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STANDING COMMITTEE ON PETROLEUM & NATURAL GAS (2007-08)

FOURTEENTH LOK SABHA

MINISTRY OF PETROLEUM & NATURAL GAS

DEMANDS FOR GRANTS (2007-08)

[Action Taken by the Government on the recommendations contained in the Fourteenth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas (2006-07) on 'Demands for Grants (2007-08) of the Ministry of Petroleum & Natural Gas']

NINETEENTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

February, 2008/Phalguna, 1929 (Saka)

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Presented to Lok Sabha on 23.4.2008

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LOK SABHA SECRETARIAT
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*Shri Suresh Bhardwaj ceased to be a Member of the Committee consequent upon his resignation from the Membership of Rajya Sabha w.e.f 09.01.2008.

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum & Natural Gas having been authorised by the Committee to submit the Report on their behalf, present this Nineteenth Report on Action Taken by the Government on the recommendations contained in the Fourteenth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas on 'Demands for Grants (2007-08) of the Ministry of Petroleum & Natural Gas'.

2. The Fourteenth Report of the Standing Committee on Petroleum & Natural Gas was presented to Lok Sabha on 26 April 2007. The Action Taken Replies of the Government to the recommendations contained in the Fourteenth Report were received on 8 August and 4 September 2007.

3. The Standing Committee on Petroleum & Natural Gas (2007-08) considered and adopted the Nineteenth Report at their sitting held on 29 January 2008.

4. An analysis of the action taken by the Government on the recommendations contained in the Fourteenth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas is given in Annexure-II.

5. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the body of the Report.

6. The Committee place on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

New Delhi;
20 February, 2008
1 Phalguna, 1929 (Saka)

N. JANARDHANA REDDY,
Chairman,
Standing Committee on
Petroleum & Natural Gas.

CHAPTER I

REPORT

This Report of the Standing Committee on Petroleum & Natural Gas deals with the action taken by the Government on the Recommendations contained in the Fourteenth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas (2006-2007) on 'Demands for Grants (2007-08) of the Ministry of Petroleum & Natural Gas' which was presented to Lok Sabha on 26.04.2007.

2. Action Taken Notes have been received from the Government in respect of all the 21 Recommendations /Observations contained in the Report. These have been categorised as follows:-

(i) Recommendations/Observations that have been accepted by the Government:- SI.Nos.1,3,7,10,13 and 21

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:- NIL

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:- SI.Nos.5, 8,12,15 and 16

(iv) Recommendations/Observations in respect of which final replies of the Government are still awaited:- SI.Nos. 2,4,6,9,11,14,17,18,19 and 20

3. The Committee trust that utmost importance would be given by the Government to the implementation of their recommendations. In cases where it is not possible for the Ministry to implement the recommendations in letter and spirit for any reason, the matter should be reported to the Committee with reasons for non-implementation. The Committee further desire that the Action Taken Notes on the Recommendations/Observations contained in Chapter-I of this Report and Final Replies in respect of the recommendations for which interim replies have been furnished by the Government (included in Chapter-V), should be furnished expeditiously.

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

A. Improvement in terms/conditions of offer under NELP

Recommendation (Sl. No. 2, Para No.3.2)

5. The Committee had noted that in the six rounds of bidding under New Exploration Licencing Policy, 162 exploration blocks had been awarded to various companies. They were happy to note that as many as 39 oil and gas discoveries had already been made in these blocks, out of which 11 discoveries had been declared commercial. The Committee had further noted that the sixth round of NELP held in February 2006, had been the highest ever offer made by the Government, with 55 exploration blocks. The aggressive and effective projection of investment opportunities during this round had resulted in the best ever response from Indian and foreign companies and the number of private/domestic and foreign companies which participated in the 6th round had gone up to 25 and 36, respectively from 4 each in the 3rd round. As regards PSU oil companies, 7 such companies had bid in the 6th round against 4 in the 3rd round. The Committee had strongly believed that the significant discoveries made in the recent years had greatly altered the perception regarding the prospectivity of the Indian basins and was the main reason for the renewed interest of multinationals in our E&P offers. The Committee, while appreciating the efforts made under NELP, had desired the government to further intensify its efforts to attract larger investment and more renowned players with geological ideas and technologies in E&P business. Towards this end, the Government should explore the possibility of further improving the terms/conditions of our offer and bringing in more transparency in the bid evaluation criteria. The Committee had also recommended that the Ministry of Petroleum & Natural Gas should play a proactive role in expediting commercial production from the blocks where discoveries had been made.

6. The Ministry of Petroleum and Natural Gas has submitted the following reply in this regard:

> "So far, 162 exploration blocks have been contracted in onland, shallow water and deepwater areas in six rounds of NELP held covering an area

of 1.27 Million Square Km. Extensive exploration activities have been carried out in the awarded blocks. Total 159432 line kilometers of 2D seismic and 104904 Sq. Km. of 3D seismic data have been acquired as well as 250 numbers of exploratory/appraisal wells have been drilled. Under the Production Sharing Contract Regime, total 70 Oil & Gas discoveries have been made so far out of which 42 discoveries are in NELP blocks. These include major gas finds in East Coast of India. The total reserves accretion as on 1.4.2006. is 27 Million Metric Tonnes of Oil and 399 Billion Cubic Meter of Gas. About 2.53 Billion US$ has been invested so far in NELP blocks for Exploration and Development activities.

The commercial gas production from one NELP block namely CB-ONN-2000/2 has commenced at the rate of 3 lakhs cubic metres per day. The gas production from another discovery namely KG-DWN-98/3 in deepwater area is likely to commence in June 2008 with initial production at the rate of 40 million standard cubic metres per day (MMSCMD) and peak production at the rate of 80 MMSCMD. Oil production from new discovery PK-2 in the block CB-ONN-2001/1 is likely to commence in 2008 at the rate of 350 barrels of oil per day (BOPD). The rest of the discoveries made under NELP are various stages of appraisal.

During 7th round of NELP, 57 blocks have been offered in onland, shallow water and deepwater areas. Bid evaluation criteria (BEC) under NELP is totally transparent and quantified marking system. Ministry of Petroleum & Natural Gas in each round of NELP has fine tuned the parameters of Bid evaluation criteria in consultation with stakeholders. In 7th round of NELP also, MOPNG has put bid evaluation criteria on the web site of DGH to seek suggestions for improvement, if any. Feedback received from stakeholders have been incorporated suitably in seventh round of NELP".

7. In their previous Report, the Committee had desired the Government to explore the possibility of further improving the terms and conditions of offer of blocks under the New Exploration Licensing Policy (NELP) and bringing in more transparency in the bid evaluation criteria. They had also desired the Ministry of Petroleum & Natural Gas to play a proactive role in expediting commercial production from the blocks where discoveries have been made. As regards effecting improvement in the terms and conditions, the Committee have been informed that the Ministry, in each round of NELP, has finetuned the parameters of bid evaluation criteria in consultation with stakeholders and that the feedback received from stakeholders have been incorporated suitably in the Seventh round of NELP as well. The Committee would like to know the changes effected in the terms of offer of the 7th round of NELP. Regarding the advice of the Committee to

the Ministry to play a proactive role in expediting commercial production from the fields where discoveries have been made, the Committee are unhappy to note that this recommendation has not been specifically dealt with by the Ministry in its Action Taken Reply. They would like to be apprised of the details of steps taken by the Ministry for expediting commercial production from the NELP blocks where discoveries have been made.

B. Procurement of gas from Myanmar

Recommendation (SI No.5 Para No. 3.5)

8. India has been contemplating to procure gas from Myanmar through a pipeline of which GAIL has completed the Detailed Feasibility Report. The Committee had been informed that the Government of Myanmar had subsequently intimated to GAIL that it was reviewing its decision to sell this gas through the pipeline route. The Myanmar side had indicated that a portion of the available gas would be earmarked for its domestic requirement and the balance gas would not be sufficient for export. The Committee had also been informed that Myanmar has taken up drilling in A-3 block and based on the result of drilling and quantity of gas available, it would take a decision on selling the gas through available options. The Committee had also been informed that the operator of the A1 & A3 blocks had conveyed the interest of the Myanmar Government to export gas from these blocks to China. However, during oral evidence, the Secretary of the Ministry had stated that the last word had not yet been said by Myanmar and that India was still having discussions on this issue. The Committee had desired the Government to vigorously pursue the matter with the Government of Myanmar and clinch the issue in our favour.

9. The Ministry of Petroleum and Natural Gas, in its Action Taken Note, has explained the position as under:-

> "In January 2005, Minister (P&NG) participated in a trilateral Ministerial meeting between the Oil Ministers of Bangladesh, Myanmar and India. In pursuance of the trilateral Joint Press Statement released after that meeting, a Techno-Commercial Working Committee (TCWC) of the representatives of the three countries was constituted. The first meeting of the TCWC was held in Yangon on February 24 & 25, 2005. The TCWC

prepared a draft MoU to be signed by the three Oil Ministers after the approval of their respective Governments. However, the MoU could not be approved on account of differences between India and Bangladesh over one paragraph in the draft MoU. Minister (P&NG) even visited Dhaka on 5th September, 2005 to discuss issues relating to the draft MoU. However, no further progress could be achieved.

In view of the above, India pursued the option of a pipeline from Myanmar through North-Eastern States of India. Accordingly, GAIL prepared the Detailed Feasibility Report of the pipeline.

Myanmar invited bids for selling natural gas from A1-A3 offshore block. GAIL also submitted its bid. Subsequently, Government of Myanmar reviewed their decision to sell this gas through the pipeline route and asked for a bid for 3.5 MMTPA of Liquefied Natural Gas (LNG) project. GAIL submitted its bid to Myanmar in response to the same. The offers received under the LNG bid and the pipeline bid were discussed during a meeting held at Nay Pyi Taw (NPT) on January 10, 2007. The Myanmar side indicated that out of the available gas of about 4.8 trillion cubic feet (tcf), their Government would like to earmark a portion for their domestic requirement. The balance gas would not have been sufficient for export. Myanmar informed that they had taken up drilling in A3 block and, based on the result of drilling and quantity of gas available, they would take a decision on selling the gas through available options. This was reiterated in a meeting held in New Delhi on January 19, 2007 between a delegation from Myanmar led by Director-General, Ministry of Energy Myanmar and Minister (P&NG).

However, in a meeting held in February 2007 between Myanmar Government and PetroChina, Myanmar Government decided that the gas from A1 and A3 blocks would be sold to China through pipeline route. This development was conveyed to the consortium partners by Myanmar Government during a meeting held at Nay Pyi Taw (NPT) on March 16, 2007. During this meeting, GAIL impressed upon the other partners and Myanmar Government, that GAIL's pipeline offer was still the most competitive and offered optimum value for them due to proximity of India to these fields. However, Myanmar Government has stuck to its decision to sell the gas to China".

10. As regards procurement of gas from the A1 and A3 blocks in Myanmar, the Committee, during the examination of the Demands for Grants (2007-08) of the Ministry, had been informed that the last word had not yet been said by Myanmar and that India was still having discussions on the issue. The Committee had advised the Government to vigorously pursue the matter with the Government of Myanmar and clinch the issue. It is now learnt from the Action Taken Reply of the Ministry that the

Government of Myanmar has stuck to its decision to sell the gas to China. It appears that vigorous efforts were not made by the Government to secure the gas from these blocks. The Committee would like to know whether there is still any chance of getting some gas from these blocks or the matter is closed. The Committee would also like to be apprised of the benefits that have accrued to OVL and GAIL in lieu of the 30% stake they hold in these blocks. They would also like the Government to advise OVL and GAIL to look for other prospective blocks in Myanmar and obtain stake in such blocks.

C. Iran – Pakistan – India Gas Pipeline Project

Recommendation (Sl. No. 6, Para No.3.6)

11. India has been pursuing the Iran-Pakistan-India (IPI) Gas Pipeline Project with the Governments of Iran and Pakistan. The Committee had been informed that in the fourth trilateral Joint Working Group meeting held in January 2007, Iran and Pakistan sides agreed to a pricing formula, subject to the approval by their authorities. The Indian side agreed to respond to the pricing formula shortly. The Committee had also been informed that discussions had been held between India and Pakistan regarding transportation tariff and transit fee and that the differences between the two countries relating to such tariff/fee had been narrowed down. During oral evidence, the Secretary of the Ministry of Petroleum & Natural Gas expressed the hope that such differences would narrow down further and that by June, the Government aimed to forge a joint agreement on the project among the three counties at the highest political level. The Committee had desired that the unresolved issues pertaining to the project should be sorted out quickly.

12. In response, the Ministry of Petroleum & Natural Gas has submitted as below:-

> "India has been pursuing the import of natural gas from Iran through the Iran-Pakistan-India transnational gas pipeline. For this purpose, two sets of separate Secretary-level bilateral Joint Working Groups (JWGs) have been set up with Pakistan and Iran. Three meetings of India-Iran SJWG have been held; the last meeting being held on December 28 and 29, 2005. Five meetings of India-Pakistan JWG have been held; the last

meeting was held on June 27 & 28, 2007 in New Delhi. Details regarding transportation tariff and transit fee for passage of pipeline through Pakistan, price review, Gas availability, Governing laws, etc. were discussed in the meeting.

Ministerial level bilateral meeting between India and Pakistan was held at New Delhi on 17th Feb, 2006.

A tripartite Joint Working Group (JWG) of Iran, Pakistan and India has been formed. Six meetings of the trilateral JWG have been held so far; the last meeting being held in New Delhi on June 28&29, 2007.

During the 4th tripartite meeting held in Tehran on January 24 & 25, 2007, a gas pricing formula regarding pricing of gas at Iran-Pakistan border was agreed between Iran and Pakistan side, subject to approval from the respective Governments. The Indian side agreed to respond to the pricing formula shortly. India conveyed to the Iranian side, vide letter dated 28.2.2007, that total price payable at India-Pakistan Border would also depend on transportation cost and transit fees payable by India to Pakistan for passage of gas through Pakistan; as there was no clarity on these, it was not possible for India to decide regarding the total price implication. Subsequently, Iran demanded introduction of provision for price revision in the 5th Tripartite JWG meeting held at Tehran during May 27-30, 2007, which both India and Pakistan disagreed with. 6th Tripartite meting was held in New Delhi on June 28-29, 2007. Issues relating to gas price review clause, gas availability from dedicated fields and development plan, delivery point for gas supply to India, Governing Law, GSPA related issues, etc. were discussed amongst the participating countries. It was decided to carry forward the discussions to the next round of meetings for resolution of some of the contentious issues”.

13. The Committee, in their 14th Report (14th Lok Sabha), had desired that the unresolved issues pertaining to the Iran-Pakistan-India Gas Pipeline Project should be sorted out quickly. They have been informed through the Government’s Action Taken Reply that during the 6th Tripartite meeting held in June 2007, issues relating to gas price review clause, gas availability from dedicated fields, delivery point for gas supply to India, Governing law, etc. were discussed amongst the participating countries. From the reply furnished to the Committee, it appears that not much headway has been made on the contentious issues between India and Pakistan such as transportation tariff and transit fee. As the Iran-Pakistan-India Gas Pipeline Project is of vital importance for the country, the

Committee again desire the Government to make sincere and all-out efforts to resolve these issues without any further delay.

D. Shortage of Kerosene/LPG

Recommendation (Sl. No. 8, Para No. 3.8)

14. The Committee had noted with concern that there was an acute shortage of Kerosene/LPG in a number of States, especially in Bihar, Jharkhand, Chhattisgarh, Kerala and Tamil Nadu. The main reason behind this shortage was stated to be the diversion of these products for adulteration/commercial use. The Committee had found that the availability of Kerosene and LPG in the country from the domestic refineries had also fallen short of demand during the last three years. In 2005-06, against an LPG demand of 10456 TMT, the availability from domestic refineries was just 7717 TMT. As regards Kerosene, the availability from domestic refineries during the same year was 9026 TMT against a demand of 9541 TMT. In view of the above, the Committee had recommended that the Government should assess the whole situation and in coordination with State Governments take effective steps to check the diversion. At the same time, the Government should also increase the production of Kerosene and LPG.

15. The Ministry of Petroleum and Natural Gas, in its Action Taken Reply, has, inter alia, submitted the following reply:

> "The possibility of diversion of PDS Kerosene by some unscrupulous elements cannot be ruled out due to huge price difference between PDS Kerosene and petrol/diesel and the easy mixcibility of these products with petrol/diesel. Checking diversion of PDS Kerosene is a continuous process and the Ministry of Petroleum & Natural Gas has been reviewing steps taken to curb adulteration from time to time.
>
> To check adulteration in auto fuels and diversion of PDS Kerosene, Government has asked Oil Marketing Companies (OMCs) to take various steps to contain the menace of adulteration:-
>
> (i) Under the Control Orders issued by the Government to prevent fuel adulteration, under the Essential Commodities Act, 1955, State Governments are empowered to take action against those indulging in adulteration. Government have requested the State

Governments/ Union Territory Administrations to take steps to control adulteration.

(ii) OMCs undertake regular and surprise inspections of Retail Outlets and also take action under Marketing Discipline Guidelines (MDG) and Dealership Agreements against those indulging in adulteration and malpractices. MDG provide for termination of dealership in cases of adulteration being established.

(iii) Government has taken the initiatives to expedite the installation of Global Positioning System (GPS) to monitor the movement of tank trucks.

(iv) OMCs have introduced new tamper proof tank-truck locking systems to prevent en-route adulteration by transporters.

(v) Keeping in view the misuse/diversion of SKO for adulteration, the import of SKO by private parties has been canalized through OMCs.

(vi) As advised by the Government, Oil Marketing Companies (OMCs) have created a separate wing to report to a Director other than Director (Marketing), which will oversee and monitor all activities and operations to curb adulteration and specify norms and guidelines in this regard.

At present, there is no overall shortage of LPG in the country, including in Bihar, Jharkhand, Chhattisgarh, Kerala and Tamil Nadu. LPG supplies to distributors are being made by the Public Sector Oil Marketing Companies (OMCs) through indigenous production and imports in accordance with the genuine demand of customers registered with the LPG distributors.

As far as availability of SKO is concerned, as per provisional data available for the year 2006-07 actual upliftments on all India basis were 9174.9 TMT against allocation, both original and adhoc, of 9208.8 TMT, which represents an achievement of 99.6%.

Availability of LPG & SKO: With regard to availability of LPG/SKO from domestic refineries vis-à-vis demand and the need to increase production of SKO/LPG, it is informed that India is now self-sufficient to meet overall POL demand and in fact, is net exporter of POL. LPG growth, however, has far exceeded growth in consumption of other petroleum products. With further increase in refining capacity and resultant availability of additional LPG, gap between demand and supply of LPG from indigenous sources is expected to significantly reduce by the end of the XI Plan. The estimated production of LPG and SKO is 12.8 MMT and 11.3 MMT respectively by the terminal year (2011-12) of 11th Five Year Plan. The overall availability of LPG in the country is projected to be almost equal to the estimated demand."

16. The Committee, in their 14th Report (14th Lok Sabha), had expressed concern over the shortage of Kerosene/LPG in a number of States,

especially in Bihar, Jharkhand, Chhatisgarh, Kerala and Tamil Nadu. They had desired the Government to increase the production of such items in order to meet the demands for these products in various parts of the country. The Government, in its Action Taken Reply, has inter alia mentioned that as far as availability of Kerosene is concerned, the actual upliftments on all India basis were 9,174.9 TMT against the allocation of 9,208.8 TMT, which represents on achievement of 99.6%. As regards LPG, the Government has informed that there is no overall shortage of LPG in the country and that LPG supplies to distributors are being made by the Public Sector Oil Marketing Companies in accordance with the genuine demand of registered customers. The Committee are, however, not inclined to accept the contention of the Government in this respect. Several reports regarding non-allotment of new LPG connections to several genuine consumers in various parts of the country, especially in Bihar, Jharkhand, Chhatisgarh, Kerala and Tamil Nadu and excessive delay in getting the refill of cylinders by registered consumers lead the Committee to strongly believe that there is shortage of LPG in the country. The Committee, therefore, desire the Government to re-assess the position regarding supply of LPG in various parts of the country and effect improvement through increase in production/imports.

E. Rationalisation of duties and taxes on petroleum products

Recommendation (Sl. No. 11, Para No.3.11)

17. The Government reduced the ad valorem component of excise duty on petrol and diesel from 8 to 6 per cent through the Union Budget (2007-08). The Committee had welcomed this move of the Government. However, they had found that even after this reduction, the tax component in the retail selling price of petrol and diesel in Delhi is 53 per cent and 31 per cent, respectively. In the opinion of the Committee, the taxes and duties being levied on petroleum products were too steep which were resulting in higher retail prices of these products. More pinching was the ad valorem component in the excise duty which was putting additional burden on the consumer. Another cause for concern was the high and varied rates of sales tax/VAT prevailing in various States, leading to

varied selling prices of such products across the country. The Committee had reasoned that there was an urgent need to effect a substantial reduction in the rates of duties and taxes on petroleum products. They had already recommended in their 5th and 6th Reports (14th Lok Sabha) for rationalization of such duties/taxes and abolition of the ad valorem component in the excise duty. However, the Committee had regretted to note that these recommendations had not been fully implemented by the Government. They had, therefore, once again recommended that the Government should go in for a comprehensive reform in the taxation on petroleum products including the abolition of the ad valorem component in the taxes/duties on petroleum products.

18. The Ministry of Petroleum and Natural Gas has submitted the following reply in this regard:

> "The Government has reduced the ad-valorem component of excise duty on petrol and diesel from 8% to 6% in the Union Budget 2007-08. Currently, excise levy on petrol and diesel is a combination of ad-valorem and specific rates. The excise duty on petrol is 6% + Rs.13/litre while the excise duty on diesel is 6% + Rs.3.25/litre.
>
> The following statement shows the level of excise duty on Petrol and diesel since 1st April'2002:

Product	AS ON 1/4/02	AS ON 4/6/02	AS ON 1/3/03	AS ON 16/6/04	AS ON 9/7/04	AS ON 19/08/04	AS ON 1/3/05	AS ON 1/3/06	As on 1/3/07
Petrol -									
Advalorem	32.00%	30.00%	30.00%	26.00%	26.00%	23.00%	8.00%	8.00%	6.00%
Specific	Rs 7/Ltr	Rs. 7/Ltr	Rs.7.50/Ltr	Rs 7.50/Ltr	Rs 7.50/Ltr	Rs 7.50/ltr	Rs. 13/ltr	Rs. 13/ltr	Rs. 13/ltr
Rs/Ltr) at Delhi	10.53	10.82	11.81	11.97	11.97	11.90	14.59	14.59*	14.67*
HSD -									
Advalorem	16.00%	14.00%	14.00%	11.00%	11.00%	8.00%	8.00%	8.00%	6.00%
Specific	Re 1/Ltr	Re 1/Ltr	Rs 1.50/Ltr	Rs 1.50/Ltr	Rs 1.50/Ltr	Rs 1.50/ltr	Rs 3.25/Ltr	Rs 3.25/Ltr	Rs 3.25/Ltr
(Rs/Ltr) at Delhi	2.85	2.80	3.59	3.32	3.32	3.01	4.80	4.80*	4.70*

> The Excise Duty on Current Retail Selling Price at Delhi is Rs.14.67 per Litre and Rs.4.70 per Litre on Petrol and Diesel respectively.
>
> **NOTE**- With effect from 09.07.04 - An additional levy of Education Cess @ 2% has been imposed on the aggregate of all excise and customs duties. Revised to 3% effective 01/03/2007.
>
> It is evident from the above table that Government has reduced the ad valorem portion of excise duty from the level of 32% and 16% on petrol

and diesel respectively to the present level of 6%. However, level of excise duty has gone up during this period.

The Rangarajan Committee on pricing and taxation of Petroleum Products had also recommended restructuring of excise duties on petrol and diesel. The Committee had recommended that there is need for shifting from the current mix of specific and ad valorem levies to a pure specific levy and calibrating the levies at Rs.5.00/litre of diesel and Rs.14.75/litre of petrol.

State level taxes also form a significant part of the retail selling price of petrol and diesel. The rates of taxation vary widely from a minimum of 18.09% to a maximum of 33% in case of petrol and from a minimum of 8.23% to a maximum of 28% in case of diesel. It may be emphasized that petroleum product prices have shown sustained and unprecedented increase in the international market since 2004. Movement of prices of petroleum products in the international market affects the pricing of petroleum products in India. Whenever basic prices of petroleum products are increased, the ad-valorem rates of taxes have a cascading effect on retail selling prices. The states need to suitably adjust the sales tax rates so as to neutralize the impact of ad-valorem sales tax levy on the consumer prices, when the basic prices are increased due to abnormal increase in prices of petroleum products in international market. Further, huge variation in VAT rates has resulted in inter-State product diversions in the areas adjacent to State borders

Based on the request made to the State Governments to moderate the impact of price rise on the common man, eleven State Governments, namely, Andhra Pradesh, Delhi, Goa, Haryana, Himachal Pradesh*, Maharastra, Tamil Nadu (diesel only), Uttaranchal, Punjab, Manipur and Assam have reduced the value added tax/sales tax on Petrol and Diesel. [*Tax Rebate subsequently withdrawn w.e.f. 20.2.2007 by Himachal Pradesh].

It is also stated that Ministry has also written to the Chairman, Empowered Committee of State Finance Ministers on this issue. Further efforts are being made to ensure that State Governments adopt to uniform floor sales tax rates for petroleum products.

The petroleum sector contributed Rs.52,253 crores towards exchequers of various State Governments during 2005-06. As per Dr. Rangarajan Committee Report, sales tax revenues from oil sector represent a contribution of around a third or more of total sales tax collection of the States, thereby burdening the consumers as well as building an undesirable dependency at the state level too, on revenues from a single sector".

19. The Committee, in their 14th Report (14th Lok Sabha), had viewed that there was an urgent need to effect a substantial reduction in the rates of duties and taxes on petroleum products and recommended that the

Government should go in for a comprehensive reform in the taxation on petroleum products including the abolition of the ad valorem component in the taxes/duties on petroleum products. The Ministry, in its Action Taken Reply, has *inter alia* stated that the Government has reduced the ad valorem portion of excise duty from the level of 32% and 16% on petrol and diesel respectively in April, 2002 to the present level of 6%. In this connection, it is worthwhile to mention that in spite of the reduction effected on the ad valorem component of excise duty, the amount of excise duty in rupee terms on petrol has gone up from Rs. 10.53 per litre to Rs. 14.67 per litre and on diesel, from Rs. 2.85 per litre to Rs. 4.70 per litre during the said period in Delhi. Thus, in spite of the reduction in the ad valorem component, the excise duty burden on the consumer has not decreased because of increase in the specific component of excise duty/basic price of petrol and diesel. The Committee, therefore, desire that a reduction should also be effected in the specific component of excise duty on petrol and diesel. As the ad valorem component aggravates the burden on the consumer, the Committee reiterate their earlier recommendation that the Government should abolish the ad valorem component in the taxes/duties on petroleum products.

As regards the sales tax/VAT levied by State Governments on petrol and diesel, the Committee have been informed that following requests made to the State Governments, eleven State Governments have reduced the sales tax/VAT on petrol and diesel and that the Ministry has also written to the Chairman of the Empowered Committee of State Finance Ministers on this issue. The Committee would like to know further progress made with regard to reduction in the rates of sales tax/VAT and levy of uniform floor sales tax rates on petroleum products.

F. Cess levied on indigenous crude

Recommendation (Sl. No. 12, Para No.3.12)

20. The Committee had found that the annual collection by the Central Government from the cess levied on indigenous crude had been to the tune of Rs.5000 crore and that since inception and up to 30 September 2006, the

Central Government had collected more than Rs.64,000 crore as cess on crude oil out of which a paltry amount of Rs.902 crore (1.41%) had been made available to the Oil Industry Development Board (OIDB). The Committee, in their previous year's Report on Demands for Grants (9th Report, 14th Lok Sabha), had expressed their concern over the non-availability of adequate amounts to OIDB from the proceeds of the cess and desired to know the various activities on which the cess amount was utilized. The Ministry of Finance, to whom the recommendation was forwarded by the Ministry of Petroleum & Natural Gas for comments, had attempted to substantiate that the expenditure on oil industry was in excess of cess collection by furnishing data on Capital and Revenue expenditure incurred on Petroleum, Petrochemical and Fertilizer Industries. In the relevant Action Taken Report (13th Report, 14th Lok Sabha), the Committee had rejected the contention of the Ministry of Finance and categorically recommended that the expenditure on activities pertaining to production of Fertiliser/Petrochemical should not be adjusted from cess collection. The Committee had noted from the Ministry of Finance's data on Capital and Revenue expenditure that the Capital expenditure incurred on Petroleum Industry during 2005-06 was nil and the Revenue expenditure during the year on this Industry was Rs.20,196.22 crore. In the opinion of the Committee, the adjustment of accruals from cess against Revenue expenditure was not justified. They had, therefore, recommended that the whole issue of deployment/utilization of cess levied on crude oil should be referred to C&AG for a comprehensive examination. The Committee had also reiterated their earlier recommendation that a Price Stabilization Fund should be created by using the money collected from cess on indigenous crude to bring in stability in the prices of petroleum products and insulate the consumers from the volatility in the international oil market.

21. The Ministry of Petroleum and Natural Gas has submitted the following reply in this regard:

> "This recommendation of the Committee was once again taken up with Ministry of Finance who have reiterated their earlier stand that amount collected by levying cess on indigenous crude was utilized as per the statutory provisions contained in Section 2(k) of the Oil Industry (Development) Act, 1974. The Ministry of Finance have also clarified that

allocations made out of the receipts from the oil cess, whether classified as Capital or Revenue, are within the provision of the said Act.

Utilization of funds already allocated to Oil Industry Development Board (OIDB) is already being annually audited by the CAG. Expenditure out of the Consolidated Fund of India, to which accruals from cess on crude oil is credited, is also regularly audited by the CAG. As such, referring the issue of deployment/ utilization of cess levied on crude oil to CAG may not add any additional value.

In this context, it is noteworthy that in the years 2005-06 and 2006-07 itself, Oil Bonds to the extent of Rs.11,500 crore and Rs.24,121 crore respectively (total Rs.35,621 crore) were issued to Public Sector Oil Marketing Companies as part compensation for the under recoveries on the domestic sale of sensitive petroleum products. This itself is considerable when seen against the total cess collection of about Rs.67642.43 crore from July 1974 to March 2007.

Regarding the creation of a Price Stabilization Fund, the Ministry of Finance have reiterated that such a Fund may not be essential in view of the existing arrangements".

22. In their earlier Report, the Committee had reasoned that the adjustments of accruals from cess levied on indigenous crude against revenue expenditure was not proper. They had desired that the whole issue of deployment/utilisation of cess should be referred to C&AG for a comprehensive examination. The Committee had also recommended that a Price Stabilisation Fund should be created by using the money collected from cess to ensure stability in the prices of petroleum products and insulate the consumers from the volatility in the international oil market. In response, the Ministry of Finance, with whom the recommendation was taken up by the Ministry of Petroleum & Natural Gas, has given stock replies that the amount collected by the levy of cess on indigenous crude was utilised as per the statutory provisions and that the creation of a Price Stabilisation Fund is not essential in view of the existing arrangements. The Committee are not at all convinced by the logic of the Ministry of Finance. As regards the examination of the issue of deployment/utilisation of cess by C&AG, the Government has mentioned that the reference of the said issue to C&AG may not lead to any additional value as the expenditure out of the Consolidated Fund of India, to which accruals from cess is credited, is regularly audited by C&AG. The Committee are not inclined to accept this contention of the Government. In this connection, the

Committee would like to point out that they had recommended for a comprehensive examination of the whole issue of deployment/utilization of cess by C&AG, while the Government has mentioned about the usual examination of expenditure out of the Consolidated Fund by the agency. They strongly feel that there is a need for detailed examination by C&AG of the legitimacy/propriety of adjustment of cess accruals against expenditure – both Capital and Revenue – on Fertilizer and Petrochemical industries and Revenue expenditure on Petroleum industry. The Committee have also not been apprised of the factors that prompted the Ministry of Finance for not being in favour of creation of a Price Stabilisation Fund. The Committee, therefore, reiterate their earlier recommendations that the issue of deployment/utilisation of cess levied on crude oil should be referred to C&AG for a comprehensive examination and that a Price Stabilisation Fund be created by using the cess proceeds.

G. Grant of infrastructure status to E&P activities

Recommendation (Sl. No.15, Para No.3.15)

23. The Committee were happy to find that Gas Pipelines had been granted infrastructure status in the Union Budget 2007-08. Such a status would entitle tax benefits u/s 80 1A of Income Tax Act for 10 years for cross country natural gas distribution networks commissioned on or after 1.4.2007. As pipelines require huge capital investments, the tax holiday would definitely increase the return on investment and the Committee had hoped that the tax foregone by the Government would actually be passed on to the consumers in the form of lower tariffs. The Committee had also hoped that this decision would benefit the power and fertilizer sectors and thereby contribute to general economic growth. The Committee, while welcoming the Government's prudent and thoughtful decision taken in respect of gas pipelines, had recommended that similar status should be accorded to exploration and production (E&P) activities also as the highly capital intensive E&P sector needed more incentives to attract further investments.

24. The Ministry of Petroleum and Natural Gas has submitted the following reply in this regard:

> "Regarding Infrastructure status to E&P sector, proposal was sent to Ministry of Finance for consideration in the Budget 2007-08. The proposal was not agreed to by the Ministry of Finance.".

25. The Committee, in their 14th Report (14th Lok Sabha), had reasoned that the highly capital intensive Exploration and Production (E&P) Sector needed more incentives to attract further investments and, therefore, recommended that the 'infrastructure' status should be accorded to E&P activities. They have been informed through the Action Taken Reply that the proposal regarding 'infrastructure' status to the E&P Sector was sent to the Ministry of Finance for consideration in the Budget 2007-08, who however did not agree to it. However, the reasons for rejection of the proposal by that Ministry have not been conveyed to the Committee. They would like the Government to furnish the details of factors that led the Ministry of Finance to reject the said proposal. The Committee also desire the Ministry of Petroleum and Natural Gas to once again take up the matter with the Ministry of Finance and convey the outcome to them at the earliest.

H. R&D expenditure by ONGC and OIL

Recommendation (Sl. No. 16, Para No. 3.16)

26. The Committee had been informed that the areas of research identified for the 11th Plan included Coal to Clean Fuels, New Heavy Oil Upgrading Process, Hydrogen Fuel, etc. They had found that various centres/institutions/laboratories had been set up by upstream and downstream oil companies to promote R&D activities. However, the Committee were perturbed to note that the likely R&D expenditure by ONGC during 10th Plan was short of the allocation by 38% and OIL's average R&D share to its total turnover during the last five years (from 2001-02 to 2005-06) was just 0.35%. What pinched the Committee more was that even this paltry R&D share had gone down gradually from 0.47% in 2001-02 to 0.23% in 2005-06. The Committee did not approve of this declining trend in R&D expenditure/non-utilization of the earmarked expenditure on the part of OIL/ONGC. They had desired that the R&D expenditure in oil & gas sector should increase to cover the entire gamut of scientific and technical research in the area.

27. The Ministry of Petroleum and Natural Gas, in its Action Taken Reply, has, inter-alia, submitted the following reply:

> "The Committee's recommendations regarding giving due importance to R&D activities is apt. However, it may be pointed out that due to steep hike in oil prices, the percentage of the turnover of upstream companies being spent on R&D may not show an increasing trend. Moreover, both ONGC and Oil India Limited receive funds for R&D projects approved by OIDB as well".

28. In their earlier Report, the Committee had disapproved of the shortfall in R&D expenditure during the 10th Plan by ONGC and gradual decline in such expenditure on the part of OIL. They had desired that the R&D expenditure in the oil and gas sector should increase to cover the entire gamut of scientific and technical research in the area. In response, the Government has stated that due to sharp rise in oil prices, the percentage of turnover of upstream companies being spent on R&D may not show an increasing trend and that both ONGC and OIL receive funds for R&D projects approved by OIDB. The Committee are not at all satisfied by the reply of the Government. They regret to note that instead of giving the needed attention to R&D, the Government has given untenable justifications for the reduced expenditure. In the Committee's view, the trend of expenditure on R&D by ONGC and OIL is but indicative of lack of sincerity on the part of these companies towards one of the most vital areas of the sector. The Committee desire these companies to effect substantial improvement in R&D expenditure in future. Besides, the Committee would also like to know the details of R&D funds received by ONGC and OIL from OIDB during the 10th Plan and the utilisation thereof.

I. Flight of critical manpower from ONGC and OIL

Recommendation (Sl. No. 18, Para No. 3.18)

29. The Committee had found that as many as 604 employees of ONGC had left the company in the last five years out of which 315 had quit in 2006 alone. It was further seen that this exodus had been proportionately high from the strategic and technical areas like exploration, production and drilling. With the advent of the New Exploration Licencing Policy regime and the consequent entry of foreign and private players in exploration, exodus of highly skilled and

competent manpower of PSU Oil Companies had become a regular feature because of attractive salary package and better career and growth prospects elsewhere. The Committee had viewed that the exodus of executives with competence in core areas of E&P activity was a great loss for the PSUs as these persons were the ones who had been nurtured by the PSUs for years and were in possession of critical and sensitive data. The Committee had, therefore, recommended that the Government should explore ways and means to ensure better package to the technical experts in companies like ONGC and OIL to arrest the flight of such critical talent. Performance based incentives, merit-oriented faster career progression for specialists, imaginative HR practices to motivate employees, etc. should be resorted to by the Government to minimize the flight of such personnel.

30. In this regard, the Ministry of Petroleum and Natural Gas has submitted the following reply:

> "ONGC and OIL have taken several measures/initiatives for retention of employees.
>
> **<u>Steps taken by ONGC</u>**
>
> Recognition of employees through awards / rewards for their Performance, Innovation, Professionalism in work and management & Technical ability.
>
> Providing opportunity for involvement in decision-making, empowerment and proper positioning.
>
> Fast track Career growth opportunities for the talented go-getters.
>
> Development of business leaders through specialized training programmes and management courses in collaboration with reputed well-known institutions in the country and abroad.
>
> Counseling, mentoring and nurturing of performance executives, developing new competencies and capabilities.
>
> **<u>Steps taken by OIL</u>**
>
> Providing salaries, benefits etc. in line with the best PSUs.
>
> Exit interview to gather/analyze the reasons of resignation for taking pro-active corrective measures.
>
> Development of the employees using in-house/in-country/overseas training programmes.

Counseling and job rotation from time to time to arrest the exodus of talents".

31. The Committee had recommended that the Government should provide a better package to the technical experts in companies like ONGC and OIL to arrest the flight of such critical manpower from these companies. They have been informed that ONGC and OIL have taken steps like recognition of employees through awards/rewards, fast-track career growth opportunities, development of employees through training, providing salaries/benefits in line with the best PSUs, etc. for retention of employees. The Committee appreciate the measures put in place by such companies to check the exodus of vital human resource assets. They would, however, like to know the extent to which the rate of exodus has been arrested by implementation of such measures. They would also like to know the number of employees brought back to ONGC and OIL who had left these companies earlier.

CHAPTER II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation SI. No. 1 (Para No. 3.1)

The Committee note with concern that the production of crude oil by the two National Oil Companies engaged in exploration and production activities viz. ONGC and OIL have remained more or less stagnant in the last 10 years. Besides, these companies have also not been able to meet the crude oil production targets during the 10th Plan, though ONGC has done well to meet the natural gas production target during the said Plan. The Committee are constrained to note that OIL has failed to meet crude oil production targets in all five years of the 10th Plan and natural gas production targets in the first three years of the Plan. They find that the 10th Plan crude oil production targets for the two companies were only slightly more that the 9th Plan targets and yet these moderate targets could not be met by the Companies. The stagnation in the production of crude oil by ONGC and OIL is indeed a cause for concern. The Committee further find that demand of crude oil met from indigenous production in the year 2005-06 was just 22.3 per cent. They apprehend that unless result-oriented measures are taken by the Government, the gap between demand and indigenous availability of crude oil would substantially increase in future. The Committee, therefore, recommend that the Government should make an in-depth analysis of the situation and take concerted efforts to increase the E&P accretion by using modern technologies with emphasis on deep water drilling. They also recommend that ONGC should make efforts to put on production the reserves in all its marginal fields by the end of the 11th Plan which would go a long way in enhancing oil and gas production.

REPLY OF THE GOVERNMENT

i) Stagnation of Crude oil production by ONGC and OIL

Domestic crude oil production during 10th five year plan period (2002-07) was about 166.57 million metric tonne (MMT) provisionally, of which the share of ONGC was 129 MMT (77.4%), OIL about 15.49 MMT (9.3%) and private/Joint Venture operators, about 22.08 MMT (13.3%). Crude oil production during 10th five year plan was 2.2% higher in the country as against crude oil production of 162.94 MMT in 9th five year plan.

ONGC

Most of the domestic crude oil production is coming from ageing fields which are on production for more than 15 years. Mumbai High, which is ONGC's major oil field was discovered in 1974 and has been producing oil and gas for nearly 30 years since 1976.

Any oil and gas field has a natural life cycle of about 15 years during which, after having attained a peak, it sets to decline, including a plateau of 7-8 years during which it gives maximum production. For ONGC fields, annual decline of crude oil production was about 7%. At present, about 94% of ONGC crude oil production is from ageing fields which are on production for more than 15 years.

The challenge for ONGC is to arrest this decline of crude oil production. For this, ONGC has made an investment of about Rs. 10,000 crore on Improved Oil Recovery (IOR) and Enhanced Oil Recovery (EOR) projects. Through these efforts, incremental crude oil gain for ONGC was of the order of 29.7 MMT till 2006-07.

OIL

The shortfall in crude oil production by Oil India Limited (OIL) during the X Five year plan period compared to achievement in IX Five Year Plan period was due to the following:

i) Oil India Limited's entire crude oil production is from its fields in the States of Assam and Arunachal Pradesh in the North East. These fields are located in a matured basin, about 50 years old. Due to ageing, the producing fields have almost reached maturity and are now in advanced stage of depletion. As a result, the new discoveries are diminishing in size with limited scope for further development. Only during 2003-04, the Company made two medium size discoveries in Baghjan and Chandmari areas in Upper Assam, for which expeditious development plans are in hand.

ii) Currently, a majority of OIL's crude oil production is contributed from the discoveries in deeper Eocene reservoirs made in the Nineties. Due to relatively smaller sizes of the Eocene discoveries and thinner pay zones with inherent downhole complications, production retrieval from these fields is substantially affected.

iii) In OIL's matured fields in Upper Assam basin, there is a tendency of increase in rate of water cut, which has affected crude oil production in these fields substantially. Modern technologies such as reservoir simulation, isolation repair works, water shut-off jobs, etc., are adopted to control water – oil ratio.

iv) Environmental problems in the form of bandhs, blockades, intimidation, miscreants' activities etc. in the operational areas in the North-East have direct adverse impact on crude oil production performance and indirect long term affect on other related E&P activities such as seismic survey, drilling, workover, installation of surface facilities, pipeline network etc.

Notwithstanding the above, OIL has set for itself an ambitious crude oil production target of 23.87 MMT during the XI Five Year Plan period (2007-12), which is about 54% more than the X Five Year Plan achievement of 15.49 MMT.

The major components of XI Five Year crude oil production target are as under:

i)	Production from nominated acreage	: 18.78 MMT
ii)	Production from NELP blocks with OIL as operator	: 0.21 MMT
iii)	Production from overseas exploration blocks/producing properties	: 4.88 MMT
	Total	23.87 MMT

In order to achieve the above, OIL is currently undertaking exploration activities for crude oil and natural gas by making use of modern and upgraded technology. The main steps taken by OIL to enhance crude oil production are as under:

i) To seismically cover logistically difficult terrain such as riverine areas, swampy/ marshy areas including Brahmaputra River bed, rugged hilly terrain in the Belt of Schuppen, nearby township areas, etc.

ii) Intensification of 3D seismic survey in delineating field extensions and identifying subtle structures as well as hitherto explored / unidentified prospects at deeper levels.

iii) Continue exploratory drilling in the deeper prospects in the South Bank of river Brahmaputra, particularly in view of the recent discoveries in Shalmari, Moran, Diroi, South Tinali, East Rajali, Chandmari, Baghjan areas etc. and lead obtained in Mechaki area.

iv) Augmenting drilling efforts for increased number of exploratory and development wells including extension wells, infill wells etc. for enhanced potential retrieval.

v) Development of new discoveries by quick appraisal as well as implementation of horizontal well / J-Bend drilling in suitable reservoirs.

vi) Immediately bringing into production any new finds (through drilling) through creation of quick production set-up / early production set-up and use of bowsers for crude oil transportation.

vii) Induction of suitable EOR / IOR processes.

viii) Enhancement of water injection to improve oil recovery / production.

ix) Increasing workover efforts for quick revival of sick wells for bringing into on-stream production.

x) Induction of more versatile artificial lift assistance methods e.g., Jet pumps (where conventional artificial lift assistance are not suitable), ESP (Electric Submersible Pump), etc., for bringing onto production shut-in wells.

xi) Application of gravel packs technique for control of sand ingression in selected wells.

xii) Adoption of state-of-the-art reservoir management policies for optimizing field production.

xiii) Production from logistically difficult areas of Assam / Arunachal Pradesh, where seismic survey initiatives have already taken and drillable prospects have been identified.

xiv) Production from the NELP/JV Blocks in Assam, Arunachal Pradesh, Rajasthan and other areas in the country.

xv) Production of heavy oil / bitumen in Baghewala field in Jaisalmer district in Rajasthan through cyclic steam injection system in technical collaboration of M/s PDVSA Intevep, Venezuela.

xvi) Production through acquisition of exploration blocks / producing properties from abroad.

ii) <u>Deepwater exploration by ONGC</u>

The deepwater domain has been considered the bed rock for achieving the enhanced level of accretion. As a strategy, ONGC envisaged a quantum jump in the exploratory inputs of X Plan (2002-07) to give it a major thrust. The deepwater component of the total X Plan programme included acquiring 14,000 km of 2D seismic, 17,900 sq km of 3D seismic & drilling of 34 exploratory wells. To give impetus, ONGC launched a mega campaign ‘Sagar Sammriddhi’ in August, 2003 for exploration of oil and natural gas in deepwater areas. It was a step towards realizing the potential of hydrocarbons in deepwater acreages held by ONGC off the east and west coasts of India. During X Plan, the campaign was progressing with 3 drill-ships; Belford Dolphin, Discoverer Seven Seas and ONGC -owned rig Sagar Vijay.

ONGC surpassed the planned input by acquiring 31,865 km of 2D seismic and 46,711 sq km of 3D seismic data and drilling of 41 wells of which 16 wells were hydrocarbon bearing. This has brought out many leads including the first hydrocarbon strike in Mahanadi basin, and a breakthrough in Ultra deepwater of KG basin achieved first time in Indian deepwater. All these are to be converted to commercial success during the XI-Plan. To continue the pace in the XI plan (2007-12), ONGC envisages acquiring 3500 km of 2D seismic, 10,710 sq km of 3D seismic and drilling of 33 wells in deepwater areas. Provision has been kept to upscale the envisaged input depending on future acreage availability. In order to reduce the risk, latest high end technologies like Q-marine survey, GX Technology’s India Span Campaign, sea bed logging, etc., will continue to be employed during XI plan.

iii) <u>Monetisation of marginal fields by ONGC</u>

The XI-Plan programme lays special emphasis on the monetisation of small and marginal fields in both onland and offshore areas through in-house developmental efforts and outsourcing of the production activities on service contracts. ONGC has drawn concrete strategy to put maximum number of such fields on stream during the XI- Plan period through in-house development as well as through service contract. As on date, 44 fields have been monetised and 87 fields are under various stages of monetisation.

The details of New & Marginal fields are as follows:

- 22 onshore marginal fields awarded on service contract. One field put on production and is presently producing oil @ 27 cubic metres/day.
- 3 offshore marginal fields awarded on service contract.

- At the end of XI plan about 92000 barrels of oil per day (bopd) and 16.5 Million Standard Cubic Metres per day (MMSCMD) of gas are envisaged to be realised.
- Presently, 2 offshore fields (D-1 & GS-15) monetised and producing oil @ 1800 cubic metres per day and gas @ 80000 cubic metres per day.

<u>Crude oil and Natural Gas Projection in XI Plan</u>

During 11th five year plan (2007-12), Domestic crude oil production has been projected 206.76 MMT, which is 24% higher than the crude oil production during 10th plan period. By the end of 11th five year plan, Natural gas production has been projected to increase by 90% from the current level of production about 86 MMSCMD.

Thrust areas identified by the Ministry of Petroleum & Natural Gas for 11th five year plan period include increasing crude oil and natural gas production in the country and especially for ONGC.

Ministry of Petroleum and Natural Gas
O.M. No. G-25015/14/2007-Fin-I dated 8-08-2007

Recommendation Sl. No. 3 (Para No. 3.3)

The Committee note that ONGC recently notified a gas discovery in block KG-DWN-98/2 after making a preliminary evaluation of the find by carrying out Straddle Packer Mud Drill Test. However, though DGH accepted the gas discovery claim of ONGC, the claim of potential commerciality was not accepted on the ground that conventional testing was not carried out. The Committee find it unfortunate that DGH, the designated regulator for Exploration and Production (E&P) and ONGC, India's premier E&P company, have come out in the open with their differences on a number of issues in the recent past. As such things often have a negative bearing on the share price/market capitalization of the company, the Committee desire that disagreements, if any, over procedural matters should be taken care of internally without going public and advise them to exercise restraint on their part in future. The Committee further desire the Government to make an assessment of the regulatory practices prevailing in other countries in the E&P sector and adopt the best and most efficacious procedure in our E&P sector, leaving no scope for bias or opacity.

REPLY OF THE GOVERNMENT

ONGC has recently notified a gas discovery in the well UD-1 in block KG-DWN-98/2.The discovery has been notified by the operator in the depth range of 5305.5m – 5283.5 m, 5254m – 5243.5 m & 5262 m – 5263 m.

The preliminary evaluation of this find was done by carrying out Straddle Packer MDT in the interval of 5302.9 m – 5303.9 m.

The claim of ONGC pertaining to gas discovery has been accepted by DGH. However, claim of potential commerciality has not been accepted as the well was abandoned and conventional testing has not been carried out. The well was drilled to a depth of 6576 m and was abandoned with a provision of re-entry.

Till date total 6 discoveries made by ONGC under NELP have been accepted by DGH. Out of these, 4 discoveries have been made in the deepwater block KG-DWN-98/2 in Krishna-Godavari Basin, one discovery in the deepwater Block MN-DWN-98/3 in Mahanadi Basin and one discovery in the Shallow Water Block MN-OSN-2000/2 in Mahanadi Basin.

The factual position about upstream regulation in oil & gas sector is as under:

i) The Government is the owner of sub-surface hydrocarbon resources and has the responsibility to ensure that natural resources are optimally exploited to the benefit of the country and in an environmentally safe manner.
ii) Oil Fields (Regulation and Development) Act, 1948 and Petroleum & Natural Gas Rules, 1959 made therein are the governing legislations for regulating the upstream sector. These provide for grant of petroleum exploration licenses and petroleum mining leases and determine the regulations governing the upstream sector.
iii) Petroleum operations are being carried out under PSC regime (exploration and production of oil and gas), Concession type regime (CBM contracts – production level payments, although they are contractual payments, are linked to production) and blocks/fields given to NOCs on nomination basis, where they pay statutory levies (hence concession type of regime). Contractual provisions under the PSC also stipulate the oilfield practices

that are to be followed by the contractor. These PSCs enjoin that the contractors would follow and adhere to Good International Petroleum Industry Practices (GIPIP) for all petroleum operations.

iv) DGH carries out all functions relating to technical field, reservoir practices and exploration on behalf of the Government of India and monitors PSCs as well as progress of PELs granted to NOCs on nomination basis.

v) Government/DGH also monitor profit petroleum share of the Government under various PSCs and DGH, through Management Committees, exercises control on costs and budgets/work programme of contractors in accordance with the provisions of the respective PSCs.

vi) Section 8 of ORDA provides that the Central Government may, by notification in the official gazette, direct that any power exercisable under the Act shall be exercised, subject to such conditions, if any, as may be specified therein by such officer or authority as may be specified in the direction.

vii) The Government also has powers to stipulate any terms or conditions, as it may deem fit, in the PEL/PML conditions. Rule 32 of the P&NG Rules also specifies that the Government may constitute a suitable agency to carry out implementation of license/lease terms granted by the Government.

viii) The practices as followed in India in the upstream sector in licensing and management of the petroleum resources/operations are similar to those followed in UK (DTI), Norway (NPD) and USA (MMS).

ix) At present, Government is regulating upstream activities through DGH.

x) The dispute resolution method as provided in P&NG Rules and in all NELP PSCs and most of pre-NELP PSCs provide for Indian Arbitration and Conciliation Act, 1996 as amended from time to time.

xi) Environment & safety aspects in addition are separately monitored under the relevant statutes, which have their own independent regulatory framework.

From the factual matrix brought out above, it may be observed that the Government, being the owner, would have to play a major role in optimal exploitation of reserves, and also environment and safety aspects. It also has significant financial interest under PSCs, which require consistent and vigilant monitoring to ensure receipt of payments by the Government in accordance with the terms of PELs/PMLs/PSCs. DGH, at present, is discharging these functions on behalf of the Government and also coordinates with the relevant Ministry i.e MOEF and Ministry of Labour (DGMS) on environment and safety aspects respectively.

Ministry of Petroleum and Natural Gas
O.M. No. G-25015/14/2007-Fin-I dated 8-08-2007

Recommendation Sl. No. 7 (Para No. 3.7)

The country is now a net exporter of petroleum products and products like naphtha, petrol, Diesel and Aviation Fuel etc were exported during 2005-06 and 2006-07. However, for implementing Auto Fuel Policy for upgraded fuel, Euro-compliant Petrol (MS) and Diesel (HSD) had to be imported during 2005 -06 and 2006-07. The committee finds that in 2005-06, 486 TMT of Petrol worth Rs.1286 Crore and 801 TMT of Diesel worth Rs.1902 Crore had to be imported. Similarly, from April to December 2006, Euro-compliant Petrol and Diesel to the tune of Rs.1222 Crore and Rs.2169 Crore respectively were also imported. The Committee observe that though some of the fuel quality upgradation projects by our PSU oil refineries have already been commissioned, most of them are scheduled for completion by 2009 and 2010. The Committee recommend that due attention should be given to these upgradation projects so as to ensure that there is no time and cost overruns. Timely completion of these projects would lead to self-sufficiency in upgraded fuels and would enable the country to save valuable foreign exchange.

REPLY OF THE GOVERNMENT

PSU Oil Companies have envisaged various transport fuel up-gradation projects for implementation by the year 2010 to increase the supply of Euro compliant Petrol (MS) and Diesel (HSD) in the country. Implementation of such capital projects are centrally monitored by M/s. Engineers India Ltd. (EIL), New Delhi under the Ministry Monitoring Cell of MoP&NG. EIL publishes monthly monitoring reports containing various aspects of project management, to be reviewed by various Government Agencies inclusing PSU Oil Companies. In addition, MoP&NG also conducts performance review meetings with individual PSU Oil Companies in which the status of the projects under implementation is also assessed.

Ministry of Petroleum and Natural Gas
O.M. No. G-25015/14/2007-Fin-I dated 8-08-2007

Recommendation Sl. No. 10 (Para No. 3.10)

The Committee note that various customer-friendly measures are taken by the Oil Marking companies at their Retail Outlets which include third party certification of retail outlets through professional audit agencies, provision of electronic Dispensing Units, availability of premium fuels, acceptance of credit and debit cards, clean public convenience facilities, availability of ATN, fast food activities have been introduced for earning additional revenue through the available infrastructure in the RO premises. They hope that introduction of such measures in the retail outlets would give a fillip to the customer attraction, satisfaction and base, besides generating additional revenues for the companies. The Committee advise the OMCs to introduce such and similar other measures in the retail outlets where the outlet premises have not been used to the optimum. The Committee have been informed that BPCL has tied up with the Indian Railway Catering and Tourism Corporation for offering e-ticketing services of Indian Railways in its outlets in phases and that in the first phase, the facility is available in Mumbai, Delhi, Chennai, Kolkata, Bangalore, Pune and Hyderabad. The Committee while appreciating the initiative of BPCL, desire that this programme should be extended to other areas at a fast space. The Committee also recommend that other OMCs should also take initiatives to extend such facility at their outlets.

REPLY OF THE GOVERNMENT

Indian Oil Corporation Limited (IOC) has been actively introducing Non-Fuel activities at Retail Outlets for earning additional revenue through available infra-structure in the Retail Outlet premises. This includes installation of ATMs, Fast Food Kiosks, Authorized Service Centres, Convenience States etc. These have proved to be beneficial to the customer and have also generated revenue for the Corporation.

Hindustan Petroleum Corporation Limited (HPCL) has also entered into an agreement with IRCTC to sell Railway Tickets from its retail outlets and the Corporation is in the process of rolling it out through kiosks at fuel stations and plan to cover 500 outlets during the financial year 2007-08.

Bharat Petroleum Corporation Limited (BPCL) has also reported that it has already undertaken non-fuel initiatives as suggested by the Committee for implementation by OMCs.

Ministry of Petroleum and Natural Gas
O.M. No. G-25015/14/2007-Fin-I dated 8-08-2007

Recommendation Sl. No. 13 (Para No. 3.13)

The Committee note that the Ministry of Petroleum and Natural Gas, being a PSU based Ministry, receives no Budgetary support on the Plan side. Oil PSUs implement their projects from out of their internal resources and loans. The Non-Plan Budget of the Ministry for 2007-08 amounts to Rs. 2867.81 crore. This comprises mainly Rs.2650.00 crore on subsidy on domestic LPG and PDS kerosene, Rs.30.00 crores towards freight subsidy on retail products for far flung areas and an amount of Rs.160.00 crore for subsidy to oil companies for supply of natural gas to the North Eastern Region. Besides these subsidy provisions, allocations have also been made for Secretariat- Economic Services (Rs.10.81 crore), Petroleum Regulatory Board (Rs.15.00 crore) and Society for Petroleum Laboratory (Rs.2.00 crore). Since the demands of the Ministry appear to be justified, the Committee endorse the same. However, they desire that the Ministry should contain the expenditure during the year within the Budget sanctioned for it.

REPLY OF THE GOVERNMENT

The Ministry has noted the observations of the Committee and would take steps to contain the expenditure within the Budget sanctioned during 2007-08.

Ministry of Petroleum and Natural Gas
O.M. No. G-25015/14/2007-Fin-I dated 8-08-2007

Recommendation Sl. No. 21 (Para No. 3.21)

As regards the status of implementation of the recommendations contained in the Ninth Report (14th Lok Sabha) of the Committee on Demands for Grants (2006-07) of the Ministry of Petroleum & Natural Gas, it is observed that the Government has accepted all the 15 recommendations made in this Report as per the Statement of the Hon'ble Minister of State for Petroleum & Natural Gas, laid in Lok Sabha on 18.12.2006 under Direction 73A of the Directions by the Speaker.

Two of the 15 recommendations contained in the Ninth Report pertained to the status of implementation of recommendations contained in the previous years' Reports on Demands for Grants of the Ministry (First and fifth Reports, 14th Lok Sabha). The Committee are unhappy to note that two out of the remaining 13 recommendations relating to preparation of comprehensive road map to cover the entire city of Delhi with

Piped Natural Gas and availability of adequate amounts from the cess levied on crude oil to OIDB, have not been implemented by the Government. Though the Government has informed the Committee about the progress of work done relating to supply of PNG in some parts Delhi, it has not acted on the specific recommendation of the Committee that a comprehensive road map should be prepared to cover the entire Delhi with PNG within a period of 5 years. The Committee reiterate that such a road map should be prepared on priority basis. Similarly, as regards the proceeds of the cess levied and collected from indigenous crude, the Committee would once again like to reiterate that adequate amount should be released to OIDB out of the cess proceeds. A detailed recommendation on this issue has been included in this Report at para no. 3.12.

The Committee are happy to note that the Government has fully/substantially implemented 3 recommendations relating to utilization of Plan outlay by PSUs, business secured by Engineers India Limited and austerity in Non-Plan spending. The Committee further find that the remaining 8 recommendations contained in the Ninth report are in the process of being implemented. These recommendations relate to seismic survey & drilling activities of OIL., city gas projects of GAIL, IBP-IOC merger, up gradation of refineries, delay in completion of mega projects of IOCL, opening of retail outlets by OMCs, adulteration of petroleum products and LNG terminals on the east coast. Though not fully implemented, the Committee find that the Government has taken a number of measures in the direction of implementation of these recommendations. The Committee, while appreciating the initiative of the Government, desire it to make further efforts to ensure the early implementation of these recommendations.

REPLY OF THE GOVERNMENT

A Statement showing the latest status of implementation of the recommendations is given in annexure-I

Annexure I

STATEMENT CONTAINING THE GIST OF OPERATIONAL PORTION OF THE RECOMMENDATIONS. POSITION INDICATED IN MINISTER'S STATEMENT AND THE LATEST STATUS OF IMPLEMENTATION OF RECOMMENDATIONS CONTAINED IN THE NINTH REPORT OF THE STANDING COMMITTEE ON PETROLEUM AND NATURAL GAS ON DEMANDS FOR GRANTS (2006-07) OF MINISTRY OF PETROLEUM AND NATURAL GAS

S. No.	Gist of operational portion of the recommendation	Position as indicated in Minister's Statement	Latest status of implementation of the recommendation
1	**2**	**3**	**4**
1.	The Oil companies should make concerted efforts to fully utilize the Plan Outlays so that important projects are completed without any time and cost over run.	Based on the economic, industrial and commercial factors governing the oil sector and the market projections for future business growth available at the time of formulation of the Plan, oil sector PSUs had finalized the physical and financial targets for the 10^{th} Five Year Plan. The oil companies themselves push for early implementation of projects where the market is ready and, similarly, the oil companies go slow on projects where commercial factors and market situations demand so. Taking into account the present trend of expenditure, the oil companies are expected to fully utilize the X Plan allocation.	As against 10^{th} Plan allocation of Rs. 103656.00 crore, an amount of Rs.114671.43 crore was spent by the oil PSUs during the 10^{th} Plan, which is 110.62% of the total outlay. The oil companies, therefore, have spent 10.62% more than the 10^{th} Plan allocation.
2	Oil India Ltd. should strive hard to achieve its targets in future with regard to seismic survey and drilling activities.	Oil India Ltd. (OIL) has chalked out a strategy to enhance seismic survey and drilling activities in its operational areas. The details of which are as under: a) In order to avoid delay in acquisition in land, OIL has decided to compensate the land owners at significantly enhanced rates. b) To further supplement	**<u>Measures taken by OIL to overcome the problems for achieving seismic and drilling targets</u> :** Oil India Limited has undertaken the following initiatives to enhance seismic survey and drilling activities in its operational areas: <u>Seismic Survey :</u>

		drilling capabilities, OIL has procured one 1000 HP mobile drilling rig. Two additional charter hired drilling rigs are also planned for deployment from the year 2006-07 onwards. c) Constant liaison is being maintained at the District level, State government level as well as at the Ministry level to resolve the environmental issues.	(i) In order to resolve the environmental issue in respect of seismic survey in Brahmaputra River Bed, Ministry of Environment and Forests, Govt. of India constituted a Committee with representatives from Wildlife Institute of India and Oil India Limited, besides other experts on environment to suggest measures to be taken by OIL while carrying out the survey. On receipt of the report of the Committee and formal clearance by Pollution Control Board of Assam, survey in Brahmaputra River bed will be immediately undertaken. (ii) In order to fulfill the committed work programme in the nominated as well as NELP blocks, advance actions are in hand for award of contracts for i) 2D seismic survey in logistically difficult areas in nominated blocks in Arunachal Pradesh and NELP blocks in Assam, Mizoram, Rajasthan, KG basin etc. and (ii) 3D seismic survey in nominated blocks in North-East

			and NELP blocks in Assam, Rajasthan etc. <u>Drilling :</u> (i) To further supplement the drilling capabilities, OIL had procured one mobile drilling rig, which is being currently deployed in Rajasthan. In addition, actions are in hand for charter hire/purchase of another mobile drilling rig for drilling in shallow depth. (ii) About 6 additional charter hire drilling rigs are planned for deployment in OIL's nominated as well as NELP blocks during the year. (iii) Constant liaison is being maintained at the district level, state government level as well as Ministry level to resolve the environmental issues, affecting OIL's exploration and production activities in the North-East.

3	Committee desired that projects for supply of Piped Natural Gas (PNG) to domestic, commercial and industrial Consumers and Compressed Natural Gas (CNG) in automobiles in cities of Agra, Lucknow, Kanpur, Pune, Kerala, Karnataka etc. should be completed expeditiously without any time and cost over run.	M/s Green Gas Limited (GGL), a joint venture of GAIL and IOCL has commissioned first CNG station in Lucknow on 1.4.2006. The JV plans to open few more CNG stations in Lucknow. In Kanpur M/s Central U.P. Gas Limited, a Joint Venture of GAIL and BPCL, has commissioned first CNG station on 07.04.2006. The JV plans to open more CNG stations in Kanpur. In Agra, M/s Green Gas Limited (GGL) a Joint Venture of GAIL and IOC has set up one CNG station in June, 2006. The City Gas project in Pune city will be implemented by M/s. Maharashtra Natural Gas Limited, a Joint Venture of GAIL and BPCL. Anticipated date of CNG supply in Pune is likely to be the second half of June, 2007.	As of June 2007, M/s GGL has commissioned four CNG stations in Lucknow and three CNG stations in Agra. The average sale of CNG in Lucknow and Agra is 34400 kg/day and 18500 kg/day respectively. As of June 2007, CUGL has commissioned four CNG stations in Kanpur. The average sale of CNG in Kanpur is 25419 kg/day. The City Gas distribution project in Pune is being implemented by M/s Maharashtra Natural Gas Limited. GAIL has commissioned Dahej-Uran Pipeline on July 11, 2007. The City Gate station for supply of gas from Dahej-Uran Pipeline is under construction. Land has been identified for setting up CNG Mother station. OMC's Retail Outlets (RO) have been identified for Online / Daughter Booster Stations. CCOE clearance has been obtained for laying of pipeline network and setting up Online/ Daughter Booster stations in Pune. Purchase Orders have been placed for major equipment/materials. It is expected that 1st CNG station would commence by September 2007.

			City Gas distribution in Indore is being implemented by Aavantika Gas Ltd. The commissioning of 1st CNG station is targeted by August 2007. M/s TNGCL is planning to increase dispensing capacity by adding additional compressor, cascade & dispensers to the existing CNG Stations. TNGCL is also introducing Daughter Station in association with Oil Marketing Companies and Tripura Road Transport Corporation Ltd., an Undertaking of Govt. of Tripura.
4	A comprehensive road map be prepared to cover entire City of Delhi with Piped Natural Gas within a period of five years.	As of March 31, 2006, Indraprastha Gas Limited (IGL) has connected 55,475 houses for Piped Natural Gas (PNG) which are spread over 40 colonies in Delhi. Apart from the coverage in South Delhi, where IGL is supplying PNG to 15205 houses, IGL has laid infrastructure in colonies of East Delhi, like Patparganj, Mayur Vihar Phase-I & II and Vasundhra Enclave. IGL; is-supplying PNG to various localities in North Delhi. In Central Delhi, PNG is being supplied to various houses which cover colonies, like Kaka Nagar, Bapa Nagar, Chankya Puri, Netaji Nagar, Sarojini Nagar, Kidwai Nagar and Kali Bari. IGL is also laying network in various colonies of West Delhi like Pitampura, Paschim Vihar, Vikas Puri, Dwarka and	As on July 1, 2007, Indraprastha Gas Limited has given PNG connections to 84229 houses spread over 59 colonies in Delhi. IGL is providing PNG supply in 17 colonies of South Delhi, 4 colonies in East Delhi, 5 colonies in West Delhi, 23 colonies in Central Delhi and 10 colonies in South Delhi. Work is in progress in Dwarka, Sector 6,7,9 & 10 Sarita Vihar (selected pockets) and CPWD colonies of North West Moti Bagh, Srinivaspuri Bharati Nagar, Rabindra Nagar and DIZ areas. The work of expanding PNG network is a continuous process. The work of laying PNG network inside the

		Naseer Pur. The work of expanding PNG network is a continuous process. The expansion of PNG infrastructure depends upon many factors like availability of natural gas, permission of the Land Owning Agencies and other Statutory Bodies for laying Gas Pipelines, technical feasibility and the terrain of area, availability of space in the narrow lanes, response of the Resident Welfare Associations etc.	societies of Dwarka has commenced in the 1st quarter of 2007. IGL plans to cover the National Capital Territory of Delhi with PNG supply in a phased manner. The expansion of PNG infrastructure depends upon many factors, like availability of natural gas, permission of land owning agencies and other statutory bodies for laying gas pipelines, technical feasibility, terrain of area, availability of space in narrow lanes, response of the Resident Welfare Associates, etc.
5	The Committee desires that steps should be taken for merger of IBP with IOC and process of amalgamation be completed without delay.	Merger of IBP with IOC is in final stages and it is expected that the merger would be completed within 2006-07.	The Ministry of Company Affairs, Government of India, has by an order No.24/01/2006-CL-III dated 30.4.2007 accorded sanction to the Scheme of Amalgamation for merger of IBP with Indian Oil. The said Order has been filed with the Registrar of Companies at Mumbai & Kolkata respectively by Indian Oil & IBP. Consequent upon filing of the order, IBP Co. Limited stands dissolved without the process of winding up. The effective due of the Merger is 2nd May 2007.

6	Committee is unhappy to know that value of business secured by Engineers India Ltd. (EIL) during last two years shows a very discouraging trend. Committee desire that EIL should make an in-depth study of factors responsible for such a scenario and take corrective measures urgently.	EIL has made concerted efforts in past, as a result of which the Company has secured highest ever volume of Rs.770 crore business in Services Sector during 2005-06. This also includes highest ever volume of business secured from Overseas Sector at Rs.330 crore. Efforts are being made to further increase the total volumes of business in coming year. Analysis has shown that for successful completion of Lump Sum Turnkey Projects (LSTK), pre bid tie ups are essential and efforts are being made to establish these tie-ups at the earliest. For domestic market, customer satisfaction survey done in 2005-06 by an independent consultant showed that overall customer satisfaction with EIL is 7.09 on a scale of 0 to 10.	EIL made concerted efforts during 2006-07 which enabled EIL to secure higher volumes of business as compared with 2005-06. During FY 2006-07, EIL secured total business worth Rs.1916 crores which comprised consultancy business worth Rs.998 crores and LSTK business worth Rs.918 crores. These achievements are significantly higher when compared to the achievements of Rs.771 crores and Rs.30 crores for consultancy and LSTK business respectively in 2005-06. In the 1st quarter of the current financial year ending June 2007, EIL has secured consultancy business worth Rs.312 crores against the annual target of Rs.940 crores. To strengthen the LSTK business segment, EIL has signed two MOUs; one with M/s Tecnimont, Italy in February 2007 for the formation of a JV for LSTK business in U.A.E. and the other with M/s Tata Projects Limited in July 2007 for forming a JV in India for execution of LSTK projects. The Joint Ventures for which these MOUs have been signed would come up after obtaining necessary approvals for which action is underway.

7.	Ministry should contain the expenditure during the year 2006-07 within the budget sanctioned for it and observe austerity in Non Plan expenditure.	Ministry shall endeavour to contain the expenditure within the Budget sanctioned for it and observe austerity in the Non Plan expenditure during 2006-07.	The Non Plan BE for 2006-07 at Rs.3106.62 crore was, in fact, reduced to Rs.2800.28 crore at the RE stage. Also, the actual Non Plan expenditure during 2006-07 was Rs.2767.40 crore which was within the RE provision for the year.
8	The refineries should develop ability to process more and more sour / heavy crude thereby reducing input cost. These measures should be implemented at the earliest.	During the previous year, a series of meetings were taken by Secretary (MOP & NG) with PSUs and they have been directed to switch over to high sulphur crude by carrying out improvement in the configuration of their refineries. Based on studies undertaken by EIL, following initiatives have been taken towards residue upgradation and improvement of the bottom lines of refineries: a. While coastal refineries would focus on export markets, the inland refineries would concentrate on domestic markets. b. The refineries of HPCL and BPCL at Mumbai instead of working independent of each other would now work in synergy. c. A work plan has been prepared for BPCL refinery at Kochi and CPCL refinery at Chennai and HPCL refinery at Visakh for capacity expansion, setting up a Desulphurisation Cocker Unit (DCU) and decongesting the existing Units so as to improve their efficiency.	The company-wise position is as under: <u>Hindustan Petroleum Corporation Limited (HPCL)</u> *Crude selection at HPCL refineries is considered based upon the unit's configuration, Economic consideration, product demand etc.* HPCL's Mumbai Refinery is the Lube base refinery and crude selection is done among Lube bearing crude. HS crude processing during the 1st QTR of current F/Y 2007-08 was 65%, which is same as HS crude processed (65%) in 2006-07. With regard to Visakh Refinery, it has improved HS crude processing considerably during the current financial year 2007-08 to 63% (Till June 07) against 58% HS crude processed during 2006-07. **<u>Bharat Petroleum Corporation Limited (BPCL)</u>** The draft Detailed Feasibility Report (DFR) has been submitted by

		d. Integrated Gap Reduction programme is being implemented for CPCL refinery at Manali, MRPL refinery at Mangalore and BPCL refinery at Kochi to improve overall refinery performance.	M/s EIL and is under review. Processing of Mumbai refinery VR along with Kochi VR is also being studied with various options. Once implemented, this facility would help KR to process more sour crude. The assessment phase of Integrated Refinery Business Improvement Program has been completed and the "Proposals for Improvement" identified during the program have been accepted by the Technical committee and the program is proceeding to the Implementation phase. **Mangalore Refinery and Petrochemicals Limited (MRPL):** **Maximization of sour crude processing in MRPL** Processing of sour crude in MRPL has already been increased. In the Financial year 2006-2007, MRPL has processed about 70% of sour crude out of the total crude processed. After the completion of the Refinery Upgradation and Expansion project (2010-11), the sour crude processing capability is expected to go up to around 80%.

9	Committee is unhappy over the delay in completion of two mega projects of Panipat Refinery of IOC viz. Integrated Paraxylene/ Purified Terephthalic Acid Project and Panipat Refinery Expansion Project. Committee desire that responsibility for time and cost overruns should be fixed and suitable action taken against those held responsible.	During the course of execution there was an unprecedented price rise of major raw material viz. steel and copper and non-availability of steel from approved manufacturers, such as Steel Authority of India Limited, Tata Iron & Steel Co., Rashtriya Ispat Nigam Limited and Indian Iron Steel Co. on continuous basis. This resulted in delay in the supply of equipment and bulk materials leading to slow down in construction activities. As IOCL contracts are awarded on fixed-price basis and no escalation is allowed, some agencies did not execute the contract in view of impact of the steep price rise in steel / copper. Consequently job had to be offloaded. Price reduction clause is a standard clause incorporated in all purchase orders / contracts and is invoked in cases wherever delay are attributed to contractors / suppliers. Closure of mega projects of such magnitude takes about 6-12 months time when performance of each contract will be reviewed in detail & reasons for delay analyzed jointly with PMCs. Based on analysis, in case of Contractors / Suppliers who could not meet the delivery targets as stipulated in the contract for the reasons solely attributable to them, price reduction clause will be invoked. The cost overrun in respect of IOCL Project has been on	The reasons which impacted most adversely in completing the projects are : a. Unprecendented price rise in steel and copper after award of major contracts from mid-2003 to mid2004 b. Non-compliance of orders by some vendors due to steep price increase of steel and copper c. Non-availability of steel from approved manufacturers adversely affecting the construction progress by contractors. Despite the above, IOCL/Project Management Consultant (PMC) took a number of innovative measures which helped in completing both the projects in reasonable time under the circumstances prevailing at that time, keeping the cost within approved limits. Inspite of above, wherever there was time overrun in executing the contracts by the contractors/ vendors, amount towards Price Reduction clause (PRC) has been deducted from the parties' bill & kept under hold. Final decision will be taken as

		account of inclusion of Captive Power Plant (CPP) and also due to foreign exchange escalation, and variations in wholesale price index / consumer price index.	per the contracts after objective analysis and performance evaluation of the plants at desired level is over. This exercise has already been undertaken by the PMC in consultation with IOCL and is expected to be completed by December 2007. IOCL's policy for project implementation is based on supply-demand scenario of products and internal hurdle rate wherever the projects are executed based on economic viability. The projects PREP and PX-PTA were capital intensive and the approved costs were Rs.4165 crore and Rs. 5104 crore respectively. Their internal rates of return (IRR) were close to internal hurdle rate. Hence, it had been IOCL's constant endeavor to complete the project within +/- 10% of the approved cost. Any upward deviation would render the projects economically unviable and this cost overrun was to be avoided positively. Thus, IOCL could not take any measure at a high cost, which could possible have reduced the time overrun to some extent.
10	The Committee should constitute an Expert Team independent of Ministry and Oil	Indian Institute of Management, Ahmedabad have been entrusted the study of retail outlets of IOC, HPCL, BPCL and IBP. The	The Ministry/OMCs are yet to receive any further directions from the Committee in this regard.

	PSUs to look into issues regarding indiscriminate opening of retail outlets by IOC, BPCL, HPCL and IBP.	study was totally independent of Ministry of Petroleum & Natural Gas and Oil PSUs and the report has been sent to Lok Sabha Secretariat.	
11	The Committee desired that technological applications should be introduced by oil PSUs including setting up of a centralized monitoring system to track down movement of their fuel vehicles, opening/closing of locking system etc. to check the menace of adulteration of petroleum products. Incentive scheme should also be introduced for Oil Companies officials displaying extraordinary performance in the direction of checking this menace of adulteration. The Committee also desired that performance of "Jan Kerosene Pariyojana" should be evaluated and based on its success it should be extended to other parts which would help in preventing diversion of PDS kerosene for adulteration purposes.	With a view to taking effective measures for preventing this menace of adulteration of petroleum products, Oil Marketing Companies (OMCs) have been asked to take the following steps: a) Monitor the movement of all Tank Trucks viz. Company owned/ Dealer owned/ Contractor tank trucks through Global Positioning system (GPS) based vehicle tracking system to ensure that TTS don't get diverted enroute. b) OMCs to undertake automation of all their retail outlets selling more than 200 KL per month on a priority. c) OMCs have been asked to more away from the routine nature of inspection/ sampling. Instead the surprise element in conducting inspections and drawing samples must be emphasized. d) OMCs to undertake third party certification of all their retail outlets selling more than 100 KL per month. e) OMCs to introduce marking of potential adulterants. f) With a view to containing black marketing of kerosene and also its diversion for	1. Monitoring of movement of Tank Trucks through Global Positioning System (GPS): This Ministry reviewed the progress of implementation of various measures by Oil Marketing Companies (OMCs) to curb adulteration, the progress on providing GPS on MS/HSD/SKO tank trucks. The status as on 31.05.2007 is as under: (i) IOCL informed that out of 17,000 Tank Trucks (TTs) (Co. owned/dealer/contractor TTs), they have been completed the GPS system in 213 TTs. The balance 16787 TTs would be covered with GPS by September 2007 as contracts have already been placed for all TTs. (ii) HPCL informed that out of 5780 TTs (Co. owned/dealer/contractor TTs), they have provided GPS system on all the 162 Company TTs as well as 90 TTs engaged under the JKP. Further, out of 2520 dealer-owned TTs, 1194 TTs have been provided with GPS system. Balance

		adulteration, the beneficiaries of below poverty line (BPL) families are being issued Smart Cards initially on experimental basis in three districts- Latur in Maharashtra, Nalanda in Bihar and Nainital in Uttrakhand in 2007. The pilot project under the name "Jan Kerosene Pariyojana (JKP) was launched with effect from 2.10.2005 initially for a period of six months to ensure that heavily subsidized kerosene is available to intended beneficiaries. Based on the Diagnostic Study conducted by National Council of Applied Economic Research and reviews taken by Government from time to time, the pilot scheme has last been extended upto 30-6-2007.	dealer owned TTs would be covered by July 2007. Simultaneously work on contractor TTs is also in progress and 27 contractors owned TTs have been provided with GPS system. Balance contractor owned TTs are also targeted to be completed by July 2007. (iii) BPCL has installed GPS on 200 tank trucks. They have 160 company-owned tank trucks and GPS is expected to be installed in these tank trucks by June 2007. Further, out of 6000 PCVO tank trucks, 3000 is expected to be completed by July 2007 and the balance 3000 by August 2007. (iv) IOCL's (IBP division) has informed that out of 2644 TTs, the GPS system has been provided in 14 TTs. The system will be provided in the balance 2630 TTs by September 2007. **2. Automation of Retail Outlets**: IOCL has informed that out of 1928 Retail Outlets (ROs) 264 ROs have already been automated. The balance 1664 RO will be automated by March 2008. Out of 1135 ROs, HPCL have completed 779 retail outlets with automation. The remaining 356 ROs are planned to be completed by July 2007. BPCL have been

			completed 339 ROs and propose to complete remaining 1261 ROs by December 2007. IOCL's (IBP division) have automated 20 ROs and balance 409 ROs will be automated by March 2008. 3. **Third Party Certification of Retail Outlets**: IOCL has informed that out of 5159 ROs selling more than 100 KL per month, third party certification of 2913 ROs have been completed. Remaining 2246 ROs will be certified by August 2007. BPCL has informed that they have around 4200 retail outlets selling more than 100 KLs per month out of which third party certifications have been completed for 4000 ROs and they are in the process of complete the certification for the balance ROs. HPCL have informed that they have 3400 outlets selling more than 100 KL per month. They have appointed M/s Bureau Veritas as their third party certification agency. 2739 outlets have been audited by M/s Bureau Veritas during the year 2006-07. During current year, April – May 2007, inspections of 438 retail outlets have been carried out by the third party certification agency. IOCL's (IBP division) has 1410 ROs

			selling more than 100 KL per month out of which 472 ROs have already been certified. Balance 938 ROs will be certified by August 2007. 4. **Marker System in Kerosene**: To check adulteration in auto fuels, Government has asked public sector Oil Marketing Companies (OMCs) to take various steps, including introduction of marker in adulterants. OMCs have commenced introduction of marker in kerosene on all India basis with effect from 1.10.2006. Under the new system, Marker is being put in kerosene in all depots. This system heralds the introduction of world class technology to curb and eventually eliminate the menace of adulteration of transportation fuels along the supply chain. With the marker's presence, adulteration even with very low levels of kerosene can be detected. MS/HSD Control Order, 2005, SKO Control Order, 1993 and MDG 2005 have been amended for making provision regarding introduction of marker system in Kerosene to check adulteration. A committee has been set up in the Ministry to monitor the progress of the marker system. Oil Marketing Companies in

			the private sector have also been simultaneously introduced marker in Kerosene as is being done by Public Sector OMCs. 5. **Revising the Marketing Discipline Guidelines**: The Marketing Discipline Guidelines(MDG) under which the oil marketing companies take penal actions against the erring dealers have been revised during August 2005 making the penal actions more stringent. As per MDG, 2005, a dealership would be terminated in the first instance of adulteration itself. 6. **Jan Kerosene Pariyojna**: The Government have approved an innovative pilot project for radically revamping the PDS kerosene distribution network with the primary objective of ensuring that this heavily subsidized product is actually made available in the required quantities at subsidized prices to the intended beneficiaries; and, secondly, to thus cap, reverse and eventually eliminate the diversion of PDS Kerosene for adulteration. The pilot project under the name of Jan Kerosene Pariyojana (JKP) was launched with effect

			from 2nd October, 2005 initially for a period of 6 months. Government has been reviewing the JKP from time to time and is taking necessary action to further streamline the system. The JKP pilot project has been launched in 414 blocks spread over 24 States in the country. The State Governments of Gujarat and Rajasthan have decided not to continue with implementation of JKP pilot project in 24 blocks and 13 blocks in the States with effect from 1.7.2006 and 1.10.2006 respectively. The State Government of Maharashtra have also decided not to continue with the implementation of JKP pilot project with effect from 1st May, 2007. Based on the Diagnostic Study conducted by National Council of Applied Economic Research (NCAER) and reviews taken by the Government, the pilot scheme was initially extended for 3 months up to 30th June 2006 and again up to 30th September 2006. It has now been further extended up to 30th June 2007.
12	Committee express their concern over the fact that although Central Govt. collected about Rs.	The process of cess are credited to the Consolidated Fund of India. Therefore, the comments of Ministry of Finance (MOF) were sought	This recommendation of the Committee was once again taken up with Ministry of Finance who have reiterated their

	55900 crore as cess on crude oil upto 31.3.2005 received a paltry sum of Rs. 902 crore only. Committee desired to know various activities on which cess was being utilized and the extent to which oil industry benefited from this utilization.	in respect of this recommendation. MOF have furnished their comments which are as follows: "The Cess on crude oil levied under the Oil Industry Development Act 1974 is meant for funding the " Oil Industry" and Section 2(k) of the Act defines this terms to include all activities by way of prospecting or exploring for or production of mineral oil, production and marketing of all products downstream of an oil refinery and the production of fertilizers and petrochemicals and all activities directly or indirectly connected therewith. Thus, the terms " Oil Industry" includes production of fertilizers and petrochemicals also and all activities directly or indirectly connected there with for the purpose of the Act."	earlier stand that amount collected by levying cess on indigenous crude was utilized as per the statutory provisions contained in Section 2(k) of the Oil Industry (Development) Act, 1974.
13	Committee desired that as and when a decision is taken about setting up of LNG Terminal on Eastern Coast, the merits of Krishnapatnam should not to be overlooked.	The observation of the Committee has been brought to the notice of Oil and Gas PSUs.	No further comments.

CHAPTER III

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

NIL

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation No. 5 (Para No. 3.5)

India has been contemplating to procure gas from Myanmar through a pipeline of which GAIL has completed the Detailed Feasibility Report. The Committee have been informed that the Government of Myanmar has subsequently intimated to GAIL that it is reviewing its decision to sell this gas through the pipeline route. The Myanmar side has indicated that a portion of the available gas would be earmarked for its domestic requirement and the balance gas would not be sufficient for export. The Committee have also been informed that Myanmar has taken up drilling in A-3 block and based on the result of drilling and quantity of gas available, it would take a decision on selling the gas through available options. The Committee have now been informed that the operator of the A1 & A3 blocks has conveyed the interest of the Myanmar Government to export gas from these blocks to China. However, during oral evidence, the Secretary of the Ministry has stated that the last word has not yet been said by Myanmar and that India is still in discussions on this issue. The Committee would like the Government to vigorously pursue the matter with the Government of Myanmar and clinch the issue in our favour. The progress made in the matter may be conveyed to the Committee.

REPLY OF THE GOVERNMENT

In January 2005, Minister (P&NG) participated in a trilateral Ministerial meeting between the Oil Ministers of Bangladesh, Myanmar and India. In pursuance of the trilateral Joint Press Statement released after that meeting, a Techno-Commercial Working Committee (TCWC) of the representatives of the three countries was constituted. The first meeting of the TCWC was held in Yangon on February 24 & 25, 2005. The TCWC prepared a draft MoU to be signed by the three Oil Ministers after the approval of their respective Governments. However, the MoU could not be approved on account of differences between India and Bangladesh over one paragraph in the draft MoU. Minister (P&NG) even visited Dhaka on 5th September, 2005 to discuss issues relating to the draft MoU. However, no further progress could be achieved.

In view of the above, India pursued the option of a pipeline from Myanmar through North-Eastern States of India. Accordingly, GAIL prepared the Detailed Feasibility Report of the pipeline.

Myanmar invited bids for selling natural gas from A1-A3 offshore block. GAIL also submitted its bid. Subsequently, Government of Myanmar reviewed their decision to sell this gas through the pipeline route and asked for a bid for 3.5 MMTPA of Liquefied Natural Gas (LNG) project. GAIL submitted its bid to Myanmar in response to the same. The offers received under the LNG bid and the pipeline bid were discussed during a meeting held at Nay Pyi Taw (NPT) on January 10, 2007. The Myanmar side indicated that out of the available gas of about 4.8 trillion cubic feet (tcf), their Government would like to earmark a portion for their domestic requirement. The balance gas would not have been sufficient for export. Myanmar informed that they had taken up drilling in A3 block and, based on the result of drilling and quantity of gas available, they would take a decision on selling the gas through available options. This was reiterated in a meeting held in New Delhi on January 19, 2007 between a delegation from Myanmar led by Director-General, Ministry of Energy Myanmar and Minister (P&NG).

However, in a meeting held in February 2007 between Myanmar Government and Petro China, Myanmar Government decided that the gas from A1 and A3 blocks would be sold to China through pipeline route. This development was conveyed to the consortium partners by Myanmar Government during a meeting held at Nay Pyi Taw (NPT) on March 16, 2007. During this meeting, GAIL impressed upon the other partners and Myanmar Government, that GAIL's pipeline offer was still the most competitive and offered optimum value for them due to proximity of India to these fields. However, Myanmar Government has stuck to its decision to sell the gas to China.

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Comments of the Committee

(Please see para 10 of Chapter I of the Report)

Recommendation No. 8 (Para No. 3.8)

The Committee note with concern that there is an acute shortage of Kerosene/LPG in a number of States, especially in Bihar, Jharkhand, Chhattisgarh, Kerala and Tamil Nadu. The main reason behind this shortage is stated to be the diversion of these products for adulteration/commercial use. The Committee find that the availability of Kerosene and LPG in the country from the domestic refineries has also fallen short of demand during the last three years. In 2005-06, against an LPG demand of 10456 TMT, the availability from domestic refineries was just 7717 TMT. As regards Kerosene, the availability from domestic refineries during the same year was 9026 TMT against a demand of 9541 TMT. In view of the above, the Committee recommend that the Government should assess the whole situation and in coordination with State Governments take effective steps to check the diversion. At the same time, the Government should also increase the production of Kerosene and LPG.

REPLY OF THE GOVERNMENT

The possibility of diversion of PDS Kerosene by some unscrupulous elements cannot be ruled out due to huge price difference between PDS Kerosene and petrol/diesel and the easy mixcibility of these products with petrol/diesel. Checking diversion of PDS Kerosene is a continuous process and the Ministry of Petroleum & Natural Gas has been reviewing steps taken to curb adulteration from time to time.

To check adulteration in auto fuels and diversion of PDS Kerosene, Government has asked Oil Marketing Companies (OMCs) to take various steps to contain the menace of adulteration:-

(i) Under the Control Orders issued by the Government to prevent fuel adulteration, under the Essential Commodities Act, 1955, State Governments are empowered to take action against those indulging in adulteration. Government have requested the State Governments/ Union Territory Administrations to take steps to control adulteration.

(ii) OMCs undertake regular and surprise inspections of Retail Outlets and also take action under Marketing Discipline Guidelines (MDG) and Dealership Agreements against those indulging in adulteration and malpractices. MDG provide for termination of dealership in cases of adulteration being established.

(iii) Government has taken the initiatives to expedite the installation of Global Positioning System (GPS) to monitor the movement of tank trucks.

(iv) OMCs have introduced new tamper proof tank-truck locking systems to prevent en-route adulteration by transporters.

(v) Keeping in view the misuse/diversion of SKO for adulteration, the import of SKO by private parties has been canalized through OMCs.

(vi) As advised by the Government, Oil Marketing Companies (OMCs) have created a separate wing to report to a Director other than Director (Marketing), which will oversee and monitor all activities and operations to curb adulteration and specify norms and guidelines in this regard.

In order to check adulteration the Government has recently taken a number of new initiatives which are annexed.

DETAILS OF NEW INITIATIVES TAKEN TO CHECK ADULTERATION OF PETROL/DIESEL AND STREAMLINING PDS KEROSENE DISTRIBUTION

Checking adulteration is a continuous process and the Ministry of Petroleum & Natural Gas has been reviewing steps taken to curb adulteration from time to time. In the process, several technological and institutional measures have been taken to contain adulteration. The recent steps taken by the Ministry are summarized below:

1. **Automation of Retail Outlets**: In order to monitor the activities at retail outlets by adopting the latest technological improvements, automation of retail outlets is being implemented. MOP&NG has directed the oil marketing companies to complete automation of retail outlets selling more than 200 KL per month.

2. **Third Party Certification of Retail Outlets**: OMCs have been directed to complete third party certification of all the retail outlets selling more than 100 KL per month.

3. **Monitoring of movement of Tank Trucks through Global Positioning System(GPS):** In order to prevent adulteration during transportation, OMCs have been directed to install GPS for complete monitoring of the movement of all the company owned/dealer owned/contractor owned tank trucks.

4. **Marker System in Kerosene**: To check adulteration in auto fuels, Government has asked public sector Oil Marketing Companies (OMCs) to take various steps, including introduction of marker in adulterants. OMCs have commenced introduction of marker in kerosene on all India basis with effect from 1.10.2006. Under the new system, Marker is being put in kerosene in all depots. This system heralds the introduction of world class technology to curb and eventually eliminate the menace of adulteration of transportation fuels along the supply chain. With the marker’s presence, adulteration even with very low levels of kerosene can be detected. MS/HSD Control Order, 2005, SKO Control Order, 1993 and MDG 2005 have been amended for making provision regarding introduction of

marker system in Kerosene to check adulteration. A committee has been set up in the Ministry to monitor the progress of the marker system. Oil Marketing Companies in the Private sector have also been simultaneously asked to introduce marker in Kerosene as is being done by Public Sector OMCs.

5. **Revising the Marketing Discipline Guidelines**: The Marketing Discipline Guidelines (MDG) under which the oil marketing companies take penal actions against the erring dealers have been revised during August 2005 making the penal actions more stringent. As per MDG, 2005, a dealership would be terminated in the first instance of adulteration itself.

6. **Jan Kerosene Pariyojna**: To streamline the PDS Kerosene distribution system and contain diversion of kerosene for adulteration and other unauthorized usages, Jan Kerosene Pariyojna (JKP) had been launched initially for a period of 6 months on a pilot basis in 414 blocks with effect from 2.10.2005. The Pilot scheme has been further extended upto 30.6.2007.

7. **Smart Card Scheme:** With the objective of ensuring that the benefit of the subsidy reaches the targeted consumers in an efficient and cost-effective manner and to prevent any leakages, this Ministry has proposed introduction of Smart Card System for distribution of PDS kerosene. The scheme is proposed to be introduced initially on an experimental basis. In the Pilot project, subsidized kerosene through Smart Card is proposed to be available to BPL families while all other ration card holders would be given non-subsidized kerosene. Oil Marketing Companies (OMCs) would ensure adequate availability of PDS as well as non-subsidized kerosene during the entire period of implementation of the Pilot.

At present, there is no overall shortage of LPG in the country, including in Bihar, Jharkhand, Chhattisgarh, Kerala and Tamil Nadu. LPG supplies to distributors are being made by the Public Sector Oil Marketing Companies (OMCs) through indigenous production and imports in accordance with the genuine demand of customers registered with the LPG distributors.

As far as availability of SKO is concerned, as per provisional data available for the year 2006-07 actual upliftments on all India basis were 9174.9 TMT against allocation, both original and adhoc, of 9208.8 TMT, which represents an achievement of 99.6%.

Availability of LPG & SKO: With regard to availability of LPG/SKO from domestic refineries vis-à-vis demand and the need to increase production of SKO/LPG, it is informed that India is now self-sufficient to meet overall POL demand and in fact, is net exporter of POL. LPG growth, however, has far exceeded growth in consumption of other petroleum products. With further increase in refining capacity and resultant availability of additional LPG, gap between demand and supply of LPG from indigenous sources is expected to significantly reduce by the end of the XI Plan. The estimated production of LPG and SKO is 12.8 MMT and 11.3 MMT respectively by the terminal year (2011-12) of 11th Five Year Plan. The overall availability of LPG in the country is projected to be almost equal to the estimated demand. This is on account of the refining capacity expansion as well as installation of INDMAX technology units.

Preventing Diversion of domestic LPG

With a view to check/prevent the diversion/black marketing of domestic LPG cylinders for commercial purposes the following measures have been taken:-

(i) Under the LPG (Regulation of Supply and Distribution) Order, 2000 promulgated under the Essential Commodities Act, 1955 the diversion / black marketing of domestic LPG cylinders for commercial purposes by the distributors of OMCs is prohibited. The State Governments are empowered to take action against erring distributors under the provisions of this Order. The State Governments have been alerted from time to time to take steps against the diversion of domestic cylinders for unauthorized usage.

ii) The officials of OMCs carry out random checks at distributors godown, delivery point, as well as en-route to ensure that no diversion / black marketing takes place. As per the MDG, in case of establishment of any diversion / black marketing of domestic LPG cylinder for commercial purposes, the following action is taken against the distributor :-

a) A fine of Rs. 20,000 plus the price of LPG diverted at commercial rates for the first offence.
b) A fine of Rs. 50,000 plus the price of LPG diverted at commercial rates for the second offence, and
c) Termination of the distributorship for the third offence.

(iii) Government have issued advertisements cautioning the public that use of domestic LPG for non-domestic purposes is illegal, dangerous and against national interest. Through these advertisements, cooperation of the general public has also been sought to report any irregularity/malpractice to the OMCs.

(iv) Government have advised OMCs to introduce different colours for domestic & non-domestic cylinders. This is also expected to help in controlling the diversion of domestic LPG for unauthorized use.

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Comments of the Committee

(Please see para 16 of Chapter I of the Report)

Recommendation No. 12 (Para No. 3.12)

The Committee find that the annual collection by the Central Government from the cess levied on indigenous crude has been to the tune of Rs.5000 crore and that since inception and up to 30th September, 2006, the Central Government has collected more than Rs.64,000 crore as cess on crude oil out of which a paltry amount of Rs.902 crore (1.41%) has been made available to the Oil Industry Development Board (OIDB). The Committee, in their previous year's Report on Demands for Grants (9th Report, 14th Lok Sabha), had expressed their concern over the non-availability of adequate amounts to OIDB from the proceeds of the cess and desired to know the various activities on which the cess amount was utilized. The Ministry of Finance, to whom the recommendation was forwarded by the Ministry of Petroleum & Natural Gas for comments, had attempted to substantiate that the expenditure on oil industry was in excess of cess collection by furnishing data on Capital and Revenue expenditure incurred on Petroleum, Petrochemical and Fertilizer Industries. In the relevant Action Taken Report (13th Report, 14th Lok Sabha), the Committee have already rejected the contention of the Ministry of Finance and categorically recommended that the expenditure on activities pertaining to production of Fertilizer/Petrochemical should not be adjusted from cess collection. The Committee note from the Ministry of Finance's data on Capital and Revenue expenditure that the Capital expenditure incurred on Petroleum Industry during 2005-06 was nil and the Revenue expenditure during the year on this Industry was Rs.20196.22 crore. In the opinion of the Committee, the adjustment of accruals from cess against Revenue expenditure is not justified. They, therefore, recommend that the whole issue of deployment/utilization of cess levied on crude oil should be referred to C&AG for a comprehensive examination. The Committee also reiterate their earlier recommendation that a Price Stabilization Fund should be created by using the money collected from cess on indigenous crude to bring in stability in the prices of petroleum products and insulate the consumers from the volatility in the international oil market.

REPLY OF THE GOVERNMENT

This recommendation of the Committee was once again taken up with Ministry of Finance who have reiterated their earlier stand that amount collected by levying cess on indigenous crude was utilized as per the statutory provisions contained in Section 2(k) of the Oil Industry (Development) Act, 1974. The Ministry of Finance have also clarified that allocations made out of the receipts from the oil cess, whether classified as Capital or Revenue, are within the provision of the said Act.

2. Utilization of funds already allocated to Oil Industry Development Board (OIDB) is already being annually audited by the CAG. Expenditure out of the Consolidated Fund of India, to which accruals from cess on crude oil is credited, is also regularly audited by the CAG. As such, referring the issue of deployment/ utilization of cess levied on crude oil to CAG may not add any additional value.

3. In this context, it is noteworthy that in the years 2005-06 and 2006-07 itself, Oil Bonds to the extent of Rs.11,500 crore and Rs.24,121 crore respectively (total Rs.35,621 crore) were issued to Public Sector Oil Marketing Companies as part compensation for the under recoveries on the domestic sale of sensitive petroleum products. This itself is considerable when seen against the total cess collection of about Rs.67642.43 crore from July 1974 to March 2007.

4. Regarding the creation of a Price Stabilization Fund, the Ministry of Finance have reiterated that such a Fund may not be essential in view of the existing arrangements.

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Comments of the Committee

(Please see para 22 of Chapter I of the Report)

Recommendation No. 15 (Para No. 3.15)

The Committee are happy to find that Gas Pipelines have been granted infrastructure status in the Union Budget 2007-08. Such a status would entitle tax benefits u/s 80 1A of Income Tax Act for 10 years for cross country natural gas distribution networks commissioned on or after 1.4.2007. As pipelines require huge capital investments, the tax holiday will definitely increase the return on investment and the Committee hope that the tax foregone by the Government would actually be passed on to the consumers in the form of lower tariffs. The Committee also hope that this decision would benefit the power and fertilizer sectors and thereby contribute to general economic growth. The Committee, while welcoming the Government's prudent and thoughtful decision taken in respect of gas pipelines, recommend that similar status should be accorded to exploration and production (E&P) activities also as the highly capital intensive E&P sector needs more incentives to attract further investments.

REPLY OF THE GOVERMENT

Regarding Infrastructure status to E&P sector, proposal was sent to Ministry of Finance for consideration in the Budget 2007-08. The proposal was not agreed to by the Ministry of Finance.

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Comments of the Committee

(Please see para 25 of Chapter I of the Report)

Recommendation No. 16 (Para No. 3.16)

Promotion of research and development activities has been identified as one of the thrust areas of the 11th Plan. The Committee have been informed that the areas of research identified for the 11th Plan include Coal to Clean Fuels, New Heavy Oil Upgrading Process, Hydrogen Fuel, etc. They find that various centres/institutions/ laboratories have been set up by upstream and downstream oil companies to promote R&D activities. However, the Committee are perturbed to note that the likely R&D expenditure by ONGC during 10th Plan is short of the allocation by 38% and OIL's average R&D share to its total turnover during the last five years (from 2001-02 to 2005-06) was just 0.35%. What pinches the Committee more is that even this paltry R&D share has gone down gradually from 0.47% in 2001-02 to 0.23% in 2005-06. The Committee do not approve of this declining trend in R&D expenditure/non-utilization of the earmarked expenditure on the part of OIL/ONGC. They desire that the R&D expenditure in oil & gas sector should increase to cover the entire gamut of scientific and technical research in the area. The Committee further recommend that an organization like Directorate General of Hydrocarbons or Centre for High Technology should be appointed as an apex agency with a mandate to effectively review/monitor the R&D projects of various companies in the oil and gas sector. Besides, an exclusive cell should also be created in the Ministry to continuously review and monitor the R&D activities of such companies.

REPLY OF THE GOVERMENT

The Committee's recommendations regarding giving due importance to R&D activities is apt. However, it may be pointed out that due to steep hike in oil prices, the percentage of the turnover of upstream companies being spent on R&D may not show an increasing trend. Moreover, both ONGC and Oil India limited receive funds for R&D projects approved by OIDB as well.

As regards nominating an apex agency, DGH has been assisting the Ministry in coordinating R&D initiatives of upstream companies in India with Institutions of excellence abroad. DGH has signed up MOUs with Alberta Research Council, NPD Norway, Imperial College, London and Aberdeen University, Scotland for R&D tie-ups with Indian upstream companies. Exploration Division in the Ministry does give due attention to encouraging R&D efforts. Two brainstorming sessions were held in the years 2005 and 2006 at the level of Minister (P&NG) for reviewing R&D efforts in upstream sector and the action plan drawn out in consequence of the sessions is being implemented seriously.

Centre for High Technology (CHT) is already coordinating the activities of R&D programmes recommended by Scientific Advisory Committee (SAC) on Hydrocarbons of Ministry of Petroleum & Natural Gas. CHT would continue to contribute to the R&D activities in the down stream hydrocarbon sector by way of monitoring various R&D activities of oil companies.

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Comments of the Committee

(Please see para 28 of Chapter I of the Report)

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

Recommendation No. 2 (Para No. 3.2)

The Committee note that in the six rounds of bidding under New Exploration Licencing Policy, 162 exploration blocks have been awarded to various companies. They are happy to note that as many as 39 oil and gas discoveries have already been made in these blocks, out of which 11 discoveries have been declared commercial. The Committee further note that the sixth round of NELP held in February 2006, has been the highest ever offer made by the Government, with 55 exploration blocks. The aggressive and effective projection of investment opportunities during this round has resulted in the best ever response from Indian and foreign companies and the number of private/domestic and foreign companies which participated in the 6th round has gone up to 25 and 36, respectively from 4 each in the 3rd round. As regards PSU oil companies, 7 such companies have bid in the 6th round against 4 in the 3rd round. The Committee strongly believe that the significant discoveries made in the recent years have greatly altered the perception regarding the prospectivity of the Indian basins and is the main reason for the renewed interest of multinationals in our E&P offers. The Committee, while appreciating the efforts made under NELP, desire the government to further intensify its efforts to attract larger investment and more renowned players with geological ideas and technologies in E&P business. Towards this end, the Government should explore the possibility of further improving the terms/conditions of our offer and bringing in more transparency in the bid evaluation criteria. The Committee also recommend that the Ministry of Petroleum & Natural Gas should play a proactive role in expediting commercial production from the blocks where discoveries have been made.

<u>REPLY OF THE GOVERNMENT</u>

So far, 162 exploration blocks have been contracted in onland, shallow water and deepwater areas in six rounds of NELP held covering an area of 1.27 Million Square Km. Extensive exploration activities have been carried out in the awarded blocks. Total 159432 line kilometers of 2D seismic and 104904 Sq. Km. of 3D seismic data have been acquired as well as 250 numbers of exploratory/appraisal wells have been drilled. Under the Production Sharing Contract Regime, total 70 Oil & Gas discoveries have been made so far out of which 42 discoveries are in NELP blocks. These include major gas finds in

East Coast of India. The total reserves accretion as on 1.4.2006. is 27 Million Metric Tonnes of Oil and 399 Billion Cubic Meter of Gas. About 2.53 Billion US$ has been invested so far in NELP blocks for Exploration and Development activities.

The commercial gas production from one NELP block namely CB-ONN-2000/2 has commenced at the rate of 3 lakhs cubic metres per day. The gas production from another discovery namely KG-DWN-98/3 in deepwater area is likely to commence in June 2008 with initial production at the rate of 40 million standard cubic metres per day (MMSCMD) and peak production at the rate of 80 MMSCMD. Oil production from new discovery PK-2 in the block CB-ONN-2001/1 is likely to commence in 2008 at the rate of 350 barrels of oil per day (BOPD). The rest of the discoveries made under NELP are various stages of appraisal.

During 7th round of NELP, 57 blocks have been offered in onland, shallow water and deepwater areas. Bid evaluation criteria (BEC) under NELP is totally transparent and quantified marking system. Ministry of Petroleum & Natural Gas in each round of NELP has fine tuned the parameters of Bid evaluation criteria in consultation with stakeholders. In 7th round of NELP also, MOPNG has put bid evaluation criteria on the web site of DGH to seek suggestions for improvement, if any. Feedback received from stakeholders have been incorporated suitably in seventh round of NELP.

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Comments of the Committee

(Please see para 7 of Chapter I of the Report)

Recommendation No. 4 (Para No. 3.4)

During the examination of the previous years' Demand for Grants of the Ministry, the Committee were informed about the initiatives taken by GAIL, ONGC and OIL in the areas of coal gasification, underground coal gasification and coal liquefaction, respectively. They had been enlightened that while GAIL had undertaken feasibility studies for coal gasification projects, ONGC had entered into an agreement with a Russian firm 'Skonchisky Institute of Mining' to develop underground coal gasification technology to tap our coal reserves which are not suitable or economical for conventional mining. As regards coal liquefaction, the Committee were informed that OIL had initiated action to carry out a feasibility study on coal liquefaction process and after its completion, the Company would be in a position to evaluate and ascertain the most suitable technology to utilise the coal available in the North-East Region and convert the same to oil. The Committee have now been informed that in India, both coal gasification and liquefaction are at R&D stages. It appears that not much headway has been made by these Companies in the areas of coal gasification and liquefaction. Considering the vast coal reserves and scarcity of conventional hydrocarbon resources in our country, the Committee desire that such projects should be given top most attention and implemented on a fast track basis which would go a long way in reducing our import dependence. The details of progress made by GAIL, ONGC and OIL on their respective projects may be conveyed to the Committee.

REPLY OF THE GOVERNMENT

i) Underground Coal Gasification by ONGC

ONGC has signed an MOU (Agreement of Collaboration, AOC) with Skochinsky Institute of Mining (SIM - NMRC), Moscow, Russia on 25th November 2004 to develop Underground Coal Gasification (UCG) Technology in India. The scope of work under this agreement covers multiple stages i.e. right from site selection to construction of Enterprise UCG. The envisaged duration of the project is five years. The Project involves multiple activities, and is planned to be completed in phases.

As part of Phase-I, eleven sites were proposed for studying the suitability of underground coal gasification. One site - Vastan Mine block in South Gujarat has been found suitable for UCG.

Presently Phase-II is in progress. Under this Phase, detailed geological, hydrological, petrophysical and geo-mechanical data required for designing the UCG pilot have been generated in the Vastan mine block. The exhaustive data collected / generated is under analysis at SIM-Russia for design of the pilot. In addition few new sites in Rajasthan and Gujarat have also been taken up for evaluating their suitability to Underground Coal Gasification. The detailed data has been acquired and the studies are currently in progress at SIM, Russia.

ii) <u>Coal Liquefaction Project by OIL</u>

In order to develop alternate source of energy, a R&D project on conversion of low grade, high sulphur coal and refinery vacuum residuum of North East region to hydrocarbon was undertaken by Oil India Limited (OIL).

In the year 1999, a 25 kg per day capacity Pilot plant was set up at OIL's R&D Centre at Duliajan, Assam under technical assistant from M/s. Axens, USA based on Coal-Oil Co-Processing Technology of M/s. Hydrocarbon Research Inc. (HRI), USA. The Coal – Oil Co - Processing Technology is based on high temperature and high pressure catalytic hydrogenation of coal powder mixed with refinery vacuum residuum. In this Pilot plant, studies on co-processing of coal and refinery residuum were successfully carried out from 1999 to 2002. It was found that the coal conversion was about 95% and liquid yield of about 75%.

Considering the constraint in getting refinery residuum with changed refinery process configuration, OIL in the year 2002-03 took up another study for Coal-Only-Processing in the same plant with certain modifications to adopt CTSL (Catalytic Two Stage Liquefaction) technology with the help of M/s. Axens, NA, USA, by using recycle oil for making coal slurry. Test run was successfully completed and result found to be very encouraging – coal conversion was about 99% and liquid yield of about 78%.

Subsequently, site – specific Pre-Feasibility Study (PFS) on Axen's CTSL process was carried out by M/s Engineers India Ltd. in the year 2006 for commercialization of the technology.

In China, a 4.00 MMTPA capacity of Direct Coal Liquefaction (DCL) plant, based on DCL technology of M/s Hydrocarbon Technologies Inc. (HTI) of USA is planned to be commissioned by the year 2008. The selection of HTI's DCL Technology by China was on the basis of several years of research and development work since 1980s and after pilot plant studies with three different technologies i.e. German, Japanese and USA technologies.

In order to select the best suitable technology for North East coal for liquefaction, OIL also carried out a Pre – Feasibility Study of conversion of North East coal by HTI's DCL technology through bench scale tests at HTI's premises in USA in the year 2006.

OIL now plans to set up a commercial coal liquefaction plant with HTI's DCL technology. The objective is to produce syncrude from the commercial plant, blend with Assam crude and transport the crude blend to the refineries in the North East. As commercial coal liquefaction plan is highly capital intensive, in order to avoid the risk of scaling up pilot results to commercial size, OIL has now undertaken actions to carry out a Feasibility Study to confirm liquid product yield and quality, predicted in the Pre – Feasibility Studies.

As per plan, under Feasibility Study, the various works now scheduled include process optimization test, pilot plant test with North East coal, preliminary product upgrading studies for production of stable syncrude, coal gasification assessment, update design basis, update conceptual design, update investment cost and economic analysis etc. OIL is processing for award of contract to M/s Headwaters CTL (HCTL), USA (erstwhile HTI, USA) for carrying out these studies, which are expected to be completed in about 16 months' time. Oil Industry Development Board (OIDB) has been approached to sanction grant – in aid for the Feasibility Study.

To study the long term availability of coal, a Joint Task Force between Coal India Ltd. and Oil India ltd. has been formed. The Joint Task force is currently reviewing the availability of coal from North Eastern coalfields (NEC) of Coal India Ltd. (CIL) and Meghalaya.

iii) <u>Development of Coal Gasification Project by GAIL</u>

GAIL has completed a Detailed Feasibility report through its consultant M/s Uhde India Limited under supervision of M/s Uhde, Germany. As per the feasibility report, GAIL can get equivalent production of ammonia/methanol from 7.7 MMSCMD of synthesis gas:

i) 2950 TPD of Ammonia, or

ii) 2850 TPD of Methanol

Vital Coal Data have been collected from Coal India Limited for arriving at the results of the feasibility report. GAIL is in the process of signing an MoU with Coal India Ltd. GAIL has also applied for coal linkage to the Ministry of Coal, Government of India.

Recommendation No.6 (Para No. 3.6)

India has been pursuing the Iran-Pakistan-India (IPI) Gas Pipeline Project with the Governments of Iran and Pakistan. The Committee have been informed that in the fourth trilateral Joint Working Group meeting held in January, 2007, Iran and Pakistan sides agreed to a pricing formula, subject to the approval by their authorities. The Indian side agreed to respond to the pricing formula shortly. The Committee have also been informed that discussions have been held between India and Pakistan regarding transportation tariff and transit fee and that the differences between the two countries relating to such tariff/fee have been narrowed down. During oral evidence, the Secretary of the Ministry of Petroleum & Natural Gas expressed the hope that such differences would narrow down further and that by June, the Government aims to forge a joint agreement on the project among the three counties at the highest political level. The Committee desire that the unresolved issues pertaining to the project should be sorted out quickly. The progress made/success achieved on the project may be conveyed to the Committee.

REPLY OF THE GOVERNMENT

India has been pursuing the import of natural gas from Iran through the Iran-Pakistan-India transnational gas pipeline. For this purpose, two sets of separate Secretary-level bilateral Joint Working Groups (JWGs) have been set up with Pakistan and Iran. Three meetings of India-Iran SJWG have been held; the last meeting being held on December 28 and 29, 2005. Five meetings of India-Pakistan JWG have been held; the last meeting was held on June 27 & 28, 2007 in New Delhi. Details regarding transportation tariff and transit fee for passage of pipeline through Pakistan, price review, Gas availability, Governing laws, etc were discussed in the meeting.

Ministerial level bilateral meeting between India and Pakistan was held at New Delhi on 17th Feb, 2006.

A tripartite Joint Working Group (JWG) of Iran, Pakistan and India has been formed. Six meetings of the trilateral JWG have been held so far; the last meeting being held in New Delhi on June 28&29, 2007.

During the 4th tripartite meeting held in Tehran on January 24 & 25, 2007, a gas pricing formula regarding pricing of gas at Iran-Pakistan border was agreed between Iran and Pakistan side, subject to approval from the respective Governments. The Indian side agreed to respond to the pricing formula shortly. India conveyed to the Iranian side, vide letter dated 28.2.2007, that total price payable at India-Pakistan Border would also depend on transportation cost and transit fees payable by India to Pakistan for passage of gas through Pakistan; as there was no clarity on these, it was not possible for India to decide regarding the total price implication. Subsequently, Iran demanded introduction of provision for price revision in the 5th Tripartite JWG meeting held at Tehran during May 27-30, 2007, which both India and Pakistan disagreed with. 6th Tripartite meting was held in New Delhi on June 28-29, 2007. Issues relating to gas price review clause, gas availability from dedicated fields and development plan, delivery point for gas supply to India, Governing Law, GSPA related issues, etc. were discussed amongst the participating countries. It was decided to carry forward the discussions to the next round of meetings for resolution of some of the contentious issues.

Ministry of Petroleum and Natural Gas
O.M. No. G-25015/14/2007-Fin-I dated 8-08-2007

Comments of the Committee

(Please see para 13 of Chapter I of the Report)

Recommendation No. 9 (Para No. 3.9)

The Committee are unhappy to note that the Oil Marketing Companies in the Country are lagging behind in automation of their Retail Outlets. In the first phase, the Oil Marketing Companies were asked to complete the automation of retail outlets selling more than 200 KL per month by March, 2007. However, the Committee find that most of the OMCs have been unable to carry out the major chunk of the work within the deadline stipulated by the Ministry. The Committee do not approve of this lackadaisical approach on the part of the OMCs. They strongly believe that automation of outlets is a pre-requisite for minimizing adulteration of petroleum products and building the customer confidence about the authenticity of activities carried out in the outlet. The Committee, therefore, recommend that the Ministry should take adequate steps to ensure that the automation of al retail outlets selling more than 200 KL is completed at the earliest. OMCs may be asked to keep quarterly targets in this regard and the Ministry should monitor and review such targets with intimation to this Committee.

REPLY OF THE GOVERNMENT

Oil Marketing Companies (OMCs) have been advised to complete the Automation of Retail Outlets selling more than 200 KL per month, Installation of GPS system in the Tank Trucks and Third party certification of ROs selling more than 100 KL per month expeditiously. They have also been directed to forward the monthly progress report to the Ministry till completion of the project.

Ministry of Petroleum and Natural Gas
O.M. No. G-25015/14/2007-Fin-I dated 8-08-2007

Recommendation No 11 (Para No. 3.11)

The Government has reduced the ad valorem component of excise duty on petrol and diesel from 8 to 6 per cent through the Union Budget (2007-08). The Committee welcome this move of the Government. However, they find that even after this reduction, the tax component in the retail selling price of petrol and diesel in Delhi is 53 per cent and 31 per cent, respectively. In the opinion of the Committee, the taxes and duties being levied on petroleum products are too steep which are resulting in higher retail prices of these products. More pinching is the ad valorem component in the excise duty which is putting additional burden on the consumer. Another cause for concern is the high and varied rates of sales tax/VAT prevailing in various States, leading to varied selling prices of such products across the country. The Committee strongly feel that there is an urgent need to effect a substantial reduction in the rates of duties and taxes on petroleum products. They have already recommended in their 5th and 6th Reports (14th Lok Sabha) for rationalization of such duties/taxes and abolition of the ad valorem component in the excise duty. However, the Committee regret to note that these recommendations have not been fully implemented by the Government. They, therefore, once again recommend that the Government should go in for a comprehensive reform in the taxation on petroleum products including the abolition of the ad valorem component in the taxes/duties on petroleum products.

REPLY OF THE GOVERNMENT

The Government has reduced the ad-valorem component of excise duty on petrol and diesel from 8% to 6% in the Union Budget 2007-08. Currently, excise levy on petrol and diesel is a combination of ad-valorem and specific rates. The excise duty on petrol is 6% + Rs.13/litre while the excise duty on diesel is 6% + Rs.3.25/litre.

The following statement shows the level of excise duty on Petrol and diesel since 1st April'2002:

Product	AS ON 1/4/02	AS ON 4/6/02	AS ON 1/3/03	AS ON 16/6/04	AS ON 9/7/04	AS ON 19/08/04	AS ON 1/3/05	AS ON 1/3/06	As on 1/3/07
Petrol -									
Advalorem	32.00%	30.00%	30.00%	26.00%	26.00%	23.00%	8.00%	8.00%	6.00%
Specific	Rs 7/Ltr	Rs. 7/Ltr	Rs.7.50/Ltr	Rs 7.50/Ltr	Rs 7.50/Ltr	Rs 7.50/ltr	Rs. 13/ltr	Rs. 13/ltr	Rs. 13/ltr
Rs/Ltr) at Delhi	10.53	10.82	11.81	11.97	11.97	11.90	14.59	14.59*	14.67*
HSD -									
Advalorem	16.00%	14.00%	14.00%	11.00%	11.00%	8.00%	8.00%	8.00%	6.00%
Specific	Re 1/Ltr	Re 1/Ltr	Rs 1.50/Ltr	Rs 1.50/Ltr	Rs 1.50/Ltr	Rs 1.50/ltr	Rs 3.25/Ltr	Rs 3.25/Ltr	Rs 3.25/Ltr
(Rs/Ltr) at Delhi	2.85	2.80	3.59	3.32	3.32	3.01	4.80	4.80*	4.70*

The Excise Duty on Current Retail Selling Price at Delhi is Rs.14.67 per Litre and Rs.4.70 per Litre on Petrol and Diesel respectively.

NOTE- With effect from 09.07.04 - An additional levy of Education Cess @ 2% has been imposed on the aggregate of all excise and customs duties. Revised to 3% effective 01/03/2007.

It is evident from the above table that Government has reduced the ad valorem portion of excise duty from the level of 32% and 16% on petrol and diesel respectively to the present level of 6%. However, level of excise duty has gone up during this period.

The Rangarajan Committee on pricing and taxation of Petroleum Products had also recommended restructuring of excise duties on petrol and diesel. The Committee had recommended that there is need for shifting from the current mix of specific and ad valorem levies to a pure specific levy and calibrating the levies at Rs.5.00/litre of diesel and Rs.14.75/litre of petrol.

State level taxes also form a significant part of the retail selling price of petrol and diesel. The rates of taxation vary widely from a minimum of 18.09% to a maximum of 33% in case of petrol and from a minimum of 8.23% to a maximum of 28% in case of diesel. It may be emphasized that petroleum product prices have shown sustained and unprecedented increase in the international market since 2004. Movement of prices of petroleum products in the international market affects the pricing of petroleum products in India. Whenever basic prices of petroleum products are increased, the ad-valorem rates of taxes have a cascading effect on retail selling prices. The states need to suitably adjust the sales tax rates so as to neutralize the impact of ad-valorem sales tax levy on the consumer prices, when the basic prices are increased due to abnormal increase in prices of petroleum products in international market. Further, huge variation in VAT rates has resulted in inter-State product diversions in the areas adjacent to State borders

Based on the request made to the State Governments to moderate the impact of price rise on the common man, eleven State Governments, namely, Andhra Pradesh, Delhi, Goa, Haryana, Himachal Pradesh*, Maharastra, Tamil Nadu (diesel only), Uttaranchal, Punjab, Manipur and Assam have reduced the value added tax/sales tax on Petrol and Diesel. [*Tax Rebate subsequently withdrawn w.e.f. 20.2.2007 by Himachal Pradesh].

It is also stated that Ministry has also written to the Chairman, Empowered Committee of State Finance Ministers on this issue. Further efforts are being made to ensure that State Governments adopt to uniform floor sales tax rates for petroleum products.

The petroleum sector contributed Rs.52253 crores towards exchequers of various State Governments during 2005-06. As per Dr. Rangarajan Committee Report, sales tax revenues from oil sector represent a contribution of around a third or more of total sales tax collection of the States, thereby burdening the consumers as well as building an undesirable dependency at the state level too, on revenues from a single sector.

Ministry of Petroleum and Natural Gas
O.M. No. G-25015/14/2007-Fin-I dated 8-08-2007

Comments of the Committee

(Please see para 19 of Chapter I of the Report)

Recommendation No. 14 (Para No. 3.14)

In the Budget (2007-08), subsidy on domestic LPG and PDS Kerosene has been fixed at Rs.2650.00 crore. Under the Scheme of Subsidy on Domestic LPG and PDS Kerosene, targets have been fixed to provide 110 lakhs kilolitres PDS Kerosene and 72.76 crore domestic LPG cylinders to households at subsidized rates during 2007-08. The Committee have been informed that the subsidy from Government for this scheme was to be phased out in 2006-07 and that the matter of continuation of the scheme is under the consideration of the Government. They have also been informed that out of a total subsidy of Rs.175.04 per cylinder on Domestic LPG in 2005-06, the fiscal subsidy was just Rs.22.58 and the oil companies bore Rs.152.46 (87.1%) as under recoveries.

Similarly, in case of kerosene, when the Government Budget provided 82 paise per litre (6.4%) as subsidy, OMCs shouldered Rs.12.10 (93.6%) per litre in 2005-06. The gross under-recoveries of OMCs are being shared by upstream oil companies, OMCs themselves and through issue of Oil Bonds. The Committee further find that the percentage share of fiscal subsidy given on domestic LPG and PDS kerosene was a meager 3.2% of the contribution of Petroleum Sector to the Central Exchequer during 2005-06. Thus, the Government is giving back only a paltry sum as subsidy from the huge revenues it is collecting from the sector. In view of the above and also to make the availability of these products to the consumer at affordable prices, the Committee desire that the subsidy on PDS kerosene and domestic LPG should be continued and the share of fiscal subsidy increased substantially.

REPLY OF THE GOVERNMENT

In the Post-APM era starting from 1.4.2002, the Government had decided that the subsidies on PDS Kerosene and Domestic LPG will be on a specified flat rate basis for each Depot/Bottling Plant and will be met from the fiscal budget. After providing for the aforesaid subsidy, the retail prices would then vary as per changes in the international oil prices.

The subsidies were calculated on the difference between cost price, which is based on import parity price, and issue price. These subsidies were to be phased out in three to five years, effective 1/4/2002. The Government has decided that subsidy at 1/3rd level of 2002-03, i.e. at the rate of Rs.22.58 per 14.2 KG domestic LPG cylinder and 82 paise per litre of PDS Kerosene will be allowed till 31/03/2007. The subsidies from fiscal budget were based on international prices of Kerosene and LPG prevailing in Arab Gulf market during the month of March 2002, i.e. $23.65 per barrel and $194 per MT respectively.

The year-wise fiscal and oil companies subsidy on PDS Kerosene and domestic LPG for the years 2004-05, 2005-06 (provisional) and 2006-07 is tabulated below:

LPG (Domestic)

	Per Unit Subsidy (Rs./Cyl.)			Percentage of Total Subsidy		
	From Govt. Budget	By Oil Companies	Total	From Govt. Budget	By Oil Companies	Total
2004-05	22.58	124.89	147.47	15%	85%	100%

2005-06 (Provisional)	22.58	152.46	175.04	13%	87%	100%
2006-07 (Estimated)	22.58	156.08	178.66	13%	87%	100%

SKO (PDS)

	Per Unit Subsidy (Rs./Litre)			Percentage of Total Subsidy		
	From Govt. Budget	By Oil Companies	Total	From Govt. Budget	By Oil Companies	Total
2004-05	0.82	7.96	8.78	9%	91%	100%
2005-06 (Provisional)	0.82	12.10	12.92	6%	94%	100%
2006-07 (Estimated)	0.82	15.17	15.99	5%	95%	100%

From the above table it is evident that large portion of total subsidy on PDS Kerosene and Domestic LPG from 2004-05 to 2006-07 is being borne by oil marketing companies.

Besides, fiscal subsidy being provided on these products, the oil bonds amounting to Rs.11,500 crore and Rs.24121 crore were issued to oil marketing companies during 2005-06 and 2006-07 towards their under recoveries on sensitive petroleum products.

Rangarajan Committee on pricing and taxation of Petroleum Products has made the following recommendations relating to pricing of domestic LPG and PDS kerosene:

a) Restrict subsidized kerosene to BPL families only. This will reduce the quantity of subsidized kerosene by about 40% from the present level.

b) Raise the price of domestic LPG by Rs.75/cylinder. Beyond this one-time increase, it is necessary to gradually increase the price of domestic LPG so that the retail price adjusts completely to the market level eliminating the subsidy altogether.

c) Discontinue the practice of asking ONGC/GAIL/OIL to provide upstream assistance, but instead collect their contribution by raising the OIDB cess from the present level of Rs.1,800/MT (level of cess enhanced to Rs.2500/MT effective 1.3.2006) to Rs.4,800/MT and

d) Government will need to meet the entire cost of subsidy from the budget.

As recommended by the Committee, the Government have accepted 'in principle' the recommendation of restricting PDS kerosene to BPL families.

Government was administering the PDS Kerosene and Domestic LPG Subsidy Scheme, 2002 through which the public sector oil marketing companies (OMCs) were being paid subsidy at 1/3rd level of 2002-03 at a flat rate from the Union Budget. The subsidy from Government was frozen at the 1/3rd level upto March, 2007. The issue of further continuation of the Scheme is under consideration of the Government.

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Recommendation No.17 (Para No. 3.17)

The Committee find that as on March 1,2007, ONGC is operating 25 offshore drilling rigs (9 owned +16 hired). Besides, 70 ONGC owned drilling rigs are also deployed in onshore areas. The Committee have been informed that due to increased demand of offshore rigs across the globe, availability constraints have been experienced by ONGC, both in shallow water and deep water areas. They also find that out of 138 exploratory wells targeted to be drilled by ONGC during 2006-07, the company could drill only 88 wells. This, the Committee feel, is primarily due to availability of lesser number of rigs than required. The Committee further note that some downstream PSU companies like the Indian Oil Corporation Limited have ventured into Exploration and Production business. The Committee recommend that the possibility of forming a common rig pool for PSU oil companies should be explored. Under this pool, adequate number of rigs could be considered for purchase with contribution from ONGC, OIL and downstream PSU companies engaged in E&P activities. This would serve the purpose of all PSU oil companies and reduce the financial burden of individually owning the rigs. Moreover, in view of the rising cost of even chartering offshore rigs, these companies can also think of commonly chartering rigs, these companies can also think of commonly chartering rigs at cheaper rates on long-term basis and share the same among themselves as per a pre-determined work programme.

REPLY OF THE GOVERNMENT

ONGC

ONGC deploys rig resources for drilling of wells/work-over operations as per Annual Work Programme and also hires additional rigs from the international market as per requirement.

As on 01.03.2007, ONGC was operating 25 offshore drilling rigs (9 own + 16 hired). In addition, 70 ONGC owned drilling rigs were also deployed in onshore areas.

70 own rigs in onshore and 25 rigs in offshore (9 own + 16 hired) are in operation. 5 more charter hired jackup rigs are likely to be deployed shortly to meet the rig-month requirement.

ONGC has already taken necessary steps to refurbish and upgrade its existing rigs to improve the efficiency and availability. In addition plans have been drawn to procure 10 onshore & 5 Offshore rigs. Addition of these new rigs will further augment the availability of rigs for ONGC to cater to long term drilling program.

Onshore rigs are planned for procurement from BHEL for which specifications are being finalized. For construction of 4 Jack-up offshore rigs, a consultant is being hired.

At present, there is acute shortage of rigs world wide due to enhanced E&P activities. Hence, ONGC has already taken proactive actions and hired offshore rigs on long term basis. Rigs to be hired in future are also planned to be hired on long term basis.

Downstream Oil PSUs which have recently entered into E&P having short term requirements may look into the possibility of pooling their requirement for hiring and sharing of rigs as recommended by the committee.

OIL

In order to meet the increasing demands for exploration activities in the nominated Petroleum Exploration Licence (PEL) / Mining Lease (ML) areas and NELP blocks, and to supplement the present holding of 11 nos. in house drilling rigs, OIL has taken steps for charter hire of onshore drilling rigs for deployment in its operational areas.

It is understood that Director General of Hydrocarbons has been coordinating for formation of a common pool of drilling rigs by Central Public Sector Undertakings engaged in exploration and production activities. As an when such a common pool materializes, Oil India Limited will positively consider in joining such platform for sharing of drilling rigs among the CPSUs.

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Recommendation No.18 (Para No. 3.18)

The Committee find that as many as 604 employees of ONGC have left the company in the last five years out of which 315 have quit in 2006 alone. It is further seen that this exodus has been proportionately high from the strategic and technical areas like exploration, production and drilling. With the advent of the New Exploration Licencing Policy regime and the consequent entry of foreign and private players in exploration, exodus of highly skilled and competent manpower of PSU Oil Companies has become a regular feature because of attractive salary package and better career and growth prospects elsewhere. The exodus of executive with competence in core areas of E&P activity is a great loss for the PSUs as these persons are the ones who have been nurtured by the PSUs for years and are in possession of critical and sensitive data. The Committee, therefore, recommend that the Government should explore ways and means to ensure better package to the technical experts in companies like ONGC and OIL to arrest the flight of such critical talent. Performance based incentives, merit-oriented faster career progression for specialists, imaginative HR practices to motivate employees, etc. should be resorted to by the Government to minimize the flight of such personnel.

<u>REPLY OF THE GOVERMENT</u>

ONGC and OIL have taken several measures/initiatives for retention of employees.

<u>Steps taken by ONGC</u>

1. Recognition of employees through awards / rewards for their Performance, Innovation, Professionalism in work and management & Technical ability.
2. Providing opportunity for involvement in decision-making, empowerment and proper positioning.
3. Fast track Career growth opportunities for the talented go-getters.
4. Development of business leaders through specialized training programmes and management courses in collaboration with reputed well-known institutions in the country and abroad.

5. Counseling, mentoring and nurturing of performance executives, developing new competencies and capabilities.

Steps taken by OIL

(i) Providing salaries, benefits etc. in line with the best PSUs.

(ii) Exit interview to gather/analyze the reasons of resignation for taking pro-active corrective measures.

(iii) Development of the employees using in-house/in-country/overseas training programmes.

(iv) Counseling and job rotation from time to time to arrest the exodus of talents.

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Comments of the Committee

(Please see para 31 of Chapter I of the Report)

Recommendation No.19 (Para No. 3.19)

The Committee find that out of the 11 major on-going projects of the Indian Oil Corporation Limited (IOCL), there has been delay in case of 5 projects, viz. Expansion of Panipat Refinery, Paradeep-Haldia Crude Pipeline, Koyali-Ratlam Product Pipeline, New Terminal at Chittaurgarh and New Terminal at Ratlam. Such time overrun in projects under execution not only upsets Plan targets but also leads to cost overrun in many cases. In case of IOCL, there has been a cost overrun of Rs.1.5 crore in case of Chittaurgarh Terminal and Rs.52 crore in case of Ratlam Terminal. The major reasons cited for time overrun include delay in supply of equipments, contractual problems, delay in obtaining forest and environmental clearances, land disputes, etc. As the analysis of the overall physical progress of most of the ongoing projects vis-à-vis the corresponding anticipated completion schedules does not project a happy picture, the Committee apprehend delays in other on-going projects of the Company too. They, therefore, desire

IOCL to pull up its socks and see to it that the project schedules are adhered to without fail by taking remedial measures to remove the impediments coming in the way of their implementation.

REPLY OF THE GOVERNMENT

The details of the major remedial measures undertaken by IOCL for removing the impediments coming in the way of project implementation of the above five projects are given below:

S. No.	Name of Ongoing Projects	Cost (Rs. crore) Approved / Anticipated	Commission-ing Schedule Approved / Anticipated	Overall Cum. Physical Progress (%) (as on 31.5.2007)	Remarks/ Reasons
1	2	3	4	5	6
1.	Expansion of Panipat Refinery from 12 to 15 MMTPA	806 / 806	Mar 2008 / Dec 2008	32.20	Cost Over-run: Nil Time Over-run: 9 months*
* Time over-run is mainly due to consequential effect of delay in engineering / ordering / tendering and manufacturing / delivery by PMC (EIL). Since this is a revamp project and major work will have to be completed during the maintenance & inspection (M&I) shutdown of the refinery, completion of the project will match with the M&I shutdown slate of Panipat Refinery. **Major Remedial Measures** ▪ To complete the project by December 2008, IOCL has already ordered long-delivery critical equipment. Delivery at site has also commenced. Rigorous follow up is being done with the suppliers to expedite delivery, despite the fact that most of the suppliers are flush with domestic/export orders.					
2.	Paradip-Haldia Crude Oil Pipeline	1178 / 1160	Mar 2006 / Nov 2007	93.73	Cost Over-run: Nil Time Over-run: 19 months**

** Delays in installation of offshore facilities and HDD crossing of Mahanadi River by the contractors are the primary reasons. Prolonged spells of heavy rains and choppy sea conditions during monsoon imposed further limitations on smooth execution of construction activities. **Major Remedial Measures** ▪ Adopting innovative methodology to successfully complete HDD crossing at Mahanadi. ▪ Removing non-performing contractor and awarding balance works to another contractor.					
3.	Koyali-Ratlam Product Pipeline	225 / 182	Dec 2006 / Nov 2007	74.77	Cost Over-run: Nil Time Over-run: 11 months ***
*** Delay in getting forest clearance (final forest clearance received in January 2007) and legal dispute with villagers regarding a cart track through the acquired land are primary reasons for delay in project completion. **Major Remedial Measures** ▪ The villagers' problem is being resolved by providing an alternative road. Tenders for the same are on sale. ▪ Land dispute resolution expected in court by end June 2007.					
4.	New Terminal at Chittaurgarh (Rajasthan)	55 / 56	Feb 2006 / Mar 2007	99.9	Cost Over-run: Rs. 1.5 crore Time Over-run: 13 months #
# Re-tendering of Combined Station Works due to high rates quoted by the bidders is the main reason for time overrun **Major Remedial Measures** ▪ The terminal has been commissioned on 31.3.2007.					
5.	New Terminal at Ratlam (MP)	96 / 148	Dec 2006 / June 2008	47.84 %	Cost Over-run: Rs. 52 crore Time Over-run: 18 months ##

Time overrun of 18 months is due to legal dispute with villagers regarding a cart track through the acquired land. Cost estimate has been revised keeping in view the actual site condition and additional features for safety of the installation.

Major Remedial Measures

- Alternative road has been graded and tendering for road carpeting is in progress. Matter expected to be resolved in court hearing scheduled to be held on 27.6.2007.

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Recommendation No.20 (Para No. 3.20)

The Committee find that the Biecco Lawrie Ltd. (BLL) has been referred to the Board for Restructuring of Public Sector Enterprises (BRPSE) due to its accumulated losses of Rs. 61.9 crore and subsequent negative net worth of Rs. 19.59 crore as on 31st March, 2006, although the Company is making profit for the last 2 years. The revival package proposed for strengthening, modernizing and restructuring the Company has two models. One is the conversion of the entire existing OIDB loan into equity and waiver of accumulated unpaid OIDB interest. Under this option, OIDB becomes the majority shareholder of the Company. In the second model, it is proposed for writing off a part of OIDB loan, conversion of another part of OIDB loan into equity and continuation of the remaining portion of OIDB loan, besides waiver of accumulated unpaid OIDB interest. Under this option, the Government of India would retain 51% shareholding. In the opinion of the Committee, the second option appears to be more realistic/justified. However, they would like to leave this matter to be decided by BRPSE. The Committee desire that an early and favourable decision on the revival proposal in respect of BLL should be taken. Besides, they also desire that the management of the Company should attempt measures aimed at reduction of operating cost, diversification of business, etc. to improve the bottomlines of the Company.

REPLY OF THE GOVERNMENT

1. **BIECCO LAWRIE LIMITED (BLL),** a Kolkata based Government of India Enterprise, under the administrative control of the Ministry of Petroleum & Natural Gas (MOP&NG), was incorporated on 23rd December 1919. This is a medium sized

engineering unit with diversified activities having two factories located at Kolkata. BLL came under purview of BRPSE due to its accumulated losses of Rs. 61.9 crores and subsequent negative net worth of Rs. 19.59 crores as on 31st March 2006, although the Company is making profit for the last 2 years.

2. BLL has a total of 4,20,04,700 fully paid up equity shares of Rs. 10/- each out of which the Shareholding of President of India and the Oil Industry Development Board (OIDB) is 57.37% and 41.85% respectively. Other Shareholders are Balmer Lawrie & Company Ltd. (00.47%), Foreign / NRI holdings (00.04%), Banks / Financial Institutions (00.01%) and others (00.26%).

3. Due to negative net worth, BLL had to be referred to Board for Restructuring of Public Sector Enterprises (BRPSE) for strengthening, modernizing, reviving and restructuring and accordingly, BLL in its proposed revival plan, has suggested the following two models:-

(i) <u>MODEL – I</u>

Conversion of entire existing OIDB loan of Rs. 32.76 crore into equity and waiver of accumulated unpaid OIDB interest of Rs. 4.8 crore (till 31.3.2005). Under this option, OIDB becomes the majority shareholder of the Company (67.44%).

(ii) <u>MODEL - II</u>

Writing off OIDB loan of Rs. 20.03 crore, conversion of balance Rs. 5.22 crore into equity, continuance of Rs. 7.5 crore loan and waiver of accumulated unpaid OIDB interest of Rs. 4.8 crore (till 31.3.2005). Under this option, Government of India would retain 51% shareholding.

4. The Company has also proposed capital reduction to match its equity capital with the Net Worth after conversion of loans. This would enable the Company to get working capital and other loans from banks and financial institutions if required, for growth in future.

5. In order to infuse working capital and to shift its Electrical Repair WorkShop the Company has also proposed to sell its loss making lube blending plant and adjoining land. Company has also sought infusion of following funds:-

(i) Rs. 15 crores as Government loan for investment in plant and machinery and for technology tie-ups.

(ii) Rs. 7.53 crores of Government grant towards arrears of salary and wages and arrears of rent payable to Kolkata Port Trust.

6. The Company proposes to concentrate on electrical industry for its future growth plan and change in organization structure along with recruitment of key personnel have also been proposed. The proposal submitted to the Ministry of Petroleum & Natural Gas (MOP&NG) in August 2005 after due approval of the Company's Board of Directors, was considered by MOP&NG. OIDB's opinion was also sought since it involved their interest.

7. The proposal for revival of BLL has been submitted for consideration of BRPSE. BRPSE had sought certain clarifications, which have since been sent to BRPSE for their consideration.

Ministry of Petroleum and Natural Gas
O.M. No. G-25015/14/2007-Fin-I dated 8-08-2007

New Delhi;
<u>20 February, 2008</u>
1 Phalguna, 1929 (Saka)

N. JANARDHANA REDDY,
Chairman,
Standing Committee on
Petroleum & Natural Gas.

ANNEXURE-I

MINUTES

STANDING COMMITTEE ON PETROLEUM & NATURAL GAS (2007-08)

SEVENTH SITTING

(29.01.2008)

The Committee sat on Tuesday, 29 January 2008 from 1130 hrs. to 1200 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Dr. N. Janardhana Reddy - Chairman

MEMBERS

Lok Sabha

2 Shri Ramesh Bais
3 Shri Kirip Chaliha
4 Shri Lal Muni Choubey
5 Dr. M. Jagannath
6 Shri Jai Prakash (Hissar)
7 Adv. Suresh Kurup
8 Shri Sukdeo Paswan
9 Shri Nakul Das Rai
10 Shri Lakshman Singh
11 Shri Ramjilal Suman
12 Shri Ram Kripal Yadav

Rajya Sabha

13 Ms. Mabel Rebello
14 Shri Rajeev Shukla
15 Shri Ramdas Agarwal
16 Shri Tapan Kumar Sen
17 Shri C. Perumal

Secretariat

1	Smt. Anita Jain	-	Director
2	Shri P.C. Tripathy	-	Deputy Secretary
3	Shri Ram Kishan	-	Under Secretary

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee.

3. The Committee, then, took up for consideration the draft Report on Action Taken by the Government on the recommendations contained in the Fourteenth Report of the Standing Committee on Petroleum & Natural Gas (2006-07) on 'Demands for Grants (2007-08) of the Ministry of Petroleum & Natural Gas'.

4. After some discussion, the Committee adopted the Report with some modifications.

5. The Committee authorised the Chairman to finalise the Report in the light of the modifications and make consequential changes, if any, arising out of the factual verification of the Report by the Ministry and present the same to both Houses of Parliament.

The Committee then adjourned.

ANNEXURE II

(*Vide* Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FOURTEENTH REPORT (FOURTEENTH LOK SABHA) OF THE STANDING COMMITTEE ON PETROLEUM AND NATURAL GAS (2006-07) ON 'DEMANDS FOR GRANTS *(*2007-08*)* OF THE MINISTRY OF PETROLEUM & NATURAL GAS'.

I	Total No. of Recommendations	21
II	Recommendations/Observations which have been accepted by the Government (*Vide* Recommendations at Sl. Nos. 1, 3, 7,10, 13 and 21)	6
	Percentage to Total	28.58%
III	Recommendations/Observations which the Committee do not desire to pursue in view of Government's Reply	Nil
	Percentage of Total	-
IV	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee (*Vide* Recommendations at Sl. Nos. 5, 8, 12, 15 and 16)	5
	Percentage of Total	23.80%
V	Recommendations/Observations in respect of which final replies of the Government are still awaited (*Vide* Recommendations at Sl. Nos. 2, 4, 6, 9, 11, 14, 17, 18, 19, and 20)	10
	Percentage of Total	47.62%