level of BSW in crude oil supplies was one percent, and the infrastructure facilities established by ONGC were designed to meet this level.
- (iii) Though ONGC entered into an MOU in April 2002 requiring higher quality crude oil with BSW content of less than 0.2 per cent for realizing full sale price, it did not upgrade its facilities in time to bring the BSW level down to 0.2 percent or less in its crude oil, resulting in supplies of crude oil to IOCL in the following five years generally exceeding the benchmark 0.2 percent in BSW content.
- (iv) As a result, ONGC sustained loss of revenue of Rs. 107.41 crore between April 2002 and October 2007.
- (v) The Company initiated action for upgradation of its facilities in north Gujarat only in February 2004, after a time lapse of about two years from entering into the MOU, by making a reference to its internal institute viz., Institute of Oil and Gas production Technology (IOGPT). It directed all assets to take action to reduce BSW content in December 2005, which was reiterated in June 2006 and November 2006 due to continuing upward trend in discount allowed for BSW content above 0.2 percent.
- (vi) The claim of ONGC Management that action had been taken to upgrade facilities is untenable because even after four years from the

date it claims to have taken action, the company had not been able to contain BSW content within stipulated levels.

- (vii) The reference to IOGPT was made only in February 2004 i.e., after two years from signing the MOU. Even after reckoning two years from April 2002 for upgradation of facilities, the facilities could have been put in place by April 2004 and the company could have avoided discount allowed to IOCL to the extent of 96.96 crore from April 2004 to October 2007.
- (viii) Thus, ONGC by failing to take corrective action within reasonable time for reducing BSW content, to the agreed level, in the crude oil it sells to IOCL sustained avoidable loss of revenue of Rs. 96.96 crore for the period April 2004 to October 2007. The losses are continuing.

B. Delay in upgradation of facilities

3. Asked as to whether timely steps were initiated to upgrade infrastructure facilities to meet reduced levels of BSW content in crude oil as stipulated in the MOU with IOCL, the company in their reply stated;

“Suitable plans were made to achieve BS&W less than 0.2% to realise the full price of crude. However, the end results would have varied depending on the actual quantity and quality of water produced from the reservoir and operational upsets and shutdowns. Name of the major facilities, which have come up after 2002 or in the process of implementation, are:

- Process facilities under Assam Renewal Package
- Revamping of Nawagam process facilities in WR
- MH & NH revamping facilities including revamping at Uran w.r.t. some of the process vessels.”

4. Regarding the steps involved in upgradation of facilities to meet the stipulated content of BSW in crude oil at 0.2% and whether or not ONGC have the capability to affect the required upgrade, the company in their reply submitted;

“Steps involved are continuous monitoring of reservoir behaviour, estimation of produced fluid and its quality. It is a general practice in offshore during formulation of Improved Oil Recovery (IOR) project & related redevelopment plan, handling such capacity of water is always planned and taken care of. Based on the above, retrofitting / addition of systems like increased tankages, heater treaters, revamping of Group Gathering Stations (GGSs), adopting suitable chemical treatment are planned for implementations. ONGC institutes namely IRS (For Reservoir Studies), IOGPT (For production and process facilities), IEOT (For Offshore installations, marine environment etc) are capable of identifying and suggesting such upgrade requirements.

ONGC has the capability to effect such upgradation through its in-house Engineering Services.”

5. On whether the company has worked out the estimated costs likely to be required for the upgrade project, the company stated;

“Many upgradation jobs, like, in North East through Assam Renewal Package, in WR through revamping of Nawagam Desalter plant and in MH through revamping project etc. are taken up. These upgradation jobs are meant for all technical requirements including BS&W reduction. Since these jobs are integrated with many other process facilities, separate costing of such facilities has not been done.”

6. The Committee desired to be informed on the latest status of facilities upgrade and the date of commencement of operation of upgraded facilities. They also desired to know the BSW content in crude oil processed from such upgraded facilities. The company in their written reply submitted thus;

“Some of the required facilities have already been upgraded in some areas and, in other areas, facilities are in the process of being upgraded as per the revised technical requirements. Efforts are always made to keep the BS&W under the prescribed limits. However due to unpredictable properties of the produced fluids and operational exigencies, occasional spikes in BS&W beyond 0.2% do happen.”

7. Asked to present the company’s take on audit’s observation regarding the loss incurred by the company by way of discounts given for their non-upgradation of facilities within reasonable time and consequent inability to meet the defined BSW level of 0.2%, the CMD of ONGC during evidence stated;

“Here I would like to submit before this august body, whereas that C&AG are very right in their observation, I will put it that from the larger implications it should be treated as a notional loss. The reason for my calling this a notional is that we knew about it even before we had signed this MOU with the refineries. As the hon. Members know, the Administered Pricing Mechanism for crude oil was dismantled with effect from 1st April 2002. Prior to that ONGC used to get about 16 to 16.5 dollars a barrel under the APM mechanism. When it was given that after dismantling ONGC will start getting international parity prices, we had more than one year long negotiations with the three companies – IOC, HPC and BPC – about the modalities of the pricing which would be done for this crude. First of all the benchmarking of the crude, and it was with great effort ONGC was able to convince them to agree the benchmark as the Bonny Light, which is the sweet crude from Nigeria, similar to the crude which ONGC produces. Then there were other issues also.

While the companies logically raised the issue that when they import the crude the BSW content limit is 0.2 percent. They would like to put the

same condition for us also. ONGC knowing fully well that our BSW content was higher than one per cent, we willingly signed the MOU in the larger interest that we were getting a much higher price. Immediately from 1st April 02, we started getting 23 to 24 dollars a barrel. Let me also share that not only we agreed for BSW content to be high, with regard to the Central Sales Tax which is always recoverable from the buyer, we agreed with them that we will do fifty percent sharing. As against four per cent, they will not bear four per cent they will bear only two per cent and ONGC will bear two percent. So, this agreement was done taking the overall macro level picture into view that ONGC starts getting those prices. They also looked for the best deal. So it was more of a bargain done. So, this was consciously done, knowing fully well that we were not complying with BSW norm of 0.2%.

Also, I would like to submit that for reaching those compliance levels, ONGC was required to make large investments at all work centers into putting up more crude oil storage tanks, into putting more chemicals, and revamping our group gathering stations, and heater treat facilities, etc. So, much more stabilization process would be required before we supply. We knew this. And we knew that we would be required to give a discount. So, it is not that we were not aware of these things.”

8. Considering the fact that the MOU was signed in April 2002 and ONGC has not been able to contain the BS&W within the norm even up to April 2008, thereby rendering itself liable to sustain revenue loss in terms of discounts, the Committee wanted to know whether any instructions / advisories were issued by the Ministry to ONGC impressing upon the need for putting up the facilities expeditiously. The ministry in their reply simply stated;

“Though MOU for crude oil sale with IOC is effective from April’ 2002, it was signed in Feb’ 2003. Since then, ONGC took up various projects for replacement / revamping of its crude handling facilities.... The implementation of these projects has a very long lead-time in view of steps like conceptualization of the project, firming up its design & engineering aspects, procurement of equipments and their installation. However, it may be noted that already completed projects have started showing the results and accordingly BS&W content from such producing locations is well within control except for few spikes due to process upsets.”

9. As to why the infrastructure facilities not being put in place by ONGC in time to bring the BS&W within agreed limits and the consequential loss of revenue of Rs.166.22 crore (April 2002 to April 2008) should not be treated as avoidable discounts allowed to IOC and on whether or not the Ministry had been apprised of the matter, and whether any, and if so what, corrective steps had been initiated by them, the Ministry vaguely replied stating;

“Fresh commercial terms including price adjustments for BS&W (for excess BS&W beyond internationally traded levels) came into being only after signing of MoUs with PSU refiners around Feb’ 2003.

Since then, ONGC has been making efforts on a continuous basis to replace / revamp its infrastructure facilities for handling of crude oil. Here, it may be noted that the Reservoir characteristics are changing with the maturity of the fields leading to increased water cut in the crude. The installed facilities have not been able to cope up with such high water cut in the crude, resulting in increased levels of BS&W and consequential discounts.

For handling of such crude oil, ONGC has already initiated further revamping of its facilities, which is expected to take care of the increasing water cut. Such revamping / replacement jobs have already started giving a positive result in curbing higher BS&W, especially in North & South Gujarat.... The status of MOU/COSA (Crude Oil Sales Agreement) and related issues has been apprised to ONGC Board, which includes Govt. representatives also. The Ministry was apprised of this issue by the ONGC in the Quarterly Performance Review Meeting. In order to control BS&W, Crude Oil Sales Agreement specifies the allowable limit for Buyer and Seller.”

10. Asked whether the Ministry would, and if so within what time frame, ensure that ONGC would achieve the stipulated level of BSW and avoid recurrence of revenue loss to the company, the ministry replied stating;

“ONGC has been continuously revamping its infrastructural facilities for handling of crude oil from its fields and to achieve the stipulated levels of BS&W. However, due to maturity of producing fields, there had been a change in the Reservoir characteristics leading to increased water cut in the crude. The present installed facilities may not have been able to cope up with such high water cut in the crude, resulting in increased levels of BS&W and consequential discounts. To tackle this situation of increasing water cut in the crude and handling of crude based on future production profiles, ONGC has already initiated the revamping of its facilities for handling of crude which is expected to take care of the increasing water cut. With the implementation of these projects, issue of higher BS&W is expected to be resolved.”

C. Revision of BSW level in crude oil

11. The Committee desired to know the basis and rationale for the revision of BSW level in crude oil to 0.2 percent in the MOU signed with IOCL, and why the company agreed to such revision, beyond which percentage of BSW content in crude oil they are required to give discounts at different slabs, when they have facilities to meet a BSW level of only 1 per cent. The company in their reply stated;

“As a result of deregulation of petroleum sector, it was essential to migrate from Administered Pricing Mechanism to Market determined Pricing Mechanism w.e.f. April 01, 2002. Agreeing to BS&W content of crude oil at 0.2% was the best negotiated term to obtain the maximum worth of crude oil. The MOU effective from April, 2002 envisaged pricing based on import parity principle which includes quality norms. Though there is no set BS&W norms for international crude contracts trades, ONGC appointed consultant M/s PEL, UK, indicated that the international norm for BS&W in crude oil would be 0.1 / 0.2 % maximum and virtually all large deliveries met this norm.”

12. The Committee also wanted to know global best practices in determining acceptable levels of BSW content in crude oil sale agreements. The company in their reply stated;

“The international norm regarding the level of BS&W content in crude is only based on major trades taking place between buyers and sellers (majority of the contracts being spot ones with confidentiality clause). However, it may vary from country to country/type of crude and many other factors. As stated above, ONGC appointed consultant, M/s PEL, UK, had also indicated the international norm for BS&W in crude oil as 0.1 / 0.2 % maximum. The practice of using discounts in price vis-à-vis BS&W is not uniform internationally. There is no internationally accepted mechanism for adjusting crude prices for higher quantity of BS&W. The methodology of price discounts vis-à-vis BS&W is usually finalized between the buyer and the seller. Taking into account the then quality of ONGC crude from different locations various slabs for discounts were decided based on the negotiations with IOC and included in the MOU to have least impact on ONGC crude prices.”

13. Clarifying on the issue of ONGC’s decision to enter the MoU with a revised BSW level of 0.2 percent while having facilities capable of attaining crude quality of only 1 percent BSW content, the CMD of the company stated during evidence;

“To begin with, let me submit very candidly that we respect the views expressed by C&AG. In fact, at the outset, I would like to agree with the observation of the C&AG that due to the fact that bottom sediments and water content (BSW) being more than 0.2 per cent in the crude oil supplied by ONGC to the three PSU refinery companies-IOC, HPCL, and BPCL and later on to MRPL also-we were subjected to give discounts to these companies which, as per observations of the Audit, resulted in a loss of revenue realization by ONGC..... While the companies logically raised the issue that when they import the crude the BSW content limit is 0.2 percent. They would like to put the same condition for us also. ONGC knowing fully well that our BSW content was higher than one per cent, we willingly signed the MOU in the larger interest that we were getting a much higher price. Immediately from 1st April 02, we started getting 23 to 24 dollars a barrel. Let me also share that not only we agreed for BSW content to be high, with

regard to the Central Sales Tax which is always recoverable from the buyer, we agreed with them that we will do fifty percent sharing. As against four per cent, they will not bear four per cent they will bear only two per cent and ONGC will bear two percent. So, this agreement was done taking the overall macro level picture into view that ONGC starts getting those prices. They also looked for the best deal. So it was more of a bargain done. So, this was consciously done, knowing fully well that we were not complying with BSW norm of 0.2%.”

14. Appraising the Committee on the latest achievements of the company in upgrade of infrastructure and explaining how the decision to revise BSW content to 0.2 was commercially more prudent for the company despite the fact that they would not be able to meet that level from their existing facilities and would be required to give discounts, the CMD during evidence stated;

“I am happy to share with this august Committee that I have the latest data available with me which shows that we have more or less achieved this level. Over 60 per cent of crude oil supply takes place at Mumbai High. The BSW in April 2008 was 0.09. In North Gujarat and South Gujarat it is 0.23 and 0.31, marginally higher; Krishna Godavari’s BSW limit is 0.05; Kaveri is 0.07. Only in Assam this continues to be higher. In Assam renewal plan we knew that that would be required to make large investments. So, commercially by having given a discount rather than putting up immediate facilities, I do not think ONGC is a loser in a big way. Secondly, we knew that we are dealing with other PSU refineries. So, it is that the gain has gone to the other PSUs and loss happening to other PSUs. The national economy, the national exchequer, the public sector per se is not put to loss.”

D. Delay in signing the Crude Oil Sale Agreement (COSA)

15. The Committee desired to know the reasons for the failure of the company to finalize the Crude Oil Sale Agreement (COSA) within a reasonable time from the expiry of the MoU in March 2004, and the latest development on the issue. The company in their reply submitted;

“The MOU of crude oil sales was signed in February, 2003 for the effective period of April, 2002 to March, 2004. COSA with OMCs could not be signed due to differences persisting on various issues. All PSU refiners wanted to negotiate jointly with ONGC / OIL for all crude. ONGC was not ready to negotiate in the proposed manner. Also, negotiations with them could not proceed further because of Government decision on sharing of under recoveries of downstream companies. Further, non agreement on the pricing method to be followed i.e. whether to follow Import Parity or Export Parity, also resulted in hampering negotiations. In the absence of MoU/COSA, ONGC even suggested to MoPNG to allow auctioning of ONGC crude to PSU refineries. This issue had been taken up by ONGC with MoPNG in various meetings including QPRM, Strategy Meet etc. Accordingly, it was decided that pending agreement on pricing and under recoveries, existing

arrangement of billing based on earlier MoUs to be continued with adjustments for discounts for under-recoveries as advised by MoPNG on quarterly basis. An in-house approved draft COSA has been prepared and forwarded to OMCs in April 2008 inviting them to discuss and finalize the same.”

16. MOU for crude sale between ONGC and IOC stood expired in March' 2004 and was to be replaced, as a term of the MoU, by Crude Oil Supply Agreement (COSA). ONGC in their reply stated that they are not getting adequate response from the oil marketing companies and it has apprised the MOP&NG about these issues. The Committee desired to be informed on whether the Ministry are aware of the problems faced by ONGC and if so, what intervention was made at the Ministry level to ensure early signing of COSA. The Ministry in their reply stated;

“Issues related to MoU/COSA have been discussed in many forums like QPRM, Strategy Meets, etc. The Ministry has advised ONGC and IOCL to sign COSA with the mutually agreed commercial terms and conditions. Discussions have been held by ONGC with HPCL and BPCL towards finalization of COSA. The disagreement with these companies still persists over marker crude, pricing basis, which include quality aspects. However, the issue is under negotiation with them. Meeting of ONGC with IOC on COSA has not yet taken place as they have conveyed that the document is under their in-house discussion.”

PART B**Observations and Recommendations****Recommendation No. 1****Delay in facility upgrade**

The Committee note that after dismantling of the Administered Price Mechanism (APM) with effect from 1st April, 2002, the Oil and Natural Gas Corporation Limited (ONGC) entered into a Memorandum of Understanding (MoU) with Indian Oil Corporation Limited (IOCL) in February, 2003 for sale of crude oil valid for April 2002 to March 2004. The MoU stipulated that the sale price was subject to discounts at slab rates if the crude oil supplied by ONGC contained basic sediments and water (BSW) above 0.2 percent by volume. In this regard, the Committee note that prior to the signing of this MoU, the ONGC had infrastructure facilities to contain BSW content only to 1 percent per unit volume. The contention of the Audit is that though the said MoU required BSW content less than 0.2% for realizing full sale price, the ONGC failed to timely upgrade its facilities to meet this requirement leading to supplies of crude oil to IOCL exceeding the benchmark of 0.2% thereby resulting in a loss of revenue of Rs.96.96 Crore to ONGC by way of discounts to IOCL during April, 2004 to October 2007.

As per the justification put-forth by the ONGC, the Committee note that Company initiated the action immediately after signing the MoU to achieve the stipulated BSW norms for realizing the full price of the crude. The Committee have been informed that efforts have continuously been made by the company to upgrade their desalting, filtering and tanking facilities to achieve

the international norm of 0.2 percent BSW content in the crude oil. In this regard, the Committee further note that as per the latest position, the BSW level in the other assets of the company barring Assam have largely been contained to 0.2 percent and below. As regards the financial loss incurred by the Company because of discounts given to IOCL on account of supplying crude with higher BSW content, the company has tried to justify the same by terming it as a notional loss only. According to the company representatives during their deposition before the Committee, by offering such discounts the Company was able to bargain and get international parity price for the crude which was much higher than the crude oil price under the APM regime. Thus, it turned out to be a profitable proposition for ONGC to allow discounts particularly in view of the fact that upgradation or creation of infrastructure facilities for bringing down the BSW are long drawn processes integrated with many other process facilities involving huge investments.

After careful consideration of the Audit objections and the justification furnished by the Company, the Committee while giving some weightage to macro economic considerations adopted by the company, feel that despite claiming to have taken steps to upgrade their facilities for reducing the presence of basic sediments and water to below 0.2 percent, ONGC has not made adequate and timely efforts. This is evident from the fact that now even after a lapse of 5 years from the date of signing the MoU in February, 2003, some of the facilities of the Company have yet to achieve the desired international norm of BSW content. The Committee are of the opinion that having committed themselves to the task of attaining a BSW level of 0.2

percent, and that being the global norm, ONGC could have acted more promptly in upgrading their facilities to meet the stipulated quality of crude oil. The Committee, therefore, recommend that the company should enhance their efforts to achieve the desired BSW level uniformly across all its assets within the shortest possible duration and apprise the Committee of the progress made.

Recommendation No. 2

Failure to finalize the Crude Oil Sale Agreement (COSA)

The Committee note that the MoU entered into by ONGC with IOCL was effective for the period April, 2002 to March 2004 and thereafter it was to be replaced by 'crude oil sale agreement' (COSA) which is a guiding document in specifying crude oil price at a allowable limit of BSW. The COSA however could not be signed by the ONGC with the oil marketing Companies due to various persisting differences such as – government decision on sharing of under recoveries of downstream Companies, non-agreement on pricing method including quality aspects etc. As a result, the ONGC continued to supply crude oil under the terms and conditions of MoU signed in 2003 which otherwise stood expired in March, 2004. In this regard, the Committee note that the Ministry of Petroleum and Natural Gas on its part has advised the ONGC and the Oil Marketing Companies to sign COSA on mutually agreed commercial terms and conditions. The Committee have been informed that presently the draft agreement has been forwarded to the Oil Marketing Companies for negotiations.

The Committee are constrained to note that no sincere efforts have been made either by the company or the Ministry to have the agreement signed. In the opinion of the Committee, instead of blaming the Oil PSUs for not reaching a final agreement mutually, the Ministry of Petroleum and Natural Gas should have played an active and decisive role to take the matter to a logical conclusion. The Committee therefore recommend that the

**negotiations should be taken up in good earnest and the prevailing adhocism
be brought to an end at the earliest.**

**New Delhi
2 December, 2008
11 Agrahayana 1930**

**RUPCHAND PAL
CHAIRMAN
COMMITTEE ON PUBLIC UNDERTAKINGS**

ANNEXURE-I**14.7.1 Loss due to sale of crude oil containing basic sediments and water content above the norm**

Failure to upgrade and create facilities to contain the basic sediments and water content in the crude oil supplies within limits resulted in loss of revenue of Rs.96.96 crore.

Oil and Natural Gas Corporation Limited (Company) entered (April 2002) into a Memorandum of Understanding (MOU) with Indian Oil Corporation Limited (IOCL) for sale of crude oil from April 2002 to March 2004. The sale price was subject to discount at slab rates in case 'basic sediment and water' (BSW) content in the crude oil exceeded 0.2 *per cent* by volume. The MOU was to be replaced by 'crude oil sale agreement' (COSA), which however, was not signed and the Company continued to supply crude oil under the terms and conditions of the MOU (October 2007).

Till March 2002 when the administered price mechanism was dismantled, the admissible level of BSW in crude oil supplies was one *per cent* and the infrastructure facilities established by the Company were designed to meet this level. In the absence of adequate facilities to contain the level of BSW at 0.2 *per cent* or below, crude oil supplied by the Company from its western onshore field (North and South Gujarat) to IOCL contained BSW ranging between 0.212 *per cent* to 1.378 *per cent* during the period from April 2002 to April 2007 and IOCL received a discount of Rs.107.41 crore from the Company on this account.

Audit observed (November 2006) that though the Company had entered into the MOU in April 2002 requiring higher quality specifications of crude oil for realising full sale price, it did not upgrade its facilities in time to contain the level of BSW upto 0.2 *per cent* in the crude oil. Supplies of crude oil, in the five years following the signing of MOU, generally exceeded this bench-mark. The supplies from North Gujarat onshore during the period exceeded this limit in 57 of the 67 months from April 2002 to October 2007; and the BSW content in the crude oil supplies from South Gujarat onshore of the Company exceeded 0.2 *per cent* in 48 of the 58 months (from April 2002 to October 2007*). The Company* sustained loss of revenue of Rs.107.41 crore between April 2002 and October 2007 due to its failure to maintain the BSW level within 0.2 *per cent*. Audit observed that Eastern and Mumbai Regions of the Company also gave discount of Rs.53.32 crore to various refineries on account of high level of BSW in the crude oil during the period from April 2002 to September 2006. The Company initiated action for upgradation of its facilities in North Gujarat only in February 2004 by making a reference to its internal institute *viz.*, Institute of Oil and Gas Production Technology (IOGPT). The Company directed (December

*The Company was able to maintain BSW level within the agreed limit in the crude supplies from South Gujarat onshore during the period August 2006 to April 2007 by close monitoring, increasing the Report No. CA 11 of 2008 frequency of collection of samples and giving more retention time in the tanks for settling of water and reprocessing the bottom crude. However, the level of BSW exceeded 0.2 *per cent* from May 2007 to October 2007 (except June 2007).

2005) all Assets to take appropriate action to reduce BSW content. These instructions were reiterated in June 2006 and November 2006 due to continuing upward trend in discount allowed for BSW. As the corrective action was yet (October 2007) to be taken, the Company continued to sustain losses due to higher BSW levels.

The Management stated (May 2007) that in view of the high level of water content in crude oil, IOGPT conducted a study on a reference made by its Ahmedabad Asset and the Institute submitted its report in December 2004. However, before receipt of the report, action for construction of one 30,000 cubic metres tank had been initiated by the Asset which as per policy decision was referred to the Offshore Design Group, Baroda for preparation of bid document and cost estimates. Thus, the Company claimed, action had been taken to meet revised standards of BSW. The Ministry replied (November 2007) on similar lines. As regards Mumbai Region, the Ministry stated that in the given field conditions total BSW content could not be removed due to process limitations, both at offshore and at Uran plant but by and large offshore fields were able to maintain the BSW in the requisite range. In respect of Eastern Region, the total BSW content could not be removed due to process limitations. The Ministry added that the COSA could not be finalised due to various reasons. Pending fresh MOUs, existing arrangement was continued.

Reply of the Management/Ministry was not tenable, as even if we accept the claim that steps were initiated in time, fact remains that even after four years, the Company had not been able to maintain the stipulated level of BSW. The reference was made to IOGPT only in February 2004 *i.e.*, after two years from signing of MOU. Even after reckoning two years from April 2002 *i.e.*, the date of signing MOU, for upgradation of facilities, the facilities could have been put in place by April 2004 and the Company could have avoided the discount allowed to the extent of Rs.96.96 crore* from April 2004 to October 2007. Timely finalisation of COSA for replacing the MOU which expired in March 2004 would have provided an opportunity to the Company to review and, if possible, revise the stipulation of BSW and the attendant discount. The corrective action taken by the Management was not effective as BSW continued to be above stipulated level in all Regions.

Thus, after signing of MOU, the Company failed to take corrective action for reducing the BSW content in crude oil to the agreed level resulting in a loss of revenue of Rs.96.96 104 crore from April 2004 to October 2007. As the facilities were yet (September 2007) to be upgraded in all the Regions, the Company continued to sustain loss of revenue.

* * Gujarat: Rs.66.84 crore (April 2004 to October 2007); Eastern and Mumbai Regions: Rs.30.12 crore (April 2004 to September 2006) Report No. CA 11 of 2008.

ANNEXURE-II**MINUTES OF THE 3rd SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 2nd JUNE, 2008**

The Committee sat from 1315 hours to 1400 hours.

PRESENT**Chairman**

Shri Rupchand Pal

Members, Lok Sabha

- | | |
|----|--------------------------------|
| 2 | Shri Ramesh Bais |
| 3 | Shri Gurudas Dasgupta |
| 4 | Smt. Sangeeta Kumari Singh Deo |
| 5 | Dr. Vallabhbhai Kathiria |
| 6 | Shri Harikewal Prasad |
| 7 | Shri Kashiram Rana |
| 8 | Shri K.V. Thangkabalu |
| 9 | Shri Ram Kripal Yadav |
| 10 | Shri Mohan Rawale |

Members, Rajya Sabha

- | | |
|----|----------------------------|
| 11 | Shri R.K. Dhawan |
| 12 | Shri Sharad Anantrao Joshi |
| 13 | Shri Arjun Kumar Sengupta |

Secretariat

- | | | |
|---|------------------|----------------------|
| 1 | Shri S.K. Sharma | Additional Secretary |
| 2 | Shri J.P. Sharma | Joint Secretary |
| 4 | Shri N.S. Hooda | Deputy Secretary |
| 5 | Shri Ajay Kumar | Deputy Secretary-II |

Office of the Comptroller & Auditor General of India

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|----|--------------------|---------------------------------|
| 1. | Shri E.R. Solomon | Director General (Commercial) |
| 2. | Shri K.P. Sasidhar | Principal Director (Commercial) |

Representatives of Oil and Natural Gas Corporation Limited

- | | | |
|----|------------------|------------------------------|
| 1. | Shri R.S. Sharma | Chairman & Managing Director |
| 2. | Shri N.K. Mitra | Director (Offshore) |
| 3. | Shri P.K. Ghosh | GGM |

2. The Committee took oral evidence of the representatives of Oil and Natural Gas Corporation Ltd. (ONGC) in connection with examination of Para 14.7.1 of C&AG Report No. CA 11 of 2008 (Commercial) relating to loss due to sale of crude oil containing basic sediments and water content above the norm.

3. At the outset, the Chairman welcomed the representatives of ONGC and drew their attention to direction 58 of the Directions by the Speaker relating to evidence before the Parliamentary Committee. Then, the representatives of ONGC made a brief presentation on the subject before the Committee. Thereafter, Members raised queries on various issues pertaining to the subject. Clarifications on some of those issues were made by the representatives of ONGC. Information on some of the points raised by the Committee not readily available was, however, promised by them that the same would be furnished to the Committee Secretariat in due course.

4. The Chairman then thanked the representatives of ONGC for providing information on the subject matter as desired by the Committee.

5. The witnesses then withdrew.

6. A copy of the verbatim proceedings has been kept on record separately.

7. The Committee then adjourned.

MINUTES OF THE 12th SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 2nd DECEMBER, 2008

The Committee sat from 1430 hours to 1500 hours.

**PRESENT
Chairman**

Shri Rupchand Pal

Members, Lok Sabha

- | | |
|----|------------------------------------|
| 2 | Smt. Sangeeta Kumari Singh Deo |
| 3 | Shri Francis K. George |
| 4 | Shri Harikewal Prasad |
| 5 | Shri Kashiram Rana |
| 6 | Shri Mohan Rawale |
| 7 | Smt. Pratibha Singh |
| 8 | Shri Bharatsinh Madhavsinh Solanki |
| 9 | Shri K.V. Thangkabalu |
| 10 | Shri Ram Kripal Yadav |

Members, Rajya Sabha

- | | |
|----|----------------------------|
| 11 | Shri R.K. Dhawan |
| 12 | Shri Sharad Anantrao Joshi |

Secretariat

- | | | |
|---|------------------|---------------------|
| 1 | Shri J.P. Sharma | Joint Secretary |
| 2 | Smt. Anita Jain | Director |
| 3 | Shri N. S. Hooda | Deputy Secretary |
| 4 | Shri Ajay Kumar | Deputy Secretary-II |

Office of the Comptroller & Auditor General of India

Shri P.K. Mishra

Principal Director (Commercial)

2. The Committee considered two draft reports on the following subjects and adopted both without any modification:

- | | | |
|------|---|------------------|
| (i) | xxxxxxxxxxxxxxxx | xxxxxxxxxxxxxxxx |
| (ii) | Oil and Natural Gas Corporation Limited – Loss due to sale of crude containing basic sediments and water content above the norm” resulting in a loss of revenue of Rs. 96.96 crore. | |

3. The Committee authorized the Chairman to finalize the Report for presentation.
4. The Committee then adjourned.