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STANDING COMMITTEE ON PETROLEUM & NATURAL GAS (2008-09)

FOURTEENTH LOK SABHA

MINISTRY OF PETROLEUM & NATURAL GAS

DEMANDS FOR GRANTS (2008-09)

[Action Taken by the Government on the recommendations contained in the Twentieth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas (2007-08) on 'Demands for Grants (2008-09) of the Ministry of Petroleum & Natural Gas']

TWENTY-SECOND REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

October, 2008/Kartika, 1930 (Saka)

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CP&NG No.32

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Presented to Lok Sabha on 24.10.2008

Laid in Rajya Sabha on 24.10.2008

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LOK SABHA SECRETARIAT
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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 Twenty-Second Report on Action Taken by the Government on the recommendations contained in the Twentieth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas on 'Demands for Grants (2008-09) of the Ministry of Petroleum and Natural Gas'.

2. The Twentieth Report of the Standing Committee on Petroleum & Natural Gas was presented to Lok Sabha on 23 April, 2008. The Action Taken Replies of the Government to the recommendations contained in the Twentieth Report were received on 29 July, 2008 and 20 August, 2008.

3. The Standing Committee on Petroleum & Natural Gas (2008-09) considered and adopted the Twenty-Second Report at their sitting held on 23 October, 2008.

4. An analysis of the action taken by the Government on the recommendations contained in the Twentieth 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 officers of the Lok Sabha Secretariat attached to the Committee.

New Delhi;
23 October, 2008
1 Kartika, 1930 (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 Twentieth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas (2007-2008) on 'Demands for Grants (2008-09) of the Ministry of Petroleum & Natural Gas' which was presented to Lok Sabha on 23.04.2008.

2. Action Taken Notes have been received from the Government in respect of all the 25 Recommendations /Observations contained in the Report. These have been categorised as follows:-

(i) Recommendations/Observations that have been accepted by the Government:- SI.Nos. 4,6,7,8,10,11,18,20,22,23,24 and 25

(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. 3,5,9,12,13,17 and 19

(iv) Recommendations/Observations in respect of which final replies of the Government are still awaited:- SI.Nos. 1,2,14,15,16 and 21

3. The Committee 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. Fiscal subsidy on PDS Kerosene and domestic LPG

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

5. The Committee had noted that the Scheme for subsidy on PDS Kerosene and domestic LPG had been extended upto 31 March 2010. They had been informed that the subsidy on each litre of PDS Kerosene during the year 2007-08 (April – December, 2007) was Rs. 16.02 out of which the oil companies bore Rs. 15.20 and the contribution from Government Budget was 82 paise. Similarly, in case of domestic LPG, the per cylinder subsidy amounted to Rs. 201.67 during the said period, out of which the contribution from the Government Budget was Rs. 22.58 and the amount borne by oil companies, Rs 179.09. Thus, the Committee had found that only a negligible amount was being released from the Government Budget while the oil companies were being burdened heavily. The Committee had, therefore, desired that the fiscal subsidy rate on PDS Kerosene and domestic LPG should be hiked substantially.

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

> "The provision of subsidy on PDS Kerosene and Domestic LPG has been made by the Government to protect the interests of the common man and the vulnerable sections of society. Government has extended the existing subsidy scheme "PDS Kerosene and Domestic LPG Subsidy Scheme 2002" and Freight Subsidy (For Far-Flung Areas) Scheme 2002" upto 31st March, 2010.
>
> In addition to the subsidy on PDS Kerosene and Domestic LPG, the Government has issued Oil Bonds and Upstream Oil Companies have also contributed by offering discounts on crude oil and petroleum products to partially compensate the under-recoveries of the Public Sector Oil Marketing Companies (OMCs) incurred by them on sale of sensitive petroleum products as per details given below:

(Rs.Crore)

	2005-06	2006-07	2007-08
Oil Bonds	11,500	24,121	35,289.50#
Upstream Oil Companies contribution	14,000	20,507	25,708"

Oil Bonds amounting to Rs.20333.33 crore for the period of April-Dec 2007 have already been issued to the OMCs.

7. In the original report on Demands for Grants (2008-09) of the Ministry, the Committee had recommended that the fiscal subsidy rate on PDS Kerosene and domestic LPG should be hiked substantially. However, on perusal of the Action Taken Reply, it has been noted that the Government has not responded to this point. It has merely mentioned about issue of oil bonds and upstream assistance to the Oil Marketing Companies (OMCs) to compensate their under-recoveries. Of course, these are useful measures which help in keeping the balance sheets of OMCs in order. The Committee, however, feel that large scale issuance of bonds to compensate the OMCs for under-recoveries will lead to more debt on Government which has to be repaid after a few years, whereas increasing fiscal subsidy will help offset some of the losses of OMCs and will also serve the immediate/day-to-day needs of the OMCs such as making payments for purchase of crude oil from the international market. The Committee, therefore, reiterate their earlier recommendation that fiscal subsidy on PDS Kerosene and domestic LPG should be hiked substantially.

B. Shortfall in R & D expenditure

Recommendation (Sl. No. 5, Para No.3.5)

8. The Committee were displeased to note that the expenditure on R&D activities by most of the Oil PSUs had been short of the allocations during the 10th Plan period. ONGC and IOCL had failed to utilise the R&D allocations in all the five years of the Plan. Against an allocation of Rs. 1,104.31 crore, ONGC

spent Rs. 688.81 crore on R&D during the 10th Plan. Similarly, IOCL incurred an expenditure of Rs. 451 crore against the allocation of Rs. 565 crore during the Plan. HPCL's R&D expenditure had been a meagre Rs. 23.41 crore during the 10th Plan. OIL, an upstream company, could utilize only Rs. 59.73 crore against an allocation of Rs. 76.13 crore. The Committee were not satisfied with the performance of these Companies on this count. They had also found that the R&D allocations for the 11th Plan in respect of ONGC and IOCL had been drastically reduced to Rs. 872.54 crore and Rs.300 crore, respectively. The Committee had reasoned that the reduction in the 11th Plan allocation might have been influenced by the poor trend in the expenditure during the 10th Plan. However, in their view, instead of reducing the R&D allocations, efforts should have been made to intensify such activities and effect improvements in R&D spending. The Committee had desired that the reasons for shortfall in R&D expenditure by these Companies should be analysed in detail and effective steps taken to bring in the requisite improvements.

9. The Ministry of Petroleum & Natural Gas has submitted the following reply in this regard:-

> "Upstream oil companies are carrying out R&D activities in order to find solutions for operational problems. No fundamental research is being carried out by E&P companies. Fundamental research and its application is being carried out by the service companies. The role of oil PSU's in R&D is limited to finding out suitability of appropriate technologies in E&P sector in order to enhance exploration and production efficiency specific to the area of operations. No R&D proposal has been rejected by ONGC and OIL due to lack of funds during X plan period. The details of R&D spending during XI plan period vis-à-vis X plan expenditure on R&D by ONGC and OIL are as under:
>
> **<u>ONGC</u>**
>
> During the X plan period (2002 -07), the overall budget utilization by the institutes has been Rs.724.99 crore. However, in the XI plan, ONGC plans to put in concerted efforts in R&D relating to number of areas, such as Underground Coal Gasification, Basin Centered gas, Gas Hydrate exploration, Petroleum Biotechnology and Surface Coal Gasification. Also, various institutes of ONGC will be formulating collaborations with other organizations and academic institutes for specific projects relating to exploration, enhancement of production and for finding alternate sources of energy. Keeping in view the above, the Budget planned for R&D including institutes has been kept at Rs. 833.67 crores which is Rs.108.68

crore more than the actual expenditure made during the X plan period. The spending for R&D and Institutes by ONGC is thus expected to increase in the XI plan period.

OIL

As far as Oil India Limited (OIL) is concerned, against the actual expenditure of Rs. 59.73 crores incurred by OIL on R&D activities during X Five Year Plan period (2002-03 to 2006-07), OIL plans an outlay of Rs. 216.99 crores on R&D activities in XI Plan period.

IOCL and HPCL

R&D Centres by oil companies were put up mainly to support the refinery operations, trouble-shooting, modifications in the existing processes, testing of equipment and instruments, development of technology as well as lubricant formulations. However, during operation main thrust was on support to the refinery operations, trouble-shooting, and modifications in the existing processes. As a result, R&D expenses were very low compared to turnover.

Notwithstanding the very low expenditure on R&D activities by the oil companies in the downstream hydrocarbon sector compared to the turn over, Indian Oil Corporation Limited (IOCL) has developed some of the finest process technologies viz. Diesel hydro de-sulphurisation (DHDS/DHDT), INDMAX (FCC) etc. INDMAX technology for upgrading heavy ends has already been implemented at IOC Guwahati Refinery. This is also in the process of implementation at BRPL and Paradip. DHDS/DHDT technology for sulphur removal from diesel streams is also being implemented at BRPL.

Details of expenditure on R&D during XI Plan period vis-a-vis X Plan by IOC and HPCL are given as under:-

IOC : Against actual expenditure of Rs.451 crore during X Plan, total R&D investment for XI Five Year Plan is projected to be Rs.855 crore. Thus, there is increase in R&D expenditure by IOC.

HPCL: An amount of Rs.23.41 crore was incurred by HPCL for R&D activities during X Plan whereas an amount of Rs.55 crore has been allocated during XI Plan for R&D Activities".

10. In their 20th report (14th Lok Sabha), the Committee had expressed their displeasure over the failure of oil companies to utilise the R&D allocations during the 10th Plan and desired that the reasons for shortfall in R&D spending should be analysed and requisite improvements effected. The Government, in its Action Taken Reply, has inter-alia stated that the

role of oil PSUs in R&D is limited to finding out suitability of appropriate technologies in the E&P Sector in order to enhance exploration and production efficiency specific to the area of operation. The Committee are not satisfied with the reply of the Government. They are of the view that instead of limiting the R&D to finding out suitable technology, PSUs should undertake substantial R&D programmes either in their own R&D centres or in collaboration with universities/institutes. To achieve it, adequate R&D allocation should be made for the 11th Plan. The Committee would like the oil PSUs to give adequate attention to their R&D activities and increase the spending in this crucial area during the 11th Plan.

C. Policy Reform option relating to oil sector

Recommendation (Sl. No. 9, Para No.3.9)

11. The Economic Survey (2007-08) provided for a Policy Reform option pertaining to the oil sector which stated 'Sell old oil fields to private sector for application of Improved/Enhanced Oil Recovery Techniques'. The Committee had been informed that the Ministry of Petroleum & Natural Gas and oil PSUs were not even consulted in connection with the said Policy Reform option. In the opinion of the Committee, bringing out such a vital Reform option without consulting the nodal Ministry/PSUs was unjustified. They were at a loss to understand the rationale behind bringing out the said Policy Reform option when our national upstream companies like ONGC and OIL were capable of employing the Improved and Enhanced Oil Recovery Techniques. As a matter of fact, these companies have been using such techniques in some of their depleted fields for quite some time. The Committee had, therefore, desired that the Government should reconsider the issue and withdraw the said Policy Reform option at the earliest.

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

> "Although in the Economic Survey 2007-08, the policy reform option pertaining to the oil sector stating 'Sell old oil fields to private sector for application of Improved/Enhanced Oil Recovery Techniques' was mentioned, it was not indicated in the budget proposals. Therefore, it is unlikely that sale of old oil fields will take place in the current year.

However, Government of India awards exploration blocks to national oil companies and private/foreign companies through international competitive bidding process. In the seventh round of NELP, 57 exploration blocks are on offer, for which bid closing date is 30th June 2008".

13. The Committee, in their 20th report (14th Lok Sabha), had recommended that the Government should withdraw the Policy Reform option relating to sale of old oil fields to the private sector for application of Improved/Enhanced Oil Recovery Techniques. In response, the Government has stated that the sale of old oil fields is unlikely to take place during the current year since it has not been incorporated in the Budget proposals. The Committee would like to emphasise that they had asked for the withdrawal of the said proposal, not for its implementation schedule. The Committee had seen no logic in the Reform option involving the use of IOR/EOR techniques by the private players when ONGC and OIL have been using such techniques in some of their depleted fields. Besides, the Committee had not favoured the bringing out of important reform options without consultation with the nodal Ministry/PSUs. The Committee are unhappy that none of these issues has been addressed to by the Government in the Action Taken Reply. They once again urge the Government to consider these issues and withdraw the said Policy Reform option.

D. Promotion of bio-diesel

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

14. The Committee were unhappy to note that there was no co-ordinated programme for development of bio-diesel plantations like Jatropha in the country and hence, there was no proposal to provide incentives to encourage Jatropha seeds/bio-diesel production. They were of the firm view that some incentives needed to be provided to the State Governments/farmers, at least in the initial phase, to enhance the bio-diesel production which would enable the country to march towards energy security. The Committee had, therefore, recommended that concrete incentive proposals should be incorporated in the National Bio-fuel Policy and that the said Policy should be finalised and put in place soon. They

had been informed that a number of States such as Andhra Pradesh, Tamil Nadu, Chhattisgarh, Uttarakhand, Rajasthan, Assam, Tripura and Madhya Pradesh had taken initiatives for promotion of bio-diesel/Jatropha Plantation. The Committee had appreciated the efforts made by these State Governments which would render immense benefits to these States and also the country as a whole in the coming years. The Committee had desired the Government to impress upon other potential States to go in for such activities in their States.

15. In its Action Taken Reply, the Ministry of Petroleum & Natural Gas has submitted as under:-

“IOC

IOC (R&D) has optimized the synthetic processes for the plantation of bio-diesel meeting standard fuel specification (ASTM D 6751 or IS 15607) from various vegetable oils, which include oils from Jatropha Curcas, Karanjia, Palm, Rice bran, Sunflower etc. The process has been scaled-up in a pilot plant at IOC (R&D) Centre and numbers of 60 kg batches of bio-diesel have been produced utilizing various vegetable oils.

The developed technology was transferred to M/s Venus Ethoxyethers, Goa and M/s IKF Technologies Ltd, Kolkata on non-exclusive basis and on nominal technology fee and royalty sharing mechanism.

IOC has entered into an MOU with Indian Railways to study complete value chain of bio-diesel. In line with that, IOC has taken up plantation on 62 hectares of Railway land at Surendranagar in Gujarat. About one lakh fifty thousand saplings of Jatropha have been planted at the site. This project is one of its kind in the country, where every aspect of Jatropha bio-diesel would be studied. This project was started in 2004. It is expected that production of Jatropha seeds will start from this year-end.

IOC, jointly with Haryana Roadways launched field trials on 40 buses of Gurgaon depot in April 2004. Twenty buses were run on 5% bio-diesel-diesel blends of trial and their smoke, fuel efficiency and drivability were compared with another set of twenty reference buses. A reduction of 10-15% in smoke density has been observed by the use of bio-diesel.

The tests have been conducted with 5%, 10% and 20% blends of Jatropha bio-diesel in diesel on 16 cylinders Alco Diesel Locomotive Engine for power, specific fuel consumption, firing pressures and exhaust gas temperatures. Trial runs of Shatabdi and Jan Shatabdi express trains have been carried out at 5% and 10% bio-diesel. It further planned to launch B10 trials on five pairs of trains running through Lucknow.

IOC, jointly with TATA motors has completed a field trial run on 43 buses for transportation of their employees in Pune using 10% bio-diesel-diesel blends.

IOC has planned to produce bio-diesel by initiating energy crop plantation. For this purpose, IOC has applied for 30,000 hectares of non-forest wasteland in Madhya Pradesh. So far, IOC has received allotment of 2,000 hectares in Jhabua district. IOC has signed MOU on 19.11.2007 with Government of Chhattisgarh for formation of Joint Venture for entering bio-diesel business in the State.

BPCL

BPCL has taken up Jatropha Plantation in the vacant land at its existing storage points across the country. An area of approx. 600 acres of Jatropha plantation has been completed and another 400 acres of land plantation is expected to be completed in the next few months. BPCL is in discussions with Uttar Pradesh and Chhattisgarh State Governments for setting up Bio-diesel Value Chain.

HPCL

HPCL has signed MOU with G.B. Pant University of Agriculture & Technology, Pantnagar, Uttrakhand State for the plantation of 10 lakh Jatropha, installation of Transesterification unit and Research on the development of Tissue Culture Technology for micropropogation of best variety of Jatropha. This collaborative R&D project is completely funded by HPCL and is in progress.

HPCL has also planned shortly to sign an MOU with Govt. of Chhattisgarh & Chhattisgarh Renewable Rnergy Development Authority (CREDA) for plantation of Jatropha over 15000 hectares of land".

16. In their report on Demands for Grants (2008-09) of the Ministry, the Committee had reasoned that some incentives were needed to be provided to the State Governments/farmers, at least in the initial phase, to enhance the bio-diesel production. They had, therefore, desired that concrete incentive proposals should be incorporated in the National Bio-fuel Policy and that the said policy should be put in place soon. They are unhappy to note that the reply of the Government is a total digression to their vital recommendation. They do not approve of this casual manner in which the Government has responded to their vital recommendation. They would like to be apprised of the factual details in this regard.

E. PCRA initiatives on bio-diesel promotion

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

17. The committee had appreciated the efforts made by IOCL, BPCL and HPCL for promotion of bio-diesel in the country and desired them to accelerate their pace in this direction. The Committee had learnt that besides the OMCs, the Petroleum Conservation Research Association (PCRA) had also taken initiatives on promotion of bio-diesel. However, its activities had been primarily confined to sponsoring of seminars/workshops, preparation of films/brochures and launching of a new website for dissemination of data on bio-diesel. The Committee had desired the organisation to play a pro-active role in bio-diesel promotion by initiating measures for plantation of bio-crops.

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

> **"BPCL**
>
> BPCL has taken up Jatropha Plantation in the vacant land at its existing storage points across the country. An area of approx. 600 acres of Jatropha plantation has been completed and another 400 acres of land plantation is expected to be completed in the next few months. BPCL is in discussions with Uttar Pradesh and Chhattisgarh State Governments for setting up Bio-diesel Value Chain.
>
> **HPCL**
>
> HPCL has taken several initiatives to encourage & establish Bio-diesel & the first step in this direction was the extensive field trial of Bio-diesel blends B5, B10 & B20 which was conducted with Brihanmumbai Electric Supply & Transport (BEST) at Mumbai. The trials were very successful and the findings of the trials were shared with the concerned authorities.
>
> Another joint field trial of Bio-diesel blend B10 is in progress at MICO, Bangalore to evaluate the impact on Fuel Injection Pumps & Emissions.
>
> HPCL has also created infrastructure for storing, blending & testing of Bio-diesel & Bio-diesel blended fuels at its 5 locations centres at Ghatkesar (AP), Mandirhasaud (Chattisgarh), Loni, Vashi (Maharashtra) & Salawas (Rajasthan) in line with Bio-diesel Purchase Policy of MoP&NG. So far no suppliers have expressed interest to supply the product at these locations.

HPCL has installed a bio-diesel Pilot plant at its R&D Centre, Vashi, Maharashtra. This Pilot plant is for creating techno-commercial data based on the R&D.

HPCL signed MOU with G.B. Pant University of Agriculture & Technology, Pantnagar, Uttranchal for the plantation of 10 lakh Jatropha, installation of Transesterification unit and Research on the development of Tissue Culture Technology for micropropogation of best variety of Jatropha. The collaborative project work is in progress.

HPCL has also plans to sign shortly, an MOU with Govt. of Chhattisgarh & Chhattisgarh Renewable Energy Development Authority (CREDA) for plantation of Jatropha over 15000 hectares of land.

PCRA

1. On 14. 01.05, PCRA has opened a National Biofuel Centre at its corporate office in New Delhi. It was inaugurated by the Secretary, Petroleum and Natural Gas. A 10 litre & 100 litre per day transesterification plant are kept at our National Biofuel Centre for demonstration. Large number of National & International delegation have visited it.

2. PCRA launched a new website on Bio-fuels: www. PCRA-biofuels, on which information on Bio-diesel is available.

3. PCRA sponsored & provided faculty support for seminars & workshops for dissemination of information on Bio-diesel across the country".

19. During the examination of Demands for Grants (2008-09) of the Ministry , the Committee had been informed that the activities of the Petroleum Conservation Research Association (PCRA) in the field of bio-diesel had been confined to sponsoring of seminars/workshops, preparation of films/brochures and launching of a new website for dissemination of data on bio-diesel. The Committee had desired that the organisation should play a pro-active role in bio-diesel promotion by initiating measures for plantation of bio-crops. They are displeased that the Action Taken Reply of the Government does not provide any new information other than what the Government had furnished at the time of examination of Demands for Grants. From the Action Taken Reply, the Committee get a feeling that no initiative is proposed to be taken by the PCRA in the direction of plantation of bio-crops. Since large-scale plantation of bio-crop would enable the country to march towards energy

security, the Committee feel that organisations in the oil sector like PCRA should come forward to work in this direction. The Committee, therefore, reiterate their earlier recommendation that the PCRA should play a pro-active role in bio-diesel promotion by initiating measures for plantation of bio-crops.

F. Business activities of Oil Marketing Companies

Recommendation (Sl. No. 17, Para No.3.17)

20. The Committee had noted that the Oil Marketing Companies viz. IOCL, HPCL and BPCL had made profits during the last three years. However, their profitability seemed to have been adversely impacted because of the under-recoveries incurred by them on the sale of sensitive petroleum products, even though some of these under-recoveries were being compensated by the upstream oil companies. Besides, oil bonds were also being issued by the Government to the OMCs which was helping them to improve their bottomlines to some extent. However, the Committee had found the SLR status had not been accorded to these bonds as a result of which the OMCs were facing the liquidity problem. The Committee had recommended that SLR status should be granted to the oil bonds already issued and proposed to be issued to the OMCs. As the OMCs needed to spend more to meet the growing needs of the economy for which they would have to be left with substantial investible surpluses, the Committee had desired that these companies should go in for innovative and profitable business activities, away from their core competence, such as execution of renewable energy projects, manufacture of rigs, etc.

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

> "The matter was taken up with Ministry of Finance and they have stated that :
>
> Classification of Government Securities as SLR is made by the Reserve Bank of India (RBI) under the provisions of Banking Regulation Act. As a policy, RBI has been treating securities issued outside the borrowing programme (e.g. oil bonds, fertilizer bonds, etc.) as non-SLR securities. However, to compensate for the non-SLR status, a 20-25 bps spread above the g-sec rate of comparable maturity is being allowed in respect of

such securities. The investment in these bonds by the Insurance Companies, Provident Funds, Gratuity Funds, Superannuation Funds etc. are treated as an eligible investment".

22. In their 20th Report (14th Lok Sabha), the Committee had recommended that SLR status should be granted to the oil bonds issued and proposed to be issued to the Oil Marketing Companies (OMCs). The Committee learn from the Action Taken Reply of the Government that SLR status has not been granted to such bonds which, as a matter of policy, are treated as non-SLR securities by the RBI. To compensate for the non-SLR status, a 20-25 basis points spread above the Government security rate of comparable maturity is being allowed in respect of such securities and investment in these bonds by the Insurance Companies, etc is treated as an eligible investment. Though this measure is helpful, the Committee feel that this does not fully extend the benefits of SLR status, which, if granted, will substantially improve the liquidity position of OMCs. The Committee, therefore, reiterate their earlier recommendation that SLR status should be granted to such bonds. As regards the recommendation regarding execution of innovative and profitable business activities by OMCs, the Committee find that the reply of the Government is silent on this vital issue. The Committee would like to know the reasons for the same. The initiatives taken by the OMCs in this direction may also be conveyed to the Committee.

G. Cess levied on indigenous crude

Recommendation (Sl. No. 19, Para No. 3.19)

23. An amount of about Rs. 73,250 crore has been collected by the Government from the cess levied on indigenous crude since inception of the Oil Industry (Development) Act, 1974 till 31 December 2007 out of which a paltry amount of Rs.902.40 crore has been disbursed to the oil Industry Development Board (OIDB). The Committee were indeed perturbed that due amounts were not being released to the OIDB out of the cess proceeds. The Committee had raised this issue in their earlier Reports from time to time. They were indeed unhappy to observe that the Government had done nothing on their vital recommendations on this issue except for giving stock replies that the

expenditure on 'Oil Industry' had been in excess of the cess collection. The Committee had pointed out that apart from the cess proceeds, the Government was also collecting substantial revenue from the Petroleum Sector. The revenue collected from the Sector in terms of customs and excise duties during 2004-05, 2005-06 and 2006-07 had been as much as Rs.54,738 crore, Rs.61,221 crore and Rs.68,864 crore, respectively. As against this, the total amounts released by the Government through oil bonds and fiscal subsidy on domestic LPG and PDS kerosene had been to the tune of Rs.2,956.34 crore, Rs.14,182.96 crore and Rs.26,727.17 crore during the said period. Thus, the Government had paid back only a small portion of the revenue collections from the Sector. The Committee had strongly recommended that the entire issue of deployment/utilisation of cess levied on crude oil/revenues collected from the Petroleum Sector vis-à-vis the amounts released to the Sector, should be referred to a Group of Ministers comprising the Union Ministers for Petroleum & Natural Gas, Finance, Law and Chemicals & Fertilizers and an early decision taken thereon.

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

> "This recommendation of the Committee was again taken up with the Ministry of Finance who have reiterated that the amount collected by levying cess on indigenous crude has been utilized as per the statutory provisions contained in Section 2(k) of the Oil Industry (Development) Act, 1974 and that the allocations made out of the receipts from oil cess, whether classified as Capital or Revenue, are within the provision of the said Act.
>
> In this context, it is noteworthy that in the years 2005-06, 2006-07 and 2007-08, Oil Bonds to the extent of Rs.11,500 crore, Rs.24,121 crore and Rs.20,333.33 crore respectively (total Rs.55,954.33 crore) were issued to Public Sector Oil Marketing Companies as part compensation for the under recoveries on the domestic sale of sensitive petroleum products, in addition to the Subsidy for LPG/Kerosene and for Natural Gas sales in NE region amounting to Rs.2682.95 crore, Rs.2698.19 crore and Rs.2820.14 crore respectively for the same period. This itself is considerable when seen against the total cess collection of about Rs.74972.36 crore from July,1974 to March,2008.
>
> Regarding the issue of deployment/utilization of Cess levied on crude oil being referred to a Group of Ministers, the Ministry of Finance have offered no comments".

25. The Committee, in their 20th report (14th Lok Sabha), had expressed displeasure over the fact that due amounts were not being released to the Oil Industry Development Board (OIDB) out of the cess proceeds. They had recommended that the entire issue of deployment/utilisation of cess levied on crude oil/revenues collected from the Petroleum Sector vis-a-vis the amounts released to the Sector, should be referred to a Group of Ministers comprising the Union Ministers for Petroleum & Natural Gas, Finance, Law and Chemicals & Fertilisers. In its Action Taken Reply, the Government has, inter-alia, stated that oil bonds amounting to Rs. 55,954.33 crore have been issued to the Oil Marketing Companies during 2005-06, 2006-07 and 2007-08, apart from payment of subsidies amounting to Rs. 8,201.28 crore during the said period. The Government has argued that these contributions (Rs. 64,155.61 crore) are considerable when seen against the total cess collections of about Rs. 74,972.36 crore upto March, 2008. The Committee are unhappy that the Government has not considered it proper to mention about the revenues it has collected over the years from the Petroleum Sector. They would like to remind the Government that it has collected as much as Rs. 1,84,823 crore from this Sector in terms of customs and excise duties from 2004-05 to 2006-07, which is much more than it has paid back to the oil companies by way of oil bonds and subsidies. The Committee are further displeased to note that the Ministry of Finance has chosen not to offer comments on their recommendation regarding reference of the whole issue to a Group of Ministers. They reiterate their earlier recommendation that the whole issue of deployment/utilisation of cess levied on crude oil/revenues collected from the Petroleum Sector vis-a-vis the amounts released to the Sector, should be referred to a Group of Ministers comprising the Union Ministers for Petroleum & Natural Gas, Finance, Law and Chemicals & Fertilizers and an early decision taken in the matter.

CHAPTER II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 4, Para No.3.4)

The Budget Estimates (BE) in respect of Oil Public Sector Undertakings for the year 2007-08 amount to Rs.38,902.06 crore out of which an amount of Rs.20,591.50 crore has been spent by these Companies during the first three quarters of the year. Thus, about 53% of the allocation has been utilized by the PSUs, leaving the remaining 47% to be utilized in the last quarter of 2007-08. While 5 companies viz. ONGC, OVL, OIL, GAIL and IOC have utilized between 40 and 65 per cent of the allocations, the remaining 8 Companies, viz. HPCL, BPCL, CPCL, BRPL, NRL, MRPL, Balmer Lawrie and Biecco Lawrie have managed to spend less than 35 per cent only in the first three quarters of the year. This is indicative of the fact that the PSU Companies have not devised a systematic project implementation strategy. Since these Companies are undertaking vital projects, the timely implementation of which can have a significant bearing on their bottomlines the Committee desire these Companies to pull up their socks and ensure proper and timely utilization of the allocations so as to avoid time and cost overruns on their important projects.

REPLY OF THE GOVERNMENT

In the case of Oil Public Sector undertakings, generally, the expenditure picks up during the second half of the year and fund utilization is maximum during the last quarter. Some of the reasons for substantial fund utilization taking place in the last quarter are as follows.

(i) Preparatory work, mobilization, tendering process, etc. take place during the initial months and the actual payments are made towards the end of the financial year based on the progress of work.

(ii) Exploration & Production activities account for the bulk of expenditure. Geological & geophysical Surveys take place only after the monsoon, i.e. from September onwards. Consequently, the payments relating to such work are made only from November onwards. Similarly, major contractual payments relating to Charter hire of rigs and Charter hire of Offshore Supply Vessels are normally made in the last quarter. Various construction activities also gear up after the monsoon. Therefore, major milestone payments fall due during the last quarter.

(iii) Deferment of Plan expenditure is sometimes resorted to by the Companies to take advantage of the competitive situation prevailing in the market with a view to maximizing returns.

(iv) In case of organizations like OVL, fund utilization cannot be linear to time and therefore its utilization is not amenable to quarterly allocations.

2. Total expenditure pattern for the years 2005-06, 2006-07 and 2007-08 are also given below:

Rs. in crore

Year	**Outlay (RE)**	**Total expenditure**	**Expenditure during III Quarter**	**Expenditure during IV Quarter**	**Expenditure during Q.III & Q.IV as %age of total expenditure**
2005-06	31322.85	26854.32 (85.73%)	5109.83 (19.02%)	10290.52 (38.32%)	15400.35 (57.34%)
2006-07	36863.65	31105.04 (84.37%)	6326.58 (20.34%)	10182.98 (32.74%)	16509.86 (53.08%)
2007-08	35724.55	30750.34 (86.08%)	8331.05 (27.09%)	9997.64 (32.51%)	18328.69 (59.60%)

It may be noted from the above table that while the total expenditure was about 86% of Outlay, the expenditure during III and IV quarters was 57.32%, 53.08% and 59.60% respectively during 2005-06, 2006-07 and 2007-08.

3. Reasons for less expenditure than allocation by the 8 Oil PSUs indicated by the Standing Committee are given in the Annexure.

4. However, the observations of the Committee in the matter have been communicated to the Oil PSUs for compliance.

REASONS FOR LESS UTILIZATION OF FUNDS BY THE EIGHT OIL PSUS INDICATED BY THE STANDING COMMITTEE

Various Oil PSUs have reported project-wise reasons which resulted in less expenditure in the first three quarters of the year. They are summarized below in a Company-wise manner:

HPCL:

(i) **E&P activity** - Payments for E&P Blocks are made on the basis of Cash calls from operators, which did not come up in the first 3 quarters.

(ii) **Refinery Projects**- Delay in supply of boilers and heaters by BHPV.

(iii) **LOBS Project**- Delay in receipts of process package and cascading effects on the ordering progress of long lead items and LSTK package.

(iv) **Petrochemical Projects (Visakh)** – Delay in acquisition of land from APIIC free of encumbrances.

(v) **Mundra-Delhi Pipeline** – Due to non-availability of land at Tikrikalan, the Bahadurgarh-Tikrikalan Pipeline has been kept on hold.

(vi) **Data Centre at Hyderabad** – Staggered supply of critical equipment.

BPCL:

(i) **Refinery Modernization Phase-II (CEM Project):** Shortfall is mainly due to delay in detailed engineering activities, tendering by EIL and delayed receipt of process packages from UOP.

(ii) **Investment in Joint Venture (JVC) – Bharat Omman Refineries Limited (CRI Projects)**: An expenditure of Rs. 900 crore was incurred as late as March 2006-2007. As there was no change in project cost, no expenditure could be incurred during 2007-08.

CPCL:

(i) CPCL's Annual Plan expenditure included projects for implementation of Euro IV Quality Norms, Refinery-III CDU/VDU

Revamp and NHT/CRU Revamp. Due to the large number of projects under concurrent implementation in the country, Engineering Consultants were not available and there was very limited/nil response to CPCL's Press tender, which inturn delayed the selection of Consultants for the above projects. Subsequently CPCL adopted an alternate strategy and lined up M/s. EIL for implementation of these projects. Delay in selection of consultants has resulted in delayed engineering and procurement activities, due to which actual expenditure is less than the Plan expenditure.

BRPL:

(i) **Diesel Quality Upgradation Project**: Various purchase orders were at initial stages of implementation/delivery and initial teething/mobilization constraints were faced relating to works taken up at sites located in Assam.

(ii) **MS Maximization Project:** Purchases of equipments/contracts for works were being structured/scheduled so as to synchronize them with the planned shut down of the existing plan in 2008.

(iii) **MS Quality Upgradation Euro III Projects:** The BDEP for the project were submitted on 27.2.2008 instead of scheduled date of 16.1.2008. This resulted in non-payment towards the respective deliverables.

(iv) **INDMAX:** Submission of deliverables by the Licensor was delayed and the Basic Design Engineering Packages was submitted on 1.2.2008 instead of the scheduled date of 31.12.2007 resulting in non-payment of the same.

NRL:

(i) **Siliguri Marketing Project**: Scheduled date of completion of the project was September, 2007. However due to delay in completion of a few critical contracts, the project was delayed resulting in non-payment.

(ii) **Diesel Quality Upgradation Project:** Draft Feasibility Report was prepared and submitted by EIL only at the end of 4th Quarter after which the project activities have picked up.

(iii) **Assam Gas Cracker Project:** To implement the project, a new JV was incorporated on 8.1.2007. Investment on this project was linked to the proposed equity call to be made by GAIL, the main promoter of the project. During 2007-08, GAIL made the first equity call for only Rs. 4.19 crore, thereby restricting investment in this project.

MRPL:

(i) **Refinery Upgradation-cum-Expansion Phase-III:** Delay in land acquisition due to non finalization of rehabilitation and resettlement package by Government of Karnataka.

(ii) **Revamping of GOHDS:** Licensor sought extended time for furnishing basic design package which resulted in delay in finalization of equipment sizing and order placement for other items. This caused delay in payment.

Balmer Lawrie: The competitive situation prevailing in the market has led the Company to conserve cash and examine more closely the returns from capital expenditure, thereby entailing deferment of Plan expenditure.

Biecco lawrie: The Company could not spend any money due to inadequate internal generation of funds.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29 -07-2008)

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

The Committee find that the performance of ONGC on seismic surveys and drilling during the last three years has not been satisfactory. The Company has failed to achieve the BE targets in respect of 3D seismic survey, exploratory drilling meterage and exploratory well drilling during 2005-06, 2006-07 and the first three quarters of 2007-08. Besides, it has also not succeeded in meeting the BE targets in 2006-07 and 2007-08 (April-December) in respect of development drilling meterage. The achievements on 2D seismic survey in 2007-08 (April-

December) and developmental well drilling in 2006-07 have also not matched the BE targets. As regards, OIL, the Committee find that the targets in respect of 2D seismic survey and exploratory well drilling have not been achieved by the Company during 2005-06, 2006-07 and 2007-08. The major reasons cited by these Companies for shortfalls include non-availability of rigs and delay in finalization of contracts, environmental problems, bad weather conditions, problems in land acquisition, etc. In the opinion of the Committee, some of these difficulties like non-availability of rigs and delay in finalization of contracts can be well taken care by these Companies by initiating advance/timely action. Other issues like bad weather conditions and environmental problems are often regular occurrences which need to be taken into account while fixing the targets. The Committee desires each of these Companies to assess their respective performance relating to seismic surveys and drilling and effect the much needed improvement in future.

REPLY OF THE GOVERNMENT

As a strategy, exploration inputs are being optimized by oil PSUs based on risk-reward perception but, at the same time, it is invested optimally in different categories of basins requiring different levels of intellectual and physical inputs. Areas are prioritized both for exploration input planning and knowledge building for bringing more basins on the hydrocarbon map of India.

Exploration acreage to National Oil Companies and Private/Foreign companies is allotted on competitive basis through NELP. No acreage is allotted on nomination basis to any company. At the time of formulation of five year plans, ONGC and OIL have certain assumptions of getting exploration acreages during the plan period, although it is on competitive basis. Thus, exploration targets during plan periods are indicative in nature, which may vary between ONGC, OIL and Private/JV companies. In exploration sector, total exploratory inputs put in by ONGC, OIL and Private/JV companies are on higher side as compared with previous years.

With the rise in crude oil prices in the international market, exploration and production activities have also risen in tandem. Consequently, demand for E&P

services all over the world is on the rise. To overcome constraints, corrective measures are being taken by oil PSUs. Some of the measures planned in this regard are:

- Long Term (2–3 years) integrated shot-hole drilling and seismic job services contracts are in force for 2D/3D seismic surveys on land
- Time charter long term 3D contracts for offshore survey work are under implementation. Thereby, the availability of the survey vessels are ensured upto field season 2009-2010.
- Long term 2D service contracts entered with service providers for deployment of two vessels for 2 years for deep water surveys in KG-Cauvery offshore.
- In order to ensure timely mobilization of land crews as well as offshore survey vessels, the mobilization date has been specified in all the outsourcing survey contracts.
- The targets are fixed taking into consideration environmental conditions and likely bad weather periods.

Notwithstanding above, reserve replacement ratio has been targeted as more than one, which means reserves added in year are more than the oil and gas production during the corresponding period. Higher crude oil and natural gas production targets have been fixed during XI plan period. In addition, Government of India is offering higher acreages to E&P companies in order to achieve 80% exploration coverage of Indian Sedimentary Basinal area. The offering of higher exploration acreage is likely to enhance exploratory inputs in the country.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

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

Apart from some private Companies, ONGC is engaged in the exploration of deep water areas of the country. The Committee are unhappy to note that the performance of the Company in deepwater areas has not been very encouraging. The committee have been informed that during last three years, the company drilled 37 exploratory wells in deepwater areas out of which 13 wells were found to be hydrocarbon bearing, i.e. a success rate of merely 33 %. In case of NELP deep water blocks, the company drilled 18 exploratory blocks and made seven discoveries out of which five have been vetted by DGH. In view of the huge hydrocarbon potential in the deepwater areas of the country, the Committee desires the Company to intensify its efforts by inducting modern technology and making appropriate investments. The Committee further desire that the OIL should also attempt at exploration in deepwater areas.

REPLY OF THE GOVERNMENT

ONGC

Regarding intensifying efforts by inducting modern technologies, ONGC is also of the view that 'easy oil' has been found and that future discoveries are likely to be in harsh and inhospitable environment. ONGC is, therefore, utilizing the state-of-the-art technology for pursuing its E&P objectives to find new oil in deepwater/ultra deepwater areas and spending substantial sums of money for this purpose. The efforts are sometimes hampered due to lack of resources like availability of deepwater drilling rigs etc. However, new technologies have been inducted/being inducted to expedite the data acquisition, processing and interpretation. Some of these inter –alia include Q-Marine technology for Offshore seismic surveys and GX Technology initiation for data acquisition for regional studies in Eastern and Western offshore of India.

OIL

Oil India Limited (OIL) is not operating any deepwater blocks. However, OIL has participating interest (PI) in 6 deepwater blocks alongwith ONGC under NELP. In view of the fact that OIL, on its own, is not eligible for bidding in deepwater blocks under NELP, OIL entered into an MOU on 12.10.2007 with M/s. BG Exploration and Production India Ltd (BGEPIL), an integrated global gas major having oil and gas assets around the world with excellent exploration track record, for jointly bidding in the designated deepwater areas in the forthcoming NELP – VII bidding round.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

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

The Committee find that the production of crude oil has been in the range of 32-33 MMT and that of natural gas, around 31-32 BCM during the last three years. The contribution of ONGC, OIL and Private/Joint Venture Companies in the production of crude oil and gas has remained more or less stagnant. A glance at the 11th Plan production targets reveals that the targets fixed in respect of ONGC and OIL are marginally higher than the previous few years' targets. On the other hand, the 11th Plan crude oil and natural gas targets fixed for Private/JV Companies are significantly higher in most of the cases. The Committee would have been more happy to see such enhanced projections in respect of ONGC and OIL too. The Committee would like these Companies to assess the situation and bring in improvement through innovation, superior technology, optimal deployment of manpower in key areas, enhanced efforts in the NELP and CBM blocks, etc. which help enhance their production and reduce the import dependence to some extent.

REPLY OF THE GOVERNMENT

Any oil and gas field has a natural life cycle of about 15 years during which, after having attained a peak, it sets into a decline. The life-cycle includes a plateau period of 7-8 years during which it gives maximum production. For ONGC fields, decline of crude oil production is about 7-10%. At present, about 94% of ONGC crude oil production is from ageing fields, which are on production for more than 15 years.

In order to augment oil and gas production from ageing fields of ONGC, there is a technical requirement to maintain the reservoir pressure at optimum level, so that crude oil and natural gas can flow through the existing wells.

To do so, ONGC is implementing IOR/EOR schemes, in which, ONGC drills additional infill wells in producing fields, undertakes construction of surface facilities such as platforms and laying of pipelines, gas injection/water injection etc., in order to maintain optimum level of crude oil and natural gas production.

Oil companies are also adopting all the necessary efforts in terms of adopting new technologies, continuous performance analysis, requisite remedial measures and IOR/EOR schemes etc to arrest the natural decline and enhance production.

ONGC has identified different technologies / areas to engage different domain experts / service providers in different fields to enhance production from existing fields. These include:

- Greater emphasis on quality in work over /repair jobs on wells.
- Increasing efforts on well stimulation and artificial lift.
- Side tracking of old wells.
- Application of gel/polymer technology for profile modification and increased sweep efficiency.
- Massive hydro-fracturing and completion with non-damaging fluids are being adopted to improve well productivity.
- Engagement of international consultants/companies for review / remodeling of the old fields.
- Engaging consultants for better asset management by acting as advisors, mentors or facilitators to the Asset Managers, Asset Management Teams &/or Multi Disciplinary Teams (MDTs).
- Microbial enhancement of oil recovery.

Fast track exploitation of marginal fields has also come into focus in view of prevailing hydrocarbon price. Performance of offshore marginal fields B-55, B-173A and D-1 has been very encouraging and above expectations. Learning curves generated from these have led to firming of exploitation strategies of more marginal fields through integration with major fields and cluster development concept. These are likely to start contributing to oil and gas production in the later half of the XI plan. Deepwater prospects of KG Offshore which have long lead time are also being planned for exploitation during end of XI plan or XII plan period. However, majority of these are mainly gas bearing prospects.

To give more focus to CBM activities, a CBM Development Project office has been opened at Bokaro & a National entity dedicated to CBM activities has been created. Feasibility study for starting development work in 2 areas of Jharia & 2 areas of Bokaro Block is in progress. In Raniganj Block, prospective area for starting Pilot activities has been delineated and firming up of Pilot wells is in progress. An effort is on to sell CBM Gas (trial marketing) from existing wells of Jharia to avoid flaring of incidentally produced CBM during production testing of the wells.

It is also prudent to bring forth that the fields being operated by Private/ JV Companies are relatively new fields or new finds. The development of new fields is associated with significant increase of initial production which reaches a plateau & stagnates and declines thereafter.

To supplement the efforts of NOCs, Private/Foreign companies are participating in exploration and production sector and new proven technologies are being inducted by various companies depending upon the operational requirements.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

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

At present, 5% Ethanol Blended Petrol (EBP) programme is being implemented in 17 States and 4 Union Territories for which OMCs have finalised tenders for ethanol. The Committee have been informed that the requirement of ethanol for the three-year period is 180 crore litres against which the OMCs have succeeded in contracting for 140.4 crore litres and procuring a meargre 24.2. crore litres. The purchase price of ethanol has been fixed at Rs. 21.50 per litre ex-factory on uniform basis for the next three years. The Committee feel that the low procurement of ethanol is resulting from the fixation of its price for a relatively longer duration of three years. They, therefore recommend that the price of ethanol should be fixed on yearly basis taking into account the relevant factors prevailing at the same time of rate fixation. Besides, the Government should also consider the feasibility of enhancing the ethanol procurement price from the present level of Rs. 21.50 in order to augment the supply/procurement of the product. The increase in procurement price, leading to possible increase in supply/procurement of ethanol, is all the more relevant in the context of the CCEA decision regarding 10% compulsory blending of ethanol w.e.f. October 2008. Since less than six months are now left for introduction of the 10% EBP programme, the Committee desire the Government to act fast on this recommendation.

REPLY OF THE GOVERNMENT

As regards fixing of uniform purchase price of ethanol at Rs. 21.50 litre across the country, this Ministry would not be in a position to direct OMCs to purchase the ethanol at a pre-determined price since the purchase price is discovered and finalized by them through open tender system as per CVC guidelines. The landed cost of ethanol, thus arrived at, was compared with the landed cost of MS and the tenders were finalised wherever the landed cost of ethanol was equal to or lower than the landed cost of MS, subject to the condition that the quoted basic price of ethanol was not higher than Rs. 21.50/ ltr. During the tendering process, it was observed that certain parties had offered tenders at a basic price of ethanol, lower than Rs. 21.50/ltr due to the competitive factors prevailing in such States. OMCs finalised tenders on this basis since the basic purchase price of Rs. 21.50/ltr was considered to be as maximum price and by virtue of the tendering process, OMCs were entitled to accept tenders with quotations for basic price below Rs. 21.50/ltr. While floating tenders, OMCs have obtained prices valid for 3 years and accordingly tenders have been finalized. This measure gives an assured market for ethanol produced in the country for a period of 3 years.

If uniform purchase price of ethanol at Rs. 21.50 per litre across the country is to be fixed, the OMCs will have to be compensated as at that price is commercially not viable at certain locations. As against the 180 crore litres requirement of ethanol for the three year period, the OMCs have been able to contract 140.4 crore litres and have so far procured 29.5 crore litres under the programme (as on 31.03.2008). However, the levies/taxes on ethanol imposed in certain States has affected procurement of ethanol in those States as it becomes commercially unviable.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

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

The Oil Marketing Companies are exploring the possibility of investments in Brazil for acquiring sugarcane acreages. The Committee have been informed that feasibility study for ethanol investment in Brazil has been carried out by a consultant and a per its finding, Brazil is highly suited for ethanol investments due to its leadership in ethanol production, abundant availability of arable land, ideal weather, soil and water conditions for growing sugarcane, etc. As the proposed ethanol investments have the potential to result in attractive financial pay offs for the OMCs, the Committee recommend that the Government should ask these companies to speed up the activities on the venture finalise the pending issues at the earliest. At the same time, the Committee also recommend that while executing such overseas projects, efforts should be made to ensure that the interests of the Indian farmers/small manufactures, engaged in ethanol production, are not jeopardised.

REPLY OF THE GOVERNMENT

MoP&NG has directed the Oil Industry to look into the prospects of investments in ethanol acreage in Brazil, for sale in Brazil and exports. The industry is not contemplating import ethanol into India for EBP programme to protect the interest of Indian farmers.

Accordingly, the oil Industry team has carried out a 'Partner Search Study' to identify suitable local partners in Brazil. Following the discussions with top partnership candidates, as identified in the study, broad MOUs have been signed subject to due diligence, valuation and definite agreements to be agreed later.

Additionally, BPCL has signed an MOU with Brazil's National Oil Company, Petroleo Brasileiro S.A – Petrobras on 30.8.2007. Under the objects of this MOU, both the parties endeavor to jointly undertake studies in matters related to:

- The use and trading of fuel Ethanol globally.
- Co-operation in areas of ethanol plant investments in Brazil in order to meet global demand of fuel ethanol
- Extending cooperation to bio-diesel production and manufacturing process as well as R&D technology, including transfer of technology for ethanol.
- Conduct joint studies on efficient means of transportation and joint investment in Logistics infrastructure for ethanol in Brazil.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

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

The current share of taxes and duties on the retail selling prices of petrol and diesel in Delhi is 53% and 33%, respectively. The sales tax component in the retail selling prices in Delhi accounts for 17% and 12% respectively for petrol and diesel. In the opinion of the Committee, the taxes and duties being levied on petroleum products are too high which need to be moderated. Besides, the Committee also desires that the varied rates of sales tax on such products prevailing in various parts of the country, should be made uniform across the country. The Committee would like the Ministry of Petroleum & Natural Gas to expeditiously take up these issues with the appropriate authorities. Besides, the Committee also recommend that the customs duty on crude oil should be scraped in order to reduce the burden on the OMCs caused by the phenomenal increase in the crude oil prices.

REPLY OF THE GOVERNMENT

The duties on sensitive petroleum products have been rationalized to mitigate the impact of high international oil prices on their retail selling prices. Government has reduced the Customs Duty on Crude Oil from 5% to Nil and on Petrol and Diesel from 7.5% to 2.5% with effect from 5.6.2008. The ad-valorem component of Excise Duty on unbranded Petrol and unbranded Diesel has been abolished with effect from 1.3.2008 and the Excise Duty on both has also been reduced by Re.1/litre with effect from 5.6.2008. Further, consequent to enactment of Finance Bill 2006, Domestic LPG has become a “Declared Good” under CST Act and the maximum Sales Tax/VAT rate is 4% effective 19.04.06 across all the States/ Union Territories.

The subject matter of Sales Tax comes within the purview of the State Governments. However, on a request made by the Minister, Petroleum & Natural Gas to the Chief Ministers of States/UTs for reduction of Sales Tax/VAT on 5.6.2008, some State Governments such as Delhi and Andhra Pradesh have reduced their Sales Tax/VAT rates on petroleum products.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

Recommendation (Sl. No. 20, Para No.3.20)

The Committee is unhappy to note that the Centre for High Technology (CHT) has not been able to fully utilise the scarce budgetary allocations in the recent years. As against the Budget Estimates of Rs.1071.23 Lakhs in 2007-08, which was enhanced to Rs.1705.75 Lakhs at the Revised Estimates stage, the organisation could only spend an amount of Rs.521.20 Lakhs only during April-December 2007. Out of the Capital BE of Rs.9 Lakhs, which was enhanced to Rs.11 Lakhs at RE stage, the organisation could only manage to spend a paltry amount of Rs.1.49 Lakhs during the first three quarters of the year. Similarly, against the BE amount of Rs.622.23 Lakhs for projects, - increased to Rs.931.45 Lakhs at RE stage, an amount of Rs.120.91 Lakhs only could be spent during the first three quarters of the year. Shortfalls in the utilisation of allocations were also noticed in the year 2006-07. Against the Capital BE of Rs.10 Lakhs in 2006-07, which was reduced to Rs.8 Lakhs at RE stage, the actual expenditure was only Rs.2.04 Lakhs. Similarly, on Projects, an expenditure of Rs.1138.18 Lakhs was incurred by the organisation in 2006-07 against the BE and RE of Rs.523.10 Lakhs and Rs.1825.70 Lakhs, respectively. The Committee, while expressing their displeasure over the erratic utilisation of allocations by the CHT, desire the organisation to constantly monitor the utilisation of funds and effect the desired improvements in future.

REPLY OF THE GOVERNMENT

The steps taken by CHT for effective utilization of funds are as under:

i) Utmost care has been taken and all aspects considered while preparing the budgets for 2008-09 and 2009-10 (RBE 2008-09 and BE 2009-10).

ii) Status of on-going projects will be closely monitored so that funds utilisation is in line with the budgeted figures.

iii) Constraints in the progress of the projects, if any, shall be brought to the notice of the Scientific Advisory Committee (SAC).

iv) One of the major ongoing project being funded by CHT / OIDB is Synthetic Aviation Lubricant (SAL) project. Its approved cost is Rs.1732.38 Lakhs, which is funded on 50:50 basis by CHT / OIDB and other participating organisations.

So far, the funds by CHT / OIDB were being released on matching fund spending by participating organisations. However, since the participating organisations like CEMILAC and GTRE will be required to spend their funds towards the last phase of the project, CHT would release the funds as and when required. This will help in utilisation of CHT / OIDB funds besides avoiding the delays on account of shortage of funds.

v) Besides this, expenses for the approved projects on Coal to Liquid (CTL) and Integrated Refinery Business Programme (IRBIP) is expected to be as per plan, which will improve the budget utilisation.

Close coordination shall be maintained to ensure spending as per the Budget.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

Recommendation (Sl. No. 22, Para No.3.22)

The processing of high sulphur crude in the Public Sector Oil Refineries has shown a mixed trend in the recent years. While the IOCL refineries, HPCL's

Visakh refinery and BPCL's Mumbai refinery have registered improvements in the processing of such crude in the year 2006-07 vis-à-vis 2005-06, the CPCL refineries, HPCL's Mumbai refinery, BPCL's Kochi refinery and MRPL refinery have registered decline in percentage terms during the said period. The Committee recommend that these refineries should make concerted efforts to increase their high sulphur crude processing capability in the years to come so as to optimize their input costs.

REPLY OF THE GOVERNMENT

CPCL processes mainly Masila crude from Yeman which is procured on competitive bidding along with other low sulphur crudes in the range of 0.2% to 0.5% sulphur content. Due to lower net realization (ie GRM/net back) of Masila crude compared to other low sulphur crudes , the Masila crude got replaced with other low sulphur category crudes in many tenders during 2006-07 and 2007-08 compared to 2005-06. In view of above, the processing of overall High Sulphur (i.e. >0.5%) has progressively reduced. This reduction was driven based on economic consideration i.e. higher refinery margins.

It may also be noted that overall Sulphur content of total crude basket of CPCL, Manali has gone up over the years as given below.

	2005-06	2006-07	2007-08
Total Crude processed (TMT)	9680	9784	9802
% Sulphur content of total crude	1.55	1.61	1.64

Hindustan Petroleum Corporation Limited's (HPCL's) Mumbai Refinery has two Crude Distillation Units (CDUs), one designed for 3.5 MMTPA of High Sulphur Lube Bearing crude oils (63%) and the other designed for 2.0 MMTPA of Mumbai High crude oil.

During the year 2005-06, the refinery had a long shutdown for turnaround of the units as well as for low cost debottlenecking which resulted in higher than designed percentage of High Sulphur crude processing due to the effect of service factors of the two CDUs during the year.

During the year 2006-07, there was no major shutdown and the debottlenecked units' capacities were available throughout the year which resulted in total crude thruput going up from 6.2 MMTPA to 7.4 MMTPA and the percentage of High Sulphur crude processing was close to design.

Combined refinery thruputs and percentage of High Sulphur crude processing is optimised on corporation basis for profitability, while trying to meet the marketing requirement of products and High Sulphur crude percentage may vary marginally from year to year. If High Sulphur crude processing for HPCL's Mumbai and Visakh refineries are taken together like IOC refineries, then it can be seen that the overall percentage of High Sulphur crude processing has gone up from 57% in 2005-06 to 60% in 2006-07.

HPCL is undertaking a project to put up Delayed Coker in Visakh Refinery (this is not possible in Mumbai Refinery in view of space constraints), on completion of which, High Sulphur crude processing capability of the combined HPCL refineries will go up.

Bharat Petroleum Corporation Limited (BPCL) have informed that the crude mix for the refinery is determined so as to minimize the inputs costs required to meet product demand, thereby optimizing overall margins. High sulphur crude oils generate higher residual products(FO, LSHS) and lower light/middle distillates (MS/Kero/ATF/HSD). The proportion of low sulphur crude oils in 2006-07 has been marginally increased to meet the increased demand for MS, ATF and HSD. Hence the percentrage of High Sulphur crude processed by BPCL Kochi Refinery (BPC-KR) at 58.6% in 2006-07 was marginally lower as compared to 59.1% in 2005-06.

Mangalore Refinery & Petrochemicals Limited (MRPL) is capable of processing high sulphur crude to its full capacity. However, for the requirement of low sulphur fuel oil for internal consumption, MRPL requires low sulphur crude to the extent of LSHS requirement. The percentage of low sulphur crude also depends on the type and quality of low sulphur crude.

The percentage of high sulphur crude has progressively gone up from 71.70% in 2005-06 to 79.40% in 2007-08 and also for the current year. MRPL had also explored alternate option of replacing the low sulphur crude to meet the environmental regulations through import of low sulphur heavy stock , but the same was not found economically attractive. Therefore, MRPL is not continuing with the import of heavy low sulphur crude like Nile from Sudan, for meeting the LSHS requirement.

The actual crude quantity made available during the last three years is given in the table below:

(Figures in MMT)

Crude	2005-06	2006-07	2007-08
High Sulphur Crude	8.69	8.72	9.96
Low Sulphur Crude	3.36	3.79	1.80
Total Crude processed	12.12	12.53	12.55
%High Sulphur Crude	71.70%	69.55%	79.40%

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

Recommendation (Sl. No. 23, Para No.3.23)

The Committee are unhappy to learn that certain changes have been sought to be effected in Section 80-1B of the Income Tax Act whereunder no deduction in Income Tax shall be allowed to an undertaking engaged in refining of mineral oil if it begins refining on or after 1 April 2009. The provision for seven-years tax holiday, which is at present being enjoyed by the green field refineries and the companies producing oil and gas, is sought to be discontinued. In the opinion of the Committee, this is a retrograde step taken by the Government which would adversely affect the refinery projects of Public Sector Undertakings/Joint Ventures under implementation at Paradeep, Bina and Bhatinda which are slated to be operationalised after April 2009. Besides, it would also prompt these companies to re-think their plans about setting up new refineries, hereby constraining the addition to the refining capacity in the years to come. Moreover, the move might also have a tendency to dissuade the reputed companies from making substantial investments in the E&P Sector. The

Committee, therefore, strongly recommend that this contentious provision/proposal should be withdrawn.

REPLY OF THE GOVERNMENT

Ministry of Finance vide Notification dated 30.5.2008 has notified the following undertakings being mineral oil refinery projects, for the purposes of the Section 80-IB(9) of the Income Tax Act 1961:

(i) 15 MMTPA capacity refinery project of Indian Oil Corporation Ltd. at Paradip, Orissa;

(ii) 6 MMTPA capacity refinery project of Bharat Oman Refineries Ltd. at Bina, Madhya Pradesh;

(iii) 9 MMTPA capacity (with thruput around 12 MMTPA) refinery project of HPCL – Mittal Energy Ltd. at Bhatinda, Punjab;

(iv) 3000 BOPD (387 TPD) capacity mini-refinery project of Oil & Natural Gas Corporation at CPF, Gandhar, Ankleshwar, Gujarat.

(v) 5.31 MMTPA capacity Phase-III refinery project of Mangalore Refinery and Petrochemicals Limited at Managalore, Karnataka;

(vi) 7.5 MMTPA capacity New Visakh refinery expansion project of Hindustan Petroleum Corporation Ltd. at Visakhapatnam, Andhra Pradesh;

(vii) 1500 BOPD (193 TPD) capacity unit II of mini-refinery project of Oil & Natural Gas Corporation Ltd., at Tatipaka, Rajahmundry, Andhra Pradesh; and

(viii) 3 MMTPA capacity Panipat refinery expansion project of Indian Oil Corporation at Panipat, Haryana.

The Notification of the above undertakings shall be subject to conditions that:

(i) the mineral oil refinery projects constitute a separate undertaking within the meaning of section 80-IB of the Income-tax Act;

(ii) the undertaking begins refining of mineral oil not later than the 31st day of March, 2012; and

(iii) the undertaking continues to be wholly owned by a public sector company or any other company in which a public sector company or companies hold at least forty-nine per cent of the voting rights.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

Recommendation (Sl. No. 24, Para No.3.24)

The Committee note with concern that huge quantities of subsidized kerosene is being diverted for adulteration purpose in many parts of the country, thus depriving the intended and needy beneficiaries. According to a study conducted by the National Council of Applied Economic Research (NCAER),the extent of diversion is more than 50% in six States, between 40-50% in four States, between 20-40%in nine States and less than 20% in four States. The Committee have been informed about the number of steps taken by the Government to check this diversion, which include implementation of Jan Kerosene Pariyojna, introduction of marker system and installation of Global Positioning System. Besides, under the Essential Commodities Act, 1955, the State Governments have also been empowered to take action against those indulging in black marketing and other irregularities. In spite of all this, the act of diversion is still taking place with more or less the same magnitude. The Committee strongly believe that the measures to put a check on diversion are not being implemented in the right earnest. They, therefore, desire the Ministry to set up an exclusive cell to monitor the implementation of anti-diversion measures by various agencies, especially the State Governments. The Committee further desire that the frequency of surprise inspections by the OMCs of their dealers should be increased substantially and the officials displaying exemplary courage/commendable performance during such inspections, be rewarded suitably.

<u>REPLY OF THE GOVERNMENT</u>

Oil Marketing Companies (OMCs) have reported that regular/surprise inspections are carried out at their Retail Outlets (ROs)/ SKO-LDO dealers by their Field Officers/Senior Officers through out the country including rural areas and small towns. Joint inspections by officers of OMCs are also carried out at ROs to identify instances of malpractices. After the closure of Anti Adulteration Cell, MOP&NG advised OMCs to set up the checks/inspections for prevention of adulteration and accordingly suggested for creation of a separate "Quality Control Wing" to oversee and monitor all activities/operations to curb adulteration and specify norms/guidelines in this regard. Consequently, an Anti Adulteration Cell was established by OMCs under Director (HR). The officials of Anti-Adulteration Cell carry out surprise inspections of ROs/SKO-LDO dealerships.

Further, Marketing Discipline Guidelines (MDG) under which the OMCs taken penal actions against the erring dealers have been revised during August 2005 making the penal actions more stringent. As per the MDG, 2005, a dealership would be terminated in the first instance of proven adulteration itself.

The officials displaying commendable performance for any activity in marketing are suitably rewarded from time to time through a certificate of appreciation call as "**Appreciation Cheques".**

Indian Oil Corporation has reported that an award has been instituted by them since the year 2006, in the memory of Late Shri Manjunath, who made supreme sacrifice by laying his life for the cause of ensuring Quality and Quantity at ROs. The scheme is to acknowledge and reward the best performing Retail Divisional Office team of IOCL. The award is incentive driven, transparent & through a measurable system. The performance is evaluated on 12 key parameters, which includes Enforcement of Quality and Quantity measures by way of inspections. Best performing Retail Divisional Office team gets:

(a) Manjunath Rolling Trophy.

(b) Award of Rs 5 lakhs – to be shared equally amongst Retail Divisional Team.

(c) Certificate.

Runner - Up Division Office Retail Team gets equally shared award money of Rs 2 lakhs and a certificate.

Bharat Petroleum Corporation has reported that such performance is recorded in the Annual Performance Appraisal of the officers and which forms the basis for Performance Linked Incentive Scheme payment as well as promotions/postings.

Hindustan Petroleum Corporation has reported that surprise inspections by Mobile Labs are done regularly. As regards recommendation for rewarding officials of OMCs, they are of the opinion that it should be considered an integral part of the duties and responsibilities of the inspecting officers.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29 -07-2008)

Recommendation (Sl. No. 25, Para No.3.25)

As regards the status of implementation of the recommendations contained in the Fourteenth Report (14th Lok Sabha) of the Committee on Demands for Grants (2007-08) of the Ministry of Petroleum & Natural Gas, it has been observed that the Government has accepted 19 out of the 21 recommendations made in the Report as per the Statement of the Hon'ble Minister for Petroleum & Natural Gas, laid in Lok Sabha on 29.11.2007 under Direction 73A of the Directions by the Speaker. The two recommendations which were not categories as 'Accepted' in the Minister's Statement relate to utilization of cess on crude oil/creation of a Price Stabilisation Fund out of cess proceeds and grant of infrastructure status of the Exploration & Production (E&P) Sector.

One of the 21 recommendations contained in the Fourteenth Report pertained to the status of implementation of recommendations contained in the earlier year's Report on Demands for Grants of the Ministry (9th Report, 14th Lok Sabha). The Committee are displeased to note that five out of the remaining 20 recommendations have not been implemented by the Government. These recommendations relate to procurement of gas from Myanmar, shortage of kerosene and LPG in various states, utilization of cess on crude oil/creation of a Price Stabilisation Fund out of cess proceeds, infrastructure status to the

E&P Sector and utilization of R&D expenditure by ONGC and OIL. The Committee have already reiterated these recommendations in the relevant Action Taken Report (19th Report, 14th Lok Sabha). They have also dealt with most of these issues in this Report and given their suggestions/recommendations thereon. The Committee desire the Government to act on these issues/recommendations with all sincerity and seriousness.

The Committee are pleased to note that the Government has fully/substantially implemented 3 recommendations regarding non-fuel activities at retail outlets of OMCs, reform in taxation on petroleum products including abolition of the ad valorem component in the duties on products and continuation of subsidy on domestic LPG and PDS kerosene. The Committee also find that the remaining 12 recommendations contained in the Fourteenth Report are in the process of being implemented. These recommendations pertain to increase in E&P accretion and putting on production the marginal fields of ONGC, attracting investment and more renowned players to the E&P Sector, assessment of regulatory practices prevailing in other countries in E&P Sector, fast track implementation of coal gasification/liquefaction project, unresolved issues pertaining to the Iran-Pakistan-India Gas Pipeline Project, fuel upgradation projects of oil refineries, automation of retail outlets, containing expenditure within the sanctioned Budget, drilling rigs of oil PSUs, flight of critical manpower from ONGC and OIL, on-going projects of IOCL and revival of Biecco Lawrie Limited. Though these recommendations have not been fully implemented, the Government has taken several measures to implement the same. The Committee appreciate the efforts made by the Government in the direction of implementation of these recommendations and desire the Government to take further initiatives to ensure their speedy implementation.

REPLY OF THE GOVERNMENT

A Statement showing the latest status of implementation of the recommendations is given in Annexure I.

Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008

ANNEXURE I

STATEMENT CONTAINING THE GIST OF THE OPERATIONAL PORTION OF THE RECOMMENDATIONS, POSITION INDICATED IN MINISTER'S STATEMENT AND THE LATEST STATUS OF IMPLEMENTATION OF RECOMMENDATIONS CONTAINED IN THE FOURTEENTH REPORT OF THE STANDING COMMITTEE ON MINISTRY OF PETROLEUM AND NATURAL GAS

Revised / modified statement to be laid for S.No. 2 may be reproduced as below. Rest of the replies/ statement seems to be factually correct.

S. No.	Gist of operational portion of recommendation	Position as indicated in Minister's statement	Latest status of implementation of the recommendation
1	2	3	4
1.	The Committee had recommended that the Government should make concerted efforts to increase the E&P accretion by using modern technologies with emphasis on deep water drilling. They had also recommended that ONGC should make efforts to put on production the reserves in all its marginal fields by the end of the 11th Plan.	Domestic crude oil production during 10th Five Year Plan period (2002-07) was about 166.57 MMT, of which 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%). Domestic crude oil production during X Plan was 2.2% higher as compared to production of 162.94 MMT IX Plan. During XI Plan (2007-12), domestic crude oil production has been projected at 206.76 MMT, which is 24% higher than the crude oil production during X Plan. Thrust areas identified by the Ministry of Petroleum & Natural Gas for XI Plan period, inter alia, include increasing crude oil and natural gas production especially for ONGC.	Adoption of new technologies is a dynamic and ongoing process. Public Sector oil companies have been using modern and advanced technology for exploration of oil and gas in seismic survey, horizontal drilling, logging while drilling (LWD) and processing and interpretation of seismic data. In order to enhance exploration in deepwater areas, exploration blocks are being offered on continuous basis under NELP. Out of total 165 marginal fields, ONGC has already monetized 56 fields (production started in 39 fields) and out of remaining 109 fields 67 are being monetized in-house by ONGC, 20 fields through service contracts and 22 fields will be offered under new marginal Field Policy. During XI Plan period, a total incremental production of about 14 MMT of oil + condensate and 16 BCM of gas is envisaged from marginal fields of ONGC.
2	The committee had recommended that the Government	Under the Production Sharing Contract regime, a total 70 Oil & Gas discoveries have been	Under PSC regime, a total of 94 Oil and Gas discoveries have been made so far out of which 60

	might further intensify its efforts to attract larger investment and more renowned players with geological ideas and technologies in E&P sector. The committee had also recommended that the MOPNG should play the proactive role in expediting commercial production from the blocks where discoveries have been made.	made so far out of which 42 discoveries are in NELP blocks. These discoveries include major gas finds in the East Coast of India. About 2.53 billion US$ have been invested so far in NELP blocks for E&P activities. Commercial gas production from one NELP block namely CB-ONN-2000/2 has commenced at the rate of 3 lakh 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 at various stages of appraisal.	discoveries are in NELP blocks. These discoveries include major gas find in East Coast. About 2.53 Billion US $ have been invested so far in NELP blocks for E&P activities Commercial gas production from one NELP block namely CB-ONN-2000/2 has commenced at the rate of 3 lakh cubic meter per day. The gas production from another discovery, namely, KG-DWN-98/3 in deep water area is likely to commence in 3rd Quarter of 2008 with initial production rate of 40 MMSCMD and peak production of 80 MMSCMD. Oil production from new discovery PK#2 in the block CB-ONN-2001/1 commenced in July 2007 and flowing presently @ 600 BOPD. Rest of the discoveries under NELP are under various stages of appraisal.
3	The Committee had desired 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 the E&P sector.	The Government is the owner of sub-surface hydrocarbon resources and has the responsibility of ensuring that the natural resources are optimally exploited in an environmentally safe manner for the benefit of the country. Oil Fields (Regulation and Development) Act, 1948 and Petroleum & Natural Gas Rules, 1959 made thereunder 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. DGH, at present, is discharging these functions on behalf of the Government and also coordinates with the concerned Ministries i.e. Ministry of	The Government is the owner of sub-surface hydrocarbon resources and has the responsibility of ensuring that the natural resources are optimally exploited in an environmentally safe manner for the benefit of the country. Oil Fields (Regulation and Development) Act, 1948 and Petroleum & Natural Gas Rules, 1959 made thereunder 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. DGH, at present, is discharging these functions on behalf of the Government and also coordinates with the concerned Ministries i.e. Ministry of Environment & Forests and Ministry of Labour (DGMS) on environment and safety

		Environment & Forests and Ministry of Labour (DGMS) on environment and safety aspects respectively.	aspects respectively.
4	The Committee had recommended that coal gasification and liquefaction 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 Committee had also desired that the details of progress made by GAIL, ONGC and OIL on their respective projects may be conveyed to them.	ONGC has signed an MOU (Agreement of Collaboration, AOC) with Skochinsky Institute of Mining (SIM - NMRC), Moscow, Russia to develop Underground Coal Gasification (UCG) Technology in India. In order to select the best suitable technology for North East coal for liquefaction, OIL also carried out a pre – feasibility Study for 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, OIL has now undertaken actions to carry out a feasibility study to confirm liquid product yield and quality, predicted in the pre- feasibility studies.	The Vastan Mine Block of Gujarat Industry Power Corporation Limited (GIPCL) is found suitable for UCG. In the second stage "Detailed Geological, Geo-mechanical and Hydro-geological studies of the coal seams" were carried out. Acquisition of High Resolution Shallow Seismic (HRSS) data over the entire site is under progress. Environmental and Subsidence issues are taken up with the appropriate authorities. In order to achieve the envisaged pilot production from Vastan site, contracts are under finalization with SIM. In addition to the above, four more short listed sites were sent to SIM, Russia for evaluation, out of which, two sites viz. each one at Gujarat & Rajasthan found suitable for UCG station and the remaining two sites are under evaluation. It is important to note that ONGC has entered into an exclusivity agreement with SIM, Russia where-in it is agreed by both that they will work exclusively with each other for implementation of UCG technology in India. OIL is presently carrying out a feasibility study of liquefaction of Assam coal by adopting Direct Coal Liquefaction (DCL) technology of M/s. Headwaters CTL, USA. In addition, coal and resid gasification studies for production of hydrogen gas and snycrude stabilization studies for blending with Assam crude oil for processing in the refineries located in the North-East are in progress.
5.	The Committee desired the Government may vigorously pursue the matter relating to procurement of gas	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	Myanmar government's decision to sell the gas from A1 and A3 Blocks to China through the pipeline route, remains as of now. If the Myanmar Government changes its decision, GAIL would

	with the Government of Myanmar and clinch the issue in our favour. The Committee desired to know the progress in the matter.	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. Government of India has been pursing the matter vigorously. However, Myanmar Government has stuck to its decision to sell the gas to China.	reaffirm its earlier pipeline offer. There is no further change in the status.
6.	The Committee desired that the unresolved issues pertaining to the Iran-Pakistan-India Gas Pipeline Project should be sorted out quickly. The progress made/success achieved on the project may also be conveyed to the Committee.	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 sides, subject to approval from the respective Governments. India conveyed to the Iranian side, vide letter dated 28.2.2007, that the 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 issues, 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 to which both India and Pakistan disagreed. Sixth Tripartite meeting was held in New Delhi on June 28-29, 2007 where 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	An official level meeting between India and Pakistan was held in Islamabad on April 16-17, 2008 for discussions on pending bilateral issues. Thereafter, a Ministerial-level meeting between India and Pakistan was held in Islamabad on April 25, 2008. Discussions were held between the two sides regarding structure of pipeline project in Pakistan, and transit fee and transportation tariff for passage of gas through Pakistan territory. Issue of delivery point of gas for India will be taken up in trilateral discussion with Iran for facilitating resolution of the issue.

		amongst the participating countries. It was decided to carry forward the discussions for resolution of some of the contentious issues.	
7	The Committee recommended that due attention be given to the fuel quality upgradation projects so as to ensure that there is no time and cost over run.	The Committee recommended that due attention be given to the fuel quality upgradation projects so as to ensure that there is no time and cost over run.	The status of the upgradation projects being implemented by the refineries in the country are given in the **Appendix.**

<u>Appendix to Sl.No.7 of Annexure I containing the gist of the operational portion of the recmmendations</u>

<u>Indian Oil Corporation Limited (IOCL)</u>

S. No.	Refinery	Project	Status
	Panipat	MS Quality Upgradation	With the award of execution job of FCC Gasoline Desulphurisation (FCC-GDS) unit in January 2008, construction activities of all the process units (ISOM & FCC-GDS) and it's related offsite facilities are in progress at site. Overall progress is 36.0%, which is as per plan.
		HSD Quality Upgradation	Reactor, the major equipment required for the project ordered & manufacturing of the Reactor is in progress. Depending upon the opportunity of shutdown in refinery, erection of Reactor will be done by 3rd quarter of 2009-10.
2.	Mathura	MS Quality Upgradation	Major equipment ordered. Enabling jobs at site completed. Overall progress is 27.10%, which is as per plan.
3.	Barauni	MS Quality Upgradation	Tendering activities for various packages are in progress and lining up of agencies targeted by May 2008. Reactors (major critical long delivery equipment) ordered. Major enabling jobs at site completed; balance targeted for completion by May 2008.
		HSD Quality Upgradation	Reactor, the major equipment required for the project has been received at site. Depending upon the opportunity of shutdown in refinery, erection of reactor along with the associated piping jobs will be completed by 3rd quarter of 2009-10.
4.	Guwahati	MS Quality Upgradation	Tendering activities for execution are in progress and lining up of agencies targeted by May 2008. Reactors (major critical long delivery equipment) ordered. Enabling jobs

S. No.	Refinery	Project	Status
			completed.
5.	Digboi	MS Quality Upgradation	Tendering activities for execution are in progress and lining up of agencies targeted by May 2008. Reactors (major critical long delivery equipment) ordered. Enabling jobs completed.
6.	Gujarat	MS & HSD Quality Upgradation	Being implemented as a part of Residue Upgradation project. Overall progress of Residue Upgradation project is 27.66% , which is as per plan w.r.t. approved completion schedule.
7.	Haldia	HSD Quality Upgradation	Being implemented as a part of Hydrocracker project. Overall progress of Hydrocracker project is 58.33%, which is as per plan w.r.t. approved completion schedule.

All the above MS / HSD quality upgradation projects are progressing as per plan for supply of Euro-III / Euro-IV quality MS / HSD to all notified areas as per the timeline of Auto Fuel Policy guidelines of the Govt. of India.

Bharat Petroleum Corporation Ltd. (BPCL)

1.	Mumbai	MS & HSD Quality Upgradation	The cumulative physical progress is 12.98% as on 1.5.2008 and is scheduled for commissioning in January 2010.
2.	Kochi	Expansion-cum-Modernization Project	The project envisages production of Euro-III fuel. The physical progress achieved is 26.52% and scheduled to be completed by Sept., 2009.

Hindustan Petroleum Corporation Ltd. (HPCL)

1.	Mumbai	(i) Green Fuels and Emissions Control Projects	Project is to upgrade the motor spirit quality and meet the specifications of Euro-III for MS with a capability to make Euro-IV MS. The estimated cost of the project is Rs. 1731 crore with completion schedule as May,2008. Physical and financial progress achieved are 96% and 77%.
		(ii) FCCU Project	The project envisages setting up a new grass root FCCU with a capacity of 1.456 MMTPA to meet the specifications of MS

S. No.	Refinery	Project	Status
			conforming to Euro-III norms with a capability to make Euro IV MS, at an estimated cost of Rs.900.47 crore with anticipated date of completion in September,2009. The physical and financial progress achieved are 4% and 20% respectively.
2.	Visakh	Clean Fuel Projects	The projects involve revamp of existing Fluidised Catalytic Cracking Unit-II and facilities for production of MS conforming to Euro-III norms with a capability to produce Euro-IV MS at a total estimated cost of Rs.2147.79 with anticipated date of completion in June,2008. The physical and financial progress achieved are 91% and 89% respectively.

Bongaigaon Refinery and Petrochemicals Ltd. (BRPL)

	Bongaigaon	Diesel Hydro treatment (DHDT) Project	BRPL is implementing a Diesel Hydrotreatment project to produce Euro – III quality specification of Diesel. The estimated cost of this project is Rs.1431.91 crore. The project is likely to be completed by October, 2009. The physical progress is 49.81% as on April, 2008.

Numaligarh Refinery Ltd. (NRL)

1.	Numaligarh	Diesel Quality Up-gradation Project (Under Implementation)	A project for revamping the Hydrocracker and Hydrogen Units has been formulated for production of Euro-III HSD at 100% capacity utilization to meet requirements of the ‘Auto Fuel Policy’ from April, 2010. Detailed Feasibility Report (DFR) for the revamp project prepared through M/s Engineers India Limited (EIL) has been completed. Order has already been placed on M/s Haldor Topsoe, Denmark the process licensor for process design package of the Hydrogen unit revamp including supply of hardware, catalyst and Pressure Swing Adsorber (PSA) unit. Process package received from M/s

S. No.	Refinery	Project	Status
			Chevron, the process licensor. Detailed engineering is in process. To expedite implementation of the project, certain project activities would be taken up during the routine Refinery Turn Around scheduled in Oct.-Nov., 2008. As on April, 2008 expenditure commitment of Rs.72.75 crores have been made. Capital expenditure stands at around Rs.14.00 crores.

Chennai Petroleum Corporation Ltd. (CPCL)

1.	Manali	(i) Diesel Hydro Treating Unit (DHDT)	Installation of a new Diesel Hydro Treating Unit (DHDT) for meeting Euro-IV specifications for MS and HSD. CPCL have initiated activities towards Licenser Selection and have completed the process packages for DHDT. The ordering of long lead items like reactor for the DHDT Unit was completed in November,2007 with a delivery schedule of 21 months. The commissioning of DHDT Unit is expected in June,2010. Further, the catalyst of the existing Diesel Hydro Desulphurisation unit (DHDS) is being changed to produce HSD of 50 ppm 'S' i.e. Euro IV quality. This change will be effected during the middle of this year (2008) itself, thus facilitating CPCL to supply Euro IV HSD in a limited quantity from January, 2010 till the proposed DHDT becomes operational.
		(ii) Isomerisation Unit (ISOM)	Installation of a new Isomerisation Unit for meeting Euro-IV specifications for MS and HSD. CPCL have initiated activities towards Licenser Selection and have completed the process packages for ISOM. The commissioning of ISOM Unit is expected in December, 2009. CPCL will be in a position to meet the requirement of upgraded quality of MS in its currently fed areas w.e.f. January, 2010.

S. No.	Refinery	Project	Status

Mangalore Refinery & Petrochemicals Ltd. (MRPL)

S. No.	Refinery	Project	Status
1.	Mangalore	Clean Fuel Project for production of Euro-III and Euro-IV fuel	MRPL has completed the clean fuel project – viz. Isomerization Unit construction, in October, 2006 without any cost overrun for production of Euro-III & Euro-IV grade motor sprit. By virtue of the catalyst change in the existing GOHDS unit during April, 2006 combined with the capability of its two Hydrocracker units, can produce ultra low sulphur HSD. In addition, under Phase-III project, MRPL has proposed to put up DHDT unit of 3.7 MMTPA for which licensor has been selected and tendering for construction of unit is in progress. In order to increase the production of Euro-IV grade of HSD, MRPL is implementing Diesel Hydrotreater Unit, which is likely to be operational in the year 2011.

S. No.	Gist of operational portion of recommendation	Position as indicated in Minister's statement	Latest status of implementation of the recommendation
1	2	3	4
8	The Committee recommended to assess the shortage of Kerosene and LPG in various States and take effective step to check diversion of these products.	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 mix-ability of these products with petrol/diesel. Checking diversion of PDS Kerosene is a continuous process and the Ministry of Petroleum & Natural Gas has been taking effective steps from time to time to curb adulteration.	OMCs have reported that at present, there is no overall shortage of LPG in the country including the States of Bihar, Jharkhand, Chhattisgarh, Kerala and Tamil Nadu. LPG supplies to distributors are being made by the OMCs through indigenous production and imports in accordance with the genuine demand of customers registered with the LPG distributors. OMCs have further reported that they have supplied 10302 TMT (Thousand Metric Tonnes) of domestic LPG in the country during the year 2007-08 as against 9761 TMT during the year 2006-07, showing a growth rate of 5.5%. OMCs have also reported that they have supplied 217906, 89617, 98291, 402192 and 857814 MT (Metric Tonnes) of domestic LPG in the States of Bihar, Jharkhand, Chattisgarh, Kerala and Tamil Nadu respectively during the period April 2007 – February 2008 as against 207100, 83385, 89131, 381000 and 813741 MTs respectively during the period April 2006 – February 2007. However, OMCs had reported backlog in LPG supplies in certain States in the country due to a combination of factors viz., reduction in supply of bulk LPG compared to the target by Reliance Industries Limited (RIL) & Essar Oil Limited in January-February, 2008, delay in movement of bulk LPG by rail from Jamnagar to the Northern Region, increased demand in the States due to severe cold which resulted in panic booking by the customers, strikes by contract labour, agitational activities, delays in berthing of vessels at Haldia Port due to reduced draft, bandhs etc. Government had advised OMCs to liquidate the backlog in the States by operating the bottling plants on holidays and during extended hours. Increased bottling was also done

			during the working days for early clearance of backlog The enrolment of new LPG customers and release of new LPG connections is a continuous process. Public Sector Oil Marketing Companies (OMCs) have reported that at present, new LPG connections are available across the counter for genuine domestic customers on verification of documents as per laid down procedure. OMCs have reported that they have released 64.9 lakh new LPG connections in the country during the year 2007-08 as against 53.9 lakh of new LPG connections during the year 2006-07. Apart from release of new LPG connections, OMCs have also released 64.74 lakh DBCs since 2004-05 in the country. OMCs have released 1.5 lakh, 1.0 lakh, 0.7 lakh, 3.1 lakh and 8.4 lakh new LPG connections in the States of Bihar, Jharkhand, Chattisgarh, Kerala and Tamil Nadu respectively during the period April 2007 – February 2008 as against 1.3 lakh, 0.9 lakh, 0.9 lakh, 3.1 lakh (for the year 2006-07) and 6.3 lakh new LPG connections respectively, during the period April 2006 – February 2007 respectively. OMCs are striving hard and releasing new connections across the counter. The same is achieved on a continuing basis in most of the markets in the country. However due to non-availability of product and/or equipments, waitlists are generated at certain pockets temporarily which are cleared expeditiously. There is no perennial waiting list for release of new connections across the country, and any person can approach the nearest distributor for immediate release of new connections with the required documents.
9	The Committee had recommended that the Ministry should take adequate	Oil Marketing Companies (OMCs) have been advised to expeditiously complete the Automation of Retail Outlets selling more than 200 KL per month, installation of GPS system in Tank Trucks and Third party	**Automation of Retail Outlets**: Out of 2357 Retail Outlets (ROs) selling more than 200 KL per month, 1083 ROs have already been automated by IOCL. The balance ROs are likely to be automated by September 2008. Out of 1135 such

	steps to ensure that automation of all 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 under intimation to the Committee.	certification of ROs selling more than 100 KL per month. They have also been directed to forward monthly progress reports to the Ministry till completion of the project.	ROs, HPCL have completed 977 retail outlets with automation. The automation of remaining ROs by HPCL is planned to be completed by September 2008. BPCL have completed automation of all the 1602 ROs. The figures show that as on 30.04.2008, Public Sector Oil Marketing Companies (OMCs) have completed approx 72% automation of the ROs selling more than 200 KL per month. **<u>Monitoring of movement of Tank Trucks through Global Positioning System(GPS)</u>:** Out of 19,600 Tank Trucks (TTs) (Co. owned/dealer/contractor TTs), IOCL have completed the GPS system on 15489 TTs. The balance TTs are planned to be covered with GPS by June 2008 as contracts have already been placed for all TTs. Out of 5782 TTs (Co. owned/dealer/contractor TTs), HPCL have completed the GPS system in 4569 TTs. The balance TTs are planned to be covered with GPS by June 2008. BPCL have installed the GPS system in 4663 (Co. owned/dealer/contractor TTs) out of 4800 TTs. The balance TTs are planned to be covered with GPS by May 2008. As on 30.04.2008, Public Sector Oil Marketing Companies (OMCs) have completed the GPS system on approx 82% of the TTs. **<u>Third Party Certification of Retail Outlets</u>**: OMCs have been directed to complete third party certification of all the retail outlets selling more than 100 KL per month. Out of 6554 ROs selling more than 100 KL per month, third party certification of 6542 ROs have been completed by IOCL. Remaining ROs are likely to be certified by May 2008. However, BPCL and HPCL have completed the third party certifications all the ROs as per their target. It may be seen from the above that the actual coverage under third party certification on overall basis is more than 100%. However, minor

			shortfall in case of IOC is expected to be covered by **31.05.2008.**
10	The Committee had advised the OMCs to introduce non-fuel measures in the outlets where the outlet premises have not been used to the optimum. The Committee had also recommended that tie up with IRCTC for offering e-ticketing services should be extended at a fast pace. The Committee had further recommended that other OMCs should take initiatives to extend such facility at their outlets.	Indian Oil Corporation Limited (IOC) has been actively introducing non-fuel activities at retail outlets for earning additional revenue through available infrastructure in the retail outlet premises. This includes installation of ATMs, fast food, kiosks, convenience stores etc. Hindustan Petroleum Corporation Limited (HPCL) has 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.	IOC signed Memorandum of Understanding with IRCTC in May 2007 for the sale of e-tickets by IOC retail outlet dealers and LPG distributors. Currently (as on 30.4.2008), 576 IOC resellers (including 506 retail outlet dealers) have obtained IRCTC authorization and the average booking of railway tickets by them is over 240 per day. HPCL has been actively introducing several Non-Fuel activities at various retail outlets across the country. HPCL have put up over 500 ATMs and 70 Take Away Food Counters till end of Financial Year 2007-08. We have aggressive expansion plans in Non Fuel Activities. HPCL has tied up with IRCTC e-ticketing service & started the activity on pilot basis in few cities of Madhya Pradesh including Bhopal, Bina and Khajuraho. This activity is planned for expansion to other cities during current financial year (2008-09). So far the e-travelers with IRCTC facility has been provided at 70 BPCL ROs. By the end of second quarter it will be extended to 67 more Retail Outlets.
11	The Committee recommended that Government should go for a comprehensive reform in the taxation of petroleum products including abolition of ad valorem component in the taxes/duties on petroleum products.	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%. Further, efforts are being made to ensure that State Governments adopt uniform floor sales tax rates for petroleum products.	The Excise Duty of ad valorem + specific on Petrol and Diesel has been converted to pure specific rate on unbranded Petrol and Diesel w.e.f. 1.3.2008. There is, however, no change in the position with regard to the uniform floor sales tax rates for petroleum products in the States.

12.	The Committee recommended that the whole issue of deployment/utilization of cess levied on crude oil be referred to C&AG for a comprehensive examination. The Committee also re-iterated that a Price Stabilization Fund be created by using the money collected from cess on indigenous crude to bring stability in the prices of products and insulate the consumers from volatility in the international oil market.	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 and 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 allocated to Oil Industry Development Board (OIDB) is already being annually audited by the C&AG. Expenditure out of the Consolidated Fund of India, to which accruals from cess on crude oil is credited, is also regularly audited by the C&AG. 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.	This recommendation of the Committee was again taken up with the Ministry of Finance who have reiterated that the amount collected by levying cess on indigenous crude has been utilized as per the statutory provisions contained in Section 2(k) of the Oil Industry (Development) Act, 1974 and that the allocations made out of the receipts from oil cess, whether classified as Capital or Revenue, are within the provision of the said Act. Regarding comprehensive examination by the CAG of the deployment/utilization of Cess on crude oil, the Ministry of Finance have offered no comments and have stated that the matter can be taken up by the Ministry of Petroleum & Natural Gas on its own with the office of CAG. In this context, it is again brought to the notice of the Committee that funds allocated to Oil Industry Development Board (OIDB) are already being annually audited by CAG. Also, all expenditures out of the Consolidated Fund of India, to which accruals from Cess on crude oil are credited, are being regularly audited by CAG. As such, it is felt that no fresh insight may be available by referring the matter to CAG. Further, it is noteworthy that in the years 2005-06, 2006-07 and 2007-08, Oil Bonds to the extent of Rs.11,500 crore, Rs.24,121 crore and Rs.20,333.33 crore respectively (total Rs.55,954.33 crore) were issued to Public Sector Oil Marketing Companies as part compensation for the under recoveries on the domestic sale of sensitive petroleum products, in addition to the Subsidy for LPG/Kerosene and for Natural Gas sales in NE region amounting to Rs.2682.95 crore, Rs.2698.19 crore and Rs.2820.14 crore respectively for the same period. These are considerable when seen against the total cess collection of about Rs.74972.36 crore from July, 1974 to March, 2008. 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.

13.	The Committee desired that the Ministry should contain expenditure during the year within the Budget sanctioned for it.	Observations of the Committee have been noted and the Government would take steps to contain the expenditure within the Budget sanctioned during 2007-08.	Against provision of Rs. 2897 crore, an amount of Rs. 2833.10 crore was spent during 2007-08. Expenditure was contained within the Budget.
14.	The Committee desired that the subsidy on PDS kerosene and domestic LPG should be continued and the share of fiscal subsidy increased substantially.	The Government has decided to extend the PDS Kerosene and Domestic LPG Subsidy Scheme, 2002 and Freight Subsidy (For Far Flung Areas) Scheme, 2002 for a period of three more years i.e. from 1.4.2007 to 31.3.2010.	No change in the status.
15	The Committee had recommended that infrastructure status be accorded to exploration and production activities as the highly capital intensive E&P sector needs more incentive to attract further investments.	Proposal relating to grant of infrastructure status to E&P activities was referred to the Ministry of Finance for consideration in the Budget 2007-08. The proposal, however, could not be incorporated in the same.	Proposal relating to grant of infrastructure status to E&P activities was referred to the Ministry of Finance for consideration in the Budget 2008-09. The proposal, however, could not be incorporated in the same.
16	The Committee had recommended that the coverage of the R&D expenditure in oil & gas sector be extended to the entire	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 from OIDB as well. As regards nominating an apex agency, DGH has been assisting the Ministry in coordinating R&D initiatives of upstream companies in	No change in status.

	gamut of scientific and technical research in the area. The Committee had further recommended that an organization like the 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. Besides, an exclusive cell should also be created in the Ministry to continuously review and monitor the R&D activities.	India with assistance from institutions of excellence abroad. DGH has signed MOUs with Alberta Research Council, NPD Norway, Imperial College, London and Aberdeen University, Scotland for R&D tie-ups with Indian upstream companies. Centre for High Technology (CHT) is already coordinating the activities of R&D programmes recommended by Scientific Advisory Committee (SAC) on Hydrocarbons constituted under the Ministry of Petroleum & Natural Gas.	
17	The committee had recommended that the possibility of forming a common drilling rig pool for Oil PSUs be explored	Director general of Hydrocarbons has been co-coordinating the formation of a common pool of drilling rigs by central Public sector Undertakings engaged in exploration and production activities.	DGH is pursuing the idea of pooling the rig resources among E&P companies operating in India, particularly in deep water areas. However, no common consensus has been reached.
18	The Committee had recommended that the Government should explore ways and means to	ONGC and OIL have taken several measures /initiatives for retention of employees	Oil PSUs have made comprehensive presentation to the 6th Pay Commission Committee on need to bridge the compensation package disparity with the Pvt. sector and improve the PSU package to arrest the talent flight.

	ensure better package to the technical experts in companies like ONGC and Oil to arrest flight of critical talents		
19	The Committee desired IOCL to ensure that the project schedules are adhered to without fail by taking remedial measures to remove the impediments coming in the way of their implementation.		The latest status of implementation of the two projects which are behind schedule are : **Paradip-Haldia Pipeline Projects :** The onshore works have been completed and are ready for commissioning. The offshore pipeline has been laid and hydrotested. SPM installation is in progress. The facilities are expected to be commissionied by the end of May, 2008. Koyali-Ratlam Pipeline Project and Ratlam Terminal : The pipeline is nearing completion. Mainline welding is 90% complete. Station works at Koyali have been completed. In order to resolve legal issue related to Rasta land at Ratlam Terminal, alternate road has been provided and opened for villagers' use in December, 2007. Attempts made for resolution of Court case pertaining to land dispute, through reconciliation agreement with the petitioners, which is under consideration of the High Court, Indore. The pipeline system is expected to be commissioned by October, 2008.
20	The Committee desired that an early decision on the revival of Biecoo Lawrie Limited (BLL) should be taken. The management of the Company should attempt		The proposal for revival of BLL based on the recommendations of the Board for Restructuring of Public Sector Enterprises is under consideration of the Government.

	measures aimed at reduction of operating cost, diversification of business, etc.		

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

The Committee note that the Scheme for subsidy on PDS Kerosene and domestic LPG has been extended upto 31 March 2010. They have been informed that the subsidy on each litre of PDS Kerosene during the year 2007-08 (April – December, 2007) was Rs. 16.02 out of which the oil companies bore Rs. 15.20 and the contribution from Government Budget was 82 paise. Similarly, in case of domestic LPG, the per cylinder subsidy amounted to Rs. 201.67 during the said period, out of which the contribution from the Government Budget was Rs. 22.58 and the amount borne by oil companies, Rs 179.09. Thus, the Committee find that only a negligible amount is being released from the Government Budget while the oil companies are being burdened heavily. The Committee, therefore, desire that the fiscal subsidy rate on PDS Kerosene and domestic LPG should be hiked substantially.

REPLY OF THE GOVERNMENT

The provision of subsidy on PDS Kerosene and Domestic LPG has been made by the Government to protect the interests of the common man and the vulnerable sections of society. Government has extended the existing subsidy scheme "PDS Kerosene and Domestic LPG Subsidy Scheme 2002" and Freight Subsidy (For Far-Flung Areas) Scheme 2002" upto 31st March, 2010.

In addition to the subsidy on PDS Kerosene and Domestic LPG, the Government has issued Oil Bonds and Upstream Oil Companies have also contributed by offering discounts on crude oil and petroleum products to partially compensate the under-recoveries of the Public Sector Oil Marketing Companies (OMCs) incurred by them on sale of sensitive petroleum products as per details given below:

(Rs.Crore)

	2005-06	2006-07	2007-08

Oil Bonds	11,500	24,121	35,289.50#
Upstream Oil Companies contribution	14,000	20,507	25,708

Oil Bonds amounting to Rs.20333.33 crore for the period of April-Dec 2007 have already been issued to the OMCs.

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Comments of the Committee

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

Recommendation (Sl. No. 5, Para No.3.5)

The Committee are displeased to note that the expenditure on R&D activities by most of the Oil PSUs has been short of the allocations during the 10th Plan period. ONGC and IOCL have failed to utilize the R&D allocations in all the five years of the Plan. Against an allocation of Rs. 1,104.31 crore, ONGC spent Rs. 688.81 crore on R&D during the 10th Plan. Similarly, IOCL incurred an expenditure of Rs. 451 crore against the allocation of Rs. 565 crore during the Plan. HPCL's R&D expenditure has been a meager Rs. 23.41 crore during the 10th Plan. OIL, an upstream company, could utilize only Rs. 59.73 crore against an allocation of Rs. 76.13 crore. The Committee are not satisfied with the performance of these Companies on this count. They also find that the R&D allocations for the 11th Plan in respect of ONGC and IOCL have been drastically reduced to Rs. 872.54 crore and Rs.300 crore, respectively. The Committee feel that the reduction in the 11th Plan allocation might have been influenced by the poor trend in the expenditure during the 10th Plan. However, in their view, instead of reducing the R&D allocations, efforts should have been made to intensify such activities and effect improvements in R&D spending. The Committee desire that the reasons for shortfall in R&D expenditure by these Companies should be analyzed in detail and effective steps taken to bring in the requisite improvements.

REPLY OF THE GOVERNMENT

Upstream oil companies are carrying out R&D activities in order to find solutions for operational problems. No fundamental research is being carried out by E&P companies. Fundamental research and its application is being carried out by the service companies. The role of oil PSU's in R&D is limited to finding out suitability of appropriate technologies in E&P sector in order to enhance exploration and production efficiency specific to the area of operations. No R&D proposal has been rejected by ONGC and OIL due to lack of funds during X plan period. The details of R&D spending during XI plan period vis-à-vis X plan expenditure on R&D by ONGC and OIL are as under:

ONGC

During the X plan period (2002 -07), the overall budget utilization by the institutes has been Rs.724.99 crore. However, in the XI plan, ONGC plans to put in concerted efforts in R&D relating to number of areas, such as Underground Coal Gasification, Basin Centered gas, Gas Hydrate exploration, Petroleum Biotechnology and Surface Coal Gasification. Also, various institutes of ONGC will be formulating collaborations with other organizations and academic institutes for specific projects relating to exploration, enhancement of production and for finding alternate sources of energy. Keeping in view the above, the Budget planned for R&D including institutes has been kept at Rs. 833.67 crores which is Rs.108.68 crore more than the actual expenditure made during the X plan period. The spending for R&D and Institutes by ONGC is thus expected to increase in the XI plan period.

OIL

As far as Oil India Limited (OIL) is concerned, against the actual expenditure of Rs. 59.73 crores incurred by OIL on R&D activities during X Five Year Plan period (2002-03 to 2006-07), OIL plans an outlay of Rs. 216.99 crores on R&D activities in XI Plan period.

IOCL and HPCL

R&D Centres by oil companies were put up mainly to support the refinery operations, trouble-shooting, modifications in the existing processes, testing of equipment and instruments, development of technology as well as lubricant formulations. However, during operation main thrust was on support to the refinery operations, trouble-shooting, and modifications in the existing processes. As a result, R&D expenses were very low compared to turnover.

Notwithstanding the very low expenditure on R&D activities by the oil companies in the downstream hydrocarbon sector compared to the turn over, Indian Oil Corporation Limited (IOCL) has developed some of the finest process technologies viz. Diesel hydro de-sulphurisation (DHDS/DHDT), INDMAX (FCC) etc. INDMAX technology for upgrading heavy ends has already been implemented at IOC Guwahati Refinery. This is also in the process of implementation at BRPL and Paradip. DHDS/DHDT technology for sulphur removal from diesel streams is also being implemented at BRPL.

Details of expenditure on R&D during XI Plan period vis-a-vis X Plan by IOC and HPCL are given as under:-

IOC : Against actual expenditure of Rs.451 crore during X Plan, total R&D investment for XI Five Year Plan is projected to be Rs.855 crore. Thus, there is increase in R&D expenditure by IOC.

HPCL: An amount of Rs.23.41 crore was incurred by HPCL for R&D activities during X Plan whereas an amount of Rs.55 crore has been allocated during XI Plan for R&D Activities.

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Comments of the Committee

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

Recommendation (Sl. No. 9, Para No.3.9)

The Economic Survey (2007-08) provides for a Policy Reform option pertaining to the oil sector which states ‘Sell old oil fields to private sector for application of Improved/Enhanced Oil Recovery Techniques’. The Committee have been informed that the Ministry of Petroleum &Natural Gas and oil PSUs were not even consulted in connection with the said Policy Reform option. In the opinion of the Committee, bringing out such a vital Reform option without consulting the nodal Ministry/PSUs is unjustified. They are at a loss to understand the rationale behind bringing out the said Policy Reform option when our national upstream companies like ONGC and OIL are capable of employing the Improved and Enhanced Oil Recovery Techniques. As a matter of fact, these companies have been using such techniques in some of their depleted fields for quite some time. The Committee, therefore, desire that the Government should reconsider the issue and withdraw the said Policy Reform option at the earliest.

REPLY OF THE GOVERNMENT

Although in the Economic Survey 2007-08, the policy reform option pertaining to the oil sector stating 'Sell old oil fields to private sector for application of Improved/Enhanced Oil Recovery Techniques' was mentioned, it was not indicated in the budget proposals. Therefore, it is unlikely that sale of old oil fields will take place in the current year. However, Government of India awards exploration blocks to national oil companies and private/foreign companies through international competitive bidding process. In the seventh round of NELP, 57 exploration blocks are on offer, for which bid closing date is 30th June 2008.

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Comments of the Committee

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

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

The Committee are unhappy to note that at present, there is not co-ordinated programme for development of bio-diesel plantations like Jatropha in the country and hence, there is not proposal to provide incentives to encourage Jatropha seeds/bio-diesel production. They are of the firm view that some incentives need to be provided to the State Governments/farmers, at lease in the initial phase, to enhance the bio-diesel production which would enable the country to march towards energy security. The Committee, therefore, recommend that concrete incentive proposals should be incorporated in the

National Bio-fuel Policy and that the said Policy should be finalised and put in place soon. They have been informed that a number of States such as Andhra Pradesh, Tamil Nadu, Chhattisgarh, Uttrakhand, Rajasthan, Assam, Tripura and Madhya Pradesh have taken initiatives for promotion of bio-diesel/Jatropha Plantation. The Committee appreciate the efforts made b these State Governments which would render immense benefits to these States and also the country as a whole in the coming years. The Committee desire the Government to impress upon other potential States to go in for such activities in their States.

REPLY OF THE GOVERNMENT

IOC

IOC (R&D) has optimized the synthetic processes for the plantation of bio-diesel meeting standard fuel specification (ASTM D 6751 or IS 15607) from various vegetable oils, which include oils from Jatropha Curcas, Karanjia, Palm, Rice bran, Sunflower etc. The process has been scaled-up in a pilot plant at IOC (R&D) Centre and numbers of 60 kg batches of bio-diesel have been produced utilizing various vegetable oils.

The developed technology was transferred to M/s Venus Ethoxyethers, Goa and M/s IKF Technologies Ltd, Kolkata on non-exclusive basis and on nominal technology fee and royalty sharing mechanism.

IOC has entered into an MOU with Indian Railways to study complete value chain of bio-diesel. In line with that, IOC has taken up plantation on 62 hectares of Railway land at Surendranagar in Gujarat. About one lakh fifty thousand saplings of Jatropha have been planted at the site. This project is one of its kind in the country, where every aspect of Jatropha bio-diesel would be studied. This project was started in 2004. It is expected that production of Jatropha seeds will start from this year-end.

IOC, jointly with Haryana Roadways launched field trials on 40 buses of Gurgaon depot in April 2004. Twenty buses were run on 5% bio-diesel-diesel blends of trial and their smoke, fuel efficiency and drivability were compared with another set of twenty reference buses. A reduction of 10-15% in smoke density has been observed by the use of bio-diesel.

The tests have been conducted with 5%, 10% and 20% blends of Jatropha bio-diesel in diesel on 16 cylinders Alco Diesel Locomotive Engine for power, specific fuel consumption, firing pressures and exhaust gas temperatures. Trial runs of Shatabdi and Jan Shatabdi express trains have been carried out at 5% and 10% bio-diesel. It further planned to launch B10 trials on five pairs of trains running through Lucknow.

IOC, jointly with TATA motors has completed a field trial run on 43 buses for transportation of their employees in Pune using 10% bio-diesel-diesel blends. IOC has planned to produce bio-diesel by initiating energy crop plantation. For this purpose, IOC has applied for 30,000 hectares of non-forest wasteland in Madhya Pradesh. So far, IOC has received allotment of 2,000 hectares in Jhabua district. IOC has signed MOU on 19.11.2007 with Government of Chhattisgarh for formation of Joint Venture for entering bio-diesel business in the State.

BPCL

BPCL has taken up Jatropha Plantation in the vacant land at its existing storage points across the country. An area of approx. 600 acres of Jatropha plantation has been completed and another 400 acres of land plantation is expected to be completed in the next few months. BPCL is in discussions with Uttar Pradesh and Chhattisgarh State Governments for setting up Bio-diesel Value Chain.

HPCL

HPCL has signed MOU with G.B. Pant University of Agriculture & Technology, Pantnagar, Uttrakhand State for the plantation of 10 lakh Jatropha, installation of Transesterification unit and Research on the development of Tissue Culture Technology for micropropogation of best variety of Jatropha. This collaborative R&D project is completely funded by HPCL and is in progress.

HPCL has also planned shortly to sign an MOU with Govt. of Chhattisgarh & Chhattisgarh Renewable Rnergy Development Authority (CREDA) for plantation of Jatropha over 15000 hectares of land.

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Comments of the Committee

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

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

A number of initiatives have been taken by the Oil Marketing Companies viz. IOCL, BPCL and for plantation of bio- crops like Jatropha. The committee appreciate the efforts made by these companies for promotion of bio-diesel in the country and desire them to accelerate their pace in this direction. Besides the OMCs, the Petroleum Conservation Research Association (PCRA) has also taken initiatives on promotion of bio-diesel. However, its activities have been primarily confined to sponsoring of seminars/workshops, preparation of films/brochures and launching of a new website for dissemination of data on bio-diesel. The Committee desire the organization to play a pro-active role in bio-diesel promotion by initiating measures for plantation of bio-crops.

REPLY OF THE GOVERNMENT

BPCL

BPCL has taken up Jatropha Plantation in the vacant land at its existing storage points across the country. An area of approx. 600 acres of Jatropha plantation has been completed and another 400 acres of land plantation is expected to be completed in the next few months. BPCL is in discussions with Uttar Pradesh and Chhattisgarh State Governments for setting up Bio-diesel Value Chain.

HPCL

HPCL has taken several initiatives to encourage & establish Bio-diesel & the first step in this direction was the extensive field trial of Bio-diesel blends B5, B10 & B20 which was conducted with Brihanmumbai Electric Supply & Transport

(BEST) at Mumbai. The trials were very successful and the findings of the trials were shared with the concerned authorities.

Another joint field trial of Bio-diesel blend B10 is in progress at MICO, Bangalore to evaluate the impact on Fuel Injection Pumps & Emissions.

HPCL has also created infrastructure for storing, blending & testing of Bio-diesel & Bio-diesel blended fuels at its 5 locations centres at Ghatkesar (AP), Mandirhasaud (Chattisgarh), Loni, Vashi (Maharashtra) & Salawas (Rajasthan) in line with Bio-diesel Purchase Policy of MoP&NG. So far no suppliers have expressed interest to supply the product at these locations.

HPCL has installed a bio-diesel Pilot plant at its R&D Centre, Vashi, Maharashtra. This Pilot plant is for creating techno-commercial data based on the R&D.

HPCL signed MOU with G.B. Pant University of Agriculture & Technology, Pantnagar, Uttranchal for the plantation of 10 lakh Jatropha, installation of Transesterification unit and Research on the development of Tissue Culture Technology for micropropogation of best variety of Jatropha. The collaborative project work is in progress.

HPCL has also plans to sign shortly, an MOU with Govt. of Chhattisgarh & Chhattisgarh Renewable Energy Development Authority (CREDA) for plantation of Jatropha over 15000 hectares of land.

PCRA

1. On 14. 01.05, PCRA has opened a National Biofuel Centre at its corporate office in New Delhi. It was inaugurated by the Secretary, Petroleum and Natural Gas. A 10 litre & 100 litre per day transesterification plant are kept at our National Biofuel Centre for demonstration. Large number of National & International delegation have visited it.

2. PCRA launched a new website on Bio-fuels: www. PCRA-biofuels, on which information on Bio-diesel is available.

3. PCRA sponsored & provided faculty support for seminars & workshops for dissemination of information on Bio-diesel across the country.

(Ministry of Petroleum & Natural Gas O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

Comments of the Committee

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

Recommendation (Sl. No. 17, Para No.3.17)

The Committee note that the Oil Marketing Companies viz. IOCL, HPCL and BPCL have made profits during the last three years. However, their profitability seems to have been adversely impacted because of the under recoveries incurred by them on the sale of sensitive petroleum products, even though some of these under recoveries are being compensated by the upstream oil companies. Besides, oil bonds are also being issued by the Government to the OMCs which is helping them to improve their bottom lines to some extent. However, the Committee find the SLR status has not been accorded to these bonds as a result of which the OMCs are facing the liquidity problem. The Committee recommend that SLR status should be granted to the oil bonds already issued and proposed to be issued to the OMCs. As the OMCs need to spend more to meet the growing needs of the economy for which they have to be left with substantial investible surpluses, the Committee desire that these companies should go in for innovative and profitable business activities, execution of renewable energy projects, manufacture of rigs, etc.

REPLY OF THE GOVERNMENT

The matter was taken up with Ministry of Finance and they have stated that :Classification of Government Securities as SLR is made by the Reserve Bank of India (RBI) under the provisions of Banking Regulation Act. As a policy, RBI has been treating securities issued outside the borrowing programme (e.g. oil bonds, fertilizer bonds, etc.) as non-SLR securities. However, to compensate for the non-SLR status, a 20-25 bps spread above the g-sec rate of comparable maturity is being allowed in respect of such securities. The investment in these bonds by the Insurance Companies, Provident Funds, Gratuity Funds, Superannuation Funds etc. are treated as an eligible investment.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

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

Recommendation (Sl. No. 19, Para No.3.19)

An amount of about Rs. 73,250 crore has been collected by the Government from the cess levied on indigenous crude since inception of the Oil Industry (Development) Act, 1974 till 31 December 2007 out of which a paltry amount of Rs.902.40 crore has been disbursed to the oil Industry Development Board (OIDB). The Committee are indeed perturbed that due amounts are not being released to the OIDB out of the cess proceeds. The Committee have raised this issue in their earlier Reports from time to time. They are indeed unhappy to observe that the Government has done nothing on their vital recommendations on this issue except for giving stock replies that the expenditure on 'Oil Industry' has been in excess of the cess collection. The Committee would like to point out that apart from the cess proceeds, the Government is also collecting substantial revenue from the Petroleum Sector. The revenue collected from the Sector in terms of customs and excise duties during 2004-05, 2005-06 and 2006-07 has been as much as Rs.54,378 crore, Rs.61,221 crore and Rs.68,864 crore, respectively. As against this, the total amounts released by the Government through oil bonds and fiscal subsidy on domestic LPG and PDS kerosene have been to the tune of Rs.2,956.34 crore, Rs.14,182.96 crore and Rs.26,727.17 crore during the said period. Thus, the Government has paid back only a small portion of the revenue collections from the Sector. The Committee strongly recommend that the entire issue of deployment/utilization of cess levied on crude oil/revenues collected from the Petroleum Sector vis-à-vis the amounts released to the Sector, should be referred to a Group of Ministers comprising the Union Ministers for Petroleum & Natural Gas, Finance, Law and Chemicals & Fertilizers and an early decision taken thereon.

REPLY OF THE GOVERNMENT

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

In this context, it is noteworthy that in the years 2005-06, 2006-07 and 2007-08, Oil Bonds to the extent of Rs.11,500 crore, Rs.24,121 crore and Rs.20,333.33 crore respectively (total Rs.55,954.33 crore) were issued to Public Sector Oil Marketing Companies as part compensation for the under recoveries on the domestic sale of sensitive petroleum products, in addition to the Subsidy for LPG/Kerosene and for Natural Gas sales in NE region amounting to Rs.2682.95 crore, Rs.2698.19 crore and Rs.2820.14 crore respectively for the same period. This itself is considerable when seen against the total cess collection of about Rs.74972.36 crore from July,1974 to March,2008.

Regarding the issue of deployment/utilization of Cess levied on crude oil being referred to a Group of Ministers, the Ministry of Finance have offered no comments.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

Comments of the Committee

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

CHAPTER V

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

Recommendation (Sl. No. 1, Para No.3.1)

The Oil Public Sector Undertakings which are under the administrative control of the Ministry of Petroleum & Natural Gas implement all their projects from out of their internal resources and loans. The Government does not provide any Budgetary support to the Ministry on the Plan side. However, in 2008-09, a sum of Rs.25.00 crore has been allocated as Plan support to meet the expenditure towards setting up of the Rajiv Gandhi Institute of Petroleum Technology (RGIPT). The Non-Plan Budget of the Ministry for the year 2008-09 amounts to Rs.2,913.00 crore. The items for which these allocations have been made include subsidy on domestic LPG and PDS Kerosene (Rs.2,700.00 crore), Freight subsidy on retail products for far flung areas (Rs.32.00 crore), subsidy to oil companies for supply of natural gas to the North-Eastern Region (Rs.152.43 crore), Petroleum Regulatory Board (Rs.15.00 crore), Society for Petroleum Laboratory (1.65 crore) and Secretariat – Economic Services (Rs.11.92 lakh). Since the Demands of the Ministry appear to be in order, the Committee endorse the same. However, they desire the Ministry to contain the expenditure during the year within the Budgetary allocations.

As mentioned above, an amount of Rs.25.00 crore has been allocated on the Plan side in the Demands for Grants (2008-09) of the Ministry for the Rajiv Gandhi Institute of Petroleum Technology (RGIPT). The Committee understand that the immediate priority of the 'Government is to set up the RGIPT and make it functional from the academic year 2008-09 for which the process of faculty recruitment is currently going on. They desire the Government to act fast in the matter and complete the process expeditiously.

The Committee further recommend that after the institute is made functional, the Government should assist the RGIPT in setting up campuses / academic centres at various locations of the country having rich hydrocarbon reserves/potentials. The Committee should be apprised of the progress made in this regard at periodic intervals.

REPLY OF THE GOVERNMENT

The observation of the Committee regarding containing the expenditure within the Budget sanctioned for 2008-09 have been noted and steps will be taken to contain the expenditure within the sanctioned Budget.

The process of faculty recruitment for RGIPT has progressed well. Shortlisting of the applicants has been finalized with the help of subject experts from IIT Kanpur and the call letters for interview have been despatched to the shortlisted candidates. Interviews by Selection Committee were conducted from 30th June to 7th July 2008.

Regarding recommendation for setting up campus/academic centers at various locations of the country having rich hydrocarbon reserves / potential, Clause 10(4) of the RGIPT Act, 2007 empowers the Board to establish campus and academic centres at any place within India. Presently, RGIPT Society is engaged in setting up the Institute at Rae Bareilly. On successful establishment of RGIPT, depending upon the requirement, the Institute would consider setting up of branches in other parts of the country. The preference for site location would be analyzed as per the need and demand prevailing at the time of setting up of such similar institute.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

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

In the General Budget (2008-09), the ad valorem component in the excise duty on unbranded petrol and diesel has been done away with. The Committee welcome the move of the Government which would help in containing the cascading impact on retails prices of these products. However, the Committee are unhappy to note that a number of other proposals sent by the Ministry of Petroleum & Natural Gas to the Ministry of Finance for inclusion in the Budget (2008-09) have not been incorporated in this year's Budget. Two vital proposals which could not be included in the Budget relate to grant of infrastructure status to the Exploration and Production (E&P) Sector and inclusion of ethanol in the 'Declared Goods' category. The Committee, in their Fourteenth Report (14th Lok Sabha), had recommended that infrastructure status should be accorded to E&P activities in order to attract investments to the sector. However, the recommendation has not yet been implemented apparently because it has not found favour with the Ministry of Finance. Similarly, the inclusion of ethanol in the 'Declared Goods' category is also the need of the hour as it would lead to a uniform sales tax rate across the country, thereby facilitating the hassle-free movement of this vital item. The Committee, therefore, recommend/reiterate that ethanol should be included in the 'Declared Goods' category and infrastructure status accorded to the E&P Sector.

REPLY OF THE GOVERNMENT

Grant of Infrastructure Status to Exploration and Production (E & P) Sector

The recommendation of the Committee on the issue of providing infrastructure status to the E&P sector was not accepted by the Ministry of Finance in the budget 2008-09. As recommended by the Committee, the issue of providing infrastructure status to E&P sector will be proposed for consideration in the next Budget.

Declared good status to ethanol used for blending with petrol and Bio-Diesel.

Currently, State Governments are levying taxes, apart from imposing levies such as import/export tax, entry tax etc., on the movement of bio-fuels namely Ethanol and Bio-Diesel from one State to another. Due to these taxes/ levies, the landed cost of bio-fuels at the blending plants of oil companies works out to be higher than the landed cost of the petrol or diesel.

Ministry of Consumer Affairs, Food & Public Distribution had made reference to the Department of Revenue, Ministry of Finance in November, 2007 relating to formulation of policy for promotion of ethanol as a bio-fuel on their part. This had included proposal for approaching the Cabinet Committee on

Economic Affairs (CCEA) for a decision regarding amendment of the Central Sales Tax Act, 1956 so as to include denatured anhydrous alcohol of minimum 99% strength in the list of declared goods for the benefit of the ethanol blending programme in India.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

Recommendation (Sl. No. 14, Para No.3.14)

The Vastan site in Gujarat has been found suitable for Underground Coal Gasification Project of ONGC. The Committee have been informed that to achieve pilot production from this site, contracts are under finalization with the Skonchisky Institute of Mining (SIM). Besides, some items of work like acquisition of seismic data and resolution of environmental and subsidence issues are also being undertaken. The Committee desire that these pending issues should be sorted out quickly and a road map for execution of various activities under the project be drawn up at the earliest. The committee also desire that other potential sites in various States should be identified for execution of this kind of project.

As regards the Surface Coal Gasification Project of GAIL at Talcher in Orissa, the Committee have been informed that the Company has discussed the matter of coal linkages with the Coal Secretary in October 2007 and March 2008. As no success seems to have been achieved in the matter, the Committee desire that the Petroleum Secretary should urgently take up the matter with his counterpart in the Coal Ministry and finalise the issue expeditiously.

Keeping in view the vast potential of coal gasification and coal liquefaction projects in meeting the long-term energy requirements, the Committee in their earlier Reports, have been recommending fast tracking of these projects. The Committee, however, are not satisfied with the pace of the implementation of the projects. In this connection, they note that the Planning Commission has, in its report on Integrated Energy Policy, recommended for setting up of National technology Missions to give impetus to the implementation of these projects.

The Committee endorse the views of the Planning Commission and desire that the National Technology Missions for these projects be set up urgently involving all the concerned Ministries, technical institutions, etc. so that a co-coordinated approach could be adopted which will surely fast track the programme.

REPLY OF THE GOVERNMENT

ONGC is making all efforts to expedite the execution of the UCG project. Seismic data has been acquired and is under processing. Skochinsky Institute of Mining (SIM), Russia is arranging for the agency to prepare detailed design. Identification of additional sites for UCG is underway. Ministry of Petroleum is continuously coordinating with Ministry of Coal in order to resolve the issues as and when they arise.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

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

Piped Natural Gas (PNG) is at present being supplied only in four States viz. Maharashtra, Tripura, Gujarat and Assam apart from Delhi. The Government has informed the Committee that the expansion of PNG infrastructure to different cities is being taken up in a phased manner. It appears that no concrete action plan has been chalked out by the Government to expand the PNG supply to different parts of the country. The Committee strongly believe that with a number of gas discoveries made from the NELP blocks in the last few years and the possibility of finding more gas from such blocks in the coming years, the availability of gas in the country would substantially go up in the next few years. Therefore, the lack of availability of gas, which often acts as a major roadblock in expansion of PNG network, would no longer be a key issue/constraint in the coming years. The Committee, therefore, desire that a road map should be prepared for systematic expansion of the PNG network in the country. The said road map should include the specific activities to be undertaken by implementing agencies on a yearly basis and the cities where such activities are to be carried out.

REPLY OF THE GOVERNMENT

In order to promote investment from public as well as private sector for inter alia city/local natural gas distribution networks throughout the country, the Government of India has enacted 'The Petroleum and Natural Gas Regulatory Board Act, 2006' and notified the 'Policy for Development of Natural Gas Pipelines and City or Local Natural Gas Distribution Networks'. The Board has been constituted. The provisions of the Act (except Section 16) have been made effective from 1.10.2007. The Board has invited Expressions of Interest (EoIs) for implementing city/local natural gas distribution networks in many cities.

2. GAIL has formed eight Joint Venture Companies with OMCs and Strategic partners to implement city gas distribution projects. At present, PNG is being supplied or planned to be supplied by GAIL's JVCs in the following states/ cities:

S. No.	States	Name of city	Name of the Companies	Status
1	Maharashtra	Mumbai & suburb	M/s Mahanagar Gas Limited	PNG is being supplied
2		Pune	M/s Maharashtra Natural Gas Limited	PNG supply Under implementation
3	Delhi	Delhi & suburbs	M/s Indraprastha Gas Limited	PNG is being supplied in Delhi
4	Tripura	Agartala	M/s Tripura Natural Gas Limited	PNG is being supplied
5	Andhra Pradesh	Vijayawada, Hyderabad	Bhagyanagar Gas Limited	PNG supply under implementaion
6	Uttar Pradesh	Kanpur, Bareilly	Central UP Gas Limited	PNG supply under implementation
7		Lucknow, Agra	Green Gas Limited	PNG supply under implementation
8	Madhya Pradesh	Indore, Ujjain and Gwalior	Aavantika Gas Limited	PNG supply under implementation

3. Further, GAIL GAS LIMITED (GGL), a wholly owned subsidiary company of GAIL (India) Ltd., has been incorporated on 27.05.2008. GAIL Gas Ltd. has submitted Expressions of Interest (EOI) to PNGRB in June 2008 for 7 cities,

namely, Kota, Gwalior, Dewas, Jhansi, Mathura, Ghaziabad and Sonipat. Implementation of City Gas Distribution projects would be taken up by GGL after getting authorization from PNGRB.

4. Apart from the above, the following Companies are also supplying PNG as detailed below:

S. No.	States	Name of city	Name of the Companies
1	Assam	Dibrugarh, Duliajan, Tinsukia, Naharkatia, Moran, Sivasagar, Nazia etc.	M/s Assam Gas Company Limited
2	Gujarat	Vadodara	M/s Vadodara Mahanagar Seva Sadan,
3		Surat, Ankeleswar, Bharuch	M/s Gujarat Gas Company Limited,
4		Hazira, Valsad, Vapi, Navsari, Rajkot, Nadiad, Chandkheda/ Motera etc.	M/s Gujarat State Petroleum Corporation Ltd.
5		Gandhinagar, Mehasana and Sabarkanta	M/s Sabarmati Gas Limited
6		Ahmedabad	M/s Adani Energy Limited

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

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

The Committee note that the capacity of the Dahej and Hazira LNG terminals of Petronet LNG Limited and Hazira LNG Private Limited is being doubled from the current 5 MMTPA and 2.5 MMTPA to 10 MMTPA and 5 MMTPA, respectively. They have been informed that apart from these two terminals, LNG terminals at Dabhol and Kochi are expected to be operational by the end of 11th Plan and that these terminals will have a combined capacity to regasify about 22.5 MMTPA LNG. However, the Committee are unhappy to learn that there has not been any significant improvement in the import of LNG in the recent years. As against 6.87 MMT LNG imported during 2006-07, 7.35 MMT LNG has been imported during 2007-08 upto February 2008. In the opinion of the Committee, the import of LNG needs to be enhanced substantially to cater to the increasing requirements of the various sectors/consumers. They have been informed that GAIL and PLL are exploring the possibility of importing LNG from various potential suppliers. The Committee desire these Companies to intensify their efforts to secure long-term contracts of LNG import. They also recommend that other Companies like ONGC, OIL and IOCL should look for opportunities to set up/implement oil/gas related projects in the gas-rich countries and procure LNG on a quid pro quo basis.

REPLY OF THE GOVERNMENT

During 2007-08, about 8.32 MMT LNG was imported in the country, which is more than 120% of the LNG imported in the country during 2006-07. This has to be viewed against the present regasification capacity of 7.5 MMTPA.

All possible efforts are being made to increase LNG import in the country. GAIL and PLL are in discussions with various LNG suppliers for sourcing additional LNG on long-term basis. In addition, IOCL and ONGC also making efforts for long-term tie up of LNG.

Regarding setting up/implementing oil/gas related projects in gas-rich countries and procuring LNG on quid pro quo basis, Companies like OVL and IOCL have made attempts in this regard and the same have not resulted in any concrete project so far. The Companies are still making efforts in this direction.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

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

The Committee, in their 14th and 19th Reports (14th Lok Sabha) had expressed concern over the shortage of LPG in a number of States and advised the Government to increase LPG supply to these States through enhanced production/import. The Government has admitted that there was backlog in LPG supplies in certain States which was caused by reduction in supply of bulk LPG by the Reliance Industries Limited and Essar Oil Limited in January and February

2008, delay in movement of bulk LPG by rail from Jamnagar to the Northern Region, increased demand in the States due to severe cold, strike by the contract labour, agitations, etc. The Committee have been informed that the Government has advised the OMCs to liquidate the backlog in the States by operating the bottling plants on holidays and during extended hours. The Committee recommend that the OMCs should maintain a permanent reserve/stock of LPG, especially for the winter months, to effectively deal with this sort of crisis situations. The Committee note that the OMCs have reported that there is no shortage of LPG and new connections are being given to the genuine persons. It has, however, come to the notice of Committee that people, especially living in rural and remote areas are facing difficulties in getting new LPG connections and refills. The Committee desire the Ministry to assess the situation in these areas and release more LPG connections and strengthen the distribution network in these areas so that they can also have an access to cleaner fuel at affordable rates. The Committee further recommend that the OMCs should make a thorough survey of households having multiple LPG connections and cancel the extra connections which would ease the situation to some extent. The Committee also recommend that the OMCs should strengthen their delivery mechanism so as to reduce the gap between the booking and delivery of cylinders to 2 days in all eligible cases.

REPLY OF THE GOVERNMENT

OMCs have reported that at present, there is no overall shortage of LPG in the country and LPG supplies to distributors are being made by the OMCs through indigenous production and imports in accordance with the genuine demand of customers registered with the LPG distributors. OMCs have further reported that they have supplied 10302 TMT (Thousand Metric Tonnes) of domestic LPG in the country during the year 2007-08 as against 9761 TMT during the year 2006-07, showing a growth rate of 5.5%.

OMCs have reported that as on 15th May 2008, the total LPG stock in the country is 394 TMT which is equivalent to about 12 days cover.

OMCs have reported that as on 1.4.2008 they have provided 1009.9 lakh LPG connections in the country through their 9365 LPG distributorships. Government have advised OMCs to draw up Marketing Plan for covering semi-urban and rural areas. OMCs have finalized 1340 locations in the country for setting up of new LPG distributorships mainly in rural and urban-rural (semi-urban) locations. The advertisements for the same have been released.

The enrolment of new LPG customers and release of new LPG connections is a continuous process. Public Sector Oil Marketing Companies (OMCs) have reported that at present, new LPG connections are available across the counter for genuine domestic customers on verification of documents as per laid down procedure. OMCs have reported that they have released 64.9 lakh new LPG connections in the country during the year 2007-08 as against 53.9 lakh of new LPG connections during the year 2006-07. Apart from release of new connections, OMCs have also released 64.74 lakh DBCs since 2004-05 in the country.

OMCs are striving hard and releasing new connections across the counter. The same is achieved on a continuing basis in most of the markets in the country. However due to non-availability of product and/or equipments, waitlists are generated at certain pockets temporarily which are cleared expeditiously. There is no perennial waiting list for release of new connections across the country, and any person can easily approach the nearest distributor for immediate release of new connection with the required documents.

OMCs have also introduced 5 Kg domestic LPG cylinders with effect from August, 2002 in order to meet the demand of low-income groups in urban, semi-urban and rural pockets and also to extend the reach of LPG to the hilly terrain and interior areas in the country on account of convenience in transportation.

Government has conveyed “in principle” approval to the OMCs for expanding the product line by way of introduction of composite cylinders for marketing domestic LPG, subject to there being no subsidy element in the LPG to be marketed through these composite cylinders. To start with, OMCs intend to import some cylinders by floating global tender and do test marketing in selected cities during 2008-09. The composite cylinders are translucent and will show the level of LPG present in the cylinder.

Blocking of multiple connections and termination of the same is done as per provisions of the LPG (Regulation of Supply and Distribution) Order (Control Order). As per this Order, a person cannot hold more than one domestic LPG connection. OMCs have reported that they are trying to eliminate such multiple connections to control diversion on account of any such multiple connections and also to utilize the idling equipments for more connections in rural areas. Amendments to the Control Order relating to restriction of LPG connections on household basis are under consideration of the Government.

(Ministry of Petroleum & Natural Gas
O.M. No.G-25015/7/2008-Fin-I dated 29-07-2008)

New Delhi;
23 October, 2008
1 Kartika, 1930 (Saka)

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

ANNEXURE I

EXTRACTS OF MINUTES

STANDING COMMITTEE ON PETROLEUM & NATURAL GAS
(2008-09)

THIRD SITTING

(23.10.2008)

The Committee sat on Thursday, the 23rd October, 2008 from 1030 hrs. to 1100 hrs. in Committee Room 'E', Parliament House Annexe, New Delhi.

PRESENT

Dr. N. Janardhana Reddy - Chairman

MEMBERS

Lok Sabha

2 Shri M.Appadurai
3 Shri Kirip Chaliha
4 Adv. Suresh Kurup
5 Shri Sukdeo Paswan
6 Lt. Gen. (Retd) Tej Pal Singh Rawat (PVSM, VSM)
7 Shir Lakshman Singh
8 Shri Ramjilal Suman
9 Shri Ratilal Kalidas Varma
10 Shri Ram Kripal Yadav

Rajya Sabha

11 Shri Tapan Kumar Sen
12 Shri Sabir Ali

Secretariat

1. Shri J.P.Sharma - Joint Secretary
2. Smt. Anita Jain - Director
3. Shri P.C.Tripathy - Deputy Secretary

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

3. The Committee then took up for consideration the following draft Reports:-

(i) ** ** ** ** **

(ii) Twenty-Second Report on Action Taken by the Government on the Recommendations contained in the Twentieth Report (14th Lok Sabha) of the Standing Committee on Petroleum and Natural Gas (2007-08) on Demands for Grants (2008-09) of the Ministry of Petroleum and Natural Gas'.

4. After some discussion, the Committee adopted the Reports without any modification.

5. The Committee authorised the Chairman to finalise the Reports after making consequential changes, if any, arising out of the factual verification of the Reports by the Ministry and present the same to both Houses of Parliament.

The Committee then adjourned

**Matters not related to this Report.

ANNEXURE II

(*Vide* Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE TWENTIETH REPORT (FOURTEENTH LOK SABHA) OF THE STANDING COMMITTEE ON PETROLEUM AND NATURAL GAS (2007-08) ON 'DEMANDS FOR GRANTS (2008-09) OF THE MINISTRY OF PETROLEUM AND NATURAL GAS'.

I	Total No. of Recommendations	25
II	Recommendations/Observations which have been accepted by the Government (*Vide* Recommendations at Sl. Nos. 4,6,7,8,10,11,18,20, 22,23,24 and25)	12
	Percentage to Total	48%
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. 3,5,9,12,13,17 and 19)	7
	Percentage of Total	28%
V	Recommendations/Observations in respect of which final replies of the Government are still awaited (*Vide* Recommendations at Sl. Nos. 1,2,14,15,16 and 21)	6
	Percentage of Total	24%