

25

**STANDING COMMITTEE ON
PETROLEUM & CHEMICALS
(1995-96)**

TENTH LOK SABHA

**MINISTRY OF PETROLEUM
& NATURAL GAS**

TWENTY-FIFTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

February, 1996/Magha, 1917 (Saka)

LC

328.865 JK
NS.25.3

TWENTY-FIFTH REPORT

STANDING COMMITTEE ON PETROLEUM AND CHEMICALS (1995-96)

(TENTH LOK SABHA)

MINISTRY OF PETROLEUM & NATURAL GAS
DEMANDS FOR GRANTS (1995-96)

*[Action Taken by Government on the Recommendations contained in the
17th Report of the Standing Committee on Petroleum & Chemicals]*

Presented to Lok Sabha on

6 MAR 1996

Laid in Rajya Sabha on

7 MAR 1996



LOK SABHA SECRETARIAT
NEW DELHI

February, 1996/Magha, 1917 (Saka)

Price : Rs. 11.00

PARLIAMENT LIBRARY
Central Govts. Publications
Acc. No. PC...72817(4)
Date...15/3/96...

lc
328.36574
NS. 25 ; 3

© 1996 BY LOK SABHA SECRETARIAT

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Eighth Edition) and Printed at National Printers, 20/3, West Patel Nagar, New Delhi.

CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE	(iii)
INTRODUCTION	(v)
CHAPTER I Report	1
CHAPTER II Recommendations that have been accepted by Government	13
CHAPTER III Recommendations which the Committee do not desire to pursue in view of Government's replies	18
CHAPTER IV Recommendations in respect of which replies of Government have not been accepted by the Committee	20
CHAPTER V Recommendation in respect of which final reply of Government is still awaited	21

APPENDICES

I. Minutes of the 18th Sitting of the Committee held on 7th December, 1995	22
II. Minutes of the Sitting of the Committee held on 16th February, 1996	25
III. Analysis of Action taken by Government on the recommendations contained in the Seventeenth Report of the Standing Committee on Petroleum and Chemicals (Tenth Lok Sabha)	28

COMPOSITION OF THE STANDING COMMITTEE
ON PETROLEUM AND CHEMICALS
(1995-96)

Shri Sriballav Panigrahi — *Chairman*

MEMBERS

Lok Sabha

2. Shri Barelal Jatav
3. Dr. Ravi Mallu
4. Shri Surinder Singh Kairon
5. Shri Sant Ram Singla
6. Shri A.G.S. Rambabu
7. Shri R. Prabhu
8. Shri C.P. Mudalagiriappa
9. Shri V.S. Vijayaraghavan
10. Shri Arvind Tulshrim Kamble
11. Smt. Suryakanta Patil
12. Shri M. Krishnaswamy
13. Shri Gopi Nath Gajapathi
14. Shri K. Ramamurthee Tindivanam
15. Dr. Laxminarain Pandey
16. Shri Janardan Prasad Misra
17. Shri Kashiram Rana
18. Shri Rameshwar Patidar
19. Shri Ratilal Kalidas Varma
20. Shri Sombhai Patel
21. Shri Hari Kishore Singh
22. Shri Devendra Prasad Yadav
23. Shri Ramnihore Rai
24. Shri Uddhab Barman

25. Dr. Asim Bala
- **26. Shri Surya Narayan Singh
27. Shri Simon Marandi
28. Shri Pius Tirkey
29. Shri Muhiram Saikia
30. Dr. Jayanta Rongpi

Rajya Sabha

31. Shri Lakkhiram Agarwal
32. Shri E. Balanandan
33. Shri Mohd. Masud Khan
34. Shri Pasumpon Tha. Kiruttinan
- *35. Shri G.Y. Krishnan
36. Shri Bhagaban Majhi
- *37. Shri Suresh Pachouri
38. Shri Jagdish Prasad Mathur
39. Shri V. Narayanasamy
40. Shri Yerra Narayanaswamy
41. Shri Ramji Lal
42. Shri Chimanbhai Haribhai Shukla
43. Shri Balbir Singh
44. Shri S.S. Surjewala
45. Shri Dineshbhai Trivedi

SECRETARIAT

- | | | |
|-----------------------|---|-------------------------|
| 1. Shri G.C. Malhotra | — | <i>Joint Secretary</i> |
| 2. Shri G.R. Juneja | — | <i>Deputy Secretary</i> |
| 3. Shri Brahm Dutt | — | <i>Under Secretary</i> |
| 4. Shri S.N. Dargan | — | <i>Asstt. Director</i> |

* Ceased to be Member of the Committee consequent upon their appointment as Ministers in the Council of Minister w.e.f. 19th September, 1995.

** Expired on 8th February, 1996.

INTRODUCTION

1. The Chairman, Standing Committee on Petroleum and Chemicals (1995-96) having been authorised by the Committee to submit the Report on their behalf, present this Twenty Fifth Report on Action Taken by Government on the recommendations contained in the Seventeenth Report of the Standing Committee on Petroleum and Chemicals (1995-96) (Tenth Lok Sabha) on 'Demands for Grants of the Ministry of Petroleum and Natural Gas for the year 1995-96'.

2. The Seventeenth Report of the Committee was presented to Lok Sabha on 2nd May, 1995. Replies of Government to all the recommendations contained in the Report were received on 31st October, 1995.

3. To seek further clarification/latest position in regard to action taken replies to recommendations relating to cost and time overruns in major oil sector projects the Committee took evidence of the representatives of Ministry of Petroleum and Natural Gas on 7th December, 1995. The Committee considered and adopted the Report at their sitting held on 16th February, 1996.

4. An analysis of action taken by Government on the recommendations contained in the Seventeenth Report (1995-96) of the Committee is given in Appendix III.

NEW DELHI;
February 16, 1996
Magha 27, 1917 (Saka)

SRIBALLAV PANIGRAHI,
Chairman,
Standing Committee on
Petroleum and Chemicals.

CHAPTER I

REPORT

The Report of the Committee deals with the action taken by the Government on the recommendations contained in the Seventeenth Report (1995-96) (Tenth Lok Sabha) of the Standing Committee on Petroleum and Chemicals on Demands for Grants of the Ministry of Petroleum and Natural Gas for the year 1995-96 which was presented to Lok Sabha on 2nd May, 1995.

2. Action taken notes have been received from the Government in respect of all the 6 recommendations contained in the Report. These have been categorised as follows :—

- (i) Recommendations/observations which have been accepted by the Government.
Sl. No. 2, 3, 4, 5 and 6.
- (ii) Recommendation/observation which the Committee do not desire to pursue in view of the Government's reply.
Sl. No. 1
- (iii) Recommendation/observation in respect of which replies of the Government has not been accepted by the Committee.
NIL
- (iv) Recommendation/observation in respect of which final reply of the Government is still awaited.
NIL

3. The Committee will now deal with the action taken by the Government on some of their recommendations.

A. PRICING OF CRUDE OIL

Recommendation Sl. No. 2 (Para No. 1.19)

4. The Committee had noted that the two national oil companies viz. Oil and Natural Gas Corporation Ltd. (ONGCL) and Oil India Ltd. (OIL) had been getting price of their crude oil at administrative price of Rs. 1740 per tonne against Rs. 3400 per tonne being paid for the imported crude. The

private parties which had been given some basins for exploration/production would also be getting the international price. Some more incentives were also being offered/giving to private parties/joint ventures making ONGCL/OIL to a disadvantageous position. In this context the Committee had recommended that ONGC and OIL should also be given same treatment as foreign companies/private sector were being offered/given.

5. The Ministry of Petroleum and Natural Gas in their reply have stated that efforts to provide a level playing field to the national oil companies are already under way. The Ministry have taken up with the Ministry of Finance the question of granting customs duty exemption and deemed export benefits to items used by ONGCL/OIL in petroleum operations in the line with the concessions already available to private companies. This issue is currently under examination in the Finance Ministry. An exercise has also been undertaken to examine the implications of moving towards a regime, where ONGCL/OIL are also paid international price for their share of oil under production sharing contracts signed with the Government of India. However, the impact of such a move on the downstream sector and the ultimate consumer would also need to be assessed before finally moving towards such a regime. In case ONGCL/OIL are provided the same fiscal concessions as private companies, it would also be necessary for ONGCL/OIL to bid for exploration blocks alongwith private companies. ONGCL/OIL would not then be entitled to exploration blocks on a nominated basis.

6. The Committee urge upon the Ministry of Petroleum and Natural Gas to pursue the matter with the Ministry of Finance with a view to take final decision in regard to giving incentives/crude oil price to ONGCL/OIL at par with foreign/private companies at the earliest. The Committee would also like to be appraised of the decision taken in this regard.

B. ECONOMY IN OIL SECTOR PUBLIC UNDERTAKINGS AND OTHER ORGANISATIONS

Recommendation Sl. No. 4 (Para No. 2.6)

7. In the context of economy in the oil sector the Committee had asked the Ministry to ascertain the quantum of savings accrued in response to the instructions issued by the Ministry to the Public Sector Undertakings and other organisations under their administrative control and apprise the Committee about the impact.

8. The Ministry in their reply have stated that the Public Sector Undertakings (PSUs) and other organisations under the administrative control of Ministry of Petroleum and Natural Gas have again been asked

to follow the instructions on economy scrupulously and earnestly. In view of the recommendations of the Committee the Ministry have decided to obtain half-yearly reports from the PSUs with a view to ascertain the quantum of savings accrued in response to the instructions.

9. The Committee are happy to note that in pursuance of their recommendation, the Government have decided to call for half-yearly reports from PSUs etc. with a view to ascertain the quantum of savings accrued in response to Government instructions for taking economy measures. The Committee recommend that a statement showing the savings effected by each PSU/organisation should be furnished to the Committee on annual basis alongwith documents relating to Demands for Grants.

C. PROJECT PLANNING AND IMPLEMENTATION IN THE OIL SECTOR PROJECTS

Recommendation Sl. No. 5 (Para No. 3.6)

(i) Cost and Time Over-runs

10. The Committee's examination of the Demands for Grants of the Ministry for the year 1994-95 and 1995-96 had revealed that there had been major cost and time-over-runs in oil sector projects. The Committee in their 5th Report (1994-95) had recommended that the project planning and execution machinery in various Public Sector Undertakings (PSUs) should be reviewed and the existing short-comings removed. The Committee in their 17th Report (1995-96) again emphasising the need for completing the projects within the stipulated time and budget estimates had asked the Ministry to have periodical reviews of the PSUs particularly with regard to implementation of projects.

11. In reply given by the Ministry it has been stated :—

“Instructions have again been issued to the PSUs emphasising the need for completing the projects within the stipulated time and approved cost estimates. The implementation of the sanctioned projects is monitored monthly at various levels and action is taken to remove the bottlenecks which are noticed. The Ministry also has a Monitoring cell which reviews the monthly progress of the projects under implementation. Quarterly performance Review Meetings are also held in the Ministry with regard to implementation of projects and economy measures taken by PSUs”

12. In order to have an idea of project planning and implementation system in oil sector projects the Committee sought further details of all

major oil sector projects costing over Rs. 100 crores each which were to be completed between April, 1990 and 31st March, 1995. From the details furnished by the Ministry about the major Oil Sector Projects it is observed that out of 20 projects scheduled for completion by the various PSUs during the period (1990-95) under the administrative control of the Ministry there has been cost and time over-runs in completion of the following projects :—

S. No.	Name of Projects	Year of Sanction	Original Cost	Revised Cost	Original Completion Schedule	Revised Completion Schedule
1.*	Neelam Field Development (ONGC)	Feb. 1991	2022.20	3541.85	Nov. 93	May 94
2.**	Lube Base Augmentation Facilities at Bombay Refinery (HPCL)	1990	181.23	246.74	Dec. 93	Jan. 95
3.**	Lube Expansion Project (MRL)	Aug. 1990	163.75	238.71	May 93	Nov. 93
4.	Gujarat Hydro-Cracker (IOC)	1987	635.00	757.44	Feb. 92	Feb. 93
5.*	Barauni Reformer Project (IOC)	Feb. 90	77.95	248.11	Aug. 93	Feb. 97
6.*	Digboi Reformer Project (IOC)	1990	34.17	112.00	Aug. 93	Sept. 96
7.*	Kandla-Bhatinda Pipeline Project (IOC)	Aug. 90	917.55	2391.83	May 93	May 95 (Now April 96)
8.*	Digboi Refinery Modernisation (IOC)	June 89	143.74	346.34	June 93	Nov. 95 (Now Feb. 96)
9.	L-II Development (ONGC)	1993-94	1100.40	2192.68	Dec. 93	Feb. 95
10.	L-III Development (ONGC)	1993-94	2393.02	4374.12	Sept. 93	Dec. 94
11.	MMTPA Refinery at Cauvery Basin (MRL)	Jan. 1991	114.30	196.00	July 93	July 93

* Dealt with in 5th Report of the Committee.

** Dealt with in 17th Report of the Committee.

13. During the course of examination of the Ministry the Committee pointed out that they had been repeatedly emphasising the need for early

completion of projects as also for strengthening the project planning & implementation systems in all PSUs. Asked whether the project planning and implementation systems in oil sector companies had been reviewed, the Ministry replied in a note as follow :

“The existing system of Project Planning & Monitoring was obtained from all the PSUs and the same was reviewed in the Ministry in September, 1994. Perusal of the system revealed that the mechanism adopted by the PSUs is more or less adequate to contain the time and cost over-runs in implementation of the projects. However, instructions were issued to the PSUs on 28th Sept. 1994 to further strengthen the system of Project Planning & Implementation of the Projects so that the time and cost over-runs in respect of the Projects are eliminated. Instructions were again issued to the PSUs on 25th August. 95, emphasising the need to implement the projects within the stipulated time and approved cost estimates”.

14. On being asked further about the methodology being exercised at present for the appraisal of on-going projects with a view to avoid further cost escalation and time over-runs, the Ministry in their note stated :

“The progress of the on-going projects is regularly monitored in the Ministry by a dedicated Ministry Monitoring Cell. The reports of the M.M.C. highlighting the slippages in the critical areas of the projects is reviewed regularly in the meetings in the Ministry chaired by Addl. Secretary with the Project Authorities”.

15. Elaborating the project monitoring system at Ministry level, the Petroleum Secretary added during evidence :

“Sir, currently the Ministry of Petroleum is implementing more than Rs. 70,000 crore worth of Projects. Both in the PSUs as well as Ministry itself a very high priority is given to the Project Implementation and Monitoring. In the Ministry, we have a superb back up Monitoring Cell and Information System. It helps the Ministry and also the Chief Executives of different Corporations. In addition to this, we do have regular quarterly performance reviews of the PSUs, which I take up myself.

But over and above, now, we have a very senior officer, who has been requested to have the additional task of monitoring the mega projects in the Ministry. We have strengthened within the Ministry the process of monitoring. With the cooperation of all, they have created an efficient system of formulation, appraisal, monitoring and so on”.

16. Regarding the monitoring system at PSUs level, the witness stated:

“They (PSUs) also have very major training programmes in which

they train their senior Executives and middle-level Executives in project implementation, management etc. I would submit that giving the size of our projects, the performance has not been too bad. It is quite encouraging. I have looked at similar kind of private sector projects and I am happy to report that implementation of our projects is comparatively better even compared to the private sector projects. I would take the specific year 1991-92. We had some peculiar problems in the year 1991-92. The country had a severe foreign exchange crisis. Oil India Limited and Indian Oil Corporation faced a severe foreign exchange constraint."

17. In reply to a specific query about the cause-wise reasons for cost and time over-runs, the Ministry stated in a note that they had analysed the reasons for cost escalation and time over-runs in all the major oil sector projects and these were mainly due to change in exchange rates, variation in statutory levies, scope change and abnormal market conditions etc.

18. The Committee pointed out specific instance of Kandla-Bhatinda Pipeline Project of Indian Oil Corporation Ltd. where cost increased from Rs. 917 crores to Rs. 2391 crores. Besides, the physical progress of this Project as on 30.6.1995 was 67.55% as against the planned progress of 96.0%. When asked the reasons for slow progress of the project the CMD, IOC stated during evidence :

"This is another bad case. The schedule for completion was May, 1993. Actually the project was envisaged some time in 1987. We had a long debate with the Railways that the Railways should allow us to put up the project. The approval was received in August, 1990. The original cost was Rs. 917.55 crore. This again was a World Bank Project. We received only one quotation which had about 200 obligations and the World Bank did not approve that. The cost was very high and we had to go on our own. So we have returned the loan money to the World Bank. We are doing within the approved cost. But there has been heavy time over run. The contractor from Czechoslovakia is doing a very bad job. For every 10 days, there is a delay of 20 days. It is not only being reviewed by all of us but by the Minister also. The Financial position of the Contractor is very bad. He is not even paying the Central Design Organisation. There was only one contractor. It is a turn-key project. We have gone to the extent of paying customs duty in advance."

19 Regarding the latest position of the project, the witness stated :
 "Finally we can make it. The next commissioning is at Jaipur by 15th February. We will come to Panipat by about March and Bhatinda by

April-May. There is a time over-run. There is no cost over-run because it is a turn-key project. There is no extra money required. This project has been personally reviewed by the Hon. Minister also”.

20. In some cases the delays have been on account of delayed delivery of equipments/engineering services by the contractors/suppliers including some of the PSUs engaged in such areas. Asked whether any penalty was imposed on the contractors for delaying the supply of equipments etc., the Ministry informed that penalty clause was imposed by Oil & Natural Gas Corporation Ltd., Madras Refineries Ltd. and Indian Oil Corporation.

21. On being further enquired whether the Ministry had come across any cases where the cost and time over-runs could have been avoided, the Ministry in a note stated :

“All the R.C.E. (Revised Cost Estimates) proposals of projects costing Rs. 50 crores and above are examined by the Administrative Divisions and thereafter discussed in the inter-ministerial Pre-PIB meetings chaired by FA of the Ministry. As per the existing instructions the PSUs are asked to fix responsibilities for cost/time over-runs for avoidable reasons. An analysis of cost/time over-runs in such cases shows that reasons had been beyond the control of PSU Management. Such delays by endorse/contractors are penalised by PSUs by imposing liquidity damages/debarring them from participating in the tenders etc.”

22. Asked further whether all the on-going projects would be completed as per the revised cost and time schedules the Ministry stated that the projects were now ahead of schedule and were expected to be completed as per revised cost and time schedules.

23. In their submissions before the Committee CMD's of the concerned PSUs viz. Oil & Natural Gas Corporation Ltd., Indian Oil Corporation, Madras Refineries Ltd. and Hindustan Petro Chemicals Ltd. also stated that they were having necessary expertise for project planning and implementation and many of their projects had been completed within approved time and cost schedules.

(ii) Review of projects through Board meetings and Quarterly Performance Review (QPR) meetings

24. The Ministry also review the performance of PSUs (including the progress of projects) through Government nominees on the Board of respective PSUs. The Ministry also hold quarterly performance review meetings in respect of each PSU. On being asked whether the nominees of

the Ministry on the Board of PSUs play an effective role in reviewing the progress of approval/completion of the projects, the Ministry stated in a written note:

“Govt. Nominees on the Board of PSUs play an effective role in reviewing the progress of approval/completion of projects. The important aspects requiring action by the Ministry/Govt. is brought to the notice of the Ministry. The nominee Directors are fully briefed/debriefed by the Secretary (P&NG) before and after each Board meeting.”

25. The following table shows number of QPR meetings held during the last three years in respect of each PSU :

S.No.	Name of the PSU	No. of meetings
1.	OIL	6
2.	ONGCL	6
3.	IBP Group	7
4.	IOCL	12
5.	HPCL	11
6.	BPCL	12
7.	CRL	12
8.	MRL	12
9.	BRPL	11
10.	GAIL	6
11.	LIL	7

26. Asked whether the issues relating to project implementation were discussed in these meetings, the Ministry replied :

“The position about their implementation and bottlenecks, if any, on the timely completion schedule were also discussed and the PSUs were asked to take corrective action. For instance, directions were given to GAIL to submit quantitative data on the time taken at various stages of processing a tender and the steps they proposed to take to reduce the processing time, to expedite formation of JVC for the Bombay project and to expedite soil survey for LPG Plant at Lakwa etc. ONGC was asked to examine the feasibility of black listing of contractors responsible for delays in implementation of the project. Specific instructions were given about reducing cost of production, reducing drilling time, safety audit of pipeline etc.”

27. During the course of evidence the Committee enquired about the reasons for not holding regular quarterly performance review meetings in respect of OIL, ONGCL, GAIL and LIL, the Petroleum secretary stated :

“We propose to do it as regularly as possible and have at least three to four meetings a year”.

(iii) Delay in Government approval for PSU Projects

28. In regard to impediments coming in the way for early completion of projects some of the PSUs had brought to the notice of the Committee during their study tour that in some cases the Ministry took more time in according approval for the projects resulting in increase in cost of various projects.

29. The present system of approval of major projects involve the following stages after preparation of Preliminary Feasibility Reports (PFR) by PSUs:

- (i) Submission of PFR to the Ministry for approval for seeking first stage clearance of Public Investment Board. The first stage approval, authorise the PSUs to incur expenditure on Detailed Feasibility Report, Environment clearance, tying up of consultants/licensors, required technical know-how etc;
- (ii) Public Investment Board (PIB) second stage clearance;
- (iii) CCEA clearance.

30. During the course of evidence explaining it further, the Petroleum Secretary added :

“Sir, I will try to explain the procedure for getting the approval. First, the project proposal comes and we consult all the relevant Ministries, particularly the Planning Commission and the Finance Ministry, on its feasibility. Then, we take what they call Committee of PIB's clearance for producing detailed feasibility report. After detailed feasibility report is prepared, then it comes up for discussion in Pre-PIB meeting where we consult the Ministry of Finance. In fact, people from the Ministry of Finance, Planning Commission, Environment Ministry, Project Implementation Ministry and people from other concerned Ministries attend this meeting. For instance, if it is a pipeline project, then the Railway Ministry will come into the picture. So, there are multiple agencies which have to look at these project proposals. This is one reason why delay do take place. In the case of very large projects, the delays do take place because they have to undergo due

procedures. Once any agency is asked to look at the financial viability of a project, they have to look at it very carefully. Last week, I was looking at how the private sector does it. Our procedure is no different from the private sector. It takes a long time to get clearance. I am not defending the delays”.

31. Explaining the problems in getting environmental clearance which was one of the factors for delay in getting Govt. clearance, the witness stated :

“The environment clearance takes a much longer time which means we cannot give orders to the vendors. So, it takes time. I think, we have been raising this issue with the State Governments also because many times the State Governments have to give permission in this regard. This depends on them to give the permission quickly. But the main problem is that various departments have to look at it. Each authority takes its own time. So, some different way of environment appraisal would expedite these projects”.

32. In reply to a specific query from the Committee about the reasonable time needed to clear a proposal/project the Petroleum Secretary stated that the Ministry required a minimum period of 12 to 18 months for a project to be cleared. As regards the actual time taken by the Ministry the witness replied :

“I would submit that we have not gone beyond 18-24 months which period is the normal period. We can compress it. There are two things. First, we are proposing to get rid of the stage one clearance of PIB. We did analyse as to how many of our projects were rejected by the PIB. There were none. Therefore, we want to get rid of the first stage clearance of the Committee of PIB. We are trying to propose this. Secondly, we are also proposing to increase the authority of the Board itself to sanction and implement the project. Today, beyond Rs. 50 crores, we have to go to the PIB. What happens is, it is done on first-come first-served basis. Therefore, we cannot rationally allot time to it. We are sending these proposals to the Government. If that is done, delays can be done away with and work can be done at a much faster pace. We also want to reduce the amount of work done by the Ministry. It goes a long way in reducing the time taken in the Ministry. The Ministry is really a window for all the other clearances which it obtains.”

33. When asked by the Committee whether the matter was taken up with the Cabinet Secretary, the Petroleum Secretary stated :

“We took the papers to the Cabinet, to the Committee of Secretaries

for waiver of the Stage-I clearance. Our Minister has set up a Committee under the Chairmanship of the former Chief Secretary of Karnataka who gave the proposal about the improvement of public sector enterprises. We have taken up proposals on that basis. And hopefully, it will be accepted by the Department of Public Enterprises. But the Committee's recommendations would be extremely useful".

34. The Committee in their 5th Report (1994-95) and 17th Report (1995-96) had pointed out seven glaring instances of cost and time over-runs in the oil sector projects implemented by ONGCL, HPCL, MRL and IOCL. In order to have an idea about project planning and implementation systems in all oil sector projects, the Committee sought details about the major oil sector projects costing over Rs. 100 crore each which were originally to be completed between April, 1990 and March, 1995. The Committee are startled to note that out of the 20 major oil sector projects scheduled to be completed during this period there has been cost and time-over runs in as many as 11 projects. In some of the projects the cost escalation was as high as over 200%. The time over-run in several projects ranged from two to three years. The Petroleum Secretary informed the Committee that around 1991 there was resource constraint as well as several foreign exchange constraint.

35. The Committee have now been informed that in pursuance of their recommendations, the Ministry have reviewed the project planning and implementation systems in the Public Sector Undertakings under their administrative control. All major projects are now reportedly being reviewed on monthly basis by Ministry's Monitoring Cell besides reviews at Board's meetings and Performance Quarterly Review meetings held by the Ministry. The Petroleum Secretary also informed the Committee that out the 11 delayed projects, 7 have been completed and remaining 4 would be completed as per the revised cost and time schedule. CMDs of the oil sector PSUs also deposed before the Committee that their project planning and implementation departments were capable to undertake the projects and in some cases they have completed the projects within time and cost schedules.

36. Since the cost and time over-runs affect the capital cost of projects which in turn affects the profitability of the respective PSUs, the Committee would like the Ministry as also the PSUs to constantly review the progress of all on-going projects with a view to avoid likely cost and time over-runs. There is also need to explore the system of reward for timely completion and punishment for delayed completion of the project to/for concerned teams and management.

37. The project under implementation by PSUs are also reviewed in Board meetings where nominees of the Government are present. The Committee desire that the role and effectiveness of Government nominee directors on the Board of all PSUs should be reviewed with a view to strengthen it further.

38. The Committee note that one of the systems of reviewing the performance of Public Sector Undertakings including the progress of on-going projects at the Ministry level is through holding Quarterly Performance Review Meetings in respect of all PSUs under the administrative control of the Ministry. The Committee, However, regret to note that as against the 12 stipulated review meetings during the last 3 years, such review meetings in respect of OIL, ONGCL, IBP, GAIL and LIL were only six or seven. As agreed to by the Petroleum Secretary, the Committee trust that the Ministry would hold more regular and meaningful review meetings for each PSU to keep a track on on-going projects.

39. It also come out during the course of examination that in some cases there is delay at the Government level in according approval for the projects. The Petroleum Secretary informed the Committee that a minimum period of 12 to 18 months is required to clear a project whereas the Ministry have taken 18 to 24 months in some cases. He also stated that the present system of 3 stage clearance (*viz.* First stage PIB clearance, second stage PIB clearance and CCEA clearance) is cumbersome and time consuming. Besides, at time there is delay in getting environmental clearance/State Government clearance. To over-come these problems the Ministry have initiated some suggestions like enhancing financial powers of Company's Board. Similarly, a Committee has also been set up to suggest proposals in this regard. The matter has also reportedly been taken up to Cabinet in form of a paper. The Committee would urge upon the Government to expedite examination of these proposals for taking a concrete decision in the matter so as to simplify and streamline the Government's approval procedure which will bring down the approval time considerably.

CHAPTER II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation Sl. No. 2 (Para No. 1.19)

Since liberalisation policy in 1991 the Government of India has announced various programmes/projects for participation by Indian private and foreign oil companies in both upstream as well as downstream sectors. The Government of India has invited bids from the companies to form joint venture with ONGC and OIL for exploration of oil and gas. It came out during examination that ONGC and OIL were getting price of their crude oil at administrative price of Rs. 1740 per tonne against Rs. 3400 per tonne being paid for the imported crude. The private parties which have been given some basins for exploration/production will also get the international price. Some more incentives are being offered/given to private parties/joint ventures making ONGC/OIL to a disadvantageous position. Presently ONGC and OIL are being given administrative price @ 15% return on their network. The Committee do agree that in the context of the limitations of resources, it is necessary to involve private sector in exploration and production activities but they do not find it justifiable to pay more to foreign companies/private companies as compared to PSUs although both are engaged in the same exploration/Production activities. The Committee therefore recommend that PSUs may also be given same treatment as foreign companies/private sector are being offered/given.

Reply of the Government

ONGC and OIL are already being paid the international price for their share of oil in respect of exploration blocks/discovered fields where they participate as joint venture partners with private companies and enter into production sharing contracts with the Government of India. However, it has been pointed out that ONGC/OIL should be provided with the same incentives as private companies for undertaking exploration for oil and gas.

Efforts to provide a level playing field to the national oil companies are already under way. The Ministry of Petroleum and Natural Gas has taken up with the Ministry of Finance the question of granting customs duty exemption and deemed export benefits to items used by ONGC/OIL in

petroleum operations in line with the concessions already available to private companies. This issue is currently under examination in the Finance Ministry. An exercise has also been undertaken to examine the implications of moving towards a regime where ONGC/OIL are also paid international price for their share of oil under production sharing contracts signed with the Government of India. However, the impact of such a move on the downstream sector and the ultimate consumer would also need to be assessed before finally moving forwards such a regime. In case ONGC/OIL are provided the same fiscal concessions as Private companies. It would also be necessary for ONGC/OIL to bid for exploration blocks alongwith private companies. ONGC/OIL would not then be entitled to exploration blocks on a nominated basis.

[Ministry of Petroleum and Natural Gas O.M.No. G-20011/2/95-Fin.I

Dated : 31st October, 1995]

Comments of the Committee

Please See Para 6 of Chapter I of the Report.

Recommendation Sl. No.3 (Para No. 2.5)

The Committee note that the Ministry of Petroleum is a PSU loaded Ministry. Since PSUs directly get institutional/foreign loans etc., they are not reflected in Govt. Budget/demands. The Demands of the Ministry for the Year 1995-96 are placed at Rs. 7.04 crores. Under Revenue Section provision of Rs. 2.75 crores has made for salary, other expenses of the Ministry's Office. The amount is at the level of last year provisions. Under the Capital Section a provision of Rs. 4.29 crores has been made for giving equity participation in GAIL's Training Institute. This is to be given from DANIDA (Denmark) Grant. Since the demands of the Ministry are too low, the Committee approve the same.

Reply of the Government

The Ministry has been making constant efforts to reduce the Non-Plan Expenditure to the bare minimum.

[Ministry of Petroleum and Natural Gas O.M.No. G-20011/2/95-Fin.I

Dated : 31st October, 1995]

Recommendation Sl. No.4 (Para No. 2.6)

The Committee are happy to note that in pursuance of the recommendations made in the 5th Report of the Committee the Ministry has issued instructions to all the PSUs under their control to effect economy in oil sector. The Committee would like the Ministry to have periodical review of PSUs with a view to ascertain the quantum of savings accrued in response to the instructions. The Committee would also like to be apprised in this regard.

Reply of the Government

The Public Sector Undertakings (PSUs) and other organisations under the administrative control of Ministry of Petroleum and Natural Gas have again been asked to follow the instructions on economy scrupulously and earnestly. Also, in view of the recommendation now made by the Hon'ble Committee. It has been decided to obtain half-yearly reports from the PSUs etc., with a view to ascertaining the quantum of savings accrued in response to the instructions. The Committee will be kept informed of the position.

[Ministry of Petroleum and Natural Gas O.M.No. G-20011/2/95-Fin.I

Dated : 31st October, 1995]

Comments of the Committee

Please See Para 9 of Chapter I of the Report

Recommendation Sl. No.5 (Para No. 3.6)

From the details given in the Demands for Grants about two projects under implementation by MRL and HPCL, the Committee find that there is huge cost and time overruns in these projects, The original cost estimates of MRL Lube expansion projects was revised from Rs. 163.75 to Rs. 238.71 crores and in case of HPCL Lube Oil base stock augmentation projects from Rs. 181.23 crores to Rs. 246.74 crores. In the context of huge cost and time overruns the Committee in the Report on last year's Demands had recommended that project planning and implementation systems in all the PSUs should be reviewed and the shortcomings if any removed so that desired capacity is built up in time. The Committee once again emphasis the

need for completing the projects within the stipulated time and budget estimates. The Committee also desire that the Ministry should make a periodical review of all PSUs particularly with regard to implementation of projects and economy measures taken by PSUs.

Reply of the Government

Instructions have again been issued to the PSUs emphasising the need for completing the projects within the stipulated time and approved cost estimates.

The implementation of the sanctioned projects is monitored monthly at various levels and action is taken to remove the bottlenecks which are noticed. The Ministry also has a Monitoring Cell which reviews the monthly progress of the projects under implementation. Quarterly Performance Review Meetings are also held in the Ministry with regard to implementation of projects and economy measures taken by PSUs.

Further, Govt. Directors on the Board of PSUs, also review inter alia the implementation of the projects and economy measures taken by these PSUs.

[Ministry of Petroleum and Natural Gas O.M.No. G-20011/2/95-Fin.I

Dated : 31st October, 1995]

Comments of the Committee

Please See Paras 34, 35, 36, 37, 38 and 39 of Chapter I of the Report.

Recommendation Sl. No. 6 (Para No. 4.3)

The Committee regret to note that there are as many as 23 objections raised by the Audit on Account of Ministry for the year 1993-94. Due to lack of proper vigilance and effective link between Ministry of Petroleum and Natural Gas and PSUs there is huge loss involving Rs. 129.98 crores (Rs. 91.38 crores towards flaring of natural Gas and Rs. 38.68 crores on gas sweetening plant). The Ministry is reported to have taken action to remove/rectify all these objections. The Committee would like the Ministry to exercise vigilance and effective link between the Ministry and PSUs so that such lacunae do not recur in future.

Reply of the Government

Concern of the Hon'ble Committee in the matter has been carefully noted. Necessary instructions have been issued to all concerned in the Ministry to ensure strict compliance of the observation of the Committee.

[Ministry of Petroleum and Natural Gas O.M.No. G-20011/2/95-Fin.I

Dated : 31st October, 1995]

CHAPTER III

RECOMMENDATIONS IN RESPECT OF WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLY

Recommendation Sl. No. 1 (Para No. 1.17)

The Committee find that the 8th Plan outlay of Rs. 26,552 crores for petroleum sector has been sufficient only for the first 3 years of the Plan viz. 1992-93, 1993-94 and 1994-95. For 1995-96 and 1996-97, the Committee have been informed that additional projects costing Rs. 6500 crores have been approved by the Govt. As regards the funding of these projects the Petroleum Secretary informed the Committee that; about Rs. 4000 crores would be available from internal resources of concerned PSUs and the rest Rs. 2500 crores would be available from equity dilution of PSUs/institutional borrowings etc. The Committee are happy to note that in pursuance of their recommendation made in their 9th Report, OI DB has revised its schemes with a view to provide more loans to Oil Sector PSUs. The Committee desire that the Govt. should continue to make efforts to provide requisite funds for on-going projects so that these are not hampered due to paucity of funds.

Reply of the Government

The Ministry of Petroleum and Natural Gas had an outlay of Rs. 26,552 crores during the Eighth Plan. Against this, the actual expenditure during the first three years of the Plan period has been Rs. 24,700 crores approximately.

Thus irrespective of Eighth Plan approved outlays much higher outlays have been provided in the Annual Plans to fully take care of the financial requirements of all life-line projects. No major project has either been dropped or slowed down because of initial lower Plan outlay provision. Notwithstanding overall resource constraints for sectorial allocation, Planning Commission provided required outlays for all on-going projects to ensure their timely completion.

It has been submitted on behalf of the Planning Commission that during the first 3 years of the Eighth Plan not only major projects had been

provided with requisite outlays, the schemes which had token provision in the Plan as well as many new schemes have been included for implementation during the Plan Period. It would be due to this practice that the Petroleum Sector would incur Plan Expenditure far in excess of the approved Eighth Plan Outlays.

[Ministry of Petroleum and Natural Gas O.M.No. G-29011/2/95-Fin.I

Dated : 31st October, 1995]

CHAPTER IV
RECOMMENDATION IN RESPECT OF WHICH
REPLY OF GOVERNMENT HAS NOT BEEN ACCEPTED
BY THE COMMITTEE

- NIL -

CHAPTER V
RECOMMENDATION IN RESPECT OF WHICH FINAL
REPLY OF GOVERNMENT IS STILL AWAITED

- NIL -

NEW DELHI;
February 16, 1996

Magha 27, 1917 (Saka)

SRIBALLAV PANIGRAHI,
Chairman,
Standing Committee on
Petroleum & Chemicals.

APPENDIX I

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1995-96)

EIGHTEENTH SITTING (7.12.1995)

The Committee sat from 1500 hrs. to 1630 hrs.

PRESENT

Shri Sriballav Panigrahi — *Chairman*

MEMBERS

Lok Sabha

2. Shri Sant Ram Singla
3. Shri V.S. Vijayaraghavan
4. Shri M. Krishnaswamy
5. Shri Gopi Nath Gajapathi
6. Shri K. Ramamurthee Tindivanam
7. Shri Hari Kishore Singh
8. Shri Ramnuihore Rai
9. Shri Uddhab Barman
10. Dr. Asim Bala
11. Shri Muhiram Saikia

Rajya Sabha

12. Shri Lakhiram Agarwal
13. Shri Yerra Narayanaswamy

SECRETARIAT

1. Shri S.N. Mishra — *Additional Secretary*
2. Shri G.C. Malhotra — *Joint Secretary*
3. Shri G.R. Juneja — *Deputy Secretary*
4. Shri Brahm Dutt — *Under Secretary*
5. Shri S.N. Dargan — *Assistant Director*

REPRESENTATIVES OF THE MINISTRY OF PETROLEUM AND NATURAL GAS

1. Dr. Vijay L. Kelkar, — *Secretary*
2. Shri J.S. Chowdhury, — *Addl. Secy.*
3. Shri Devi Dayal, — *Jt. Secy. (M)*
4. Shri Nirmal Singh, — *Jt. Secy. (R)*
5. Shri Sanjiv Misra, — *Jt. Secy. (E)*
6. Shri K.P. Shahi, — *Adv. (R)*
7. Shri S. Nigam, — *Jt. Adv. (F)*
8. Shri T.S. Balasubramanian, — *Dy. Secy. (F)*
9. Shri B.C. Bora, — *CMD ONGC*
10. Shri K.K. Kapoor, — *CMD, GAIL*
11. Shri R.K. Narang, — *CMD, IOC*
12. Shri. H.L. Zutshi, — *CMD, HPCL*
13. Shri K. Ravikumar, — *CMD, MRL*

The Committee took evidence of the representatives of the Ministry of Petroleum & Natural Gas in connection with action taken by Government on the recommendations contained in 17th Report on 'Demands for Grants of the Ministry of Petroleum & Natural Gas for the year 1995-96' particularly with reference to time and cost-over-runs in major oil sector projects.

2. The main issues which came up for discussion include cost and time over-runs in completion of various on-going oil sector projects, their latest position, methodology in vogue for approval of major projects after submission of Preliminary Feasibility Reports by the concerned PSUs, arrangements of funds for 31 petroleum projects costing Rs. 7600 crores,

holding of quarterly performance review meetings by the Ministry and the role and functions of the Ministry's nominees on the Board of various PSUs.

3. Various factors causing delay in completion of major oil sector projects were also extensively discussed.

4. A verbatim record of the proceedings of the sitting has been kept.

The Committee then adjourned.

APPENDIX II

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1995-96)

TWENTY FIRST SITTING

16.2.1996

The Committee sat from 1500 hrs. to 15.45 hrs.

PRESENT

Shri Sriballav Panigrahi — *Chairman*

MEMBERS

Lok Sabha

2. Shri Sant Ram Singla
3. Shri C.P. Mudalagiriappa
4. Shri V.S. Vijayaraghavan
5. Shri M. Krishnaswamy
6. Shri Gopi Nath Gajapathi
7. Dr. Laxminarain Pandey
8. Shri Somabhai Patel
9. Shri Hari Kishore Singh
10. Shri Ramnihore Rai
11. Shri Pius Tirkey

Rajya Sabha

12. Shri Mohd. Masud Khan
13. Shri Pasumpon Tha. Kiruttinan

14. Shri Jagdish Prasad Mathur
15. Shri V. Narayanaswamy
16. Shri Ramji Lal
17. Shri Dineshbhai Trivedi

SECRETARIAT

1. Shri. G.C. Malhotra — *Joint Secretary*
2. Shri G.R. Juneja — *Deputy Secretary*
3. Shri Brahm Dutt — *Under Secretary*
4. Shri S.N. Dargan — *Assistant Director*

At the outset the Chairman condoled the sad and untimely demise of Shri Surya Naryan Singh, who was the Member of this Committee. The Committee passed the condolence Resolution as per annexure. As a mark of respect to the departed soul, the Committee then stood in silence for a short while. The Committee decided that a copy of the Condolence Resolution may be forwarded to the bereaved family of Late Shri Surya Narayan Singh.

2. Thereafter, the Committee considered the draft report on action taken by the Government on the recommendations contained in the 17th Report of the Committee on Demands for Grants relating to the Ministry of Petroleum & Natural Gas for the year 1995-96. After some discussion the Committee adopted the report.

3. The Committee also authorised the Chairman to finalise the report after factual verification by the Ministry of Petroleum & Natural Gas and present the same to Parliament.

The Committee then adjourned.

**CONDOLENCE RESOLUTION ON THE DEMISE OF
SHRI SURYA NARAYAN SINGH, HON'BLE MEMBER
OF THE COMMITTEE ON PETROLEUM & CHEMICALS**

The Committee on Petroleum & Chemicals express deep sense of loss and grief over the sad demise of Shri Surya Narayan Singh, an Honourable Member of Lok Sabha and a Member of the Committee on Petroleum & Chemicals.

Shri Singh, a veteran leader from Bihar had participated in various activities of the State and made valuable contributions in public life.

As a Member of this Committee he bestowed his rich and valuable experience to bear on the work of the Committee.

We deeply mourn the loss of the esteemed Member of the Committee and convey our heart felt condolences to his bereaved family.

APPENDIX III

(Vide Para 4 of the Introduction)

Analysis of the Action Taken by Government on the recommendations contained in the 17th Report of the Standing Committee on Petroleum and Chemicals (Tenth Lok Sabha) on Demands for Grants relating to M/o. Petroleum & Natural Gas for the year 1995-96

I	Total number of recommendations	6
II	Recommendations that have been accepted by the Government (Vide Recommendation at Sl. Nos. 2 to 6)	5
	Percentage to total	83.34
III	Recommendation which the Committee do not desire to pursue in view of Government's reply	1
	Percentage to total	16.66
IV	Recommendations in respect of which reply of Government has not been accepted by the Committee	Nil
V	Recommendation in respect of which final reply of Government is still awaited	Nil