



ऑइल अँड नैचुरल गॅस कॉर्पोरेशन लिमिटेड
OIL AND NATURAL GAS CORPORATION LIMITED

केजी पीजी बर्सी, चेन्नई

KG-PG BASIN

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No. ONGC/BM/KG-PG/DWN-98-2/DGH/AE/2018/1

Dated 18th June, 2018

From: GGM - Basin Manager, KG-PG Basin, ONGC, Chennai

To : The Director General, DGH, OIDB Bhavan, Noida-201301 (FAX 0120-2472049)

Attn: Sumit Joshi, Nodal Officer, KG-DWN-98/2

Sub: Audit exceptions in respect of KG-DWN-98/2 for the years 2014-15

Ref: Ltr No. MoPNG Lr. NO. O-22015/1/2014-ONG-IV/EO dated 30.08.2017

Please find enclosed reply to the DGH Audit Exceptions pertaining to KG NELP Block KG-DWN-98/2 for the years 2014-15, referred vide letter mentioned above, for your perusal and settlement of the issues. The delay in submission of the replies is deeply regretted.

Regards,

(Syam Mohan V)
Basin Manager
KG-PG Basin

हार्डहोकार्बन महानिदेशालय
Director General of Hydrocarbons
डी.जी.ओ. ब्रॉडवेज, डी.जी.ओ. सेल
डायरी सं० / Diary No. 64656/2018/प्र-69207
दिथी / Date 20/6/2018

21/06/18
Sumit Joshi
21/06
R. Sharma
20/6

Exception nos.	Particulars	Operator's reply
1	<p>Work Programme & Budget</p> <p>For the FY 2014-15, Revised work program and Budget BE 40th Management Committee Meeting dated 29.11.2014 amounting to USD 296,756,636.</p> <p>Audit Exceptions:</p> <p>Re-structured exploration is expired on 29.12.2013 and Operator is approved by MOP&NG for grant of further force majeure the exploration period again expired on 25.01.2014.</p> <p>Cost recovery entitlement of exploration entitlement will not arise due to the following reason.</p>	<p>It may be mentioned that the revised Work Program and Budget RE for the year 2014-15 was submitted on 12.02.2015 and the same was discussed in the Management Committee meeting held on 28.03.2015, resulting in the 40th MCR. Therefore, the date of 40th MC meeting in the exception is inadvertently typed as 29.11.2014 instead of the actual date 28.03.2015.</p> <p>The re-structured exploration period was up to 29.12.2013. Operator submitted its proposal for DoC on 26.12.2013 and sought permission to continue appraisal / exploratory drilling in the block beyond the exploratory period, vide letter dated 03.01.2014. This request was forwarded to MoP&NG by DGH vide letter dated 21.01.2014. ONGC's request was to seek permission to continue exploratory / appraisal drilling based on the revision in policy announced by GoI vide O-19025/10/2005-ONG-DV dated 01.02.2013 to allow exploration activities in Mining Lease areas even after the expiry of the exploration period to enable early monetization of discoveries.</p> <p>WP & B 2014-15 BE was initially proposed on 09.05.2014 and the modified BE of WP&B was submitted on 28.07.2014.</p> <p>Management Committee met on 22.07.2014 to review the proposal for DoC of Oil & Gas discoveries in the block. This resulted in the review of DoC for cluster-II through the 39th MCR.</p> <p>After the announcement of the MoP&NG policy dated 10.11.2014, Management committee met on 29.11.2014 to discuss further work program in the block resulting in the 41st MCR. This permitted the contractor to continue appraisal drilling and other activities including</p>




		<p>testing of E-1, D-1 and UD-1 discoveries, probing additional reservoirs and carrying out CSEM survey etc., after the submission of DOC and before submission of FDP.</p> <p>Subsequently, extension of the exploratory period by 27 days was approved vide the 49th MC resolution dated 28.09.2016, thereby effectively extending the exploration period till 25.01.2014.</p> <p>Against the approved Budget of US\$ 296,756,636 for the year 2014-15, ONGC, as Contractor had spent only US\$ 182,654,702.</p> <p>The spill over of exploration activity was reviewed in 40th MC dated 28.3.2015, while approving the revised work program and budget for FY 2014-15. ONGC had brought out that these activities were covered under point No: 8 & 9 of recent policy framework issued by GOI dated 10.11.2014. (Copy of 40th MCR enclosed). The Operator has worked to add value to the Project within the framework permitted by PSC.</p> <p>Well KT-2 was under drilling as on 29.12.2013 and well J-1 was spudded on 25.01.2014. As such the drilling of these wells have commenced within the restructured exploration period (ie. On or before 25.01.2014). Also, KT-2 is a substitute well for KT-1, since syn-rift sequence could not be probed in KT-1 due to technical reasons.</p> <p>Work in progress was completed beyond exploration period. No new exploration activity has been initiated after the expiry of restructured exploration period ie. 25.01.2014.</p> <p>To add value to the block, exploratory targets other than Plio-pleistocene were to be probed. J-1 was targeted for Eocene and deeper sequences. These wells were not part of MWP and are additional wells, completed within 6 months of the expiry of exploration period, which is allowed under Article 3.7 of PSC.</p> <p>Permission to regularize these two exploratory wells KT-2 and J-1 as part of the WP & B 2014 RE is being sought and pursued with DGH / MoP&NG.</p>
	<p>1. Operator has done exploration activity which was also disallowed in BE 2014-15</p> <p>2. The exploration activity were done after 29.12.2013 and prior to the date of MoP&NG policy dated 10.11.2014.</p>	

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	<p>3. Pre-Development activities may be considered if they fall under appraisal activities as per the submitted MoP&NG.</p> <p>4. The original MWP should be submitted to steering committee 90 days prior the commencement of FY the same has been approved by MC on 19th Feb 2015.</p> <p>Operator is required to abide by the dates as per PSC.</p>	<p>Predevelopment activities have been reviewed in 40th MCR.</p> <p>The total MWP commitment was completed during Phase-I of PSC itself. During the FY 2014-15 no MWP exists.</p> <p>Operator has been abiding by the dates as per PSC.</p> <p>In view of the above, it is requested that the Audit Exception may be treated as settled.</p>
2	<p>Statements</p> <p>On our verification of documents and as stated by the Operator, the Operator does not possess the acknowledged copy of the statement.</p> <p>Operator is required to submit all statements as per PSC on time.</p>	<p>ONGC is submitting all the statements as per PSC on time. The required statements are sent by mail as well as by courier, because of which ONGC did not have the acknowledged copy of the statements.</p> <p>ONGC assures compliance of the PSC requirement.</p> <p>In view of above, the audit observation may be treated as settled.</p>
3	<p>Procurement</p> <p>1.The Operator (ONGC) procure materials & equipment on behalf of all the blocks under the companies operatorship and these are used</p>	<p>ONGC (Operator) has "Complied With" the Ministry's directives dated 23.01.2015 and all work centres have been directed by issuance of necessary guidelines on the same (Circular No. 06/2017, No. MAT/PMC/13(222)/2017 dated 20.02.2017) copy of which <u>is enclosed for reference</u>.</p>

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	<p>and/or consumed for carrying out the work programme of the venture.</p> <p>2. For services related expenditure on drilling and seismic acquisition, ONGC awards and executes centralized, umbrella contracts encompassing a large number of blocks operated by ONGC. The originating debits are captured in the JV books through services entry sheets as explained above.</p> <p>Operator is required to get the procurement procedure approved by MC as directed by MoP&NG letter no: O-22015/37/2012-ONGC-IV/EO dated 23.01.2015 and subsequent reminder on 11.05.2017 written to C&MD, ONGC.</p>	<p>An agenda note seeking MC approval for the procurement procedure adopted by the Operator is being submitted to DGH, to comply with MoP&NG letter no: O-22015/37/2012-ONGC-IV/EO dated 23.01.2015 and subsequent reminder on 11.05.2017 written to C&MD, ONGC.</p> <p>In consideration of the same, this para may please be treated as settled.</p>
4	<p>Service tax Compliance</p> <p>Service tax on the cost of in-house services provided by the operator to the block has not been recognized during the current financial year with retrospective effect.</p> <p>Attention shall be drawn to Circular No. 179/5/2014-ST dated 24th September 2014 which states that JV and the members of the JV are</p>	<p>Production Sharing Contract was between The Government of India and ONGC (holding 100% in 2014-15) with respect to Contract Area identified as Block KG-DWN-98.2. Under this PSC, ONGC, having 100% Participating Interest carried out the petroleum operations and not rendering any service to anyone. Thus there is no JV and accordingly, Block KG-DWN-98/2 and ONGC are not to be treated as 'distinct persons' for the purpose Service Tax.</p> <p>The activities of the Block was carried out either from ONGC's own resources or shares the services contracted by ONGC. The costs are</p>

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	<p>treated as distinct persons and therefore, taxable services provided for consideration, by the JV to its members or vice versa and between the members of the JV are taxable.</p>	<p>booked based on the actual work carried out without adding any other cost.</p> <p>It may be noted that under the ONGC's System of accounting and allocation of costs, which are purely on cost basis, there is no provision for any mark-up for addition of any profit element in the allocation.</p> <p>In view of above, the audit observation may be treated as settled.</p>
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ANNEXURE - 1

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PMC Cell - MM

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Circular No. 06/2017


No: MAT/PMC/13(222)/2017
Dated: 20.02.2017

Sub: Complying with the provisions of PSC in cases pertaining to NELP blocks.

Executive Procurement Committee (EPC), in its meeting (37/2016) held on 29.12.2016, issued following directives for adherence to the provisions of PSC in cases of NELP blocks:

1. In case of NELP blocks, provisions of PSC should be followed/complied with by the concerned Work Centers who are processing the tenders.
2. The case should be submitted to the Competent Authority for approval for award of contract after obtaining the approval of OC.
3. If information regarding approval of competent authority has to be submitted to MC (Management Committee), same should be done after obtaining approval of Competent Authority.

Above guidelines should be meticulously followed by all concerned


(Ashwini Nagia)
ED-Chief MM Services

Distribution: (Through ONGC's intranet website 'ongcreports.net').
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1. EO to CMD, ONGC, New Delhi
2. CEA to Director (T&FS) / Director (Offshore) / Director (HR) / Director (Exploration) / Director (Onshore) / Director (Finance), ONGC, New Delhi
3. CVO, ONGC, New Delhi.