सत्यमेव जयते

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

UNION GOVERNMENT
NO. 23 (COMMERCIAL) OF 1995

SINGLE BUOY MOORING FOR EXPORT OF TURAL GAS LIQUID AND IMPORT OF LIQUIFIED PETROLEUM GAS
(OIL AND NATURAL GAS CORPORATION LIMITED)

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CONTENTS

PREFACE

A reference is invited to the prefatory remarks in Report of the Comptroller and Auditor General of India - Union Government No.1 (Commercial) of 1995 where mention was made that reviews of the performance of Companies by the Comptroller and Auditor General of India are presented in separate reports.

This Report contains a review of the Single Buoy Mooring (SBM) project of the Oil and Natural Gas Corporation Limited, for the export of Natural Gas Liquid and the import of Liquified Petroleum Gas.

OVERVIEW

I. ONGC's proposal (January, 1985) for setting up a Single Buoy Mooring (SBM) off Hazira coast at a cost of Rs.27.42 crores for export of Natural Gas Liquid (NGL) produced at its plant at Hazira was cleared by the Public Investment Board in May, 1986. The SBM was to be installed by November, 1988.

(Para 1.4)

II. ONGC took two and a half years from the date of opening of the technical bids to the date of award of contract. The inordinate delay in the finalisation of the tender shifted the envisaged completion date by one year and one month to December, 1989.

(Para 2.4)

III. Although the oil industry was exploring the possibilities of augmenting the import facilities for LPG, which were grossly inadequate, the possibility of importing LPG also through the proposed SBM was not considered in the initial design stage.

(Para 3.2)

IV. Even after perceiving as early as July, 1987 the need to create SBM facilities in such a way that it could also handle import of LPG for the Indian Oil Corporation Limited (IOC), prompt action was not taken to incorporate this requirement in the design before the letter of intent was placed on contractor in September, 1988. Delay in decision regarding inclusion of IOC's requirement further extended the completion date of SBM to May, 1990.

(Paras 3.3 & 3.4)

V. When substantial work including procurement of SBM and pipes, laying of onshore pipeline etc. had already been completed, the Gujarat Maritime Board (GMB) in October, 1989 asked ONGC to stop all work in connection with the laying of the submarine pipeline and imposed a number of additional conditions which were not there when the project was initially approved by GMB in April, 1987.

(Para 4.1)

VI. For carrying out the additional work/modifications arising out of GMB's stipulations, the contractor demanded (July, 1990) an additional compensation of Rs.23.19 crores. But ONGC terminated the contract in January, 1991 without taking into consideration a number of vital issues including continued extra expenditure incurred by the oil industry on movement of NGL by rail/road to Kandla port for export. ONGC also grossly underestimated the cost of completion of the balance work. IOC and OCC, who were the ultimate beneficiaries of this project, were not in the picture when ONGC decided to terminate the contract.

(Paras 5.1, 5.3, 5.4 & 5.5)

VII. The SBM project was finally abandoned in May, 1993. The abandonment of this project resulted in a nugatory investment of Rs.38.88 crores till March, 1995 on the work already done. Besides, the contractor has made an additional claim of Rs.80 crores (at May, 1993 exchange rate) which is under arbitration.

(Para 6.6)

VIII. The immediate consequence of not setting up the SBM at Hazira was the extra expenditure being incurred by the oil industry on transportation of NGL from Hazira to Kandla for export. The extra expenditure on this account alone during December, 1988 to June, 1995 was Rs.250.56 crores. Further, the export through Kandla port has also aggravated the existing bottlenecks in the already congested Kandla port.

(Para 7.1)

IX. The long-term consequence of not setting up the SBM is the lack of adequate facilities to the public sector for import/export of petroleum products which is getting aggravated day after day. This is reflected by sharp increase in demurrage payment year after year. The amount of demurrage incurred by IOC alone during 1994-95 was Rs.209.95 crores.

(Para 9.1)

X. In the meantime, a private party has already put up its SBM at Hazira in more or less the same location. Government has also cleared in principle a proposal of IOC to utilise the private party's SBM at Hazira on hire for export of NGL and import of diesel. Had ONGC's SBM at Hazira been installed, the public sector would have been saved from dependence on the facilities of a private party for export/import at Hazira.

(Para 9.2)

1. INTRODUCTION

1.1 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.

1.2 With the discovery (1976) of the South Bassein free gas field in the Bombay offshore, 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 plants at Hazira', prepared in December, 1983, interalia, 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 the 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.

1.3 The working group set up by the OCC in April, 1984 to study the disposal of NGL submitted its report in September, 1985. This group opined that the NGL at Hazira was high aromatic in nature and it would have to be exported as there were 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.

1.4 Meanwhile, the proposal for setting up SBM facilities was again included in ONGC's proposal (January, 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 a temporary phenomenon for 4 to 5 years till the domestic market was able to absorb it. Thus, it was essential to install the SBM expeditiously for facilitating export of NGL.

2. AWARD OF CONTRACT

2.1 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, before 20 February, 1986, which was the due 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, shortlisted (August, 1986) the two foreign bidders and firm `A'. The bid of firm `B' was not shortlisted by EIL on the ground that they lacked experience and capabilities in many items of work. The Tender Committee, however, shortlisted (October, 1986) the bids of two foreign bidders 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 tenders); (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.

2.2 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 (February, 1987) calling revised price bids from all the three technically shortlisted bidders. Based on a representation received from firm `A', the World Bank asked (March, 1987) ONGC to technically qualify firm 'A' also and obtain fresh price bids from all the four bidders. Accordingly, fresh price bids were called for (April, 1987) and these were submitted by all the four bidders on 28 May, 1987.

2.3 The Tender Committee's recommendation 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 treatment 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 and the Steering Committee met again 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 vide their telex dated 25 August, 1988 informed Ministry of Finance/ONGC that the 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.

2.4 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 one year and one month from November, 1988 to December, 1989.

3. FACILITY FOR IMPORT OF LPG

3.1 Ever since 1980s, the demand for Liquified Petroleum Gas (LPG) has been going up. The indigenous production of LPG has been much lower than the demand and the shortfall is imported. Even the actual import is restricted by the port facilities available in the country. This has led to a long and ever increasing waiting list for domestic LPG connections, which went up from 75 lakhs as at the end of March, 1991 to 114.17 lakhs at the end of March, 1994. 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 locations 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.

3.2 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. Obviously, ONGC's proposal did not consider the possibility of importing of LPG through the SBM. In 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.

3.3 IOC approached ONGC in July/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 (March, 1988) IOC 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. Finally, ONGC incorporated (February, 1989) the modifications in the SBM to facilitate import of LPG and issued the change order to the contract for Rs.2.86 crores in May, 1989. This, however, extended the completion date to May, 1990.

3.4 Even after knowing as early as July, 1987 the necessity to create SBM facilities in such a way that it could also handle import of LPG, prompt action was not taken to incorporate this requirement in the design before the letter of intent was placed on the contractor in September, 1988.

4. ROLE OF GUJARAT MARITIME BOARD

4.1 The installation of the SBM off Hazira and the laying of the offshore pipeline was required to be approved by the Gujarat Maritime Board (GMB), a statutory authority of the Gujarat Government. The proposal of ONGC and other technical details like the route of the pipeline etc., were approved by GMB in April, 1987. However, in October, 1989, when substantial work including procurement of SBM and pipes, laying of onshore pipeline etc. had already been completed and an expenditure of Rs.17.50 crores (at contract exchange rates) incurred, the GMB intimated ONGC to stop all work in connection with the laying of the sub-marine pipeline on the ground that the pipeline planned by ONGC was crossing the proposed shipping channel. In April, 1990, GMB imposed the following fresh conditions relating to the burial depth of the pipeline, disposal of dredged spoils, addition of protective cover etc.:-

a) The dredged spoils were to be distributed in a uniform manner on the south side of the pipeline at a distance of 300 to 800 meters instead of on both sides and within distance of 300 meters as originally contemplated.

b) between 9.7 and 9.9 kms where the pipeline crossed the alignment of shipping channel, the pipelines were to be laid 2.5 meters below sea bed level.

c) At this space a protective cover (mattress) was to be provided to the pipeline.

4.2 The sudden impasse created by the new stand of GMB completely upset the whole project as discussed in the following paragraphs. The approval of GMB for the proposed SBM, the alignment etc., was given in April, 1987 after several rounds of discussions between ONGC, EIL and GMB. Despite this, when substantial portion of the work was over, the GMB raised the above issues which should have been sorted out before the finalisation of the tender documents.

5. TERMINATION OF CONTRACT

5.1 The contractor demanded (July, 1990) additional compensation of Rs.23.19 crores (at the contract exchange rates) for the additional work/modifications as a result of GMB's stipulations. This, however, was found to be exorbitant vis-a-vis EIL's/ONGC's estimate of Rs.9.54/9.03 crores. After analysing various options, ONGC came (September, 1990) 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. The cost of completion of balance work, including the additional work, was estimated by EIL at Rs.31.0 crores (at the contract exchange rate) as against the estimated cost of Rs.37.8 crores if the work was to be continued with the existing contractor.

5.2 The contract was terminated in January, 1991. Fresh tenders were invited in June, 1991 for the balance work. The evaluated cost of the lowest offer was for Rs.111.87 crores against the estimate (September, 1991) of Rs.57.30 crores. 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 and the Steering Committee decided (September, 1991) that the very need for SBM facility should be relooked into.

5.3 While terminating the contract, ONGC did not adequately assess the magnitude of the following aspects:

- the compensation payable to the Contractor. Against a compensation of Rs.1.63 crores (at contract exchange rates) assessed by ONGC as payable on termination, the Contractor has preferred a claim for Rs.59.4 crores (at contract exchange rates) which is under arbitration.

- customs duty payable on the goods procured by the contractor. The deemed export conditions, under which goods were procured by the contractor, were no longer applicable after termination of the contract. The customs duty actually paid was Rs.7.60 crores.

- extended storage, insurance and transportation charges payable on the materials already procured and kept abroad/in India.

- ONGC also completely overlooked the continued extra expenditure incurred by the oil industry on movement of NGL by rail/road to Kandla port (discussed in a subsequent paragraph).

- EIL/ONGC also grossly underestimated the cost of completion of the balance work.

5.4 The urgent needs of the oil industry for an import facility for LPG were also not kept in mind at the time of cancellation of the contract. As per an estimate made by ONGC, if the existing contract, under which a substantial portion of the onshore work as well as procurement of SBM and line pipes were already completed, had been continued the entire project would have been completed by November, 1991 at a cost of Rs.85 crores (September, 1991 prices).

5.5 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. There was also a lack of mutual consultations between ONGC (the executing agency), IOC (the user) and OCC (the industry co-ordinator) when the decision to terminate the contract was taken. While IOC and OCC, who were the ultimate beneficiaries, were not at all in the picture, ONGC simply went by the estimates of cost of completion of the project through a new agency vis-a-vis the existing agency which also later proved to be totally unrealistic.

6. ABANDONMENT OF THE PROJECT

6.1 In the light of increase in the cost of the project, the need for SBM was subsequently deliberated in several meetings between ONGC, IOC, OCC and the Ministry. In a meeting held in January, 1992, it was observed that with the increase in demand and consequent increase in inward movement of deficit products like kerosene and diesel from Kandla to North West, it would not be possible to bank on continued evacuation of NGL through Kandla. It was also observed that with the setting up of a Kerosene Recovery Unit by ONGC (a project being implemented by ONGC for extracting Kerosene from the NGL) and a cracker for production of petrochemicals from liquid fuels like Naphtha or NGL by a private party in Hazira, there might not be surplus NGL for export. But at the same time, it was noted that since the available NGL would not be adequate to meet the full requirement of the private party's cracker, the SBM could be utilised for import of balance Naphtha required. In view of all this, Secretary (Petroleum) desired (January, 1992) that ONGC/IOC/OCC should conduct a fresh study taking into account the following:-

a) The latest assessment of cost for SBM

b) Realistic time schedule for commissioning of various facilities viz., Hazira SBM, Kerosene extraction unit of ONGC and the Petrochemical Cracker complex.

6.2 An updated note was prepared by OCC in January, 1992. It was observed that the estimated cost of putting up the SBM facilities had gone up to Rs.201.9 crores (May, 1994 completion) without taking into account the claims of the terminated contract which was before arbitration. It was also observed that as the Kerosene Extraction Unit of ONGC and the petrochemical cracker of the private party were expected to be in operation by January, 1995 and April, 1995 respectively, there was a limited time period when the SBM could be used for export of NGL and hence the investment did not appear to be financially attractive. However, in a meeting held on 1 May, 1992, the OCC observed that in case there was need to import Naphtha for the cracker, the SBM would be required. After detailed discussions, the Ministry decided (May, 1992) that OCC, IOC and ONGC should further refine their report to come out with unambiguous and specific proposals regarding the requirement of SBM keeping in mind the import/export requirements in the long run at Hazira.

6.3 In October, 1992, IOC submitted a report saying that on strategic considerations, SBM at Hazira was necessary keeping in mind the need for import of LPG, avoiding congestion in other ports, import of Naphtha to meet the shortfall of the proposed Cracker and evacuation of NGL in case of shutdown of the Cracker plant etc.

6.4 The next high level meeting was held in April, 1993. It was observed by Secretary of the Ministry that instead of taking narrow company based views, the decision should be made considering the broader issues from the national point of view and, therefore, discussions should be confined to such issues alone. The Secretary, however, observed that the decision on SBM should not be governed by the requirements of the private party alone. It was decided in this meeting that OCC would work out within two weeks whether the project was viable at what it would now cost keeping in mind the time-frame indicated by ONGC for its implementation.

6.5 A final report jointly prepared by OCC, ONGC and IOC was submitted in May, 1993. According to this report:-

a) The total cost of the project would now be approximately Rs. 170 crores exclusive of the claims under arbitration or Rs. 250 crores inclusive of the same.

b) As per ONGC, the installation of SBM and related activities could be completed by pre monsoon 1995 provided approval in principle was given for tendering activities immediately and approval from PIB/CCEA was granted by July, 1994.

c) NGL export was to continue till the commissioning of the KRU of ONGC and the Cracker of the Private party. Both the KRU and the Cracker were expected to be commissioned in 1995-96. Since, the total requirement of Naphtha for the cracker was expected to be more than the Naphtha available after extracting kerosene from NGL, there was scope for the shortfall being moved into Hazira coastally/imported through the SBM for meeting the requirement.

d) IOC had in 1991 envisaged putting up import facilities to handle LPG at Hazira. Subsequently it had been found that it would be more feasible to set up facilities of similar capacity at Kandla and that Government approval had since been obtained for putting up facilities at Kandla. However, it would be feasible to import about 300 TMTPA of LPG at Hazira through the SBM by provision of additional facilities.

e) The IRR of SBM project under various scenarios was found to be unattractive.

f) Policy changes in the import/marketing of LPG, Naphtha and other petroleum products had been made by the Government. Parallel marketing of LPG and Kerosene had been allowed for private parties. Private parties were putting up facilities for the import of huge quantities of LPG at Hazira and hence it would not be prudent to have import facility for LPG for public sector at Hazira thereby concentrating a major portion of LPG handling at one location. It might be possible that the Cracker unit of the private party may not at all take Naphtha from the public sector through this SBM as they themselves were putting up a refinery.

g) 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, it was concluded that the proposal for putting up SBM at Hazira was not financially attractive at that point of time.

6.6 The SBM project was finally abandoned half way. The abandonment of the project resulted in a nugatory investment of **Rs.38.88** crores till **March,** 1995 (Annexure I) on the work already done. Besides, the contractor made (October, 1991) an additional claim for Rs.59.4 crores at the contract exchange rates (Rs.80 crores at the exchange rates prevailing in May, 1993) for termination of the contract which was under arbitration. Even though the Management stated in October, 1993 that a proposal for selling the SBM on `as and where basis' was under active consideration, there had been no concrete development in this regard.

7. EXPENDITURE ON TRANSPORTATION OF NGL

7.1 The immediate consequence of not setting up the SBM at Hazira was the extra expenditure to the national exchequer incurred for the transportation of NGL from Hazira to Kandla for export. For transporting the NGL produced at Hazira project for export through the Kandla Port, according to OCC, the Oil Industry had to incur an additional expenditure of Rs.600/- per tonne on account of freight, losses, parcel size, floating charge etc. On the actual quantity of 41.56 lakh tonnes of NGL transported to Kandla for export from December, 1988 (scheduled date of commissioning of SBM as per PIB approval was November, 1988) to June, 1995, the avoidable expenditure incurred by Oil Industry worked out to Rs.250.56 crores (approx) (Annexure II). In the absence of the SBM facilities, NGL continues to be transported to Kandla even to-day. Apart from the additional expenditure on transport, it has also aggravated the existing bottlenecks in the already congested Kandla port. Further, transportation of NGL by road/rail is hazardous.

8. REPLY OF THE MANAGEMENT/MINISTRY

8.1 The ONGC Management in its reply stated (December, 1994) that the delay in the execution of SBM project and finally the dropping of the requirement of SBM happened because of the requirements arising from time to time for various agencies like IOC, GMB and World Bank which were beyond the control of ONGC. The Management also stated that if a decision to include IOC's requirement for LPG import was not taken at a later stage, the SBM facilities would have been nearing completion within the original awarded cost of the contract by the time GMB had imposed the hold in October, 1989.

8.2 While forwarding ONGC's reply the Ministry further stated (December, 1994) that taking into account the overall benefit and flexibility in handling both LPG and NGL by the same SBM, it was decided to go ahead with the modification in the original project by including facilities for unloading of LPG. The Ministry also stated that the main delay in completion of this project had been caused because of the stand taken by GMB on the route of the sub-sea pipeline which they had earlier cleared. As regards the loss to the oil industry due to additional expenditure on freight, the Ministry stated that the export price of NGL was much higher than the price paid by the oil industry to ONGC and hence there was no loss to oil industry, but the gains were only offset by higher cost of freight which had to be incurred for evacuating the product due to the non-availability of SBM at Hazira.

8.3 The Management's reply is not acceptable. It took two and a half years to finalise the tender. The World Bank had found fault with the tender evaluation and in the end the Steering Committee itself found the earlier evaluation of ONGC to be incorrect. As regards incorporation of IOC's requirement in the design of SBM at a late stage, it was merely on account of lack of effective coordination as the IOC's need was known even before the award of work to the contractor.

8.4 The Ministry's reply is not tenable. Had the SBM been installed at Hazira, the expenditure on freight from Hazira to Kandla for road/rail transportation of NGL would not have been incurred. Had there not been any undue delay in the finalisation of tender and in inclusion of LPG import requirements, the project would have been completed before GMB changed its stance. The Ministry also did not take any initiative to expeditiously resolve the impasse created by the hold put by GMB.

9. LONG-TERM EFFECT

9.1 The long term consequence of not setting up the SBM is 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 is incurring a huge expenditure on demurrage in the import/export of petroleum products. The demurrage charges incurred by IOC alone during the last three years were as follows:-

(Rs. in crores)

	Amount of Demurrage		
	Import	**Export**	**Total**
1992-93	70.69	11.49	82.18
1993-94	86.73	11.81	98.54
1994-95	200.10	9.85	209.95

Had the SBM been set up, it would have reduced the demurrages and port congestions. The economic benefits of these aspects were not taken into account when the project was finally scrapped mid-way in May, 1993.

9.2 It may be noted that subsequently the private party, which is putting up the cracker project, installed an SBM in more or less the same location. Even though it was envisaged as late as 1993 that the Kerosene Recovery Unit project of ONGC would start functioning by January, 1995, the project has not been commissioned so far (October, 1995) and it is expected to be commissioned only by the middle of 1996. Similarly, the cracker unit of the private party, which was scheduled to come up in April, 1995, has also not come up so far (October, 1995). Further, there is no agreement between ONGC and the private party for offtake of NGL. Thus, the demand for NGL within the country is still to pick up. As a result, the huge expenditure on transportation of NGL to Kandla, as brought out above, continues even to-day (October, 1995). Interestingly, in view of the heavy congestion at Kandla port, Government has, in principle, cleared (June, 1995) IOC's proposal to utilise the private party's SBM at Hazira on hire for export of NGL and import of diesel and the estimated annual throughput is of the order of 0.9 million tonnes of NGL and one million tonne of diesel. The commercial terms are under negotiation. Had ONGC's SBM at Hazira been installed, the public sector would have been saved from dependence on the facilities of a private party for exporting NGL and importing petroleum products at Hazira.

10. SUMMING-UP

10.1 The Single Buoy Mooring project of Oil and Natural Gas Corporation Limited was marred by lack of urgency and foresight from its very inception. The delay in finalising the tender and failure to include IOC's requirement of importing LPG through the SBM, which was known to ONGC in July, 1987, before placing the letter of intent on the contractor in September, 1988, postponed the contemplated date of completion of the project by 28 months. Further, the inability of ONGC to sort out all conditions of laying the submarine pipeline with the Gujarat Maritime Board at the time of initial approval of the SBM project by GMB resulted in the termination of the contract - a step which was taken without assessing all the important aspects and without taking into account the economic benefits which would have accrued on the timely completion of the project - and ultimately in the abandonment of the project. This rendered an expenditure of Rs.38.88 crores incurred on the project infructuous. In the absence of a facility for export/import of petroleum products at Hazira, the oil industry continues to incur huge expenditure (Rs. 250.56 crores between December, 1988 to June, 1995) on transportation of NGL from Hazira to Kandla for export and demurrage charges (Rs. 209.95 crores by IOC alone in 1994-95) due to lack of adequate facilities at the ports. Interestingly, IOC has now been allowed by the Government to negotiate with the private party, which has set-up its own SBM at almost the same location, for the use of its SBM for export of NGL and import of diesel. Thus, this is a case where lack of proper co-ordination, decision and foresight resulted in benefit to the private sector at the cost of the public exchequer.

BPMathur

(B.P. MATHUR)
Deputy Comptroller and Auditor General
-cum- Chairman, Audit Board

New Delhi
The

Countersigned

(C.G. SOMIAH)
Comptroller and Auditor General of India

New Delhi
The

ANNEXURE I
(Referred to in paragraph 6.6)

EXPENDITURE INCURRED ON SBM PROJECT AS ON 31.03.95.

Sr.No.	Description	Rs. in crores
A. COST OF MATERIALS		
1.	Payment made to M/s. LME(I).	24.75
2.	Payment for storage, maintenance testing and loading of SBM, Accessories & hoses (M/s. SOFED).	1.09
3.	Insurance	0.55
4.	Customs Duty	7.60
5.	Survey, Advocates & EIL Consultancy.	0.87
6.	Transportation of Line PIPES.	2.12
7.	Transportation of SBM & Hoses from Abu Dhabi to Bombay (NPIL)	0.48
8.	Hydrotesting of landline	0.17
9.	Overheads	0.23
	Sub-total	37.86
B.STORAGE CHARGES		
1.	Payment for storage & maintenance of linepipes at Sharjah (M/s. Bredero Price)	0.70
2.	Storage of SBM, Hoses and Accessories at M/s. NPIL Bombay.	0.26
3.	Storage of linepipes at Kandla (upto 23.08.95).	0.40

4.	Periodic maintenance of SBM material (1994).	0.01
	Sub-total	1.01

C. PAYMENT PENDING

1.	Storage at Bombay (@ Rs. 93000 per month for MARCH 1995).	0.01
	Sub-total	0.01
	Grand Total	**38.88**

Note:

1. Till the materials are sold, further anticipated expenditure are as under:

(a) Storage charges for SBM materials at Bombay @ Rs. 93000 per month.

(b) Periodic maintenance charges for SBM materials @ Rs.3,500 per operation.

(c) Storage charges for linepipes at Kandla @ Rs. 10,995 per month.

(d) Maintenance of linepipes at Kandla/Hazira is not considered. In case of delay in sale, maintenance may be required.

(e) Advocates fees etc. for the arbitration till 31.03.1995 has been considered.

2. This does not include the interest and the incidental charges.

ANNEXURE II
(Referred to in paragraph 7.1)

Avoidable expenditure incurred @ Rs.600 per tonne on the transportation of NGL from Hazira to Kandla.

Year	Quantity in MMT	Amount (Rs. in crores)
* January, 1989 to March, 1989	0.059	3.54
1989-90	0.446	26.76
1990-91	0.598	35.88
1991-92	0.670	40.20
1992-93	0.889	53.34
1993-94	0.782	46.92
1994-95	0.585	35.10
1995-96(till June'95)	0.147	8.82
		250.56

* Note :- There was no export in December, 1988.