

C.P.U.No.893

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**SEVENTH REPORT**

**COMMITTEE ON PUBLIC UNDERTAKINGS**

**(2005-2006)**

**(FOURTEENTH LOK SABHA)**

**ONGC – AVOIDABLE EXPENDITURE DUE TO CREATION OF  
EXCESSIVE HANDLING CAPACITY**

**MINISTRY OF PETROLEUM AND NATURAL GAS**

(Action Taken by the Government on the recommendations contained in the 8<sup>th</sup> Report of the Committee on Public Undertakings (13<sup>th</sup> Lok Sabha) on ONGC – Avoidable expenditure due to creation of excessive handling capacity)



Presented to Lok Sabha on 22.08.2005  
Laid in Rajya Sabha on 22.08.2005

**LOK SABHA SECRETARIAT  
NEW DELHI**

August 2005 / Sravana 1927 (S)

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# COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS

( 2005 – 2006 )

## CHAIRMAN

Shri Rupchand Pal

## MEMBERS, LOK SABHA

2. Shri Manoranjan Bhakta
3. Shri Gurudas Dasgupta
4. Shri P. S. Gadhavi
5. Shri Suresh Kalmadi
6. Dr. Vallabhabhai Kathiria
7. Smt. Preneet Kaur
8. Shri Sushil Kumar Modi
9. Shri Srinivas Patil
10. Shri Kashiram Rana
11. Shri Mohan Rawale
12. Shri Rajiv Ranjan Singh
13. Shri Bagun Sumbrui
14. Shri Parasnath Yadav
15. Shri Ram Kripal Yadav

## MEMBERS, RAJYA SABHA

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17. Shri Ajay Maroo
18. Shri Pyarimohan Mohapatra
19. Shri Jibon Roy
20. Shri Shahid Siddiqui
21. Smt. Ambika Soni
22. Shri Dinesh Trivedi

## SECRETARIAT

- |    |                   |                            |
|----|-------------------|----------------------------|
| 1. | Shri John Joseph  | Secretary                  |
| 2. | Shri S Bal Shekar | Joint Secretary            |
| 3. | Shri J.P.Sharma   | Director                   |
| 4. | Shri Ajay Kumar   | Assistant Director         |
| 5. | Shri Girdhari Lal | Senior Executive Assistant |

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to submit the Report on their behalf, present this Seventh Report on Action Taken by the Government on the recommendations contained in the Eighth Report of the Committee on Public Undertakings (Thirteenth Lok Sabha) on ONGC- Avoidable expenditure due to creation of excessive handling capacity.

2. The Eighth Report of the Committee on Public Undertakings (2002-2003) was presented to Lok Sabha on 28<sup>th</sup> April, 2003. Action Taken Replies of the Government to the recommendations contained in the Report were received on 12.4.2005. The Committee on Public undertakings considered and adopted this Report at their sitting held on 17<sup>th</sup> August, 2005. The Minutes of the sitting are given in Appendix – I.

3. An analysis of the action taken by the Government on the recommendations contained in the 8<sup>th</sup> Report (2002-03) of the Committee is given in Appendix -II

New Delhi:  
17 August, 2005  
26 Sravana 1927(S)

Rupchand Pal  
Chairman,  
Committee on Public Undertakings.

## CHAPTER 1

### REPORT

This Report of the Committee deals with the action taken by the Government on the recommendations contained in the Eighth Report (Thirteenth Lok Sabha) of the Committee on Public Undertakings (2002-2003) on "Oil & Natural Gas Corporation Limited" –Avoidable expenditure due to creation of excessive handling capacity which was presented to Lok Sabha on 28<sup>th</sup> April, 2003.

2. Action Taken notes have been received from the Government in respect of all the 10 recommendations contained in the Report. These have been categorized as follows :

(i) Recommendations/Observations that have been accepted by the Government :

Sl.Nos. 1,3,4,6,8 and 9 (Total 6)

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:

Sl. Nos. 2,7 and 10 (Total 3)

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:

Sl.No. 5 (Total 1)

(iv) Recommendations/Observations in respect of which final replies of the Government are still awaited :

NIL

3. The Committee will now deal with the action taken by the Government on the recommendation of the Committee relating to Inflexible Procedures.

## **RECOMMENDATION SL NO. 5 – INFLEXIBLE PROCEDURES**

4. Regarding the inflexible procedures of the Company, the Committee in their 8<sup>th</sup> Report recommended as follows:-

Apart from the inflexibility in the conceptual design of the GGS Plant, the Committee note that the amount expended or committed towards project related work as early as in 1992-93 was yet another significant reason for ONGC to continue with the construction work, despite the apparent low production at the field. The Committee observe that by mid June, 1993, apart from spending an amount of Rs.4.33 crore, the commitments made by the Company to various contractors and vendors amounted to Rs.11.18 crore. Considering the fact that a total amount of Rs.15.51 crore, which amounts to near about 86% of the total project cost of Rs.18.05 crore, was either already expended or committed by mid 1993 and major civil, electrical and related works of the project were also reportedly completed by this period, the committee are left to wonder as to what actually the progress of project execution was from 1993-94 to June, 2001, when the GGS plant finally became operational. The Committee desire that on this aspect ONGC should review their existing practices and procedures.

The Committee are also inclined to note that on account of the reasons discussed in the preceding paragraphs, that is, rigidity of design and project costs expended or committed, by 1993-94, ONGC was faced with a situation where it could not turn back from going ahead with implementing the project despite the big question mark on its utility. And, mainly as a consequential action the company sought to justify the utility of the project by inter-alia proposing usage of the GGS facility for handling 'well fluid' from the other oil fields located in the near vicinity.

5. In their action taken reply to the recommendation of the Committee, the Government have stated as follows:-

ONGC has clarified that Rs.4.33 crores was spent around June, 1993 and including this amount the overall total commitment was Rs.11.18 crores which is 61.94% of the total Project cost.

The advance action that resulted in committed amount was taken keeping in view the initial project completion schedule of Dec. 1993 which subsequently slipped due to various extraneous exigencies, beyond the control of ONGC. Also, committed expenses imply only firmed order placement and/or equipment being at various stages of deliveries. After material receipt, erection and commissioning works are taken up which requires lots of effort and time.

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The efforts of project Group were to complete the project within time and therefore, the initiatives. However, time slipped mainly on account of extraneous circumstances like killing, kidnapping, bandh, barricades, disturbed environment, interrupted power supply, lack of competitions, monsoon weather etc. and delays from repair/re-work in the works done by contractors with in-adequate tools and /or inexperienced manpower.

However, ONGC management has been advised to place the matter before its Board to review the existing practices and procedures so that avoidable commitments are not made in future and the project schedule are maintained in future.

6. Remarks of the office of the C&AG on the reply of the Government are as follows:-

In the Action Taken Note it has been inter-alia stated that ONGC's management has been advised to place the matter before its Board to review the existing practices and procedures so that avoidable commitments are not made in future and the project schedule are maintained in future". The relevant agenda , if any, placed before the Board and its outcome need to be intimated.

7. Comments of the Ministry on the remarks of the office of the C&AG are as follows:-

Due care will be taken to go for flexible type of design as and when need arises i.e whenever projects of similar nature are implemented.

As per existing practices and procedure, all the project schedules are closely monitored by ONGC through various control mechanisms at different levels and also by the Board and its Sub-Committee.

#### **COMMENTS OF THE COMMITTEE**

8. The Group Gathering Station (GGS) project with 1314 TPD capacity was planned to be constructed by ONGC at Demulgaon at a modest investment of Rs. 2.54 crore with the completion schedule of December, 1992. But, as against the original estimated cost and timeframe, the project was completed in December, 1999 and finally commissioned in June, 2001 with the actual cost

of Rs. 18.05 crore. The project was constructed keeping in view the production assessments made during the period 1987-1989 when the Company witnessed good production from the initially drilled wells. However, subsequently, the actual production at Demulgaon field was noticed below 300 TPD and as such the very utility of the project became questionable. In this regard, the Committee had observed that ONGC, by way of advance action procured machinery and equipments as well as acquired land for the project even prior to formal approval of the proposal by the competent authority. As a result, by mid June, 1993, apart from spending amount of Rs. 4.33 crore, the Company had made commitments towards project related works amounting to Rs. 11.18 crore. Since ONGC by way of advance action had already spent or committed the major portion of the total cost of Group Gathering Station project at Demulgaon, it became very difficult for ONGC to turn back from the project. The Committee, therefore, observed in their original report that such a situation had arisen because of the existing practices and procedures that permitted ONGC to take such an advance action on the project in question and there was no scope for mid-course correction. In view of this, the Committee had recommended ONGC to review their existing practices and procedures.

The Government in their action taken reply have inter-alia submitted that ONGC management has been advised to place the matter before its Board to review the existing practices and procedures so that avoidable commitments are not made in future and the project schedules are maintained. However, about the actual review of the relevant practices and procedures by the Board, ONGC is totally silent in its reply to an Audit query



or this aspect. This shows that the Committee's recommendation has not been seriously addressed to by the management of ONGC despite the advice of the Ministry of Petroleum and Natural Gas. The Committee while reiterating their recommendation, strongly deprecate the vague reply of the management and desire that a proper review of the existing practices and procedures should be immediately undertaken so that such instances do not recur in future.

## CHAPTER II

### RECOMMENDATION THAT HAVE BEEN ACCEPTED BY GOVERNMENT

#### RECOMMENDATION (SL. NO. 1) – ABANDONMENT OF INITIAL PROPOSAL

The Committee feel constrained to note that ONGC could not give any substantive or viable reasons for shelving the initially formulated proposal of January, 1988, whereby the GGS was planned to be constructed at Demulgaon at a modest investment of Rs.2.54 crore by ensuring utilization of materials available with the company to the optimum extent. The project, as planned, involved a modular designing of the production facility whereby additional production modules could be added on as per requirement and would have ideally suited the 'developing oil field' of Demulgaon. But this was shelved ostensibly owing to non-availability of land. Despite the pointed questioning by the Committee on the details of the GGS project planning as carried out at first and the reasons for shelving the proposal, ONGC could only add that apart from 'non-availability of land', certain operating constraints envisaged too resulted in giving up this proposal. Given the submissions made, the Committee are inclined to believe that no serious follow up action or 'working' was carried out on the initially conceived proposal of January, 1988 to construct a 'modular based' GGS at a minimal cost and time-frame. This also becomes apparent from the fact that ONGC did not face any problems or constraints in acquiring a much larger quantum of land required for constructing the more modern and full-fledged GGS that the company subsequently opted for in the same year, that is 1988, in lieu of the initially conceived project plan. The Committee desire that ONGC in future should exercise due care in formulation of projects of this nature so that wasteful expenditure is avoided.

#### REPLY OF THE GOVERNMENT

The Study Team constituted by Ministry of Petroleum & Natural Gas had, inter-alia recommended that a modular approach should be considered that should have the provisions for mid-course corrections, if needed, especially when level of confidence of production profile is not very high. ONGC has decided to implement the recommendation of the Study Team. This will ensure that due care is exercised in future in the formulation of projects of this nature where level of confidence of production profile is not very high.

(Ministry of Petroleum & Natural Gas, O.M. No. O-27012/12/2002-ONG/US(EO) dated 15.6.2004)

## **Audit remarks on the reply of the Government**

Steps taken to implement the recommendations of the study team need to be communicated to the audit to watch compliance in future.

## **Comments of the Ministry on the remarks of the office of the C&AG**

Lessons learnt from the case of construction of Demulgaon GGS and subsequent recommendations of the COPU and the Study Team constituted by MOP&NG have been duly taken care in the case of projects like CMG-EPS, Safrai EPS, Laiplinggaon, Banmali etc. These projects, which have gone on stream in last 2-3 years, were handled with a balanced approach as suggested by the Study Team. As indicated in the reports by COPU and the Study Team, the dynamics of E&P, which has been beset with a large number of imponderables and uncertainties, future prediction for field performance has been duly taken care of with reliable test data from subsurface and surface teams at Assam Asset. Though these fields are quite promising one, however due care was taken and it was decided to use in house resources till the potential of the fields is well established. ONGC is continuously monitoring these fields and taking judicious decisions at the right juncture.

(Ministry of Petroleum & Natural Gas, O.M. No. O-27012/12/2002-ONG/US(EO) dated 12.4.2005)

## **RECOMMENDATION SL. NO: 3 - PRACTICE OF DIVIDING JOBS FOR PROJECT EXECUTION**

The Committee note that there are certain inherent contradictions or inconsistencies in the reasons attributed by ONGC for the cost escalations and delays in executing the GGS project as formulated by EIL in 1989. While the Company has informed that it was after giving sufficient thought to the conditions prevailing in the area that it was decided to break up the scope of work of the project into 'small independent packages' to enable the construction of the plant in an effective manner, this very factor of packaging the work into separate bits has also been shown to have contributed significantly to the subsequently witnessed effect of cost escalations and delays in implementing the project. The Committee feel that ONGC should have been more forthright and clear in giving their explanations in this regard.

The Committee also observe that as per the comprehensive project plan formulated by EIL, implementation of the GGS project was envisaged to be completed by December, 1993 on Lump sum Turnkey (LSTK) basis. Yet, ONGC chose not to issue a tender for implementing the project on turnkey basis and instead decided to adopt, what has been termed by the Petroleum Secretary as an 'unusual route' of breaking up the work involved into 80 small independent packages due to doubts about a single contractor being able to do the turnkey job

in the Eastern Region in view of the disturbed conditions prevailing at that time'. The Committee feel that had ONGC attempted and succeeded in executing the GGS project by adopting the accepted and convenient method of 'turnkey basis' followed for such comprehensive projects, the effect of cost escalations, delays and technical snags witnessed in implementing the project could have possibly been minimized or avoided. The Committee, therefore, recommend that ONGC should revise their strategy for project implementation in the light of the experience gained in this specific project.

### **Reply of the Government**

ONGC has submitted that the decision to split LSTK project had to be taken in view of the then prevailing environment in Assam and has noted the Committee's recommendations for strategy for future works that ONGC should revise their strategy for project implementation in the light of the experience gained in this specific project for compliance. ONGC has decided to keep in full focus the lessons learnt in this project while implementing other projects in future.

(Ministry of Petroleum & Natural Gas, O.M. No. O-27012/12/2002-ONG/US(EO) dated 15.6.2004)

### **Audit remarks on the reply of the Government**

Specific steps taken to implement recommendations need to be intimated to audit to watch the compliance.

### **Comments of the Ministry on the remarks of the office of the C&AG**

ONGC is firmly of the same view as expressed by COPU in its 8<sup>th</sup> report and by the Study Team that we should follow "turn key" model while implementing the projects of this nature. LSTK is a world wide accepted, convenient and cost effective model. Prudent technical and economical norms suggest that we should go for LSTK model to the maximum extent possible. Hence every effort is being made to follow the same in the case of installation of new LP compressors at various GGS and also for revamping of various facilities at Assam Asset through EOI on LSTK concept basis and same concept shall be followed in future projects also.

(Ministry of Petroleum & Natural Gas, O.M. No. O-27012/12/2002-ONG/US(EO) dated 12.4.2005)

## **RECOMMENDATION (SL. NO: 4) - NEED TO ADOPT PROJECT DESIGNS TO ENABLE MID COURSE CORRECTION**

The Committee note that ONGC had undertaken a number of studies on the performance behaviour and production profile of Demulgaon field at different points of time right from 1985. The inputs as well as findings of the studies carried out varied every time and these variations have been attributed to the inherent trait of the business of exploration and production which is wrought with uncertainty. Whereas the good production witnessed from the initially drilled wells and the production assessments made in the period 1987-89 may have possibly prompted ONGC to opt for constructing a 1,000 TPD capacity GGS at first and then raise the capacity to 1314 TPD in respect of the re-conceptualized GGS of 1989, in the years that followed it became very apparent to the Company that the actual production at Demulgaon would be in the range of about 300 TPD of oil on an average, thereby resulting in a huge mismatch between the production profile and handling capacity of GGS plant being built. The Committee, in this regard, observe that it was mainly the inherent inflexibility in the conceptual design of the project which envisaged a 'single train' or module' for handling a capacity of 1314 TPD of oil that hindered ONGC from turning back from implementing the project or making alternative arrangements when its utility became questionable. The fact that the designing of the project did not leave any scope for mid-course corrections in the handling capacity in view of the low or receding production profile at the field was pointed out by the CMD, ONGC in the course of evidence and also brought out in very clear terms by the Expert Team subsequently constituted by the Ministry of Petroleum & Natural Gas to factually comment on the observations made by Audit. Given the fact that ONGC is well aware of the imponderable nature of reservoir assessment or performance, the Committee feel that adequate care should have been taken at the designing stage of the GGS Plant to leave scope for mid-course corrections, which would have prevented the eventually witnessed situation of mismatch between capacity of the plant and actual requirements at the oil field. The Committee, in this regard, also trust that, in future, ONGC would give the deserved consideration to the recommendation made by the Expert Team on the need to adopt a modular approach of design- with provisions for mid-course corrections, as needed- especially in situations where the level of confidence or certainty of future production profile was not very high, as proven in the case of Demulgaon field.

### **Reply of the Government**

ONGC has decided to implement the recommendations of the Study Team, constituted by MOPNG regarding modular approach wherever feasible for new projects of similar nature.

Further, ONGC has clarified that GGS Demulgaon has been constructed in the form of two trains, each with 900 m<sup>3</sup>/d liquid handling capacity. These trains

together can handle total 800 to 1500 m<sup>3</sup>/day (700 to 1314 TPD) of oil, depending on water content in the liquid coming from wells.

If the cost of base case, i.e. two trains of 900 m<sup>3</sup>/day is considered as 100, the cost of 3 trains of 600 m<sup>3</sup>/day would be about 10% higher and that of 4 trains of 450 m<sup>3</sup>/day each would be about 20% higher. The percentage investment for the first two trains, of 600 and 450 m<sup>3</sup>/day each, would be 80 and 72 respectively.”

Therefore, the cost saving with smaller trains in GGS Project could have been in the range of 20 to 28%. The cost saving in the project, which cost Rs.18.05 crore could have been of the order of 3.5 to 5 crores. But, this saving would have reduced the flexibility of handling extra liquid, which was conceptualized during the design stage.

(Ministry of Petroleum & Natural Gas, O.M. No. O-27012/12/2002-ONG/US(EO) dated 15.6.2004)

#### **Audit remarks on the reply of the Government**

Instructions, if any passed on to executives to implement the recommendation of study team need to be supplied to audit to watch the implementation.

#### **Comments of the Ministry on the remarks of the office of the C&AG**

The recommendations no. 4.1.1, 4.1.2, 4.1.3 and 4.1.4 of the Study Team (In both the Recommendations no.4 & 6 of COPU have stated to follow these) have been followed diligently and rigorously in respect of subsequent projects at CMG-EPS, safari EPS, Laiplinggaon, Banmali etc. Though these fields were found to be quite promising but in view of lessons learnt from Demulgaon GGS, creation of temporary surface production handling facilities were done (Completely in line with various recommendations of Study Team). In future depending on requirement modular approach as suggested by study team and endorsed by COPU would be followed and implemented.

(Ministry of Petroleum & Natural Gas, O.M. No. O-27012/12/2002-ONG/US(EO) dated 12.4.2005)

## **RECOMMENDATION (SL. NO. 6) -NEED TO IMPLEMENT RECOMMENDATIONS OF EXPERT TEAM**

In response to the Committee's specific questioning on whether the Company had considered shifting the GGS plant related equipment procured to some other site or location when the utility of setting up the plant at Demulgaon became questionable, ONGC has categorically informed that such a proposition was not considered to be feasible inter-alia owing to considerations of costs. The Committee, in this regard, observe that the Expert Team constituted by the Ministry have made a pertinent suggestion emphasizing on using 'modular skid counted GGS facilities' with capacity varying from 500 to 1000 m<sup>3</sup>/day, that were easily transportable and hence have the added advantage of being 're-located from location to another depending on requirements'.

Also, in regard to issues pertaining to Exploration and Production(E&P) business per-se, the Committee observe that the Expert Team had, while pointing out that this was a field beset with a large number of imponderables and uncertainties, also stressed on the extreme importance of basing predictions of field performance on reliable and prudent data which was matched with history. This exercise, coupled with usage of state-of-the-art technologies and skilled/experienced multidisciplinary team efforts have been pointed out to be a great facilitator in making judicious assessment of future production behaviour'. The Committee feel that if ONGC had given adequate attention to these aspects- usage of modular skid mounted and transportable units and undertaking measures for ensuring a judicious assessment of production profile- the situation of looking for alternate routes for making a prudent usage of the GGS plant capacity built at Demulgaon could perhaps, have been avoided. The Committee, however, trust that the suggestions made by the Expert Team in this regard would be given due consideration by ONGC in implementing their projects in future.

### **Reply of the Government**

ONGC has decided to implement the recommendations of the Study Team, constituted by the Ministry of Petroleum and Natural Gas. It has also clarified that state-of-art hardware and software for reservoir studies are under process of procurement. Multi-Disciplinary Teams (MDT) have been kept in place for making judicious production assessment.

(Ministry of Petroleum & Natural Gas, O.M. No. O-27012/12/2002-ONG/US(EO) dated 15.6.2004)

## **Audit remarks on the reply of the Government**

A copy of the Instructions issued to the executives for application of study team's recommendation need to be sent to audit to watch the implementation.

## **Comments of the Ministry on the remarks of the office of the C&AG**

The recommendations no. 4.1.1, 4.1.2,4.1.3 and 4.1.4 of the Study Team (In both the Recommendations no.4 & 6 of COPU have stated to follow these) have been followed diligently and rigorously in respect of projects at CMG-EPS, safari EPS, Laiplinggaon. Banmali etc. Though these fields were found to be quite promising but in view of lessons learnt from Demul GGS, creation of temporary surface production handling facilities were done (Completely in line with various recommendations of Study Team) In future depending on requirement modular approach as suggested by study team and endorsed by COPU would be followed and implemented.

(Ministry of Petroleum & Natural Gas, O.M. No. )-27012/12/2002-ONGC/US(EO) dated 12.4.2005)

## **RECOMMENDATION (Sl. NO: 8) - NEED TO REVIEW THE PROJECT MONITORING SYSTEM IN THE MINISTRY**

The Committee note that ONGC, being a 'Navratna' company, the Ministry of Petroleum & Natural Gas play an active role only in overseeing/monitoring implementation of the Company's mega projects with an investment in excess of Rs.100 crore. In the case of projects with smaller investments, such as the Demulgaon GGS project, the monitoring role of the Ministry is mainly confined to Quarterly Performance Review (QPR) meetings and the role played by the Government Directors, including the Ministry's nominees, on the ONGC Board and the Company's Sub-Committee on project appraisal. In regard to the observations made by Audit on the Demulgaon GGS project per-se, the Committee, however, note that it was only after they became seized of the matter that the Ministry got into the pro-active mode of constituting a Study/Expert Team to factually comment on the Audit Observations and to suggest remedial steps to ensure that such happenings, as witnessed in the case of Demulgaon GGS project, do not recur. The Committee feel that had the Ministry undertaken this exercise of constituting a fact finding team beforehand, precious time could have been saved in settling the issues raised by Audit and also contributed positively in ensuring more effective project implementation mechanisms. The Committee also observe that the Study Team has, in its report, not only factually commented on the Audit Observations but also made many recommendations of significance on the methodologies to be followed in project implementation, some of which have been dealt upon at length by the Committee. The Committee note that the Ministry has instructed ONGC to take



remedial measures as suggested by the Study team. The Committee desire that action should be taken by the Company within a definite time frame in this regard and the details should be communicated to the Committee. The Committee recommend that the Ministry of Petroleum and Natural Gas should also review the system of monitoring the projects with a view to further streamlining its methodology.

### **Reply of the Government**

ONGC has noted the recommendations of the Study Team that are mainly for reserve estimation and for creation of infrastructure facility like GGS which are on going and long term proposition (on need basis) respectively.

The Ministry of Petroleum & NG reviews the projects costing more than Rs. 100 crores through Quarterly Performance Review (QPR) route. However Ministry will introduce special exception reporting in respect of the projects costing less than Rs. 100 crores so that any major slippages even in such projects are expeditiously addressed.

(Ministry of Petroleum & Natural Gas, O.M. No. )-27012/12/2002-ONGC/US(EO) dated 15.6.2005)

### **Audit remarks on the reply of the Government**

A copy of special exception reporting method, if any, introduced by the Ministry in respect of projects costing less than Rs. 100 crores need be supplied to examine the adequacy of the action taken.

### **Comments of the Ministry on the remarks of the office on the C&AG**

ONGC is already following all the recommendations of Study Team as well as COPU and taking all precautions while implementing projects. The projects are being implemented with balanced approach and with continuous monitoring at the highest level (both at the regional and HQ level)

This is already monitoring projects of more than Rs 100 crore for which a Ministry Monitoring Cell has been set up in Engineers India Limited (EIL). It has now been decided to generate a special exception report in respect of projects under Rs 100 crore also, so that major slippages can be addressed.

(Ministry of Petroleum & Natural Gas, O.M. No. )-27012/12/2002-ONGC/US(EO) dated 12.4.2005)

**RECOMMENDATION (SI. NO: 9) - NEED TO STRENGTHEN MONITORING MECHANISM OF ONGC**

Although ONGC have informed that the Demulgaon GGS Project was monitored by the Exploration Production and Project Monitoring Committee (EPPMC) of the Company which comprises of the CMD, Functional Directors and other key executives, mainly on account of the fact that the process of implementing the project spanned over a decade, involved significant cost escalations and also resulted in huge mismatch between the oil field requirements and the handling capacity of the plant, the Committee are inclined to believe that there were serious shortcomings in the project monitoring mechanisms adopted. Also, there was no concrete evidence produced before the Committee to show that the work progress on the project was monitored at regular intervals and corrective measures taken, as needed. Despite the fact that the situation prevailing in the region was not conducive during the construction phase of Demulgaon GGS, the committee feel that there is a imperative need to strengthen monitoring mechanisms adopted by ONGC, particularly in respect of projects of not 'very high' or significant value or investment as the Demulgaon GGS Project. This, the Committee feel, is all the more essential particularly on account of the current scenario where ONGC does not enjoy a monopoly in the business of oil and gas exploration and production. The Committee also wish to be apprised of the measures taken by ONGC in this direction.

**Reply of the Government**

ONGC has resubmitted that monitoring mechanisms have been further strengthened. The Projects are reviewed in Virtual Corporate Meetings(VCM) at the region . The Heads of all the Groups including Service Groups of the Asset attend the VCM which is chaired by the Executive Director-Asset Manager(who is the head of the Asset).

Since the present prevailing situations are not so adverse, the projects are being taken up on turnkey basis. In some cases major equipment is being procured and supplied to the turnkey contractor, as free issue material, for installation and commissioning.

(Ministry of Petroleum & Natural Gas, O.M. No. )-27012/12/2002-ONGC/US(EO) dated 15.6.2005)

**Audit remarks on the reply of the Government**

No comments

**Comments of the Ministry on the remarks of the office on the C&AG**

No additional information.

(Ministry of Petroleum & Natural Gas, O.M. No. )-27012/12/2002-ONGC/US(EO)  
dated 12.4.2005)

## CHAPTER III

### RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

#### RECOMMENDATION (SI. NO 2) - HIGHER ORIGINAL COST ESTIMATES

The Committee note that as per the re-conceptualized scheme of implementing the GGS project, as worked out by Engineers India Limited (EIL) in July, 1989, a full-fledged energy efficient plant- with additional and modern facilities and utilities which were lacking in the initially conceptualized GGS- was planned for implementation at an estimated cost of Rs.16.46 crore. This proposal was examined and approved by ONGC's Competent Authority for implementation at a cost of Rs.13.82 crore in June, 1991. While the big difference in the cost estimates of Rs.2.54 crore in respect of the initially conceptualized GGS project of January, 1988 and Rs.16.46 crore in respect of the subsequently planned technically advanced project formulated by EIL is understandable, what surprises the Committee is the fact that the Company's management resorted to initiating advance action for procuring machinery and equipment as well as acquisition of land for the project even prior to the formal approval of the proposal by the Competent Authority. The Committee are of the considered view that resorting to such measures, even if intended to save time and adhere to project schedules would have the effect of rendering the established norms and rules relating to clearances of projects and cost estimates relating thereto meaningless. Also, as the events that followed showed the completion schedule of December, 1993 for implementing the re-formulated project could not be adhered to and an additional amount of Rs.5.78 crore (over and above the approved amount of Rs.13.82 crore) had to be sanctioned for enabling its completion.

Yet another issue that deserves to be brought to light in this regard is that no satisfactory explanation was forthcoming from ONGC on the observation made by Audit on the difference between the cost estimates and actual cost of many of the project related equipments procured being of a very high order. The Department has to take strong action in this regard and the inadequacies in the law and the procedures in taking action may be taken care of and the details may be intimated to the Committee. This also applies to the observation about the cost estimates of Demulgaon GGS being much higher than the revised cost estimates of a comparable ongoing project of ONGC viz. GGS cum STF of North Santhal. The Committee expected a detailed explanation from ONGC on these aspects of the observations made by Audit.

## REPLY OF THE GOVERNMENT

In the context of the observations of the Committee that resorting to initiating advance action for procuring machinery and equipment as well as acquisition of land for the project even prior to formal approval of the proposal by the competent authority, would have the effect of rendering the established norms and rules relating to clearances of projects and cost estimates relating thereto meaningless. ONGC has clarified that Project Team is mandated that first oil on commercial scale from a field is realized without loss of undue time. For this purpose ONGC has in-built technical and managerial mechanisms for bringing new fields on steam at the earliest. Technical mechanisms for realizing early first oil are temporary Well Head Installations (WHI) and Early Production Systems (EPS). Finally the full fledged infrastructure is created in the form of Group Gathering Stations (GGS) which takes time to construct. On the managerial front, when the project proposals are first put-up for the consideration of the management, it is examined from the requirement point of view and if project requirements are established, "Administrative Approval" can be granted by the competent authority prior to "Financial Concurrence & Cost Sanction", in case scope for project cost reduction is envisioned by the reviewing and approving authorities and thus, enabling advance action by the respective Project Group. Simultaneously, cost implications are analyzed from various angles with a view to minimize financial implication and thus, improving the project economics. Once these exercise are completed, 'Financial Concurrence & Cost Sanction' is granted.

According to ONGC, in the instant case of GGS-Demulgaon also the project proposal was cleared by the Region and sent to HQs for sanction as project schedule was short and in order to avoid delay in execution the advance initiate had to be resorted to. The approval for going ahead with advance actions, of procurement and land acquisition, was accorded by the highest decision making Finance Authority in ONGC, viz. Member (Finance) and endorsed by the Chairman with the direction that revised cost (with a view to lower the cost) be put for approval which was eventually done. This type of decision-making practice is a well-established management norm and also, happens to be project friendly. The Ministry is in agreement with ONGC only to the extent that there is a need of commercial production from a new field without the loss of undue time. The Ministry agrees with the Committee that initiating advance action without formal approval of the proposal by the competent authority is not desirable. Any change in the extant management norm of ONGC necessitates review of the existing delegation of powers in ONGC. However, ONGC being a Navratna company that have been delegated investment making decision powers, the matter of review of delegation of power has to be considered by ONGC Board. The Board can review the extent to which the advance action could be permitted and subject to what conditions. Management is being advised to place this matter before its Board for appropriate directions on revision of delegation of powers.

In the context of the observations of the Committee that detailed explanation may be given by ONGC on huge differences between cost-estimates and actual cost of related equipments processed by GGS Demulgaon Project, ONGC has indicated the item-wise cost break-up as under:-

(Rs. In lakhs)

S.N	WORK	ORIGINAL sanctioned COST	REVISED sanctioned COST	ACT. EXP.
1.	Engineering	85	80.80	76.96
2.	Separators	20.7	18.58	18.58
3.	Oil Pump sets	37.7	32.03	30.31
4.	Heater Treaters	105.2	102.70	89.84
5.	DIDC- Digital Control	54	104.76	119.08
6.	Balance equipment	194.5	206.21	188.70
7.	Pipes/Valves/fittings	152.4	309.00	308.76
8.	Civil works	252.02	349.34	338.67
9.	C&M works & Tanks	150.1	220.01	217.18
10.	Electrical works	139	245.52	205.53
11.	Instrumentation work	161	218.41	164.67
12.	Land	30	44	44
13.	Misc.		28.62	2.22
	Total	1382	1960.00	1804.50

ONGC has clarified that the cost of major items was well below duly sanctioned the revised cost estimates except for DIDC. The increase in cost of the DIDC was mainly due to rupee devaluation and addition of certain features as per detailed engineering.

Further, the differences between the original sanctioned cost and revised sanctioned cost have been explained as under:-

“The Demulgaon-GGS project was conceived on LSTK basis for early completion. However, local situation in Assam deteriorated due to increase in militancy around this time and suspected ULFA militants abducted 6 ONGC officers. Two employees were killed. The other four officers were rescued/ released. This created panic and demoralization among all ONGC employees especially the non-local officers. ONGC operation got badly disrupted, field work especially suffered. In view of the prevailing situation, no contractor was ready to work on LSTK basis. There was no option but to split the work into small contracts which were awarded to local firms. The project execution for GGS-Demulgaon was necessarily slow and several contracts had to be re-tendered. The situation was further worsened when in 1994, ONGC’s rig in Nagaland was burnt and in 1995 one of the local contractors was kidnapped thereby affecting the work. These series of local law and order crises continued to have adverse affect on ONGC’s personnel and operations. Due to adverse environmental problems and resultant splitting of LSTK project, the estimates were revised and additional sanction for Rs.5.78 crores was obtained (total revised sanctioned cost, thus became Rs.19.60 crores). The project was finally completed at a cost of Rs.18.05 crores

### **Audit remarks on the reply of the Government**

Whether proposal to review the delegation of powers has been submitted to the ONGC Board and the extent to which the advance action permitted and subject to what conditions, need to be communicated to audit to give further comments on action taken.

Against this, audit agrees with the comments made by Committee in Recommendation No. 3. Suggestion made need implementation.

### **Comments of the Ministry on the remarks of the office on the C&AG**

As per normal approved methodology, the Administrative Approval (AA) is sought first before Expenditure Sanction (ES). After preparation of estimates by EIL, the then Member (Finance) recommended re-examining cost estimates and to go ahead for placing order for long lead items keeping in view time bound schedule. AA was accorded at Chairman’s level as per the set procedures. The same is in line with the delegation of power as contained in the “Book of Delegated Powers” (BDP) for various functions. All investment proposals are evaluated before they are approved by the Competent Authority as defined in the BDP. The BDP is amended

from time to time to keep pace with the organization's goal and structure. The last amendment was made in July'2004 as approved by Board of Directors.

(Ministry of Petroleum & Natural Gas, O.M. No. - 27012/12/2002-ONGC/US(EO) dated 15.6.2004)

### **RECOMMENDATION (SI. NO: 7 ) - NEED TO FURNISH CORRECT INFORMATION**

A particularly disturbing aspect noticed has been the tendency adopted by ONGC in not furnishing complete factual details/information sought by the Committee on the basis of certain observations made by Audit or furnishing the information desired in incomplete or uncertain terms. While the committee had sought complete details as well as clarifications on the doubts reportedly expressed by the Eastern Regional Business Centre (ERBC) of the Company in 1993 on the utilization of the 1314 TPD capacity GGS being built in view of the receding production profile – an observation made by Audit – ONGC has been categorical in stating that the Regional Centre had, at no point of time expressed doubts that the project would not be utilized to its optimum level in the long run'. The Audit, in this regard, has subsequently reiterated that the information furnished by ONGC on the matter was not correct, particularly in view of the fact that the Eastern Regional Centre's doubts on the utility of the project were recorded in their files relating to the project. Also, the Report of the Expert Team constituted by the Ministry later has brought out the factual aspects of the matter in a more forthright manner, according to which, in 1993, when the case for approving an investment in excess of the earlier approved amount of Rs.13.82 crore was being processed the Senior DD(F&A), ERBC had raised 'doubts regarding capacity utilization of the GGS at Demulgaon'. The Committee strongly deplore the stance adopted by ONGC in not furnishing the details of the matter as sought for and demand an explanation in this regard. As desired in an earlier para, the Committee expect to be furnished with full details of the doubts expressed by the Eastern Regional Centre in 1993 on the utility of the GGS plant, the management level at which this aspect was considered and the action taken thereon, particularly in regard to deciding on the prospects of the GGS project.

### **REPLY OF THE GOVERNMENT**

ONGC has now furnished full details about the doubts expressed by Eastern Regional Centre in 1993 on utility of GGS Plant as follows:-

"The project proposal was initiated based on EIL estimates at Rs. 16.46 crores in July'1989 which was approved by the Member(O)/Member(F)/Chairman for Rs.13.82 crores in June'1991. Till this time there were no notings of doubt from finance. Subsequently, in May, 1993, a case for additional expenditure of Rs. 8.02 crores was initiated by the project group wherein Sr.Dy.Director(F&A) has noted on 23.6.1993 as under:



“The possibility that the GGS, Demulgaon, capacity will not be utilized to its optimum capacity seems to be a real problem. But when the project is half way through there cannot at this stage be any break in expenditure. A Symmetry has got to be found by accelerated phase of drilling so that sufficient input is available for the GGS when it comes into being. Against this background, the proposal for additional sanction of Rs.802.00 lakhs is concurred in associated finance of OBG. This being a long term plan, kind approval of Chairman will be required for the proposal.

ONGC has therefore re-submitted that the above notings clearly brings that while expressing doubt, the concerned officer himself has also expressed that accelerated drilling should be carried out so that sufficient input is available for the GGS when it comes into being. Accordingly, the proposal along with above notings was put up to Additional Director (F&A) and GM(F&A) who were higher in the Finance hierarchy within the Region. The required pay-back periods and economics including IRR and ERR were worked out. GM(F&A) had then desired that Agenda Note for Executive Committee (EC) may be put up and sent to HQs. The Regional Director who heads the Region endorsed this decision. Accordingly, the Agenda Note was prepared and sent to HQs where it was again examined. Based on which certain facilities were deleted and additional reduced sanction for Rs.5.78 crores was sought from the EC which was approved. Thus, the total project cost sanctioned was Rs.19.60 crores (13.82 + 5.78).

From the foregoing ONGC has concluded that the Finance officer who expressed the doubt himself has also expressed that accelerated drilling should be carried out so that sufficient input is available for the GGS when it comes into being. Region headed by the Regional Director(RD) in consultation with associated finance, GM(F&A) were satisfied with the proposal and have cleared the proposal for the considerations of the HQs. HQs after due examination has sanctioned the reduced additional cost of Rs.5.78 crores.”

(Ministry of Petroleum & Natural Gas, O.M. No. - 27012/12/2002-ONGC/US(EO) dated 15.6.2004)

### **Audit remarks on the reply of the Government**

The decision of EC and its implementation would be scrutinized in future.

## **RECOMMENDATION (SI. NO: 10) - NEED TO STEP UP PRODUCTION IN NORTH EAST**

The Committee observe that as of now, production at Demulgaon field is to the extent of 350 m<sup>3</sup>/day, with the percentage utilization of the 1314 TPD of oil GGS Plant built at the field being in the range of 30 to 40 per cent. With a view to increasing the utilization capability of the plant to the level of about 70 per cent, ONGC has reportedly chalked out a strategy which inter-alia involves enhancing the production at Demulgaon by another 200 m<sup>3</sup>/day of liquid and diverting well fluid of about 450m<sup>3</sup>/day from the adjoining marginal fields of Charali and Changmaigaon. The exercise, when completed, is expected to increase the handling capacity of the Demulgaon GGS to 1,000 m<sup>3</sup>/day of liquid. The Committee also understand that in addition, ONGC proposes to divert the well fluid presently handled at the ageing GGS facility at the nearby Lakwa field for processing at the newly built energy efficient GGS facility at Demulgaon, which would lead to a further enhancement in the handling capacity of the plant. The Committee trust that in addition to taking expeditious measures to give effect to this strategy for increasing the handling capacity of Demulgaon GGS, ONGC would also take appropriate action for giving a fill up to exploration and production activities in the prospective belt of the North Eastern Region. The Committee would also like to be kept apprised of the progress made on this front.

### **REPLY OF THE GOVERNMENT**

ONGC has clarified that actions are already in hand to bring oil from Charali and Changmaigaon fields to Demulgaon GGS. This activity will be completed shortly.

Further, Demulgaon, Charali, Changmaigaon areas are rated as highly prospective and are under focused exploration activities. The areas have been covered by 3D seismic surveys and based on this, generation of prospects is in progress. In the last two years, four exploratory wells drilled in this area, viz.: NZ#2, CA-24 and DML -32 & 33 have proved to be hydrocarbon bearing, the exact potential of which are being established. Further, more locations for drilling will be generated depending on the results of 3D surveys and exploratory drilling already done.

(Ministry of Petroleum & Natural Gas, O.M. No. - 27012/12/2002-ONGC/US(EO) dated 15.6.2004)

### **Audit remarks on the reply of the Government**

The results of action taken on this would be watched in the Propriety Audit of the Project.

**Comments of the Ministry on the remarks of the office on the C&AG**

Noted.

(Ministry of Petroleum & Natural Gas, O.M. No. - 27012/12/2002-ONGC/US(EO)  
dated 12.4.2005)

## CHAPTER IV

### RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

#### RECOMMENDATION (SI. NO: 5) - INFLEXIBLE PROCEDURES

Apart from the inflexibility in the conceptual design of the GGS Plant, the Committee note that the amount expended or committed towards project related work as early as in 1992-93 was yet another significant reason for ONGC to continue with the construction work, despite the apparent low production at the field. The Committee observe that by mid June, 1993, apart from spending an amount of Rs.4.33 crore, the commitments made by the Company to various contractors and vendors amounted to Rs.11.18 crore. Considering the fact that a total amount of Rs.15.51 crore, which amounts to near about 86% of the total project cost of Rs.18.05 crore, was either already expended or committed by mid 1993 and major civil, electrical and related works of the project were also reportedly completed by this period, the committee are left to wonder as to what actually the progress of project execution was from 1993-94 to June, 2001, when the GGS plant finally became operational. The Committee desire that on this aspect ONGC should review their existing practices and procedures.

The committee are also inclined to note that on account of the reasons discussed in the preceding paragraphs, that is, rigidity of design and project costs expended or committed, by 1993-94, ONGC was faced with a situation where it could not turn back from going ahead with implementing the project despite the big question mark on its utility. And, mainly as a consequential action the company sought to justify the utility of the project by *inter-alia* proposing usage of the GGS facility for handling 'well fluid' from the other oil fields located in the near vicinity.

#### **Reply of the Government**

ONGC has clarified that Rs.4.33 crores was spent around June, 1993 and including this amount the overall total commitment was Rs.11.18 crores which is 61.94% of the total Project cost.

The advance action that resulted in committed amount was taken keeping in view the initial project completion schedule of Dec. 1993 which subsequently slipped due to various extraneous exigencies, beyond the control of ONGC. Also, committed expenses imply only firmed order placement and/or equipment being at various stages of deliveries. After material receipt, erection and commissioning works are taken up which requires lots of effort and time.

The efforts of project Group were to complete the project within time and therefore, the initiatives. However, time slipped mainly on account of extraneous circumstances like killing, kidnapping, bandh, barricades, disturbed environment, interrupted power supply, lack of competitions, monsoon weather etc. and delays

from repair/re-work in the works done by contractors with inadequate tools and /or inexperienced manpower.

However, ONGC management has been advised to place the matter before its Board to review the existing practices and procedures so that avoidable commitments are not made in future and the project scheduled are maintained in future.

(Ministry of Petroleum & Natural Gas, O.M. No. - 27012/12/2002-ONGC/US(EO) dated 15.6.2004)

#### **Audit remarks on the reply of the Government**

In the ATN it has been inter-alia stated that ONGC's management has been advised to place the matter before its Board to review the existing practices and procedures so that avoidable commitments are not made in future and the project scheduled are maintained in future". The relevant agenda , if any, placed before the Board and its out come need to be intimated

#### **Comments of the Ministry on the remarks of the office of the C&AG**

Due care will be taken to go for flexible type of design as and when need arises i.e whenever projects of similar nature are implemented.

As per existing practices and procedure, all the project schedules are closely monitored by ONGC through various control mechanisms at different levels and also by the Board and its Sub-Committee.

(Ministry of Petroleum & Natural Gas, O.M. No. - 27012/12/2002-ONGC/US(EO) dated 12.4.2005)

#### **Comments of the Committee**

(Please see paragraph 8 of the Chapter I of the Report)

## CHAPTER V

### RECOMMENDATIONS IN RESPECT OF THE WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

NIL

New Delhi:  
17 August, 2005  
26 Sravana 1927(S)

Rupchand Pal  
Chairman,  
Committee on Public Undertakings.

**APPENDIX - I**

**MINUTES OF THE 6<sup>th</sup> SITTING OF THE COMMITTEE ON PUBLIC  
UNDERTAKINGS HELD ON 17<sup>th</sup> AUGUST, 2005**

The Committee sat from 1500 hrs to 1540 hrs.

**CHAIRMAN**

Shri Rupchand Pal

**MEMBERS**  
**LOK SABHA**

2. Shri P. S. Gadhavi
3. Shri Suresh Kalmadi
4. Dr. Vallabhabhai Kathiria
5. Smt. Preneet Kaur
6. Shri Shrinivas Patil
7. Shri Kashiram Rana
8. Shri Mohan Rawale
9. Shri Bagun Sumbrui

**MEMBERS**  
**RAJYA SABHA**

10. Shri Ajay Maroo

**SECRETARIAT**

- |    |                     |                    |
|----|---------------------|--------------------|
| 1. | Shri S. Bal Shekar, | Joint Secretary    |
| 2. | Shri J. P. Sharma,  | Director           |
| 3. | Shri S. B. Arora,   | Under Secretary    |
| 4. | Shri Ajay Kumar,    | Assistant Director |

**OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA**

Shri Gulzari Lal,

Director

2. The Committee considered and adopted the following Action Taken Reports without any modification :-

(i) XXXX XXXX XXXX XXXX .

(ii) Action Taken Report on action taken by the Government on the recommendations contained in the Eighth Report (13<sup>th</sup> Lok Sabha) of the Committee on Public Undertakings on ONGC Ltd. – Avoidable expenditure due to creation of excessive handling capacity.

3. The Committee also authorised the Chairman to finalise the Reports for presentation.

4. XXXX XXXX XXXX XXXX .



## APPENDIX II

### (Vide para 3 of the Introduction)

Analysis of the Action Taken by Government on the recommendations/observations contained in the Eight Report of the Committee on Public Undertakings (Thirteenth Lok Sabha) on “ ONGC – Avoidable expenditure due to creation of excessive handling capacity’.

I.	Total number of recommendations	10
II	Recommendations that have been accepted by the Government	6
	Percentage of total	60%
III	Recommendation which the Committee do not desire to pursue in view of Government's replies [vide recommendation at Sl. Nos. 2, 7 and 10)]	3
	Percentage of total	30%
IV	Recommendations in respect of which replies of the Government have not been accepted by the Committee...(vide recommendations at Sl. No 5)	1
	Percentage of total.	10%
V	Recommendations in respect of which final replies of Government are still awaited	NIL