



PMC Cell – MM

# Oil and Natural Gas Corporation Ltd Corporate Materials Management

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Circular No. 34/2015

No: MAT/PMC/13(29)16/2015

Dated: 28.08.2015

**Sub: Mobilization Advance and preparation of cost estimates.**

Following lapses in processing of tenders have been noticed by the investigating agency (ies):

- (i) In a case pertaining to hiring of Drilling Fluid Services for Onshore involving induction of work over and new technology, unrealistic cost estimates were prepared, which resulted in complications at the evaluation stage.

In this context, various instructions issued from time to time on preparation of realistic estimates may be referred. These guidelines have now been incorporated under para 4 of the Integrated MM Manual, wherein provisions on estimation of costs have been detailed. Further, vide letter No. MSGF/ND/390/2015 dated 09.06.2015 (copy enclosed), additional guidelines detailing procedure/methodology for preparation of cost estimates have also been issued by OSD (Finance). All concerned must ensure to comply with these guidelines while preparing cost estimates.

- (ii) In another case involving Mobilization Advance to the contractor, instruction issued by CVC on Mobilization Advance to contractor against submission of Bank Guarantee have not been complied with by one of the work centers.

In this regard, reference of all concerned is invited to circular No. 13/2011 dated 04.04.2011 (which has been retained on mm website under link "List of Circulars valid for reference issued prior to 31.01.2015"), wherein CVC's guidelines on Mobilization Advance to contractor against submission of Bank Guarantee have notified for compliance by all concerned, wherever applicable.

It is re-iterated that wherever applicable, aforesaid CVC instruction on Mobilization Advance to bidder, should be strictly complied with.

Above guidelines should be meticulously followed by all concerned.

*C.R. Mohanty*  
28/08/15

(C.R.Mohanty)

ED-Chief MM Services

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- CVO, ONGC, Jeevan Bharti Building, New Delhi.



OFFICE OF DIRECTOR (FINANCE),  
OIL AND NATURAL GAS CORPORATION LTD.  
NEW DELHI

No. MSGF/ND/390/2015

June 9, 2015

FROM: A.K. Srinivasan, OSD (Finance)

To : As per Distribution

**Sub: Guidelines for Preparation of Cost Estimates**

In all type of procurement/ contract process estimated cost is the basis not only for determining CPA of the case but also basis for ascertaining price reasonability during the finalization of tender process. Moreover, estimated cost of procurement/ work is also basis for Planning and Budgeting. Hence, due care and application is required while working out cost estimates. In this regard following broad guidelines are suggested to help the executives involved in preparation of cost estimates.


1. Preparation of cost estimates is primarily responsibility of Indentor/ MDT/ Category Manager. For highly complex procurement and limited internal capability, external consultants may be used for cost estimation. The costing MDT / internal cost estimation team may apply their due diligence on the report submitted by the consultants to arrive at the final cost estimate.
2. The estimated cost should be realistic, logical and scientific and should reflect the true scenario of the market as far as possible. Before preparation of cost estimates, scope of work/ specifications to be clearly defined. Cost estimates should be based upon the specific requirement of the job/ specifications of the materials.
3. In case of procurement of materials/ hiring of services, for preparation of cost estimates, Last Purchase Rate (LPR) may be considered for reference, but actual market scenario also to be taken into account. Suitable escalation/ reduction may also be considered over LPR considering time lag from LPR date, rate of inflation, foreign exchange rate fluctuation, changes in taxes and duties etc.
4. In case of procurement of chemicals, cost estimate of each type of chemical should be prepared separately instead of putting all or group of chemicals together.
5. In case of no LPR available for procurement/ service case, cost estimates may be prepared on the basis of Budgetary Quote (BQ). For this, preferably three BQs may be obtained from reputed vendors/ manufacturers and cost estimates may be prepared on the basis of lowest BQ.
6. In case of LSTK / EPC works, approved costing methodology by Competent Authority shall be followed. The expected accuracy range of class 1 estimate should be used for preparation of estimates for tender document and also for check estimate i.e. for justification of rates. The estimate should be approved by the design group of the engineering services. If the item / service to be procured are new or have not been recently procured, the budgetary quotes from identified vendors, etc. is asked for cost estimates.

13(60)

Copy to  
all DGMS  
GM (D)-Head P&E  
Ray G  
17/6/15

Pl. see if  
any modifications  
is required in  
M.M. Home  
guidelines  
24/6/15

7. If the market trends have shown abnormality, the cost estimate may be reviewed before the due date of bid submission by the team which prepared the initial estimate and revised only if necessary. The revised cost estimate will need to be approved by the concerned competent authority with full justification.
8. In case of civil/electrical jobs, the latest applicable Schedule of Rates (SOR) is to be referred for preparation of cost estimates.
9. If there are any additional expenses, those expenses should also be included in the cost estimates. Additional/ incidental costs include:
  - a) Handling charges;
  - b) Delivery costs;
  - c) Taxes and duties;
  - d) Freight
  - e) Overheads etc.
10. Cost estimates prepared by the Indentor/ MDT/ Category Manager should be vetted by the Finance Officer at appropriate level before sanction.
11. Above guidelines may be followed meticulously in all future cases.

  
(A.K. Srinivasan) 9/6/15  
OSD(Finance)

Distribution:

1. All Key Executives
2. All Head/ I/c Finance

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