TWENTY-SEVENTH REPORT

STANDING COMMITTEE ON PETROLEUM & CHEMICALS
(2002)

(THIRTEENTH LOK SABHA)

MINISTRY OF PETROLEUM & NATURAL GAS

DEMANDS FOR GRANTS

(2002-2003)

Presented to Lok Sabha on 24.4.2002

Laid on Rajya Sabha on 24.4.2002

LOK SABHA SECRETARIAT
NEW DELHI

April, 2002/Vaisakha, 1924 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON PETROLEUM AND CHEMICALS (2002)

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34 Shri Rajiv Ranjan Singh `Lalan'
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36 Shri Mool Chand Meena
37 Shri Deepankar Mukherjee
38 Shri Ahmed Patel
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40 Shri Yadlapati Venkat Rao
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42 Shri Gaya Singh
43 Shri Rajnath Singh `Surya'
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45 Prof. Ram Gopal Yadav

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3.	Shri P.K. Grover	: *Director*
4.	Shri J.N. Oberoi	: *Under Secretary*
5.	Shri Ram Raj Rai	: *Committee Officer*

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* ***Vacancy caused consequent upon the retirement of Shri Bangaru Laxman, MP (RS) from the membership of Rajya Sabha w.e.f. 9th April, 2002.***

** ***Vacancy caused consequent upon retirement of Shri Mukesh R. Patel, MP (RS) from the membership of Rajya Sabha w.e.f. 2nd April, 2002.***

*** ***Nominated w.e.f. 8th April, 2002 vice Shri P. Soundararajan, M.P. (RS) retired from the membership of Rajya Sabha w.e.f. 2nd April, 2002***

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum & Chemicals (2002) having been authorised by the Committee to submit the Report on their behalf present this Twenty-Seventh Report on Demands for Grants of the Ministry of Petroleum & Natural Gas for the year 2002-2003.

2. The Committee examined/scrutinised the Demands for Grants pertaining to the Ministry of Petroleum & Natural Gas for the year 2002-03 which were laid on the Table of the House on 20th March, 2002.

3. The Committee took evidence of the representatives of the Ministry of Petroleum & Natural Gas at their sitting held on 4th April, 2002 and those of the representatives of the Ministry of Petroleum & Natural Gas and the Government of NCT of Delhi on 15th April, 2002.

4. The Committee considered and adopted the Report at their sitting held on 22nd April, 2002.

5. The Committee wish to express their thanks to the Officers of the Ministry of Petroleum & Natural Gas and the Government of Delhi for furnishing the material and information which they desired in connection with the examination of Demands for Grants of the Ministry, for the year 2002-03 and for giving evidence before the Committee.

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

New Delhi:
April 22, 2002
Vaisakha 2, 1924 (Saka)

MULAYAM SINGH YADAV,
Chairman,
Standing Committee on
Petroleum & Chemicals.

PART – I

BACKGROUND ANALYSIS

A. INTRODUCTORY

The Ministry of Petroleum & Natural Gas (MOP&NG) is entrusted with the responsibility of exploration and production of oil and natural gas, their refining, distribution and marketing. Import and export as well as conservation of petroleum products also fall within the purview of this Ministry. The activities of the Ministry are carried through following 9 public sector undertakings, 10 subsidiaries and other companies and 7 other organisations.

I. Oil Companies in which Government of India has a shareholding:-

		Shareholding as on 15.03.2002
1.	Oil & Natural Gas Corporation Limited (ONGC)	- 84.1%
2.	Indian Oil Corporation Limited (IOCL)	- 82.03%
3.	Hindustan Petroleum Corporation Limited (HPCL)	- 51.01%
4.	Bharat Petroleum Corporation Limited (BPCL)	- 66.20%
5.	Gas Authority of India Limited (GAIL)	- 67.35%
6.	Engineers India Limited (EIL)	- 90.39%
7.	Oil India Limited (EIL)	- 98.13%
8.	IBP Company Limited	- 26.00%
9.	Biecco Lawrie & Co. Limited	- 57.00%

II. Subsidiaries and other companies

1.	ONGC Videsh Limited (OVL)	- wholly owned by ONGC
2.	Indian Oil Blending Limited	- wholly owned by IOCL
3.	Balmer Lawrie & Company Limited	- subsidiary of IBP*
4.	Certification Engineers International Limited	- wholly owned by EIL
5.	EIL Asia Pacific Sdn. Bhd.	- wholly owned by EIL
6.	Chennai Petroleum Corporation Limited (CPCL)	- subsidiary of IOCL
7.	Bongaigaon Refinery and Petrochemicals Limited (BRPL)	-subsidiary of IOCL
8.	Numaligarh Refinery Limited (NRL)	- subsidiary of BPCL
9.	Kochi Refineries Limited (KRL)	- subsidiary of BPCL
10.	IBP Company Limited	- Subsidiary of IOCL

* *The investment of IBP in Balmer Lawrie & Co. Ltd. has since been transferred to a new holding company to facilitate disinvestment of IBP and Balmer Lawrie, separately.*

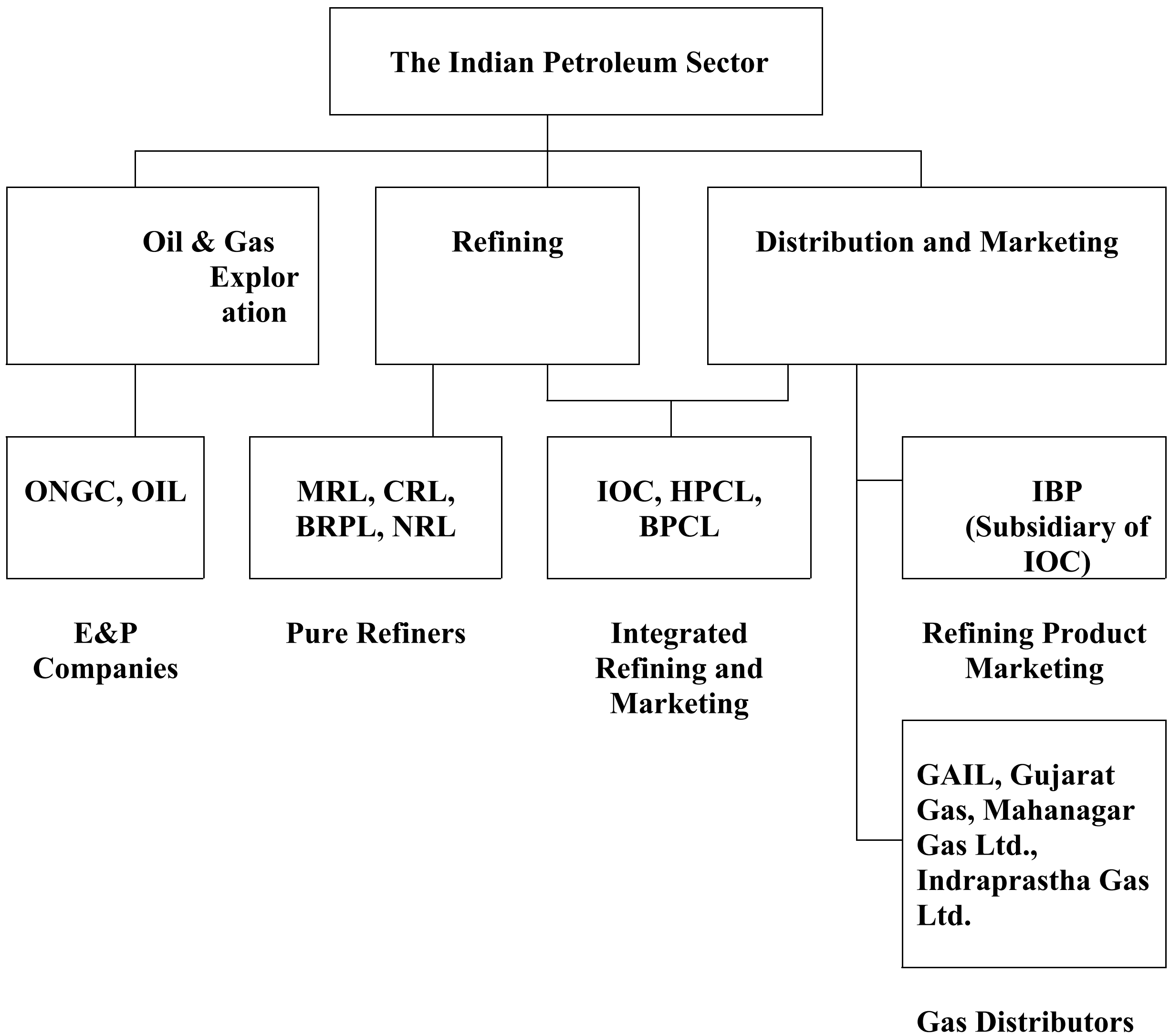
III. Other organisations

1. Oil Industry Development Board (OIDB)
2. Petroleum Planning and Analysis Cell
3. Petroleum Conservation Research Association (PCRA)
4. Oil Industry safety Directorate (OISD)
5. Centre for High Technology (CHT)
6. Petroleum India International (PII)
7. Directorate General of Hydrocarbons (DGH)

1.2 The Indian Oil Sector can be divided into three sub-sectors:-

(i) Oil and Gas Exploration & Production;
(ii) Oil Refining ; and
(iii) Marketing (Gas and Refined Products)

The various players in each of these sub-sectors are listed below:-



B. <u>APPRAISAL OF NINTH FIVE YEAR PLAN (1997-2002) AND FUTURE STRATEGY</u>

(I) Performance of Oil Sector during 9^{th} Plan and future strategy

1.3 Taking into account the likely demands and the estimated indigenous crude production, the following thrust areas in oil and natural gas sector were identified for special attention during the Ninth Plan:-

(i) Acceleration of exploration efforts especially in deep offshore areas as also in the frontier areas.

(ii) Pursuing the possibility of acquisition of acreage in other countries for equity of oil.

(iii) Special attention on improving reservoir management and increasing recovery rates for all major fields by at least 5%.

(iv) Formulation of an overseas oil and gas supply policy.

(v) Deregulation/rationalisation of the administered price mechanism.

(vi) Examining the possibility of importing natural gas at competitive rates.

(vii) Creation of adequate refining capacity (80-90% of demand of petroleum products).

(viii) Augmentation and upgradation for marketing and distribution facilities.

(ix) Improvement of product quality.

(x) Removal of existing administrative bottlenecks.

(xi) Setting up of regulatory mechanism, both in upstream and downstream sectors.

(xii) Setting up of strategic tankages for ensuring supply of crude oil and petroleum products.

1.4 A detailed analysis of performance in some of the identified areas of attention has been done in succeeding paragraphs

(a) Exploration and Production of Oil and Gas

1.5 The cumulative production during the Ninth Plan period was projected as 180.82 million tonnes of crude oil and 144.53 billion cubic metres of gas. The following table shows the Crude oil and gas production during 9th Plan (year-wise)

Year	**OIL (MMT)**				**GAS (BCM)**			
	ONGC	**OIL**	**PVT.**	**TOTAL**	**ONGC**	**OIL**	**PVT.**	**TOTAL**
1997-98	28.251	3.089	2.514	33.854	23.05	1.67	1.68	26.40
1998-99	26.386	3.277	3.042	32.705	22.84	1.71	2.87	27.42
1999-2000	24.648	3.261	4.018	31.927	23.25	1.73	3.47	28.45
2000-01	25.057	3.286	4.083	32.426	24.02	1.86	3.60	29.48

2001-02 (Est.)	24.709	3.200	4.115	32.024	23.71	1.63	4.05	29.39
Total	**129.051**	**16.113**	**17.772**	**162.936**	**116.87**	**8.60**	**15.67**	**141.14**

1.6 Physical performance of ONGC during this period (1997-2002) is as under:-

Sl No	**Activity**	**Unit**	**9th Plan**	**1997-98**	**1998-99**	**1999-2000**	**2000-01**	**2001-02**	**9th Plan Anticipated =** ***1997-2001 (Actual) + 2001-02 (RE)***
			Start of Term Projections	**Actual**	**Actual**	**Actual**	**Actual**	**RE**	
1	**SEISMIC SURVEY**								
	2D SEISMIC SURVEY	GLK/LK	30735	6478	6908	4259	16895	39889	74429
	3D SEISMIC SURVEY	GLK/LK	186639	95988	107731	144815	117335	287300	753169
2	**DRILLING**								
	EXP DRILLING								
	METREAGE	‘000 M	1906.98	297.52	287.92	384.58	359.60	410.62	1740.24
	WELLS	Nos	692	126	129	145	145	164	709
	DEV DRILLING								
	METREAGE	‘000 M	1855.22	347.34	299.51	283.68	313.96	326.30	1570.79
	WELLS	Nos	852	162	145	146	143	154	750
3	**PRODUCTION**								
	CRUDE OIL	MMT	144.894	28.251	26.386	24.648	25.057	24.709	129.05
	NATURAL GAS	BCM	119.04	23.049	22.841	23.252	24.020	23.716	116.88
	LPG	KT	5345.00	1143.54	1181.08	1205.97	1213.87	1131.64	5876.10
	NGL/SKO/ARN /HEAVY CUT	KT	7300.00	1791.34	1808.53	1931.41	1947.87	1920.20	9399.35

	C2-C3	KT	2850.00	556.61	506.55	556.58	570.57	546.45	2736.76

1.7 The following table shows OIL's Physical performance during 9th Plan (1997-2002):-

Sl No	**Activity**	**Unit**	**9th Plan**	**1997-98**	**1998-99**	**1999-2000**	**2000-01**	**2001-02**	**9th Plan Anticipated = *1997-2001 (Actual) + 2001-02 (RE)***
			Start of Term Projections	**Actual**	**Actual**	**Actual**	**Actual**	**RE**	
1	**SEISMIC SURVEY**								
	2D SEISMIC SURVEY	GLK/LK	4010	803	458	453	420	810	2944
	3D SEISMIC SURVEY	GLK/LK	766	166	170	163	155	347	1003
2	**DRILLING**								
	EXP DRILLING								
	METREAGE	'000 M	311.84	49.56	44.57	40.21	39.16	41.33	214.83
	WELLS	Nos	84	10	14	11	12	10	57
	DEV DRILLING								
	METREAGE	'000 M	399.97	60.57	52.41	50.15	49.56	57.33	270.00
	WELLS	Nos	100	18	14	16	13	16	77
3	**PRODUCTION**								
	CRUDE OIL	MMT	16.360	3.089	3.277	3.261	3.286	3.200	16.113
	NATURAL GAS	BCM	12.86	1.672	1.713	1.729	1.861	1.630	8.605
	LPG	KT	250.00	52.72	54.61	51.39	51.47	50.00	260.19

1.8 The contribution of private sector in exploration and production activities during Ninth Plan was as under:-

Exploration

	1997-98	**1998-99**	**1999-2000**	**2000-2001**	**2001-02 (Upto Feb. 2002)**	**Total IXth Plan (Upto Feb. 2002)**

Seismic Survey Pvt/JV	1605	1846	4013	8398	5231	21093
2D(LKM)	112	23	1141	2589	4639	8504
3D(SQKM)						
Exploratory Drilling Pvt./JV						
Wells	6	8	5	12	9	40
Development Drilling Pvt./JV						
Wells	26	24	19	11	10	90

Production

	1997-98	1998-99	1999-2000	2000-01	2001-02	Total IX Plan
Oil (MMT)	2.514	3.042	4.018	4.083	4.115*	17.772
Gas (BCM)	1.681	2.874	3.465	3.596	4.050*	15.666

* *Actual upto February plus expected for March, 2002.*

1.9 While specifically going into the details of each activity of petroleum sector, the Committee wanted to know the reasons for failure in the targets for exploration and production during the 9th Five Year Plan. The Ministry submitted following details about target achievements of ONGC in a written reply:-

"ONGC's target of Seismic survey, exploratory drilling and production of value added products will be overachieved during the 9th Plan period considering RE for 2001-02. The reasons for shortfall for some other acitivities are as under:

Development Drilling**:** There will be no shortfall in development drilling in onland during the IX Plan. However, there will be a shortfall in development drilling in offshore, primarily due to non-availability of charter hire rigs, diversion of rigs for relief wells B-121, major repair of a charter hire rig and rescheduling of Mumbai High re-development.

Oil & Gas production: The major reasons for the shortfall in ONGC's production are as under:

- Decline in production rate and increase in water cut in Neelam.
  Heera Phase-III and South Heera in the Western Offshore.
- Continued power supply from State Electricity Boards in the Western Region (Gujarat) and the Eastern Region (Assam).
- Less gain from Enhanced Oil Recovery (EOR) schemes in North Gujarat.
- Less than planned withdrawal by the Gas consumers.
- Continued environmental problem in Eastern Region.

About Oil India Limited (OIL), the Ministry submitted as under:-

"OIL is likely to meet the target for overall Seismic Survey & LPG production. The achievement of Crude Oil Production is likely to be around 98% of the target. The major shortfalls are in exploratory & development drilling and gas production & sale. The reasons are as under:-

Exploratory & Development Drilling

- Environmental problems in Assam and Arunachal Pradesh and severe sub surface problems encountered while drilling for deeper prospects due to complex lithology and subsurface condition etc.
- Review of drilling programme on the North Bank of river Brahmaputra. Saurashtra Offshore and Ganga valley as there had been no hydrocarbon discovery in the first phase of exploratory drilling.

Crude Oil & Gas Production and Gas Sales

- Environmental problems like frequent bandhs, blockades, etc. Production from one of the newly discovered field in Khagorijan has been suspended since August, 1999 due to a blockade by the local residents.
- Less than planned withdrawal by the gas consumers."

1.10 While going into the further details of the achievements of exploration efforts made during the 9th Plan period, when the Committee wanted to know about the new oil fields discovered during the period, the Ministry of Petroleum & Natural Gas submitted the following reply:-

"During the current plan period, ONGC, as on 1.1.2002, has made 38 new hydrocarbon discoveries, out of which 17 are oil and 21 are gas. In the established regions, viz. in the States of Assam, Andhra Pradesh, Gujarat, Tripura, Tamilnadu, and in the Shallow Water offshore, both East & West coast, ONGC has made 17 oil finds. Exploratory efforts expended in deep-water areas, have established two hydrocarbon (gas) finds in KG basin in the East Coast.

OIL has made 18 new hydrocarbon discoveries during the IX plan period till date. All the discoveries are in the Upper Assam Basin.

Private companies/joint ventures have made 10 new hydrocarbon discoveries in Rajasthan, Krishna Godavari offshore and in Gulf of Cambay basins."

1.11 In the same context of demand and production of crude and gas the Committee wanted to know about the trend of increasing demand during the 9th Five Year Plan and contribution of indigenous oil sector in fulfilment of this demand. The Ministry submitted the following details:-

"The demand of crude oil in the country i.e. the crude oil processed in the refineries and gas sales during 9th Five-Year Plan period is as given below:-

	Crude Oil	**Gas Sales**
	MMT	**MMSCMD**
1997-98	65.2	57.65
1998-99	68.5	60.30
1999-2000	85.7	63.39
2001-01	103.1	65.98
2001-02 (RE)	108.2	66.01

MMT : Million Metric Tonnes
MMSCMD : Million Metric Standard Cubic Metre per Day"

1.12 About the contribution of indigenous oil and gas production, the Ministry has informed as under:-

"The contribution of indigenous crude oil to fulfill the demand of crude oil during 9th Five-Year Plan period is as given below:-

	Indigenous Crude Oil	
	MMT	**% of total crude processing**
1997-98	30.7	47
1998-99	29.6	43
1999-2000	28.8	34
2001-01	28.9	28
2001-02 (RE)	28.9	27

Balance crude oil requirement was met through imports.
The gas sale was out of domestic production only."

1.13 The details of year-wise allocation/demand and supply of natural gas during the 9th Five Year Plan are given in the following table:

(MMSCMD)

Year	**Allocated Demand**	**Supply**	**% Fulfillment**
1997-98	92.1	57.65	62.6
1998-99	96.0	60.30	62.81
1999-2000	102.3	63.39	61.96
2000-2001	118.3	65.98	55.77
2001-2002	119.02	66.01	55.46

1.14 While going into the details of the exploration strategy of the Government, the Committee specifically wanted to know about the changes made by the Government in exploration strategy and production activities particularly in view of the suggestion made by the Planning Commission as well as the Standing Committee on Petroleum & Chemicals. The Ministry of Petroleum & Natural Gas said:-

> "Keeping in view the recommendations of the Standing Committee on Petroleum & Chemicals made in their 4th Report (10th Lok Sabha) in 1994 and also the suggestion of Planning Commission, Government initiated strategic changes for spreading exploration activities in the country. In fact, most of the poorly explored/unexplored areas of the country belong to the non-producing category including Frontier basins and Deep water areas which have remained unexplored or poorly explored so long due to the geological uncertainties, technological challenges, difficult logistics and associated high risks. The exploration bidding rounds initiated in the past were continued with offer of more and more blocks from the non-producing basins. As the response of Private companies for such blocks with high-risk rating was not encouraging, Government introduced the New Exploration Licensing Policy (NELP) in 1999 with attractive fiscal terms not only to encourage, spread and accelerate exploration activities across most sedimentary areas including deep offshore but also to provide a level playing field for both Private and National Oil Companies (NOCs). In the two rounds of NELP (I&II) offered so far, the positive and encouraging effect of the above strategic changes for spreading exploration became apparent with award of 31 blocks in non-producing basins, including 15 in Deep water areas out of total 47 blocks for which PSCs have been signed. Furthermore, the India Hydrocarbon Vision-2025 has clearly spelt out the strategy and intention of the Government for appraisal of all the sedimentary basins of India in a definite time frame in a phased manner. This aspect has been taken into consideration while formulating the exploration program of the X Plan, which is on anvil."
>
> Further to enhance oil production through better recovery from the present fields, the time bound action plan has been initiated for Improved/Enhanced Oil Recovery (IOR/EOR) for all the 15 major fields of ONGC including Mumbai High. 16 of the 19 projects drawn up in this connection are already under implementation. The action is also in hand for formulation of time bound action plan for 41 other medium to small oil and gas fields of ONGC for improvement of recovery. OIL is also implementing IOR/EOR schemes in selected reservoirs and is further in the process of identifying additional inputs to improve recovery for their already producing depleting fields.
>
> Government are also encouraging and providing all assistance for equity oil abroad in the context of energy security of the country. However, in such overseas venture which involves large investment of risk money, there is a need for a commercial prudence in each case which can be addressed through due diligence by the participating companies themselves whether Private or National. Nevertheless, Oil PSUs both Upstream and Downstream together, will be venturing for overseas Upstream activities for equity oil with OVL being the leading player.

Such alliance will provide opportunities for furtherance of energy security in future."

1.15 When specifically asked about the steps taken to enhance the domestic availability of oil and gas and providing oil/gas security to the country in view of objectives Hydrocarbon Vision 2025, the Ministry informed as under:-

"Even before the recommendations of India Hydrocarbon Vision-2025 made in March 2000 in the Mid Term Review (MTR) of the IX Plan in 1999, the acceleration of exploration activities and optimization of production of oil and gas by the NOCs was focussed. Accordingly, and also keeping in view the recommendations of the India Hydrocarbon Vision-2025, the annual plans of NOCs for the year 2000-01 for the year 2000-01 and 2001-02 were drawn up with increased quantum of exploration and spread so that the time frame suggested in the Vision document could be maintained. This strategy will also be followed during the X Plan, which is on the anvil.

As the response of Private companies for such blocks with high-risk rating was not encouraging, Government introduced the New Exploration Licensing Policy (NELP) in 1999 with attractive fiscal terms to encourage, spread and accelerate exploration activities across most sedimentary areas including deep offshore. In the two rounds of NELP (I & II) offered so far the positive and encouraging effect of the above strategic changes for spreading exploration became apparent with award of 31 blocks in non-producing basins (Category – II & III) including 15 in deep water areas out of total 47 blocks for which Production Sharing Contracts (PSCs) have been signed.

To enhance oil production through better recovery and reservoir management from the present fields, a time bound action plan has been initiated for Improved/Enhanced Oil Recovery (IOR/EOR) for all the 15 major fields of ONGC, including Mumbai High. 16 of the 19 projects drawn up in this connection are already under implementation. Action is also in hand for formulation of time bound plans for 41 other medium to small oil and gas fields of ONGC for improvement of recovery. OIL is also in the process of identifying additional inputs to improve recovery in already producing depleting field.

Government is also encouraging and providing all assistance for acquiring equity oil abroad. Oil PSUs both upstream and downstream, will be venturing together overseas for equity oil with OVL being the leading player. Such alliances will provide opportunities for furtherance of energy security in future.

Hydrocarbon Vision 2025 envisage maintaining adequate levels of self-sufficiency in refining i.e. indigenous production of middle distillates at 90% of consumption of middle distillates.

The X Plan working indicates that the level achieved would be in excess of 100%.

In order to increase indigenous production of petroleum products, several capacity additions through expansions or grass root projects are envisaged in X Plan period. At the beginning of the X plan period the domestic refining capacity is expected to be 114.67 MMTPA. The expansion programmes alone would increase the refining capacity by 28.4 MMTPA. Considering expansions alone, the refining capacity at the end of the X Plan period would be about 143.1 MMTPA. This capacity is adequate to meet the requirements of the country for middle distillates."

1.16 About the Step taken to increase the domestic production of natural gas, the Ministry have informed as under:-

"(i) Optimising production from existing fields through better reservoir management, 3-D seismic surveys, in fill drilling, pressure maintenance, installation/optimisation of artificial lift system, improvement in recovery factor and use of advanced and cost effective technologies.

(ii) Faster development of new discoveries.

(iii) Finding new hydrocarbon reserves through intensified exploration activities such as:-

(a) Exploration at greater depths in existing fields.

(b) Extending exploration activities to deep waters and frontier areas.

(c) Increased private participation in exploration activities through various rounds of bidding for exploration blocks and New Exploration Licensing Policy (NELP).

The exploration efforts in the country have been given a boost with the award of 25 exploration blocks under the NELP-I. This includes 7 deep water offshore blocks, 16 shallow water offshore blocks and 2 onland blocks. The award of the deep water blocks for the first time in the country has opened up a new horizon for oil and gas exploration. The Production Sharing Contracts (PSC) for 24 of these 25 blocks have been finalised in a record time and the contracts were signed in April, 2001. The contract in respect of one more block was signed in October, 2000. PSCs in respect of 3 other blocks related to earlier bidding rounds were also signed in April, 2001. Also, under NELP-II another 23 no. blocks have been awarded and contracts for all these blocks have since been signed.

NELP-III has also been announced. It includes both shallow and deep water areas on East and West Coast and onland areas.

The redevelopment plan for Mumbai High is already under implementation. This will lead to more production of Oil and Natural Gas. Sizeable discovery of natural gas have also been recently reported at different locations, which are as given below:-

Sl. No.	Block/Discovery Name	Location	Oil/Gas	Date of Discovery
1	Ravva Satellite gas discoveries	Offshore (East)	Gas	October, 1998
2	CB-OS-2 Lakshmi	Offshore (West)	Gas	May, 2000
3	CB-OS-2 Ambe	Offshore (West)	Oil/Gas	November, 2000
4	CB-OS-2 Gauri	Offshore (West)	Oil/Gas	December, 2000
5	KG DWN-98/2 Annapurna	Offshore Deepwater (East)	Gas	June, 2001

Coal Bed Methane

Coal Bed Methane is primarily methane gas, which appears in deep coal seams. This non-conventional source of energy is being harnessed commercially for more than a decade in US. India holds significant prospects for exploitation of CBM.

Government of India announced a CBM Policy in 1997 for exploration and exploitation of CBM in the country. The policy provides for fiscal terms and contractual arrangements to explore and exploit CBM. Accordingly, Government invited bids for seven blocks for exploration and production of CBM on 23.4.2001. Under the first offer of these blocks two are located in Jharkhand, three in Madhya Pradesh and one each in Rajasthan and West Bengal.

After completion of evaluation and award of bids received under CBM-I an exercise would be undertaken in close coordination with Ministry of Coal to identify areas for offering for CBM exploration under CBM-II.

The import options have been examined through the pipeline route and in form of liquefied natural gas (LNG). The import of natural gas/LNG is on the Open General List and 100% Foreign Direct Investment is also permitted. "

1.17 About the gas pipeline initiatives, the Ministry informed:-

"The major gas pipeline initiatives have been as follows:-

Iran-India gas pipeline project

The initiative on the Indo-Iran gas pipeline started with the signing of a Memorandum of Understanding (MOU) between the Islamic Republic of Iran and the Government of India in July, 1993. However, further progress could not be achieved due to geopolitical reasons. Based on the proposal sent by Iran in January, 2000, a Joint Committee consisting of representatives of India and Iran has been constituted to study and examine all aspects relating to the gas pipeline from Iran to India including political, technical, financing etc. The Joint Committee has set up a technical group of experts to study various aspects of the project that may need further study. The Govt. has nominated GAIL as the nodal agency for the Indo-Iran Pipeline Project. National Iranian Oil Company (NIOC) and GAIL have undertaken onshore and offshore feasibility studies for pipeline from Iran to India.

Import of gas from Myanmar

Feasibility of importing gas from Myanmar to the Eastern/Southern parts of the country is also being explored. Recently GAIL has signed a Heads of Agreement with M/s. Daewoo Corporation for participation in their exploration block in Myanmar and the prospects of gas from this block appear to be bright.

Bangladesh-India gas pipeline project

Bangladesh is yet to permit export of gas to India. There were recent reports suggesting that Bangladesh will consider export of gas to India after it is satisfied that adequate reserves to meet 50 years requirement of Bangladesh are established. However, the Government of India has not received any formal communication in this regard.

To appropriately respond to any initiative of gas import from Bangladesh, the Govt. have formed a consortium of the three hydrocarbon PSUs i.e. IOC, ONGC and GAIL to participate in any venture for import of gas from Bangladesh to India.

Recently during a conference organised by Asian Development Bank (ADB) at Dhaka, this matter was discussed between the Secretary, Petroleum & Natural Gas, Government of India and Secretary, Ministry of Energy and Mineral Resources, Government of Bangladesh and it has been informed that the matter is under consideration of the Bangladesh Government which is yet to decide."

(b) Acquisition of Acreages from abroad

1.18 Considering the oil and gas demand scenario vis-à-vis domestic production level, the Government are encouraging oil sector PSUs to venture abroad to access exploration blocks and oil producing properties for equity oil – either on its own or through strategic alliances/Joint Ventures. In the same context, the Committee specifically wanted to know about the achievements of oil companies in acquisition of acreages and the difficulties being faced by them in finding the entry in this field, the Ministry of Petroleum & Natural Gas submitted the following reply:-

"Acquisition of hydrocarbon from abroad is an important part of Government's strategy to increase hydrocarbons availability for the country. ONGC-Videsh Limited (OVL), a wholly owned subsidiary of Oil & Natural Gas Corporation Limited (ONGC) is involved in taking up opportunities abroad. At present OVL has three proven fields namely 45% participation in offshore gas Block 06.1, in Vietnam, 20% participation in Sakhalin –I oil and gas project in Russia and 20% participation in the offshore exploration Block A-I in Myanmar in addition to one exploration block in Iraq. OVL is also pursuing opportunities in Sudan, Oman, Libya, Kazakhstan, Indonesia, Vietnam and Venezuela. Some of the opportunities in these nations are in an advanced stage of negotiation. Apart from OVL, Oil India Limited (OIL), Indian Oil Corporation Limited (IOC) and Gas Authority of India Limited (GAIL) are also pursuing opportunities to acquire acreages abroad.

The international environment for acquiring good quality acreages is very competitive and our NOCs have to compete for acquiring quality acreages. Government on its part is pursuing the casue of NOCs through diplomatic channels and bilateral to acquire acreages abroad."

1.19 In response to the pointed query of the Committee whether the Government have provided some specific incentives to domestic oil companies entering in this field, the Ministry clarified the position as under:-

"Government has given operational flexibility and delegation of powers to OVL as a 100% subsidiary of ONGC and a Special Purpose Vehicle (SPV) also enjoys this flexibility and delegated powers. During the 10th Plan ONGC has not projected any constraint in mobilising necessary fund. In case any proposal is made by ONGC/OVL for OIDB funding, the same would be considered on merits."

1.20 While going into more details the Committee desired to know whether the acquisition of oil from abroad is economic or costly. The Ministry submitted as under:-

"In order to enhance hydrocarbon security for the country, a portfolio approach is being followed by the Government. This include efforts to enhance domestic production, acquire equity oil from abroad, secure long term crude purchase supply and explore for non-conventional sources of hydrocarbons. Equity oil from abroad is a part of the overall strategy for enhancing oil security of the country. Equity oil provide direct access to the user country for meeting its domestic requirements. As regards the computation of gain or loss by acquisition of equity oil from abroad vis-à-vis importing crude oil directly, generally it is implied that the cost of acquisition of equity oil over a project cycle is lower than directly imported crude oil. It may be mentioned that the basic criteria of acquiring equity oil is the estimated reasonable return on investment and long term need for oil security."

1.21 When the Committee wanted to know about the objectives of overseas oil and gas supply policy, the Ministry submitted the following details:-

"To meet the long term demand supply gap of natural gas in India the Government has adopted an overseas gas supply policy. The objectives of this policy are:-

1. To diversify the sourcing of oil and gas portfolio, both as LNG and pipeline gas to ensure cost competitiveness and secure gas supplies. The security of gas supplies would assume greater importance in the energy security mechanism.

2. To allow and encourage Indian hydrocarbon PSUs in the exploration and production activities abroad for securing equity oil and gas. Equity gas would require acquisition of acreages in the countries form where pipeline gas or LNG can be imported to India. The natural gas import initiatives from Iran in the North-West of India as well as Bangladesh and Myanmar in the Eastern side should be viewed in this perspective.

3. The oil and gas PSUs under this Ministry have been advised that in case more than one company is interested in any gas import initiative or participation in the LNG chain, they should avoid inter company competition and should adopt consortium approach.

As a part of enhancing the oil security for the country, Government has taken steps to intensify efforts for acquiring equity hydrocarbons from abroad. The India Hydrocarbon Vision-2025 envisages certain target countries/regions to pursue opportunities. It also envisages leveraging India's buying power to acquire quality projects. National Oil Companies are pursuing opportunities abroad to acquire acreages. Government would pursue the interests of NOCs through diplomatic channels and bilaterals."

1.22 While referring to the objectives mentioned in Hydrocarbon Vision-2025 the Committee wanted to know about the medium and long term initiatives being taken to ensure sustained long term supplies through securing acreages in identified countries, the Ministry precisely informed:-

"In the medium term, it has empowered OVL to obtain time bound approval of projects for international E&P ventures abroad through an Empowered Committee of Secretaries. For a focused approach, Iraq, Iran, Russia, Libya, Venezuela and Vietnam have been identified for building long-term relationships and to obtain acreages to source oil supplies. Progress has been made in all these countries.

The long-term initiatives involve continuously building political and commercial relationships in the focussed countries and also in other oil rich countries."

(c) Import of Crude Oil and Petroleum Products

1.23 When the Committee desired to know about the trend of import bill during each year of the 9th Plan and the outcome of the initiatives taken to minimise the import bill, the Ministry submitted as under:-

"Import bill on account of import of crude oil has been going up during the last five years. However, import of petroleum products during the same period has substantially gone down. During the last five years, export of petroleum products has also been going up. The following table explains it.

(Value in Rs. crore)

Year	Crude Oil Imports	Product Imports	Gross Import Bill	Product Export	Net Import Bill
1997-98	15,872	14,309	30,181	1,268	28,914
1998-99	14,917	12,275	27,192	306	26,886
1999-00	40,028	14,185	54,213	698	53,515
2000-01	65,932	12,093	78,025	7,672	70,353
2001-02 (L.O.)	67,600	5,939	73,539	7,684	65,855

L.O. Latest Outlook

To minimise the import bill, refining capacity has been increased, which has resulted in increase in imports of crude oil but imports of products have come down. The details are given below:-

	Crude Oil Imports	Product Imports	Gross Imports	Product Exports	Net Imports
1997-98	34.5	23.0	57.5	2.4	55.1
1998-99	39.8	23.8	63.6	0.7	62.9
1999-00	57.8	16.6	74.4	0.7	73.7
2000-01	74.1	9.3	83.4	8.4	75.0
2001-02 (L.O.)	80.4	5.0	85.4	8.7	76.6

This has resulted in

- Value addition taking place domestically
- Development of ancillary industries
- Employment opportunities to the people of this country"

1.24 About the steps taken to reduce the dependence on oil imports, the Ministry informed as under:-

"In order to reduce dependence on oil imports, several steps have been taken to increase oil and gas production, which include the following:

(i) to improve the recovery factor from existing major fields by implementing Enhanced Oil Recovery (EOR)/ Improved Oil Recovery (IOR) Scheme.

(ii) To increase exploration efforts through the New Exploration Licensing Policy (NELP) . Under the first and second rounds of NELP, Production sharing Contracts (PSCs) have been signed for 47 blocks.

(iii) To attract technology and investment, PSCs for 9 discovered fields, 8 in Gujarat and 1 in Assam, have been signed.

(iv) To explore in new areas, especially in deep water and difficult frontier areas, as also explore in the deeper layers of the producing fields.

(v) To develop faster the newly discovered fields and to step up the use of new technologies for seismic surveys, work over, stimulation operations, drilling of wells etc. in producing areas.

(vi) Exploration and exploitation of coal bed methane."

(d) <u>Marketing and Distribution Facilities</u>

1.25 The Committee observed that in the 9th Plan specific stress was given on a marketing plan of supply of LPG in rural areas and specifically wanted to know about the targets set in this regard and the achievements made so far in this direction. The Ministry submitted the following written reply:-

"The details of achievement vis-à-vis the plan as envisaged in report of IXth Plan sub-group on Demand Projects are as under:

<u>LPG Enrolment</u>

PSU Oil Marketing Companies had planned to enrol 215 lakh new LPG customers including 50 lakh in the rural sector during the IXth plan period. The details of actual enrolment vis-à-vis enrolment planned for each financial year during the IXth plan period are given as under:

(Figs. In lakhs)

Year	Planned enrolment	Actual enrolment
1997-98	50	41.4
1998-99	50	42.3
1999-2000	50	90.3
2000-01	35	107
2001-02	30	54.4 (Apr.-Feb)
Total	215	335.4

As against the target of 215 lakh new LPG enrolment, PSU Oil Marketing Companies have released 335.4 lakh new LPG connections including 50.5 lakhs in the rural sector during the IXth Plan period till 1.3.2002. At present new LPG connections are being released on demand across the counter in the existing markets. As on 1.3.2002, there were 7269 LPG distributorships of Public Sector Oil Marketing Companies in the country catering to the requirement of about 630 lakh LPG customers. As on 1.3.2002, there were 588 urban/ rural distributors and 302 exclusively rural distributors in the country.

Introduction of small cylinders for LPG marketing in rural areas

Keeping in view lower income levels in rural areas, the Government have allowed PSU Oil Companies to market small size LPG cylinders (5 Kg.) for domestic purpose, particularly in rural areas."

1.26 When the Committee specifically asked about the position of supply of LPG in rural areas, the Additional Secretary in the Ministry stated before the Committee as under:-

"So far as providing LPG to the rural areas is concerned, nine hundred distributors have been established so far, which are either in the rural areas or in both rural and urban areas combined. Around seven crore people are provided gas in the entire country, out of whom 50 lakh people procure it from the rural areas. LPG is at once provided in cities now. Now the marketing area of the companies would be rural areas from where they would get consumers. In the near future, around 1200 distributors would be established in rural areas only."

1.27 When the Committee wanted to know about the initiatives being taken for development of marketing and distribution facilities in the light of objectives set in Hydrocarbon Vision-2025, the Ministry informed as under:-

"In order to meet the growing demand of the petroleum products in the country during Ninth Five Year Plan, following actions have been taken for development of various marketing and distribution facilities:

Creation of additional port capacity at the major ports:

On the basis of schemes identified and included by Ministry of Surface Transport, the additional Port capacity planned to be developed in the Major Ports during IX Plan period is about 65 MMT.

Laying of additional product pipelines:

Oil industry had drawn up an ambitious programme to set up 14 number of product pipelines during IX Plan period, in addition to two pipelines under construction carried over from VIII Plan. Subsequently, one more pipeline viz., Chennai-Trichy-Madurai was added.

Augmentation of product tankage for petroleum products of mass consumption:

In order to ensure uninterrupted supply of petroleum products throughout the country, augmentation of product tankage for petroleum products of mass consumption viz., petrol, diesel and kerosene has been undertaken by Oil Companies through Additional Product Tankage (APT) programme commensurate with the growth in demand of these products. As on 1.4.2001, the gross marketing tankage available with Oil Companies for petrol, diesel and kerosene was 9.82 million kilolitres. This provides about 39 days cover for revised demand estimate of 2001-02, for these products. Industry has planned to add 0.87 million kilolitres tankage during 2001-02. With this, industry would add about 5.3 million kilotitres of tankage during the IXth Plan period. In addition, additional product tankage is also planned in logistically difficult areas like Jammu & Kashmir, Himachal Pradesh and North Eastern States under "Tankage 2000" Plan.

Enhancement of LPG import capacity:

PSU Oil Marketing Companies have proposed to develop LPG import capacity of 2400 TMTpa during IX Plan by setting up of new import facilities as under:-

Haldia	400 TMTpa
Kakinada	400 TMTpa
Nhavasheva	600 TMTpa
Pipava/Dahej	300 TMTpa
Paradeep	600 TMTpa
Pondicherry	100 TMTpa

With significant increase in indigenous LPG production in the country during IX Plan period and actual import capacity available at Kandla/Mangalore set up in terminal year of VIII Plan, oil industry reviewed the development of additional LPG import capacity planned during IX Plan period and decided to develop import facility only at one of the locations i.e. Haldia of capacity 600 TMTpa through JV between IOC and Petronas, Malaysia. This import facility has since been commissioned during September, 2001.

Creation of additional bottling capacity by setting up new bottling plants and capacity augmentation at some of the existing plants:

PSU Oil Marketing Companies had proposed to set up bottling capacity of 3088 TMTpa during IX Plan through creation of new bottling plants and augmentation in capacity at some of the existing bottling plants. Against this planned capacity, Industry has provided additional bottling capacity of 2138 TMTpa until 1.4.2001. With the result, the all India bottling capacity, which was 3457 TMTpa as on 1.4.1997 has been augmented to 5595 TMTpa as on 1.4.2001."

1.28 The other steps they have taken are summarized as under:-

"The Government of India vide its resolution dated 8th March, 2002 have laid down the detailed guidelines for granting authorization to market transportation fuels namely MS, HSD and ATF to the new entrants including the private sector.

Further, private companies are already authorized to market LPG and kerosene under Parallel Marketing System.

'It has been decided to dismantle APM effective 1st April, 2002. It is envisaged that the proposed regulator in the downstream sector would protect consumer interest by fostering fair trade and competition amongst the oil companies. Anti-Adulteration Cell has been set up under the Ministry to inspect and lift samples from the petroleum supply points for checking adulteration.'

Government have permitted upto 100% foreign participation in the exploration and production and refinery sector in the country. Government has formulated a New Exploration Licensing Policy (NELP), which provides internationally attractive fiscal and contractual frame work and allows foreign and domestic companies to compete for acreages. The fiscal and contractual terms are reviewed from time to time keeping in view the international competition and the objective to attract investment.

Consumers would eventually be benefited due to induction of better technology, improved productivity, quality products, better business practices, competition, etc. Government have initiated a number of measures to improve their performance. These, inter-alia, include improvement in production and productivity, upgradation of technology, product developments, reduction in input cost, various cost control measures, research and development activities, etc. Government is constantly monitoring their performance. The process of review by the Government is a continuous one."

(e) Administrative Reforms

1.29 The Committee invited the attention of the Ministry towards another area of specific attention during Ninth Plan and wanted to know about the steps taken by the Government to remove the existing administrative bottlenecks by further streamlining the existing procedures for Government approval for various projects and their implementation. The Ministry submitted the following details:-

"The Government in July, 1997 had delegated enhanced decision making authority to the Board of PSEs which have been granted Navratna status. ONGC, IOCL, BPCL, HPCL & GAIL fall in that category. CPCL and BRPL have become subsidiaries of IOCL and KRL has become subsidiary of BPCL. As per enhanced delegation of power, the Boards of these PSEs have been empowered to approve capital expenditure on purchase of new items or for replacement, without any monetary ceiling, technology joint venture or strategic alliances, technology and know-how arrangements etc. The Navratna companies under enhanced delegation of power are approving projects with the approval of their Boards.

In so far as this Ministry is concerned, there is no budgetary supported schemes/ projects. However, various projects in the petroleum sector are being implemented by Oil sector PSUs through their internal resources keeping the commercial and economic viability of these projects in consideration.

The major areas of concern for the petroleum sector projects are:

(i) Delay in grant of environmental clearance
(ii) Problems in acquisition of land
(iii) Backing out of JV partners
(iv) Delayed execution of work by contractors/ vendors of both private sector and public sector, including foreign suppliers.

The progress of implementation of the sanctioned projects are reviewed and monitored by the PSEs and their respective Boards:

- A project team is appointed for each project (at Head Office as well as at project site) headed by a project coordinator who coordinate and monitor the project on daily basis.
- Centralised project monitoring cell at Head Office is electronically connected to all project sites to have online updation of information and centralised coordination.
- Projects are monitored at the level of Executive Director, Director, Chairman and Board level separately.

The Ministry of Statistics and Programme Implementation (MOS&PI) is also reviewing and monitoring projects costing over Rs. 100 crores. They have devised formats to seek information from their PSEs on a monthly basis. These are reviewed periodically by Secretary (Coordination), Cabinet Secretariat. In so far as MOP&NG is concerned, all ongoing projects costing over Rs. 100 crores and above are being monitored monthly on a regular basis. As per the report of Mos&PI, MOP&NG projects are figuring at `A' category projects, which signifies that the projects are progressing well.

Projects are monitored by Secretary (P&NG) on the quarterly basis in the Quarterly Performance Review Meetings."

(f) <u>Setting up of Regulatory Mechanism</u>

1.30 The Government are considering recommendations of high level working group which envisages setting up an upstream Hydrocarbon Regulatory Authority in addition to DGH, in order to differentiate and streamline role of regulatory authority from that of DGH.

1.31 The Committee pointed out towards the emphasis of 9th Plan for setting up of regulatory mechanism both in upstream and downstream sectors and wanted to know about the progress made so far in the direction. The Ministry of Petroleum and Natural Gas submitted the following details:-

"An Inter-Ministerial Working Group has submitted its report on the regulatory frame-work in the upstream sector. The report is being examined keeping in view the interfacing of the Upstream with Downstream Regulatory Authority as well as issues arising due to dismantling of the Administered Pricing Mechanism.

The draft Bill for the proposed Petroleum Regulatory Mechanism for the downstream petroleum sector has been prepared and it is proposed to be introduced in the Parliament in the current session itself."

1.32 In the same context, when the Committee wanted to know about the reasons for keeping this report pending for such a long time particularly when the private sector/foreign investment in exploration and production has continuously been increasing, the Ministry submitted the following justification:-

"The matter was delayed for a while because of the need for finalisation of the ambit of Downstream Regulator as also the final decisions of the Government on dismantling of the Administered Pricing Mechanism (APM) on 31st March, 2002. Now, finalisation of the Government's decision on the recommendations of the high level Working Group headed by Shri Naresh Narad, Addl. Secy. MOP&NG on creation of Regulatory Authority for upstream sector would be taken up with due priority and attempts would be made to finalise the matter within next 3-4 months."

(g) <u>Unfinished Targets and Future Strategy</u>

1.33 During the course of examination, in response to the pointed query of the Committee about the unfinished targets and objectives of 9th Plan and the future strategy to complete these projects, the Ministry submitted the following reply:-

"The major shortfall in targets/ objectives of development in petroleum sector during the 9th plan are given below:

- Crude oil production may fall short of the target by about 10%.
- Natural Gas production may marginally fall short of target
- Accretion to hydrocarbon reserves is significantly below targets
- Private participation/ investment below expectation.
- Plan expenditure may be lower than the approved outlay.

Due emphasis on the above areas will be given during the 10th Plan period."

1.34 On the basis of above observations, the Ministry further clarified their strategy during 10th Five Year Plan in a written reply as under:-

"As per the approach to the Tenth Five Year Plan (2002-2007) prepared by the Planning Commission, the objectives and strategies adopted for the hydrocarbons sector are indicated below:

a) Increase in indigenous production of oil and gas
b) Dismantling of Administrative pricing mechanism (APM) by April, 2002 so that pricing of petroleum products at the start of the Tenth Plan will be market determined.
c) Setting of statutory authority to ensure operation of efficient market in petroleum sector.
d) Providing oil security through strategic storage of crude oil and petroleum products, diversification of oil imports and holding of equity oil abroad.
e) Restructuring of public sector undertakings in the oil sector and disinvestment/ privatisation of some of these companies."

II. UTILISATION OF PLAN OUTLAY BY PSUs

1.35 The utilisation details of the plan outlays for the oil companies during the first four years and BE and RE for the last year of the 9th Five Year Plan are as under:-

Actual Expenditure				**Budget Estimates**	**Revised Estimates**	**Expenditure Apr.-Dec.**
1997-98	**1998-99**	**1999-2000**	**2000-01**	**2001-02**	**2001-02**	**2001-02**
10140.29	11632.81	10085.17	10135.93	17147.26	13999.56	6268.58

1.36 Organisation-wise details of figures during Ninth-Plan (1997-98 to 2001-02) are as follows:

(Rs. in Crores)

		IX Plan		**1997-98**		**1998-99**		**1999-2000**		**2000-2001**		**2001-02**		**April-Dec. 2001-02**
		Original	**Revised**	**RE**	**Actual**	**RE**	**Actual**	**RE**	**Actual**	**RE**	**Actuals**	**BE**	**RE**	
1	ONGC	21063.30	20198.75	4406.00	4005.32	4600.00	4467.85	4929.83	4066.66	4817.95	3607.22	6077.07	8159.08	2859.63
2	OIL	2961.00	2961.00	412.00	354.74	500.44	427.77	468.37	403.46	600.01	556.23	800.01	650.00	406.82
3	GAIL	6895.80	6417.95	1474.14	1417.48	745.00	691.13	886.34	785.5	1149.53	1102.60	1150.00	754.72	368.00
4	IOCL	26159.03	25488.13	1815.15	1717.00	2697.05	2714.00	3505.64	2744.00	4128.79	3000.00	6000.00	2801.27	2012.00
5	HPCL	7456.83	7448.08	1154.95	1085.45	1110.00	1101.06	903.86	704.64	605.07	311.89	1300.00	617.00	193.80
6	BPCL	6879.60	6539.90	732.22	502.68	654.00	575.41	440.00	262.82	880.01	1082.52	400.00	300.00	100.10
7	CP	3541.	3464.	279.	70.5	484.	334.	190.	116.	67.9	85.3	600.	399.	209.

	CL	00	52	19	1	17	27	00	84	0	2	00	24	29
8	KRL	2250.30	2230.00	81.40	87.65	270.60	398.92	370.00	350.99	135.00	60.12	525.00	68.00	32.40
9	BRPL	1052.40	754.90	49.51	36.90	56.84	38.02	36.74	21.74	38.61	33.92	52.01	6.93	24.61

1.37 While observing the utilisation pattern of planned outlay by the PSUs the Committee observed that in the original 9th plan, the plan outlay for this sector was Rs. 81382.98 crore . It was revised to Rs. 78401 crore and out of this, only an amount of Rs. 55993 crores is supposed to be spent by the end of this plan and assumed that by the end of the Plan only around 71% fund is likely to be used. When they wanted to know the justification for such trend of utilisation of funds during the current plan, the Ministry of Petroleum and Natural Gas submitted the following justification in a written reply:-

"The approved outlay for the 9th Plan for the Upstream sector (ONGC-OIL) was Rs. 23,160 crore against which the anticipated achievement will be Rs. 26,700 crore which is 115.19% of the approved outlay. Thus for the Upstream sector as a whole, there has been no shortfall in the plan expenditure.

The approved outlay for the 9th Plan of ONGC was Rs. 20,199 crore. Against this, the current anticipated expenditure for the plan period is Rs. 24308.13 crore i.e. 120.34% of the approved outlay.

The approved outlay of OIL for the 9th Plan was Rs. 2961 crores. Against this current anticipated expenditure for the plan period is Rs.2392.20 crores. The shortfall is mainly on account of less than planned exploratory and development drilling due to the environmental problems in Assam and Arunachal Pradesh and the review of exploratory drilling in a few wild cat areas because of the non-discovery of hydrocarbons.

The Original Plan Outlay approved for Ninth plan in respect of Gas Authority of India Ltd. was Rs. 6895.80 crore which was subsequently revised to Rs. 6417.95 crore. Rs. 5,715 crore were provided for schemes pertaining to Petroleum sector and Rs. 702.95 crore were provided for schemes under Petrochemical sector.

The now anticipated Ninth Plan expenditure after Board's approval of project expenditure in respect of RE 2001-02 is Rs. 5307.72 crore (including cross-holding of Rs. 556.29 crore) as against Rs. 6417.95 crore. Till December, 2001, GAIL has incurred an amount of Rs. 4921 crore including investment in ONGC for cross holding.

The major shortfall is primarily on account of following schemes:

Schemes	9th Plan Outlay	Reasons
Dadri Bawana Pipeline	82	The power plant for which gas allocation was made has been shifted to Pragti Power and is completed at a cost

		of Rs. 3 crores.
Power Plants in Joint	400	Taking time in materializing JV's investment.
LNG East Coast	200	The project is being implemented by IOC.
HBJ upgradation	985	Expenditure linked with PLL terminal commissioning at Dahej now estimated completion in 2004.
Total	**1667**	

Since mid-term review of Ninth Plan, efforts have been made by Gas Authority of India Limited to meet the shortfall by utilising the funds by initiating investments in new schemes like upgradation of telecom links, laying new pipelines in KG/ Cauvery/ Gujarat regions and new E&P related projects."

1.38 About the reasons for the shortfall in the expenditure in case of downstream petroleum sector were described as under:-

"In terms of the mid-term appraisal of the IX Plan document, the demand for petroleum products inclusive of liquid fuel for power generation was estimated to grow at a compound rate of 6.5% per annum during the IX Plan. Accordingly, the terminal year product demand was estimated to reach 110 million tonnes during 2001-02. However, with the actual demand registered during the last 4 years and the projected demand, as per the current outlook, during the current year i.e. 2001-02, the demand for petroleum products has grown at a compounded rate of only 4.7% during the IX Plan. The terminal year (i.e. 2001-02) product demand is expected to be only 99.4 million tonnes.

With reduced growth in demand of petroleum products than envisaged during the IX Plan period coupled with increasing competition and liberalisation, the downstream PSUs had to implement their planned projects after reassessing the viability of the projects by taking into account the fast changing economic scenario and, moving away from a protected environment of cost plus return pricing regime.

The new grassroots refineries viz. West Cost Refinery and Central India Refinery were initially planned to be set-up as a Joint Venture with international companies during the IX Plan period. However, due to extreme volatility in the international prices of oil and low refinery margins globally, the Joint Venture partners were nit willing to participate in the projects. This resulted in dropping of West Cost refinery project and slippage in materialisation of Central India refinery project to X Plan period, necessitating reformulation of financing of this project by the concerned PSU. The Essar Oil refinery also slipped the schedule.

During the IX Plan period, expansion and modernisation of existing refineries were also planned. These projects are generally having long gestation period involving huge capital expenditure by the oil companies. Proposal for the expansion and modernisation programme of Chennai Petroleum Corporation Ltd. (CPCL) received final approval of the Government only in the year 2000. The same programme of Kochi Refineries Ltd. (KRL)is being re-worked keeping in view of the auto-fuel quality requirement and needs of post-APM competitive market. The expansion programme of Panipat Refinery as planned has also slipped.

It is expected that the investments in major on-going projects planned for the IX Plan would be carried over to the X Plan (2002-2007).

So far as Indian Oil Corporation Limited (IOC) is concerned, as against an approved outlay of Rs. 25, 488 crore during IX Plan, the likely actual utilization by IOC would be Rs. 12,977 crore, i.e., about 51% of the approved outlay. The year-wise variation between BE/RE v/s actual is given below:-

Year	BE	RE	Actual	Variation w.r.t. BE	Variation w.r.t. RE
1997-98	2302	1815	1717	585	98
1998-99	3120	2697	2714	406	+17
1999-00	2564	3505	2744	+180	761
2000-01	4500	4129	3000	1500	1129
2001-02	6000	2801	2012 April-Jan		-“

1.39 The Ministry of Petroleum and Natural Gas stated the reasons for such variations as under:-

“The variation in the Ninth Plan w.r.t. original approved outlay and the mid-term review, is mainly due to uncertain scenario calling for mid course review of the approved projects owing to drop in demand projection, price volatility in the international market, squeeze in refining margin and commissioning of large grassroot refinery at Jamnagar, leading to surplus scenario for the present in the country. In spite of efforts to implement the identified projects as per the projected plants, the schedules had to be synchronized based on mid-course review, quality improvement, road map, etc.”

(a) <u>Projects of Oil & Natural Gas Corporation Ltd. (ONGC) and Oil India Limited (OIL)</u>

1.40 While going into the details of utilisation of funds by ONGC during the 9th Plan period, the Committee observed that ONGC has shown lower expenditure than the Revised Plan outlay. They also observed that the shortfall was mainly due to lower achievements in survey work and drilling (due to environmental problems), delay in procurement of rigs/computers, less expenditure under capital items etc.

1.41 When the Committee specifically wanted to know about the reasons for poor performance of ONGC and OIL in survey work and exploratory and developmental drilling, Ministry of Petroleum & Natural Gas submitted the following details:-

"ONGC's target of Seismic survey, exploratory drilling will be overachieved during the 9th Plan period. There will be no shortfall in development drilling in onland during the IX plan. However, there will be shortfall in development drilling in offshore primarily due to non-availability of charter hire rigs, diversion of rigs for relief wells for B-121 fire, major repair of a charter hire rig and re-scheduling of Mumbai High re-development program.

OIL is likely to meet the target for Seismic Survey. The major shortfalls in exploratory and development drilling are due to following reasons:

- Environmental problems in Assam and Arunachal Pradesh and severe sub surface problems encountered while drilling for deeper prospects due to complex lithology and subsurface condition.
- Review of drilling programme in North Bank of river Brahmaputra, Saurashtra Offshore and Ganga Valley, as there has been no hydrocarbon discovery in the first phase of exploratory drilling."

1.42 When the Committee specifically desired to know about the deep sea drilling of ONGC, CMD, ONGC submitted before the Committee as under:-

"ONGC has a project plan for drilling at 47 places in the Western and Eastern shores during 10th Five year plan. For this purpose, a provision of Rs. 2300 crores has been made. 13 companies have been invited, with the approval of the Government, for five nomination blocks at ONGC. Out of these companies four-five companies, have shown some interest. As Hon'ble Secretary has mentioned for the rest of the blocks which are in NELP, we are seeking collaboration for deep water work. Talks are going on with other companies also and the target fixed for 10th Five Year Plan will definitely be achieved. Results of deep-sea drilling in Krishna-Godavari basin are very encouraging and an assessment of these results is going on. We are hopeful of large reserves at Krishna-Godavari basin and Mumbai off-shore."

1.43 In the same connection, the Committee specifically wanted to know about the reasons for delay in procurement of rigs and the steps being taken by ONGC to enhance their drilling capacity and obtain independence in possession of rigs. The Ministry informed in a written note as under:-

"During IX Five Year Plan no rig was planned to be procured by ONGC. ONGC is having the required number of rigs and capability for drilling the wells in onland area according to work program. However, in offshore ONGC owned 10 offshore rigs will be insufficient to meet its rig-input requirement and will continue to charter hire the additional rigs as per past trend.

Recently, ONGC has also taken decision to acquire few onland and shallow water rigs for which action has been initiated. Furthermore, ONGC is in the process of upgrading all its rigs with the state of the art technology and best practices for improving drilling efficiencies and related safety aspects."

1.44 When the Committee desired further clarification on the issue of availability of rigs and their approach in this regard during implementation of Projects of 10th Plan, CMD, ONGC replied as under:-

"At present we are using new rigs instead of old rigs for on-shore and off-shore services. The modernization work of old rigs is going to be started under an agreement with BHEL. The work will be completed in 2-3 years. Best quote has been invited with BHEL for new rigs. We have decided that drilling for exploration or developmental or production related works, we will finish it during the coming two years with the rigs. The MH scheme has been drawn with full consultation of the DGH. Joint Reviews are done by the DGH. There is Board's Sub-Committee which is reviewing, so that we continue to discuss and consultations regarding progress made in this regard with him.

We have our major international consultants also."

1.45 In response to specific query about the initiatives being taken by ONGC to prevent such problems so that the implementation of Mumbai High development programme is not hampered at any stage, the Ministry replied as under:-

"ONGC has taken various steps in tender terms and conditions for charter hire of offshore rigs to meet its planned activity including implementation of Mumbai High Redevelopment Programme. The major actions taken/ being taken in this regard are as under:-

- Reduction in tender processing time.
- Pre-bid conference with potential bidders.
- Putting in place a minimum qualification criteria for sale of tender document.
- Reduction in mobilization period.
- Processing of one composite tender for future requirement of shallow water offshore rigs."

1.46 When specifically asked about the management of funds for the schemes for which 46 thousands crore rupees have been invested for 10th Five year Plan, CMD, ONGC replied before the Committee as under:-

"We have refinanced some high-cost loans. In the Tenth Plan, the investment is to the extent of Rs. 46,900 crore. Our initial planning was to finance entirely from internal resources; plus a marginal borrowing of Rs. 500 crore. With an additional cess depending on international prices, about price settlement, we may have to have much larger borrowings. If the prices remain around US $ 20 per barrel, we may have to borrow up to Rs. 9000 crore to finance the investment of Rs. 46000 crore. That depends on the actual price level which cannot be forecast."

1.47 While going into the details of the activities of ONGC being taken up and completed during the year 2001-02, the Committee wanted to know the targets fixed for each activity, reasons for delay and cost/time over-runs (if any) in these projects. The Ministry submitted the following details in a written reply:-

"The targets (BE) and achievement (RE) for the exploration and development activities carried out by ONGC and anticipated achievement in the year 2001-02 are given below:-

Sl. No.	**Activities**	**Unit**	**Targets**	**Likely achievements (RE)**
1	Crude Oil production	MMT	25.001	24.709
2	National Gas Production	BCM	23.996	23.716
3	Value added products	KT	3200	3598
4	Development Metreage	KM	295.75	326.30
5	Development wells	Nos.	143	154
6	2D Seismic Survey	GLK	36440	39889
7	3D Seismic Survey	Sq. Km.	3120	11540
8	Exploratory Metreage	Km.	502.46	410.62
9	Exploratory Wells	Nos.	194	164"

During the year 2001-02, the following major projects are under execution

<u>Schemes Completed (Date of Completion)</u>

1. Insitu Combustion Santhal (23.06.2001)
2. Insitu Combustion Balol (14.11.2001)
3. Mini Refinery Tatipaka (3.9.2001)
4. Development of GS-15/23 (18.9.2001)

1.48 They have informed that the following major schemes are under execution during the year 2002-03 with Budget outlay of Rs. 8973.31 crores:-

1. MHN Redevelopment
2. MHS Redevelopment
3. Addl. Compressor Project, Heera
4. IOR-Neelam
5. Addl. Dev. (Part-I)-Heera
6. IOR-Gandhar
7. IOR-N. Kadi Phase-I
8. IOR-Kalol
9. IOR-Jotana
10. IOR-Sobhasan
11. Santhal infill

12. Sanand EOR
13. IOR-Geleki
14. IOR-Rudrasagar
15. IOR-Lakwa Lakhmani

1.49 About the cost and time overrun, they informed as under:-

"Balol – Insitu Combustion was completed with time over-run. Against the scheduled completion of July, 1997, the scheme was completed in November, 2001. However, major part of the project was completed in March, 1998. This was mainly due to delay in supply of HP surge vessel by M/s BHPV, a PSU, delay in supply of ignition systems and floods in Gujarat and the land acquisition problems.

In case of Insitu Santhal, the scheme was completed with both time and cost over-run. Against the approved cost of Rs. 278.37 crores, the likely cost of the project is Rs. 332.62 crore. The project was originally scheduled for completion by October, 1997. Though the major part was completed in July, 1999, modification was delayed due to land acquisition problem which was completed on 23.6.2001 after acquiring land on 25.6.1999. Plant was reactivited on 23.6.2001."

1.50 The Committee observed that the Plan outlay of ONGC for 2001-02 has been revised on a very higher side i.e. from BE of Rs. 6077.07 crore to RE as Rs. 8159 crores and during the first six months of 2001-02, an amount of Rs. 2859.53 crores only has been invested and wanted to know the justification of this type of revision. The Ministry clarified the position as under:-

"The plan outlay of ONGC and FY 2001-02 is as given below:-

(Rs. in crores)

	Budget Estimates (BE)	**Revised Estimates (RE)**
Plan Expenditure	5977.07	5859.08
Contribution to ONGC Videsh Ltd.	100	2300
Total	6077.07	8159.08

As can be observed from the above figures, the main reason for the increase in Plan Outlay is the contribution to OVL, which was not factored in at the time of preparation of Budget Estimates (BE). The Plan Expenditure of Rs. 6077.07 crores at BE stage included a sum of only Rs. 100 crores for OVL. At the RE stage, the contribution to OVL, by way of advance, was enhanced to Rs. 2300 crores for the Sakhalin project.

For the 1st half of 2001-02, the plan expenditure for ONGC is Rs. 3482 crores including Rs. 1621 crores to OVL for the Sakhalin project."

1.51 In regard to specific query of the Committee about the road-map to redevelopment of Mumbai High and phasing of expenditure, the Ministry submitted the following details:-

"A modular approach has been adopted in the redevelopment plans of MHN and MHS. The capital investment in the redevelopment plans has been spread over a period of 5 to 6 years. In the initial stages of redevelopment say in the first 2 years, several innovative drilling and production technologies will be experienced, supported by better understanding and description of the complexity of the reservoirs through appropriate Geological & Geophysical studies, including 3D seismic data. Lessons learnt will be dovetailed into the successive phases of redevelopment. Very high level monitoring of the project progress is being carried out at regular intervals. The results achieved so far suggest that the projects are on right track.

Phasing of expenditure

Mumbai High North

Year	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**
Expenditure (Rs. in crore)	58.36	428.29	972.15	936.22	376.10	158.26

Total Rs. 2929.40 crores

Mumbai High South

Year	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2005-06**
Expenditure (Rs. in crore)	12.79	343.67	1186.45	1271.65	1067.68	887.59	486.16

Total Rs. 5255.97 crores

1.52 While going into the further details of the scheme when the Committee wanted to know about the current status of the project, the Ministry of Petroleum & Natural Gas submitted as under;-

"Mumbai High North Redevelopment Plan

The scheme envisages an incremental oil and gas production of 24.8 MMT and 5.85 BCM respectively by the year 2030. The peak production rate is about 100,000 BOPD by 2004-05. The total envisaged expenditure is Rs. 2929.4 crores and the ultimate recovery is 30.67%. The inputs considered for redevelopment in brief are:

- Installation of four well platforms
- Installation of one process platform with water injection and gas compression facility
- Drilling of 83 wells
- Clamp-on installation on 15 existing platforms
- Laying of 83.5 Km of pipelines.

So far 11 wells have been drilled and connected to flow and 3 wells are under drilling. The anticipated production rate of 69,000 BOPD by end March, 02 has already been achieved ahead of schedule and it is expected to surpass with the anticipated production from wells under drilling/testing.

All planned clamp-on structures have been installed ahead of time and contract has been awarded for process platform MNW to the successful bidder. Award of contract of first phase well platformsN-11 & 12 is in an advanced stage.

Mumbai High South (MHS) Redevelopment Plan:

The scheme envisages an incremental oil and gas production of 35.95 MMT and 9.63 respectively by the year 2003. The peak production rate is about 170,000 BOPD by 2004-05. The total envisaged expenditure is Rs. 5255.97 crores and the ultimate recovery is 33.5%. The inputs considered for redevelopment in brief are:

- Installation of 17 new well platforms.
- Installation of one process platform with fluid handling and gas compression facility.
- Drilling of 140 wells
- Clamp-on installation on 8 existing platforms
- Laying of 245 Km of sub-sea pipelines

The MHS redevelopment project is in its initial phase of implementation. 12 wells have been completed/under testing."

1.53 While further enquiring about the latest techniques of drilling and production being used by ONGC in Mumbai High Development Plan, the Committee specifically wanted to know whether they were following the suggestions of DGH in this regard or not. The Ministry submitted the following reply:-

"Several new technology initiatives in drilling and production have been incorporated in the Mumbai High Redevelopment Plan. Many of these technologies are being implemented on ` "pilot" basis and will be expanded for field-wise application if the results are encouraging. The important technologies applied are:

- Horizontal drilling – for improving well productivity.

- High Angle drilling in Multi layer areas – for larger exposure of the reservoir.
- Dual Lateral/ multilateral drilling.
- Dual Gas lift production in multilayer area.
- Self Diverting Acid system
- Various kinds of polymer gel systems – for control of excess water/ gas production and profile modifications in water injectors.

ONGC has been following the suggestions given by DGH with regard to induction of latest technology in the areas of drilling and production. The application of these technologies as mentioned above and their results are discussed with DGH periodically as part of the project monitoring."

1.54 During the course of evidence when the Committee specifically wanted to know about the expected trend and present status of expenditure on various projects including Mumbai High, CMD , ONGC replied as under:-

"The budget for the year 2002-2003 is Rs. 9000 crore and most of the expenditure, out of this amount, will go to the development of Mumbai High and for other project in offshore/onshore being operated for recovery improvement. Funds have also been provided for the cash call in equities in Sakhalin and Vietnam. The progress in the development of both Mumbai High North and South is running on schedule. The result of the works conducted so far, generally have been better than our expectations and we hope that the work will be completed on schedule."

1.55 The Committee pointed out towards the hampering of ONGC projects due to objections of Environment Ministry and wanted to know about steps being taken to face this situation. The CMD, ONGC presented his view as under:-

"Almost in respect of some 15 sites throughout the country where we do not have approval even to do exploration because of the regulatory issues, we have made requests to the Governments. There are processes to grant approval by exception."

"Your question is related to the environmental rules. The fact is that permission for exploration in the Reserve Forests, Sanctuaries etc. has to be sought from the Ministry of Environment and Forests as on date. We would take required steps once it is found whether there is oil or gas. We would also see to the method adopted with regard to production of oil or gas. But the Governments are not according sanction here now-a-days. We have positive hopes in this regard, but we are still facing difficulty."

1.56 Secretary, Ministry of Petroleum and Natural Gas further clarified the position as under:-

"Our Ministry has written a letter to the Ministry of Environment and Forests. Presently some reports have come regarding such matters. Today there is a hearing in the Supreme Court on Bina case . We are continuously writing to the Ministry of Environment and Forests. We would be needing clearance in NELP-IV. We have to work fast in this directions we would do the follow-up action at our own level also."

1.57 The Committee referred to the long pending issue of finalisation of agreement between ONGC and Reliance Industries Ltd. regarding supply of gas for Assam Gas Cracker Project and wanted to know the present status and the reasons for delay in this regard. Secretary in the Ministry of Petroleum and Natural Gas clarified the position as under:-

> "The Assam Gas Project was launched after Rajiv Gandhi Accord. This project has been much delayed. Under the project, they had to produce 2 lakh tonnes of ethelene. Reliance Industries Limited is the major partner in the project, which is ready to make major investments. It requires 6.35 MMSCMD. Out of this, five lakh tonnes were to be received from OIL. OIL has finalised its contract with the company. There is no problem in that. That has been finalised. ONGC was to provide 1.35 MMSCMD of gas, but the problem was that they were not being able to finalise their contract. The contract had 436 clauses, out of which 426 have been finalised. We had discussions with them on the remaining 10 clauses. Yesterday I am holding the next meeting on my level. I expect to finalise the contract in the next 15 days. We have made it clear that the contract will be finalised on the basis more or less similar to that finalised with the OIL. Besides there was also dispute in the matter relating to liquidated damages. The view of the Reliance on the issue was that in case of default by ONGC, it should pay a penalty, three times that of the value of damage which in case of default by Reliance, it would only the value of the damage. Our view there should be one clause relating to liquidated damages. Another problem was that the project had to produce two lakh tonnes of ethylene, and the quality of gas supplied by ONGC is not upto the standard as they do not have adequate gas supply. They said that they would be able to supply 1.35 MMSCMD only till 2020. Thereafter, the supplies will depend on the availability of gas with us. But in the biginning they will be able to provide only 1.35 MMSCMD as they do not have adequate gas supplies. In a way, final decision has also been taken with regard to the requirement of additional gas.

1.58 When specifically asked about the time by which the final decision will be reached, Secretary, Petroleum assured that the clauses of the agreement will be finalised within 15 days.

1.59 In the same context when the Committee specifically wanted to know about the specific clauses under dispute Additional Secretary of the Ministry gave a reply:-

> "The ten clauses which are under dispute are being taken up for a final decision. It is (1) infinite negligence. The ONGC does not agree to it.(2) It is on

irrevocable letter of credit (3) It is on duration (4) It is also on quantities (5) What will be the extent of responsibility of the ONGC in the entire project (6) It is on `take and pay' (7) It is on L.D. i.e. what would be the situation if we do not make the supplies (8) What would be the appropriation of gas, viz. the quantity, the areas, the manner of transportation as also the form in which gas would be sent (9) Operational tolerance – it can be tolerated if there is less supply of gas (10) The gas given to Reliance will be given back to us. They will send it back to us after extracting C_2. This gas is very much needed by the ONGC. Since they further carry out Production with this gas, decision is yet to be taken on this."

1.60 About their efforts being made to resolve the issue, the Additional Secretary, further elaborated as under:-

"I would like to say that one such agreement had been signed among the Reliance Industries, Government of Assam and the Oil india Corporation. We are making efforts that all the clauses should be inserted in the agreement of ONGC in the same form as provided by the Oil India Corporation. There should be no difference between the two.

(b) Projects of Gas Authority of India Limited (GAIL)

1.61 The Committee observed that as against the revised plan outlay approved by the Planning Commission of Rs. 6417.95 crore for GAIL the expenditure upto December, 2001 is Rs. 4364.71 crores only. On the other side as against the Budget Estimates of Rs. 1150 crores for the year 2001-02, the Revised Estimates has been kept as 754.72 crores and by the end of December, 2001 only an amount of Rs. 368 crores has been spent.

1.62 When the Committee wanted a justification for this trend of investment during each year of the current Five Year plan and poor utilization of plan outlay for the year 2001-02, the Ministry submitted the following details:-

"The Plan outlay approved for Ninth Plan in respect of Gas Authority of India Ltd. was Rs. 6417.95 crores. Rs. 5,715 crores were provided for Schemes pertaining to Petroleum Sector and Rs. 702.95 crores were provided for Schemes under Petrochemicals sector.

The year-wise targets and the actual achievements along with the reasons for not achieving the targets are placed below:-

(Rs. in crores)

Year	BE	RE	Actual	Reasons for Variation
1997-98	1686.35	1474.14	1417.48	Delay in approval of LPG Pipeline and LPG Auraiya.
1998-99	922.04	745.00	691.13*	Delay in ordering of ADB funded packages due to delay is settling the

				pipeline tariff, the condition precedent to loan being effective.
1999-2000	985.14	886.34	785.50*	Delay in approval of LPG Plant at Gandhar (CCEA approved the proposal in May, 1999).
2000-01	986.45	1149.53	1102.60	Delay in grant of license by DOT & delay in ROU clearances particularly by NHAI for Telecom Project.
2001-02	1150.00	754.72	368.00 (upto Dec'2001)	Delay in contract closing for various packages namely Main line/Spurline laying, SCADA systam, Instrumentation system, Power source, telecom system for LPG P/L JLPL. Shortfall of Rs. 62 crore in Telecom due to delay in raising of bills by contractors for Phase-I laying jobs and delay in award of equipment tenders for Phase-II.

* *In addition to the actual expenditure of Rs. 691.13 crores during 1998-99 and Rs. 785.50 crores during 1999-2000 as shown, strategic investment of Rs. 450 crores and Rs. 106.29 crore were made in ONGC shares in 1998-99 and 1999-2000 respectively."*

1.63 In response to specific query of the Committee about the impact of such type of investment pattern on physical and financial performance of the company, the Ministry justified their position as under:-

"The impact on physical performance due to non achievement of targets of capital expenditure and the reasons for the same is given in the table below:-

Physical	**Ninth Plan Target**	**Ninth Plan Antd. (Actual 1997-2001 & RE 2001-02)**	**Reasons for variation**
LPG & other Liquid Hydrocarbon Production ('000 MT)	4,692	4,142	Delay in approval of LPG Plants at PATA & Gandhar.
New LPG Plant Products ('000 MT)	671	---	LPG Plant at Ravva did not materialise as it was not viable considering the quantity and quality of gas available.
Polymer Production ('000 MT)	1,016	524	UPPC Commissioned in March'1999 in place of April, 1997.
LPG Transported ('000 MT)	6,152	1,630	Jamnagar – Loni LPG Pipeline commissioned in

			Jaunary, 2002. This is presently being utilised. Due to delayed approvals LPG pipeline (Southern Region) not commissioned during the IX th Plan. LPG pipeline (Auraiya to Kanpur) dropped being unviable.

As would be evident from the table given below, the lower capital expenditure had a little impact on the achievement of the anticipated financial targets for the IX Plan as the related facilities of regassification has been delayed.

(Rs. in crore)

Description	Ninth Plan Target	Ninth Plan Antd. (Actual 1997-2001& RE 2001-02)
Sales Income	32,923	42,437
Gross Margin	8,352	9,803
Net Profit After Tax	2,779	5,086
Net funds available for Plan schemes	2,788	3,433
Plan Outlay	6,418	5,308
Shortfall (-)/Surplus (+)	(3630)	(1875)
Financing (OIDB/ADB/Banks/Bonds)	3,901	2,652
Closing Cash	271	777"

1.64 The Committee noted that GAIL has started some work on a Joint Venture Project in Iran and they have also started a fresh feasibility study of laying an offshore natural gas pipeline from Iran to India. When they wanted to know details of these projects, the Ministry submitted as under:-

"GAIL has been pursuing various gas sector opportunities in Iran and has also been considering participation in LNG production project in Iran. The LNG projects are to be implemented by the Joint Venture Companies between National Iranian Oil Company (NIOC) and Multi National Companies and, since the LNG projects are also targeted for supplies to India, the NIOC has indicated that there is scope for participation by the Indian companies in such projects. Ministry of Petroleum & Natural Gas has decided that, from the Indian side, a consortium of IOC-GAIL-ONGC will pursue the participation in Iranian LNG project under the leadership of IOC.

In the Joint Commission meeting between Government of India and Government of Islamic Republic of Iran, held in Tehran in May, 2000 the two sides agreed to constitute an Indo Iran Joint Committee for detailed evaluation of gas sector cooperation between the two countries, covering LNG, deep water gas pipeline and onland gas pipeline. The Indo Iran Joint Committee has so far met four times and various important aspects of gas sector cooperation between the two countries are being addressed. As per the approval given by MOP&NG, GAIL is involved in various gas sector cooperation initiatives with Iran and the cost of various studies would be equally between GAIL and NIOC.

GAIL and NIOC signed a Cooperation Agreement in April, 2001 to jointly study the feasibility of deep water gas pipeline from Iran to India and sharing the expenses equally. The contract for the offshore feasibility study was awarded to M/s. Snamprogetti-Saipem of Italy in May, 2001. The consultant has completed the Desk Top Preliminary studies and Pipeline Engineering Analysis last year in September/October, 2001 and thereafter the contract of Marine Surveys has been awarded to M/s. Gardline Surveys of U.K., for undertaking various types of surveys for identification of suitable corridors for deep water gas pipeline. The contract was awarded in February, 2002and the work has started. Services of verification and certification agency M/s DNV of Norway are also going to be engaged for the purpose of verification and certification of the results of deep water pipeline studies as so far no pipeline has been laid in water depth of about 3600 metres. After completion of the Marine Survey the data would be interpreted and used for the pipeline engineering and costing study. It is, therefore, expected that the complete feasibility study would be available by end 2002/early 2003.

GAIL and NIOC are also discussing the modalities for conducting an onland pipeline feasibility study from Iran to India via Pakistan."

(c) <u>Projects of Bharat Petroleum Corporation Ltd. (BPCL)</u>

1.65 Out of the total Plan Outlay of Rs.6540 crores the anticipated expenditure of BPCL during IX Plan period is estimated at Rs. 2723.43 crores. The main reasons for variations are as under:-

"DHDS-Rs. 136.02 crores – savings.

<u>Refinery Modernisation Project</u>- Rs. 929.25 crore. Originally two proposals viz., "Increasing crude Processing Capacity to 10 MMTPA" and "FCC feedstock Desulphurisation" were proposed with IX Plan Outlay of Rs. 686 crores and Rs. 373 crores respectively. Subsequently these proposals were review with the objective of reducing overall emissions levels from the refinery and upgrading product quality to BIS 2000 specifications. Approval from the Board was obtained in February, 1999 for progressing the same as a comprehensive proposal. However, considering the international trends in MS/HSD product quality specifications in line with Euro II/III norms and the need to be competitive, the process configuration was reworked. Parallely, statutory clearances including the project shall be completed during the X Plan period.

<u>Investment in JVC with M/s Oman Oil Co.</u> – Rs. 462.50 crores. All environmental clearances were received from Govt. of Gujarat, Madhya Pradesh and MOE&F. However, CWW (Govt. of Gujarat) imposed restraint on commencing/continuing project activities in the Marine National Park and

Sanctuary area. No. of PIL's have been filed, which are now simultaneously being heard in Hon'ble Supreme Court. In view of inordinate delay in receipt of clearances, Oman Oil Co. Ltd. (OOCL), the joint venture partner have advised that they would limit their equity interest equal to the ratio of their past investment. BPCL has decided to go ahead with the implementation of this project through BORL with increased equity (upto 50%) contribution by BPCL, subject to the approval from Govt. of India. Note for approval of Standing Committee for revised cost and required equity (i.e. upto 50%) contribution by BPCL, has been submitted to MOP&NG which is under their active consideration. Project activities will recommence after resolving legal issues, receiving final environmental clearance and approval from Govt. of India.

Investment in JVC Refinery in UP- Rs. 873 crores. The crude oil import facilities which were planned at Vadinar in Gujarat for the CIR refinery project was to take care of the crude requirement of this refinery proposed in UP with suitable modifications. The progress of this project has been slow due to the delay in environmental clearance for the CIR project which is still awaited.

Product Terminal at Bina – Rs. 75.39 crores. The project was planned as a storate and dispatch terminal for evacuation of products from the Central India refinery at Bina. Presently, the implementation of the project has been kept on hold due to delay in implementation of the CIR project.

New LPG Bottling Plants under IX Plan – Rs. 421.68 crores. Some of proposals are under review. Land acquisition is delayed at few other locations.

POL Jetty at JNPT - Rs. 42.72 crores. The project is under implementation and is expected to be completed in March, 2002.

Investment in JVC BJK Pipeline Project – Rs. 28.48 crores. The proposal is linked to the progress of CIR project.

Cumene Project -Rs. 40.90 crores. Project under review.

Investment in JVC for Paraxylene Project – Rs. 85.10 crores. Viability of this proposal is being reassessed in light of the current demand.

Investment in JVC Petrochemical Complex (Naptha Cracker) – Rs. 373.60 crores. Viability of this proposal is being reassessed in light of the current demand.

Project Dropped –Rs. 793.72 crores."

1.66 While going into further details the Committee wanted to know the present status of refinery modernisation/capacity addition projects of BPCL and also wanted to know whether there is any change in policy in this regard in view of expected disinvestments and dismantling of APM. The Ministry submitted the following facts in a written reply:-

"The objective of the Refinery Modernisation Project at the Mumbai Refinery is to upgrade the Refinery facilities for producing environment friendly products in line with the future specifications and also for reducing source emissions from the Refinery. This also improves distillate yield and energy efficiency of the main processes, which in turn enhances the crude oil processing capacity to 12 MMTPA. The following facilities are being put up:

- Hydrocracker unit
- Hydrogen unit
- CDU/VDU
- SRU Block
- Utilities and Offsite facilities

Process License for all the units have been obtained and the Process package work completed. Design Engineering activities for the Process units are in advance stage, major equipment ordering has been completed. Site activities are in progress from last 10 months.

Out of the total Project Cost of Rs. 1592 crore, the commitment is around Rs. 700 crore.

The work is in progress and there is no change in the policy on the above project."

1.67 In response to specific query of the Committee about the fate and present status of Joint Venture Refinery in UP, the Ministry submitted the following details:-

"Bharat Petroleum Corporation Limited plans to set up the 7 million metric tonnes per annum grass root refinery at Lhagara near Shankargarh in Allahabad district of Uttar Pradesh.

Pre-project activities like obtaining environmental clearances, other statutory approvals, land acquisition, forest clearances, etc. are in progress. There are no major hurdles, however, time taken to obtain environment clearance was about 26 months."

1.68 When asked about the present status of Central India Refinery Project at Bina, the Ministry submitted the following details:-

"Various preliminary activities for setting up of the project have been completed. Land has been acquired for Refinery and township at Bina and crude oil terminal at Vadinar (Gujarat). The basic design engineering work of the entire project has been completed. However, in view of restraint imposed by Chief Wildlife Warden of Gujarat and also due to the Special Leave Petitions filed in the Supreme Court, the project activities are currently under hold.

However, an expenditure of approximately Rs. 152 crore has been incurred on the project."

1.69 While referring to the special leave petition filed in the Supreme Court the Committee wanted to know the legal status. The Ministry submitted the following facts:-

"Bharat Oman Refineries Ltd. (BORL) has filed a Special Leave Petition (SLP) in the Supreme Court, which was admitted on 24.9.2001, challenging the new interpretation of the Wild Life Protection Act in the Gujarat High Court's order dated 3.8.2000.

The hearing of the case were held very briefly on 24.9.2001, 4.12.2001, 22.1.2001 and 29.1.2002. A detailed hearing of the case was held on 19.2.2002. The next hearing is now expected to be held on 3.4.2002."

1.70 During the course of evidence the Secretary in the Ministry of Petroleum and Natural Gas informed the Committee that they are hoping a clearance from Supreme Court during the next hearing of the case.

(d) <u>Projects of Indian Oil Corporation Ltd. (IOCL)</u>

1.71 The Committee observed that as against the approved outlay of Rs. 25488.13 crores during Ninth Plan, the expenditure as on January, 2002 for IOC was Rs. 12187 crores only. The year-wise variations are as under:-

Year	BE	RE	Actual	Variation w.r.t. BE	Variation w.r.t. RE
1997-98	2302.14	1815.15	1717	585.14	98.15
1998-99	3120.48	2697.05	2714	406.48	16.95
1999-2000	2564.07	3505.64	2744	179.93	761.64
2000-01	4500	4128.79	3000	1500	1128.79
2001-02	6000	2801.27	2012 Apr.-Jan.		

1.72 When the Committee specifically enquired about the reasons for such huge shortfall, the Ministry submitted the following details:-

"1997-98: Variation w.r.t . be (Rs. 585 crore)

Name of the project	Shortfall	Reasons for shortfall
HBCPL (Haldia-Barauni crude PPL)	106	Saving in project cost
(KBPL (Kandla –Bhatinda)	60	Payment to SKODA not done due to

		dispute
EIRP (Paradip Refinery)	60	2nd stage approval not received
Petrochemical	73	Work award for MTBE /Buteane – 1 at Gujarat Refinery shifted
LPG b/p (VIII Plan)	34	Handing over of land by State Govt. not completed
E&P	50	Equity contribution not yet given
R&D	28	Shortfall in material receipt

1998-99: Variation w.r.t BE Rs. 406 crore

6 MMTPA grass root Ref. At Panipat	54	Saving in project cost
EIRP	50	Deferment of payment for land dredging and land filling
Atmos. Distillate unit AU-5 at Gujarat	47	Supply of material not received
HBCPL	94	Saving in project cost
KBPL	38	Disputed payment not released
Indian Oil Tanking Ltd. (JV)	50	Enhanced equity contribution not done

1999-2000: Shortfall w.r.t. RE Rs. 761 crore and higher than BE by Rs. 180 crore

Barauni Expn.	145	Non-finalisation of LSTK packages
EIRP	52	Land acquisition & PMC selection held up
SDU at Digboi	50	2 months shift in lining up LSTK contract
DHDT at Digboi	52	2 months shift in lining up LSTK contract
DHDT at Mathura	50	Approval of DFR

2000-01: shortfall w.r.t BE Rs. 1500 crore:

PDRP (Paradip Refinery)	258	Project under review due to uncertain scenario
Panipat Ref. Expn.	424	Project under review
RDS/ RFCC at Gujarat	440	Project under review
LPG Bottling Plant	55	Handing over land by State Govt. delayed
Diversification, E&P, LNG & Power	174	Financial closure non-materialisation
R&D	28	Pilot Plants delivery shifted

2001-02 shortfall expected w.r.t BE

PDRP	861	Under review due to uncertain scenario

Panipat Ref. Expn.	830	Under review
Aug. of SMPL system (VC-CM-CP)	589	Under review
NS Quality at M/P/H/B/J	152	In line with Govt. road map

"

1.73 When the Committee wanted to know whether there was a lacunae on planning side or implementation side, the Ministry clarified their position as under:-

> "While there have been no lacunae in planning and implementation of the plan projects, the lower utilization of the plan funds during different years of the IXth plan has been because of saving in project cost, non-payment due to dispute in respect of Kandla-Bhatinda Pipeline, non-receipt of second-stage approval for Paradip Refinery, enhanced equity contribution not materialising in respect of Indian Oil Tanking Oil Ltd., non-finalisation of LSTK packages for Barauni Refinery expansion, certain major projects being under review, delay in handing over of land by the State Government, etc."

1.74 After a detailed analysis of the projects, the Committee found a large number of projects have been kept under review. The Committee specifically wanted to know that under what situations the Company has decided to reconsider their earlier decisions in such a large number of cases . The Ministry submitted the following :-

"The following projects, which were earlier approved in 1999 with following cost, were kept under review in December, 2000, while these projects were awaiting Environmental Clearance (except Paradip Refinery Project) and only pre-project activities were undertaken.

S.No.	**Project**	**Approved cost (Rs./cr.)**
1.	PX/PTA project at Panipat	4228
2.	Pardip Refinery Project	8312
3.	Panipat Refinery Expansion Project	3365
4.	Residue Upgradation project at Gujarat Refinery	4392
5.	LAB (Linear Alkyl Benezene) Project at Gujarat as approved "in principal" only, in April, 2000)	1140
	Total	**21437**

These projects involved large amount of investments as can be seen from above . IOCL Navratna Board, in December, 2000 therefore, constituted an Investment Review Committee of the Board to review the project viability and prioritize the implementation of these projects. The viability of the projects had, in the meanwhile, been affected due to:

<u>Withdrawal of Sales Tax and other incentives by Orissa Govt</u>.

Approval of Paradip Refinery Project by IOC-Board in August, 99 was based on the project viability with incentives/ concessions granted by Orissa Govt. in Dec.98 under Industrial Policy Resolution – 1996 (IPR –96) which also included 11 years Sales Tax exemption/ deferment. After withdrawal of Sales Tax incentives by Orissa govt. in Feb. 2000, viability of the project was seriously affected.

Imposition of 4% Entry Tax by Haryana Govt. (HLADT), i.e. Haryana Local Area Development Tax)

This tax was imposed by the Haryana Govt. after approval of the project by the Board, which seriously affected the viability of the project.

Change in supply/ demand scenario of the petroleum products in the country

In the current deregulated scenario, the demand growth of petroleum products in the country did not materialise as per the projections made while approving the projects. This necessiated a fresh look at the project viability of capacity expansion/ grass root refinery projects."

1.75 In the same context, when the Committee desired to know about the fate of each pending refinery related project the Paradeep Refinery Project , the Ministry submitted the following course of action in a written reply:

"As a result of the review by IOCL following prioritization has been made:-

Projects taken up for implementation

S.No.	Project	Revised Approved Cost (Rs. cr.)	Revised appd. Commissioning schedule
1.	PX/PTA project at Panipat	5104	Aug.04
2.	Panipat Refinery Expansion Project	4165	Oct.' 04
3.	LAB (Linear Alkyl Benzene) project at Gujarat Refinery	1248	Mar.' 04

Paradip Refinery Project

The project completion schedule will be firmed up based on growth in demand. In the meanwhile, possession of 3344- acre of land has been taken over by IOC and necessary infrastructure development jobs, prior to setting up of the main refinery, are progressing. Land development by dredging and reclamation and construction of bridges have been completed. Major infrastructure job like construction of approach road is in advanced stage of completion.

Balanced infrastructure works like construction of boundary wall, plant road, drains, site, office, facilities for construction water/ power supply etc. are in progress.

Residue Upgradation Project at Gujarat Refinery: Deferred

Status of outstanding issues with State Govts.:

Haryana Govt. for Panipat Refinery Expansion Project:

Haryana Govt., based on discussions and follow up, have agreed to exempt the levy of Haryana Local Area Development Tax on the expansion part of the imported crude intake. Formal notification is awaited.

Orissa Govt. for Paradip Refinery Project

On vigorous pursuing with Orissa Govt. a package of incentives was approved vide `Resolution ' No. 13793/VII-HI-25/2000-I published in Orissa Gazette No. 19 dated 20.7.2001, which amounts to only part restoration of the incentives originally approved. The above resolution was made available to public in 3rd week of Sept.'2001. However, necessary administrative orders for availing of the above incentives approved by Orissa govt. are yet to be issued. Departments concerned are being pursued for issuance of the same to facilitate implementation/ compliance of the `Resolution' referred above, at the operating level."

1.76 The Committee observed that IOC has acquired the entire equity stake of Government of India in Chennai Petroleum Corporation Limited and Bongaigaon Refinery and Petrochemicals Limited (BRPL) and both of them have become subsidiaries of IOC w.e.f. 29.3.2001. In this connection they wanted to know the objectives of acquiring these independent companies by IOC and the benefits of this decision to each other, the Ministry submitted the following justification:-

"The objectives of acquiring Chennai Petroleum Corporation Ltd. (CPCL) are as under:-

(i) Acquisition of CPCL assures product availability to IOC in Southern India from its own source. Before acquisition products to Indian Oil were sourced from other marketing companies.

(ii) CPCL's Narimanam refinery is situated in the cauvery Basin and thus, has assured supply of crude oil.

(iii) CPCL's co-promoter is National Iranian Oil Company (NIOC), who could potentially be a long term crude oil supplier. This will ensure uninterrupted operation of CPCL.

(iv) The construction of Chennai-Trichy-Madurai product pipeline by Petronet India will enable CPCL to transport its products down in the south. This will be a low cost option for dispatch of products.

The objectives of acquiring Bongaigaon Refinery and Petrochemicals Ltd. (BRPL) are as under:

(i) Entry into Petrochemical business through BRPL's integrated Petrochemical complex. The Petrochemical complex has assured feed supply from its refinery.

(ii) There is a potential for increasing local consumption of petrochemicals through forward integration and/ or encouraging other units to set up similar facilities.

(iii) The quality of products and reliability of operations is good.

(iv) BRPL has access to Guwahati-Siliguri product pipeline.

(v) BRPL can process imported crude oil through HBCPL, thus dependence on Assam Crude oil has reduced.

1.77 In the same context the Committee observed that BRPL incurred loss of Rs. 57.44 crores during 2000-01 and wanted to know about the efforts being made by IOC management to make Bongaigaon Refinery and Petrochemicals Ltd. a profit making company. The Ministry submitted in a written reply:-

"(figures in Rs. lakhs)

Sl. No.	**Particulars**	**For the Quarter Oct.'01-Dec.'01**	**Cumulative for the nine months Apr'01-Dec.01**
1.	Net Sales/ income from operations	32695	104357
2.	Other income	434	1940
3.	Total expenditure	35594	1192287
4.	Interest	1128	2766
5.	Depreciation	727	2175
6.	Profit after Tax	(-) 3171	(-) 11530

A Joint Working Group (JWG) comprising of Senior level officers from Indian Oil and BRPL was constituted in June 2001 to study and advise action plan for various business issues related to BRPL. Regular meetings are being held among JWG members to work out business strategies.

In order to make BRPL a profit making company, IOC management is making efforts in the following areas:-

(i) Higher allocation of Assam crude oil to BRPL (1.6 million tonnes during the year 2002-03).

(ii) Discussing and negotiating with the indigenous oil producers (ongc & oil) for fixing price of Assam crude oil at F.O.B. price level. This would provide positive margin in processing Assam crude oil at BRPL.

(iii) Taking up with the Government for granting 100% . Excise duty concession and transport subsidy for movement of petroleum products to outside the North-East region to make BRPL economically viable.

(iv) In a deregulated scenario, IOCL is planning to evacuate the entire production of POL products Ex-BRPL refinery so that the refinery can operate at the planned throughout for the year 2002-03.

(v) Product pricing to take care of freight and other expenses not covered by transport subsidy scheme.

IOC has sought assistance for viable operation of North-east refineries w.r.t. 100% excise duty consumption, freight subsidy scheme upto Barauni for movement of surplus product from North-east, compensation for equity improvement projects etc."

1.78 With a view to know the intention of the Government the Committee wanted to know whether the Government propose to agree to the request of IOC, the Ministry of Petroleum and Natural Gas submitted the following reply:-

"The Finance Bill 2002 provides for 50% excise duty concession on the products of the four refineries in the north-east namely IOC Digboi, IOC, Guwahati, Bongaigaon Refineries and Petrochemicals Limited (BRPL) and Numaligarh Refineries Limited (NRL)

IOC has made a request for 100% excise duty concession on the products of its refineries in the North East as also the freight subsidy for evacuating surplus products from the region. The request of IOC is under consideration of the Government."

(e) Projects of Hindustan Petroleum Corporation Ltd. (HPCL)

1.79 The Committee observed that the revised plan allocation for Ninth Plan approved by Planning Commission is Rs. 7448.08 crores. There is a shortfall of Rs. 3628.04 crores in utilisation. The major shortfall (Rs. 970 crores) is due to change in approvals for Punjab Refinery. It is now being incorporated as subsidiary company of HPCL named Guru Gobind Singh Refinery Ltd. A good amount has been saved during the current Plan.

1.80 When the Committee wanted to know about the details of saving made in various projects during the last five years, the Ministry submitted the following details:-

"The anticipated shortfall in IX Plan expenditure is expected to be Rs. 3628.04 crore. Of this, the shortfall on account of savings in project cost is Rs. 1464.11 crore. The details of the savings and the measures adopted to make the saving effective are as under:-

Sl. No	Name of the Project	Total Outlay during Plan period	Total Anticipated savings in investments	Anticipated savings in investments	Measures adopted to make savings effective
1.	Diesel Hydro Desulphurisation-Mumbai Refinery	789.00	639.56	149.44	Savings due to prudent usage of internal resources and consequent reduction in pre-production interest and reduction in other costs due to awarding LSTK (Lumpsum Turnkey) contracts
2.	Diesel Hydro Desulphurisation-Mumbai Refinery	755.00	608.63	146.37	Savings due to prudent usage of internal resources and consequent reduction in pre-production interest and reduction in other costs due to awarding LSTK (Lumpsum Turnkey) contracts
3.	Visakh Refinery Expansion Project- II	1034.00	867/16	166.84	Saving due to lower procurement costs and close project monitoring.
4.	Visakh Vijayawarda pipeline	340.00	273.61	66.39	Savings due to effective project management
5.	Cylinder Regular and Valves	375.85	109.69	266.16	Savings are due to reduction of cylinder costs due to effective procurement management and reduction in customer – cylinder ratio
6.	IX Plan LPG plants	767.00	130.06	636.94	Low cost augmentation of existing plants taken up as against setting up capital intensive new plants."

(f) Projects of Kochi Refinery Ltd. (KRL)

1.81 The Committee observe that the revised plan allocation of 9th Plan of Kochi Refinery is Rs. 2230.00 crore. The anticipated expenditure is Rs. 965 crores. The capacity expansion project proposed with an investment of 980.75 crores has been deferred Budget Estimates for 2002-03 is Rs. 75 crores only. When the Committee wanted to know the reasons for dropping the Refinery Expansion Project of KRL and also whether Bharat Petroleum/ KRL have developed any new proposal for implementation, the Ministry submitted the following facts:-

> "After receipt of PIB approval to the proposal for capacity expansion-cum-modernization of Kochi Refineries Limited (KRL). Government's equity in KRL was transferred to Bharat Petroleum Corporation Ltd. (BPCL). Ministry of Petroleum and Natural Gas received a request from BPCL to drop the said proposal of KRL in view of the synergy to be developed by both the companies. Accordingly, this Ministry decided to drop the subject proposal in its present form.
>
> BPCL and KRL were advised to develop new proposals in this regard keeping in view the auto fuel quality requirements and the needs of the post APM competitive market, under the Navratna powers deregulated to BPCL. Accordingly, KRL is developing the proposal."

C. ANALYSIS OF DEMANDS FOR GRANTS (2002-03)

1.82 As the oil sector PSUs are self-sustained and in fact some of them are Navratnas, no budgetary support in terms of investment, plan and non-plan loans is being made available to them. The Demands for Grants of the Ministry of Petroleum and Natural Gas was laid on the Table of Lok Sabha on 20th March, 2002. Demand No. 64 of the Ministry contains the following figures of Revenue as well as Capital Expenditure for the year 2002-2003:-

(Rs. in lakhs)

	Plan	Non-Plan	Total
Revenue Section	--	Secretariat Economic Services-943 Petroleum - 650000	650943
Capital Section	--	--	--

HEAD-WISE DEMANDS

(i) Major Head 2802

The following statement shows the details of expenditure made for various items during 2000-01, 2001-02 and 2002-03 under this Head:-

Item		Actual 2000-01	BE 2001-02	RE 2001-02	BE 2002-03
Grant for implementation of		150.47	-	-	-

Voluntary retirement in Biecco Lawrie Ltd					
Payment to oil companies in settlement of their claims under APM		-	-	900000.00	-
(i)	Subsidy on domestic LPG and PDS kerosene	-	-	-	449580
(ii)	Freight subsidy on retail products for far flung areas	-	-	-	23914
(iii)	Compensation for meeting the under recoveries of oil companies on sales tax payment on ATF to foreign Airlines	-	-	-	22957
(iv)	Compensation to refineries on account of irrecoverable state taxes	-	-	-	153049
(v)	Petroleum Regulatory Body	-	-	-	500
	Total	-	-	900000.00	650000

(a) <u>Grant for Implementation of VRS in Biecco Lawrie Limited</u>

1.83 The Committee observed that Biecco Lawrie Ltd. does not have any internal accruals to implement the Voluntary Retirement Scheme and any such scheme can only implemented on receipt grant . There is a surplus manpower of 223. During the 2000-01, a grant of Rs. 150.47 lakhs was given for VRS. When the Committee wanted to know the terms and conditions of the scheme, the response of the employees and the impact of the implementation of this scheme, the Ministry submitted as under:-

> "The terms and conditions of BLL Voluntary Retirement Scheme during 2000-01 was in line with guidelines of Department of public enterprises, duly approved by the Board . The salient features of the same are enumerated below.
>
> <u>Ex-Gratia</u>:
>
> 1 ½ months (45 days) emoluments for each completed year of service or the monthly emoluments at the time of retirement multiplied by the balance months of service left before normal date of retirement on suprannuation whichever is less.
>
> Other Benefits:
>
> In addition to the above, employees separating under Voluntary Retirement Scheme were also eligible for Notice Pay. Settlement Benefit leave Encashment, Provident Fund and Gratuity.

Eligibility:

The scheme was applicable only in respect of such permanent employees who attained the age of forty years and/ or had served the company for a minimum period of ten years and with minimum one year of service left.

In response to the above scheme during the year 2000-01, sixty surplus employees were released. Thus the company achieved partial benefit to the tune of Rs. 35.00 lakhs through reduction in the employee cost in the year 2000-01. However, the full benefit of the scheme has been received in 2001-02 to the tune of Rs. 80.00 lakhs through reduction in employee cost."

1.84 Due to incurring loss of Rs. 8.67 crores during 2001-02 , the company has submitted application on 5th march, 2002 for registration with BIFR. The Government has also decided to refer the Company to Ministry of Disinvestment for its disinvestment.

(b) Additional Budgetary Provisions to meet subsidy requirements

1.85 The following additional budgetary provisions have been made to meet the subsidy requirements in post APM era starting from 1.4.2002 in subsidy:

(i) Subsidies for domestic LPG and PDS kerosene

The annual subsidies for domestic LPG & PDS kerosene are to be borne by the fiscal budget. Ministry of Finance (MOF) have allocated Rs. 4495.80 crores for this purpose.

(ii) Freight Subsidy on retail products for far flung areas

The Govt. decision of November, 1997 provide for post APM freight subsidy on retail products for far flung areas to be met from the fiscal budget of the Govt. MOF have allocated Rs. 239.14 crores for this purpose.

(iii) Sales tax payment on ATF to foreign airlines

Budgetary provisions have been made to meet the under recoveries being met by the Oil companies on account of Sales Tax payment on ATF sales to foreign airlines till ministry of Civil Aviation comes out with a legislation to exempt the levying of such sales tax by the states. MOF has provided for Rs. 229.57 crores for this purpose.

(iv) Compensation to Refineries on account of Irrecoverable State tax

Presently, domestic refineries are compensated for irrecoverable taxes through the mechanism opf the same "state surcharge scheme". Under this scheme, the burden of state taxes payable by refineries, either or raw material or on their sales turnover or the CST payable on inter-company sales between refinery and marketing company for moving the retail products inter state are considered "state specific costs" and the amounts paid to any state towards these taxes are collected in the administered prices of products in that state by loading a `state specific surcharge". An amount of around Rs. 2000 crores was reimbursed to the refineries toward irrecoverable taxes during the year 2000-01. In the post APM period, pending rationalization of State taxes through the introduction of VAT, an appropriate mechanism would need to be put in place to compensate the refineries in lieu of the irrecoverable state taxes paid by them and no recovered in the selling prices of petroleum products.

MOF have allocated Rs. 1530.49 crores for this purpose.

(v) Petroleum Regulatory Body

With the dismantling of the APM w.e.f. 1.4.2002 a downstream petroleum regulatory board is proposed to be set up to promote healthy development of the oil and gas market in the country, ensure supply of products of right quality at competitive prices throughout the country and protect consumer interests.

(vi) Issue of Special Government Bonds

APM would be dismantled w.e.f. 1.4.2002. It has been estimated that cumulative oil companies outstandings from Oil Pool Account will be Rs. 13000 crores as on 31.3.2002. The cumulative outstanding of oil cos. Will be as liquidated in the following manner:-

(a) The Government will issue bonds to the extent of 80% of amount equivalent to the provisional amount of the pool deficit based on the settled claims of companies upto 31st March, 2002.

(b) The balance due amount to the oil companies will be liquidated by issuing bonds for the balance amount after the `oil' pool account is examined by the C&AG .

In view of above MOF has made a provision for Rs. 9,000 crore towards oil bonds in 3rd supplementary Demands for Grants 2001-02 of the Ministry.

1.86 The details of the amount paid under three major heads during the last five years is as under:-

(Rs. in crores)

Item	**1996-97**	**1997-98**	**1998-99**	**1999-2000**	**2000-01**
Subsidies for domestic LPG and PDS kerosene	8,760	7,480	8,370	12,644	14,246
Sales tax payment on ATF to foreign airlines	78	88	93	142	241
*Gross impact of irrecoverable	1,112	1,431	1,513	2,424	2,742

taxes					

**The amount paid from the oil pool account is after netting off state surcharge."*

1.87 When the Committee specifically wanted to know whether any modification has been made in the prevailing rates of above mentioned payments, the Ministry submitted as under:-

> "Presently, freight subsidy is being provided for domestic LPG and PDS kerosene for the hilly areas (including north-eastern states) and for petrol and diesel for the north eastern states and Sikkim . Post 1.4.2002, freight subsidy would only be provided on domestic LPG and PDS kerosene for the far flung areas."

1.88 The Committee noted that it is proposed that the Finance Ministry will issue oil bonds to the Oil companies in proportion to the dues they have to get from there. It has been reported in the Press that the bonds are being issued bearing an interest rate of 6.75% whereas they borrow funds from the market at around 10% to 12%. When asked about the terms and conditions of these bonds, and the way in which the companies will be able to use these bonds, the Ministry submitted as under:-

> "The Government have decided that the cumulative outstandings of the oil companies from the oil pool account are to be liquidated by issue of Government bonds. The bonds will have the following characteristics:
>
> (i) The bonds will be transferable so that they can be traded in the secondary market;
>
> (ii) The tenure of the bonds would be 7 years.
>
> (iii) The coupon rate of the bonds would be the same as of the Government security bonds for 7 years.
>
> As the bonds will be tradable in the secondary market, the oil companies can sell the same depending upon the liquidity position and fund low requirement."

1.89 The response to the specific query of the Committee seeking the justification of spending Rs. 229.57 crores for the purpose of sales tax payment on ATF to foreign airlines, the Ministry submitted as under:-

> "Presently, various state governments have levied sales tax on supplies of Aviation Turbine Fuel (ATF) and Lubricants to foreign airlines. The Government of India has entered into bilateral air service agreements with other countries which provide for exemption from payments of taxes and duties on fuel and lubricants

supplied in India to the aircraft of the contracting parties. Therefore, the airlines have not been paying the sales tax resulting into under recoveries to the oil marketing companies. These under recoveries were being met from the oil pool account under the APM and would be met from the Government budget effective 1st April, 2002."

1.90 While referring to issue of sales tax payment on ATF to foreign airlines, the Committee desired to know about the steps being taken to expedite the legislation to exempt the levying of such sales tax by the States and also about the hurdles before the Ministry of Civil Aviation in coming out with a legislation. The Ministry replied as under:-:-

"To address the problem, the Ministry of Civil Aviation (MOCA) is contemplating to enact a legislation. For this purpose. "The Aircraft (Exemption from Taxes and Duties on Fuel and Lubricants) Bill , 2000, to exempt from all duties and taxes, the fuel and lubricants uplifted by an aircraft registered in a foreign country operating international services to from and through India is pending for enactment. It has been informed by the MoCA that the draft bill was under the consideration of the Department related Parliamentary Standing Committee on Transport and Tourism. The Committee has since presented its report to Rajya Sabha on 27.11.2001 and the same has been laid on the table of Lok Sabha on 28.11.2001. While recommending the passage of the Bill, the Committee has also suggested that Central Government should continue to reimburse the State Governments of the loss of revenue which might result once the enactment is passed by the Parliament and comes into effect. MOCA has requested the Ministry of finance to initiate necessary action in the matter."

1.91 The Committee noted that the Ministry has allocated Rs. 1530.49 crores for the purpose of compensation to Refineries on account of irrecoverable State tax and wanted to know whether the Government has taken any initiatives in consultation with the concerned State Governments for rationalization of State taxes through introduction of VAT particularly in the Oil producing states, the Ministry submitted the following status:-

"A Committee of state Finance Ministries has been deliberating the issues relating to rationalization of State taxes, including the adoption of VAT. VAT was expected to be implemented effective 1.4.2002 but is now delayed. Adoption of VAT scheme for crude oil and petroleum products would solve the problem of irrecoverable taxes being faced by oil companies.

The Ministry has taken up the issue of rationalization of State Taxes and introduction of VAT with the Ministry of Finance. Further, the Ministry has also interacted with State Governments having refineries for realignment of state taxes. Some of the state Governments have responded and removed certain irrecoverable levies while simultaneously raising the rates of recoverable sales taxes. The process is an on-going one and the Ministry will continue to pursue the issue of rationalization of the taxes with the State Governments/ Ministry of Finance in its endeavour to provide a level playing field in the petroleum sector."

1.92 When specifically asked whether this expenditure be reduced or modified and also about the steps being taken in this direction, the Ministry gave categorical reply:-

> "The expenditure can be reduced through rationalzation of State Taxes. One of the methods is to convert irrecoverable state taxes to recoverable taxes applicable to all players including products including products imported into the states. Similarly, taxes on crude oil should be converted to taxes on end products. It is expected that on adoption of VAT for petroleum products, irrecoverable taxes would disappear as taxes on inputs would be allowed to be set off against taxes on outputs.
>
> This Ministry has directly interacted with the various State Government for rationalziation of State Taxes. Further, the Ministry has also taken up the issue of irrecoverable levies with Ministry of Finance which is the coordination Ministry for adoption of VAT scheme in the country."

(ii) Major Head 3451

(a) **Secretariat – Economic Services**

1.93 The entire provision of Rs. 943 lakhs sought in the Demands comprises for the Ministry as well as for Anti Adulteration Cell (AAC). During 2001-02 the Revised Estimates was Rs. 660 lakhs as against the Budget Estimates of Rs. 721 lakhs. The following table shows the details of actual expenditure made during 2000-2001. BE and RE for 2002-03 under the Secretariat-Economic Services Head:

(Rs. in lakhs)

Items	**Actuals 2000-01**	**BE 2001-02**	**RE 2001-02**	**BE 2002-03**
Salaries	401.77	479.00	417.00	425.24
Wages	2.77	5.46	1.20	1.22
Overtime Allowance	10.84	12.00	8.86	13.24
Domestic Travel	33.35	27.80	19.54	49.40
Foreign Travel	4.50	13.80	8.21	18.35
Office Expenses	163.21	165.60	188.09	411.82
Professional Services	0.38	1.41	1.40	3.71
Publication	3.00	3.05	2.70	4.26
Other Admn. Expenses	12.88	12.88	13.00	15.76
Total	**632.70**	**721.00**	**660.00**	**943.00**

The breakup of the BE 2002-03 Rs. 943.00 lakhs between the Ministry and AAC is as under:

Rs. in lakhs)

Head	**RE 2001-02**	**BE 2002-03**	

		MOP&NG	AAC	Total (3+4)
Salaries	417.00	425.24	--	425.24
Wages	1.20	1.22	--	1.22
OTA	8.86	10.80	2.44	13.24
TA (Domestic)	19.54	25.02	24.38	49.40
TA (Foreign)	8.21	12.26	6.09	18.35
Office Expenses	188.09	229.10	182.72	411.82
Professional Services	1.40	1.27	2.44	3.71
Other Administrative Expenses	13.00	13.32	2.44	15.76
Publication	2.70	3.05	1.21	4.26
Total	**660.00**	**721.28**	**221.72**	**943.00**

There is minor increase of Rs. 22,200 only in BE 2002-03, from BE 2001-02. The relative increase/decrease under various heads for the BE 2002-03 over RE 2001-02 is indicated below:-

Name of the Head of Account	In Percentage
Salaries	2.0
Wages	1.6
OTA	22.0
TA (Domestic)	28.0
TA (Foreign)	49.0
Office Expenses	21.8
Professional Services	(-)9.3
Other Administrative Expenses	2.5
Publication	13.0

(b) <u>Capital Outlay on Petroleum</u>

Rs. 61814.02 lakh pertains to issue of bonus shares by oil companies. Company-wise break up is as follows:

(Rs. in Lakhs)

OIL	7000.00
EIL	3384.38
IOC	31935.93
HPCL	5769.23
BPCL	9930.00
KRL	3794.48
	61814.02

1.94 While referring to the Government policy to effect economy in its expenditure in salaries, travel expenses, etc. the Committee wanted to know the extent upto which the objective has been achieved in the Ministry and under which Heads. The Ministry submitted the following details in a written reply;-

"The Ministry is conscious of the Government policy to effect economy in the expenditure in salaries, travel expenses etc. As against BE 2001-02, Rs. 721 lakhs, the RE 2001-02 is Rs. 660 lakhs. The estimated expenditure for the financial year 2001-02 is indicated at Rs. 645.65 lakhs resulting in savings of Rs. 14.35 lakhs (2.17%) with reference to RE 2001-02. Savings have been effected mainly under the Heads Salaries (Rs. 6.65 lakhs), Wages (Rs. 1.18 lakhs) and Travel allowance (Domestic) (Rs. 6.36 lakhs). Further, 16 posts have been abolished with effect from 31.3.2002 and one post is being abolished with effect with September 2002 to save future expenditure on salaries etc. About 4 posts would be further considered for abolition after one year or as and when the post APM scenario is established."

1.95 In response to the specific query seeking the justification for enhancing the office expenses (118.94% higher), domestic travel expenses (152.81% higher), foreign travel expenses (123.50%) Professional services (165% higher) and other administrative expenses (21.23% higher) exponentially as compared to Revised Estimates of 2001-02, the Ministry submitted the following facts:-

"The BE 2002-03 Rs. 943.00 lakhs comprises the Budget provision for the Ministry as well as for Anti-Adulteration Cell (AAC). The AAC was created in March, 2001 with the objective of checking adulteration in petroleum products. This would be funded by Oil Coordination Committee (OCC) upto the end of March, 2002. Since after the dismantling of Administered Pricing Mechanism (APM), the OCC was to be wound up, it was initially intended to be funded from the budget of the Ministry. Accordingly, the Ministry of Finance provided Rs. 221.72 lakhs for non salary expenditure of the AAC.

1.96 When the Committee wanted to know the justification and objectives for issuing the bonus shares by these companies and from which account, the Ministry submitted the company-wise details as under:-

"<u>OIL</u>

OIL issued bonus share in the ratio of 1:2 (one bonus share for every two shares held) during the year 2000-01, thereby increasing the paid-up share capital by Rs. 71.33 crores (Rs. 70.00 crores to Government of India). This bonus issue was made by capitalisation of free reserves and share premium account as allowed under the Companies Act, 1956.

The bonus issue was made to reward the shareholders as company has sufficient accumulated free reserves.

<u>Engineers India Limited</u>

The Company had substantial free reserves as compared to the paid-up equity capital and also had the capacity to service the increased equity base. The Company had, therefore, issued the bonus shares during the year 2000-01 in line with the guidelines issued by Department of Public Enterprises vide O.M. dated

10.11.1995. The basic objective of the issue of bonus shares was to increase the equity base as well as the shareholders' value. The issue of bonus shares had been out of the free reserves of the Company.

Indian Oil Corporation Limited

Indian Oil Corporation Limited (IOC) issued bonus shares in the ratio 1:1 during financial year 1999-2000. The reasons for issuing bonus shares were as under:-

- Enhancement of shareholders value. As an equity capital of Rs. 399.34 crore, the book value of IOC shares was Rs. 272.62 (based on 1998-99 profitability), which was the highest among the oil sector companies. This implied that the company had sizeable reserves, which it could share with the shareholders.

- Enhancement of liquidity of the stock. The 1:1 bonus issue was made out of the free reserves of the company. The reserves and surplus as on 31 March, 1999 was Rs. 11,880 crores, out of which Rs. 389.34 crore was capitalised as equity shares.

Hindustan Petroleum Corporation Limited

Bonus shares were issued by the HPCL in 1999-2000, to shareholders in view of accumulated reserves.

The Bonus issue, in addition to meeting the demand/expectation of various shareholders, also helped in improving the reputation of the company in the money/capital market. The bonus was issued out of the General Reserve 1 and 2 of the company.

Bharat Petroleum Corporation Limited

The bonus shares issued by BPCL was made during the year 2000-2001 in the ratio of one bonus share for every one share held, by way of capitalization of reserves. The detailed justification is given below:

(i) The market price of BPCL share at the time of bonus issue was around Rs. 183 per share which did not reflect the fair value of the share with a low price earning (P/E) ratio 3.9 time and the EPS of Rs. 47 for the year 1999-2000. This was due to poor liquidity of the shares due to very small retail investor base. In view of this, the issue of bonus shares was made to enhance the liquidity due to increase in the number of shares available for trading.

(ii) Increase in the P/E ratio would have a positive impact on the shareholders wealth by enhancing the value of the investment and benefit of the growth in the reserves could be shared with the shareholders including the Government.

(iii) As the year 2000-01 was Silver Jubilee Year of BPCL, the bonus issue would be viewed as a reward for the shareholders.

(iv) The bonus issue would bring the share value to an affordable level to attract investment and would facilitate wider subscription to the issue of fresh equity share that would be required to meet its projected capital expenditure during the Ninth Plan period.

Kochi Refineries Limited

Vide O.M. dated 10.11.1995 Department of Public Enterprises had intimated Government's decision that PSUs having substantial reserves should issue bonus shares to capitalise the reserves. The C&AG, also, had been pointing out about the non-issue of bonus shares by the Company. Accordingly, the bonus issue was made out of general reserve in 2000-01."

D. MISCELLANEOUS

(a) Dismantling of APM and rationalisation of duty structure

1.97 As decided by the Government in November, 1997, the Government has finally announced the dismantling of Administered Pricing Mechanism (APM) in the petroleum sector from April, 2002. The Phased Programme of reforms is as under:-

	Particulars	Model
	Transition Phase	4 years
	Year 1 (1998-1999)	
(i)	Removal of cost plus formula and payment to crude producers as percentage of weighted average FOB price of actual imports.	75 per cent
(ii)	Products to be controlled during transition period.	MS, HSD, Kerosene, ATF and LPG
(iii)	Withdrawal of retention margin concept for the refineries and refinery gate prices for controlled products.	Adjusted import parity prices to existing refineries and tariff adjusted import parity prices to new refineries.
(iv)	Products to be decontrolled	Naphtha, FO, LSHS, Bitumen, Paraffin wax.
(v)	Exim Policy	Decanalisation of imports/exports of all petroleum products except crude (slope crude and crude conensate), NGL, ATF, MS and HSD.
(vi)	Sourcing of crude	Sourcing of curde to be liberalised and import to be allowed for joint and private sector refineries under actual user licence.
(vii)	Customs duties	Rationalisation done in a phased manner
(viii)	Increase in prices of Kerosene (PDS)	30 per cent of existing ex-storage point price

	LPG (Domestic)	33 per cent of subsidy passed on
(ix)	Freight and other under recoveries	33 per cent to be passed on in an equatted mannerq
(x)	Shipping of crude oil	Withdrawal of cost plus formula for shipping of crude oil and move towards market related rates.

	Particulars	**Model**
	Year 2 (1999-2000)	
(i)	Payment to crude producers as percentage of weighted average of FOB	77.5 per cent
(ii)	Increase in prices of Kerosene (PDS) LPG (Domestic)	30 per cent of revised ex-storage point price at the end of year 1 A further 33 per cent of subsidy to be passed on.
(iii)	Freight and other under recoveries	A further 33 per cent to be passed on in an equated manner.
(iv)	Rationalisation of duties	To continue
	Year 3 (2000-01)	
(i)	Payment to crude producers as percentage of weighted average of FOB price	80 per cent
(ii)	ATF	Deregulation of imports and pricing
(iii)	Increase in prices of Kerosene (PDS) LPG (Domestic)	20 per cent of the revised ex-storage point price at the beginning of the year. Suitable adjustment in prices to reach subsidy level at 15% of import parity.
(iv)	Freight and other under recoveries	Balance subsidy to be passed on in and equated manner
	Year 4 (2001-2002)	
(i)	Payment to crude producers as percentage of weighted average of FOB price	82.5%
(ii)	Increase in prices of Kerosene (PDS) 2002 onwards	Suitable adjustment in prices to reach subsidy level at 33.33% of the import parity. Full Deregulation Transfer of subsidy on SKO (PDS), LPG (Domestic) and freight subsidy on supplies to far flung areas to the fiscal budget of the Government

1.98 In response to the specific query of the Committee about the steps which have already been completed, the Ministry submitted the following details:-

> "The details of the actions taken by the Government since 1.4.1998 are given below:-
>
> (a) Cost plus formula for crude oil produced by national oil companies was withdrawn effective 1.4.98.
>
> (b) The system of retention pricing for the refineries was abolished effective 1.4.98. Refinery gate prices for controlled products are being fixed on tariff adjusted import parity. Refining sector was delicensed in June, 1998.
>
> (c) Prices of all petroleum products other than Petrol, ATF, Diesel, Kerosene for Public Distribution and domestic LPG were decontrolled effective 1.4.98 and are fixed by oil companies on market considerations. Prices of ATF were decontrolled effective 1.4.2001.
>
> (d) Consumer prices of Kerosene for public distribution have been increased as envisaged. Consumer prices of domestic LPG have also been revised upwards.
>
> (e) Cost plus formula for shipping of crude oil was done away with effective 1.4.98.
>
> (f) Joint and private sector refineries were permitted to import crude oil on actual user basis effective 1.4.98. Orders decanalising crude oil sourcing by public sector refineries have been issued in December, 2001.
>
> As announced in November, 1997, the Government has decided to dismantle APM effective 1st April, 2002."

1.99 When the Committee specifically enquired about the way in which the lifting of controls over prices for motor spirit and HSD will get reflected in decontrolled selling prices at the retail end, the Ministry submitted the following clarification:-

> "Effective 1st April, 2002, the retail selling prices of motor spirit and HSD will be market determined, to be fixed by the oil companies themselves. The domestic prices of these products will tend to move in line with the trend in the international prices."

1.100 In response to specific query whether the prices will vary company-wise and region-wise also, the Ministry submitted as under :-

"The prices would be market determined. The price would vary from location to location depending upon transportation cost, local levies, sales tax etc. As the prices of motor spirit and HSD would be determined by the oil companies based on market considerations, the same could vary from company to company."

1.101 When the Committee wanted to know whether any mechanism has been developed for cushioning oil prices fluctuations and keeping them uniform within the whole country under changed situations with a view to protect the interest of consumers, the Ministry clarified the position as under:-

"With the dismantling of APM, the actual costs will get reflected in the prices of petroleum products in different locations in the country. Thus, the prices would not be uniform throughout the country. As far as the issue of containing the impact of volatilities in the international oil market on the domestic prices of petroleum products is concerned, the Ministry of Finance is examining the same."

1.102 The Committee noted that the oil pool Account has been dismantled w.e.f. 1st April, 2002 and outstanding balances will be liquidated by issue of oil bonds to the concerned companies. When the Committee specifically wanted to know about the total oil pool Account, the contribution of each oil company in it and the share being given to each of them in the process of liquidation. The Ministry submitted the position as under;-

"The accumulated admitted outstandings payable by OCC to the oil companies as on 18.3.2002 are given hereunder;-

(Rs. in crores)

Sl. No.	Name of the Oil Company	Admitted outstanding as on 18.3.2002 (Rounded off to crores)
1	Indian Oil Corporation Ltd.	7289
2	Hidustan Petroleum Corporation Ltd.	2046
3	Bharat Petroleum Corporation Ltd.	1406
4	Oil & Natural Gas Corporation Ltd.	1327
5	Oil India Ltd.	148
6	Bongaigaon Refinery & Petrochemicals Ltd.	78
7	Numaligarh Refinery Ltd.	63
8	Kochi Refinery Ltd.	51
9	Chennai Petroleum Corporation Ltd.	16
10	Gas Authority of India Ltd.	9
11	IBP Co. Ltd.	1
	Total	**12433**

The above admitted outstanding claims of the Oil Companies do not include the following;-

(a) The unredeemed oil bonds amounting to Rs. 385 crores which were issued in the year 1998 and interest thereon, amounting to Rs. 617.66 crores till

31.3.2001 plus further interest for the year 2001-2002, is payable to the Government.

(b) The incremental updation claims of oil companies for the year 2001-2002 towards marketing margins, pipeline margins, terminalling charges, LPG filling, etc. which would be finalised after 31.3.2002 only based on the audited data of the oil companies.

(c) The proposals under consideration of MOP&NG amounting to Rs. 1000 crores approx.

(d) Interest payable by OCC on cumulative outstanding of the oil companies for the period Feb. & March'2002.

(e) The impact of regular weekly claim/surrenders effective weekly cash settlements due on 26.3.2002 and onwards.

Ministry of Finance has made a provision of Rs. 9000 crore in the third supplementary of the budget of 2001-02 for issuing bonds to the oil companies.

The Company-wise details of the suggested bond amounts are as follows:-

(Rs. in crores)

Sl. No.	Name of the Oil Company	Bond Amount (Rounded off to crores)
1	Indian Oil Corporation Ltd.	5276
2	Hidustan Petroleum Corporation Ltd.	1481
3	Bharat Petroleum Corporation Ltd.	1018
4	Oil & Natural Gas Corporation Ltd.	961
5	Oil India Ltd.	107
6	Bongaigaon Refinery & Petrochemicals Ltd.	56
7	Numaligarh Refinery Ltd.	46
8	Kochi Refinery Ltd.	37
9	Chennai Petroleum Corporation Ltd.	12
10	Gas Authority of India Ltd.	6
11	IBP Co. Ltd.	0
	Total	**9000"**

1.103 The Committee noted that the bonds bearing 6.96% on interest have been issued by the Government. When the Committee wanted to know about the justification of the announced rate of interest, the Ministry submitted:-

"The Government on 31st March, 2002 notified the issue of 6.96% oil companies Government of India's bonds . 2009" for Rs. 9,000 crores. These bonds are tradable in the secondary market. The rate of interest on these bonds is based on the coupon rate yield for similar Government securities."

1.104 When asked about the basic considerations for liquidation of balances in favour of particular company, the Ministry submitted as under:-

"The Government has decided to dismantle the Administered Pricing Mechanism (APM) w.e.f. 01.04.2002 and as a result, the cumulative outstanding of the oil companies against the Oil Pool Account will be liquidated as follows:-

(a) The Government will issue Bonds to the extent of 80% of amount equivalent to the provisional amount of the Pool Deficit based on the settled claims upto 31.3.2002.

(b) The CAG will be requested to do a special audit of the Oil Pool Account once all the due claims, except those which may subsequently arise on crystallization of contingent liabilities later, from the Pool Account are finalized.

(c) The balance amount due to the Oil Companies will be liquidated by issuing Bonds for the balance amount after obtaining the audited accounts.

The Bonds issued to any particular company would be as per the concerned company's outstanding against the pool account."

1.105 The Committee noted that in Post-APM period the private companies will be permitted in distribution of petroleum products. When the Committee desired to know about the major terms and conditions announced in this regard, the Ministry submitted the following details of the guidelines issued in this regard:-

"The Government of India vide its resolution dated 8th March, 2002 have laid down the detailed guidelines for granting authorization to market transportation fuels, namely, MS, HSD and ATF to the new entrants including the private sector. The authorization to market transportation fuels; as per these guidelines is available to a company investing or proposing to invest Rs. 2000 crores in the specified categories. The details of the decision are given below:-

(i) the companies investing or proposing to invest Rs. 2000 crore in exploration and production, refining, pipelines or terminals may be granted authorization to market transportation fuels, namely MS, HSD and ATF.

(ii) the eligible investments would be in setting up new refineries, expansion of existing refineries, exploration and production of hydrocarbons including coal bed methane and associated facilities like crude oil/natural gas pipelines and processing plants, terminals for crude oil/LNG, common carrier natural gas/petroleum products/LPG pipelines and investments in these activities for setting up additional assets for improvement of product quality to meet environmentally related statutory requirements.

(iii) the investments should be in the form of equity, equity like instruments or debt with recourse to the company and should result in the additionality to the existing assets and/or creation of new assets in the eligible activities.

(iv) in case of companies proposing to invest, a bank guarantee of Rs. 500 crore will be obtained to ensure that they fulfil their commitment. Further, the time frame for making investments in the eligible activities would be 10 years including the period of 5 years earmarked for financial closure.

(v) every eligible company would get only one authorization and it will not be transferable without permission of the Government. The applicant will be required to submit a scheme for marketing to the Government or the Regulatory Board and while granting authorization, the latter may impose conditions in public interest including the obligation to set up retail outlets in remote areas and low service areas and that the eligible company will not encroach upon the retail networks of existing marketing companies.

(vi) the companies who have already made in full the investment of Rs. 2000 crore in the eligible activities would be granted authorization during APM itself while the companies proposing to invest would be granted authorization only after the APM is dismantled."

1.106 During the course of evidence the Committee pointed out towards the 9th Plan stress on marketing plan for supply of LPG in the rural areas and wanted to know about the control of Government to continue this Policy in post APM period. Additional Secretary in the Ministry submitted following clarifications:-

> "The marketing plan formulated till now and and the last marketing plan of 1999-2000, more than 1200 distributors, as I have mentioned earlier also, will be engaged in rural areas. No concession will be given to companies in this regard."

1.107 He further clarified the position as under:

> "We have incorporated two things –Retail Service obligation and Marketing Service obligation Under the norms being fixed for the petrol pumps to be set up in future. Under Marketing Service obligation, it would be mandatory for a company to set up a certain minimum percentage in rural areas also. It would not be like rural areas will be left out and a company will choose only good locations in urban areas."

1.108 In response to specific query of the Committee about the fate of Dealer Selection Boards, the Additional Secretary stated as under:-

"It has been decided that Dealer Selection Board will take decision in respect of those applications only which have till now been invited. A limited time period from 1.4.2002 to 30.9.2002 has been allotted for the selection of applications. Applications have been pending for the last ten years. Therefore, it has been decided that Dealer Selection Board will take decision regarding those applications only which have been advertised. Those which have not been advertised will be decided by the companies."

1.109 When specifically asked about preventive measures proposed to be taken to control the menace of adulteration, etc. under such open marketing system, the Ministry submitted as under:-

"The provisions of the various Control Orders shall continue to govern all companies to prevent various malpractices such as adulteration even during the post APM regime.

Further, MOP&NG have already set up an Anti Adulteration Cell (AAC) headed by a Joint Secretary level officer as Director-General. AAC shall continue to conduct checks/raids to check adulteration of petroleum products in the deregulated scenario."

1.110 During the course of evidence the Ministry further clarified the position as under:-

"Administered Price Mechanism has been ended but one thing is still continuing. Petrol and diesel still come under essential commodities. Therefore, all the provisions of Essential Commodities Act would be applicable on them."

1.111 While further going into the details of the organisation set up of AAC the Committee wanted to know the present manpower of AAC and also the way in which they propose to control the whole country, the Ministry submitted as under:-

ORGANISATIONAL SET UP OF ANTI ADULTERATION CELL, MINISTRY OF PETROLEUM & NATURAL GAS

Name of the Post	Sanctioned No. of posts	Headqu-arters	Northern	Western	Southern	Eastern
Director General	1	1	-	-	-	-
Regional Director	4	-	1	1	1	1
Investigating Officers	28	-	7	7	7	7
Private Secretary	5	1	1	1	1	1
PA	5	1	1	1	1	1
Admn. Accounts, DD	1	1	-	-	-	-
Accounts Officer	4	-	1	1	1	1
Office Assistant	5	1	1	1	1	1
Typist clerk	4	-	1	1	1	1
Drivers	4	-	1	1	1	1

Peon	10	2	2	2	2	2
Total	71	7	16	16	16	16

1.112 About their activities , the Ministry clarified the position as under:-

"The primary responsibility for implementation of the Essential Commodities Act and thereby prevention of adulteration of fuels is that of the State Governments. The officers of oil marketing companies are also empowered under the control orders issued by the Ministry of Petroleum and Natural Gas to take action against the erring dealers and others indulging adulteration of fuel. However, it has been found that the menace of adulteration has been growing in spite of the activities of State Governments and oil companies. Therefore, the Anti Adulteration Cell was created to act as a nucleus for guiding and coordinating anti adulteration activities. Although the staff strength is very limited with Anti Adulteration Cell, it is considered adequate for this function. The AAC proposes to initiate public awareness campaigns and training of the officers of State Governments and oil companies empowered under the Essential Commodities Act in carrying out their activities. The AAC will also, with the help of State Governments and investigating agencies such as Central Bureau of Investigation, take action to prevent supply of adulterants to dealers. The expertise developed by AAC will be available to all the agencies involved in these activities."

1.113 The Committee noted that there was a proposal to set up a Petroleum Regulatory Board to oversee the sector in Post-APM period. When they desired to know the composition, responsibilities and powers of the proposed Board and the time by which it will be set up, the Ministry submitted the following details:-

"The requisite details regarding composition, responsibilities, powers and time by which the proposed Regulatory Board will be set up are as under:-

Composition

The Board may consist of a Chairperson and other members not exceeding four in number, to be appointed by the Central Government from amongst persons of eminence in the fields of petroleum industry, management, finance, law, administration or consumer affairs. The Chairperson and other members shall hold office for a term of five years or until they attain the age of 65 years, whichever is earlier.

The proposed responsibilities of the Regulatory Board

The Board shall have the following functions:-

(a) protecting consumer interest by fostering competition and fair trade amongst the entities.

(b) authorizing entities to:

(i) market notified petroleum and petroleum products subject to any conditions laid down by the Central Government;

(ii) establish LNG terminals with the objective of preventing regional imbalances and avoiding wasteful investment.

(iii) lay, build, operate or expand a common carrier with the objective of ensuring fair access to all suppliers of petroleum products and curb anti-competitive behaviour.

(c) declaring a pipeline as a common carrier, regulating access to common carrier on non-discriminatory basis by the entities, and regulating transportation rate thereof;

(d) in respect of notified petroleum and petroleum products:

(i) ensuring adequate availability throughout the country including remote areas;

(ii) ensuring transparency particularly by display of information about the maximum retail price fixed by the entity for consumers at retail outlets;

(iii) monitoring prices and taking corrective measures to prevent profiteering by the entities;

(iv) laying down and enforcing retail service obligations for retail outlets and marketing service obligations for entities.

(e) levying free and other charges;

(f) maintaining a data bank of information on activities relating to petroleum and petroleum products;

(g) performing such other functions as may be entrusted to it by the Central Government.

<u>The power of the Regulatory Board</u>

The Board shall have jurisdiction to;

(a) decide any dispute or matter arising amongst entities or between an entity and any other person on issues relating to refining, processing, storage, transportation, distribution, marketing and sale of petroleum and petroleum products;

(b) receive any complaint from any person regarding contravention of

(i) retail service obligations;

(ii) marketing service obligations;

(iii) display of maximum retail price at retail outlets;

(iv) profiteering by an entity;

(v) terms and conditions subject to which a pipeline was declared as common carrier, or authorization was granted to an entity for laying, building, operating or expanding a pipeline as common carrier or for establishing a liquefied pipeline gas terminal or for marketing notified petroleum and petroleum products;

(vi) any other provision of this Act or the rules or the regulations or orders made thereunder."

1.114 While going into the details of expected major policy changes in the Post-APM period when the Committee desired comprehensive details of these changes, the Ministry submitted *inter-alia* the following details in a written reply:-

"<u>Subsidies to refineries in North-East</u>

Upto 28.2.2002, NRL was availing 100% excise duty concession on petroleum products (since 9.2.2000). Similarly, the Digboi Refinery of IOC was availing 50% excise duty concession on petroleum products (since 29.1.2002). Effective 1st March, 2002, all the four refineries in the north-east viz., NRL, Digboi, BRPL and Guwahati will get 50% excise duty concession on their products.

<u>Freight subsidies for petrol, diesel, LPG and Kerosene to far flung areas</u>

Presently, freight subsidy is being provided for domestic LPG and PDS kerosene for the hilly areas (including north-eastern states) and for petrol and diesel for the north eastern states and Sikkim. Under the revised mechanism, which is proposed to be put in place from 1.4.2002, freight subsidy would only be provided on domestic LPG and PDS kerosene for the far flung areas.

<u>Pricing mechanism of petroleum products</u>

Presently, the four retail products, viz., diesel, petrol, domestic LPG and PDS kerosene are under the APM and the Government fixes their basic prices. The price of domestic LPG and PDS kerosene is subsidized whereas the price of petrol is fixed at a higher level to cross subsidise domestic LPG and PDS kerosene. Effective 1.4.2002, the prices of petrol and diesel would be market determined to be fixed by the oil companies themselves. The Government would fix the issue prices for the subsidised products, viz. PDS kerosene and domestic LPG effective 1.4.2002 based on flat rate of subsidy. After adjusting the flat rte of subsidy, the retail prices of PDS kerosene and domestic LPG will vary as the price of crude oil changes in the international markets."

1.115 About the policy changes in functioning of Oil Industry Development Board and Oil Coordination Committee, the Ministry submitted as under;-

"Oil Coordination Committee

The OCC was set up in July 1975 through a Government of India (Ministry of Petroleum & Chemicals) Resolution dated July 14, 1975 on the recommendation of the Oil Prices Committee (OPC).

OCC's role was inter-alia envisaged as:

to function as an extended arm of the Ministry to enable the Ministry to discharge its responsibilities by providing necessary technical and operational support:

(i) to provide intelligence and feedstock from the industry and the market to the Government to facilitate planning and strategic controls;

(ii) to maintain a databank as the hub of an up-to-date information and communications system;

(iii) to promote a national perspective in the oil industry through integration and optimization;

(iv) to implement the policy and guidelines as set by the Ministry and oversee implementation; and

(v) to coordinate the various aspects and activities of the downstream oil sector.

Government has decided to dismantle APM w.e.f. 1.4.2002. As a result OCC will stand abolished w.e.f. 1.4.2002. Government has further decided to create a cell (Petroleum Planning and Analysis Cell) w.e.f. 1.4.2002 to assist MOP&NG in the discharge of the following functions:

(i) Administration of subsidy on PDS kerosene and domestic LPG and freight subsidy for far-flung areas.

(ii) Maintenance of information data bank and communication system to deal with emergencies and unforeseen situations;

(iii) Analysing the trends in international oil market and domestic prices;

(iv) Forecasting and evaluation of petroleum import and export trends;

(v) Operationalising the sector specific surcharge schemes, if any.

The existing policy in regard to functioning of Oil Industry Development Board is laid down in the Oil Industry Development Act, 1974. According to the Act the Oil Industry Development Board has been established for the development of oil industry. The oil industry covers petroleum and natural gas sector besides fertilizers and petro-chemical sectors. The purposes for which the financial and other assistance can be given by the Board is prescribed in Section 6 of the Act. OIDB shall continue to discharge the functions assigned to it during the post-APM period also."

1.116 In response to specific query about present status of subsidy and proposed schedule for phasing it out, the Ministry stated:-

"On the basis of Feb-March 2002 product prices, the average subsidy is estimated at around Rs. 90/- per cylinder and Rs. 3/- per litre for domestic LPG and PDS kerosene respectively. The subsidy is to be phased out in the next 3 to 5 years."

1.117 On the aspect of phasing out of subsidy in the next 3-5 years, the Committee wanted a critical reply from the Government whether they found such approach as people-friendly and poor-friendly, the Ministry answered as under:-

"The reduction and the subsequent phasing out of subsidies would be a move towards the economic pricing of hydrocarbon energy and would discourage upproductive usage. The phasing out period is likely to accustom the users of these fuels to get used to market determined prices. It is envisaged that a free and competitive market, with minimal intervention, would eventually emerge thereby benefiting the consumers of petroleum products through wider choice of products at competitive prices and improved service."

1.118 When the Committee sought a justification for the decision of reducing the excise duty concession of NRL from 100% to 50% particularly when the refineries in the North-East are likely to face very difficult situation in the post-APM, the Ministry submitted as under:-

"NRL was enjoying 100% excise duty concession on its products w.e.f. 9.2.2000. Through Finance Bill 2000, while extending 50% excise duty concessions to other three refineries in the north-east, the excise duty concession to NRL has been reduced from 100% to 50% w.,e.f. 1.3.2002. The matter has been taken up with the Ministry of Finance to consider the restoration of excise duty concession to NRL to the original level of 100%."

1.119 In the same context, the Committee noted that on one side it is proposed that oil producers will get international prices for the crude they produce. On the other side the royalty/cess has been enhanced significantly in the Budget. When they wanted to know the ultimate impact of these proposals on the profit of oil producing, refining and marketing companies, the Ministry submitted as under:-

> "The price of crude oil in the deregulated environment will be market determined based on agreement between Crude Oil producer and buyers which is presently under negotiation. The Crude Oil Sales agreement will be entered into subsequent to the finalization of principles of pricing amongst the buyers and sellers of crude oil.
>
> In the budget 2002, the cess has been doubled from Rs. 900 tonne to Rs. 1800 tonne. If the crude oil prices do not go up correspondingly to cater to this impact the profit and investable surpluses of NOCs during X Five Year Plan will be impacted which may effect the planned E&P program.
>
> The prices of petroleum products, except for PDS kerosene and domestic LPG and crude oil, would be determined by the oil companies based on market considerations effective 1.4.2002. As far as indigenous crude oil producers are concerned, the impact of domestic levies like royalty, cess and sales tax would have to be borne by them. The impact of the additional cess would reduce their internal revenue generation. The profit of the refining and marketing companies would depend upon the trend in the international prices and demand supply situation in the country."

1.120 In response to specific query of the Committee about the functioning of Oil Industry Development Board in post-APM period, the future resources of OIDB, the Ministry submitted as under:-

> "Oil Industry Development Board (OIDB) has been established under Oil Industry Development Act, 1974 for the development of Oil Industry. The term Oil Industry, as defined under the Act includes all activities by way of prospecting or exploring for or production of mineral oil, refining, processing, transportation, storage, handling and marketing of mineral oil, production and marketing of all products, down-stream of an oil refinery and the production of fertilisers and petro-chemicals and all activities directly or indirectly connected herewith.
>
> OIDB would continue to render its assistance for the above purpose even after dismantling of Administered Pricing Mechanism (APM). Funding towards oil sector projects are decided by OIDB on case to case basis, subject to the priorities determined by the Board from time to time.
>
> In terms of Section 18 of the Oil Industry Development Act, the resources of the Board include cess proceeds or other sums transferred by Central Government to the Board, borrowings by the Board, sums realized by the Board in carrying out its functions or any other grant made by any person or institution.
>
> Within the aforesaid provisions of the Act, excluding transfer of cess proceeds by the Central Government, if any, it is expected that the Board would

realize approximately Rs. 550 crore per annum as interest income. However, OIDB having been made taxable organisation in the budget speech of Finance Minister, the net accruals to the Board may be approximately Rs. 350 crore per annum. Besides interest income, the repayment of loans are likely to result in availability of resources of approximately Rs. 4000 crore by March, 2006."

(b) Restructuring and Disinvestment of Oil Sector PSUs

1.121 The Committee noted that to improve the viability of stand alone refining companies, Sengupta Committee had recommended re-organization/re-structure of some oil sector PSUs. Several steps have been taken in this direction. When specifically asked whether the Government have prepared any road-map for re-structuring of oil sector PSUs, the Ministry gave a critical reply as under:-

"The following restructuring programmes have been completed by the Government:

(i) Strategic alliance among Indian Oil Corporation Ltd. (IOC), Oil and Natural Gas Corporation Ltd. (ONGC) and Gas Authority of India Ltd. (GAIL) through acquisition of equity shares from each other.

(ii) Strategic alliance of stand-alone refineries with oil marketing companies by acquisition of entire Government shareholdings in Chennai Petroleum Corporation Ltd. (CPCL) and Bongaigaon Refinery and Petrochemicals Ltd. (BRPL) by IOC and Kochi Refineries Ltd. (KRL) by Bharat Petroleum Corporation Ltd. (BPCL).

(iii) Equity restructuring of Numaligarh Refineries Ltd. (NRL) by acquisition of 10% of NRL equity each by Oil Industry Development Board (OIDB) and Oil India Ltd. (OIL) and 19% from IBP to BPCL.

The Government have decided that the process of restructuring of Balmer Lawrie & Co. Ltd. may be completed during the period preparatory to disinvestment. Accordingly, the restructuring programme of the company is under way."

1.122 While going into the details of the mergers and disinvestments, which have already been carried out the Committee wanted to know the objectives and methods. The Ministry described as under;-

"During the current year, the Government completed strategic sale of 33.58% of equity of IBP Co. Ltd. (IBP) through competitive bidding. Indian Oil Corporation Ltd. (IOC) acquired the above equity stake in IBP from the Government. Earlier to IBP disinvestment, other major disinvestment programmes completed by Government include sale of about 19.5% equity of Gas Authority of India Ltd. (GAIL) in the domestic and international markets during 1998-99 and 1999-2000 and sale of equity in IOC, Oil and Natural Gas Corporation Ltd.

(ONGC) and GAIL to each other in 1999 and the sale of the entire Government shareholding in Chennai Petroleum Corporation Ltd. (CPCL) and Bongaigaon Refinery and Petrochemicals Ltd. (BRPL) to IOC and Kochi Refineries Ltd. (KRL) to Bharat Petroleum Corporation Ltd. (BPCL) in 2000-2001. The important objectives of disinvestment of Government shareholding in oil PSUs is to widen the shareholder base and liquidity of shares in the stock markets and to strengthen synergy among public sector undertakings (PSUs) in the hydrocarbon sector and to maximise value for Government."

1.123 In response to the specific query of the Committee about the justification for disinvestment proposals of profit making companies of oil sector, the Ministry of Petroleum & Natural Gas submitted as under:-

"The Department of Disinvestment have formulated their own policy and under that policy disinvestment is divided into two parts. One is profit making while the other is non-profit making. Government did not approve of this and divided that in core and non-core activity. In defence related matters, the activities found non-sensitive are referred for disinvestment. That question is related to comprehensive policy formulation and the Government of India have formulated a comprehensive policy. Our Department is only implementing that policy and the Government are going for disinvestment under that policy only."

1.124 The Committee pointed towards press reports that IOC has been debarred from bidding in disinvestment process in HPCL and BPCL, ostensibly for the reasons to give scope to other companies to bid in the process and wanted to know the rationale behind this decision. The Ministry justified their decision as under;-

"While approving the financial bids for disinvestment of its equity in IBP Co. Ltd. in February, 2002, the Government decided that IOC be excluded from bidding for BPCL/HPCL equity to prevent emergence of a monopoly in this sector. As a sequel to dismantling of Administered Pricing Mechanism (APM), the Government have notified the detailed guidelines on 8.3.2002 on opening up of the marketing of major petroleum products to private sector investment. This measure is contemplated to enhance competition in the market for the benefit of the consumers. With the acquisition of IBP, IOC's market share has gone upto around 55%. If it acquires HPCVL and/or BPCL its market share can to up to 75% or more. This will not only reduce the number of existing players in the market but also discourage the new entrants. Under such market conditions, consumers will have very little or even no choice to compare product quality and price offered by IOC vis-à-vis the competitors."

1.125 In response to specific query of the Committee whether by the same rationale Reliance would also be restrained from the bidding in IPCL, the Ministry submitted as under:-

"The Government has not taken any decision to restrain any of the bidders from bidding in IPCL in view of the position that IPCL is engaged in commodity manufacturing business where Government has adequate leverage to prevent abuse of market dominance and/or adoption of unfair/monopolistic trade practices by any market player. Considering the fact that the product lines manufactured by IPCL falls under Open General Licensee (OGL) category, it would be easier to anybody to import such commodities without any hindrance. Compared to IPCL, IOC, HPCL and BPCL are engaged in retail marketing of petroleum products having far reaching implications for consumers in the country. Therefore, existence of monopoly power in retail marketing sector needs to be curbed."

1.126 When specifically asked about the future policy of the Government with regard to disinvestment in oil companies and other public sector undertakings under the control of Ministry of Petroleum & Natural Gas and the justification for disinvestment proposals of the companies like Bharat Petroleum and Hindustan Petroleum, the Ministry submitted following categorical reply:-

> "The 'India Hydrocarbon Vision 2025' Report prepared by the Government provides the future policy thrusts for development of oil and gas industry in the country. Regarding disinvestment in public sector undertakings (PSUs) in the hydrocarbon sector, the Report had laid down that disinvestment in oil sector PSUs should be done in a phased manner in ailgnment with the overall disinvestment policy of the Government. The disinvestment policy of Government specifies that in the case of PSUs involving strategic considerations, Government would continue to retain majority holding. In the case of non-strategic PSUs, Government shareholding can come down to 26% or below on case-by-case basis. The decision regarding the Government stake going down to less than 51% or to 26% would be taken considering the need of PSUs in a particular industry/sector and the requirement of a proper regulatory mechanism to protect the consumer interests. Based on the above policy focus, the Government decided that (i) Indian Oil Corporation Ltd. (IOC), Oil and Natural Gas Corporation Ltd. (ONGC) and Gas Authority of India Ltd. (GAIL) would be treated as flagship companies for refining and marketing, exploration and distribution of gas respectively in the petroleum sector in which Government would retain majority holding. (ii) The Government have decided 'in principle' to disinvest a part of its equity holding in HPCL and BPCL through strategic sale. Appropriate decisions regarding ongoing and pending projects in refining segment of HPCL and BPCL would be taken at an appropriate stage in the disinvestment process."

(c) Private Sector participation in Exploration and Production

1.127 One of the important initiatives taken by the Government to meet the increasing gap between demand and supply of petroleum products is, opening up of upstream petroleum sector of India for private sector participation to further supplement the activities of National Oil Companies in the country. To attract the investment in the upstream sector, the Government of India offered exploration acreages under the New Exploration Licencing Policy (NELP). Two rounds of NELP have been completed and offers have been invited under NELP-III. When the Committee specifically wanted to know about the number of blocks offered in deep water or offshore areas and the response of private sector/multinational companies in the first two rounds of NELP, the Ministry informed as under:-

"Out of the 47 blocks for which contracts have been signed by Government of India in the first and second round of NELP, 39 blocks including 15 deepwater blocks are offshore blocks. The domestic private companies and foreign companies, which have signed contract in NELP-I and NELP-II are as under:-

Domestic Private Companies

(i) Reliance Industries Limited

(ii) Hindustan Oil Exploration Company Limited

Foreign Companies

(i) OAO Gazprom, Russia
(ii) Cairn Energy India Pty. Limited, Australia
(iii) Joshi Technologies International Inc., USA
(iv) Mosbacher LLC, USA
(v) Energy Equity, Australia
(vi) Niko Resources Limited, Canada
Hardy Exploration and Production India Limited, U.K."

1.128 While going into the further details of the likely production of crude and gas from the fields operated by the private parties/Joint Ventures, the Ministry informed as under:-

"As per the 10th Plan on anvil, the projected production of oil and natural gas in the next five years i.e. from 2002-2003 by private companies/joint ventures are as under:-

Year	**Crude Oil (MMT)**	**Gas (BCM)**
2002-03	3.68	5.49
2003-04	3.55-3.63	7.07-7.60
2004-05	3.53-4.50	9.72-12.78
2005-06	3.08-4.44	9.72-12.95
2006-07	2.68-4.41	10.73-12.98"

1.129 When the Committee wanted the details of the third round of NELP, the Ministry stated the following status:-

"The Government has invited Notice Inviting Offers (NIO) for the third round of NELP (NELP-III) on 28.03.2002. A total of 27 blocks comprising of 11 onland blocks; 7 shallow water blocks and 9 deepwater block are on offer. The bid closing date for receipt of offers in NELP-III is 28.8.2002."

1.130 When specifically asked whether the Government propose to make their terms and conditions/fiscal concessions more lucrative with a view to attract the participation of strong international companies in the bidding process, the Ministry submitted as under:-

"Government keep on reviewing the fiscal and contractual frame-work from time to time keeping in view the international fiscal regimes being offered and other relevant conditions appropriate to India. It may be mentioned that the prime objective of Government is to accelerate the pace of exploration in the country and cover more areas with exploration efforts either through domestic or foreign companies meeting the requisite requirement of the bid."

1.131 During the course of evidence when the Committee specifically raised the matter of absence of oil majors in the bidding process or E&P sector, the Secretary, Ministry of Petroleum & Natural Gas clarified the position as under:-

"It is true that we have not yet got oil majors except shall & BG to invest here. Unfortunately, no major oil fields have been discovered here. As my colleague has stated: the large discovery that was made was in respect of the Mumbai High in 1976. It was a major discovery. Oil/gas has also been discovered at Krishna Godavari basin and developments are taking place there but it is not such a major discovery. So far as the question of inviting private participation in NELP is concerned, the reason is that with the investment made by the private companies and also by the ONGC large scale works can be accomplished. It is due to private sector participation through its contractors that ONGC is able to perform its tasks and could discover oil, in their contractor-collaboration."

(d) Supply of Eco-friendly fuel

1.132 The Committee observed that in order to reduce the pollution, unleaded petrol is being supplied throughout the country. The next step in this direction is the supply of diesel and petrol will low surplus content. In response to specific query of the Committee about the programme to supply this fuel in all parts of the country, the Ministry submitted the full details as under:-

"Diesel with 0.05% sulphur (max.) is being supplied to the following metros at present:

Mumbai	(w.e.f. 1.1.2001)
NCT of Delhi	(w.e.f. 1.3.2001)
NCR of Delhi	(w.e.f. 30.6.2001)
Chennai	(w.e.f. 1.7.2001)
Kolkata	(w.e.f. 1.7.2001)

From 1.2.2000, only unleaded petrol is being supplied in the entire country.

Unleaded petrol with 0.05% sulphur (max.) is being supplied to the following metros at present:

NCT of Delhi	(w.e.f.1.4.2000)
NCR of Delhi	(w.e.f. 1.4.2000)
Kolkata	(w.e.f. 1.10.2000)
Mumbai	(w.e.f. 1.1.2001)
Chennai	(w.e.f. 1.7.2001)

It is proposed to supply diesel and petrol of 0.05% (max.) sulphur in the entire country from 1.4.2005."

1.133 The Committee invited the attention of the Ministry towards the reports that due to supply of unleaded petrol in the country, the presence of lead content in the air has come down but the benzene content has increased and wanted to know whether the Ministry have undertaken any scientific study to check and verify the fact and take remedial steps, the Ministry stated in a written reply as under:-

"Ministry of Petroleum and Natural Gas has not undertaken a study to check the benzene content in the air. However, it has taken steps to reduce the benzene content in the petrol being supplied:

Petrol Benzene Content in Different Countries as on 1.1.2001

Country	**Specification (% v/v max.)**
Australia	3.4/3.1/2.7
China	No specification
European Union	From 5.0 to 1.0 w.e.f.1 .1.2000
Hong Kong	1.0
India	1.0/3.0/5.0 (in NCR and Greater Mumbai metros/rest)
Indonesia	No specification
Japan	1.0
Malaysia	No specification
New Zealand	3.0
Pakistan	5.0
Phillippines	5.0
Singapore	4.0
South Africa	5.0
South Korea	2.0
Taiwan	3.0/1.0
Thailand	3.5
USA	1.0

Several countries do not have any specification limits on Benzene content in petrol. Even in European union, limit was 5% till the end of last year."

1.134 The Committee invited the attention of the Ministry that while examining Demands for Grants 2001-02 of the Ministry of Petroleum and Natural Gas had recommended that Indraprastha Gas Ltd. (IGL) should provide dispensing equitably in all the four zones of the capital and wanted to know about the progress made so far in all the four zones of the capital and wanted to know about the progress made so far in this regard, the Ministry submitted the following details:-

"Till date, Indraprastha Gas Limited has set up 87 CNG stations, with a dispensing capacity of 5.67 lakhs kgs/day, which are geographically located in all the zones of capital city of Delhi. Out of 87 stations, 27 stations are located on retail outlets of oil companies, 9 on DTC depots and balance 51 on IGL sites.

The zone-wise status of CNG stations as on date is as follows:-

Zone/stations	**East**	**West**	**North**	**South**	**Centra l**	**Total**
Mother	2	0	6	13	3	24
Online	0	0	1	9	4	14
Daughter	5	2	3	7	7	24
Daughter Booster	4	8	6	5	2	25
Total	**11**	**10**	**16**	**34**	**16**	**87"**

1.135 During the course of evidence when the Committee specifically wanted to know about reasons for scarcity of CNG in Delhi, the Additional Secretary in the Ministry explained as under:-

"They were asked to install 80 CNG stations, but today we have installed 94 CNG stations in the entire Delhi. The problems arose from the point that initially only the bus fleet was to be supplied the CNG, later on three-wheelers were also added and then taxis were also added. So in this way the number of vehicles for CNG increased. If we were to provide gas to buses only, it was feasible since there are 10-12 thousand buses, but the three-wheelers were converted from petrol to CNG. Since CNG is very cheap, created problems. And that is why people are getting attracted towards CNG. The basic question was whether the private transports should be converted to CNG, but the private people also thought to convert their vehicles to CNG. As per the vehicles on road, the number of private cars is 4-5 thousand, but actually it is alone ten thousand, they do not require any sort of subsidy. It is not appropriate to give subsidy to those who have cars like Esteem or Cielo, subsidy is required for the public transport system."

1.136 When asked about the future policy regarding supply of CNG to private vehicles, he stated as under:-

> "It has been stopped. We said that we would give supply to those private vehicles in the months of January and February, which have been registered as it is their right. Supply to the rest has been stopped."

1.137 The Committee observed that Hon'ble Supreme Court had given several strong directions to the Ministry of Petroleum & Natural Gas and the Government of NCT of Delhi to resolve the CNG crisis in Delhi in their judgement delivered on 5th April, 2002. The Committee considered it a matter of great importance and called both the implementing agencies. During the course of evidence when asked about the availability of CNG gas, the Chief Secretary, NCT of Delhi informed that it may be about 6.1 lakh kg per day. However, she further clarified that there is a difference between actual availability in pipeline and availability in vehicle also.

1.138 She further clarified the position as under:-

> "The quality of dispensing is leading to certain problems. We have been trying to overcome these problems by talking to the IGL. These problems are on account of tripping. There is a problem of compressor not being able to build up adequate pressure. There is a problem of shortage of dispensers. There is no odour in the gas that is dispensed unlike in Mumbai where there is odour. If there is odour, you know whether there is likely to be a leakage. If there is no odour, you will not know that. The buses have made for almost 72 joints. So the gas can come out any joint and you would not know about it. They have already four fires at the filling stations alone. There is a problem of calibration because unless they are calibrated, nobody would know as to what is being dispensed where.
>
> Waiting time is extremely long. These are the problems of the filling *per se*."

1.139 When the committee tried to understand the exact problem of the present crisis of CNG, the Chief Secretary clarified the position as under:-

> "There are 94 CNG outlets and the DTC has only nine, instead of 23. In the city they are filling only at nine places. Since they are filling at nine places in the city, the obvious thing is that they are doing 13000 of dead kilometerage every day. With the induction of more buses, this dead kilometerage would increase.
>
> Regarding vehicles plying on Delhi roads, there are today, according to our registration figures – more vehicles which come and go out of Delhi-49,825 vehicles which are plying, which have registration. These vehicles include big buses, medium and heavy passenger vehicles. They alone would be in the region of 8000 to 9000. Autorickshaws would be 17,000. What happens is that DTC has dead kilometerage and they keep on waiting for long hours to get their buses filled up with the result autorickshaws and other vehicles stand in long queues. The

tendency is that if they do not get the amount of gas that should be dispensed, either they half fill it or there is no way of knowing as to how much has been actually gone into that particular vehicle. The result is that, DTC vehicles instead of being able to do 225 kms. per vehicle per day, they are only doing 170 kms. per vehicle per day."

1.140 About the initiatives being taken to enhance the present number of buses in view of directions of Hon'ble Supreme Court, the Chief Secretary informed the Committee as under:-

"Our Government, that is, the Government of Delhi has taken a decision to buy 1,000 new buses subject to availability. I say 'subject to availability' because there are only two suppliers of buses in the market and they are Tata and Leyland. They both have only a certain capacity of manufacture. Today, the manufacturing capacity of Leyland is 250 buses per month and Tata's manufacturing capacity is only 80 buses per month. They already have firm orders from various operators and they are bound to honour those orders because the Court has directed that operators must pick up the vehicles for which orders have been placed. Once that is over, Government would be placing orders for the supply of buses."

1.141 When the Committee referred to the imbalance in the number of CNG filling stations in certain parts of Delhi and desired to know the reasons for delay in clearing the project of IGL for Gas pipeline, the Chief Secretary replied:-

"In October, 2001, the Lt. Governor has carved out a route and a route was suggested so that minimum possible digging of the ring road takes place. As you know, a very large number of fly-overs have been building. The whole idea of fly-overs is to make ring road signal free to the extent feasible in the capital city. If you see the digging the whole route all over again, then even from transportation point of view in Delhi, there would be problems. So, we have give a route which went through Defence land. We have written letters to the Defence authorities making it clear that although it goes through Defence land, in no way it is going to harm anybody's interest because it would be dug up only to one meter depth, not as though everything is going to be dug up."

1.142 When the Committee specifically asked about the actual gas requirement after the implementation of Supreme Court judgement in toto, the Chief Secretary replied categorically that for implementing these directions, Union of India and all Government authorities, including IGL, shall allocate and make available 16.1 lakh kg. per day.

1.143 When the Committee hypothetically asked the Central Government that if the Delhi Government bring the required number of vehicles during the period specified by the Supreme Court, whether the IGL will be able to provide the required quantity of 16 lakh kg of gas, the Secretary in the Ministry of Petroleum & Natural Gas replied in negative.

1.144 When the Committee wanted a clearcut reply from the Ministry whether they will be able to implement the directions of Supreme Court by June 30, 2002 the Secretary replied that whatever they do, the deadline can not be implemented.

1.145 While going into the more details of the implementation process when the Committee specifically desired to know about the exact time period required to implement the directions of Supreme Court, Secretary of the Ministry of Petroleum & Natural Gas clarified the position on the part of IGL as under:-

> "Therefore, they will keep on adding two or three compressors every month, given the time limit because they are imported, for laying down the pipeline in the complete North Delhi and West Delhi. It will not be possible for them to do it within a period of six months beyond 30th June, 2002, but maybe in a period of eight to nine months, they may be able to do it."

1.146 In the same context, when the Committee specifically enquired whether there is any city in the world where the buses run by using CNG only, Secretary in the Ministry of Petroleum & Natural Gas categorically said that as per his knowledge there is no such city.

1.147 While going into the further details of the pollution level in Delhi, when the Committee categorically asked about the contribution of CNG and low sulphur diesel separately in the improvement of the pollution level in Delhi, Secretary of the Ministry of Petroleum & Natural Gas replied that no such study was made even by Central Pollution Control Board.

1.148 The Committee particularly pointed out towards the specific studies made by some scientists showing that small invisible particles discharged due to combustion of CNG could be more harmful than the particles emitted due to diesel combustion and wanted to know in detail from the Ministry. The Secretary in the Ministry informed the Committee that the researches have been done in America about ultra-fine particulate matter of CNG but these studies have not reached in conclusive stage. He also informed the Committee that during the argument of the case in the Supreme Court, our Solicitor-General had quoted this study report suggesting to give up the CNG programme in New York city and return to diesel buses programme, but the Court did not consider it.

1.149 When enquired about the feedstock policy of the Government, the Secretary in the Ministry answered as under:-

> "As far as feedstock policy is concerned, it is true that just now, we have certain priorities, but it is not a statutory policy, one can say, but there is a policy of priorities. Unfortunately, the Supreme Court felt that our priorities were not correct."

1.150 The Committee observed that OIDB had allocated assistance of Rs. 200 crore to IGL and Rs. 43 crore to Mahanagar Gas Ltd. during 2001-02. As against this, an amount of Rs. 21.00 crore has been released for IGL and Rs. 12 crore for MGL. When the Committee wanted to know the reasons for not releasing the allocation for these joint ventures the Ministry clarified the position as under:-

> "The OID Board in its 45th meeting held on 23.3.2000, approved an OIDB loan assistance of Rs. 100 crore to IGL for its City Gas Distribution Project for Delhi. Out of the above, M/s IGL has so far drawn the funds to the tune of Rs. 57 crore as per its phased requirements for the period from financial year 1999-2000 to 2001-2002 as per following break up:-
>
> ***(Rs. in crore)***
>
> | | |
> |---|---|
> | 1999-2000 | Rs. 25.00 |
> | 2000-2001 | NIL |
> | 2001-2002 | Rs. 32.00 (upto 25.3.2002) |
> | **Total :** | **Rs. 57.00** |
>
> Thereafter, the OID Board in its 50th meeting held on 11.10.2001 accorded in principle approval for an additional OIDB loan assistance of Rs. 200 crore to IGL subject to the condition that the payment will be released only after IGL has ensured the price of CNG is adjusted to take care of cost and returns and appraised the Board of this decision, Funds will be released to IGL as the project progresses ahead.
>
> Out of the above, M/s MGL has so far drawn the loan assistance from OIDB to the tune of Rs. 31.00 crore only as per the following break up:
>
> | | |
> |---|---|
> | 2000-01 | Rs.19.00 crore |
> | 2000-02 | Rs. 12.00 crore (upto 25.3.2002) |
> | **Total** | **Rs. 31.00 crore** |
>
> OIDB could not release fully the allocated funds to M/s IGL and MGL as they projected their demands to the above extent only. This was due to part project deferment namely expansion beyond greater Mumbai and few CNG outlets due to non-availability of land/ premises.
>
> The progress from the joint venture companies are scrutinized in the OIDB Secretariat on the basis of techno-economic and financial viability reports submitted by the concerned companies to OIDB and thereafter, the same are taken up to the OIDB for its consideration and appropriate decision by the Board. After approval of the OIDB , the funds are released to the concerned joint venture companies as per their phased requirements and subject to availability of OIDB funds."

1.151 Replying to the specific query of the Committee regarding CNG price in July 1998 (when Supreme Court ordered GAIL to set up CNG stations) and in April, 2002, the Ministry stated as under:-

"Figure in Rs/Kg

	July 1998	April 2002
Base price	10.56	11.30
Sales Tax	0.74	0.00
Excise Duty	0.00	1.81
Retail Selling Price	11.30	13.11"

1.152 The Committee were further informed that IGL was reportedly incurring a loss of Rs. 2.23 per Kg of CNG.

1.153 The Committee specifically wanted to know whether Government control the price of CNG charged by IGL and bind the later to sell the same at specific rate; the Ministry clarified the position as under:-

> "Presently, Government do not control the price of CNG. However, when the regulatory mechanism is in place, the regulator may consider the reasonableness of the CNG price.
>
> There is no binding on IGL to sell CNG at specific rates. In view of the fact that CNG is decontrolled product, freedom to fix an appropriate price has been vested with the company and its Boards of Directors since 1998"

1.154 The Committee apprehended that IGL might become a sick company in view of controlled regime of pricing of Gas. However, the Ministry allayed this apprehension and stated in a written note as under:-

> "The Government do not control the price of CNG charged by IGL and therefore it is expected that the price of CNG fixed by IGL take into account, inter-alia, a reasonable rate of return on the investments. Therefore, it is not expected that is would render IGL to a sick unit."

1.155 The Committee wanted to know the price at which GAIL sells gas to IGL, MGL and Gujarat Gas. The Ministry replied in a written note as under:-

"Price component	**IGL**	**MGL**	**GGCL**	
			Surat	**Bharuch**
Basic price	2850.00	2850.00	2850.00	2850.00
Royalty	211.60	211.60	211.60	211.60
Central sales tax	102.41	N.A.	N.A.	N.A.
HBJ transportation charges	1352.94	N.A.	N.A.	N.A.
Transmission	452.90	476.94	233.92	172.32
Total	**4956.60**	**3538.54**	**3295.52**	**3233.92**

Note: Local taxes excluded. The basic price, royalty, central sales tax and HBJ transportation are corresponding to 10000 Kcal/SCM."

1.156 The Committee were further apprised of the price build up of CNG in Delhi as below:-

	"Rs/Kg
Base price	11.30
Excise Duty @ 16%	1.81
Retail Selling Price	13.11 (Rs. 10.54 per standard cubic meter (SCM)

The price of gas supplied to the power plants in the NCT of Delhi is about Rs. 3.79 per SCM including HBJ transportation charges and excluding local taxes. The price of gas supplied to other industrial units in the NCT of Delhi is about Rs. 4.25 per SCM which includes transportation charges of about Rs. 0.45 per SCM over and above the HBJ transportation charges but excludes local taxes. No sales tax is payable in respect of supply to the power sector (Delhi Vidyut Board) and the transport sector. While applicable concessional sales tax for other industries like glass, ceramic, steel varies between 2.5 to 5%, sales tax @20% is applicable for certain other units like brewery, casting etc.

The sale price of CNG differs from the sale price of gas to industries on account of the compression cost and the additional intra-city pipeline cost."

1.157 The Committee noted that Di-methyl Ether (DME) is another environment-friendly fuel, manufactured from natural gas and have been recognized as a fuel for the future in the India Hydrocarbon Vision –2025 document and wanted to know about the initiatives being taken by the Government /oil companies to develop Di-Methyl Ether as alternate fuel. The Ministry submitted the full details as under:-

"As regards Di-Methyl Ether (DME) the position is as follows:-

Salient features:

A Joint Collaboration agreement was signed between BP and Indian combine comprising of IOC, GAIL AND IIP ON July 19, 1998 to carry out feasibility study for putting up DME project for application in the power and domestic sectors to substitute LPG and in transportation sector to substitute diesel.

Rated capacity of the plant	:	1.8 MMTPA
Feed Gas requirement	:	8.3 MMSCMD
Cost estimate	:	$660 MM
Project duration	:	3 years from investment decision

Consortium's tasks:

- Buying gas and building a manufacturing capability in the Middle East
- Converting LPG ships to carry the products
- Determining the receiving and storage facilities required by a consumer
- Getting turbine manufacturers and State authorities approval for DME
- Persuading power plants in India to consider DME
- Having them commit to + 20 years contracts.

Current Status

The India DME project was formalized as a Joint Collaboration Agreement (JCA), between Aomoco India Development Company, the Indian Oil Corporation Limited, the Gas Authority of India Limtied and the Indian Institute of Petroleum (collectively known as the consortium) on 20th July, 1998 with the anticipation that the agreement would be operational for an initial term of 3 years.

Since its inception the Consortium has been developing the project over the defined Initial Term and has made good progress in developing DME as a "fuel for power generating projects in India." The interest shown by some Indian power generators to buy the new fuel with its competitive pricing has been encouraging, as evidenced by the number of Memoranda of Understanding that have been signed with them to date.

In the Middle East, initial discussions held this year with Iran and Qatar for the sourcing of gas for the DME manufacturing plant have yielded positive reactions. More so with Qatar, from whom the Consortium has already received and responded to, a proposal that could lead to the foundation of an agreement that would meet the Consortium's criteria for supply.

- Techno-Economic feasibility report prepared, deliberated and finalized in Dec. 99.
- Non-building MOU's aggregating DME demand for 2500 MW signed.
- Market demand study for fuel for power generation in four southern states prepared by M/s E&Y.
- MOP has conveyed no objection for use of DME as power generation fuel to 4 IPPs.
- Simulation studies on different makes of GTs with DME carried out by M/s Fluor Danie.
- M/s. PDIL submitted Feasibility Study Report for DME Terminal facility at Cochin and PPN (300 km. South of Chennai)
- GE carried out testing of DME in frame 9 machines and assured guarantee to IPPs for GE make turbine.

Milestones achieved:

- Technical assurance from GE for use of DME in GE turbines
- Non-binding MOUs for 2500 MW

- Duties and taxes parity with LNG
- Recognition of DME as a power fuel by MOPNG and Ministry of Power.
- Offer form Qatar for DME at $0.65 MMBTU.
- Expression of interest by M/s Sumitomo, Japan, Electric Power Development Corporation (EPDC) , Tokyo for strategic alliance with India DME project.
- Guarantee from technology supplier M/s Haldor Topse.
- Guarantee from M/s Smampragatti and backup guarantee from M/s Haldor Topse to M/s Smampragatti.
- Competitive Plant Cost by M/s Smampragatti.
- Expression of interest by NTPC for evaluating DME as a power fuel for NTPC Kayamkulam Plant (350 MW with a business plant to expend capacity upto 2000 MW by 2010).

B.P.'s withdrawal

BP has withdrawan form this project on 3.10.01, and Indian consourtium is looking for BP stature international partners to take up BP's equity.

Government have launched 5% Ethanol-Gasonline Pilot Projects at Miraj and Manmad in Maharashtra and Bareilly in Uttar Pradesh during April/ June, 2001. During the implementation of these Pilot Projects, it has been established that blending of 5% Ethanol with Petrol is feasible in our country, subject to the price of Anhydrous Ethanol being competitive.

Government have approved a proposal to blend ethanol with petrol throughout India"

1.158 When the Committee specifically desired to know about bearing on the decision on retail pricing of petrol and in foreign exchange due to the Ministry submitted the following reply:-

"In order to encourage blending of Ethanol with Petrol. Government have announced in the General budget for the year 2002-03 concession in the Special Additional Excise Duty of Rs. 0.75 per litre on Ethanol-doped-petrol. Further, Government have also decided to amend the Sugar Development Act, 1982 facilitating financial assistance from the Sugar Development Fund for production of Ethanol and co-generation of power from bagasse. In the years to come. It is expected that many sugar factories/ distilleries will manufacture Anhydrous Ethanol which may result in the price becoming competitive.

It is estimated that about 500 million litres of petrol would be replaced by Anhydrous Ethanol when supply of Ethanol-doped petrol all over the country is implemented. Since Petrol requirement of the country is met from indigenous refineries. It is not possible to specifically reflect Foreign Exchange savings. Depending upon the supply-demand balance of petrol and reduction in the crude import bill, savings in Foreign exchange due to blending of Ethanol with Petrol would accrue to the country."

1.159 When asked about the detailed programme to introduce petrol blended with ethanol in the country, the Ministry submitted as under:-

> "During the Inter-Ministerial meetings held on 12th and 29th November, 2001 Government have decided to supply 5% Ethanol-doped Petrol all over the country in two phases. States of Andhra Pradesh, Gujarat, Haryana, Karnataka, Maharashtra, Punjab , Tamil Nadu and Uttar Pradesh would be covered during Phase I and rest of the States/ Union Territories in Phase-II".

1.160 In response to specific query about establishing an Ethanol Blending Project in Tamil Nadu, the Additional Secretary in the Ministry submitted as under:-

> "Madam, as far as Tamil Nadu's Ethanol Blending Project is concerned, that is under consideration. We have considered sympathetically the letter received form Tamil Nadu State. We will intimate you about our decision in the near future."

1.161 In the same context, what the Committee wanted to know about the initiative being taken to create a policy framework for cleaner and greener fuels, the Ministry submitted as under:-

> "Government constituted on 13.9.2001 a committee of experts of national repute, headed by Dr. R.A. Mashelkar, Director General, Council of Scientific and Industrial Research (CSIR) to make recommendations to the Government on a appropriate auto fuel policy and related issues.
>
> The Expert Committee submitted its interim report on 1st January, 2002. The interim report was accepted by the Government on 8th January, 2002.
>
> The main recommendations made in the interim report of the Committee are:-
>
> 1. The Auto Fuel Policy should be based on targetted vehicular emission standards for various categories of vehicles, allowing use of different technologies and fuels, which can meet the emission standards.
>
> 2. In the developed world and elsewhere, vehicular emission standards and auto fuel quality necessary to meet the standards alone are prescribed, giving choice to the public, manufacturers, owners and operators of motor vehicles to choose the vehicle type and the fuel. The same policy be adopted for India.
>
> 3. The following roadmap for implementation of vehicular emission norms and auto fuel quality be followed:
>
>   (i) Bharat Stage-II norms which are in place in the four mega cities of Delhi, Mumbai, Kolkata and Chennai should be introduced in the other three mega cities of Bangalore, Hyderabad and Ahmedabad as early as possible but not later than the end of 2003.

(ii) Bharat Stage-II norms should be introduced in the entire country from 1st April, 2005.

(iii) Euro-III equivalent emission norms for all categories of vehicles (excluding two and three wheelers) detailed by the Committee, should be introduced in seven mega cities from 1st April, 2005.

4. Low emission vehicles and the compatible fuels are not the only factors which would have a bearing on air quality. Other cost effective measures such as comprehensive inspection and certification system for in use vehicles with private sector participation, fitment of emission reduction devices in the existing vehicles, traffic management, construction of bye passes etc. should also be put in place.

5. Upgraded and additional emission testing facilities and establishment of surveillance and checking of emission warranty for new vehicles be set up.

6. To put in place the new emissions norms, substantial investments need to be made to produce appropriate quality fuel and the vehicles. Preferential treatment to the oil and auto industry in matters relating to custom duty, excise duty, depreciation, soft loans etc. need to be provided.

7. In addition to petrol and diesel, Compressed Natural Gas (CNG) and Liquefied Petroleum Gas (LPG) are permitted to be used as auto fuels. The Government has further decided to blend ethanol with petrol. CNG, LPG and other alternative fuels need to be encouraged, giving the choice of fuel and vehicle technology to the customers. Any combination of fuel and vehicle technology, which meets the prescribed emission norms should be acceptable.

8. The fiscal regime applicable to the auto fuels should be directed towards achieving the economic pricing of various fuels, instead of presently prevailing distorted pricing. This would help in long term planning and supply of quality products."

(e) Alternative Sources of Hydrocarbons

1.162 With ever increasing dependence on petroleum imports due to relatively stagnant domestic production and spiralling growth in demand, the development of alternate sources of Hydrocarbons is supposed to be very important. In this regard Coal Bed Methane and gas hydrates are supposed to be very important alternatives. Government of India invited bids for 7 blocks i.e. two in Jharkhand, tree in Madhya Pradesh and one each in Rajasthan and West Bengal for exploration and production of CBM in the first round. A total of 16 bids were received from 5 companies for 6 blocks. And 5 of these CBM blocks have already been awarded to successful PSU/private companies in January, 2002. Separately ONGC is carrying out CBM operation in West Bengal (Raniganj coalfield) and Jharkhand (Jharia coalfield), with Coal India Ltd.

1.163 When specifically asked about the progress made so far to commercialise the production and use of alternate fuels and conversion of gas to liquids, the Ministry submitted the following details in a written reply:-

> "ONGC is examining a gas to liquid (GTL) project by utilization of stranded natural gas in Tripura. A preliminary study to use the gas potential available to convert it into syncrude/synfuel has been taken up. A preliminary feasibility report considering various technological options including Fischer-Tropsch process is being prepared.
>
> A preliminary study has also been carried out by OIL for looking into the possibility of setting up a demonstration GTL for R&D studies for small amount of gas available in its isolated field.
>
> Oil India Limited had also embarked on liquefaction of coal and vacuum residuum from refinery to value-added liquid fuels with the help of the properietary emulated bed technology of M/s IFPNA (erstwhile HRJ) . During the IX Plan, a pilot plant was set up and commissioned . The focus has recently shifted to Coal only processing due to the constraints on availability of vacuum residuum. The modifications required for Coal only operation is being taken up for test runs.
>
> At present, CNG and LPG are used as alternative fuels in limited quantity. Ethanol blended in petrol is used on a pilot basis and would be extended to use on a commercial scale once the distilleries set up adequate installed capacity. In addition, although technology is available for production of bio-diesel there is reportedly very limited production capacity."

1.164 About the status two major projects of alternate fuel production they informed:-

> "The project development and execution activities of two different alternate fuel production processes by way of conversion of gas to liquid are handled through DME (Di-Methyl Ether) and NTGG (NGL transfer to Gas and Gasonline). The status of both the projects are given below:-
>
> <u>NTGG Project</u>
>
> In the process of recovering LPG from natural gas, NGL (Natural Gas Liquid) is produced as by-product, which is currently being spiked backed into the pipeline. The NTGG technology for value addition to NGL has been jointly developed by IIP and GAIL and successfully tested in the bench scale. GAIL has taken up on R&D project for NTGG on 4th June, 2000 to put up a technology demonstration plant at a cost of Rs. 19.8 crores to process 28 tonnes per annum of NGL produced by by-product from the LPG plant at Vaghodia. The process, if successful in the semi-commercial scale scale, is likely to produce 11 tonnes of LPG, 12 tonnes of high octane gasoline and 3.5 tonnes of HSD besides high calorific value gas. The progress details are as follows:

- Engineering completed – all major piping items have been ordered.
- Major equipment have been received at site and the balance items are expected progressively by end-April, 2002.
- Construction work comprising of civil and structural, electrical mechanical and instrumentation work has been awarded to M/s Bridge and Roof (I) Ltd. and 45% construction has been achieved.
- An overall progress of 81% has been achieved.

The project is targetted for completion by June, 2002.

Di-methyl Ether (DME)

GAIL, IOC, IIP and BP have signed joint collaboration agreement (JCA) in July, 1998 to carry out feasibility study for putting up DME Project for application in the power sector, in the domestic sectors to substitute LPG and in the transport sector to substitute diesel. Techno-Economic Feasibility Report (TEFR) for the project has been prepared and simulation studies of different makes of Gas Turbines with DME have been carried out by M/s Fluor Daniel and Ministry of Petroleum and Natural Gas. The Ministry have conveyed no objection for use of DME as power generation fuel to few Independent Power Producers. Although BP has withdrawn from the project, on 3.10.2001, the Indian consortium is striving to have another international partner of BP's stature to take up BP's equity."

1.165 While drawing the attention of the Ministry towards the R&D efforts for gas hydrate the Committee to know the present status of Natural Gas Hydrate Programme and the reasons for very slow progress in regard to R&D work in this field. The Ministry of Petroleum and Natural Gas submitted as under:-

"Keeping in view the possibility of presence of Gas Hydrate in Indian Offshore areas. ONGC undertook a project in 1997 with Alberta Research Council. Canada based on reprocessing of seismic data acquired by ONGC in both eastern and western offshore. The study indicated possible presence of Gas Hydrate in Krishna-Godavari Deep water areas . Similar study carried out by GAIL jointly with NIO indicated possibility of presence of Gas Hydrate in Indian offshore areas. Subsequently, seismic survey carried out through contract by DGH have indicated the possibility of presence of large Gas Hydrate deposits with substantial free gas accumulations below the hydrates in Andaman offshore region. At present, geo-scientific data is being acquired by NIO under National Gas Hydrate Programme (NGHP) to carry out the resource estimation and to decide the location for drilling for gas hydrates by the year 2003-04. Only after drilling the wells, the actual presence of gas hydrates and some of its associated issues will be known . Based on progress made by NGHP member organisations and through collaboration with international consortia. Efforts will be made towards production of gas from gas hydrates on the pilot scale by the year 2005-06. The whole project is being funded by Government of India through OIDB . In future, for any viable project, there will not be any constraint for fund.

At present no where in the world, gas from offshore gas hydrates is being produced R&D works for gas hydrates is only being undertaken at present by several countries/ companies in the world including India and its NGHP member organization."

PART – II

RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

2.1 The Committee note that taking into account the likely demands and the estimated indigenous crude production, several thrust areas in the oil and natural gas sector were identified for special attention during Ninth Plan (1997-2002). The major thrust areas in exploration and production sector included the acceleration of exploration efforts especially in deep offshore areas and frontier areas, improvement in reservoir management and enhancing oil reserves and expeditious implementation of New Exploration Licensing Policy. The Committee are anguished to note that there was a major shortfall in achieving the targets/objectives of development in petroleum sector during 9th Plan. In the mid-term review of 9th Plan the Government was cautioned to take prompt initiatives since the targets were going to be defeated mainly in the areas of crude oil and natural gas production and accretion to hydrocarbon reserves significantly. Similarly, the policy of upgradation of basin categories by progressive exploration did not yield the desired results. Although a few blocks have been offered in deep water areas under NELP, the Committee are not satisfied with the present approach of the Government in this regard. The Committee, therefore, strongly recommend that the Government should modify the existing policy with a view to taking remedial measures for accelerating the production of indigenous crude oil and gas. The Committee also desire that the Government should take all possible initiatives to extend the exploration efforts to all the basins in a definite time frame as per the policy spelt out in the document Hydrocarbon Vision – 2025. The Committee trust that the Government will initiate urgent measures in this direction so that the unhappy experience of 9th Plan is not repeated in the 10th Five Year Plan.

(Recommendation No. 1)

2.2 The Committee note that the cumulative production during the Ninth Plan period was projected as 180.82 million tonnes of crude oil and 144.53 billion cubic metres of gas. As against this, the expected oil production will be around 163 MMT and 141 BCM of gas. They also notice a stagnant trend of production of oil and a little upward trend in gas production during each year of 9th Plan. The situation could have been more grim but for the contribution of private sector. The Committee are concerned about the current trend of production of oil and gas particularly in a situation when this demand is rapidly increasing and the initiatives taken by the National Oil Companies have not shown the desired results. Due to this trend of production and consumption, the self sufficiency level of the country in crude oil sector has come down from 47% in 1997-98 to 27% in 2001-02. For better recovery of oil and gas from the present fields, a time bound action plan is required. ONGC and Oil India Ltd. could not come out with such programme during 9th Plan. The Committee, therefore, recommend that the National Oil Companies should expedite their exploration and production efforts during 10th Plan period by formulating aggressive time bound strategies in regard to enhanced oil recovery and improved oil recovery schemes. They also desire that all possible initiatives should be taken for faster development of new discoveries.

(Recommendation No. 2)

2.3 The Committee observe that the demand of natural gas has increased rapidly during the Ninth Five Year Plan period and only half of the demand is being fulfilled at present. The Government have taken steps to increase the production of natural gas through optimistic production from existing fields, faster development of new fields, exploration at greater depths in existing fields and exploration of alternate resources like coal bed methane. These efforts may yield good results in future, but in the Committee's view the import options are also of great significance. The Committee appreciate the recent initiatives taken by the Government in this direction. Gas Authority of India Limited has been working as nodal agency for finalising Iran-India Gas Pipelines Project and importing gas from Myanmar. The Committee desire that the Government should ensure early finalisation of these projects after completion of feasibility studies expeditiously.

(Recommendation No. 3)

2.4 The Committee observe that considering oil and gas demand scenario vis-à-vis domestic production level, Government are encouraging oil sector PSUs to venture abroad to access exploration blocks and oil producing properties for equity oil. At present ONGC-Videsh Limited (OVL), a wholly owned subsidiary of Oil and Natural Gas Corporation Ltd. is involved in taking up opportunities abroad. Till date they have got a participation in four such projects one each in Vietnam, Russia, Myanmar and Iraq. Apart from OVL, Oil India Limited, Indian Oil Corporation Limited and Gas Authority of India Limited have also been trying for such opportunities. The Committee see very good prospects in this direction. They, however, desire that all the financially sound national oil companies should strive to acquire good quality acreages abroad. However, since international environment in this field is very competitive, the Committee desire that the Government should provide all possible operational flexibility and delegated powers to all the companies willing to participate in such opportunities. The Committee also desire that the Government should provide every type of financial and diplomatic help to these companies so that they are well equipped to face the actual difficulties in participating in such projects. In Committee's view this approach can help the country in getting better energy security in future.

(Recommendation No. 4)

2.5 The Committee note that the bill on account of import of crude oil has been going up continuously during the last five years and it has increased more than four folds during these years. On the other side, the import of petroleum products has come down and export of these products is going up due to an increase in refining capacity. The Committee observe that the initiatives taken in order to reduce the dependence of oil imports have not shown very impressive results. The only pacifying point in this direction is that the net import bill has been reduced due to enhanced refining capacity of the refineries. Considering the present domestic production level, the Committee recommend that the Government should continue their efforts to reduce the gap between production and demand through various measures aimed at increasing indigenous production and acquisition from abroad simultaneously. They should encourage the export of petroleum products in a planned way so that the foreign exchange is saved to some extent. The Committee specifically desire that a special stress should be given to acquire maximum quantity of equity oil abroad since that oil will be cheaper than the imported oil.

(Recommendation No. 5)

2.6 The Committee observe that oil marketing companies had planned to enroll 215 lakh new LPG customers during the 9th Plan period. As against this 335.4 lakh new connections were released during this period including 50.5 lakhs in rural sector. As on March 1, 2002 there were 7269 LPG distributorships of public sector oil companies catering the requirement of about 630 lakh LPG customers. Out of this there are 588 urban/rural distributors and 302 exclusively rural distributors in the country. The Committee, therefore, desire that the Government should take initiatives to enhance the number of distributors to the desired level so that they may be able to cater the needs of people who are facing difficulties after getting the LPG connections. As agreed by the Ministry, they must take all measures to establish the proposed 1200 distributors in rural areas in the shortest possible time.

(Recommendation No. 6)

2.7 The Committee are happy to note that the Government have allowed PSU oil companies to market small size LPG cylinders for domestic purposes. Such cylinders are very useful for poor people and people living in rural areas. This suits their purchasing power and they can carry it easily. The Committee, therefore, desire that the Government should ensure that all the oil companies start supplying these cylinders at the earliest in sufficient number particularly to the dealers serving the people in sub-urban and rural areas.

(Recommendation No. 7)

2.8 The Government have finally decided to dismantle Administered Pricing Mechanism (APM) and it has since been implemented w.e.f. 1st April, 2002. The Committee would, however, recall that when decision to dismantle APM was taken, it was also decided to reduce slab of excise duty gradually on indigenous production of oil, gas and refined products. It is regretted that excise duty structure has remained almost the same during the last ten years. The Committee, therefore, recommend that excise duty be reduced substantially so that benefits of free marketing are enjoyed by the common people.

(Recommendation No. 8)

2.9 The emphasis of 9th Plan was for setting up of regulatory mechanism both in upstream and downstream sectors. The Report of Inter-Ministerial Working Group on the regulatory framework in the upstream sector is pending with the Government since April, 2001 and awaiting final decision of the Government. On the other side, the proposed petroleum regulatory mechanism for downstream sector has been prepared and is to be introduced in the Parliament during the current session. The Committee deprecate the failure of the Government to give any final shape to the regulatory mechanism for both the sectors before the announcement of dismantling of Administered Pricing Mechanism from 1st April, 2002. They desire that the Government should take a final decision in regard to regulatory mechanism for upstream sector. The Committee also desire that the Government should take all

initiatives to set up proposed petroleum regulatory mechanism for downstream sector without any delay. This regulatory authority should be given sufficient powers for monitoring the pricing of petroleum products also so that the adequate availability of petroleum products to meet the demand at reasonable prices in all parts of the country can be ensured.

(Recommendation No. 9)

2.10 In view of failure of the implementation of several projects during 8th Five Year Plan and possibility of similar happenings during 9th Five Year Plan, the Planning Commission had desired that the Government should remove the existing bottlenecks by further streamlining the existing procedures for approval of various projects and their implementation. However, the Committee regret to note that no significant change has taken place during the Ninth Plan period also. During this period several major and important projects of oil sector could not see the light of the day due to delay in grant of environmental Clearances, problems in acquisition of land, backing out of Joint Venture partners and delayed execution of work by contractors and foreign suppliers. Exploration efforts are bottlenecked by the regulations on protection of Coastal Regulatory Zone (CRZ), forests and sanctuaries. In fact, even survey is not being permitted. There is strong need that environment rules are modified to permit exploration and production in such protected areas on the basis of the 'Compensatory afforestation' principle. As of date, there are several locations where exploration efforts have been held up pending such facilitation by the Centre and State Governments. The Committee feel that there are serious lacunae in implementation and monitoring process. Otherwise, there is no reason why the private sector majors get in very short period of time the desired clearances for which the PSUs have to wait for very long time that too without any success. The Committee also observe that several projects of ONGC have suffered due to environmental objections. They therefore, recommend that the Government should make a comparative indepth study in this regard and remove all the existing bottlenecks by further streamlining the existing procedures for approval and implementation of various projects of petroleum sector.

(Recommendation No. 10)

2.11 The Committee note that the public sector undertakings under the Ministry of Petroleum & Natural Gas are funding their projects through internal resources and external borrowings without any budgetary support from Government. This is a healthy trend. However, the projects are regularly monitored by the Government. The Committee observe that in the original Ninth Plan, the Plan outlay for petroleum sector was Rs. 81382.98 crosses. It was revised to Rs. 78401 crores. Out of this only an amount of Rs. 55993.76 crores is expected to be spent. Thus, the utilisation of Planned Outlay by the end of the Plan would be around 71% only. The Committee note that in the upstream sector as a whole, there is no shortfall in Plan expenditure. There were major slippages in downstream sector where the proposals relating to establishment of grass root refineries and expansion of refineries were either dropped or postponed. The likely utilisation of Plan Outlay by the Navratna Companies like Indian Oil Corporation is about 51% of the approved outlay. It is very surprising and sad that such important Navratna and Mini Ratna Companies are not using their allocated amount in time. They are using their special financial powers for

deferring/review of the projects and not for the creation/approval of new projects. Due to their lethargic approach, external joint venture partners are not willing to invest in their projects. The Committee, therefore, recommend that the oil sector companies should do maximum homework before giving a proposal of projects to be completed during a particular time frame. Moreover, the Government should also take care that no undue time is spent in administrative matters. The Committee urge the Government to improve the position on both the fronts so that no such situation arises in the next Five Year Plan.

(Recommendation No. 11)

2.12 The Committee note that ONGC has experienced a major shortfall during 9th Five Year Plan in development/drilling in offshore areas due to non-availability of charter hire rigs and diversion of rigs. ONGC is having the required number of rigs and capability for drilling the wells in onland area. However, the rigs for offshore drilling are insufficient. The Committee are of the view that ONGC should not depend too much on the hired rigs. Now they have started the work on Mumbai Development Plan and a project plan for drilling 47 places in the western and eastern shores during 10th Plan. The Committee do not hesitate to say that ONGC require more deep water drilling capability after obtaining a good number of contracts under NELP-I and NELP-II and encouraging exploration results in Krishna-Godavari basin. The Committee, therefore, recommend that ONGC should take all initiatives to enhance their deep-water drilling capability by acquiring good quality rigs on their own so that the work relating to Mumbai High Development Plan and other projects of 10th Plan is not hampered at any stage of implementation.

(Recommendation No. 12)

2.13 The rate of cess on crude oil has been increased from Rs. 900 per metric tonne to Rs. 1800 per metric tonne w.e.f. 1.3.2002. The Committee are not convinced with the reply of the Government that increase in cess is applicable in case of nominated fields only. At the time of awarding fields to ONGC and OIL there were no other companies in competition. It was expected that with dismantling of APM effective from 1.4.2002, ONGC and OIL would be entitled to market determined prices for crude. This would have resulted in the additional cash flows required to sustain the aggressive capital investment plans of ONGC and OIL during the 10th Five Year Plan. With a levy of additional cess of Rs. 900 per MT which works out to US $ 2.5 per barrel, incremental cash flow to national oil companies (ONGC & OIL) would be substantially reduced. These companies may have to resort to borrowings to sustain their investments and operations. This might result in jeopardizing their exploration plans. The Committee, therefore, recommend that the imposition of additional cess be withdrawn.

(Recommendation No. 13)

2.14 The Committee are anguished to note that ONGC has not been able to reach a final agreement with Reliance Industries Limited regarding supply of 1.35 lakh tonnes of feed stocks for Assam Gas Cracker Project even after a lapse of several years. Due to which this long pending project of a North-Eastern State has been held up. The Committee learnt that there are about 10 clauses of the agreement on which differences remain to be resolved between the concerned parties. They desire that

final decision regarding the remaining of the agreement should be taken within a month as promised by the Secretary, Ministry of Petroleum & Natural Gas so that the work on the project may be expedited.

(Recommendation No. 14)

2.15 The Committee observe that out of the total outlay of Rs. 6540 crores, the anticipated expenditure of BPCL during 9th Plan period is estimated at Rs. 2723.31 crores. The major reasons for such investment trend included the delay in implementation of the Central India Refinery Project at Bina and JVC Refinery in U.P. The Refinery Project at Bina was approved in 1995. This was to be commissioned by December, 1999. A number of PILs have been filed which are being heard in Supreme Court. Simultaneously, in view of the decision of Oman Oil Company (OOC) to limit its investment in the Project, a proposal is under consideration to permit BPCL to execute the project through Bharat Oman Refineries Ltd. (BORL) with reduced equity contribution by Oman Oil Company (OOC) and with an enhanced equity contribution upto 50% by BPCL. The Project is expected to be completed within 48 months from the date of commencement of project execution. The Refinery Project in U.P. is also being delayed due to this project. The Committee, therefore, desire that the Government should permit BPCL to execute the project through BORL with their increased equity contribution.

(Recommendation No.15)

2.16 The Committee observe that as against the approved outlay of Rs. 25488.13 crores for Ninth Plan, the expenditure as on January, 2002 for Indian Oil Corporation was Rs. 12187 crores only. The shortfall was Rs. 585 crores in 1997-98, Rs. 406 crores in 1998-99 and Rs. 761 crores in 1999-2000 with respect to Budget Estimates for those years. These variations increased to the extent of Rs. 1500 crores in 2000-01 and Rs. 2432 crores in 2001-02. The Committee are not satisfied with this type of utilisation track of a fortune 500 global company during the 9th Plan period. The Committee observe that the major shortfall was due to review of certain major projects. In the meanwhile, the viability of these projects was adversely affected by the policy changes of the State Governments of Orissa and Haryana. IOCL Navratna Board constituted an investment review committee in December, 2000 to review the project viability and prioritise the implementation of major projects. The Committee also note that it has made certain achievements in mobilising the concerned State Governments to retain the earlier position regarding tax exemption. The Committee, therefore, desire that IOC should now take a quick decision regarding implementation of major pending projects like Paradeep Refinery Project and expansion projects of Panipat and Gujarat Refineries and start the work on these projects for their early completion. IOC should also adopt a realistic approach in finalising the 10th Plan projects to avoid recurrence of such poor planning and implementation record.

(Recommendation No. 16)

2.17 IOC has acquired the entire equity stake of Bongaingaon Refinery and Petrochemicals Limited (BRPL) and it has become a subsidiary of IOC. With this, IOC has entered in petrochemicals business. The Committee also observe that BRPL

has incurred a loss of Rs. 557.44 crores during 2000-01. In Committee's view, the major reason for such poor performance of BRPL is the lower allocation of crude oil to them. As against a capacity of 2.35 MMTPA, they could refine only 1.45 MMTPA of oil in 2000-01 and similar quantity is expected to be refined during 2001-02 also. IOC management are making efforts to make BRPL a profit making company. In addition to the other efforts, for making the operations of North-East Refineries viable, IOC has sought 100% excise duty exemption for their refineries, freight subsidy upto Barauni for movement of surplus product from North-East and compensation for equity improvement projects etc. The request of IOC is under consideration of the Government. The Committee advocate the specific request of BRPL for freight subsidy upto Barauni for movement of surplus product from North-East and urge that it may be acceded to since due to lower crude availability from North East oil fields they have to search for other options for import of crude through pipeline. The Committee also desire that the Government should allocate maximum quantity of crude to BRPL so that the refinery is able to make an optimum capacity utilisation.

(Recommendation No.17)

2.18 The revised Plan allocation of HPCL for Ninth Plan as approved by Planning Commission was Rs. 7448.08 crores. The Committee observe that there is a shortfall of Rs. 3628.04 crores in its utilisation. The Committee are happy to note that a good amount of Rs. 1432.14 crores has been saved during current Plan due to effective project management and monitoring, prudent usage of internal resources and reduction in other costs. They expect that HPCL will continue with similar initiatives. The Government should persuade other oil companies also to adopt such measures in their operations. The Committee also observe that all environmental clearances for Punjab Refinery Project as well as linked projects have been obtained by the HPCL. They, therefore, desire that this refinery project should be completed in a time bound manner during the 10^{th} Five Year Plan.

(Recommendation No. 18)

2.19 The Committee note that all the oil sector PSUs are self-sustained and in fact some of them are Navratnas. No budgetary support in terms of investment, Plan and non-Plan loan is being made available to them. These PSUs manage their finance either through internal resources or extra-budgetary resources or loans etc. from prime financial institutions of the country or external resources. The Demands for the year 2002-03 have been placed at Rs. 650943 lakhs under the Revenue section. There is no provision under capital section. The Demand includes Rs. 943 lakhs for Secretariat-economic services and Rs. 65000 lakhs for additional budgetary provisions to meet the subsidy requirements in Post-APM era starting from 1.4.2002. Previously, these were being paid from the consolidated fund of India. The additional provisions include an allocation of Rs. 4495.80 lakhs for subsidies for domestic LPG and PDS kerosene, Rs. 23914 lakh for freight subsidy on retail products for far flung areas, Rs. 22957 lakhs for sales tax payment on ATF to foreign airlines, Rs. 153049 lakhs for compensation to refineries on account of irrecoverable sales tax and an amount of Rs. 500 lakhs for the proposed downstream Petroleum Regulatory Board.

An increase in expenditure under Secretariat Head is mainly on account of non-salary expenditure of Anti-Adulteration Cell. Since the Demands of the Ministry seem to be justified, the Committee endorse the same in view of justification given by the Ministry in this regard.

The Committee, however, desire that Ministry should try to keep the expenditure within the sanctioned Budget of the Ministry and should follow all the instructions of the Ministry of Finance to effect economy particularly in non-Plan expenditure.

(Recommendation No. 19)

2.20 The Committee observe that during 2000-01 a grant of Rs. 150.47 lakhs was given for Voluntary Retirement Schemes in Biecco Lawrie Limited. In response to the above scheme, only 60 employees were released out of the surplus manpower of 223. The Committee also observe that through this step of reduction in employee cost, benefitted the Company to extent of Rs. 35 lakhs during 2000-01 which has reached up to Rs. 80 lakhs during 2001-02. This shows that if there could be more voluntary retirements, the loss of the Company could be minimised and there could be no reason to refer it to BIFR. The Committee do not find any justification in referring the Company to the Ministry of Disinvestment particularly when the Company has been facing a tough situation by incurring a loss of Rs. 8.67 crores during the year 2000-01. The Committee, therefore, recommend that the Government should once again try to minimise the staff through Voluntary Retirement Scheme. Simultaneously, all other steps should continue for the revival of Biecco Lawrie. The Central Government should provide every type of assistance so that this Company may move forward on the path of revival.

(Recommendation No. 20)

2.21 The Committee observe that various State Governments have levied sales tax on supplies on aviation turbine fuel while the Government of India have entered into bilateral air services with other countries which provide for exemption from payment of taxes and duties on fuel and lubricants supplied in India to the aircraft of the contracting parties. Therefore, the airlines have not been paying the sales tax resulting into under recoveries to the oil marketing companies. These under recoveries were being met from the oil pool account under the APM and would be met by the Government from 1st April, 2002. The Committee also observe that the Ministry of Civil Aviation is contemplating to enact a legislation and a Bill has been introduced in the Parliament. This Bill was considered by the Parliamentary Committee on Transport and Tourism and their Report was presented on 27.11.2001. The Committee, therefore, recommend that the Ministry of Petroleum & Natural Gas should take up the matter with the Ministry of Finance and the Ministry of Civil Aviation to enact an early legislation to stop the levying of such sales tax by the State Governments.

(Recommendation No. 21)

2.22 The Committee observe that the Ministry have allocated Rs. 1530.49 crores for the purpose of compensation of refineries on account of irrecoverable sales tax. The Government have taken initiatives in consultation with the concerned State Governments for rationalisation of the State taxes through introduction of Value Added Tax particularly in oil producing States. The Value Added Tax was expected to be implemented w.e.f. 1st April, 2002 but is now delayed. While noting that the Ministry have agreed that the expenditure can be reduced through rationalisation of State taxes, the Committee recommend that the Government should continue their efforts with various State Governments for rationalisation of State taxes. They should also find other ways by which the expenditure under this head can be reduced.

(Recommendation No. 22)

2.23 As per the existing purchase preference guidelines, PSUs are accorded preference in Government's purchases. However, the Committee learn that several Indian PSUs have tied with MNCs and are availing of the benefits under this policy. This is restricting competitiveness in ONGC's tenders. It has been reported that many of the PSUs which take advantage of this preference guidelines do not actually meet the requirements of minimum value additions. Since inter-PSU litigants/arbitrations is prohibited by the Government, the defaulting PSU vendors/contractors act with impunity, causing serious problems of time and cost-overrun for which ONGC is blamed. The Committee recommend that purchase preference guidelines be amended to ensure that PSUs who have tied up with MNCs are denied the advantages of the guidelines. It should be ensured that competitiveness in international bidding is really maintained. PSUs should not be allowed to trade on behalf of multinational companies.

(Recommendation No. 23)

2.24 As per the decision taken in November, 1997, the Government have finally announced the dismantling of Administered Pricing Mechanism in the petroleum sector from April 1, 2002 whereby the prices would be market determined. The Committee observe this situation as a very critical one for the customers because the prices would vary from location to location depending upon transportation cost, local levies, sales tax, etc. The prices of motor spirit and HSD would also vary from Company to Company. This will create a situation where there will be no uniformity in the price throughout the country. The Committee are unhappy to note that without considering and enacting any legislation over such an important issue of containing the impact of volatilities in the international market and other factors on the domestic prices of petroleum products, the Government have dismantled the APM. The Government had to follow a phased programme to be completed before dismantling of APM. Some of the steps of this phased programme have not been completed as yet. The Committee, therefore, recommend that the Government should quickly complete the action on all the issues suggested in the phased programme of reforms including the establishment of Regulatory Authority and rationalisation of duties.

(Recommendation No. 24)

2.25 The Committee apprehend that in the Post-APM era, availability of petroleum products in far flung areas would be hard hit. Supply to remote and high altitude areas was aided in the APM mechanism through cross subsidy schemes, which compensated for the high inventory costs and investments made in these areas. These concessions would not be available after de-regulation. There is need to have a rational tariff and pricing policy which would ensure the consumer getting the petroleum products at the most reasonable prices and requisite quality. The Committee recommend that the Government should evolve suitable mechanism for compensating high inventory carrying and distribution costs. MNCs/Private Companies should be legally bound to put up facilities in these areas in the same ratio as that of the PSUs (hilly and far flung areas vis-à-vis other locations) when granted marketing rights.

(Recommendation No. 25)

2.26 The Committee observe that the prices of kerosene for public distribution have been increased in March, 2000, September, 2000, and March, 2002. Similarly, the LPG prices have been increased in February, 1999, March, 2000, September, 2000 and March, 2002. All this is being done to achieve the targets set for phasing out the subsidies step by step. As informed by the Government, these subsidies will be completely removed in next 3 to 5 years. This shows that the Government are likely to enhance the prices again in coming months also. The Committee do not support such upward revision of prices of these commodities during such a short span of time. The Committee, therefore, urge the Government to reconsider their recent decision to enhance the prices of kerosene and LPG and roll it back to its original position. The Committee also desire that the Government should continue the subsidy on these necessary items of common man and they should not be put to any heavy financial burden.

(Recommendation No. 26)

2.27 The Committee note that the Oil Pool Account has been dismantled w.e.f. 1st April, 2002 and outstanding balance will be liquidated by issue of oil bonds to the concerned companies. The accumulated admitted outstandings payable by Oil Coordination Committee to the oil companies as on 18.3.2002 are Rs. 12433 crores. The Ministry of Finance has made a provision of Rs. 9000 crores in the third supplementary of the Budget of 2001-02 for issuing bonds to the oil companies. The Committee are surprised to note that the interest rate announced on these bonds is 6.96% only. The Committee are not satisfied with the justification given by the Government for the low rate of interest on these bonds stating that it is based on the coupon rate yield for similar Government securities and they are tradable in secondary market. The Committee feel that this type of liquidation of amount of the contributory companies is not justified in any sense since the secondary market is in very poor position. They, therefore, recommend that the Government should consider an upward revision in interest rates on 'oil companies Government of India's bonds' to a reasonable level. The Government should also take steps to liquidate the balance amount in the shortest possible time.

(Recommendation No. 27)

2.28 The Committee note that there is a need for more distributors of LPG in rural areas. In 9th Plan some work has been done in this area. They also note the assurance given by the Government that under marketing service obligations during Post-APM period it would be mandatory for a company to set up 2-3 units in rural areas, against its setting up 5 units in urban areas. They, therefore, desire that the Government should take all possible measures to ensure that any marketing plan in Post-APM period follows the same priorities and is able to cater to the needs of people residing in rural, hilly and far flung areas.

(Recommendation No. 28)

2.29 The Committee observe that the menace of adulteration of petroleum products has been growing inspite of the initiatives of the State Governments and Oil Companies. During the period of APM the Government have been trying to control this menace by introducing one or other methods but without effective results. Now, they have established an Anti-adulteration Cell in the Ministry to act as nucleus for guiding and coordinating anti-adulteration activities. The Committee are not convinced with the fact that the proposed number of 7 investigating officers in each region will be adequate for this specific type of function. They, therefore, desire that if the Government are really serious to stop this menace, they should strengthen their machinery properly. They should chalk out a foolproof mechanism in coordination with State Governments and Oil Companies to stop such common malpractices.

(Recommendation No. 29)

2.30 The Committee observe that upto 28.2.2002 NRL was availing 100% excise duty concession on petroleum products. Similarly, Digboi Refinery of IOC was availing 50% excise duty concession on petroleum products. From the 1st March, 2002 all the four refineries in the North-East viz. NRL, Digboi, BRPL and Guwahati will get 50% excise duty concession on their products. The Committee welcome the Government for extending this concession to all the refineries of North-East. But there is no justification for reducing the concession of NRL to 50% just in the second year of its operation. This is a new refinery and situated at a difficult place. On one side the Government have not taken any final decision to give them an one time assistance of Rs. 375 crores and on the other, the Government have lowered their concession also. The Committee also note that BRPL has also demanded a 100% concession and other two refineries are also passing through the same phase of difficulty. The Committee, therefore, recommend that the Government should take up the matter with Ministry of Finance so that all the refineries of North-East get equal treatment and an excise duty concession of 100% is provided to all of them.

(Recommendation No. 30)

2.31 The Committee note that the Government have decided 'in principle' to disinvest a part of its equity holding in HPCL and BPCL through strategic sale. The Government of India holding in BPCL is 66.2% and that in HPCL it is 51.01%. They

have a very good track record of profit making and they are very good competitors of IOC at present having market share of 55%. It is surprising that on one hand the Government treat Indian Oil Corporation Ltd. as flagship company for refining and marketing and on the other hand they are preventing them from participating in the bidding process of similar type of companies under the pretext of preventing monopoly. The Committee are not convinced with the view of the Government that participation in the bidding process itself will create a situation of monopoly. The purpose of disinvestment is to obtain maximum price for the Government share. In this process, in order to ensure a competitive and fair bidding there should not be any restriction for any company. The Committee, therefore, urge the Government that they should reconsider their decision of debarring IOCL from the bidding process. Alternatively, they should also enforce similar conditions on Reliance Industries Limited participating in the bidding process of IPCL since if they are successful in obtaining the shares of IPCL, they will almost have 100% monopoly in petrochemicals sector because other PSUs of this sector are sick with negligible contribution.

(Recommendation No. 31)

2.32 The Committee observe that the Government have also decided to disinvest 51 per cent shares in Engineers India Ltd. (EIL) to a strategic investor. The Committee would like to point out that EIL is the most diversified and leading design and engineering company in the field of petroleum, refineries, petrochemicals, oil and gas processing, off-shore structures and platforms, fertilisers, metallurgy and power. It has wealth of data of all major refineries, petrochemical plants, technology used, layout plans etc. which might be exploited, commercially by a private enterprise. Moreover, EIL is now a consistent profit making organisation with the status of a Mini Ratna Enterprise of first category. The Committee, therefore, desire that such a pioneering enterprise should not be disinvested and should continue to be in public sector.

(Recommendation No.32)

2.33 The Committee observe that OIDB had allocated an assistance of Rs. 200 crores to Indraprastha Gas Limited and Rs. 43 crores to Mahanagar Gas Limited during 2001-02. As against this, an amount of Rs. 21 crores has been released for IGL and 12 crores for MGL since IGL and MGL had projected their demands to this extent only. The Committee are surprised to see the dismal progress of IGL particularly in the phase when there is a need to speed up their activities. Hon'ble Supreme Court has been continuously directing IGL to establish the required infrastructure in the shortest possible time. The nature of investment shows that IGL has not properly used the sanctioned loan of OIDB. The Committee, therefore, recommend that Indraprastha Gas Limited and Mahanagar Gas Limited should undertake all the proposals in a time bound manner so that the sanctioned loan of OIDB is properly utilised and the people of Delhi and Mumbai may get the desired facilities in the shortest possible time.

(Recommendation No. 33)

2.34 The Committee note that the Government have decided to supply 5% ethanol-doped petrol all over the country in two phases. The States of Andhra

Pradesh, Gujarat, Haryana, Karnataka, Maharashtra, Punjab, Tamil Nadu and Uttar Pradesh would be covered during Phase-I and rest of the States/Union Territories in Phase-II. The Government have also announced concession in the special additional excise duties of Rs. 0.75 per litre on ethanol-doped petrol and they have also decided to amend the Sugar Development Act – 1982 facilitating financial assistance from the Sugar Development Fund for production of ethanol and co-generation of power from bagasse. The Committee hope that in the years to come, this would result in getting the people cheaper petrol since it is estimated that about 500 million litres of petrol would be replaced by anhydrous alcohol. They, therefore, recommend that the Government should prepare a time-bound programme for supply of ethanol-doped petrol in all parts of the country. The Committee also desire that some States including Tamil Nadu have shown their interest in establishing ethanol blending projects and have the potentiality to produce more ethanol. The Committee recommend that proposals from these States should be finalised on priority basis.

(Recommendation No. 34)

2.35 The Committee observe that the Government are making Research and Development efforts in the field of gas hydrates in offshore areas. Directorate-General of Hydrocarbons have indicated the possibility of presence of large gas hydrate deposits with free gas accumulation below the Andaman Hydrate Offshore Region. At present, the resource estimation process is going on to decide the location for drilling of gas hydrates. The Committee, therefore, desire that at this juncture, the Government should clearly come out with a National Gas Hydrate programme so that the work may progress with a fixed time frame. They also urge the Government to ensure that there is no constraint of funds for Research and Development work being done to find out the gas hydrates below the sea water.

(Recommendation No. 35)

2.36 The Committee held a special meeting to analyse the situation arising out of Supreme Court's order dated 5th April, 2002 directing the Delhi Government to allow only CNG driven public vehicles. The Committee share the Supreme Court's concern with the state of air pollution in the capital of the country and agree with its observation that both the Union and the State Governments have failed to discharge their constitutional obligations to protect the health of the present and future generations. The Committee are fully in agreement with the basic approach of the Supreme Court that the public health should be accorded the over-riding priority over all other economic activities. However, the Committee feel that Delhi is not the only city which has been dangerously polluted. There are other cities also in the country which are also polluted although not to the same extent as Delhi. However, no concerted efforts are being made to purify the air of these cities perhaps for the reason that no organised class is available in these cities to seek court's interventions directing the State Authorities to act in the same manner as required for Delhi. It is reported that as of now there are about 60 polluted cities in India and 30 out of these are critically polluted. The Committee desire a uniform approach to be adopted in this regard for the entire country and would not like to see Delhi in isolation and chosen for special privileges.

The Committee note that as of now the availability of CNG in Delhi is around 6 lakh kilogram per day, though the compressed dispensation is about 75% of availability. The Government of India/IGL have been directed to increase this capacity from the present level to 16.1 lakh kilogram per day by 30th June, 2002. The Committee have been informed that the IGL needs some more time for laying down of a pipeline of about 22 kilometre to equitably distribute gas in all the zones in the city. Even by conservative estimates, IGL would take at least a period of 9 months in laying down this pipeline. The Committee are given to understand that the chances of leakage in the pipeline cannot be ruled out completely and in case it happens the transport system based upon this pipeline could come to a halt. The Committee see this situation which may be hypothetical one yet a reality in essence, as very alarming.

The Committee also are aware that the researches concerned with healthy environment, pollution control, road researches, etc. cannot be analysed in isolation without having any comparative studies in other developed countries. The Committee have been informed that in no other city of the world the entire public transport system is based upon CNG or any other single fuel. In view of this fact, mandating the transport system to run on a single fuel needs to be examined thoroughly.

The Committee understand that the CNG transport system has been made applicable in Delhi since 1999. Since then in large number the local transport has been fuelled on CNG. However, it is regretted that no specific information could be provided to the Committee in regard to the difference in air quality prior to the induction of CNG vehicles and the quality as on date.

There are some Committees constituted by Supreme Court as well as the Government of India working in different fields, assessing and analysing air pollution, emission norms, etc. However, they are holding divergent views on the basic issues. The Supreme Court has not given credence to the interim observations of Mashelkar Committee Report. Therefore, the Government should now constitute a committee who should look into all the issues related to environment, emission norms, fuel policy, etc. and come out with some credible recommendations. All along the Government have abdicated its responsibility with the result that the Supreme Court had to intervene and force the Government to act. The Committee deprecate the inaction on the part of the Government and would like to call upon them to look into the matter of air pollution, emission norms, the desirability of single or multiple fuel with objectivity and rational approach. The Committee, therefore, recommend that the Government should constitute a credible and reputed committee which should go all agog in the matter and submit its report at the earliest. The Committee may consist of a nominee of each of the following institutes or associations – All India Institute of Medical Sciences (AIIMS), Institute of Petroleum Management, Pollution Control Board, Road Research Institute, IIT (Kolkata), etc.

(Recommendation No. 36)

2.37 The Central and State Governments have also been directed to provide CNG to transport sector all over India on priority basis. The concept is a welcome step. However, the Committee opine that gas is preferred feed stock for small, medium and large industries. For balanced economic development, it is Government's duty to prioritise the supply of feed stock for all economic activities. In this context, the Committee recall that they had been impressing upon the Government the need to prioritise the feed stock and adopt policy for various segments. Regretfully, the Government have not acted fast. Still the Committee feel that it is the duty of the Government to administer and prioritise the feed stock. It has also been stated that Delhi needs 4.8% of the current supply of gas by HBJ pipeline. The small percentage of gas appears to be really small. But gas distribution pattern has to be looked into from various other angles and in all India context. The entire East India is almost deprived of the benefits of gas availability though gas is in abundance in North-East. The Committee do not feel any justification in brining gas from distant parts of the country only for the use of 1% population of the country. The allocation and distribution of the gas should be judicious and should look equitable. The Government have to evolve a scientific approach in this regard.

(Recommendation No. 37)

2.38 The Indraprastha Gas Limited has been criticised for its failures to cater to the needs of transport sector in Delhi. The Committee feel that today it is IGL, tomorrow there can be other companies like IGL which might come up in different parts of the country whose job would be to supply CNG in their areas. The Committee feel that these agencies are being set up to serve National and common cause. The Committee, therefore, recommend that Central and concerned State Government should provide financial grant to these agencies for raising basic infrastructure. It is the duty of the Government to ensure that these companies are not only raised but become functional and remain economically sound. If they are forced to supply the CNG merely for transport sector, it is doubted whether they would be economically vibrant. To enable them to work professionally they should be given adequate gas to supply it for small scale needs, domestic purposes, small commercials in the areas of their allocation.

(Recommendation No. 38)

2.39 The Committee have noted that IGL has to incur huge expenditure on central sales tax, HBJ transportation charges after purchase of gas from GAIL, whereas Mahanagar Gas Limited and Gujarat Gas Company Limited have not to pay on this account. Further, IGL was reportedly incurring loss of Rs. 2.23 per kilogram on CNG as of now. The IGL at present is supposed to sell about 6 lakh kilogram of gas per day and as per the Supreme Court's Order this quantity is further to rise to 16.1 kilogram per day. At this rate the company is bound to incur heavy losses. The Committee have taken note that the Government do not control the price of CNG and there was no binding on IGL to sell CNG at specific rates. They further learn that sale price of CNG for transport sector in Mumbai is higher than in Delhi whereas the Mumbai Gas Limited is getting gas without any central sales taxes and HBJ

transportation charges. The Committee fail to understand the rationale in the variation of the sale prices between Mumbai and Delhi. IGL is in initial stage of formation and the Committee are afraid that because of the heavy expenses and comparatively low returns, the Company might accumulate losses which might ultimately lead to its falling sick. The Committee would like to caution the company about it . The Committee recommend to the Government that they should subsidise the losses being incurred by the company for selling CNG to public vehicles in Delhi.

(Recommendation No. 39)

2. 40 It is also reported that the CNG availability in India is poor and the Government have been directed to import the same in the same manner as the crude is being imported. It appears that the Government have not been able to present their case before the Supreme Court in a convincing manner. The country has the satisfactory infrastructure available for import of crude oil whereas for import of natural gas, the infrastructure build up is in initial state. It would take some more years before this infrastructure is built up.

The Government have also been directed to make available 16.5 lakh kilogram of CNG on daily basis for transport sector in Delhi. IGL is supposed to provide adequate infrastructure for receipt and dispensation of this quantity mainly for transport needs. The Committee are well aware that transport system in Delhi is undergoing gradual changes. It is reported that Delhi Metro would become operational by the end of this year and its first phase is expected to be completed by the year 2005. In addition to this Delhi Government is also contemplating to introduce electric trolly and battery driven buses to make transport system sustainable. In the event of Delhi Metro becoming fully functional and emergence of electric and battery operated vehicles, the vehicular transport needs of Delhi would have to be reviewed. In all probability the present number of vehicles may not be needed in that eventuality the infrastructure laid by IGL might become less relevant. This issue also needs to be examined in toto.

Taking all these factors into account, the Committee feel that there is need to go into the matter of supply of CNG in Delhi in depth including mandating single fuel policy. The Committee are of the firm opinion that the type of fuel should be such as does not cause air pollution. The Committee recommend as earlier stated that the Government should constitute a credible expert committee to go into the various issues and recommend actions to be taken by the Government. The Government, if need be, should enact legislation incorporating the objectives of provision of single or multiple fuel-emission norms, etc.

(Recommendation No. 40)

NEW DELHI; MULAYAM SINGH
YADAV,
April 22, 2001 ***Chairman,***
Vaisakha 2, 1924 (Saka) ***Standing Committee on Petroleum & Chemicals.***

Appendix-I

MINUTES

STANDING COMMITTEE ON PETROLEUM AND CHEMICALS (2002)

FOURTH SITTING

4.4.2002

The Committee sat from 1000 hrs. to 1300 hrs.

PRESENT

Shri Mulayam Singh - Chairman

MEMBERS

LOK SABHA

2. Shri Ashok Argal
3. Shri Anand Mohan Biswas
4. Shri Padam Sen Choudhry
5. Smt. Sheela Gautam
6. Shri Shriprakash Jaiswal
7. Shri Jagannath Malik
8. Shri Punnulal Mohale
9. Shri Ashok N. Mohol
10. Dr. Debendra Pradhyan
11. Shri Ram Sajivan
12. Shri Shyama Charan Shukla
13. Dr. V. Saroja
14. Dr. Chhatrapal Singh
15. Shri Prabhunath Singh
16. Shri Ramjiwan Singh
17. Dr. Ram Lakhan Singh
18. Shri Shankersinh Vaghela
19. Dr. Girija Vyas

RAJYA SABHA

20. Shri Balkavi Bairagi
21. Shri Anil Kumar
22. Shri Shyam Lal
23. Shri Rajiv Ranjan Singh `Lalan'
24. Shri Bangaru Laxman
25. Shri Ahmed Patel
26. Shri Yadlapati Venkat Rao
27. Ms. Mabel Rebello
28. Shri Gaya Singh
29. Shri Ranjnath Singh `Surya'
30. Prof. Ram Gopal Yadav

SECRETARIAT

1.	Shri K.V. Rao	-	Joint Secretary
2.	Shri P.K. Grover	-	Director
3.	Shri J.N. Oberoi	-	U.S.

REPRESENTATIVES OF MINISTRY OF PETROLEUM AND NATURAL GAS

1.	Shri B.K. Chaturvedi	-	Secretary
2.	Shri Naresh Narad	-	Additional Secretary
3.	Shri Suresh Chandra	-	JS&FA
4.	Shri Shivraj Singh	-	Joint Secretary (Refinery)
5.	Shri J.M. Mauskar	-	Joint Secretary (Exploration)
6.	Shri S. Vijyaraghavan	-	Joint Secretary (Coord. & Admn.)

REPRESENTATIVES OF PUBLIC SECTOR UNDERTAKINGS

1. Shri Subir Raha, CMD, Oil and Natural Gas Corporation Ltd.
2. Shri M.S. Ramachandran, CMD, Indian Oil Corporation Ltd.
3. Shri B.B. Sharma, CMD, Oil India Ltd.
4. Shri U. Sundararajan, CMD, Bharat Petroleum Corporation Ltd.
5. Shri H.L. Zutshi, CMD, Hindustan Petroleum Corporation Ltd.
6. Shri Prashanto Banerjee, CMD, Gas Authority of India Ltd.
7. Shri Arun Jyoti, Managing Director, IBP Co. Ltd.
8. Shri R.K. Dutta, MD, Numaligarh Refinery Ltd.
9. Shri B.K. Gogoi, CMD, Bongaigaon Refinery & Petrochemicals Ltd.
10. Shri S.K. Bansal, ED, Oil Coordination Committee
11. Dr. Avinash Chandra, Director General, Directorate General of Hydrocarbons.
12. Smt. Vandana Singhal, Secretary, Oil Industry Development Board
13. Shri K.L. Kumar, CMD, Kochi Refinery Ltd.
14. Shri Rammohan, CMD, Chennai Petroleum Corporation Ltd.
15. Shri G. Prasanna Kumar, DG, Anti Adulteration Cell

At the outset, Hon'ble Chairman welcomed the Members and officers of the Ministry of Petroleum and Natural Gas and representatives of PSUs and other organisations.

2. The Committee took oral evidence of the representatives of Ministry of Petroleum and Natural Gas in connection with the examination of Demands for Grants for the year 2002-03.

3. Since Hon'ble Chairman was not available in the second half of the sitting, the Committee chose Shri Prabhunath Singh to act as Chairman in his place in accordance with Rule 258 of the Rules of Procedure and conduct of Business in Lok Sabha.

4. During the course of evidence the main issues which came up for discussion included appraisal of Ninth Five Year Plan, under-utilisation of planned outlay by PSUs, Budget Provision for the year 2002-03, subsidy on LPG and kerosene, Demand and Supply of petroleum products, status of refinery projects, Disinvestment proposals of EIL, BPCL and HPCL, Payment of Demurrage charges by IOC, supply of LPG in rural areas, dismantling of Administered Pricing mechanism and impact thereof, Marketing Plan in post-APM period, participation of private sector in exploration, production and distribution, environmental hurdles in exploration, price preference to PSUs, Dismantling of DSBs, Investment by IOC in Haldia petrochemicals Ltd. and CNG supply in Delhi.

5. The Committee proposed to undertake a small tour to a Coal Bed Methane field in the month of May, 2002 and later, after the conclusion of Budget Session to other places of

interest from Committee’s functioning point of view. The Committee authorized the Chairman to finalise the details of both the tours.

6. A verbatim record of the proceedings has been kept.

The Committee then adjourned.

Appendix-II

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2002)

SIXTH SITTING

(15.04.2002)

The Committee sat from 1630 hrs. to 1800 hrs.

Present

Shri Mulayam Singh Yadav - Chairman

Members

Lok Sabha

2. Shri Ramchander Bainda
3. Prof. Kailasho Devi
4. Smt. Sheela Gautam
5. Shri Paban Singh Ghatowar
6. Shri P.Mohan
7. Shri Shyama Charan Shukla
8. Shri Prabhunath Singh
9. Shri Ratilal Kalidas Varma
10. Dr. Girija Vyas

Rajya Sabha

11. Shri Balkavi Bairagi
12. Shri Shyam Lal
13. Shri Rajiv Ranjan Singh 'Lalan'
14. Shri Dipankar Mukherjee
15. Shri Yadlapati Venkat Rao
16. Ms. Mabel Rebello
17. Prof. Ram Gopal Yadav

Secretariat

1.	Shri P.D.T. Achary	-	Additional Secretary
2.	Shri K.V. Rao	-	Joint Secretary
3.	Shri P.K. Grover	-	Director
4.	Shri J.N. Oberoi	-	Under Secretary

Representatives of Ministry of Petroleum & Natural Gas/IGL/GAIL

1.	Sh. B.K. Chaturvedi	-	Secretary, M/o P&NG
2.	Sh. S. Vijayaraghavan	-	Joint Secretary

3.	Sh. Shivraj Singh	-	Joint Secretary
4.	Sh. U. Sundararajan	-	CMD – IGL
5.	Sh. Proshanto Banerjee	-	CMD – GAIL
6.	Sh. A.K. Dey	-	MD - IGL

Representatives of Government of NCT of Delhi

1.	Smt. Shailaja Chandra	-	Chief Secretary – Delhi
2.	Shri K.S. Baidwan	-	Chairman – DTC
3.	Smt. S. Khullar	-	Secretary (Transport)

At the outset, Hon'ble Chairman welcomed the Members and officers of the Ministry of Petroleum & Natural Gas and representatives of the Government of National Capital Territory of Delhi.

2. The Committee took oral evidence of the representatives of Ministry of Petroleum & Natural Gas and Government of NCT of Delhi on the subject of 'Availability and Marketing of CNG in Delhi in the wake of Supreme Court's Order dated 5th April, 2002' in continuation to their earlier evidence taken on 4th April, 2002 in connection with examination of Demands for Grants for the year 2002-03.

3. During the course of evidence the main issues which came up for discussion included the Supreme Court's directives to reduce pollution in Delhi, availability of CNG in Delhi, reasons for shortage of CNG, problems in conversion of Diesel Buses into CNG Buses, Action Plan of Central Government and Delhi Government to implement Supreme Court's Orders, steps being taken to convince Supreme Court about implementation schedule and other policies. The other relevant topics which appeared for detailed discussion included the level of pollution in Delhi, position of CNG run vehicles in the world, fixation of emission norms for vehicles, status of country's feedstock Policy and auto-fuel Policy, need for enaction of a law to deal with clean fuel for transport sector in the country, jurisdiction of Mashelkar Committee and Bhurelal Committee etc.

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

5.

The Committee then adjourned

APPENDIX-III

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2002)

SEVENTH SITTING

(22.04.2002)

The Committee sat from 1600 hrs. to 1630 hrs.

Present

Shri Mulayam Singh Yadav - Chairman

Members

Lok Sabha

18. Shri Ashok Argal
19. Shri Ramchander Bainda
20. Shri Padam Sen Choudhry
21. Shri P.D. Elangovan
22. Shri Dilipkumar Mansukhlal Gandhi
23. Shri Shriprakash Jaiswal
24. Shri C. Kuppusami
25. Shri P.Mohan
26. Dr. Debendra Pradhan
27. Shri Shyama Charan Shukla
28. Dr. Chattrapal Singh
29. Shri Ramjiwan Singh

Rajya Sabha

30. Shri Balkavi Bairagi
31. Shri Shyam Lal
32. Shri Moolchand Meena
33. Ms. Mabel Rebello
34. Shri Rajnath Singh 'Surya'

Secretariat

6.	Shri K.V. Rao	-	Joint Secretary
7.	Shri P.K. Grover	-	Director
3.	Shri J.N. Oberoi	-	Under Secretary

The Committee considered the 27th Report on Demands for Grants of the Ministry of Petroleum & Natural Gas for 2002-03. The Committee suggested that some recommendations contained in this Draft Report be further elaborated. Thereafter, the Committee approved and adopted the Draft Report.

2. The Committee placed on record their appreciation for the valuable assistance rendered to them by the staff and officers of the Lok Sabha Secretariat attached to the Committee.

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

The Committee then adjourned.