

12

**OIL AND NATURAL GAS CORPORATION LIMITED—SETTING UP OF SINGLE BUOY MOORING PROJECT**

**COMMITTEE ON  
PUBLIC UNDERTAKINGS  
1997-98**

**ELEVENTH LOK SABHA**



**LOK SABHA SECRETARIAT  
NEW DELHI**

# TWELFTH REPORT

## COMMITTEE ON PUBLIC UNDERTAKINGS (1997-98)

(ELEVENTH LOK SABHA)

OIL AND NATURAL GAS CORPORATION LIMITED—  
SETTING UP OF SINGLE BUOY MOORING PROJECT

MINISTRY OF PETROLEUM & NATURAL GAS



*Presented to Lok Sabha on .....*  
*Laid in Rajya Sabha on .....*

07 DEC 1997

LOK SABHA SECRETARIAT  
NEW DELHI

*October, 1997/Asvina, 1919 (S)*

**C.P.U. No. 793**

**Price: Rs. 16.00**

1997/03

**© 1997 BY LOK SABHA SECRETARIAT**

**Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Eighth Edition) and Printed by the Manager, P.L. Unit, Government of India Press, Minto Road, New Delhi.**

# CONTENTS

PAGE

## PART—I

COMPOSITION OF THE COMMITTEE .....	(iii)
INTRODUCTION .....	(vii)
<b>I. BACKGROUND ANALYSIS .....</b>	<b>1</b>
<b>A. Background of the Project.....</b>	<b>1</b>
<b>B. Award of Contract.....</b>	<b>3</b>
<b>C. Facility for Import of LPG .....</b>	<b>8</b>
<b>D. Role of Gujarat Maritime Board .....</b>	<b>10</b>
<b>E. Termination of the Contract .....</b>	<b>18</b>
<b>F. Abandonment of the Project .....</b>	<b>20</b>
<b>G. Consequences of Abandonment .....</b>	<b>22</b>

## PART—II

Conclusions/Recommendations of the Committee .....	25
--	----

**COMMITTEE ON PUBLIC UNDERTAKINGS**  
**1996-97**

**CHAIRMAN**

**Shri G. Venkat Swamy**

**MEMBERS**

***Lok Sabha***

2. **Shri Tariq Anwar**
3. **Shri Parasram Bhardwaj**
4. **Shri O. Bharathan**
5. **Shri Somjibhai Damor**
6. **Shri Qamarul Islam**
7. **Shri Pramod Mahajan**
8. **Shri Priya Ranjan Das Munshi**
9. **Shri Banwarilal Purohit**
10. **Shri Manabendra Shah**
11. **Shri P.N. Siva**
12. **Smt. Sushma Swaraj**
13. **Shri Brij Bhushan Tiwary**
14. **Prof. (Smt.) Rita Verma**
15. **Shri Ram Kripal Yadav**

***Rajya Sabha***

16. **Shri S.S. Ahluwalia**
17. **Shri Kishore Chandra S. Deo**
18. **Shri Deepankar Mukherjee**
19. **Shri Vayalar Ravi**
20. **Shri Solipeta Ramachandra Reddy**
21. **Smt. Kamla Sinha**
22. **Shri Maheshwar Singh**

**SECRETARIAT**

1. **Shri J.P. Ratnesh — *Additional Secretary***
2. **Shrimati P.K. Sandhu — *Director***
3. **Shri P.K. Grover — *Deputy Secretary***

**COMMITTEE ON PUBLIC UNDERTAKINGS**

**1997-98**

**CHAIRMAN**

**Shri G. Venkat Swamy**

**MEMBERS**

***Lok Sabha***

2. Shri Tariq Anwar
3. Shri Parasram Bhardwaj
4. Shri O. Bharathan
5. Shri Somjibhai Damor
6. Shri Qamarul Islam
7. Shri Pramod Mahajan
8. Shri Priya Ranjan Das Munshi
9. Shri Banwarilal Purohit
10. Shri Manabendra Shah
11. Shri P.N. Siva
12. Smt. Sushma Swaraj
13. Shri Brij Bhushan Tiwary
14. Prof. (Smt.) Rita Verma
15. Shri Ram Kripal Yadav

***Rajya Sabha***

16. Shri Maheshwar Singh
17. Prof. Ram Kapse
18. Shri Deepankar Mukherjee
19. Shri Solipeta Ramachandra Reddy
20. Shri S.S. Ahluwalia
21. Shri P.K. Jogi
22. Shri Kishore Chandra S. Deo

**SECRETARIAT**

1. Shri J.P. Ratnesh — *Additional Secretary*
2. Shri P.K. Grover — *Deputy Secretary*
3. Shri R.C. Kakkar — *Under Secretary*

## INTRODUCTION

1. The Chairman, Committee on Public Undertakings having been authorised by Committee to present the Report on their behalf, present this 12th Report on Oil and Natural Gas Corporation Limited.

2. The Committee's examination of the subject was mainly based on Report of the Comptroller & Auditor General of India (Commercial) (No. 23 of 1997.)

3. The subject was examined by the committee on Public Undertakings (1996-97). The Committee took oral evidence of the representatives of Oil & Natural Gas Corporation on 12th February and 1st April, 1997. They took the evidence of representatives of Indian Oil Corporation, Engineers India Limited, Gas Authority of India Limited and Gujarat Maritime Board in connection with the examination of the subject on 1st April, 1997. The Committee also took evidence of representatives of Ministry of Petroleum & Natural Gas on 15th April, 1997.

4. The Committee on Public Undertakings (1997-98) considered and adopted the Report at their sitting held on 19th August, 1997.

5. The Committee feel obliged to the Members of the Committee on Public Undertakings (1996-97) for the useful work done by them in taking evidence and sifting information.

6. The Committee wish to express their thanks to Ministry of Petroleum & Natural Gas, Oil & Natural Gas Corporation Limited, Indian Oil Corporation Limited, Gas Authority of India Limited and Engineers India Limited for placing before them the material and information they wanted in connection with examination of the subject. They also wish to thank in particular the representatives of the Ministry of Petroleum & Natural Gas, Oil & Natural Gas Corporation Limited, Indian Oil Corporation, Engineers India Ltd and Gas authority of India Ltd. who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

7. The Committee also wish to thank the Vice-Chairman and Chief Executive Officer of Gujarat Maritime Board who appeared for oral evidence and assisted the Committee by placing his considered views before the Committee and supplying the requisite material in connection with examination of the subject.

8. The Committee would also like to place on record their sense of deep appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

9. The Committee would also like to place on record their appreciation of the assistance rendered to them by the Comptroller and Auditor General of India.

NEW DELHI;  
*October, 20, 1997*

---

*Asvina, 28, 1919(S)*

G. VENKAT SWAMY,  
*Chairman,*  
*Committee on Public Undertakings.*



## PART I

### BACKGROUND ANALYSIS

#### A. Background of the Project

##### (i) Introduction

1.1 Oil and Natural Gas Commission was established in 1959 by an Act of Parliament with the mission to stimulate continue and accelerate exploratory efforts to develop & maximise contribution of the hydrocarbons in the economy of the country. On June, 1993 Oil and Natural Gas Commission was incorporated as a Public Limited Company as Oil & Natural Gas Corporation Limited. The new company viz Oil & Natural Gas Corporation Limited has taken over the business of Oil & Natural Gas Commission w.e.f. 1.2.1994.

##### (ii) SBM Project

1.2 Natural Gas Liquid (NGL) is a by-product in the fractionating of hydrocarbon condensate which comes along with the Natural Gas. The end use of NGL is similar to that of Naphtha and it can be used as a feedstock in fertilizer and petrochemical units and also for power generation.

1.3 With the discovery of the South Bassien free gas field in the Bombay offshore in 1976, the Oil and Natural Gas Corporation Limited (ONGC) proposed the creation of facilities at Hazira in Gujarat for the processing of this gas for eventual supply to the users. It was envisaged that substantial quantity of NGL would be available after processing of the condensate. The feasibility report for phase I of the gas sweetening, condensate treatment and sulphur recovery plant at Hazira, prepared in December, 1983 *inter-alia*, recommended the disposal of NGL through export by setting up a Single Buoy Mooring (SBM) off Hazira coast with a capital investment of Rs. 24.68 crores. However, at the time of clearance of facilities proposed in phase I the proposal relating to establishment of SBM for export of NGL was not approved by the Public Investment Board (PIB) as a study by the Oil Coordination Committee (OCC) for the marketing of NGL was in progress at that time.

1.4 The working group consisting of BPC, OIL, IOC, HPCL and ONGC set up by the OCC in April, 1984 to study the disposal of NGL submitted its report in August, 1985. This group opined that the NGL at Hazira was high aromatic in nature and it would have to be exported as there was no large consumers for high aromatic NGL in the vicinity of Hazira. The working group, therefore recommended immediate setting up of SBM facilities at Hazira for export of NGL.

1.5 Meanwhile, the proposal for setting up SBM facilities was again included in ONGC's proposal (February, 1985) for phase II of gas sweetening, condensate treatment and sulphur recovery plants at Hazira. The proposal as approved by the PIB in May, 1986 included the establishment of SBM and the laying of related pipelines both onshore and offshore at an investment of Rs. 27.42 crores. The facilities were to be installed by November, 1988. PIB also observed that export of NGL would be temporary phenomenon for 4 to 5 years till the domestic market was able to absorb it. Thus, it was essential to instal the SBM expeditiously for facilitating export of NGL.

1.6 When asked why the feasibility report was prepared by ONGC as late as in December, 1983 when they knew that it would help in disposal of NGL in way of exports, a representative of ONGC stated during evidence:

"In early 1984 we had submitted an FR to the Government for phase I of Hazira project together with SBM component to be put up along with the other facilities at Hazira. When this case went to the PIB, it felt that since the marketing study for disposal of NGL has not been completed, Phase I facilities excluding SBM were cleared whereas NGL disposal plans had to be examined by a group. And they sent SBM proposal back.

Simultaneously ONGC was planning Phase II of Hazira and the feasibility report was submitted in early 1985. At that time ONGC also submitted NGL disposal plan by SBM. Parallely, working Committee submitted its report. When the case came up for discussion in PIB in early 1986 this report was also available. At that time the PIB approved Phase II plus the SBM installation. Based on these proposals a tender had been called for supply, engineering, installation and commissioning of the SBM for the Hazira Project...."

1.7 When asked further whether the matter was taken up with the Ministry of Petroleum and Natural Gas for further pursuing with PIB when the proposal for SBM was not cleared in 1983, ONGC informed in a written reply that the PIB did not clear the proposal in April, 1984. The matter was not taken up directly with Ministry of Petroleum and Natural Gas (MOP&NG), but through PIB proposal the same was taken up with MOP&NG. The working group comprising members from IOC, BPC, HPC and ONGC was formed in April, 1984 and they finally submitted the report in August, 1985. Meanwhile ONGC had already included the proposal for SBM in the proposal for development of PH-II submitted to Government on February, 1985.

1.8 The Committee wanted to know whether an early marketing study of NGL would have facilitated a timely decision about setting of SBM

alongwith phase I project at Hazira in December, 1983 itself, ONGC informed in a written reply:

"Had the marketing study been completed earlier, it could have saved time."

## **B. Award of Contract**

1.9 It has been stated that the SBM Project was to be financed by the World Bank. Engineers India Limited (EIL) were the consultants. Tenders under two bid system were invited in November, 1985. Bids were received from four parties, two Indian (firm 'A' and firm 'B') and two foreign firms, before 20 February, 1986 which was the last date for receipt of bids. In view of the advice of World Bank to go in for two stage bidding instead of two bid system the price bids were returned for submission after the parties were shortlisted. EIL, who evaluated the offers in August, 1986 shortlisted the two foreign bidders and firm 'A' [Land Marine Engineering (I) Ltd.]. The bid of firm 'B' (Essar) was not shortlisted by EIL on the ground that they lacked experience and capabilities in many items of work. The Tender Committee, however, shortlisted the bids of two foreign bidders in October, 1986 and that of firm 'B' and rejected the bid of firm 'A' on the ground that: (i) the firm was incorporated only on 6 February, 1986 (after the invitation of tender); (ii) they neither submitted the foreign collaboration agreement to be signed by them as per Government approval (defining the responsibilities of foreign collaborator) nor submitted any internal agreement with their foreign collaborator; and (iii) they lacked financial capability and experience in project management. The three bidders shortlisted by the Tender Committee were asked to submit the various technical clarifications along with the price bids by 13 January, 1987.

1.10 All the three bidders submitted the price bids by the due date. Firm 'A' whose technical bid was not shortlisted also submitted a price bid by the due date but their price bid was not opened. As the price bids of all the three bidders whose bids were opened were found to be incomplete in several respects, the Tender Committee recommended in February, 1987 to call revised price bids from all the three technically shortlisted bidders. Based on a representation received from firm 'A' the World Bank asked to ONGC in March, 1987 to technically qualify firm 'A' also and obtain fresh price bids from all the four bidders. Accordingly, in April, 1987 fresh price bids were called for and these were submitted by all the four bidders on 28 May, 1987.

1.11 Further, it has been stated by Audit that the Tender Committee's recommendations to award the contract to firm 'B' whose offer was evaluated as the lowest at Rs. 35.60 crores (Rs. 32.67 crores quoted) was accepted by the Steering Committee on 29 July, 1987. The Steering Committee, however, approved award of work to firm 'B' at an evaluated cost of Rs. 32.32 crores (Rs. 29.40 crores quoted) as per an alternative offer of the bidder. The evaluation was also forwarded to the World Bank simultaneously. The World Bank had some reservations about the treat-

ment given to mobilisation fees of Rs. 3.25 crores asked for by firm 'B' in the evaluation done by ONGC. While the Tender Committee had considered the amount of Rs. 3.25 crores as only an advance payment and included only the interest on this amount in their evaluation, the World Bank asked ONGC to add the mobilisation fee to the lumpsum price quoted by firm 'B' and load it like any other advance payment. The matter was further deliberated in the Steering Committee on 15 and 28 October, 1987 and 23 November, 1987 and the earlier recommendation was reiterated. But this time the Ministry's representative in the Steering Committee did not agree with the record of the Steering Committee minutes. The Steering Committee again met on 8 January, 1988 and recommended the award of contract to firm 'A' whose offer dated 28 May, 1987 was found to be the lowest this time at an evaluated cost of Rs. 37.53 crores (Rs. 31.53 crores quoted). The bid of firm 'B' which was earlier evaluated at Rs. 35.60 crores was this time evaluated at Rs. 38.85 crores after adding the mobilisation fee. The Steering Committee, however, recommended the award of contract to firm 'A' at the lowest quotation dated 13 January, 1987 originally received by ONGC, which according to firm 'A's letter dated 16 February, 1987 (the price bid of 13 January, 1987 was not opened) was Rs. 28.15 crores.

As this was not acceptable to Chairman, ONGC (in view of the conflicting recommendations of the Steering Committee on different occasions, even though based on same documents) the Government directed ONGC to take this tender out of World Bank funding and ask for fresh bids from the two Indian parties. Accordingly, offers were invited afresh from only the two Indian bidders. The quotations obtained against this enquiry (without World Bank funding) were considered high and a decision was taken on 30 August, 1988 to have negotiations only with firm 'B' which was adjudged the lowest against the enquiry. Meanwhile, World Bank in their telex dated 25 August, 1988 informed Ministry of Finance/ONGC that the World Bank would be willing to provide financing for the project and extend the deadline for the availing of the loan upto 2 September, 1988 if the contract was awarded to firm 'A'. The Government conveyed their decision to ONGC for award of contract to firm 'A' under World Bank financing at the offer made in their price bid opened on 28 May, 1987 on the ground that the Government could not afford the loss of credit. Accordingly a telex letter of intent was placed on firm 'A' (contractor) on 2 September, 1988 with the stipulated date of completion by December, 1989.

1.12 It would be observed from the above that it took 30 months from the date of opening of the technical bids to the date of award of contract. There were conflicting views between the consultants and ONGC even in technical shortlisting. Although the Steering Committee decided in July, 1987 to award the contract to firm 'B' based on the evaluation and recommendations of the Tender Committee, this decision had to be

reversed at the instance of World Bank on the ground that the financing from the World Bank had to be availed of. The inordinate delay in the finalisation of tender resulted in a shift in the envisaged completion by the ten months from November, 1988 to December, 1989.

1.13 When the Committee wanted to know the reasons for the delay in awarding the tender, a representative of ONGC stated during evidence:

“..... this total project of Hazira was covered under the World Bank financing where SBM was one of the components. We had called international competitive bids and total four bids were received, two from the Indian parties and two from the foreign parties, that is NKK and ETPM, LME (India) and Essar were the two Indian parties. The evaluation was done initially by EIL wherein the two foreign bidders were qualified whereas there was an issue raised by EIL that one of the Indian bidders happened to be non-qualified. As a normal practice once the EIL report is received this is evaluated within ONGC. The Tender Committee consisting of senior officers after evaluation of the EIL's technical evaluation report noticed that it was not procedurally correct since one of the Indian bidders had qualified because that party had recently been registered in the country whereas the other bidders based on the works they were performing at that time within the country had developed that expertise. So, this was discussed and resolved and except for one three bidders were found to be qualified. However, when the matter went to the World Bank for approval the World Bank felt that registration of the party was not a major issue. They observed that since that party had the capability they should also be considered. So, with this approach all the four bidders were found to be technically acceptable and their prices subsequently were opened. After having opened the prices, one of the bidders were found to be L-1 in the opinion of the Tender Committee and the Tender Committee accordingly had recommended that case for the award of the work. It was also considered by the Steering Committee. However, when the case went to the World Bank, the World Bank felt that the evaluation done by the ONGC was not correct.”

1.14 The witness further stated:

“The Indian bidder in this case was Essar construction. The other Indian bidder was LME (India). These were the two Indian bidders. Essar Construction's bid happened to be evaluated as L-1 by the Tender Committee which went to the World Bank for approval. The World Bank made the observation that the ONGC's evaluation in their opinion was not correct.....”

1.15 In reply to a question whether the matter regarding the intervention of World Bank was taken up with the administrative Ministry, the Chairman, ONGC stated:

"In one or two instances we have requested that Government would like to take some items out of the purview of World Bank. Then they have said that they would remove the project totally."

1.16 In another context a representative of ONGC admitted before the Committee during evidence that one of the factors for the delay was the time taken in technical short listing of the tenders.

1.17 Elucidating on this point the Chairman ONGC stated during evidence:

"..... The bids were submitted to ONGC. There was a difference of opinion in ONGC with regard to evaluation done by EIL. In fact, party A was recommended for inclusion and party B was rejected by them. Two foreign parties and an Indian party were selected to give quotations. At the same time, Party A made representation to Ministry with a copy marked to ONGC. ONGC Chairman appointed a committee to go into it and ultimately this committee recommended that Party A should also be considered. In the meantime, the World Bank intervened and said, Party A should also be considered.

He further stated:

"Initially as per the technical evaluation by EIL party B was rejected and party A was recommended for consideration. In the ONGC evaluation based on the report of the EIL this was mainly based on experience of their own and of their principals, ONGC's interpretation was, Party B was qualified and party A was not qualified.

But later when Party A represented to the Ministry and also to the ONGC Chairman, a committee was appointed which ultimately found that both the parties should be accepted technically. Of course, subsequently, the World Bank also recommended that party A also should be qualified. But these recommendations were received after the committee was appointed by ONGC to go into these.

After that, the ONGC invited bids from all the four parties. In the commercial evaluation, again there was a misunderstanding between the World Bank and the ONGC. One particular company has quoted as mobilisation fee which was considered in the initial evaluation by ONGC only as an advance payable. Therefore, the interest charge was only taken for evaluating the bids. But as per the World Bank assessment, they think this was an additional payment to be made. Therefore, the entire amount has to be loaded plus the interest thereon. This initially was not agreed to by ONGC but later on, a number of meetings were held at the Steering Committee level where the Government representative was also

present. Ultimately it was decided that this has to be considered as additional amount and accordingly *inter se* ranking changed. The order was placed on a particular party. It took some time for placement of order.”

1.18 The Chairman also said:

“.....Initially the differences were between ONGC and EIL on technical evaluation ..... In the commercial evaluation also there was difference of opinion between the World Bank and ONGC. The number of meetings which the Steering Committee had to have to come to final decision is also one of the reasons. The Steering Committee had about four meetings before they came to a final decision.”

1.19 The Committee wanted to know the reasons from Secretary, Ministry of Petroleum & Natural Gas on the delay and irregularities in award of the tender. Detailing the reasons, the Secretary said:

“The project was delayed due to various reasons. It started from the Phase-I of the Project. When, it went to PIB, it was a part of the Hazira Project-I which was assisted by the World Bank. Then, on the recommendation of the Committee it was left out. Secondly, it was delayed because the whole process of placing the order took a lot of time. There was a difference of opinion between the ONGC, which is the operator and the EIL which the Consultant. And thirdly, the financial institution, the World Bank took the second part of the delay. At the third part when everything was about to be settled, the communication with Gujarat Maritime Board necessitated the change of the entire project itself. It was because they had to change the alignment. Therefore, the delay took place. There was again a difference of opinion between the EIL and the ONGC. They could not arrive at a settlement with the contractor. They had to issue a new tender. When it was issued, it took time because of the difference of opinion between the EIL and the ONGC. Finally it was decided to abandon the project. Almost at every point of time there were difficulties. The Ministry had taken meetings with the Companies and the consultants. It had also taken up the issues with the Chief Secretary and the Gujarat Maritime Board to give a push to this project. Because of all these factors, there was a delay. In totality, it makes no sense. At every juncture, there was an effort made by the Ministry to reconcile the difference and give a push to this project.”

1.20 When enquired about the reasons recorded by the Steering Committee for reversing its earlier decision of awarding the contract to firm B, ONGC informed in a written reply as under:

“Steering Committee based on TC recommendations, recommended, the award of work to firm ‘B’ World Bank differed with ONGC’s

evaluation and the resultant decision in this regard. The suggestions by World Bank was deliberated at length in Steering Committee meetings held on 23.11.87, 7.1.88 and 8.1.88. As a result, the ranking of two firms changed with 'A' becoming L-1 and accordingly Steering Committee recommended award of work to firm 'A'."

1.21 On being asked about the reasons given by the Government for directing ONGC for award of contract to firm 'A' the ONGC informed through a written reply:

"While directing ONGC for award of contract to firm 'A' the Government communication indicated that the Govt. had considered the matter from all relevant points and decided that order may be placed on firm 'A' in view of deadline for the availment of credit which would expire on 2nd Sept' 88. Govt. could not afford the loss of credit by crossing the World Bank's deadline of 2nd Sept' 88."

1.22 ONGC also intimated the Committee through a written reply that single bid tenders take 120 days & such two stage tenders normally take 6 to 8 months after technical bid opening.

1.23 When asked whether any responsibility was fixed for the delay. ONGC informed through a written reply as under:

"The matter was examined and inquired into and the board was apprised of the findings in the 308th meeting of 28.10.93, which *inter alia* observed that no individual can be held responsible for the delay in award of the contract."

1.24 In this connection, the Secretary, Ministry of Petroleum & Natural Gas said during evidence:

"The responsibility is that in a way it is the failure of the decision-making process."

### C. Facility for Import of LPG

1.25 According to Audit, in order to augment the facilities for import of LPG, the Ministry of Petroleum & Natural Gas directed (1986) the oil industry to co-ordinate detailed studies and come out with suggestions for suitable location for setting up new facilities for import of LPG. Among the various options considered, import of LPG through the proposed SBM of ONGC at Hazira was also one. Indian Oil Corporation Limited (IOC) was the canalising agency for the import/export of petroleum products. The proposal for setting up of SBM for the export of NGL was, however, initiated by ONGC and it did not consider the possibility of importing of LPG through the SBM. At the initial design stage, there was no co-ordination/consultation between ONGC and IOC about the possible uses of SBM for the oil industry especially for the import of LPG.

1.26 Further it has been stated that IOC approached ONGC in October, 1987 for installation of the SBM in such a way that it could also facilitate



import of LPG. ONGC at first objected that mid-way design change would jeopardise the schedule, but it later agreed (March, 1988) that laying of NGL and LPG pipelines at the same time through the same contractor would have many advantages and requested IOC in March, 1988 to communicate necessary sanctions. The issue of modifications to the SBM to facilitate import of LPG was further deliberated between IOC, ONGC, EIL and OCC several times. Final feasibility report from EIL for import of LPG became available in August, 1988. In February, 1989, ONGC agreed to incorporate the modifications in the SBM to facilitate import of LPG. IOC looked into various technical options and its commercial options and confirmed to ONGC on 29th May, 1989. ONGC issued the change order to the contract for Rs. 2.86 crores in May 1989. This however, extended the completion date to May, 1990.

1.27 The Committee wanted to know from ONGC whether they were aware of the requirements of IOC at the time of placing of letter of intent. The Chairman, ONGC stated during evidence :

“When we put the proposal we were not aware of the IOC's requirements .... The initial proposal for setting up was approved in 1986. Until the project was approved, we were not aware of it.”

1.28 Asked whether there was lack of coordination between IOC, EIL and others involved with the project the Chief Executive stated :

“The EIL was associated with the entire thing. The PIB and OCC were also got involved. The IOC came for the purpose of LPG import. The IOC was there in OCC as working group member in 1984-85. Subsequently to that time the IOC got involved in the idea of LPG import.”

1.29 The Committee asked why the modification to the SBM to facilitate import of LPG were not incorporated before when the IOC's requirements had already been made known to ONGC in July/October 1987. A representative of ONGC replied as under :

“The changes to be incorporated were to be worked out by ONGC in consultation with EIL and IOC. That is why, I said that after having started working jointly in-house, and the tender process continued. After having placed the Letter of Intent, we went to the contractor saying that these were the changes that we want and what would be the cost that he would ask for it. He quoted a price of Rs. 2.86 crore. He also said that he would take an additional time of six months and we agreed with the contractor after taking the consent of the IOC ... Discussions were held between ONGC, EIL and IOC and we

continued that efforts in-house. In the meantime, the Letter of Intent was placed with the contractor."

1.30 When asked whether the Ministry did not instruct ONGC to include the facilities for the import of LPG through SBM in the initial design stage itself the representative of ONGC said :

"As I mentioned, in 1984, there was a direction from the Government to form a group to study the marketability of NGL and, at that time everybody was aware that it was only meant for export of NGL. There was nothing hidden from them."

1.31 Asked whether there had been a failure of long-time planning right from the beginning in dealing with the project the representative simply stated :

"I cannot comment on that."

1.32 The Committee wanted to know whether the whole project was a failure or a success. The representative of ONGC was candid enough in this admission and said :

"It is a failure."

1.33 The Committee asked whether there were any advantages to ONGC in altering the design of SBM mid way to include the request of IOC to create SBM facilities to handle import of LPG. The Company informed the Committee in a post evidence reply as under :

"There was no specific advantage to ONGC. ONGC followed the advice of MOPNG in the larger interest of the country & IOC agreed to pay for the same."

#### **D. Role of Gujarat Maritime Board**

1.34 It has been stated by Audit that the proposal of ONGC and other technical details like the route of the pipeline etc. were approved by Gujarat Maritime Board (a statutory authority of Gujarat Govt.) in April, 1987. However, in October, 1989, when substantial work including procurement of SBM and pipes, laying of on shore pipeline etc. had already been completed and an expenditure of Rs. 17.50 crores (at contact exchange rate) incurred, the GBM intimated ONGC to stop all work in connection with the laying of the submarine pipeline on the ground that the pipeline planned by ONGC was crossing the proposed shipping channel. In April, 1990 GMB imposed several fresh conditions relating to the burial depth of the pipeline, disposal of dredged spoils, addition of protective cover etc.

1.35 Giving the background about imposing fresh conditions on ONGC by GMB a representative of ONGC stated during evidence :

"When we happen to implement such a project. We always go to all the concerned agencies for taking clearance and in this case, we have made an application to the Gujarat Maritime Board and happened to

have long discussions with them continued almost for more than a year and based on those discussions and the applications we have made, they have cleared the project. Every inch of detail has been furnished to them. Based on that, we have approved the specification in the contract we have placed to LMEI and based on that, they have started designing and brought the equipment at site. This is in two portions. One is onshore and the other is offshore. For onshore portion, that job has been implemented by the contractor. A stage has reached where he is supposed to start with offshore. They (GMB) say that they are examining whether there could be an alternative shipping channel in the area and that interfering with the proposed pipeline of ONGC would affect that. We took up the matter with the GMB. A number of meetings were held at the working level and senior officers level including the Ministry. After six months, GMB had come out with a modified specification. The modified specification happened to be that you go into deeper depth of laying the pipeline and earth so removed from the sea for laying pipeline has to be spread to a distance of 350 metres. They have asked for a change in laying of pipeline which was not in the specification when they have given the clearance. We have put our best efforts. We have dialogue with the GMB. They did not agree. There was no option left except to implement the requirement."

1.36 When asked specifically that what was their objection the Chief Executive, ONGC stated :

"The main objection was that there was a new shipping channel according to them because of which we had to make the pipeline much more deeper than what they had approved earlier. That was the main point."

1.37 On being enquired whether the matter was brought before any tribunal or the appropriate authority to negotiate or intervene. The Chief Executive stated :

"We brought it to the notice of the Ministry of Petroleum"  
About the response of the Ministry, he said :  
"The Ministry helped us to carry out further negotiations with them. We had to ultimately abide by the new specifications given to us by the Gujarat Maritime Board."

1.38 Asked whether ONGC subsequently enquired about the channel alignment reportedly undertaken by GMB, the Chairman, ONGC said:

"We had not carried out any study. We went by the advice of the Gujarat Maritime Board because they were the competent people in this matter."

He also stated :

"While making the design originally, we discussed for a year with the Gujarat Maritime Board and we took their expert advice in designing the offshore section."

1.39 When asked from EIL, the consultants of ONGC, whether they had in mind initially about the new channel while preparing the design for the project the Chairman, EIL while replying in the negative said :

"No, this particular issue was discussed with GMB in the earlier stages. At that time, there were no objections whatsoever."

1.40 The Committee wanted to know whether EIL held any discussion with COWPRS, Pune regarding the new proposed channel. The Chief Executive intimated during evidence that no discussion was held with COWPRS, Pune.

1.41 The Committee wanted to have the views of Chief Executive Officer of Gujarat Maritime Board as to why fresh conditions were imposed on ONGC when substantial part of the work had already been done. The CEO, GMB stated during evidence :

"Right at the time when ONGC applied for permission, we had brought to the notice of the ONGC that it would be desirable to locate the SBM right at the south or north. In response to that, the ONGC has replied that since they had gone ahead with the soil investigation in that area and that the work has already been given, they will not be able to relocate the SBM. Right when the application was made, we had pointed this out. Subsequent to that, we had given permission in 1987 and we had specifically mentioned where the first condition was that the SBM facility which will be provided by the ONGC shall in no way interfere or obstruct the navigation of other vessels, to which ONGC also confirmed that they will not interfere in any way. In 1989, the port officer had brought to the notice of the head office that the present SBM is located right at the anchorage. Now, mother ships are anchored in the anchorage and import and export takes place through the barges. This was also referred to the ONGC that the SBM was right at the anchorage and that it is affecting the operations.

Secondly, the monsoon floods of 1989 had changed the course of the channel. From this point of view, ONGC once again was asked to re-examine the present location of the SBM as well as the pipeline passing through the channel. ONGC had not discussed with the port officer. They had replied to the queries that they have examined it."

1.42 When enquired if the matter was discussed with the GMB by ONGC before submitting the proposal, the Vice-Chairman and CEO, GMB stated during evidence:

"No, they had discussed only with the head office. At that time also, they had given three alternative routes."

1.43 Asked whether GMB had approved all the three, the Vice-Chairman said:

**"The final location was approved in December, 1989 only."**

1.44 At this stage the Committee wanted to know in unequivocal terms whether the permission to commence the work was given to ONGC or not. The Vice-Chairman admitted before the Committee:

**"We had given permission only in principle to locate the SBM in that particular area. We had said that it should not obstruct the navigation process. We also said that further conditions will be laid down in future. So, it was in principle permission which was given in 1987. From what I find from the records is that it was pre-conceived. In fact, the ONGC should have discussed with GMB before they floated the tender."**

1.45 The Committee wanted to know whether ONGC concurred with the views of GMB. Replying in the negative, the Chairman ONGC said:

**"I do not think we can agree with this view. We had a series of discussions from 1986 and in 1987, GMB approved and the channel issue was resolved."**

1.46 At this stage the Committee reminded GMB of the letter of 21st April, 1987 written by them to ONGC which stated as under:

**"Please refer to your letter dated 28.2.1987 on the subject mentioned above. Your proposal for installation of SBM facility at Hazira is approved in principle by the Board subject to the following and also subject to such terms and conditions that may be prescribed in this regard by the Board and the State Government.**

**The SBM facility alongwith necessary onshore and submarine pipeline will be provided by ONGC at their own cost in such a way that the facilities created by ONGC shall be in no way interfere or obstruct the navigation of other vessels using the port Magdalla/Hazira nor will it obstruct any other operations of the Port Authority.**

**The alignment of the submarine pipeline shall be kept in such a way that it shall not cross the navigable channel and shall keep clear off navigable channel."**

1.47 The Committee wanted to know categorically whether on the basis of the text of the letter, ONGC should have treated it as statutory clearance so that they could go ahead with the work. The Vice-Chairman, GMB said:

**"Yes, for locating the SBM."**

1.48 In this connection, the Committee were informed by ONGC in a written reply that time and again GMB confirmed their earlier approval vide their letter dated 3 May, 1989 and in a joint meeting with Nautical Adviser and ONGC on 11 July, 1989 on pipeline alignment and SBM location. In spite of all this, GMB put a hold on ONGC's offshore pipeline work related to SBM at Hazira.

1.49 When the Committee enquired the reasons for the GMB going ahead to hold the work after four years the CEO-GMB said:

"Our main concern was about the pipeline. The State Government took a decision for new navigational channel. They formed a Committee and the Committee submitted a report. This was discussed at the Nautical Adviser's level. It was brought to ONGC's notice. It was brought to their notice that not only the future channels which we are envisaging but even the present channel is crossing the pipeline. That is why they were asked to stop the work. But nevertheless the Gujarat Maritime Board did not totally stop the work. We had given a letter in 1989 and also sent a telegram to hold on the work. And immediately after 1½ months, we had given various alternatives to the ONGC so that they could start the work from one end. We were only concerned with the small width of the channel."

1.50 When asked why the clearance was given earlier to ONGC, the CEO said:

"Sir, a clearance 'in principle' was given."

He also said:

"After the technical drawings are submitted, technical clearance is given. This is another stage of clearance."

1.51 Reacting to the statement made by the CEO, a representative of ONGC clarified :

"Nowhere in the discussion it was informed or were there any stipulations for administrative clearance."

Substantiating this point the Chairman, ONGC said:

"Sir, I would like to make a submission. Even for the base in Hazira Gas Pipeline project a similar 'in principle' clearance was given. This project was completed based on a similar clearance and it is operational now."

---

\*At the time of factual verification of the draft report the Ministry stated: "After 1½ months GMB had given various alternatives to the ONGC with a suggestion to wait for some more time till alignment of a new navigational channel was finally decided by CWPRS, Pune before start of ONGCs work. Finally CWPRS, Pune completed study in March, 90 and GMB lifted the "hold in April 90 with some additional requirements.

[Ministry of Petroleum & Natural Gas O.M. No. 0-27012/4/97 ONG/US(FO)  
dated 27th August, 1997]

1.52 In this connection, the Committee were informed by ONGC in a written reply that time and again GMB confirmed their earlier approval vide their letter dated 3 May, 1989 and in a joint meeting with Nautical Adviser and ONGC on 11 July, 1989 on pipeline alignment and SBM location. In spite of all this, GMB put a hold on ONGC's offshore pipeline work related to SBM at Hazira.

1.53 The Committee desired to know the specific reasons for holding the work. The Vice-Chairman, GMB intimated the Committee:

"Sir, the technical approval was given on 2.4.89. In the month of July the State Government decided that a lot of industrial investments are coming and so we should look for a direct berthing facility in the channel. A Committee was formed. They had done a detailed model study in CWPRS."

Disclosing about the members of the Committee the CEO said:

"Representatives from the private sector were also members of that Committee. It included members from the GMB, representative from the ports and Fisheries Department, and General Manager from M/s Reliance Industries and M/s Essar Limited."

1.54 In this connection the GMB subsequently intimated through a post evidence reply as under:

"The Government of Gujarat had appointed one Committee to study, mainly the aspects of development of Hazira Waterway channel in respect of requirement of vessels calling at port facilities, created or under pipeline by large industries at Hazira.

The following members were appointed on the Committee:

1. Shri N.H. Thakker, CEO & VC, GBM
2. Shri S.S. Wagh, Dy. Secretary, Port, Transport & Fisheries Department
3. Shri D. Murali, Project Controller, Reliance Petroleum Ltd.
4. Shri P. Mehta, General Manager, M/s Essar Gujarat Ltd."

1.55 The Committee enquired from the witness whether ONGC was also the member of the Committee since it was also user in the channel. The Vice-President, GMB simply stated:

"No, it was not there,"

1.56 In this connection, Chairman, ONGC informed the Committee during evidence:

"We were not aware of the formation of that Committee by the Gujarat Government."

1.57 The Secretary, Ministry of Petroleum & Natural Gas also stated during evidence:

"I am not aware of the Committee. We also set up lot of

Committees in which we do consult the related parties. Here the decision is that of the State Government."

1.58 Asked whether the proposed Channel due to which the SBM work had been stalled has materialised, the Vice-Chairman GBM stated:

"As on date, it has not materialised. Rs. 154 crore was needed. The Gujarat Maritime Board did not have the resources in 1990."

He also said:

"Paucity of funds is the major reason for this. Now we are examining investing Rs. 154 crore for this."

1.59 The Committee wanted to know whether M/s Reliance had also put up a similar proposal to put up a SBM. Replying in the affirmative the CEO, GMB said:

"Sir, they had put their proposal in the year 1993 for importing Naptha and Arozoline. The proposal was submitted in July 1993 and we had given the permission on 23.11.94. The location of this SBM is 13 kilometers away from the SBM of the ONGC. In fact, in 1986 when we suggested that ONGC should move northwards, a suggestion was made that the SBM be located in the north and pipeline pass only through the land and this was rejected by the ONGC in 1986. That would have been the shortest length pipeline. That would have been the ideal place. In the year 1993. M/s Reliance applied for SBM permission for their captive use. we gave the permission in 1994. This issue is not connected with the SBM of M/s Reliance."

1.60 During the course of evidence it was informed to the Committee by the Chairman, IOC that they were presently using the facility of Reliance for evacuating NGL which is to be exported out of the country.

1.61. The Committee wanted to have a copy of the letter written by the Nautical Adviser to the Government of India to M/s ONGC for stopping the work of SBM. ONGC furnished the letter in a post evidence reply, the main text of which is as under:

"The matter with respect of Hazira channel was recently discussed with CPWPRS of Pune, Gujarat Maritime Board at the instance of Reliance Petrochemicals Ltd. have requested CWPRS to carry out study of channel alignment. A number of alternatives are being studied. The preliminary view of the CWPRS is that a better channel would be aligned south of the present alignment and therefore may come in the way of the proposed pipeline. The CWPRS have indicated that they would take about 8 weeks to carry out these tests to conform a practical alignment.



It is therefore my suggestion that the entire work with respect to laying of the pipeline may kindly be held back for these periods so as not to create any further problems in this respect."

1.62 The Committee enquired from the Ministry of Petroleum and Natural Gas whether the matter was taken up by them with Gujarat Government to reconsider their decision. While deposing before the Committee, the Secretary said:

"Sir, the Secretary (Petroleum), I think, wrote to Secretary (Surface Transport) of Government of India and the Gujarat Government. His proposal was to allow the continuance of the work. The GMB allowed this after changing the condition and Government of India accepted this condition.....It is true that new conditions were not contested."

1.63 When asked whether there was a lack of coordination between all the agencies, the Secretary said:

"What happens usually is, a project of Rs. 50 crore or below is managed by the Board of Directors of the Company. We have a system of large projects of more than 100 crore and above being managed by the Ministry. When it is monitored, we do invite all the agencies. Very large projects are monitored by me".

1.64 When the Committee drew the attention of the Secretary, Ministry of Petroleum & Natural Gas to the fact that M/s Essar and Reliance were the members of the Committee formed by State Government and subsequently after stalling ONGC's SBM they set up their own SBM, the witness stated:

"Whenever there was a difficulty, this particular Committee was set up. The Ministry was not aware of it. This was internal Committee. I personally see nothing wrong."

He also stated:

"The hypothesis that has been suggested is that there is a conspiracy. I do not have evidence to make on this statement and I do not see any reason myself for that. I will not go along with that myself for that. I will not go along with that line of thinking. I personally think that even if it was true the delay could have been avoided. As I mentioned, in this particular instance, there are so many items where things have gone wrong. I genuinely believe that there are no adequate reasons to accuse any State Government on the basis of data which I have got. I am not saying that one should forgive losses. I am only making a point that this was due to the decision in which we do not allow negotiating settlements. Any commercial man would do it. Everything can be done on tender basis. I am not absolving my failure or commercial failures. I am just trying to give an example that here it happened because and this can

happen again because of PIB approval where it would take another one year.

That is what I am saying that our system is such that there are delays, there are problems. That is my conclusion.....”

1.65 The Committee drew the attention of the Secretary over the fact that IOC was paying money to M/s Reliance for using their SBM. Had ONGC's SBM come up in time, this money would have been earned by ONGC. Reacting to this, the Secretary Ministry of Petroleum and Natural Gas said:

“I think so. To me as a Government, I do not make any distinction about the source of service. It is a use of resources.”

The Secretary also stated:

“As long as the service is worthwhile, it is so. It will be a continuing resource, whosoever is doing it, it is a national resource.”

#### **E. Termination of the Contract**

1.66 According to Audit when the fresh conditions were imposed on ONGC by GMB, the contractor demanded additional compensation of Rs. 23.19 crores (at the contract exchange rates) for carrying out the additional work. On the other hand EIL had estimated the cost at Rs. 9.54 crores. ONGC came to the conclusion that the contract could be terminated and the balance work got completed by May, 1992 by inviting fresh tenders before July, 1991. Accordingly, the contract was terminated in January, 1991.

1.67 The Committee wanted to know as to why there was huge difference between the estimates prepared by EIL and the price quoted by the contractor for the remaining work. The Chairman, EIL intimated the Committee during evidence:

“As far as Rs. 9.54 crore is concerned, we have done it based upon whatever was the unexecuted portion of the contract. For the remaining portion of the contract based on contractual items and item rate we had worked out. Simultaneously we have been doing a number of other ONGC jobs for which we have in-house data. Using all this, we have come out with this. The comparison should be made between Rs. 11 crore, because Rs. 9.54 crore does not include insurance and mattresses. It is a question of Rs. 11 and odd crore versus Rs. 23 crores.”

1.68 When asked the reasons for the termination of the contract, a representative of ONGC stated:

“When we were looking for additional requirements, we had discussions with the contractor and we told him that these are the changed specifications for laying the offshore pipeline. The contractor said that extra money was involved and gave certain figures

amounting to Rs. 23 crore at contract exchange rate. EIL was the consultant who felt that the cost estimates of the contractor are on the higher side. Further discussions with the contractor were of no avail. Then ONGC, in its wisdom, had formulated a senior level Committee to examine the matter and to suggest possible alternatives to settle this issue. One was that the contractor could be brought down to a reasonable level of extra cost. The other possibility was that it may happen to terminate the contract and in that case, the Committee had felt that this project would be completed by May, 1992 and that even if the present contract is allowed to be continued, the likely completion could be May, 1992. It was basically a settlement of change order because the changed order was to be resolved under the procedure by ONGC itself Rs. 23 crore was involved. It was additional cost to be incurred. Based on that, Committee alongwith EIL had recommended that the contract would be terminated and therefore fresh tender could be called and the project would be implemented by May, 1992. The contract was terminated and therefore, changes due to the left out scope of work by this contractor were incorporated in the bids which were invited. A fresh bid was called. When we have called the fresh bid, the total work as per estimate of EIL left out work plus the additional work would have cost about Rs. 57 crore at the exchange rate prevalent at that time whereas the bid received was about Rs. 108 crore. There were two bids and it was felt that the price was very high. ONGC again started feeling that it is not to pay so much money for this contract. The Steering Committee of ONGC started looking for *de novo* bids which resulted in the lapse of a lot of time. Finally when we have dropped this tender, the Government had organised a Committee consisting of OCC, IOC and ONGC and this Committee in its finding informed that, firstly the cost has gone up and secondly, as time has lapsed probably due to the techno-economic considerations it may not be desirable to put it. This went to the Government and Government in turn, have passed it on to ONGC."

1.69 When the Committee desired to know whether the further delay to be caused by the termination of the contract was taken into consideration, the ONGC stated in a written reply:

"The terms and conditions for various clearance asked for by the existing contractor *i.e.* LME(I) were impracticable and hence ruled out and therefore, the alternatives to get the work completed through existing contractor remained hypothetical. At the time of termination of contract utility of SBM still existed for evacuation of NGL and import of LPG and hence, sanctity of installation of SBM was not lost."

1.70 The Committee also learnt that the contractor claimed Rs. 59.4 crores as compensation for terminating the contract which was under arbitration. When asked at what stage was the arbitration going on, ONGC informed the Committee through a Post Evidence Reply as under:

"The matter was referred to the arbitrators in mid 1991. The matter was referred to an Umpire as the arbitrators differed on award on 30.1.95. The claim-wise hearings are in progress, so far 40 nos. Of claims out of 43 claims of LME(I) and 3 counter claims of ONGC have been argued and concluded before the Umpire. The next hearings are scheduled in April, '97. Final award is likely to be given in mid 1997."

#### F. Abandonment of the Project

1.71 When the contract was terminated in January, 1991 the cost of completion if balance work including the additional work was estimated by EIL at Rs. 31.0 crores. On fresh tenders being invited in June, 1991 for the balance work the evaluated cost of the lowest tender was Rs. 111.87 crores. The Committee desired to know how far the estimates prepared by EIL were realistic. ONGC stated in a written reply as under:

"As consultant to ONGC, EIL prepared an estimate for the balance project from the awarded contract and the change order, EIL maintains a data base for projects handled by them. This data base is updated for the economic conditions and adjusted for the scope of work under reference for preparing estimates of works. The estimate of Rs. 31 crores was prepared at the contract exchange rate, which when computed at the exchange rate prevalent at the data of re-tendering worked out to Rs. 57.3 crores. Upon re-tendering 3 bids were received of which 2 were non responsive and the only bid which was techno-commercially acceptable was evaluated at 111.87 crores as per Bid Evaluation Criteria."

1.72 As the revised estimates of the project (including cost of storage and maintenance of materials, customs duty and consultancy and management charges, but without taking into account the compensation demanded by the contractor for termination of contract) came to Rs. 152 crores, the tender was not pursued further.

1.73 It has been stated by Audit that a report jointly prepared by OCC, ONGC and IOC was submitted to Government in May, 1993 which opined that in view of the high cost of putting up the SBM and the liberalisation policies of the Government wherein alternate and cheaper sources of feedstock/fuel would be available, the proposal for putting up SBM at Hazira was not financially attractive at that point of time. Based on the report, ONGC finally abandoned the SBM project.

1.74 When asked about the reasons for abandonment of the project, a representative of ONGC stated during evidence:

**“The Government has organised a Committee consisting of OCC, IOC and ONGC and this Committee in its finding informed that, firstly the cost has gone up and secondly, as time has lapsed probably due to the techno-economic considerations it may not be desirable to put it. This went to the Government and Government in turn, have passed it on to ONGC.”**

When enquired who had taken the decision to abandon the project, the representative said:

**“It was a Government decision.....At the time of abandonment ONGC has already spent Rs. 39 crores.”**

1.75 In this connection the Secretary, Ministry of Petroleum and Natural Gas stated:

**“In 1993, the Committee was set up consisting of the OCC, ONGC and IOC and downstream companies. .... This Committee looked at four different options. Under different scenario, the rate of return to the ONGC varied between 0.6 per cent to 11.5 per cent. It was less than 12 per cent. For oil companies, 12 per cent is the cut off ROR. So, based on that rate of return, they took a decision that it was not required. As I mentioned, I would certainly argue that SBM is such an important facility for the country’s security that if it is not justified for commercial reasons, it is worthwhile to have it for non-commercial reason.”**

1.76 The Committee wanted to know from the Ministry whether any responsibility was fixed for the abandonment of project. Replying in the negative, the Secretary stated:

**“The responsibility is that in a way it is the failure of the decision-making process.....”**

**“I am not going to accept the theory that it is something which is done deliberately. Our system and procedures are going to delay projects. Our system does not allow people to take decisions. There is no confidence reposed in our managers. Everything has to be done on tenders. This will happen. We will have to allow in some cases much more latitude and freedom for public sector corporation to take action. You should judge the overall performance, not every single decision because some decisions can go wrong. This project could have been done on time.”**

### G. Consequences of Abandonment

1.77 According to Audit the long term consequence of not setting up the SBM was the lack of adequate facilities to the public sector for import/export of petroleum products which is increasingly getting aggravated. The need for an SBM was always there whether for export of NGL or for import of one or other petroleum products in view of heavy congestion at Kandla port and consequent demurrage charges. Already, the public sector was incurring a huge expenditure on demurrages in the import/export of petroleum products.

On a query by the Committee, IOC furnished the figures relating to the demurrages paid at Kandla which are, year-wise as under:

*Statement of Demurrage at Kandla*

(Rs./lacs)

	Total Demurrage	NGL Demurrage
1990-91	352.83	4.72
1991-92	1155.82	23.11
1992-93	1112.80	54.88
1993-94	1252.74	87.71
1994-95	5545.98	102.83
1995-96	14551.79	176.90

1.78 So, it may be seen from the above that a total sum of Rs. 23971.96 lakhs were paid on account of Demurrages alone by various companies out of which the amount paid on account of NGL stood at Rs. 450.15 lakhs.

1.79 In addition to this, IOC also informed the Committee that a sum of Rs. 247.84 crores was incurred from 1988-89 till 1995-96 for transporting NGL from Hazira to Kandla. According to ONGC no further expenditure is being incurred on this transportation since then. Road movement of NGL from Hazira to Kandla was stopped effective from January, 1995 and rail input from Hazira to Kandla was stopped by January, 1996.

1.80 Subsequently IOC intimated the Committee in a post evidence reply that from 28.12.1995 upto to 8.2.1997 a total sum of Rs. 32.03 crores were paid by IOC to Reliance Industries Limited for using their SBM facility at Hazira.

1.81 During the course of evidence, the Committee learnt from the Secretary, Ministry of Petroleum and Natural Gas that even after elapse of so many years the project was still required. Elaborating about the need, he stated:

"The ONGC tried to sell this on a tender basis. They got some offers but they did not consider the price as adequate. It was

below the reserve price. Now all the downstream companies are getting together. This facility can be indeed useful to the economy and in fact it can be turned around for the benefit of the economy. Now, in fact there is a good chance of resurrecting this project. It is going to facilitate imports of much larger baskets of petroleum products like, High Speed Diesel (HSD), LPG and motor spirit. Now it has changed the character of the project. But they consider it extremely useful. I also consider it extremely useful. From the country's viewpoint, it is very useful because it gives the country one more facility. Even the SBM has the rate of return which is not very attractive, still I plead for it. It is because it does give one more source for importing petroleum products. So, this is the line on which we are now working. Unfortunately, we would like to go again to PIB for their approval.....I looked at the report presented in 1993. There, the rate of return was about eight or nine per cent. That is why, it was abandoned. I think it was possible even then to argue that even with eight or nine per cent rate, whether we could go ahead because it does give you one more degree of freedom to import. The reason being this is a non-commercial which is for enhancing supply security."

1.82 When pointed out that similar facility already exists there the Secretary stated:

"Sir, both the facilities are required. The facility which is put by the Reliance. It is a major facility which is required for their own activity. IOC and ONGC are going to work together for the facility."

1.83 On the SBM facility of Reliance being used by IOC, the witness stated:

"It is a temporary arrangement. Right now, BPCL, IOC, HPCL and ONGC are examining to put a SBM facility as a sort of joint venture set up by the IOC, the HPCL and the BPCL. The SBM facility which is being currently set by the ONGC will be in a joint venture. It is a downstream facility."

1.84 Asked whether it was viable commercially also, the Secretary stated:

"For non-commercial reasons, I would request that this should be taken up. I am today a little more sensitive than before, because our demand is going up nowadays.....In 1995 May, there was a crisis in the whole Northern India. That time I realised that instead of depending on one source, one more facility would be good, even it is under-utilised for country's security."

1.85 On being enquired about the rate of return the Secretary submitted during evidence:

"Sir, here I would submit that I have not seen the DPR, But what I am told now is that because our demand has gone up, our import has also gone up. It will really be in terms of charges which are now being paid. They are quite confident that it will be a paying proposition. I have not seen the Report till now. It was done by the Corporation."

1.86 On being asked about the reasons of the failure of the project, the Secretary stated:

"Had our oil companies been given adequate powers, this project would have been completed in time."

He also stated:

"There is no way in the present system for me or my predecessor or successor to allow public sector corporation to pay higher price in order to save time. Immediately it will be misunderstood. Somehow we still do not allow our public sector to work with the commercial practices. We want every decision to be perfect, true and right."

1.87 Commenting on the financial gains of the project the Secretary stated:

"I think, it is a good project if we finally implement it for the reasons I have already mentioned. Our imports are also expected to be up, touching 50 million tonnes."

1.88 When pointed out that a public sector company ONGC has lost a huge amount on account of the failure of the project, the Secretary said:

"It will make money once it starts. That way, it is not a financial loss..... As I have mentioned, revitalisation of this project will depend on how fast we move and the approval of PIB is need to be obtained. This is our own project. We will expedite this project once we get the approval of PIB because it is potentially a good project."



## PART II

### CONCLUSIONS/RECOMMENDATIONS OF THE COMMITTEE

Setting up of a single Buoy Mooring (SBM) Project off Hazira Coast for export of Natural Gas Liquid (NGL) was proposed by Oil and Natural Gas Corporation Limited in the year 1983 in the feasibility report prepared for phase I of 'Gas sweetening condensate treatment and sulphur recovery plant at Hazira'. However, while clearing the facilities proposed in phase I, Public Investment Board did not clear this SBM as the Study by a Study Group of the Oil Coordination Committee (OCC) for marketing of NGL was in progress. Although the Study Group recommended in August, 1985 the immediate setting up of SBM facilities at Hazira this project was approved by PIB only in May, 1986 as part of Hazira phase II project whose feasibility report had been submitted by ONGC in Feb. 1985.

The Committee deprecate the delay in taking a decision about setting up of the SBM project which was essential to be installed expeditiously for facilitating export of NGL. What is more unfortunate is to find is the fact that due to lack of coordination among various agencies the project got delayed at every stage, and finally abandoned as brought out in the succeeding paragraphs. The Committee desire that better coordination should be assured and timely decisions taken in respect of such important projects.

2. The Committee are distressed with the immature manner in which the tendering process for the contract was handled. Initially bids were received from four parties. Two Indian (firm 'A' and firm 'B') and two foreign by the due date 20 February, 1986. Engineers India Ltd., who were the consultants shortlisted (August, 1986) the two foreign bidders and firm 'A' (Land and Marine Engineering India Ltd.) while firm 'B' (Essar) was not shortlisted on the ground that they lacked experience and capabilities in many items of work. However, the Tender Committee in October, 1986 shortlisted the bids of two foreign bidders and that of firm 'B' and rejected the bid of firm 'A' on various grounds including lack of financial capability and experience in project management. On representations being made by party 'A' to the Ministry of Petroleum & Natural Gas and ONGC, Chairman ONCG appointed a Committee which recommended inclusion of party 'A' also. The Committee wonder how that Committee suddenly arrived at the conclusion that party 'A' was technically qualified when according to the Tender Committee, this party lacked financial capability and experience in project management and was incorporated after invitation of the bids. It appears to them that the decision was actually based on the communication received in March, 1987 from the World Bank to whom also

the party had represented asking ONGC to technically qualify firm 'A'. The Committee deprecate such acquiescence of Government to the wishes of World Bank even in matters of technical evaluation of bids and desire the Government to ensure that such instances do not recur.

3. The manner in which the commercial evaluation of bids was made is no less startling. On the basis of fresh price bids received from all the four bidders on 28 May, 1987, the Tender Committee recommended the award of contract to firm 'B'. This was also approved by the Steering Committee on 29 July, 1987 at an evaluated cost of Rs. 32.32 crores. Here again the World Bank intervened and asked ONGC to add the mobilization fee of Rs. 3.25 crores to the lumpsum price quoted by firm 'B' and load it like any other advance payment instead of including only the interest on this amount in their evaluation. Surprisingly, the Steering Committee at its meeting held on 8 January, 1988 reversed its earlier decision and finally decided to award the contract to firm 'A' whose offer was found to be the lowest this time at an evaluated cost of Rs. 37.53 crores.

4. The indecisiveness of Government can be gauged from the fact that Government directed ONGC to take this tender out of World Bank funding and ask for fresh bids from the two Indian parties. While this process was on the World Bank again vide their telex of 25 August, 1988 informed the Ministry of Finance/ONGC that the bank would be willing to provide financing for the project and even extend the deadline for availing of loan upto 2 September, 1988 if the contract was awarded to firm 'A'. The Government conveyed their decision to ONGC for award of contract to firm 'A' under World Bank financing on the ground that the Government could not afford the loss of credit. A letter of intent was accordingly placed on firm 'A' on 2 September, 1988 with the stipulated date of completion by December, 1989 at a cost of Rs. 37.53 crores.

5. The Committee express their deep anguish over the fact that it took 30 months from the date of opening of the technical bids to the date of award of contract. The inordinate delay in the finalisation of tender resulted in a shift in the envisaged completion by 13 months from November, 1988 to December, 1989. What is more disappointing is the conflicting views of the consultants and ONGC even in technical shortlisting. A particular party was technically qualified at the instance of the World Bank. Not only that, the Steering Committee had to reverse its decision of July, 1989 for award of contract to firm 'B' which was finally awarded to firm 'A' at the instance of World Bank merely on the ground that the financing from the World Bank had to be availed of. The Committee therefore, recommend that responsibility should be fixed for delay in finalisation of the tender. The Committee would like to be informed of the action taken in the matter.

6. SBM project is an example of how failure of long-term planning and lack of coordination results in time and cost overruns of public sector projects. The SBM project as originally proposed by ONGC did not include

creation of facilities for import of LPG. But in 1986 when the Ministry of Petroleum and Natural Gas directed Oil Industry to come out with suggestions for suitable locations for setting up new facilities for import of LPG, the proposed SBM of ONGC at Hazira was one of the options considered for the purpose. The Committee are constrained to note that in spite of this, the need for creation of additional facilities at SBM was not conveyed to ONGC either by the Ministry or by the Indian Oil Corporation Ltd. who was the canalising agency for import/export of petroleum products and was also a member of the Study Group set up by the Oil Coordination Committee to study the marketing of NGL. It was only in July, 1987 i.e. more than one year after the SBM project had been approved, that the IOC approached ONGC for inclusion in this project of facilities for import of LPG. What is further distressing to the Committee is that even after this the ONGC did not incorporate the requisite modifications in the project at the time of awarding the contract in September, 1988. This was done only in February, 1989 after protracted deliberations between IOC, ONGC, EIL and OCC several times and the change order to the contract for Rs. 2.86 crores was issued in May, 1989 which resulted in further extension of completion schedule to May, 1990.

The Committee are sure that at least this further delay of six months in the envisaged completion of the project could have been avoided had the Ministry of Petroleum and Natural Gas played their role in a more effective manner. Being the nodal Ministry both for ONGC and IOC, they should have ensured incorporation of modifications in the SBM project as soon as the requirements of IOC had become evident. The Committee desire the Ministry to be more responsive in future. They also recommend the Government to ensure closer coordination among the various agencies involved in the implementation of a project so that such delays do not recur. They would like to be informed of the steps taken in this direction.

7. The Committee are dismayed to observe that in October, 1989, when substantial work including procurement of SBM and pipes, laying of on shore pipeline etc, had already been completed and an expenditure of Rs. 17.50 crores incurred, the Gujarat Maritime Board (GMB) asked ONGC to stop all work in connection with the laying of the submarine pipeline. This was in spite of the fact that GMB had cleared the project way back in April, 1987 after prolonged discussions with ONGC and this was confirmed again in a communication of May, 1989 and in a joint meeting with Nautical Adviser and ONGC on 11 July, 1989. The Committee gathered during their examination that GMB wanted to stop work on the project in view of the proposal for a new shipping channel which was not at all in the picture when the SBM project was initially given clearance. The amazing fact is that this shipping channel did not materialise even after a lapse of eight years.

8. After putting a hold on the ONGC's work, Gujarat Maritime Board put fresh conditions in April, 1990 relating to the burial depth of the

pipeline, disposal of dredged spoils, addition of protective cover etc. The Committee are pained to observe that these new specifications had to be accepted by ONGC even after the intervention of the Ministry of Petroleum & Natural Gas. Here again the Committee are of the opinion that the Ministry, failed to play their part effectively. These additional requirements imposed by GMB amounted to additional financial implication leading ultimately to the termination of the contract. The Committee desire the administrative Ministry to be more watchful in safeguarding the interests of public undertakings under its control.

9. The Committee are not convinced with the contention of the GMB that they had given only an 'in principle' clearance in April, 1987. They wish to point out that a technical approval was also given on 2 April, 1989. Besides, at no point of time ONGC was informed about any stipulations for administrative clearance. Not only that, there have been instances where ONGC's projects have been completed and are operational on the basis of similar 'in principle' clearance. The Committee are of the opinion that the decision to ask ONGC to stall the SBM project was based on considerations other than operational. They desire that the matter should be thoroughly probed by independent agency.

10. During the course of examination by the Committee, it transpired that Government of Gujarat appointed a Committee in July, 1989 to study mainly the aspects of development of Hazira Water Way channel in respect of requirement of vessels calling at port facilities, created or under pipeline by large industries at Hazira. In the meantime Gujarat Maritime Board, at the instance of Reliance Petrochemicals requested CWPRS (Central Water and Power Research Station) to carry out study of channel alignment at Hazira. Based on the Report of CWPRS and the Committee appointed by Government of Gujarat, the GMB initially asked ONGC to stall the work and later, imposed additional requirements. It is worth noting here that while Reliance Petroleum and Essar Gujarat Ltd. were represented on the Committee appointed by Government of Gujarat. ONGC was not at all aware of this Committee. In this connection, the Committee wish to point out that Essar was one of the Indian parties whose bid for constructing the SBM project of ONGC was rejected. M/s. Reliance had applied in July, 1993 for permission for their SBM project which was given by GBM in November, 1994. On the other hand the SBM project of ONGC had to be abandoned in May, 1993.

The Committee desire that a high level independent enquiry should be instituted with a view to find out whether there has been a deliberate attempt to scuttle the SBM project of ONGC and to fix responsibility therefor.

11. Due to the additional work/modification necessitated as a result of GMB's stipulations, the contractor demanded from ONGC on additional compensation of Rs. 23.19 crores. This being more than double the

estimates made by the consultant EIL, the contract was terminated in January, 1991 resulting in further loss of valuable time. As if the delay already occurred was not sufficient, six months were taken in calling fresh bids for carrying out the left out work plus the additional work. The objective of saving money, which was apparently the reason for cancellation of the earlier contract also could not be achieved since the evaluated cost of the lowest tender was Rs. 111.87 crores as against the cost of Rs. 57 crores estimated by EIL at the exchange rate prevalent at that time. In view of the substantial rise in costs and fall in internal rate of return, the project was finally abandoned in May, 1993 on the findings of a committee consisting of OCC, IOC and ONGC.

It appears to the Committee that an analysis of the economic benefit that would have accrued had the project been completed in time was not carried out at the time of cancellation of the contract in January, 1991 which ultimately led to the abandonment of the project itself. The Committee desire that steps should be taken to ensure that such lapses do not recur in future.

12. The Committee are distressed to find the serious and costly consequences of the abandonment of the ONGC's project. The ONGC had already spent about Rs. 39 crores at the time of abandonment. The claim of the contract for Rs. 59.4 crores and the ONGC's counter claims are still under arbitration. The long term consequence of not setting up the SBM has been the lack of adequate facilities to the Public Sector for import/export of petroleum products which was increasingly getting aggravated. A huge sum of Rs. 247.84 crores had to be incurred since 1988-89 for transport of NGL from Hazira to Kandla. Apart from this an amount of Rs. 4.50 crores was incurred on account of demurrages alone by various oil companies. The Committee need hardly point out that not only all this amount could have been saved but the Rs. 32.03 crores paid to Reliance Industries for using their SBM facility at Hazira could have gone to ONGC if only its project had come up in time.

13. After examination of the subject, the Committee have come to the inescapable and painful conclusion that the ONGC project for setting up SBM off Hazira coast for export of NGL seriously lacked urgency foresight and coordination right from the beginning. First there was delay in clearance of the project itself. Then there was a long delay of two and half years in awarding the contract. The tender process itself cannot be said to be above board in view of the repeated shifts in regard to the party to be awarded the contract. Finally when the contract was awarded, it did not take into consideration the requirement of IOC for creating facilities for import of LPG. As a result the work continued to be delayed at every stage and lack of urgency and coordination among various agencies such as ONGC, IOC, OCC, EIL and even the Ministry of Petroleum & Natural Gas was evident at every stage. To top it all came the intervention from Gujarat Maritime Board who first stalled the work in October, 1989 despite having

cleared it in April, 1987 and then imposed fresh conditions in April, 1990 resulting in the abandonment of the Project. While the SBM Project of ONGC had to be abandoned, a similar project of a private party was allowed to come up at Hazira itself. The Committee desire that the high level enquiry recommended by the Committee in paragraphs 9 and 10 of this Report should also look into the delays in implementation of the project and its final abandonment. On the basis of the enquiry stern action should be taken against the persons found responsible for failure in implementation of the project and causing huge drain on public exchequer. The Committee would like to be informed of the action taken in this regard.

NEW DELHI;  
October 20, 1997  
Asvina 28, 1919 (S)

G. VENKAT SWAMY,  
Chairman,  
Committee on Public Undertakings.