C.P.U. NO. 961

28

TWENTY EIGHTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(2013 - 2014)

(FIFTEENTH LOK SABHA)

PURCHASE OF CONDENSATE AT CRUDE OIL PRICE BY OIL & NATURAL GAS CORPORATION LIMITED

MINISTRY OF PETROLEUM AND NATURAL GAS

[BASED ON AUDIT PARA NO. 13.5.1 OF C&AG'S REPORT NO. 9 OF 2009-10]

Presented to Lok Sabha on 5.2.2014

Laid on the Table of Rajya Sabha on 5.2.2014

LOK SABHA SECRETARIAT

NEW DELHI

FEBRUARY 2014 / MAGHA, 1935 (S)

CONTENTS

Page

Composition of the Committee (2013-14)

Composition of the Committee (2010-11)

Composition of the Committee (2011-12)

Composition of the Committee (2012-13)

Introduction

REPORT

PART - I

Chapter-I AUDIT PARA

Chapter-II DEFICIENCIES IN PSC AND VALUATION OF CONDENSATE
(i). APPLICABILITY OF ARTICLE 19.11
(ii). SETTLEMENT AGREEMENT
(iii). BENEFIT TO THE GOVERNMENT EXCHEQUER
(iv). VALUE ADDED PRODUCTS
(v). EIL STUDY
(vi). DIFFERENTIAL TREATMENT FROM THE BASSEIN GAS FIELD
(vii). VIOLATION OF INTERIM ARRANGEMENT

PART - II

OBSERVATIONS / RECOMMENDATIONS OF THE COMMITTEE

ANNEXURES

Relevant Articles of PSC

APPENDICES

Appendix-I Minutes of the Sitting of the Committee on Public Undertakings held on 6 August 2012

Appendix-II Minutes of the Sitting of the Committee on Public Undertakings held on 1 October 2012

Appendix-III Minutes of the Sitting of the Committee on Public Undertakings held on 7 January 2014

COMPOSITION OF THE
COMMITTEE ON PUBLIC UNDERTAKINGS
(2013-2014)

Chairman

Shri Jagdambika Pal

Members, Lok Sabha

2. Shri Hansraj Gangaram Ahir
3. Shri Praveen Singh Aron
4. Shri Sanjay Bhoi
5. Smt. Shruti Choudhary
6. Shri Bansa Gopal Chowdhury
7. Shri Raja Ram Pal
8. Shri Adhalrao Shivaji Patil
9. Shri Rajendrasinh Rana
10. Shri Nama Nageswara Rao
11. Shri Magunta Sreenivasulu Reddy
12. Prof. Saugata Roy
13. Smt. Sushila Saroj
14. Shri Uday Singh
15. Shri Bhisma Shankar alias Kushal Tiwari

Members, Rajya Sabha

16. Shri Naresh Agrawal
17. Shri Anil Desai
18. Shri Janardan Dwivedi
19. Shri Naresh Gujral
20. Shri Mukhtar Abbas Naqvi
21. Shri Tapan Kumar Sen
22. Dr. Janardhan Waghmare

Secretariat

1. Shri A. Louis Martin — Joint Secretary
2. Shri M.K. Madhusudhan — Additional Director
3. Shri Yogendra Singh — Executive Officer

COMPOSITION OF THE
COMMITTEE ON PUBLIC UNDERTAKINGS
(2010-2011)

Chairman

Shri V. Kishore Chandra S. Deo

Members, Lok Sabha

2 Shri K.C. Singh 'Baba'
3 Shri Ramesh Bais
4 Shri Ambica Banerjee
5 Shri Hemanand Biswal
6 Shri Anant Kumar Hegde
7 Shri Shailendra Kumar
8 Shri Baijayant Panda
9 Shri L. Rajagopal
10 Shri Nama Nageswara Rao
11 Chaudhary Lal Singh
12 Shri Ganesh Singh
13 Shri N. Dharam Singh
14 Shri Rajiv Ranjan Singh alias Lalan Singh
15 Shri Bhisma Shankar alias Kushal Tiwari

Members, Rajya Sabha

16 Shri Birendra Prasad Baishya
17 Shri Naresh Gujral
18 Shri Prakash Javadekar
19 Dr. Bharatkumar Raut
20 Ms. Mabel Rebello
21 Dr. T. Subbarami Reddy
22 Shri Tapan Kumar Sen

COMPOSITION OF THE
COMMITTEE ON PUBLIC UNDERTAKINGS
(2011-2012)

Chairman

Shri Jagdambika Pal

Members, Lok Sabha

2. Shri Hansraj G. Ahir
3. Shri Vijay Bahuguna
4. Shri Ramesh Bais
5. Shri Ambica Banerjee
6. Shri Shailendra Kumar
7. Smt. Ingrid Mcleod
8. Shri Vilas Baburao Muttemwar
9. Shri Baijayant Panda 'Jay'
10. Shri Adhalrao Shivajirao Patil
11. Shri Ponnam Prabhakar
12. Shri Nama Nageswara Rao
13. Shri Uday Singh
14. Dr. Prabha Kishor Taviad
15. Shri Bhisma Shankar alias Kushal Tiwari

Members, Rajya Sabha

16. Vacant
17. Shri Pyarimohan Mohapatra
18. Shri Mukhtar Abbas Naqvi
19. Dr. Bharatkumar Raut
20. Vacant
21. Vacant
22. Shri N.K. Singh

*** Vice Shri Janardan Dwivedi ceased to be a member of the Committee consequent upon his retirement from Rajya Sabha on 27.1.2012.**

 # Vice Ms. Mabel Rebello and Shri Tapan Kumar Sen ceased to be members of the Committee consequent upon their retirement from Rajya Sabha on 2.4.2012.

COMPOSITION OF THE
COMMITTEE ON PUBLIC UNDERTAKINGS
(2012-2013)

Chairman

Shri Jagdambika Pal

Members, Lok Sabha

2. Shri Hansaraj Gangaram Ahir
3. Vacant
4. Shri Bansa Gopal Chowdhury
5. Dr. Mahesh Joshi
6. Shri Shailendra Kumar
7. Dr. (Smt) Botcha Jhansi Lakshmi
8. Shri Vilasrao Baburaoji Muttemwar
9. Shri Adhalrao Shivaji Patil
10. Shri Ponnam Prabhakar
11. Shri Rajendrasinh Rana
12. Shri Nama Nageswara Rao
13. Shri Uday Singh
14. Dr. Prabha Kishor Taviad
15. Shri Bhisma Shankar alias Kushal Tiwari

Members, Rajya Sabha

16. Shri Anil Desai
17. Shri Janardan Dwivedi
18. Shri Naresh Gujral
19. Dr. V. Maitreyan
20. Shri Mukhtar Abbas Naqvi
21. Shri T.M. Selvaganapathi
22. Dr. Janardhan Waghmare

---

* **Vice Shri Ambica Banerjee, M.P. passed away on 25 April, 2013.**

INTRODUCTION

1. I, the Chairman, Committee on Public Undertakings (2013-14) having been authorized by the Committee to submit the Report on their behalf, present this Twenty-eighth Report on purchase of condensate at crude oil price by Oil & Natural Gas Corporation Limited based on Audit Para No. 13.5.1 of C&AG's Report No. 9 of 2009-10.

2. The Committee on Public Undertakings (2010-11) had selected the above said subject for detailed examination. However, the examination of the Subject could not be completed during the term of the Committee on Public Undertakings (2010-11). The Committee on Public Undertakings (2011-12 & 2012-13) reselected the subject and further continued the examination. Since the examination remained inconclusive during the terms of the Committee on Public Undertakings (2011-12 & 2012-13), the present Committee again selected the Subject to complete the unfinished task.

3. The Committee (2012-13) took oral evidence of the representatives of ONGC Limited and Ministry of Petroleum and Natural Gas on 6 August 2012 and 1 October 2012.

4. The Committee considered and adopted the Report at their Sitting held on 7 January 2014.

5. The Committee wish to express their thanks to the representatives of the Ministry of Petroleum and Natural Gas and ONGC Limited for tendering evidence before them and furnishing the requisite information to them in connection with the examination of the Subject.

6. The Committee would like to place on record their appreciation for the assistance rendered to them in the matter by the Office of Comptroller & Auditor General of India.

7. The Committee also wish to express their sincere thanks to the predecessor Committees for their valuable contribution in the examination of the subject.

8. 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 ;
7 January, 2013
17 Pausha, 1935(S)

JAGDAMBIKA PAL
Chairman
Committee on Public Undertakings

PART - I

CHAPTER - I

AUDIT PARA

The Tapti gas field is a joint venture (JV), jointly operated by Oil and Natural Gas Corporation Limited (ONGC), Reliance Industries Limited (RIL) and British Gas Exploration and Production India Limited (BGEPIL) as per the Production Sharing Contract (PSC) executed in December 1994. The production of gas from the field started in June 1997. The field is also producing condensate along with gas. The PSC, however, did not provide for the disposal of Tapti condensate (JV condensate) and the Government of India (GOI) also did not appoint its nominee for purchase of the condensate. At the instance of the GOI, an 'interim arrangement' was made (May 1998) whereby ONGC retained the JV condensate and in turn delivered its own gas to GAIL (India) Limited on energy (MMBTU) equivalent basis. GAIL was paying for the total MMBTU of gas to the JV as per the PSC gas pricing mechanism. ONGC in turn was using the JV condensate for extraction of value added products (VAPs) viz., Naphtha, Superior Kerosene Oil (SKO), Liquified Petroleum Gas (LPG) etc., at its own plant at Hazira. This arrangement continued till 31 March 2005.

ONGC was also the transporter and processor of JV gas and its issues on fixation of transportation and processing charges were outstanding with the JV. Other two JV partners (viz., RIL and BGEPIL) insisted on valuation of condensate at crude oil price instead of gas price as a precondition for settlement of these issues. On 31 December, 2005, ONGC entered into a 'settlement agreement' (effective 1 April 2005) with Panna Mukta and Tapti (PMT) JV on pricing of condensate at crude oil price including other related issues like fixation of transportation and processing charges and delivery point etc. ONGC apprised (3 March, 2006) its Board of Directors (Board) that on valuing the condensate at crude oil price, ONGC would gain Rs. 131 crore (US$ 29.11 million) in terms of value of VAPs to be extracted from the condensate production profile of 2.021 MMT for the period from April 2005 to 2019. The proposal to value

condensate at crude oil price under the 'settlement agreement' was approved by the Board in March 2006.

Audit observed (June 2008) that the decision of ONGC to purchase condensate at crude oil price was inconsistent with the directives (May 1998) of Ministry of Petroleum and Natural Gas (MOPNG) to treat the condensate as gas. MOPNG had reiterated its decision in November 2003 and informed the JV that the existing system would continue. Further, a study conducted (February 2005) by Engineers India Limited at the instance of MOPNG also concluded (March 2005) that condensate obtained from Tapti field could be treated as gas which was accepted (April 2005) by the MOPNG. Besides, ONGC was valuing the condensate generated from its own Bassein gas field at gas price and paying royalty as applicable to gas. ONGC's decision to treat condensate as crude was imprudent as it had resulted in a loss of Rs. 853.09 crore (upto March 2009) to ONGC. Considering the average price paid for condensate (i.e. US$ 69.56 per barrel), loss to ONGC over the remaining contract period (2009-2019) was estimated at Rs. 1091.58 crore. The net gain of Rs. 131 crore on the VAPs apprised to the Board was in fact loss of Rs. 202 crore (US$ 45 million) as ONGC had not considered the subsidy element on domestic LPG and SKO which it was bearing as per the Government directives.

The Committee in this connection note that at the time of entering into the aforesaid contract, ONGC had been in existence for nerly four decades in different forms-initially set up as an Oil and Natural Gas Directorate in 1955, converted as a statutory body in 1959 and re-organised as a limited company in 1994 under the Companies Act.

CHAPTER - II

DEFICIENCIES IN PSC AND VALUATION OF CONDENSATE

Audit pointed out that the Production Sharing Contract (PSC) of Tapti gas field did not provide for the disposal of Tapti Condensate (also called JV condensate) which is produced alongwith the gas. As such GOI did not appoint any nominee for purchase of Tapti condensate. However, when production of gas for Tapti was commenced in June 1997 on the direction of Ministry of Petroleum & Natural Gas, an interim arrangement (MoU) was made for delivering substituted equivalent volume of gas on energy basis (MMBTU) in lieu of Tapti condensate (after making interim deductions) to delivery point at Hazira.

When asked as to why the Product Sharing Contract (PSC) has not provided for disposal of Tapti Condensate and is silent over the appointment of Government nominee for purchase of condensate, the Ministry of Petroleum & Natural Gas in its written reply dated 5 April 2013 submitted that it is right that Tapti PSC is silent about disposal of Tapti Condensate and the Government nominee because no separate disposal plan of Condensate was envisaged under the PSC. The Mid and South Tapti PSC was awarded as a discovered field producing non-associated Natural Gas. The Condensate under Tapti PSC is not a casing head condensate but is produced along with the gas and transported in a commingled form. During negotiations of the PSC, Operator suggested to lay a separate pipeline for transportation of the gas. However, ONGC maintained that since it had excess capacity available in the existing 36”/42” pipeline from South Bassein to Hazira, the same could be used for transporting the Tapti gas along with ONGC’s commingled gas and JV would pay transportation tariff for the same. This view was supported by Government and agreed to by the operator and accordingly it was included in the initial Plan of Development (IPOD) annexed at Annexure –G1 to the PSC. However, because of the very characteristics of the condensate, Article 19.11 of the PSC has provided that the provisions specified in determination of the price of the sales of crude Oil shall apply mutatis mutandis to condensates for the Valuation of Oil.

The Audit in its vetting remarks stated that in the absence of disposal of Tapti Condensate and the Government nominee under the PSC, the issue of disposal and pricing of condensate was jointly deliberated by the MoPNG, DGH, EIL, ONGC and PMT-JV, GAIL on various occasions and it was concluded that condensate to be treated as gas. These are mentioned below.

"(a) In 1997, at the time of commencement of production from Tapti field, on the direction of MoPNG, an interim arrangement was made for delivering substituted equivalent volume of gas on energy basis (MMBTU contents), in lieu of Tapti condensate (after making interim 5% deductions) to GAIL at Hazira. As per MOU between ONGC and JV for transportation of gas and associated condensate, entered in June 1997, ONGC has been deducting 5% from the condensate energy in terms of MMBTU received at TPP (Tapti Process Platform), before redelivery to GAIL at Hazira. The clause 5 of the MOU between JV (as shipper) and ONGC (as transporter) for transportation of gas and associated condensate the parties (i.e. JV and ONGC) inter alia stated that

> '......the parties acknowledge and agree that the foregoing interim deduction of 5% of the number of BTUs contained in condensate is a special temporary procedure undertaken during the term of MOU pending final agreement between Shipper and the Government of India on the disposition and fiscal treatment of condensate produced in the Mid & South Tapti contract area'.

This was also reiterated by ONGC in its reply to the audit in June 2008 wherein it stated that 'the 5% deduction in respect of condensate energy is subject to final decision regarding sale/disposal of the condensate by the Government'.

(b) In its internal note of January 1998, MoPNG brought out that ONGC and EIL felt that there would be some administrative problem in treating condensate at Hazira. Whereas, Enron Oil & Gas India Limited (EOGIL), Operator of Tapti JV field (EOGIL stake was purchased by BGEPIL in 2002) had informed MoPNG that Tapti condensate may be treated as gas and even if the condensate is treated as crude oil, no cess and royalty applicable to crude oil would be payable by them. As there was no clear opinion on treatment of condensate as crude oil or gas, MoPNG referred the matter to the Law Ministry for legal interpretation of provisions of PSC and provisions of law. The law Ministry in turn replied (19.01.1998) that as the matter referred was of technical nature and MoPNG at first instance may examine the issue and give its comments.

(c) As the issue required somewhat deeper examination, at the direction of MoPNG a joint meeting with the representatives of ONGC, Engineers India Limited (EIL) and Director General of Hydrocarbon (DGH) was held in 13th and 14th April 1998 to look into the possible solution to the condensate disposal of

Tapti field in terms of nominee, price of condensate, royalty and metering etc. The committee after examining the definition of condensate, crude oil and natural gas under Tapti PSC had following interpretation and conclusion.

(i) Interpretation: 'The well fluid produced at Tapti field contains hydrocarbons which fall under the definition of natural gas and condensate due to their being vapour phase and liquid phase respectively at normal temperature and pressure conditions. However, these hydrocarbons are not separated at the platforms at normal temperature and pressure conditions as the processing facility is not designed for such separation at the platform. Condensate as defined in the PSC is not being obtained at Tapti platform and hence it cannot be measured as a separate product. By installing a liquid chromatograph in addition to the existing, it would be possible to assess the extent of hydrocarbon in well fluid that would remain in liquid phase at normal temperature and pressure. However, it is an indirect method and may not be very accurate. If this condensate is to be obtained as a product on Tapti platform the stabilization facilities to bring the condensate to normal temperature and pressure conditions and other facilities as deemed necessary would need to be ascertained from the operator'.

(ii) Conclusion: Condensate as per provisions of the PSC cannot be sold to a nominee as the same is not available as a product in the present scenario. Hence identifying a part of the production as condensate and part as gas is not feasible and only logical way of measuring the production from Tapti field is in terms of equivalent energy.

(d) During March 1998, EOGIL on issue of finalization of Tapti Gas Sales Purchase Agreement (GSPA) intimated to the DGH/MoPNG that JV was willing to sell the condensate either on MMBTU equivalent basis or condensate itself, but in either case at the international prices established in and on terms of conditions consistent with the PSC. Thus Tapti-JV was willing to sell Tapti condensate at MMbtu equivalent basis i.e. gas price as per PSC (Article 21).

(e) During the progress review meeting of PMT-JV held (November 2003) by MoPNG with PMT-JV partners, DGH and Government nominee, IOC and GAIL for purchase of JV crude oil and gas respectively, the issue regarding designating, a Government nominee for receipt of condensate was discussed. It was brought out that ONGC is at present receiving condensate at Hazira. The Joint Secretary, MoPNG mentioned that in case any party has problem with existing arrangement, it should send its suggestions/proposal to DGH, else, the existing system would continue.

(f) At the instance of MoPNG, EIL carried out the simulations for the well fluid composition for Tapti gas field as furnished by ONGC. EIL, in its report of March 2005 had stated that condensate was not present at reservoir conditions, was generated at the wellhead conditions and was in vapour form even at a temperature of 42.7oC. On examination of the behaviour of the Tapti well fluid at

reservoir and wellhead conditions and the definition of condensate as given in the PSC, EIL concluded (March 2005) that condensate obtained from Tapti gas field can be treated as gas. MoPNG accepted EIL recommendation (April 2005).

(g) Thus, from the above facts, it can be seen that the term 'condensate' was examined by the various technical bodies working under MoPNG who opined that condensate can be treated as gas and same was also agreed to by the MoPNG.

The term 'condensate' was defined at article 1.18 in the PSC as 'those low vapour pressure hydrocarbons obtained from natural gas through condensation or extraction and refers solely to those hydrocarbons that are liquid at normal surface temperature and pressure conditions (provided that in the event condensate is produced from an oil field and is segregated and separated separately to the delivery point, then the provisions of this contract shall apply to such condensate as it were crude oil)'.

It is explicit from the above definition that a condensate would be treated as crude oil and provisions of the PSC (impliedly Article 19.11 for its valuation as crude oil) would apply to such a condensate only if:

(a) the condensate is produced from an oil field; and

(b) it is segregated and separated separately.

Since condensate in the instant case is produced from a gas field and not from an oil field, the first and essential condition is not satisfied and, hence, condensate produced from the Tapti gas field cannot be treated at par with crude oil. Article 19.11 of PSC for valuation of the condensate would, therefore, not apply for its valuation.

Further, even if the Tapti field was an oil field, the second condition is not satisfied as no facilities have been installed at the platform to segregate and separate the condensate separately. Hence, for this reason also, the condensate produced from Tapti gas field cannot be treated as crude oil and Article 19.11 cannot be applied for its valuation.

In a joint meeting (April 1998) ONGC, EIL and DGH examined the definitions of condensate under PSC and concluded that 'these hydrocarbons are not separated at the platforms normal temperature and pressure conditions as the processing facility is not designed for such separation at the platform'. Hence, it was stated that 'condensate as per provisions of the PSC cannot be sold to a nominee as the same is not available as a product in the present scenario. Hence identifying a part of the production as condensate and part as gas is not feasible and only logical way of measuring the production from Tapti field is in terms of equivalent energy'.

Even if the argument put forth by Ministry of Petroleum & Natural Gas that because of the very characteristics of the condensate, Article 19.11 of the PSC

has provided that the provisions specified in determination of the price of the sales of crude oil shall apply mutatis mutandis to condensates for the valuation of Oil (which means that Article 19.2 to 19.10 are to be applied') is to be considered (though contrary to term 'condensate' examined and accepted by MoPNG through its various technical bodies) ONGC needs to be appointed as its nominee of the Government under Article 18.2 and 19 of PSC. This has not been done in the revised system of disposal of condensate."

The Committee enquired as to whether any Detailed Project Report was prepared before the PSC was signed and, if so, whether there was no reference in the DPR about disposal of JV condensate and appointment of nominee for purchase of condensate. In response, the Ministry of Petroleum & Natural Gas in a written reply stated that under mid-South Tapti PSC, the Detailed Project Report was the 'Development Plan' which was prepared before the signing of the PSC and is annexed as Annexure G1 to PSC. In the Development Plan, the disposal plan of condensate products has been stated that it will be transported via a sub-marine line to a connecting point with the existing Bassein- Hazira Pipeline or the new planned pipeline.

In response to the aforesaid reply of the Ministry of Petroleum & Natural Gas, the Audit in their vetted remarks stated as follows:

"The draft report of on pricing options submitted on 15.12.1998 by the three member committee referred by the Ministry of Petroleum & Natural Gas in reply was not accepted by the Ministry of Petroleum & Natural Gas as evident from the fact that during the progress review meeting of PMT-JV held (November 2003) by MoPNG with PMT-JV partners, DGH and Government nominee, IOC and GAIL for purchase of JV crude oil and gas respectively, the issue regarding designating, a Government nominee for receipt of condensate was discussed. It was brought out that ONGC is at present receiving condensate at Hazira. The Joint Secretary, MoPNG mentioned that in case any party has problem with existing arrangement, it should send its suggestions/proposal to DGH, else, the existing system would continue. Further, at the instance of MoPNG, EIL carried out the simulations for the well fluid composition for Tapti gas field as furnished by ONGC. EIL, in its report of March 2005 had stated that condensate was not present at reservoir conditions, was generated at the wellhead conditions and was in vapour form even at a temperature of 42.7oC. On examination of the behaviour of the Tapti well fluid at reservoir and wellhead conditions and the definition of condensate as given in the PSC, EIL concluded (March 2005) that

condensate obtained from Tapti gas field can be treated as gas. MoPNG accepted EIL recommendation (April 2005).

Even if the argument put forth by the Ministry of Petroleum & Natural Gas that 'price of condensate is to be fixed under Article 19.11 (which means that Article 19.2 to 19.10 are to be applied') is to be considered (though contrary to term 'condensate' examined and accepted by MoPNG through its various technical bodies and term of MOU) ONGC needs to be appointed as its nominee of the Government under Article 18.2 and 19 of PSC. This has not been done in the revised system of disposal of condensate."

On being asked to clarify as to whether the Ministry of Petroleum & Natural Gas had sought the opinion of the Law Ministry before signing PSC, the Secretary, MoPNG during evidence held on 6th August, 2012 deposed as under:

"We entered into this after it was vetted by the Law Ministry. The contract is vetted by the Law Ministry."

However, when asked to furnish the relevant records pertaining to the vetting of PSC by the Law Ministry, the Ministry of Petroleum & Natural Gas in its subsequent post evidence reply stated that generally the practice has been to get any contract legally vetted from Law Ministry before it is signed. However, in respect of this PSC since the relevant record is not traceable, the same cannot be substantiated with documentary evidence. "

In their vetting remarks on the aforesaid reply of the Ministry of Petroleum & Natural Gas, Audit stated that the issue regarding designating a Government nominee for receipt of Condensate was discussed (November 2003) in the meeting held by the MoPNG with the JV, GAIL and DGH, wherein MoPNG reiterated its earlier decision (i.e. MoU arrangement wherein ONGC was retaining the JV condensate and in turn delivering its own gas to GAIL on energy equivalent basis) and directed to continue the existing arrangement and stated that in case any party has problems with the existing arrangements, it should send its suggestions/proposal to DGH, else, the existing system would continue. Subsequent to the meeting, the GAIL did not react to the direction of MoPNG.

(i). Applicability of Article 19.11 of PSC

In December 2005, ONGC entered into a 'settlement agreement' with Panna Mukta and Tapti JV on pricing of condendate at crude oil price. ONGC justified its decision to value condensate at crude oil prices on the basis of Article 19.11 of PSC which states that provisions specified from Article 19.1 to 19.10 of the PSC for the determination of price of sale of crude oil shall apply *mutatis mutandis* to condensate. However, it is observed from Article 1.18 of the PSC giving definition of Condensate that "Condensate" means those low vapor pressure hydrocarbons obtained from natural Gas through condensation or extraction and refers solely to those hydrocarbons that are liquid at normal surface temperature and pressure conditions (provided that in the event condensate is produced from an oil field and is segregated and transported separately to the delivery point, then the provisions of this contract shall apply to such condensate as if it were Crude Oil). Audit has observed that Tapti being a gas bearing field, the provision of Article 19.11 of the PSC on valuation of oil did not apply to condensate.

The Committee enquired as to how ONGC could justify the applicability of article 19.11 in determining the value of condensate in case of Tapti, which is a gas field. In response, the CMD, ONGC during evidence deposed as under:

> "It is exactly saying that all condensates are to be treated as gas unless they are transported separately. The main thing is that it comes out from an oil field. Tapti is not an oil field. Tapti is a gas field. Therefore, that provision of 19.11 of PSC applies".

With regard to the applicability of Article 19.11 of PSC in determining the value of Tapti condensate, the Ministry of Petroleum & Natural Gas in its post evidence reply stated that the definition of Natural Gas as given in Article 1.54 of the PSC; "Natural Gas" means wet gas, dry gas, all other gaseous hydrocarbons, and all substances contained therein, including sulfur and helium, which are produced from oil or gas wells, excluding those condensed or extracted liquid hydrocarbons that are liquid at normal temperature and pressure conditions and including the

residue gas remaining after the condensation or extraction of liquid hydrocarbons from gas. It is evident from the definition of gas that Condensate is excluded from natural gas. Gas is valued as per valuation provided in Article 21 of the PSC. Condensate, if produced from the oil field is blended with the crude oil if its separation is not warranted; therefore, it is valued as oil only. However, if the Condensate produced from an oil field is segregated and transported separately to the Delivery Point then as per the provision in Article 1.18 this Condensate has to be treated as Crude oil.Tapti is a gas field and Gas along with Condensate is produced and ultimately delivered in commingled form. Therefore, Gas produced from Tapti is valued as Gas and Condensate produced is separated at the platform and its valuation is done as Condensate as provided in Article 19.11 of the PSC. As per provisions of the PSC, Condensate cannot be treated as gas for the purpose of its valuation under Article 21 of the PSC. Valuation of Condensate can only be done as per the procedure laid down in Article 19 of the PSC. This is on the basis of Article 19.4 of the PSC, providing that Crude Oil and/or Condensate in respect of which the price is being determined is said to be similar in characteristic and quality to the said condensate traded in international market. The Article 19.11 of the PSC of Mid and South Tapti on the 'Valuation of Oil' clearly states that "the provisions specified above for the determination of the price of sales of crude oil shall apply mutatis mutandis to condensates.

In view of the foregoing, ONGC maintained that price of condensate is to be fixed under Article 19.11 which means that Article 19.2 to 19.10 are applicable, with the modification/or necessary changes that the price has to be fixed with reference to the price of Condensate and not of Crude oil.

Contesting the aforesaid reply of ONGC, Audit in its vetting remarks observed that the term 'condensate' as defined in article 1.18 explicit that a condensate would be treated as crude oil and provisions of the PSC (impliedly Article 19.11 for its valuation as crude oil) would apply to such a condensate only if:

(a) the condensate is produced from an oil field; and

(b) it is segregated and transported separately.

Audit further contended that since condensate in the instant case is produced from a gas field and not from an oil field, the first and essential condition is not satisfied and, hence, condensate produced from the Tapti gas field cannot be treated at par with crude oil. Article 19.11 of PSC for valuation of the condensate would, therefore, not apply for its valuation. Further, even if the Tapti field was an oil field, the second condition is not satisfied as no facilities have been installed at the platform to segregate and separate the condensate separately. Hence, for this reason also, the condensate produced from Tapti gas field cannot be treated as crude oil and Article 19.11 cannot be applied for its valuation.

During evidence, the Committee enquired whether opinion of the Law Ministry was sought on the issue. ONGC in its post evidence reply (28.8.2012) stated that it has obtained legal opinion from the Additional Solicitor General of India, which is given as under:

> "the price to be fixed of the condensate produced from Mid & South Tapti Contract area is necessarily to be fixed under Article 19 of the PSC Titled, "Valuation of Oil". Necessarily the condensate cannot be treated as gas for the purpose of valuation. Nor can it to be treated as purely Crude oil for the purpose of valuation. It can only be treated as crude oil in the peculiar situation covered by the second portion of Article 1.18 which does not arise in the facts of this case.
>
> The price of condensate is to be fixed under Article 19.11 which means that Article 19.2 to 19.10 have to be applied, with the modification that the price has to be fixed with reference to the price of condensate and not of crude oil."

However, disagreeing with ONGC's justification, Audit in its vetting remarks has stated that the term condensate under PSC, and its disposal and valuation was jointly deliberated by the MoPNG, DGH, EIL, ONGC and PMT-JV, GAIL on various occasions and it was concluded that condensate to be treated as gas. These are summarised as under:

"(i) Legal opinion of ASG has been obtained only in September 2012. Earlier (Jan 1998), however, the Law Ministry refused to give any opinion on the subject being of a 'technical nature'.

(ii) The technical examination of treatment of condensate under PSC by the MoPNG through its various technical bodies such as DGH, ONGC and EIL, lead to the opinion that condensate should be treated as 'gas'.

(iii) It has now been opined that the sale price of condensate is to be governed by article 19.11 of PSC. The term 'condensate' appearing in this article is defined in the PSC at article 1.18 as 'those low vapour pressure hydrocarbons obtained from natural gas through condensation or extraction and refers solely to those hydrocarbons that are liquid at normal surface temperature and pressure conditions (provided that in the event condensate is produced from an oil field and is segregated and separated separately to the delivery point, then the provisions of this contract shall apply to such condensate as it were crude oil)'.

(iv) In a joint meeting (April 1998) ONGC, EIL and DGH examined the definitions of condensate under PSC and concluded that 'these hydrocarbons are not separated at the platforms normal temperature and pressure conditions as the processing facility is not designed for such separation at the platform'. Hence, it was stated that 'condensate as per provisions of the PSC cannot be sold to a nominee as the same is not available as a product in the present scenario. Hence identifying a part of the production as condensate and part as gas is not feasible and only logical way of measuring the production from Tapti field is in terms of equivalent energy'. This summarises the technical difficulty of applying article 19.11 in the instant case.

(v) JV during initial period (1997-98) insisted for treatment of condensate as gas. This was presumably because the price of gas was then higher than crude oil. The stand of the JV changed over time as price of crude oil soared. This gives an impression that the definition of 'condensate' was differently interpreted at different times to only suit the interests of the JV.

(vi) Even if the argument put forth (1 October 2012) by ONGC quoting the legal opinion that 'price of condensate is to be fixed under Article 19.11 (which means that Article 19.2 to 19.10 are to be applied') is to be considered (though contrary to term 'condensate' examined and accepted by MoPNG through its various technical bodies) ONGC needs to be appointed as its nominee of the Government under Article 18.2 and 19 of PSC. This has not been done in the revised system of disposal of condensate

It is worth to mention that Government appointed GAIL as its nominee to purchase 100% of natural gas produced by the JV.

(vii) Based on legal opinion now obtained, MOPNG/ONGC contended that valuation of condensate should be done under the provisions of Article 19.11 i.e. 'Valuation of Oil' of PSC. It is noteworthy that:

(a) the legal opinion does not state specifically whether the condensate being produced from Tapti field is gas or crude oil. Mere legal interpretation of the provisions of the PSC cannot help us in arriving at a logical conclusion about the exact nature, physical condition and characteristics of the condensate which require technical and scientific analysis of the composition and behaviour of the condensate in the present scenario;

(b) EIL, in its report of March 2005 had stated that condensate was not present at reservoir conditions, was generated at the wellhead conditions and was in vapour form even at a temperature of 42.7oC. In the ATN submitted by MOPNG in August 2011 to COPU, MOPNG contended that the condensate produced from ONGC's Bassein and Satellite (B&S) gas field was different from that produced from the Tapti gas field on the ground that B&S gas field is a dry gas field, the gas produced does not contain heavier molecule at reservoir level and the condensate is formed at surface during transportation to Hazira.

(c) However, conclusion of EIL report shows that that the conditions in which condensate is produced in both the fields are similar.

(d) In case, legal opinion suggests ONGC to value the Tapti condensate as crude oil, the condensate produced from B&S field has also to be treated at par.

(e) MOPNG/ONGC is silent in applying the opinion of the legal counsel to the condensate produced from B&S field and does not state monetary implications in case the decision is extended to B&S field.

(f) Without reference to any expert opinion on the technical matters involved in the case facilitating a conclusive decision on nature of the condensate, the legal opinion recommends for valuation of condensate under the provisions of Article 19 of the PSC.

(g) It is noteworthy that Article 19.11 relates to Valuation of Oil and not of the Condensate. Thus, without a clear decision from scientific/technical experts on the nature of the condensate being produced from the Tapti field, it would not be justifiable to apply provisions of Article 19.2 to 19.10 of PSC for valuation of the condensate in the instant case.

(h) Audit is not aware of the terms of reference made by ONGC to the legal counsel and it is not clear whether ONGC's stance of valuing the condensate as gas under circumstances akin to that of B&S field were brought to the notice of the counsel.

(i) The term ‘condensate’ has been defined as appearing in this article is defined at article 1.18 of the PSC as under:

(j) Condensate means those low vapour pressure hydrocarbons obtained from natural gas through condensation or extraction and refers solely to those hydrocarbons that are liquid at normal surface temperature and pressure conditions (provided that in the event Condensate is produced from an oil field and is segregated and separated separately to the delivery point, then the provisions of this contract shall apply to such condensate as if it were Crude Oil).

(k) It is explicit from the above definition that a condensate would be treated as crude oil and provisions of the PSC (impliedly Article 19.11 for its valuation as crude oil) would apply to such a condensate only if:

   (a) the condensate is produced from an oil field; and

   (b) it is segregated and separated separately.

(l) Since condensate in the instant case is produced from a gas field and not from an oil field, the first and essential condition is not satisfied and, hence, condensate produced from the Tapti gas field cannot be treated at par with crude oil. Article 19.11 of PSC for valuation of the condensate would, therefore, not apply for its valuation.

(m) Further, even if the Tapti field was an oil field, the second condition is not satisfied as no facilities have been installed at the platform to segregate and separate the condensate separately. Hence, for this reason also, the condensate produced from Tapti gas field cannot be treated as crude oil and Article 19.11 cannot be applied for its valuation.

(n) In the absence of any facilities having been installed at the Tapti gas platform for separation of the condensate from natural gas, ONGC cannot measure the exact quantity of the condensate for applying a rate commensurate to that of crude oil to the condensate.

(o) During initial period (1997-98), JV insisted for treatment of condensate as gas. This was obviously because the price of gas was then higher than crude oil. The stand of JV has changed over time as price of crude oil soared. This gives an impression that the definition of ‘condensate’ was differently interpreted at different time only to suit interests of the JV.

(p) Even if the argument put forth (1 October 2012) by ONGC quoting the legal opinion that price of condensate is to be fixed under Article 19.11 (which means that Article 19.2 to 19.10 are to be applied) holds good (though contrary to term ‘condensate’ examined and accepted by MOPNG through its various technical

bodies), ONGC should have ensured that before buying the condensate, it is appointed as a nominee of the Government under Article 18.2 and 19 of PSC. This has not been done in the revised system of disposal of condensate. Consequently, ONGC has purchased the condensate, without the approval of GOI and at a price which is not suited to the financial interests of ONGC."

Justifying the applicability of Article 19.11 of PSC in determining the value of condensate in case of Tapti Gas Field, ONGC stated that definition of Condensate in Mid & South Tapti PSC is consistent with the definition appearing in other PSCs i.e. CB-OS/2, KG-DWN-98/3 etc. Condensate produced along with the natural gas from CB-OS/2 & KG-DWN-98/3 is being sold as Condensate valued as liquid hydrocarbon and not as Gas. The applicability of Article 19.11 in determining the value of Condensate produced from gas field has been demonstrated in other PSC i.e. CB-OS/2 also and endorsed by the Government. In this context, it is pertinent to submit that IOC, the Government nominee for purchase of Condensate produced from Laxmi & Gauri fields of CB-OS/2 JV was not willing to purchase Condensate as per the terms of the PSC, therefore the Government in April, 2005 decided that, "*the Contractor is permitted to make its own arrangement for sale of Condensate in India. The Contractor should ensure that Condensate price obtained by them should not be below the price determined in terms of the PSC".*

In view of the foregoing, ONGC contended that valuation of Tapti condensate under Article 19.11 is in line with the provisions of the Mid & South Tapti PSC and it has been valued as Condensate and not as Crude oil and benchmarked to NWS Condensate (79%) and Senipah Condensate (21%).

In the context of the aforesaid reply of ONGC, the Audit in its vetting remarks submitted as under:

"As regards MOPNG contention on similar definition of condensate in other PSCs, it is submitted that notwithstanding any similarity in the definition of condensate in other PSCs as contended by MOPNG, the JV partners on Tapti PSC were not authorised to decide among themselves the nature of the condensate and its price, without prior approval of the Government in view of the following:

a) The PSC relating to Tapti field did not provide for disposal of the condensate. The Government of India (GOI) also had not appointed its nominee under the PSC for purchase of the condensate.

b) At the instance of the GOI, an 'interim arrangement' was made (May 1998) whereby ONGC retained the JV condensate and in turn delivered its own gas to GAIL (India) Limited on energy equivalent i.e. Million Metric British Thermal Unit (MMBTU) basis.

c) In November 2003, MOPNG had communicated its decision to the Tapti JV that the existing system of purchase of condensate would continue.

d) MOPNG had accepted (April 2005) the conclusion (March 2005) of Engineers India Limited (EIL) that condensate obtained from Tapti gas field could be treated as gas. The conclusion of EIL was based on a study conducted (February 2005) by it at the instance of MOPNG itself.

e) Till the time i.e. December 2005 of signing of the settlement agreement among the JV partners, the MOPNG had not communicated to JV partners including ONGC any decision to the contrary of its interim arrangement made in May 1998 and reiterated in November 2003.

f) In clause 5 of the MOU signed by the JV partners in June 1996 as a part of interim arrangement, the JV partners had stated*"......the parties acknowledge and agree that the foregoing interim deduction of 5% of the number of BTUs contained in condensate is a special temporary procedure undertaken during the term of MOU pending final agreement between Shipper and the Government of India on the disposition and fiscal treatment of condensate produced in the Mid & South Tapti contract area."*

g) The interim arrangement had not been altered by the Government till and after signing of the settlement agreement.

In case of KG-DWN-98/3 block, pricing of condensate was yet (September 2013) to be approved by the Government as indicated in MOPNG's letter No/O-19024/9/2000-ONG/D-V (C No. 2162) dated 2.9.2011. MOPNG may supply subsequent communication in support of its contention on the issue. Further, MOPNG after deliberation with the DGH, EIL, GAIL and ONGC had concluded that Tapti condensate may be treated as gas and accordingly directed ONGC to purchase JV condensate at gas price."

(ii). SETTLEMENT AGREEMENT

According to Audit, ONGC was the transporter and processor of JV gas and its issues on fixation of transportation and processing charges were outstanding with the JV. Other two JV partners (viz., RIL and BGEPIL) insisted on valuation of condensate at crude oil price instead of gas price as a precondition for settlement of these issues. On 31December,2005, ONGC entered into a 'settlement agreement' (effective 1 April 2005)

with Panna Mukta and Tapti(PMT) JV on pricing of condensate at crude oil price including other related issues like fixation of transportation and processing charges and delivery point etc. ONGC apprised (3 March 2006) its Board of Directors (Board) that on valuing the condensate at crude oil price, it would gain Rs.131 crore (US$29.11 million) in terms of value of VAPs to be extracted from the condensate production profile of 2.021 MMT for the period from April 2005 to 2019. The proposal to value condensate at crude oil price under the 'settlement agreement' was approved by the Board in March 2006.

When asked about the details of disputes regarding transportation and processing charges between ONGC and JV partners, the Ministry of Petroleum & Natural Gas in its post evidence reply stated that various outstanding issues of ONGC with JV and impasse thereof are as under:

a. Non- finalization of Tapti Transportation & Processing tariff.
b. Treatment of Tapti condensate.
c. No tariff was being paid to ONGC, either by JV or by GAIL, for transporting Panna- Mukta gas to Hazira
d. 10% Panna-Mukta Gas Sales Revenue withheld by GAIL.
e. Inadequate compensation to ONGC for processing of Panna-Mukta gas by Hazira.

- <u>Transportation & Processing of Tapti Gas:</u>

  Article 13.1.3 (g) of the PSC clearly specifies that, Companies' development concept contemplated use of existing ONGC- owned facilities for re-separation and handling of Condensate and Gas upon its arrival at Hazira. Further it stipulates that, ONGC (owner of pipeline and Hazira Gas Processing Unit i.e Service provider to PMT-JV) and Companies will determine a payment, terms and conditions for the use of processing and treating facilities owned by ONGC, which payment shall be based on the principles detailed in Appendix I (of PSC), or alternately the Contractor install the necessary facilities, the cost of which shall be cost recoverable and subject to the Cost Recovery Limit. Subsequently, in the Management Committee Meeting held on 4th December 1995, it was decided to use ONGC's existing 36"/42" pipeline. Due to different assumptions by JV and ONGC consensus could not be arrived on transportation tariff. However, to commence gas production in 1997 from Tapti MOU was entered and interim transportation & processing tariff of US $ 0.18/MSCF was agreed.

- Panna-Mukta Transportation tariff:

  Panna-Mukta PSC is open to differing interpretations with respect to Delivery Point. As per Article 21.5.13 (a) iv of Panna-Mukta PSC, "Delivery Point" means the upstream weld at the underwater connection between Seller's pipeline and ONGC's underwater Gas transmission line or lines which transport gas from the Bassein field to the Hazira area. On the other hand Article 21.5.13 (e) of the same PSC, mentions that, "Parties acknowledge that Gas is to be received by GAIL at Hazira downstream of separation and sweetening facilities owned and operated by ONGC. Pursuant to article 21.5.13(a)-(iv) above, JV partners contended that transportation tariff for Panna-Mukta (PM) gas is not payable by them as the delivery points is offshore, whereas GAIL maintained that in conformity to Article 21.5.13 (e) of the same PSC, the delivery point is Hazira and accordingly transportation tariff is not payable by them as well. ONGC, as transporter of Panna-Mukta JV gas was eligible to receive transportation tariff either from sellers' (JV) or buyer (GAIL) but the fact remains that neither GAIL, the Govt. nominee, in respect of Panna- Mukta Gas, not JV was paying any transportation charges to ONGC. Additionally GAIL was directed by MoP&NG in Jan 1998, to make 90% on account payment for the gas price to JV and remaining 10% be kept in ESCROW account pending resolution of Delivery points issue. ONGC requested MoP&NG for release of 10% gas price retained by GAIL in favour of ONGC. In response to ONGC's request, MoP&NG vide letter dated 28th November, 2003 directed all the parties to resolve the dispute regarding delivery point. Once the dispute of delivery point is resolved the release of 10% withheld money with GAIL would be made according to the resolution of the dispute on delivery point. While, ONGC was actually transporting the JV gas since inception from offshore to Hazira, yet no tariff was being realized either from JV of from GAIL for Panna-Mukta gas and merely US $0.0585/MSCM was being paid to ONGC as processing charges for the same as an ad-hoc measures.

In its vetted comments to the aforesaid reply, Audit stated as under:

"The moot point in audit report is treatment of condensate as crude oil by ONGC in contravention to MoPNG directives to treat condensate as gas, which was agreed by the ONGC as a pre-condition of JV in resolution of pending transportation and processing charges issues with JV. In this package deal, ONGC suffered a loss of ` 825 crore up to March 2009, considering the differential in condensate price and incremental gain in gas transportation and processing, charges. Though Tapti PSC envisaged lying of separate pipeline for transportation of gas from offshore to onshore, in a Management Committee of Tapti JV comprising of representatives of JV and DGH as representatives of GoI held on 4.1.2005, it was decided to use ONGC pipeline for transportation of Tapti gas. The decision was beneficial to both the parties as capital cost for laying separate pipeline and also operating cost for maintenance of pipeline for JV got

avoided. Similarly, ONGC was also benefited since its spare pipeline capacity was used for transportation of JV gas.

The details of transportation and processing charges for transportation and processing of JV gas billed by the ONGC, rates as per pre-settlement agreement and rates as per post settlement agreement is tabulated below:

Element	ONGC Billed	JV		Incremental Gain/loss to ONGC	
		Pre-settlement rate	Post-settlement rate	Incremental gain/loss in post settlement w.r.t. to ONGC billed	Incremental gain/loss in post settlement w.r.t. to pre-settlement rates
Tapti transportation & processing charges (MSCF)	US$ 0.31	US$ 0.18	US$ 0.185	(-) US$ 0.125	(+) US$ 0.005
Panna-Mukta transportation charges (MSCF)	US$0.31	Nil^^	US$ 0.155	(-) US$ 0.1555	(+) US$ 0.155
Panna-Mukta processing charges (MSCF)	US$ 0.39	US$ 0.0585	US$ 0.15	(-) US$ 0.24	(+) US$ 0.0915
Panna-Mukta processing loss (%)		4%	2.35%		(-) 1.65%

ONGC being transporter of gas was legally entitled to receive charges either from JV (seller) or GAIL (buyer). However, due to dispute over delivery point of gas, ONGC did not receive gas transportation charges till March 2005.

It may be seen from the table that though ONGC got marginal increase in transportation processing charges for Tapti gas and Panna-Mukta gas processing charges. However, it was less compared to rates at which ONGC billed to JV. The Panna-Mukta gas transportation charge was also less compared to rates at which ONGC billed to JV. Similarly, ONGC suffered loss in processing of Panna-Mukta gas since losses was reduced to 1.65%. During the last COPU meeting held on 6 August 2012 ONGC presented a benefit of US$ 86.6 million till March 2012 on transportation and processing charges as given below:

Description	Gas Volume MMSCM	Gas Volume MMSCF	Differential Tariff US$/ MSCF	Tariff received from JV partners US$ MM (60%)
Tapti Transportation	35,067	12,37,387	0.005	3.7
PM-Transportation	12,891	4,54,868	0.155	42.3
PM-Processing	20,964	7,39,742	0.0915	40.6
Total up to 31/3/2012				86.6

P/M processing loss				(-) 34.79
Overall gain to ONGC up to 31/3/2012 including PM transportation charges				51.81
Overall gain to ONGC up to 31/3/2012 excluding PM transportation charges*				9.51

ONGC as the transporter was eligible for transportation charges from JV and this eligibility had been confirmed by MoL&J and accepted by MoPNG. Besides, in March 2005, the JV was allowed to sell the gas to domestic private parties and this change may have influenced the decision of the JV to bear the transportation charges, particularly as some of these domestic private companies were affiliates of the JV partners (BGEPIL and RIL).

However, ONGC's calculation did not consider the Panna Mukta gas processing loss of US$ 34.79 million till August 2012, and incorrectly projected transportation charges of US$42.30 million as gain to ONGC as a result of settlement.

More important, what has been projected as a gain to ONGC, was in fact its legitimate right to receive it for use of its pipeline which had already been accepted by the Ministry of Law. However, due to dispute over delivery point of gas, ONGC was not able to receive gas transportation charges till March 2005 either from the buyer (GAIL) or from the seller (JV) for usage of its pipeline in the sale process. Considering the Panna Mukta gas processing loss of US$34.79 million till August 2012 the overall gain to ONGC was only US $ 51.81 million till March 2012 and excluding the PM transportation charges it was only US$ 9.51 million. The gain of US$ 9.51 million was set off by the loss due to valuation of condensate as crude oil instead of earlier practice of valuing it as gas on energy equivalent basis. This aspect is not brought out by MOPNG/ONGC before COPU."

Since the issue of processing and transportation is incidental to the operation of a gas field, the Committee enquired as to how such an issue was ignored at the time of signing of PSC. In response, the Ministry of Petroleum & Natural Gas in its written reply stated that the issue of processing and transportation of Tapti gas is defined in Article 13.1.3(g) of the PSC. It clearly specifies that, Companies' *development concept contemplated use of existing ONGC-owned facilities*. Further it stipulates that, ONGC and Companies will determine the terms and conditions for the use of processing and treating facilities owned by ONGC, for which payment shall be based on the principles detailed in Appendix I (of PSC), or *Alternately the Contractor install the necessary facilities, the cost of which shall be cost recoverable and not subject to the Cost Recovery Limit.* It is submitted that, Hazira plant of ONGC,

has been extracting VAPs from the hydrocarbons produced from its own fields much before the signing of Tapti PSC. Incidentally, the delivery point of Tapti Gas is also Hazira. In view of above and also in the best national interest, Management Committee (MC) decided to utilize ONGC pipeline and processing facility for evacuation and delivery of Tapti Gas to GoI nominee GAIL. In line with the provisions of the PSC, MC in December, 1995 decided that the gas pipeline from Mid & South Tapti should be tie-in to ONGC's existing 36"/42" pipelines. The maximum total transportation tariff to be paid by JV to ONGC would be limited to the costs of installing a separate pipeline by JV. In this context, it may be submitted that, use of ONGC's existing facilities by JV ensured 40% savings to ONGC towards CAPEX. This also ensured effective utilization of the then spare capacity in the pipeline and at Hazira Plant, resulting in significant revenue for ONGC without any CAPEX.

In response to the aforesaid reply of the Ministry of Petroleum & Natural Gas, Audit in its vetting remarks stated as under:-

> "ONGC as a transporter of JV gas was entitled to receive suitable compensation from the JV (Seller) as per term of PSC. In view of disagreement between JV and ONGC over methodology of calculation of transportation tariff and processing charges, JV was paying interim charges/processing charges much below the invoices raised by the ONGC. In settlement agreement, ONGC got a little marginal increase in transportation tariff and processing charges. Against this ONGC agreed JV's pre-condition of purchase of JV condensate at crude oil price (higher price) in place of gas price (lower price) which was in contravention MoPNG directives which was detrimental to its own interest."

It may be seen from the table that though ONGC got marginal increase in transportation processing charges for Tapti gas and Panna-Mukta gas processing charges, it was less compared to rates at which ONGC billed to JV. The Panna-Mukta gas transportation charge was also less compared to rates at which ONGC billed to JV. Similarly, ONGC suffered loss in processing of Panna-Mukta gas since losses was reduced to 1.65%.

During the evidence held on 6th August, 2012, the Committee desired to know as to why the ONGC did not approach the Law Ministry or exercised the option of arbitration to resolve the outstanding issues relating to the transportation/processing

charges. In response, the Ministry of Petroleum & Natural Gas in its post evidence reply stated that, as transporter of Panna Mukta JV gas ONGC was eligible to receive transportation tariff either from sellers' (JV) or buyer (GAIL) but the fact remains that neither GAIL, the Government nominee, in respect of Panna Mukta Gas, nor JV was paying any transportation charges to ONGC. ONGC in August 1999 sought the legal opinion from the then Additional Solicitor General of India Mr. Altaf Ahmed. The Learned Counsel inferred that the cost of transportation of Panna Mukta Gas to be borne by the Buyer or its nominee i.e. GAIL. Law Ministry examined the legal opinion obtained by ONGC and acknowledged the apparent conflict in the various provisions of PSC in respect of Delivery Point of Panna Mukta Gas. However, Law Ministry advised that the Delivery Point is to be taken Hazira. Despite all efforts by ONGC, the issue of Delivery Point and payment of transportation tariff to ONGC remained unresolved. In view of the dispute on Delivery Point, in January 1998, MOPNG directed GAIL, to make 90% on account payment for the gas price to JV and remaining 10% be kept in ESCROW account pending resolution of Delivery Point issue. Although, 10% withheld money by GAIL was in an interest bearing Escrow account, however, ONGC continued to pursue with the GOI to settle the issue of Delivery Point. Further, it was considered prudent not to invoke dispute resolution mechanism, envisaged under the PSC, against GOI by joining hands with private JV partners.

Disagreeing with the aforesaid reply, Audit in its vetting remarks stated that it needs to be appreciated that ONGC is the transporter in this instance in dispute with the JV (as shipper). The JV has refused to pay transportation charges to ONGC which is contrary to the opinion of the Law Ministry (the JV is liable to pay transportation charges) and MoPNG (directed the JV to pay the transportation charges). MoPNG had also safeguarded the interest of ONGC by withholding 10% of PM JV gas revenue through GAIL, its nominee for purchase of JV gas toward the transportation charges. ONGC, thus, should have invoked arbitration against the JV for non payment of transportation charges. As per PSC, the JV increased the gas price (2004) after 7 years of commencement of production. However, GAIL did not agree for the revised gas price stating that the priority sector may not able to absorb the revised gas price. MoPNG with

effect from April 2005, allowed the JV to market its gas to private domestic parties. In settlement agreement, JV agreed to pay gas transportation charges to ONGC since under the changed scenario of marking gas to private domestic parties, it might have been difficult to pass on gas transportation charges burden to private domestic buyers (i.e. asking buyer to take delivery at offshore). Interestingly, the JV had sold some of the gas to its affiliated parties (RIL and BGPIL affiliates).

To a query as to whether any consultation was made by ONGC with the Ministry of Petroleum & Natural Gas before entering into settlement agreement and if so, what was the advice of the Government, ONGC in its reply stated that Settlement Agreement' was in line with PSC, which provided that for Panna Mukta & Tapti, the gas will be received at ONGC's Hazira facilities, where it will be processed and handed over to GAIL, the Government Nominee. Such transportation & processing of gas will be done by ONGC at an agreed tariff between them. Hence, it was a commercial agreement between PMT-JV and ONGC as transporter. It did not envisage any approval of the Government.

Disagreeing with the aforesaid reply of ONGC, Audit in its vetting remarks stated that buyer and seller cannot independently decide price of hydrocarbon without approval of the GOI. Further, as per section 3.1.4(C) of Accounting Procedure to PMT-JV entered into 'settlement agreement' wherein it was decided to purchase JV condensate at crude oil price. Further, GOI is the owner of the JV field and buyer and seller cannot independently decide hydrocarbon price without the approval of the Government.

According to the Audit, the purchase of condensate at crude oil price resulted in significant loss to ONGC and benefit to the other two operators viz. Reliance Industries Limited and British Gas Exploration and Production India Limited, the private parties.

Commenting on the aforesaid Audit observation, the Ministry of Petroleum & Natural Gas stated that It was a business deal to settle all the long outstanding commercial issues within the framework of the PSC, in the form of a 'Settlement

Agreement'. In this context, it may be pertinent to mention that while as per the provisions of PSC Article 21.5.12 (e), the payments to ONGC were to be made on incremental basis, however, at ONGC's insistence, the basis of Tariff for Panna-Mukta gas was agreed on 'Avoided Cost' basis resulting in substantial gain in tariff. It is worth mentioning that the estimated revenue to be accrued on the basis of agreed transportation tariff & processing charges during the duration of PSC is much more than the cost incurred by ONGC in laying either 36"/42" pipeline. The capacities of 36"/42" Bassien – Hazira trunk lines were based on 4.03 MMSCMD plateau production from Tapti (as per Tapti FR), whereas the same lines are now being used to carry 12-12.5 MMSCMD of JV gas, resulting in significant revenue for ONGC without any capex. This also ensured effective utilization of the then spare capacity in the pipeline and at Hazira Plant.

Audit in its vetting remarks stated that as the Tapti condensate at crude oil pricing was a pre-condition of JV for resolution of pending transportation charges and processing fees through 'Settlement Agreement', it was necessary for ONGC to assess the incremental benefit considering the differential in the existing pre-settlement and revised post settlement tariff/ transportation charges on the basis of pricing of condensate at crude oil prices. This was not done and appraised to Board."

On being asked whether ONGC assessed the actual losses correctly considering the differential in pre-settlement and revised post settlement scenario, ONGC stated that Government of India has not suffered any loss on account of the revised post-settlement tariff / transportation charges including pricing of condensate at benchmarked price. In fact, Government has accrued more revenue / statutory levies post settlement agreement. Pursuant to Settlement Agreement effective from April 1, 2005 JV has been paying Cess and Royalty to the Government on Condensate saved and sold from Tapti, resulting in higher levies. Estimated Cess & Royalty as applicable on Oil/condensate, as per PSC works out to Rs. 1,408/MT. whereas, applicable Royalty on gas at PSC ceiling price of US $ 5.57/MMBTU works out to ~ Rs. 797/MT. Thus it is evident that GoI would be benefited by ~ Rs. 611 per MT in terms of statutory levies on liquid condensate. Further, it is worth

mentioning that Government has also been benefited by sale of Condensate as liquid as its share of Profit Petroleum is greater than before. Consequent to above, next slab of Investment Multiple vis-à-vis Profit Petroleum would trigger early at least by a year or two on account of higher accumulative revenue from sale of Tapti condensate._Thus, GoI entitlement of PP would become 40%, from present level of 20%. Thereby, resulting in substantial increase in GoI share, whereas, Contractors' entitlement would be 60% only. It is therefore submitted that the Settlement Agreement has been beneficial to the Government.

In this context, the Committee enquired as to whether any cost-benefit analysis was undertaken before entering into settlement agreement in 2005. In reply, ONGC submitted that the details of financial impact over the Contract period (upto 2019) comprising, different tariffs, sale & purchase of condensate & release of 10% money with held by GAIL was worked out and Board was informed including the details of cash inflow and outflow to ONGC. The same is submitted hereunder:

Financial Impact over the Contract period (upto 2019)

Tariff US$/MSCF	Effective date	ONGC US$MM	BGEPIL US$ MM	RIL US$MM
Tapti Tptn.@ 0.185 for gas profile of 2,038 BCF	Inception	+226.24	-113.12	-113.12
PM-Tptn@0.155 for gas profile of 912 BCF gas	1.4.2005	+84.80	-42.40	-42.40
PM-Proc.@0.15 for gas profile of 1,131 BCF gas	Inception	+101.80	-50.90	-50.90
Inflow		+ 412.84	-206.42	-206.42
PM Tptn& Proc. Loss based on gas price @ US$ 3.11/MMBTU	Inception till 31.3.2005	-7.20	+ 3.60	+3.60
PM Tptn. & Proc. Loss based on gas price @ US$ 3.11/MMBTU	1.4.2005 till 31.12.2005	-1.44	+ 0.72	+ 0.72
Outflow		-8.64	+4.32	+4.32
Tapti Condensate				
Past benefit to ONGC by sale of Tapti Condensate (Differential Revenue gain)	Inception to 31.3.2005	+ US $ 43.76 million (60%)		
Purchase of Tapti Condensate @ Rs.	1.4.2005 till	- Rs. 2,372 crores		

19,561/ MT for condensate profile of 2.021 MMT (60%,1.213 MMT)	2019			
Revenue from VAP @ Rs.20,636/MT	1.4.2005 till 2019	+Rs. 2,503 Crores		
10% money with held by GAIL in Escrow account, Total Rs. 379 crores including interest .				
50% in escrow account with JV* & 50% amount (Rs. 189.50 crores for distribution)	After release by MoP&NG/GAIL	+ 75.80 crores	+56.85 crores	+56.85 crores

* Balance 50% kept in Escrow in view of Sale Tax Case Sub-Judice in Guajrat High Court

Commenting on the aforesaid reply, Audit in its vetting remarks stated that even considering the additional revenue of Rs 154.35 crore to the Government in form of additional royalty, cess and profit petroleum by treating condensate as crude oil price (higher rate) than gas price (lower rate), the net loss to the ONGC worked out to Rs 670.86 crore till March 2009. As regard to profit petroleum, till 2011-12 Government accrued 20% of profit petroleum (i.e. first slab of profit petroleum).

When asked to make a comparison of the profits that were made by ONGC during the period from May 1998 to March 2005 (when condensate was valued at prices of gas) with that of same number of years starting from April 2005 (when the condensate was valued at crude oil prices), ONGC in a written reply submitted that the practice of valuating condensate at prices of gas continued till 31.3.2005 and in this process if ONGC got unintended benefit, it should not be construed as actual loss in today's terms as the present practice agreed by ONGC with PMT-JV is as per provisions of Tapti PSC. In this context, it may be pertinent to mention that while as per provisions of PSC Art. 21.5.13 (e) the payments to ONGC for Panna-Mukta gas transportation were to be made on incremental basis, however, at ONGC's insistence the basis of Tariff for Panna- Mukta gas was agreed on "Avoided Cost" basis resulting in substantial gain in tariff. It is worth mentioning that the estimated revenue to be accrued on the basis of agreed transportation tariff & processing charges during the duration of PSC is much more than the cost incurred by ONGC in laying either 36"/42" pipelines. This also ensured effective utilization of the then spare capacity in these pipelines and at Hazira Plant. However, the

comparative benefit to ONGC pre/post settlement agreements have been worked out for 100% JV and ONGC share as applicable are as under:

A. Valuation of Condensate as gas equivalent in energy terms vis-à-vis benchmarked to liquid hydrocarbon.

In US $ Million

Valuation of Condensate as Gas Equiv. & as Liquid	**1997-31.3.2005**	**1.4.2005 to 31.3.2012**
A. Condensate produced	5.56 MM Bbls	9.91 MM Bbls
B. Value, Benchmarked as liquid	145.12	**769.14**
C. Value as Gas, equivalent in energy terms	**74.58**	**215.90**
D. Comparative gain to ONGC (B-C)	**70.54**	(-) 553.24
Payment by ONGC to JV (60%)		331.94

B. Revenue from Transportation and Processing charges pre and post settlement agreement:

In US$ Million

Details of Transportation & Processing tariff	**Pre Settlement (1997 – 31.3.2005)**	**Post Settlement (1.4.2005 to 31.3.2012)**
A. Tapti Tptn. & Proc. Charges	93.56	135.36
B. Panna-Mukta Transportation charges	Nil	70.50
C. Panna- Mukta Processing charges	16.67	94.30
D. Receipt from ESCROW (dedn. for Tptn.)	10% Withheld	28.64
Total	**110.23**	**328.80**

C. Differential gain to ONGC till 31.3.2012 Pre vis-à-vis PostSettlement Agreement

Description	Gas Volume	Diff. Tarrif	Differential Revenue	60% received from JV
	MMSCF	US$/MSCF	US $ MM	US $ MM
Tapti Tptn. & Proc.	1,237368	0.005	6.19	3.71
PM-Tptn(1/4/2005)	454,869	0.155	70.50	42.30
PM-Processing	739,742	0.0915	67.69	40.61
Total			**144.38**	**86.63**

D. The benefit analysis to ONGC, Hazira by purchase of Condensate as liquid(1.4.2005 to 31.3.2012) is also submitted.

The Condensate purchased by ONGC, Hazira was processed for extraction of Value Added Products (VAPs) mainly LPG, Naptha, Kerosene & Heavy cuts (HSD). The benefit/loss to ONGC, Hazira post Settlement Agreement from VAPs upto 31.3.2012 is summarized hereunder:

Sl. No.	Description	US $ MM
1	Input Cost Hazira – Condensate price + Processing Cost (100%)	790.25
2	Net Revenue from VAPs (100%)	799.45
3	**Benefit/Loss to ONGC, Hazira, without discount.**	**9.20**
4	Benefit/Loss to ONGC, Hazira, with discount on LPG & SKO	(139.47)*
5	Past benefit to ONGC, Hazira/Short payment to JV	70.54
6	Net Benefit/Loss to ONGC, Hazira, with discount on LPG & SKO	(68.93)

* It is pertinent to mention here that the subsidies computation for compensating the under recovery by OMC on sale of petroleum product does not take into account LPG & SKO production but only oil production and subsidies worked out are there after distribution to HSD, LPG &SKO.

In its vetted remarks on the aforesaid reply of ONGC, Audit stated that Ministry of Petroleum & Natural Gas has not given the year wise details of profits made by ONGC in terms of transportation and processing Charges after the settlement of concerned outstanding issues with JV partners. The Ministry of Petroleum & Natural Gas has given the pre and post comparative benefits of pre and post settlement (up to March 2012). In post settlement, ONGC suffered a loss of US$ 331.94 million by agreeing JV's pre-condition of purchase of condensate at crude oil price (higher price) in place of gas price (lower price) and against agreeing to JV's pre condition, it has got benefits of US$ 86.63 million towards upward revision in transportation charges and processing charges. The Ministry of Petroleum & Natural Gas's calculation does not include loss of US$ 34.79 million (up to August 2012) suffered by ONGC towards reduction in percentage of Panna-Mukta gas processing loss from 4% to 2.35% in package deal. Further gain toward Panna gas transportation charges of US$ 42.30 million projected by the Ministry of Petroleum & Natural Gas was in fact ONGC's legitimate right to receive it for use of its pipeline which has already been accepted by the Ministry of Law. Thus, net loss to ONGC worked out to US$ 280.10 million including Panna gas processing loss (US$ 331.94(-) US$ 86.63 +US$ 34.79 million). Excluding the Panna gas

transportation charges, loss worked out to US$ 322.40 million till March 2012. Further, condensate at crude oil price was also a loss making proposition to ONGC since in its financial calculation it did not factor subsidy on sale of domestic LPG and kerosene which it is bearing as per GoI policy. The loss on this account informed by the Ministry of Petroleum & Natural Gas was US$ 68.93 million till March 2012. This has been worked out by setting of the gain of US$ 70.54 million in the pre-settlement period. The loss reported by ONGC in the post settlement period till 31.3.2012 was US$139.74 million without accounting for the subsidy burden on the value added products extracted and sold from the condensate.

When desired to know about the details of ONGC's profit calculations during the post settlement period of PSC (2005-2019), the Ministry of Petroleum & Natural Gas in a written reply stated as under:-

> "During the post settlement periof of PSC (upto 2019-20), the gross margin accrued to ONGC on VAPs without accounting for subsidy is estimated at US$ 6.38. The benefit to ONGC for the same period on account of settlement agreement is estimated to be US$ 164.14 Million (86.62+10.63+66.89). Hence, the total benefit to ONGC during the above period is estimated to be US$ 170.52 Million (164.14+6.38). However, even after discount on account of GOI directive, the gain to ONGC is estimated at US$ 0.59 Million (170.52-163.55-6.38) during the same period.
>
> Further, considering the entire PSC period, the gross margin accrued to ONGC on VAPs without accounting for subsidy is estimated at US$ 73.35. Thus, total benefit to ONGC during this period is estimated to be US$ 237.49 Million (164.14+73.35). However, even after discount on account of GOI directive, the gain to ONGC is estimated at US$ 38.94 Million (237.49-125.20-73.35) during the same period.
>
> Seen in totality, the settlement agreement has not only ironed out the long pending issues with JV partners, but is estimated to not result in any financial loss to ONGC over both post settlement period and even the entire PSC period."

As per the information furnished by the Ministry, the details of the ONGC's comparative profit calculations during the pre-settlement (1997-2005) and post-settlement period (2005-2019) of PSC are as follows:

A. Valuation of Condensate as gas equivalent in energy terms vis-à-vis benchmarked to liquid hydrocarbon.

In US $ Million

Valuation of Condensate as Gas	1997-	1.4.2005 to	2012-13	2013-14

Equiv. & as Liquid	31.3.2005	31.3.2012		to 2019-20
A. Condensate produced	5.56 MM Bbls	9.91 MM Bbls	0.54	0.51
B. Value, Benchmarked as liquid	145.12	**769.14**	**57.16**	**53.55**
C. Value as Gas, equivalent in energy terms	**74.58**	**215.90**	**12.65**	**11.99**
D. Comparative gain to ONGC (B-C)	**70.54**	(-) 553.24	(44.51)	(41.56)
Payment by ONGC to JV (60%)		331.94	26.71	24.94

Note:

1. Tapti production profile for condensate and gas is upto 2015-16 only.
2. For the period 2013-14 to 2019-20 the condensate rate (SP) is assumed at US$ 105 per BBL.
3. NCV of 4.22 (average NCV of 2012-13) is assumed for conversion of condensate BBL to MMBTU.

B. Revenue from Transportation and Processing charges pre and post settlement agreement:

In US$ Million

Details of Transportation & Processing tariff	Pre Settlement (1997 – 31.3.2005)	Post Settlement (1.4.2005 to 31.3.2012)	2012-13	2013-14 to 2019-20
A. Tapti Tptn. & Proc. Charges	93.56	135.36	8.12	9.24
B. Panna-Mukta Transportation charges	Nil	70.50	11.01	69.94
C. Panna- Mukta Processing charges	16.67	94.30	10.65	67.69
D. Receipt from ESCROW (dedn. for Tptn.)	10% Withheld	28.64	-	-
Total	**110.23**	**328.80**	**29.78**	**146.87**

C. Differential gain to ONGC till 31.3.2012 Pre vis-à-vis Post Settlement Agreement

			Upto 2011-12		2012-13		2013-14 to 2019-20	
Description	Gas Volume	Diff. Tarrif	Differential Revenue	60% received from JV	Differential Revenue 100%	Differential Revenue 60% received from JV	Differential Revenue 100%	Differential Revenue 60% received from JV
	MMSCF	US$/MSCF	US $ MM	US $ MM	US $ MM	US $ MM	US $ MM	US $ MM
Tapti Tptn. & Proc.	1,237368	0.005	6.19	3.71	0.22	0.13	0.25	0.15
PM-Tptn(1/4/2005)	454,869	0.155	70.50	42.30	11.01	6.60	69.94	41.97
PM-	739,742	0.0915	67.69	40.61	6.50	3.90	41.29	24.77

Processing								
Total			**144.38**	**86.63**	**17.72**	**10.63**	**111.48**	**66.89**

D. The benefit analysis to ONGC, Hazira by purchase of Condensate as liquid(1.4.2005 to 31.3.2012) is also submitted.

The Condensate purchased by ONGC, Hazira was processed for extraction of Value Added Products (VAPs) mainly LPG, Naptha, Kerosene & Heavy cuts (HSD). The benefit/loss to ONGC, Hazira post Settlement Agreement from VAPs upto 31.3.2012 is summarized hereunder:

US $ MM

Sl.No.	Description	2005-06 to 2011-12	2012-13 to 2019-20	Total from 2005-06 to 2019-20
1	Input Cost Hazira – Condensate price + Processing Cost (100%)	790.25	143.40	933.65
2	Net Revenue from VAPs	799.45	140.58	940.03
3	**Benefit/Loss to ONGC, Hazira, without discount.**	**9.20**	(2.82)	6.38
4	Benefit/Loss to ONGC, Hazira, with discount on LPG & SKO	(139.47)*	(24.08)	(163.55)
5	Past benefit to ONGC, Hazira/Short payment to JV	70.54	0.00	70.54
6	Net Benefit/Loss to ONGC, Hazira, with discount on LPG & SKO	(68.93)	(24.08)	(93.01)

* It is pertinent to mention here that the subsidies computation for compensating the under recovery by OMC on sale of petroleum product does not take into account LPG & SKO production but only oil production and subsidies worked out are there after distribution to HSD, LPG &SKO.

D.1 The benefit analysis to ONGC, Hazira by purchase of condensate as liquid (1997-98 to 2019-20) is also submitted.

US $ MM

Sl.No.	Description	1997-98 to 2004-05	2005-06 to 2011-12	2012-13 to 2019-20	Total from 1997-98 to 2019-20
1	Input Cost Hazira – Condensate price + Processing Cost (100%)	80.64*	790.25	143.40	1014.28
2	Net Revenue from VAPs	147.60	799.45	140.58	1087.63
3	**Benefit/Loss to ONGC, Hazira, without discount.**	**66.97**	**9.20**	(2.82)	73.35
4	Benefit/Loss to ONGC, Hazira, with discount on LPG & SKO	55.33	(139.47)	(41.06)	(125.20)
5	Past benefit to ONGC, Hazira/Short payment to JV	**		0.00	0.00
6	Net Benefit/Loss to ONGC, Hazira, with discount on LPG & SKO	55.33	(139.47)	(41.06)	(125.20)

* Input cost is arrived after adding condensate price paid as gas for US$ 74.58 MM (Table A)+ processing cost of US$ 6.06 MM

** Past benefit shown at S.No. 5 in previous Table D is ignored in Table D1, since this benefit is already included in condensate price at S.No. 1 in this table D1.

(iii). Benefit to Government Exchequer

ONGC has claimed that Government had been benefited by valuing condensate at crude oil prices. Asked to explain the basis for this stand, the Ministry of Petroleum & Natural Gas in its reply (5 April 2013) stated that pursuant to Settlement Agreement effective from April 1, 2005 JV has been paying Cess and Royalty to the Government on Condensate saved and sold from Tapti, resulting in higher levies. Further, Government has also been benefited by sale of Condensate as liquid as its share of Profit Petroleum is greater than before. Actual revenue received by the GoI from statutory levies & Profit Petroleum in respect of Mid & South Tapti Contact area is as under:

Actual Paid to the GoI, All figures in US $ MM				
Description	Inception till 31-3-2005	1.4.2005 to 31-3-2012	Inception till 31-3-2012	Remarks
Total statutory Levies	135.82	367.79	503.61	As per CRS
GoI Profit Petroleum	161.53	572.92	734.45	EOY Statement
Note: All figures represents for;				
Tapti Gas + Tapti Condensate (as Gas equiv.) till 31.3.2005 & (as liquid) from 1.4.2005 to 31.3.2012				

The Ministry of Petroleum & Natural Gas further submitted that on the actual revenue received by the GoI, comparative benefit/Loss to GoI has been worked out in Pre and Post – Settlement scenario as under:-

a) GoI take for valuation of Condensate as gas equivalent in energy terms vis-à-vis benchmarked to liquid hydrocarbon (Inception to 31.3.2005).

Pre-settlement Agreement (inception till 31.3.2005), all figures in US$MM			
Description	GoI Take in US $ Million		Remarks
	As Gas Equ.(Actual)	Valued as Liquid	Cess applicable for liquids only.
Royalty/Statutory Levies	135.82	149.89	
GoI share of PP	161.53	172.64	
Total	297.35	322.71	
Loss to GoI in valuing Condensate as gas Equivalent in energy terms			US $ 25.36 MM

b) GoI take for valuation of Condensate benchmarked to liquid hydrocarbon vis-à-vis as gas equivalent in energy terms (1.4.2005 to 31.3.2012)

Post-settlement Agreement (1.4.2005 to 31.3.2012), all figures in US$MM

Description	GoI Take in US $ Million		Remarks
	As Gas Equ. Calculated	Valued as Liquid(Actual)	Cess applicable for liquids only.
Royalty/Statutory Levies	349.64	367.79	
GoI share of PP	465.91	572.92	
Total	815.55	940.71	
Benefit to GoI by valuing Condensate benchmarked to liquid Hydrocarbon.			US $ 1 25.1 6 MM

The Ministry of Petroleum & Natural Gas stated that it is evident from above that, during June 1998 to 31.3.2005 (Pre- Settlement period) GoI suffered a loss of ~ US $ 25.36 Million due to treatment of condensate as gas equivalent instead of liquid hydrocarbon. However, GoI has been benefited to the tune of ~ US $ 125 Million during the period 1.4.2005 till 31.3.2012 by treating condensate as liquid in comparison to valuing as gas. The above facts corroborates the earlier observation by C&AG in its Report No. 5 (Commercial) of 1996 and Draft Report 2005 that, "GoI suffered loss of Rs. 67.67 Crore due to treatment of Tapti Condensate as gas instead of crude oil and future loss on that account is estimated to be Rs. 232 Crore (Para no. 4.4.4.1 to 4.4.4.4). Consequent to valuation of condensate at benchmarked price, next slab of Investment Multiple vis-à-vis Profit Petroleum would trigger early at least by a year or two on account of higher accumulative revenue from sale of Tapti condensate. Thus, GoI entitlement of PP would become 40%, from present level of 20%. It is therefore submitted that the valuation of condensate as liquid has been beneficial to the Government.

Audit in its vetting remarks to the aforesaid reply of ONGC stated that in CAG Para, audit has also taken into consideration incremental benefits accrued to Government in form of statutory levies and profit petroleum due to consideration of condensate at crude oil price (higher price) than natural gas price (lower price) and commented that decision of ONGC to purchase JV condensate at crude oil price in lieu of gas price (contravention to ministry) which resulted in loss to ONGC (including Government incremental benefit). As per data provided by the Ministry of Petroleum & Natural Gas, the loss to ONGC even after taking incremental benefit to the Govt. worked out to US$ 205.01 million till 31.3.2012 as given below.

Elements	US$ MM
Loss due to purchase of condensate at crude oil price in place of gas price (1.4.2005 to 31.3.2012)-ONGC to JV 60%	(-) 331.94
Incremental gain to ONGC on transportation and processing charges - 60% received from JV	86.63
Loss to ONGC on reduction in % of processing loss up to August 2012 not considered by Ministry	(-) 34.79
Govt.incremental gain on statutory levies and PP-60% excluding 40% of ONGC (Government ONGC) share	75.09
Total loss to ONGC including Govt. incremental gain	205.01

It was clarified by Audit that a draft comment had been made in course of an audit stating that GoI has suffered loss of Rs. 67.67 crore due to treatment of Tapti condensate as gas instead of crude oil. This was based on a study of DGH which pointed out that royalty and cess on crude oil is higher compared to gas. However, this was a very limited analysis which did not consider the holistic picture of changing treatment of condensate from gas to crude oil as was done in the instant para. It may also be pointed out here that the comment was a draft comment which was not included in the final audit report and thus is a part of audit's working papers/ documentation and is not a final view taken by the CAG.

(iv). <u>Value Added Products</u>

ONGC had reportedly apprised (3 March 2006) its Board of Directors (Board) that on valuing the condensate at crude oil prices, ONGC would gain Rs. 131 crore (US$29.11 million) in terms of value of VAPs to be extracted from the condensate production profile of 2.021 MMT for the period from April 2005 to 2019. Audit has however, observed that the said net gain of 131 crore was in fact a loss of Rs. 202 crore as ONGC had not considered the subsidy element on domestic Liquefied Petroleum Gas (LPG) and Superior Kerosene Oil (SKO) which it was bearing as per the government directives.

When asked as to whether ONGC overlooked the subsidy burden on Liquified Petroleum Gas (LPG) and Superior Kerosene Oil (SKO), while working out the net gain / loss on the Value Added Products (VAPs), ONGC in its reply stated that Oil Marketing Companies (OMC's) incur under recovery in selling the price - sensitive products

(LPG - domestic, SKO-PDS, MS and HSD) on prices approved by the Govt. from time to time. Approximately one third of such under recovery is borne by upstream oil companies (ONGC, OIL and GAIL) in the ratio of their net profit of the previous year. The share of under recovery of each upstream ONGC is first determined in absolute amounts (i.e. crore) and is then denominated in terms of Rs. Per tone or barrel of discount to be allowed by each upstream ONGC on the sale of crude oil, LPG, SKO to OMC/refineries in such a manner that the discount on sale allowed by the upstream ONGC to the OMC's/refineries is exactly equal to the under recoveries allocated to upstream companies These working are carried out by MoP&NG/PPAC on quarterly basis. In substance, the subsidy discount allowed by upstream companies (in Rs. crore) is independent of the quantum of their production of crude, LPG and SKO, since the subsidy amount depends upon the under recoveries of the OMC's. Thus for economic analysis/decision making for investment in upstream projects, only the contribution from additional production is taken into consideration at pre-subsidy discount rates. Since the subsidy discount to be passed on is fixed and does not depend upon quantity produced, for economic analysis purpose, the subsidy element was not factored in.

Disagreeing with the abovestated explanation of ONGC, the Audit in its vetting remarks stated that the argument is not convincing since ONGC is bearing subsidy on domestic LPG and Kerosene as per GoI policy, ONGC should have factored the subsidy element while working out financial calculations for purchase of condensate at crude oil price (though contrary to MoPNG directives). As worked out by the Ministry of Petroleum & Natural Gas the loss to ONGC considering subsidy element was US$ 68.93 million till 31.3.2012.

Enquired as to how the gain of Rs. 131 crore was calculated and whether it was placed before the Board, ONGC in a written reply stated that while seeking approval of ONGC management for execution of settlement agreement, the estimated benefit of Rs. 131 crore through VAP extraction was not considered. However, the estimated benefit to accrue was provisionally assessed based on the nine month average price of VAP

and condensate price indexed to Brent Crude, a figure which was to be reworked based on the recommendation of outside expert. Gain from VAP per MT as worked out @ Rs.1,075/MT to Rs.131 crore (1075*2.031 MMT *0.6 (JV share) = 131 crore) and same was apprised to ONGC Board.

Audit in its vetting remarks stated in this regard that while appraising its Board, ONGC management in its financial calculation did not factor the subsidy element on sale of domestic LPG and SKO which has its bearing as per GoI policy. ONGC considered the invoice price of domestic LPG and SKO instead of realized price. Further processing cost was higher at ` 581 per MT (as per cost records of ONGC and confirmation of processing cost obtained from Hazira plant of ONGC) instead of Rs. 400 per MT considered by ONGC. In addition, Rs. 51 per MT for export charges was taken by audit which was not considered by ONGC in its calculation. Thus, gain of Rs. 131 crore presented by ONGC to its Board was in fact a loss of Rs. 202 crore.

On being asked whether ONGC was getting the value added products in the earlier arrangement and was there any way the JV could have sold the condensate to any Party other than GoI or its nominees, thus depriving ONGC of the benefit of value added products, ONGC in a written reply stated that it has been extracting VAPs since commencement of Tapti gas production, i.e., June 1997 and is continuing to extract the same now also. It is submitted that pursuant to Article 18 of the PSC, regarding sale to any party other than GoI or its nominee, when GoI is unable to nominate or has elected not to purchase full or partial off take of production within ninety days of the sale offer made by JV to GoI, provision exists for sale of Petroleum to any party other than GoI or its nominee at Arms Length Sales as provided in Article 19.3. The Hazira Plant of ONGC has been extracting VAPs from the hydrocarbons produced from its own field much before signing of Tapti PSC. Incidentally, the delivery point of Tapti Gas is also Hazira. In view of above and also in the best national interest, MC decided to utilize ONGC pipeline and processing facility for evacuation and delivery to Tapti Gas to GoI nominee GAIL. In fact, utilization of ONGC infrastructure by JV was instrumental in early production & sale of gas from Tapti field, benefitting the nation as a whole. In turn,

ONGC got an opportunity to extract VAP out of JV gas, thereby facilitating full value realization of Tapti gas.

In their vetting remarks to the aforesaid reply of ONGC, Audit stated that the MoPNG has made the arrangement for disposal of condensate. AS per MoPNG instance, MoU was signed between JV (seller) and ONGC (buyer) wherein ONGC was retaining the JV condensate and in turn delivering its own gas to GAIL on energy equivalent basis. The issue regarding designating a Government nominee for receipt of Condensate was discussed (November 2003) in the meeting held by the MoPNG with the JV, GAIL and DGH, wherein MoPNG reiterated its earlier decision i.e. MoU arrangement wherein ONGC was retaining the JV condensate and in turn delivering its own gas to GAIL on energy equivalent basis and directed to continue the existing arrangement.

(v). <u>EIL STUDY</u>

According to Audit, a study was conducted by Engineers India Limited in February 2005 at the instance of MOPNG which concluded (March 2005) that condensate obtained from Tapti field could be treated as gas which was accepted (April 2005) by the MoPNG.

When asked to clarify as to why ONGC went ahead signing settlement agreement with JV partners ignoring the findings of EIL report, CMD, ONGC during evidence held on 6 August, 2012 deposed as under:-

"the report has never been public nor a decision has been conveyed".

In view of the findings of the EIL study, the Committee enquired as to how ONGC could justify its decision to consider condensate obtained from Tapti gas field as oil and whether ONGC used different technical methods/grounds from those relied upon by the EIL to determine the nature of condensate and if so, whether such methods were in consonance with the standard International norms. In response, ONGC stated as under:

> "…in order to enable early commencement of gas production from Tapti field, it was purely an interim decision taken by MoP&NG to treat the Condensate as

gas. EIL carried out the study on treatment of condensate twice, on the advice of MoP&NG first in the year 1998 and again in 2005.

a) In 1998, EIL carried out by simulation method the total take of contractors considering condensate being treated as gas and condensate being treated as condensate.

b) EIL submitted its report in July 1998 to the Ministry. MoP&NG, in Sept' 1998 constituted a Committee of experts to study EIL report to work out various pricing options for the Condensate. Committee after detailed deliberations recommended that: "Condensate may be valued as Crude Oil" and submitted its report in Dec'1998. Committee also stated that, "Gas condensate is not being treated as Gas internationally". Committee after evaluating various options recommended that "Condensate may be valued as Crude Oil" and submitted its report "Pricing options for Tapti condensate" to the Ministry in December' 1998.

c) DGH, the technical arm of the Government also carried out (Sept' 1997) the revenue implication of treating condensate as gas as well as oil and opined that its treatment as oil would be beneficial to the Government."

d) However, the Report has not been accepted by the MoP&NG.

e) Treatment of Condensate was again discussed in the Ministry in 2005 and EIL was assigned to carry out simulation for the Tapti well fluid. EIL submitted its report in March, 2005 and opined that "it is reasonable to conclude that condensate obtained from Tapti gas can be treated as gas". However this report has also not been accepted by the MoP&NG.

An examination of EIL Report of 2005, reveals the following facts:

- Only one well sample (STB#1) has been taken for simulation study.
- Interpretation has been done using simulation by HYSYS.
- Considering the foregoing, probably led EIL to suggest treatment of Tapti Condensate as Gas. However, actual composition of Tapti Condensate as per Core Lab Report (based on more representative sample collected from process platform) is as under:
  - Methane - 29.30% by Mole
  - C1 to C5 - 46.1% by Mole
  - C6 and Higher fractions - 53.9 % by Mole.

It is worth mentioning that, Tapti fluid has a (Condensate Gas Ratio) CGR in the range of ~ 9 to 16 Bbls/MMSCF (average ~ 12 Bbls/MMSCF).

It may be pertinent to mention that treatment of condensate as gas in equivalent energy terms is not appropriate valuation due to difference in constituents of gas and condensate. Condensate being rich in higher

components is used for VAP production and is commercially valued much higher vis-à-vis gas. Condensate produced along with the natural gas from other fields under PSC, i.e. CB- OS/2 & KG- DWN- 98/3 etc. is being sold as condensate, valued as liquid hydrocarbon. Therefore, it is reiterated that the valuation of Tapti condensate is consistent as per the provisions of the PSC."

In their vetting remarks to the aforesaid reply of ONGC, Audit stated that EIL report of December 1998 was not accepted by the Government as evident from the fact that during the progress review meeting of PMT-JV held (November 2003) by MoPNG with PMT-JV partners, DGH and Government nominee, IOC and GAIL for purchase of JV crude oil and gas respectively, the issue regarding designating, a Government nominee for receipt of condensate was discussed. It was brought out that ONGC is at present receiving condensate at Hazira. The Joint Secretary, MoPNG mentioned that in case any party has problem with existing arrangement, it should send its suggestions/proposal to DGH, else, the existing system would continue. Further, at the instance of MoPNG, EIL carried out the simulations for the well fluid composition for Tapti gas field as furnished by ONGC. EIL, in its report of March 2005 had stated that condensate was not present at reservoir conditions, was generated at the wellhead conditions and was in vapour form even at a temperature of 42.7oC. On examination of the behaviour of the Tapti well fluid at reservoir and wellhead conditions and the definition of condensate as given in the PSC, EIL concluded (March 2005) that condensate obtained from Tapti gas field can be treated as gas. According to Audit, MoPNG accepted EIL recommendation (April 2005).

To a specific query as to whether the study report of EIL on valuation of condensate was accepted by the Ministry of Petroleum & Natural Gas, the Ministry of Petroleum & Natural Gas in a written reply categorically stated that the same has not been accepted by them as it was not required as per PSC.

(vi). DIFFERENTIAL TREATMENT FROM THE BASSEIN GAS FIELD

Audit has observed that ONGC was valuing the condensate generated from its own Bassein gas field at gas prices and paying royalty as applicable to gas whereas in case of Tapti Gas Fields the condensate was valued at crude oil prices.

In this regard ONGC was asked to clarify as to why it has applied different parameters to determine the valuation of condensate produced at its Tapti and Bassein gas fields. In response, ONGC stated that its Bassein and Satellite (B&S) is regarded as a dry gas field, as the gas produced does not contain heavier molecules as condensate, at reservoir conditions. However, condensate is formed at surface and during transportation to Hazira. Whereas in case of Tapti JV field, the gas, as produced contains liquid hydrocarbon i.e. condensate at the well head itself. Therefore, in case of Tapti field, since condensate is produced at the well head itself (by wet gas), rather than in course of pipeline transportation in case of Bassein gas (dry gas), as such, value extraction proposition from Tapti gas was distinctly multifold.

It is pertinent to submit that in May/June 1998, MoP&NG asked EIL to carry out a study to advise on treatment of Condensate produced along with gas from Tapti fields. Accordingly, EIL submitted its report in July, 1998 to the Ministry of Petroleum & Natural Gas. Subsequently, MoP&NG, in Sept' 1998 constituted a Committee comprising of senior technical experts from GAIL & ONGC to study EIL report on treatment of Condensate and to work out various pricing options for the Condensate. Committee in its report on page no. 3 stated that' "Generally Naphtha obtained from refinery contains C5 to C9 hydrocarbons. The Tapti Condensate contains around 10.6 mole% of C10 and 25.9% of C10+ hydrocarbons and balance 63.6% being C5 to C9. Hence the Tapti Gas Condensate can't be treated at par with Naphtha. However, the composition of Tapti Gas Condensate (C4 to C10+) matches almost with light stabilized crude oil".Further, JV partners, M/s Enron, (now BGEPIL) & RIL have been insisting since 1997-98 for designating GoI nominee and valuation of condensate, under the provisions of the PSC. As such, it was not possible for ONGC to deny their entitlement as provided in Article 14.4 of PSC in respect of Sharing of Profit Petroleum.

ONGC further stated that in CAG Report No. 5 (Commercial) of 1996 and Draft Report 2005 (para no. 4.4.4.3), audit observed that the bid of RIL/EOGIL for Tapti field had been evaluated after consideration of the condensate as crude oil for statutory levies and pricing and; DGH has carried out (Sept' 1997) the revenue implication of treating condensate as gas as well as oil and opined that its treatment as oil would be

beneficial to the Government. In view of foregoing, the valuation of Tapti Condensate done as per the provisions PSC is in order.

In their vetting remarks to the aforesaid reply of ONGC, Audit stated as under:

- At the instance of MoPNG, EIL carried out the simulations for the well fluid composition for Tapti gas field as furnished by ONGC. EIL, in its report had stated that condensate was not present at reservoir conditions, was generated at the wellhead conditions and was in vapour form even at a temperature of 42.7oC On examination of the behaviour of the Tapti well fluid at reservoir and wellhead conditions and the definition of condensate as given in the PSC, EIL concluded (March 2005) that condensate obtained from Tapti gas field can be treated as gas. MoPNG accepted EIL recommendation (April 2005).As regard to B&S gas field of ONGC, condensate is also generated at wellhead. Thus MoPNG argument that in B&S field condensate is formed at surface during transportation to Hazira is not factual. Thus in the both fields condensate is produced at wellhead.

- JV during initial period (1997-98) insisted for treatment of condensate as gas. This was presumably because the price of gas was then higher than crude oil. The stand of the JV changed over time as price of crude oil soared.

- A draft comment had been made in course of an audit stating that GoI has suffered loss of ` 67.67 crore due to treatment of Tapti condensate as gas instead of crude oil. This was based on a study of DGH which pointed out that royalty and cess on crude oil is higher compared to gas. However this was a very limited analysis which did not consider the holistic picture of changing treatment of condensate from gas to crude oil as was done in the instant para. It may also be pointed out here that the comment was a draft comment which was not included in the final audit report and thus is a part of audit's working papers/ documentation and is not a final view taken by the CAG."

(vii). <u>Violation of Interim Arrangement</u>

Audit has observed that the decision of ONGC to purchase condensate at crude oil price was inconsistent with the directive (May 1998) of Ministry of Petroleum and Natural Gas to treat the condensate at gas. In November 2003, MoPNG reiterated its earlier decision of treating condensate as gas and directed that the existing system would continue. MoPNG had conducted study through M/S EIL (March 2005) who after considering the behavior of the Tapti well fluid at reservoir and well head condition and

definition of the PSC document concluded (March 2005) that condensate obtained from Tapti gas can be treated as gas and the same was accepted by MoPNG.

The Committee enquired as to whether any directions were issued by GOI regarding disposal of Tapti condensate (Joint Venture Condensate), and If so, the details thereof as also when these were issued. In response, ONGC stated that the earlier direction given by the Government to treat the Tapti Condensate on 'Energy Equivalent Losses" was based on the study of EIL, though PSC talked of treating its valuation on the basis of crude oil equivalents. However, the Settlement agreed in Settlement Agreement dated 31.12.2005 signed between ONGC as transporter of gas and PMT JV agreed ONGC as transporter of the gas and PMT JV agreed ONGC as buyer of condensate and its valuation mutatis mutandis with crude oil. Since the valuation agreed by ONGC is in line with PSC provisions, Government of India didn't have any objection to such sale.

Disagreeing with the aforesaid reply of ONGC, Audit in its vetting remarks stated that as per Article 1.18 of the PSC, Tapti condensate cannot be treated as Crude Oil. Study conducted (February 2005) by M/S Engineering India Limited, at the instance of MoPNG, also concluded (March 2005) that be treated as gas and same was accepted (April 2005) by the MoPNG. As regards MOPNG's reply that the valuation agreed by ONGC is in line with the PSC provision and the Government of India did not have any objection to such sale may be viewed in light of the following:

- Tapti PSC does not contain any terms and conditions relating to Condensate disposal.
- The definition of 'Condensate' in Article 1.18 of the Tapti PSC provides that in the event Condensate is produced from an 'Oil field' and is segregated an transported separately to the delivery Point, then the provisions of the PSC shall apply to such Condensate as if it were Crude Oil.
- The provision of Article 19.11 relate to Valuation of Oil and as per Article 1.18 Article 19.11 applies to condensate only if the condensate is produced from Crude Oil field. In the present case, the condensate has been produced from a gas field.
- Since Tapti is a gas field, the PSC provision referred by the MoPNG is not applicable to the condensate produced from this field.
- In absence of provision for disposal of condensate in the PSC, as per the direction of MoPNG, at the time of commencement of production, MOU was

signed between ONGC and JV wherein ONGC was retaining the JV condensate and in turn delivering its own gas to GAIL on energy equivalent basis.

- MoPNG in November 2003 reiterated its above decision and directed PMT-JV and ONGC to continue the existing arrangement.
- MoPNG had conducted study through M/S EIL (March 2005) who after considering the behaviour of the Tapti well fluid at reservoir and well head conditions and definition of the PSC document concluded (March 2005) that condensate obtained from Tapti gas can be treated as gas and the same was accepted by the MoPNG (April 2005).
- Thus, ONGC's decision to purchase Tapti condensate at crude oil price was not as per PSC provision and also in contravention to the MoPNG directives.
- The GOI is the owner of the field and as such had given Mining Lease to the JV on certain terms and conditions. Thus, the buyer and seller cannot independently decide price of hydrocarbon without approval of the GOI the owner.

  PMT-JV entered into 'settlement agreement' wherein it was decided to purchase JV condensate at crude oil price. Further, GOI is the owner of the JV field and buyer and seller cannot independently decide hydrocarbon price without the approval of the Government.

When asked whether the directions of the Government of India were being followed by ONGC, ONGC stated that an interim arrangement was made for delivering substituted equivalent volume of gas on energy basis (MMBTU contents), in lieu of Tapti condensate. Such practice continued till 31.03.2005 and in this process if ONGC got unintended benefit, it may not be treated as actual loss in today's terms as the present practice agreed by ONGC with PMT-JV is as per provisions of Tapti PSC.

During the evidence, the Committee enquired as to why ONGC went ahead to sign settlement agreement with JV partners which was in contravention of Government's interim arrangement of 1998. In response, the Secretary, MoPNG deposed:

> "Sir, in fact the arrangement was well laid out in the Production Sharing Contract (PSC) itself. It has in fact made it clear how this condensate is to be valued. It is there in the PSC itself. But somehow as an interim arrangement, because there were other disputes, it was said okay you treat it as gas, means it should be priced at energy equivalent accordingly. So, somehow it went on from 1997 to 2005. In 2005, since the other disputes were being settled, almost everybody at that point in time, because the PSC is quite clear about it, said that we must implement."

The Secretary added:

> "That is a fact because in 1998, there was a meeting convened by the then Joint Secretary (Exploration) where all the players participated and it was thought proper that it should be valued as gas. That is what is written. But as a follow up of that, no order was issued."

When asked whether the ONGC has the authority to enter into any agreement without prior approval of the Government, CMD, ONGC deposed as under:

> "Sir, this was discussed and approved in the Board where the Government nominee was also there and the Joint Venture has informed the Government after this Settlement Agreement."

In this context, the Ministry of Petroleum & Natural Gas was asked to clarify as to how the Government remained silent when JV informed them about the Settlement Agreement and the valuation of Tapti Condensate at crude oil price which was contrary to their directives of 1995 and the outcome of EIL study accepted by the Government in April 2005. In response, the Ministry of Petroleum & Natural Gas replied that the Ministry has not objected to the settlement Agreement as the pricing of condensate was finally agreed between the parties in accordance with Article 19.11 of PSC and the settlement Agreement is a commercial decision between ONGC and the JV.

Not agreeing with the aforesaid reply of ONGC, Audit in its vetting remarks stated that the pricing of condensate at crude oil price was in contravention to Ministry of Petroleum & Natural Gas's own directives to ONGC which was based on deliberations with DGH, EIL, ONGC, GAIL and PMT-JV and also independent study conducted by it through EIL in March 2005 which was accepted by it in April 2005. Further, Ministry of Petroleum & Natural Gas has not appointed ONGC (ONGC) as its nominee to purchase the JV condensate which is required under Article 18.2 and 19 of the PSC. It may be mentioned here that Ministry of Petroleum & Natural Gas appointed GAIL as its nominee to purchase 100% of JV gas.

As regards ONGC's intimation to its Board of Directors regarding the Settlement Agreement, Audit had observed that ONGC did not apprise the Board of the incremental gain/loss on settlement of outstanding issues of transportation and processing charges

vis-à-vis purchase of condensate at crude oil price in place of gas price which was a pre-condition of JV for settlement of outstanding issues. Further, ONGC did not apprise the Board that purchase of condensate was at crude oil price which was in contravention to Ministry of Petroleum & Natural Gas's directives. Perusal of agenda papers and minutes of the Board Meeting of ONGC also confirmed the stand of Audit.

PART-II

OBSERVATIONS / RECOMMENDATIONS OF THE COMMITTEE

The Committee are distressed to know the serious deficiencies in a commercial contract entered into between the Government of India, Oil and Natural Gas Corporation Limited (ONGC), Reliance Industries Limited (RIL) and British Gas Exploration and Production India Limited (BGEPIL) formerly known as Enron Oil and Gas India Limited. The Production Sharing Contract (PSC) of the Tapti Gas Field, a joint venture (JV) jointly operated by ONGC, RIL and BGEPIL was executed in December 1994. The PSC devised by ONGC did not provide for disposal of Tapti condensate and there was no separate pricing mechanism for condensate. The PSC was also silent about the appointment of Government nominee for purchase of the condensate and there was also no clarity in the PSC about delivery point of condensate which led to different interpretations. The Committees' pointed query seeking reasons for these lapses has not yielded any specific information. The Committee deplore the lapses on the part of ONGC and urge ONGC and the Ministry of Petroleum & Natural Gas to exercise extreme care in future and ensure that there are no shortcomings in commercial contracts.

2. The lacunae in the PSC with regard to disposal and pricing of condensate led to an interim arrangement whereby ONGC retained the JV condensate and in turn delivered its own gas to GAIL on energy equivalent basis as per the PSC gas pricing mechanism. The fact that the interim arrangement, made at the instance of the Ministry of Petroleum & Natural Gas, continued for almost seven years (i.e. from May 1998 to March 2005) shows the apathy with which the matter has been handled. The Committee feel that adhocism on the part of Ministry of Petroleum & Natural Gas in such a crucial matter is inexplicable. It is only in December 2005, the interim arrangement was replaced by a 'settlement agreement' which was signed between ONGC and JV partners.

3. ONGC is the transporter and processor of JV gas and its issues on fixation of transportation and processing charges were outstanding with the JV partners. The JV partners (viz., RIL and BGEPIL) insisted on valuation of condensate at crude oil price as a precondition for settlement of JV gas transportation and processing charges. ONGC entered into a 'settlement agreement' on 31 December 2005 (effective 1 April 2005) with JV partners which fixed pricing of condensate at crude oil price and resolved other issues like transportation and processing charges and delivery point, etc. The Committee see no reason why the issue of fixation of transport and processing charges was linked to valuation of condensate. Since the ONGC was legally entitled to receive transportation charges for JV gas, it should have gone for independent amicable settlement or gone in for arbitration in the matter, particularly in view of Law Ministry's opinion that JV is liable to pay transportation charges to ONGC.

4. ONGC justified its decision to value condensate at crude oil price on the basis of Article 19.11 of the PSC. Audit, relying on the proviso to Article 1.18 of the PSC, took the stand that condensate could be treated as crude oil only if the conditions laid down in the proviso are fulfilled. The Committee feel that the proviso to Article 1.18 which deals with the condensate from an oil field is not relevant in this case, as Tapti is a gas field and not an oil field. The definition of 'condensate' in Article 1.18 and pricing of condensate as stipulated in Article 19.11 are relevant.

5. The Committee note that the joint meeting held on 13-14 April 1998 (at the instance of Ministry of Petroleum & Natural Gas), wherein representatives of ONGC, EIL and DGH were present had *inter-alia* concluded that 'the well fluid produced at Tapti field contains hydrocarbons which fall under the definition of natural gas and condensate due to their being in vapour phase and liquid phase respectively at normal temperature and pressure conditions.' It is also noteworthy to mention that a Committee constituted by the Ministry of Petroleum & Natural Gas in September 1998 comprising senior technical experts of GAIL and ONGC concluded that the composition of Tapti Gas Condensate matches

almost with light stabilized crude oil and pointed out that 'gas condensate is not being treated as gas internationally.' The Committee note that barring problems in separation and measurement of the condensate, the interpretation arrived at by these bodies with respect to properties of condensate broadly conforms to the definition of condensate given in Article 1.18 of the PSC. Further, the legal opinion of Additional Solicitor General in this regard states that 'the price of the condensate produced from Mid & South Tapti Contract area is necessarily to be fixed under Article 19 of the PSC which means that Article 19.2 to 19.10 have to be applied, with the modification that the price has to be fixed with reference to the price of condensate and not of crude oil' also broadly conforms with the interpretation of ONGC. Taking into consideration the various views of the expert bodies and also given the fact that there is no separate pricing mechanism for condensate in the PSC, the Committee feel that condensate produced from Tapti Gas field (as defined in article 1.18) could not have been valued other than in accordance with Article 19.11.

6. Though, EIL study of 2005 concluded that condensate should be treated as gas, the Ministry of Petroleum & Natural Gas had categorically stated that EIL Report has not been accepted by them as it was not required as per PSC. However, Audit has contended that the Ministry had accepted EIL recommendations. The Committee, however, are of the view that as per PSC, 'gas' and 'condensate' are two different products with different characteristics and 'one' cannot be treated as 'the other'.

7. What irks the Committee is that the 'settlement agreement' in 2005 was made by ONGC without prior approval of the Board of Directors and without the approval of the Ministry of Petroleum & Natural Gas which was the first signatory to the original production sharing contract. Since the 'settlement agreement' with huge financial implications replaced the operational interim arrangement which had been devised at the instance of the Ministry of Petroleum & Natural Gas in 1998, propriety demanded that prior approval of the Board of Directors and the Ministry of Petroleum & Natural Gas was taken before implementation of the

'settlement agreement'. It is regrettable that even the Ministry of Petroleum & Natural Gas ignored the question of propriety in the matter and drew satisfaction from the fact that Panna-Mukta & Tapti JV intimated them of the developments *expost facto*. The Committee hope that there will be no repetition of such lapses in future.

New Delhi ;	**JAGDAMBIKA PAL**
7 January, 2013	**Chairman**
17 Pausha, 1935(S)	**Committee on Public Undertakings**

ANNEXURE

ARTICLE-18

DOMESTIC SUPPLY, SALE, DISPOSAL AND EXPORT OF CRUDE OIL

18.1 Until such time as the total availability to the Government and government companies of Crude Oil from all Petroleum Production activities in India meets the total national demand, as determined by the Government, each constituent of Contractor shall be required to offer to the Government or its nominee all of the Contractor's entitlement to Crude Oil from each Field in order to assist in satisfying the national demand, provided, however, that nothing contained in any contract entered into by the Contractor for the supply, sale or disposal of Petroleum, with any nominee of the Government pursuant to this Contract shall in any manner abrogate the obligation of the Government contained herein.

18.2 Pursuant to Article 18.1 and subject to Articles 18.4 and 18.6, each constituent of Contractor shall offer to sell to the Government (or its nominee) its total Participating Interest share of Crude Oil to which it is entitled under Articles 13 and 14 at the price determined in accordance with Article 19 for sales to Government and the Government shall have the option to purchase the whole or any portion thereof at the said price.

18.3 The aforementioned offer shall be made by each constituent of Contractor in writing, at lease six (6) months preceding the Financial Year in which the sale is to be made, specifying the estimated quantities and grade of Crude Oil being offered (based upon estimates which shall be adjusted within ninety (90) days of the end of each Financial Year on the basis of actual quantities produced and saved. The Government shall exercise its option to purchase, in writing, not later than ninety days (90) preceding the Financial Year in respect of which the sale is to be made, specifying the quantity and grade of Crude Oil which it elects to take in the ensuring year. Failure by the Government to give such notice within the period specified shall be conclusively deemed an election to take all of the Crude Oil offered (adjusted as provided herein) in the ensuring Financial Year.

18.4 If, during any Financial Year, India attains Self-Sufficiency, the Government shall promptly thereafter, but in no event later than the end of that Financial Year, so advise the Contractor by written notice. In such event, as from the end of the first quarter of the following Financial Year, or such earlier date as the Parties may mutually agree, Government's option to purchase shall be suspended and each constituent of Contractor shall have the right to lift and export its Participating Interest share of Crude Oil until such time, if any, as Self-Sufficiency shall have ceased to exist. If Self-Sufficiency ceases to exist during a Financial Year, the Government shall recover its option to purchase under Article 18.2 in respect of the following Financial Year by giving notice thereof to the Contractor as provided in Article 18.3.

18.5 All payments in respect of sales to the Government pursuant to provisions of this Article 18 shall be made by the Government within the period for credit applicable in the calculation of the price pursuant to Article 19. If no time frame for credit is applicable in such calculation, payment shall be made within forty five (45) days from the date the invoice is delivered to the Government. Contractor shall submit a monthly invoice to the Government for the quantity of Crude Oil delivered. Payment shall be made in United Stated Dollars by bank wire to the credit of the Foreign Company's designated account with a bank within or outside India. All amounts unpaid by the Government by the due date shall, from the due date, bear interest calculated on a day-to-day basis at the LIEOR plus one percentage (1%) point from the due date compound daily until paid.

18.6 If full payment is not received by Contractor when due as provided in Article 18.5, the Contractor shall, at any time thereafter, notify the Government of the default and, unless such default is remedied within fifteen (15) days from the date of notice, the Contractor shall have the right, unless otherwise agreed, upon written notice to the Government and without prejudice to the Contractor's right to recover all costs, charges, expenses and losses incurred by the Contractor:

a) to suspend the Government's option to purchase under Article 18.2 and transport the Petroleum to any onshore facility and sell as each constituent of Contractor may in its absolute discretion deem fit;

b) without prejudice to the foregoing, to freely lift, sell and export all its Participating Interest share of Crude Oil subject to the destination restrictions specified in Article 18.7, until the Government has paid the due amount plus interest as provided herein;

c) if the payment plus interest is not received by the Contractor within one hundred and eighty (180) days from the date the payment was due, to receive and export the Government's share of Profit Oil until such time as either Government has paid all amounts due plus interests, or the value, based on the price as determined in accordance with Article 19, of Government's share of Profit Oil so sold is equal to all amounts due plus interest, whichever first occurs; provided, however, that if the Government makes a payment to the Contractor after the Contractor has commenced sale of Government's share of Profit Oil and such payment together with the value of Government's share of Profit Oil sold (based on the price determined in accordance with Article 19) exceeds the amount due plus interest, necessary adjustment shall be carried out to refund to the Government forthwith the excess amount received by the Contractor.

18.7 The Contractor shall be entitled to freely lift, sell and export any Crude Oil which the Government is unable to take or has elected not to purchase pursuant to this Article 18 subject to Government's generally applicable destination restrictions to

countries with which the Government, for policy reasons, has severed or restricted trade.

18.8 No later than sixty (60) days prior to the commencement of production in a Field (or Fields where production is from more than one Field), and thereafter no less than sixty (60) days before the commencement of each Financial Year, the Contractor shall cause to be prepared and submitted to the Parties a production forecast setting out the total quantity of Crude Oil that it estimates can be produced from a Field during the succeeding year, base on the maximum efficient rate of recovery of Crude Oil from that Field in accordance with good petroleum industry practice. No later than thirty (30) days prior to the commencement of each Calendar Quarter, the Contractor shall advise its estimate of production for the succeeding Calendar Quarter and shall endeavour to produce the forecast quantity for each Calendar Quarter.

18.9 Each party comprising the Contractor shall, throughout the term of this Contract, have the right to separately take in kind and dispose of all its share of Cost Petroleum and Profit Petroleum and shall have the obligation to lift the Cost Petroleum and Profit Petroleum on a current basis and in such quantities so as not to cause a restriction of production or inconvenience to the other Parties.

18.10 The Government shall, throughout the term of this Contract, have the right to separately take in kind and dispose of its share of Profit Petroleum and of such portion of the Contractor's share of Petroleum as is purchased by the Government pursuant to Article 18, subject to Article 18.6 and shall have the obligation to lift all of the Oil on a current basis and in such quantities so as not to cause a restriction of production or inconvenience to the other Parties.

18.11 For the purpose of implementing the provisions of Articles 18.9 and 18.10, a Crude Oil lifting procedure shall be agreed upon by the Parties as soon as practicable but no later than two (2) months after the Effective Date of this Contract. Such lifting procedure shall include, but not necessarily be limited to:

(a) a procedure for notification by the Operator to the Government, and to each Party comprising the Contractor, of Projected Crude Oil production;

(b) a procedure for notification by the Government, and by each Party comprising the Contractor, to the Operator, of its expected off take and the consequences of inability or failure to off take.

ARTICLE-19

VALUATION OF OIL

19.1 For the purpose of this Contract, the Value of Crude Oil shall be based on the Price determined as provided herein.

19.2 A price for Crude Oil shall be determined for each Calendar Month or such other period as the Parties may agree (hereinafter referred to as "the Delivery Period") in terms of United States Dollars per Barrel, FOB Delivery Point for Crude Oil produced and sold or otherwise disposed of from each Contract Area, for each Delivery Period, in accordance with the appropriate basis for that type of sale or disposal specified below.

19.3 In the event that some or all of Contractor's total sales of Crude Oil during a Delivery Period are made to third parties in Arms Length Sales, all sales so made shall be valued at the weighted average of the prices actually received by Contractor, calculated by dividing the total receipts from all such sales FOB the Delivery Point by the total number of Barrels of the Crude Oil sold in such sales.

19.3.1 In the event that a portion of such third party Arms Length Sales are made on a basis other than an FOB basis as herein specified, the portion shall be valued at the prices equivalent to the prices FOB the Delivery point for such sales determined by deducting all costs (such as transportation, demurrage, loss of Crude Oil in transit and similar costs) incurred downstream of the Delivery Point, and the prices so determined shall be deemed to be the actual prices received for the purpose of calculation of the weighted average of the prices for all third party Arms Length Sales for the Delivery Period.

19.3.2 Each constituent of Contractor shall separately submit to the Government, within fifteen (15) days of the end of each Delivery Period, a report containing the actual prices obtained in their respective Arms Length Sales to third parties of any Crude Oil. Such reports shall distinguish between term sales and spot sales and itemize volumes, customers, prices received and credit terms, and the constituent of the Contractor shall allow the Government to examine the relevant sales contracts.

19.4 In the event that some or all of a constituent of Contractor's total sales of Crude Oil during a Calendar Month are made to the Government, the price of all sales so made shall, unless otherwise agreed between the Parties, be determined on the basis of either the FOB selling price per Barrel of one or more crude oils which, at the time of calculation, are being freely and actively traded in the international market and are similar in characteristics and quality to the Crude Oil and/ or Condensate in respect of which the price is being determined, such FOB selling price to be ascertained from Platt's Crude Oil Market Wire daily

publication ("Platt's"), or the spot market for the same crude oils ascertained in the same manner, whichever price, in the opinion of the Parties, more truly reflects the current value of such crude oils. For any Calendar Month in which sales take place, the price shall be the arithmetic average price per Barrel determined by calculating the average for the preceding Calendar Month of the mean of the high and low FOB or spot prices for each day of the crude oil (s) selected for comparison adjusted for differences in the Crude Oil and the crude oil (s) being compared for quality, transportation costs, delivery time, quantity, payment terms, the market area into which the Crude Oil is being sold, other contract terms to the extent known and other relevant factors. In the event that Platt's ceases to be published or is not published for a period of thirty (30) consecutive days, the Parties shall agree on an alternative daily publication.

19.4.1 Notwithstanding anything herein otherwise provided, the price paid for such sales shall be, in any Calendar Month, the FOB selling price for a Market Crude ("Market Crude") which shall be Brent (DTD) on a United States Dollar per Barrel basis less US$ 0.10 per Barrel.

19.4.2 The Market Crude price will be based on the previous Calendar Month's average of the daily low and high quotations of Market Crude as published by Platt's Market wire. The average is to be calculated up to three (3) decimals to arrive at a United States Dollar per Barrel price, which will be applicable for the month of supply.

19.4.3 The Government and/or its nominee shall pay any and all sales tax payable on the sale of Oil to the Government or its nominee.

19.4.4 The Government and/or its nominee shall enter into a Crude Oil sales agreement with the Constituents of the Contractor which shall contain terms and conditions normally contained in international Crude Oil sales agreements of a similar nature.

19.5 In the event that in any Delivery Period some but not all o a constituent of Contractor's sales of Crude Oil from the Contract Area are made to the Government or a Government company and some but not all of a constituent of Contractor's sales of Crude Oil from the Contract Area are made to third parties in Arms Length Sales and the price as established in accordance with Article 19.4 differs by more than one percent (1%) from the price as determined in accordance with Article 19.3 for the same Delivery Period, the Parties shall meet, upon notice from any Party, to determine if the prices established for the relevant Delivery Period for sales to the Government should be adjusted taking into account third party Arms Length Sales made by a constituent of Contractor of the same or similar Crude Oil from the relevant Field or other fields and published information in respect of other genuine third party Arms Length Sales of the same or similar crude oil for that Delivery Period. Until the matter of an adjustment for the relevant Delivery Period is finally determined, the price as

established in accordance with this Article will apply for that Delivery Period. Any adjustment, if necessary, will be made within thirty (30) days from the date the adjustment for that Delivery Period is finally determined.

19.6 A constituent of Contractor shall determine the relevant prices in accordance with this Article and the calculation, basis of calculation and the price determined shall be supplied to the Government and shall be subject to agreement by the Government before it is finally determined. Pending final determination, the last established price, if any, for the Crude Oil shall be used.

19.7 In the event that the Parties fail to reach agreement on any matter concerning selection of the crude oil (s) for comparison, the calculation, the basis of, or mechanism for the calculation of the prices, the prices arrived at, the adjustment of any price or generally about the manner in which the prices are determined according to the provisions of this Article within thirty (30) days, or such longer period as may be mutually agreed between the parties, from the date of commencement of Commercial Production or the end of each Delivery Period thereafter, any Party may refer the matter or matters in issue for final determination by a sole expert appointed as provided in Article 33.

19.7.1 Within ten (10) days of the said appointment, the Parties shall provide the expert with all information they deem necessary or as the expert may reasonably require.

19.7.2 Within fifteen (15) days from the date of his appointment, the expert shall report to the Parties on the issue (s) referred to him for determination, applying the criteria or mechanism set forth herein and indicate his decision thereon to be applicable for the relevant Delivery Period for Crude Oil and such decision shall be accepted as final and binding by the Parties.

19.7.3 Except for the adjustment referred to in Article 19.5, any price or pricing mechanism agreed by the Parties pursuant to the provisions of this Article shall not be changed retroactively.

19.8 Any sale or disposal to Affiliates or other sale or disposal or Crude Oil Produced from a Field, other than to the Government or Government companies or to third parties in Arms Length Sales, in any Delivery Period, shall be valued on the same basis as sales to the Government or a Government company. In the event of such a sale or disposal by a Company, such Company shall submit to the Government, within fifteen (15) days of the end of each Delivery Period, all relevant information concerning such sales or disposals.

19.9 In the event that in any Delivery Period there is more than one type of sales referred to in Articles 19.3, 19.4 and 19.8, then, for the purpose of calculating Cost Petroleum and Profit Petroleum entitlement pursuant to Articles 13 and 14,

a single price per Barrel of Crude Oil for all the sales for the relevant Delivery Period shall be used. Such single price shall be the weighted average of the prices determined for each type of sale, weighted by the respective volumes of Crude Oil sold in each type of sale in the relevant Delivery Period.

19.10 In this, Article the term “Government” shall include any other agency or nominee of the Government to whom Crude Oil is to be sold.

19.11 The provisions specified above for the determination of the price of sales of Crude Oil shall apply mutatis mutandis to Condensates.

19.12 The Parties shall meet annually, or sooner upon notice served by any Party on the others, to review the list of selected Crude Oils or the mechanism established pursuant to this Article 19 in light of any new facts since the date of selection of such Crude Oils or establishment of such mechanism and to determine what adjustment (if any) should be made to the said selection or mechanism by mutual agreement of the Parties.

RELEVANT ARTICLES OF PSC

1.8 “ Associated Natural Gas” or “ANG” means Natural Gas occurring in association with Crude Oil either as free gas or in solution, if such Crude Oil can by itself be commercially produced.

1.9 “Barrel” means a quantity or unit equal to 158.9074 litres (forty-two (42) United States gallons) liquid measure, at a temperature of sixty (60) degrees Fahrenheit (15.56 degrees Centigrade) under one atmosphere of pressure (14.7 paisa).

1.10 “Basement” means any igneous or metamorphic rock, or rock or any stratum of such nature, in and below which the geological structure or physical characteristics of the rock sequence do not have the properties necessary for the accumulation of Petroleum in commercial quantities and which reflects the maximum depth at which any such accumulation can be reasonably expected in accordance with the knowledge generally accepted in the international petroleum industry.

1.11 “Calendar Month” means any of the twelve (12) months of the Calendar Year unless specified otherwise.

1.12 “Calendar Quarter” means a period of three consecutive Calendar Months commencing on the first day of January, April, July and October of each Calendar Year.

1.13 “Calendar year” means a period of twelve consecutive months according to the Gregorian calendar commencing with the first day of January and ending with the thirty-first day of December.

1.14 "Commercial Discovery" means a Discovery which, when produced, is likely to yield a reasonably profit on the funds invested in Petroleum Operations, after deduction of Contract Costs, and which has been declared a Commercial Discovery in accordance with the provisions of Article 9 and / or Article 21, after consideration of all pertinent operating and financial data such as recoverable reserves, sustainable production levels, estimated development and production expenditures, prevailing prices and other relevant technical and economic factors according to generally accepted practices in the international petroleum industry.

1.15 "Commercial Production" means production of Crude Oil or Natural Gas or both from a Field within the Contract Area and delivery of the same at the relevant Delivery Point under a programme of regular production and sale.

1.16 "Company" means either EOGIL or RIL.

1.17 "Companies" means EOGIL and RIL.

1.18 "Condensate" means those low vapour pressure hydrocarbons obtained from Natural Gas through condensation or extraction and refers solely to those hydrocarbons that are liquid at normal surface temperature and pressure conditions (provided that in the event Condensate is produced from an Oil Field and is segregated and transported separately to the Delivery Point, then the provisions of this Contract shall apply to such Condensate as if it were Crude Oil.)

1.19 "Contract" means this agreement and the Appendices attached hereto and made a part hereof and any amendments made thereto pursuant to the terms hereof.

1.20 "Contract Area" means the area described in Appendix A and delineated on the map attached as Appendix B, or any portion of the area remaining after relinquishment or surrender from time to time pursuant to the terms of this Contract.

1.21 "Contract Costs" means Exploration Costs, Development Costs, Production Costs, and all other costs related to Petroleum Operations as set forth in Section 3 of the Accounting Procedure.

1.22 "Contract Year" means a period of twelve consecutive months counted from the Effective Date or from the anniversary of the Effective Date.

1.23 "Contractor" means EOGIL, RIL and ONGC.

1.24 "Cost Petroleum" means the portion of the total volume of Petroleum produced and saved from the Contract Area which the Contractor is entitled to take from

the Contract Area in a particular period for the recovery of Contract Costs as provided in Article 13.

1.25 "Cost Recovery Limit" shall have the meaning given in Article 13.1.2.

1.26 "Crude Oil" means crude mineral oil, asphalt, ozokerite and all kinds of hydrocarbons and bitumens, both in solid and in liquid form, in their natural state or obtained from Natural Gas by condensation or extraction, including distillate and Condensate when commingled with the heavier hydrocarbons and delivered as a blend at the Delivery Point but excluding verified Natural Gas.

1.27 "Delivery Point" means except as otherwise herein provided or as may be otherwise agreed between the Government and the Contractor, the point at which Petroleum reaches the upstream weld of the outlet flange of the delivery facility, either offshore or onshore and different Delivery Points may be established for purposes of sales to the Government, export or domestic sales.

1.28 "Development Area" means that part of the Contract Area corresponding to the area of an Oil Field or Gas Field delineated in simple geometric shape, together with a reasonable margin of additional area surrounding the Field consistent with international petroleum industry practices and approved by the Management Committee or the Government, as the case may be.

1.53 "Minimum Work Obligation" means the Work Programme related to those items specified in Appendix G as approved by the Management Committee.

1.54 "Natural Gas" means wet gas, dry Gas, all other gaseous hydrocarbons, and all substances contained therein, including sulphur and helium, which are Produced from Oil or Gas Wells, excluding those condensed or extracted liquid hydrocarbons that area liquid at normal temperature and pressure conditions, and including the residue Gas remaining after the condensation or extraction of liquid hydrocarbons from Gas.

1.55 "Net Cash Income" shall have the meaning assigned in paragraph 2 of Appendix D.

1.56 "New Discovery" means a Discovery made after the Effective Date.

1.57 "Non Associated Natural Gas" or "NANG" means Natural Gas which is produced either without association with Crude Oil or in association with Crude Oil which by itself cannot be commercially produced.

1.58 "Oil" means "Crude Oil".

1.59 "Oil Field" means an area within the Contractor Area consisting of a single Oil Reservoir or multiple Oil Reservoirs all grouped on or related to the same individual geological structure, or stratigraphic conditions, designated by the

Contractor and approved by the Government or the Management Committee, as the case may be (to include the maximum area of potential productivity in the Contract Area in a simple geometric shape) in respect of which a Commercial Discovery has been declared and a Development Plan has been approved in accordance with Article 9 hereof and reference to an Oil Field shall include a reference to the production of Associated Natural Gas from that Oil Field.

1.60 “Operating Agreement” means the Joint Operating Agreement entered into by the Parties constituting Contractor in accordance with Article 6, with respect to the conduct of Petroleum Operations.

1.61 “Operating Committee” means the committee established by that name in the Operating Agreement.

1.62 “Operator” means the party so designated in Article 6.

1.63 “Participating Interest” means the percentage of participation of the constituents of the Contractor at any given time in the rights and obligations under this Contract. Initially the Participating Interest of the constituents of Contractor are as follows:

Annexure - 8B

ARTICLE 21
NATURAL GAS

21.1 Subject to Article 21.2, the Indian domestic market shall have the first call on the utilization of Natural Gas discovered pursuant to Petroleum Operations and produced from the Contract Area. Accordingly, any proposal by the Contractor relating to Discovery and production of Natural Gas from the Contract Area shall be made in the context of the Government's policy for the utilization of Natural Gas and shall take into account the objectives of the Government to develop its resources in the most efficient manner and to promote conservation measures.

21.2 Contractor shall have the right to use Natural Gas produced from the Contract Area for the purpose of Petroleum Operations including, but not limited to, reinjection for pressure maintenance in the Oil Fields, Gas lifting and power generation.

21.3 For the purpose of sales to the domestic market pursuant to this Article 21, the Delivery Point shall be the Delivery Point set forth in the Gas sales contract entered into by the Contractor.

21.4 Associated Natural Gas (ANG)

21.4.1 In the event that a New Discovery of Crude Oil contains ANG, Contractor shall declare in the proposal for the declaration of the New Discovery as a Commercial Discovery as specified in Article 9, whether (and by what amount) the estimated production of ANG is anticipated to exceed the quantities of ANG which will be used in accordance with Article 21.2 (herein after referred to as "the Excess ANG"). In such event the Contractor shall indicate whether, on the basis of the available data and information, it has reasonable grounds for believing that the Excess ANG could be commercially exploited in accordance with the terms of this Contract along with the Commercial Production of the Crude Oil from the Oil Field, and whether the Contractor intends to so exploit the Excess ANH.

21.4.2 Based on the principle of full utilization and minimum flaring of ANG, a proposed development plan for an Oil Field (or Oil Fields), shall to the extent economically reasonable, include a plan for utilization of the ANG from the Existing Discovery and New Discovery, including estimated quantities to be flared, re-injected, and to be used for Petroleum Operations; and if the Contractor proposes to commercially exploit the Excess ANG for sale in the domestic market in accordance with Government's policy, or elsewhere, the proposed plans for such exploitation.

24.4.3 If the Contractor wishes to exploit the Excess ANG (whether from an Existing or New Discovery), such ANG shall first be offered for sale to the Government (or its nominee) in writing in accordance with the terms of this contract. On receipt of such offer, the Government (or its nominee) shall, within three (3) months of the date of receipt thereof, notify the Contractor, in writing, whether or not it wishes to exercise its option to purchase the Excess ANG.

21.4.4 If the Government exercises its option to purchases the Excess ANG as provided in Article 21.4.3 :

(a) the Government shall indicate in the notice exercising the option, a date, within two (2) years of the date of the Contractor's offer, for commencement of purchase of the Excess ANG;

(b) within six (6) months of the date of notification of the exercise of the Government's option pursuant to Article 21.4.3, the contractor and the Government (or its nominee) shall agree on the terms for the sale to Government (or its nominee) of the Excess ANG.

21.4.5 If the Government does not exercise its option to purchase the Excess ANG the Contractor shall be free to explore markets for the commercial exploitation of the Excess ANG.

21.4.6 Where the Contractor is of the view that Excess ANG cannot be commercially exploited and chooses not to exploit ANG, or is unable to find a market for the Excess ANG pursuant to Article 21.4.5, the Government shall be entitled to take and utilize such Excess ANG.

21.4.7 If the Government elects to take the Excess ANG as provided in Article 21.4.6 :

(a) the Contractor shall deliver such Excess ANG to the Government (or its nominee) free of cost, at the downstream flange of the Gas/Oil separation facilities;

(b) the Government or its nominee shall bear all costs including gathering, treating, processing and transporting costs beyond the downstream flange of the Gas/Oil separation facilities;

(c) the delivery of such Excess ANG shall be subject to procedures to be agreed between the Government or its nominee and the Contractor prior to such delivery, such procedures to include matters relating to timing of off-take of such Excess ANG, which procedures shall not, in any way, restrict oil production.

21.4.8 Excess ANG which is not commercially exploited by the Contractor, or taken by the Government or its nominee pursuant to this Article 21, shall be returned to the subsurface structure or flared where such flaring is approved in the Development Plan, which approval shall not be unreasonably withheld, for the relevant Oil Field or where reinjection is uneconomical or inadvisable in accordance with good reservoir engineering practices.

21.4.9 Where the Contractor is of the view that there is economic merit in flaring Gas in the absence of a Gas transmission system or during such time as the pipeline is inoperable or lacks capacity to take all available Gas, Contractor shall have the right to flare Gas. in any such event, Contractor shall notify the Management Committee within forth-eight (48) hours to obtain its approval for continuing operations.

21.4.10 As soon as practicable after the New Discovery referred to in Article 21.4.1 or the submission to the Government of the proposal for the declaration of the New Discovery as a Commercial Discovery as therein specified, the Contractor and the Government or its nominee shall meet to discuss the sale and/or disposal of any ANG discovered with a view to giving effect to the provisions of this Article 21 in a timely manner.

21.5 Non Associated Natural Gas (NANG)

21.5.1 In the event of a New Discovery of NANG, the Contractor shall promptly report such New Discovery to the Management Committee and the provisions of Articles 9.1 and 9.2 shall apply. The remaining provisions of Article 9 would apply to the New Discovery and development of NANG only in so far as they are not inconsistent with the provisions of Articles 21.5.1 to 21.5.13.

21.5.2 If, pursuant to Article 9.1, the Contractor gives notification that a New Discovery is of potential commercial interest, the Contractor shall submit to the Management Committee, within one (1) Calendar Year from the date of notification of the above New Discovery, the proposed Appraisal Programme, including a Work Programme and budget to carry out an adequate and effective appraisal of such New Discovery, to determine (i) without delay, whether such New Discovery is a Commercial Discovery and (ii) with reasonable precision, the boundaries of the area to be delineated as a Field. Such programme shall be supported by all relevant data such as well data, Contractor's best estimate of reserve range and production potential and shall indicate the date of commencement of the proposed Appraisal Programme. Where in the case of an Existing Discovery, Contractor desires to carry out additional appraisal work, the contractor shall submit its proposed Appraisal Programme with a Work

Programme and budget to the Management Committee within one hundred twenty (120) days of the Effective Date for approval.

21.5.3 The proposed Appraisal Programme for an Existing Discovery or a New Discovery shall be considered by the Management Committee within sixty (60) days of its submission by the Contractor and the programme together with the Work Programme and budget submitted by the Contractor revised in accordance with any agreed amendments or additions thereto approved by the Management Committee, shall be adopted as the Appraisal Programme and the Contractor shall promptly proceed with implementation of such programme.

21.5.4 If on the basis of the results of the Appraisal Programme, the Contractor is of the opinion that NANG has been discovered I n commercial quantities, it shall submit to the Management Committee, as soon as practicable but not later than five (5) years from the date of notification of the aforementioned New Discovery, a proposal Commercial Discovery. Such proposal shall take into account the Government's policies on Gas utilization and propose alternative options (if any) for use or consumption of the NANG and be supported by, inter alia, technical and economic data, evaluations, interpretations and analyses of such data, feasibility studies relating to the New Discovery prepared by or on behalf of the Contractor and other relevant information.

21.5.5 In the case of a New Discovery, simultaneously with the Contractor's Appraisal Programme, Government and the Contractor shall seek to reach an agreement on the development, production, processing, utilization and sale of the NANG, in the context of Article 21.1, within thirty-six (36) months of the date of notification of the Discovery referred to in Article 21.5. If no proposal is submitted to the Management Committee by the Contractor within five (5) years from the date of notification of such New Discovery, the Contractor shall relinquish its rights to develop such New Discovery and the area relating to such New Discovery shall be excluded from the Contract Area.

21.5.6 Where the Contractor has submitted a proposal for the declaration of a New Discovery as a Commercial Discovery, the Management Committee shall consider the proposal of the Contractor with reference to commercial utilization of the NANG in the domestic market or elsewhere and in the context of Government's policy on Gas utilization and the chain of activities required to bring the NANG from the Delivery Point to potential consumers in the domestic market or elsewhere. The Management Committee may, within ninety (90) days, request that the Contractor submit any additional information of the New Discovery and the related Appraisal Programme that it may reasonably require to facilitate a decision

on whether or not to declare the New Discovery as a Commercial Discovery.

21.5.7 The Management Committee shall make a decision regarding the declaration of a New Discovery as a Commercial Discovery within the latter of :

(a) one hundred eighty (180) days of receipt of such proposals;

or

(b) one hundred eighty (180) of receipt of the additional information referred to above.

21.5.8 If the Management Committee, with the approval of the Government, declares a New Discovery a Commercial Discovery, such declaration shall be accompanied by an indication of the probable date(s) by when the market(s) would be ready to receive the Gas and an estimate of the quantities of Gas that could be to utilized. The Contractor, in such an event, shall, within one (1) Calendar Year of the declaration of the New Discovery as a Commercial Discovery, submit a Development Plan for the development of the Gas Field to the Management Committee for its approval. Such plan shall be supported by all relevant information including, inter alia, the information required din Article 9.6. In the case of an Existing Discovery, Contractor shall within ninety (90) days of the Effective Date propose a Development Plan following the plan brought out in Appendix G, intended to achieve the production profile brought out in Appendix H, containing the detailed information required in Article 9.6, with supporting budget and the Management Committee shall render its decision regarding such proposal within thirty (30) days of such submittal. Where a Development Plan is so agreed, it shall be an approved Development Plan pursuant to this Article.

21.5.9 If the Development Plan has not been approved by the Management Committee within one hundred and eighty (180) days of its submission, the Contractor shall have the right to submit such plan or plans directly to the Government for approval, within sixty (60) days of the expiry of the time provided to the Management Committee to approve the plan or plans. The Government shall respond to the submission within ninety (90) days of receipt thereof. If the Government rejects the Contractor's proposed plan or plans, the Government shall state in writing the reasons for such rejection and the Contractor shall have the right to resubmit, within sixty (60) days of written notice of such rejection, such plan or plans duly amended to meet the Government's objections thereto. Such right of resubmission of each proposed plan or plans shall be exercisable by the Contractor only once. If the Parties are unable to agree, any Party shall

have the right to submit the matter to arbitration. Government within the aforesaid period, the Contractor shall relinquish its right to develop such Gas Field and such Gas Field shall be excluded from the Contract Area.

21.5.10 If the Management Committee is unable to agree on the declaration of a New Discovery as a Commercial Discovery within the time limit prescribed in Article 21.5.7, the Contractor, or any of its constituents, shall be entitled to submit such proposal directly to the Government for approval. In such event, the Contractor, or any of its constituents, shall also submit a comprehensive plan or plans for development of such New Discovery, which shall detail the proposed Development Plan for utilization of the NANG produced in the domestic market giving inter alia, the data specified in Article 21.5.8. The proposal for declaration of the New Discovery as a Commercial Discovery as well as the proposed Development within one hundred and eighty (180) days of the expiry of the time given to the management Committee to reach a decision on the proposal for declaration of the New Discovery as a Commercial Discovery and Government shall respond to the said submission within one hundred twenty (120) days of its receipt. If the Government disapproves the proposed plan or plans, the Government shall state in writing the reasons for such disapproval and the concerned Parties shall have the right to resubmit, within sixty (60) days, such plan or plans duly amended to meet the Government's objections thereto. Such right of resubmission of each proposed plan or plans shall be exercisable by the Contractor only once. In the event the Government does not approve such plan or plans, any Party shall have the right to submit the matter to arbitration. If no such plan (plans) is (are) submitted to the Government within the aforesaid period, the Contractor shall relinquish its rights to develop such Gas Field and such Gas Field shall be excluded from the Contract Area.

21.5.11 In the event the Management Committee, or Government, as the case may be, approves the Contractor's proposal for declaration of the New Discovery as a Commercial Discovery and also the comprehensive plan or plans for development of such New Discovery and for the utilization of NANG produced in the domestic market, the Gas Field shall be promptly developed by the Contractor in accordance with the approved plan which shall be the Development Plan for the Field.

21.5.12 In the event the Contractor does not commence development of a New Discovery within ten (10) years from the date of completion of the first Discovery well, the Contractor shall relinquish its rights to develop such New Discovery and the area relating to such New Discovery shall be excluded from the Contract Area.

21.5.13 The price of the ANG and NANG produced from the Oil or Gas Field for use in India shall be specified in the Gas sales contract, which shall be in

accordance with the provisions of this Article 21.5.13, between the Contractor and the nominee of the Government.

(a) Unless the context otherwise requires the following words and terms wherever and whenever used or appearing in the this Article 21.5.13 shall have the following meaning:

(i) "British thermal Unit" or "BTU" means the amount of energy required to raise the temperature of one (1) pound (avoirdupois) of pure water, at sixty degree (60) Fahrenheit, one degree (1) Fahrenheit at an absolute pressure of 14.73 pounds per square inch.

(ii) "Buyer" means the Government of India or its nominee.

(iii) "Deliverability" means the lesser of the maximum aggregate rate of all wells in the Contract Area or the maximum delivery capacity of the processing facility, subject to generally accepted international petroleum industry practices.

(iv) "Delivery Points" means a point downstream of the Seller's onshore Gas receiving facility in the Hazira area and at the upstream weld of the connection to the Buyer's pipeline in the Hazira area.

(v) "Maximum Delivery Pressure" has the meaning set forth in Article 21.5.13 (c).

(vi) "MMBTU" means one million (1,000,000) BTU's on a net heating value basis.

(vii) "Seller" means Contractor.

(b) The Seller agrees to produce and deliver, on a daily basis, to the Buyer one hundred percent (100%) of the Deliverability of ANG and NANG at the Delivery Point and the Buyer, provided the Gas is made available and tendered for delivery by the Seller, agrees to take and purchase, on a daily basis, one hundred percent (100%) of the Deliverability of ANG and NANG provided, however, that Seller, at Seller's sole discretion, subject to generally accepted operator practices in the international petroleum industry, may adjust deliveries to provide for necessary maintenance, service and testing. Buyer may request that Seller very deliveries to accommodate similar circumstances in the Buyer's operation and Seller's approval shall not be unreasonably withheld. Communications procedures shall be mutually agreed in the Gas sales contract in accordance with internationally accepted industry standards.

(c) The Gas sold hereunder shall be delivered at the Delivery Point I n the Hazira area at the operating pressure of the Buyer's owned or contracted pipeline up to a maximum pressure ("Maximum Delivery Pressure") of one thousand (1000) psig.

(d) Subject to the provisions hereof, the Buyer's shall pay the Seller for each MMBTU of Gas delivered hereunder, or for each MMBTU of Gas for which the Buyer is obligated to pay hereunder, a price calculated as follows:

The Base Price ("Base Price") in United Stated Dollars (US$) per MMBTU is fixed o n the basis of ninety-nine percent (99%) of a Low Sulfur Fuel Oil Basket ("LSFO Basket") calculated as the average of the daily mean value for low and high prices of fuel oil taking into account equal parts of :

(1) bulk residual fuel oil, containing one percent (1%) sulfur, quoted for barges at Northwest Europe, (Barges, FOB Rotterdam); and

(2) bulk residual fuel oil, containing one percent (1%) sulfur, quoted for Mediterranean, basis Italy, (Cargoes, FOB Med, basis Italy); and

(3) a theoretical blend of residual fuel oil composed of Singapore Cargoes made up of seventy-four percent (74%) of LSWR-SR 0.3% (three-tenths percent (0.3%) sulfur), and twenty-six percent (26%0 of HSFO 180, three and one-half percent (3.5%) sulfur, viscosity 180 centistokes.

The Base Price is calculated on the basis of the arithmetic average of the monthly values of the prices of the listed products as published in Platt's Oilgram Price Report for the eighteen (18) months of May, 1992 through October, 1993, inclusive. (These values are derived from the mean of the daily ranges on days the postings are published to give a monthly value). For the purpose of this Contract, Base Price will be equal to $2.32/MMBTU.

The price of Gas for each MMBTU for each Calendar Quarter thereafter shall be determined by the following formula :

Price = Base Price x (A/B)

Where:

A = a value calculated for the HS/LSFO Basket defined in this Article 21.5.13 (d) evaluated for the twelve (12) months preceding the Calendar Quarter using the method for averaging as described for calculating the Base Price, and

B = a value calculated for the HS/LSFO Basket, evaluated for the twelve (12) months April 1993 through March 1994.

The High Sulfur/Low Sulfur Fuel Oil Basket ("HS/LSFO Basket) is valued as equal parts of:

(1) bulk residual fuel oil, containing one percent (1%) sulfur, quoted for Mediterranean, basis Italy, (Cargoes, FOB Med, basis Italy); and

(2) bulk residual fuel oil, containing one percent (1%) sulfur, quoted for Northwest Europe Cargoes, CIF, basis ARA, (Cargoes CIF NEW, Basis ARA), and

(3) bulk residual fuel oil, Singapore Cargoes containing three and one-half percent (3.5%) sulfur, viscosity 180 centistokes, (Singapore HSFO, 180 cst), and

(4) bulk residual fuel oil, Cargoes, FOB Arab Gulf, Viscosity 180 centistokes, (Arab Gulf, FOB HSFO 180 cst)

Using the method for averaging as described for calculating the Base Price.

The Floor Price ("Floor Price") shall be ninety percent (90%) of the monthly values of the prices of the LSFO Basket as published in Platt's Oilgram Price Report for the eighteen (18) months of May, 1992 through October, 1993, inclusive. (Three values are derived from mean of the daily ranges on days the postings are published to give a monthly value). For the purpose of this Contract, Floor Price will be equal to $2.11/MMBTU.

Notwithstanding results of the calculations for price as shown in this Article 21.5.13 (d), the actual price shall in no event be less than a Floor Price ("Floor Price") which is calculated as US$ 2.11/MMBTU, nor more than a Ceiling ("Ceiling") of the Floor Price plus US$ 1.00 MMBTU, provided that after seven (7) years from the Date of first delivery, the Seller shall have the option to revise the Ceiling to one hundred fifty percent (150%) of ninety percent (90%) of the same or equivalent basket of fuel oils used in calculating the Base Price averaged over the immediately preceding eighteen (18) months.

Parties agree to convert US$/barrel prices for fuel oil as published in Platt's Oilgram to US$/MMBTU using a factor of 6.28.

If Platt's Oilgram is no longer published, an alternate publication shall be mutually agreed upon.

21.5.14 Nothing contained in any contract entered into by the Contractor for the supply, sale or disposal of Gas, with any nominee of the Government shall in any manner abrogate the obligation of the Government contained herein.

21.5.15 The Government and / or its nominee shall pay any and all sales tax payable on the sale of Gas to the Government or its nominee.

****

APPENDIX-I

MINUTES OF THE 6th SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2012-13)

The Committee sat on Monday, the 6th August, 2012 from 1500 hrs to 1630 hrs in Committee Room 'E', Parliament House Annexe, New Delhi.

PRESENT

Shri Jagdambika Pal - Chairman

MEMBERS

Lok Sabha

2 Shri Hansraj G. Ahir
3 Shri Ambica Banerjee
4 Shri Bansa Gopal Chowdhury
5 Dr. Mahesh Joshi
6 Shri Shailendra Kumar
7 Dr. (Smt.) Botcha Jhansi Lakshmi
8 Shri Vilas Muttemwar
9 Shri Ponnam Prabhakar
10 Shri Rajendrasinh Rana
11 Shri Nama Nageswara Rao
12 Shri Uday Singh
13 Dr. Prabha Kishor Taviad

Rajya Sabha

14 Shri Tariq Anwar
15 Shri Anil Desai
16 Shri Naresh Gujral
17 Shri T.M. Selvaganapathi

SECRETARIAT

1	Shri S. Bal Shekar	Additional Secretary
2	Shri Rajeev Sharma	Director
3	Shri Ajay Kumar Garg	Additional Director

OFFICE OF C&AG

1	Shri A.K Patnaik	Dy. C&AG (Commercial) and Chairman, Audit Board
2	Ms. Revathy Iyer	Director General (Commercial)-II

REPRESENTATIVES OF THE MINISTRY OF PETROLEUM & NATURAL GAS AND ONGC

1	Shri G.C. Chaturvedi	Secretary, P&NG
2	Shri Sudhir Bhargava	Additional Secretary, P&NG
3	Shri Sudhir Vasudeva	CMD, ONGC

2. The Committee met to take the oral evidence of the representatives of the Ministry of Petroleum & Natural Gas and the Oil and Natural Gas Corporation Limited (ONGC) in connection with examination of Audit Para No. 13.5.1 of C&AG's Report No. 9 of 2009-10 regarding Loss due to purchase of condensate at crude oil price by Oil & Natural Gas Corporation Limited.

3. At the outset, the Chairman welcomed the representatives of the Ministry of Petroleum & Natural Gas (MoPNG) and ONGC and drew their attention to Direction 58 of the Directions by the Speaker regarding evidence before the Parliamentary Committees.

4. The representatives of ONGC then made a power point presentation on the subject highlighting the various aspects brought out in the C&AG Audit Para No.13.5.1. During the course of discussion on Audit Para, the Chairman and Members raised queries on various aspects pertaining to the subject and the explanations/clarifications on the same were sought from the Secretary, MoPNG and CMD, ONGC. As the information on a number of issues raised by the members was not available with the representatives of the Ministry/ONGC, the Committee felt that the Ministry and ONGC need to come up with more specific and concrete replies on the subject matter and it was unanimously decided that a timeframe of two weeks may be given to the Ministry of Petroleum & Natural Gas and Oil and Natural Gas Corporation Limited to furnish the replies on the issues raised during the meeting.

A verbatim record of the proceedings has been kept separately.

The Committee then adjourned.

APPENDIX-II

MINUTES OF THE 10th SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2012-13)

The Committee sat on Monday, the 1st October, 2012 from 1500 hrs to 1640 hrs in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Shri Jagdambika Pal - Chairman

MEMBERS

Lok Sabha

2 Shri Ambica Banerjee
3 Dr. Mahesh Joshi
4 Shri Shailendra Kumar
5 Shri Vilas Muttemwar
6 Shri Nama Nageswara Rao
7 Dr. Prabha Kishor Taviad
8 Shri Bhisma Shankar alias Kushal Tiwari

Rajya Sabha

9 Janardan Dwivedi
10 Mukhtar Abbas Naqvi

SECRETARIAT

1	Shri Rajeev Sharma	Director
2	Shri Ajay Kumar Garg	Additional Director

OFFICE OF C&AG

1	Shri A.K Patnaik	Dy. C&AG (Commercial) and Chairman, Audit Board
2	Shri P.Sesh Kumar	Director General (Commercial)-II, Audit Board

REPRESENTATIVES OF THE MINISTRY OF PETROLEUM & NATURAL GAS AND ONGC

1	Shri G.C. Chaturvedi	Secretary, P&NG
2	Shri Sudhir Vasudeva	CMD, ONGC

2. The Committee met to take the oral evidence of the representatives of the Ministry of Petroleum & Natural Gas and the Oil and Natural Gas Corporation Limited (ONGC) in connection with examination of Audit Para No. 13.5.1 of C&AG's Report No. 9 of 2009-10 regarding Loss due to purchase of condensate at crude oil price by Oil & Natural Gas Corporation Limited.

3. At the outset, the Chairman welcomed the representatives of the Ministry of Petroleum & Natural Gas (MoPNG) and ONGC and drew their attention to Direction 58 of the Directions by the Speaker regarding evidence before the Parliamentary Committees.

4. The representatives of ONGC then made a brief power point presentation on the subject highlighting the various aspects brought out in the C&AG Audit Para No.13.5.1. During the course of discussion on Audit Para, the Chairman and Members raised queries on various aspects pertaining to the subject and also sought the explanations/clarifications on the same from the Secretary, MoPNG and CMD, ONGC. As the Members were not satisfied with the replies made by the representatives of the Ministry/ONGC, the Committee felt that the Ministry and ONGC need to come up with more specific and concrete replies on the subject matter based on the inputs by the technical experts, if any sought by them, and it was unanimously decided that a timeframe of two weeks may be given to the Ministry of Petroleum & Natural Gas and Oil and Natural Gas Corporation Limited to furnish the replies on the issues raised during the meeting.

A verbatim record of the proceedings has been kept separately.

The Committee then adjourned.

APPENDIX-III

COMMITTEE ON PUBLIC UNDERTAKINGS
(2013-14)

MINUTES OF THE EIGHTEENTH SITTING OF THE COMMITTEE

The Committee sat on Tuesday, the 7th January 2014 from 1200 hrs to 1310 hrs in Room No. 53, First Floor, Parliament House, New Delhi.

PRESENT

Shri Jagdambika Pal - Chairman

MEMBERS

Lok Sabha

2. Shri Hansraj Gangaram Ahir
3. Shri Raja Ram Pal
4. Shri Nama Nageswara Rao
5. Shri Magunta Sreenivasulu Reddy
6. Prof. Saugata Roy
7. Shri Uday Singh

Rajya Sabha

8. Shri Naresh Agrawal
9. Shri Anil Desai
10. Shri Naresh Gujral
11. Shri Mukhtar Abbas Naqvi
12. Shri Tapan Kumar Sen

SECRETARIAT

1. Shri A. Louis Martin - Joint Secretary
2. Shri P.C. Koul - Director
3. Shri M.K. Madhusudhan - Additional Director

OFFICE OF C&AG

1. Shri P. Mukherjee - Deputy C&AG
2. Shri Gautam Guha - DG (Commercial)-I
3. Shri P. Sesh Kumar - DG (Commercial)-II

2. At the outset, the Chairman welcomed the Members and the Officers of C&AG to the Sitting of the Committee.

3. The Committee then took up for consideration the draft Reports on the following subjects and adopted the same without any modifications:

(i). XXX XXX XXX XXX; and,

(ii). Purchase of condensate at crude oil price by Oil & Natural Gas Corporation Limited based on Audit Para No. 13.5.1 of C&AG's Report No. 9 of 2009-10

4. Since the Lok Sabha stands adjourned *sine-die*, the Committee decided to present the two Reports to Speaker, Lok Sabha under Direction 71A (1) of 'The Directions by the Speaker, Lok Sabha' and authorized the Chairman to finalize the two Reports after suitably incorporating the audit vetting remarks and on the basis of factual verification and present them to Speaker, Lok Sabha and then to Parliament as and when Parliament sitting is reconvened.

A verbatim record of the proceedings has been kept separately.

The Committee then adjourned.

XXX Matter not related to this Report.