STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2003)

(THIRTEENTH LOK SABHA)

THIRTY-NINTH REPORT

MINISTRY OF PETROLEUM & NATURAL GAS

DEMANDS FOR GRANTS

(2003-2004)

Presented to Lok Sabha on 08.04.2003

Laid in Rajya Sabha on 08.04.2003

LOK SABHA SECRETARIAT
NEW DELHI

April, 2003/Chaitra, 1925 (Saka)

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* ***Nominated w.e.f. 21st February, 2003.***
** ***Nominated w.e.f. 26th February, 2003.***

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INTRODUCTION

I, the Chairman, Standing Committee on Petroleum & Chemicals (2003) having been authorised by the Committee to submit the Report on their behalf present this Thirty-Ninth Report on 'Demands for Grants of the Ministry of Petroleum & Natural Gas for the year 2003-2004'.

2. The Committee examined/scrutinised the Demands for Grants pertaining to the Ministry of Petroleum & Natural Gas for the year 2003-04 which were laid on the Table of the House on 6th March, 2003.

3. The Committee took evidence of the representatives of the Ministry of Petroleum & Natural Gas at their sitting held on 26th March, 2003.

4. The Committee considered and adopted the Report at their sitting held on 4th April, 2003.

5. The Committee wish to express their thanks to the Officers of the Ministry of Petroleum & Natural Gas for furnishing the material and information which they desired in connection with the examination of Demands for Grants of the Ministry, for the year 2003-04 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 7, 2003
Chaitra 17, 1925 (Saka)

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

REPORT
PART – I

BACKGROUND ANALYSIS

A. INTRODUCTORY

The Ministry of Petroleum and Natural Gas (MOP & NG) is entrusted with the responsibility of exploration and production of oil and natural gas (including import of Liquefied 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, 11 subsidiaries and other companies and 6 other organisations.

Oil Companies in which Government of India has a shareholding

(As on 1st April, 2002)

1	Oil & Natural Gas Corporation Ltd. (ONGC)	84.10%
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 (OIL)	98.13%
8	IBP Company Limited	26.00%
9	Biecco Lawrie & Co. Limited	57.00%

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	Numaligarh Refinery Limited (NRL)	Subsidiary of BPCL
7	Kochi Refineries Limited (KRL)	Subsidiary of BPCL
8	Bongaigaon Refinery and Petrochemicals Ltd. (BRPL)	Subsidiary of IOCL
9	IBP Co. Ltd.	Subsidiary of IOCL
10	Chennai Petroleum Corporation Limited (CPCL)	Subsidiary of IOCL
11	Indian Oil Mauritius Limited	Subsidiary of IOCL

Other organisations

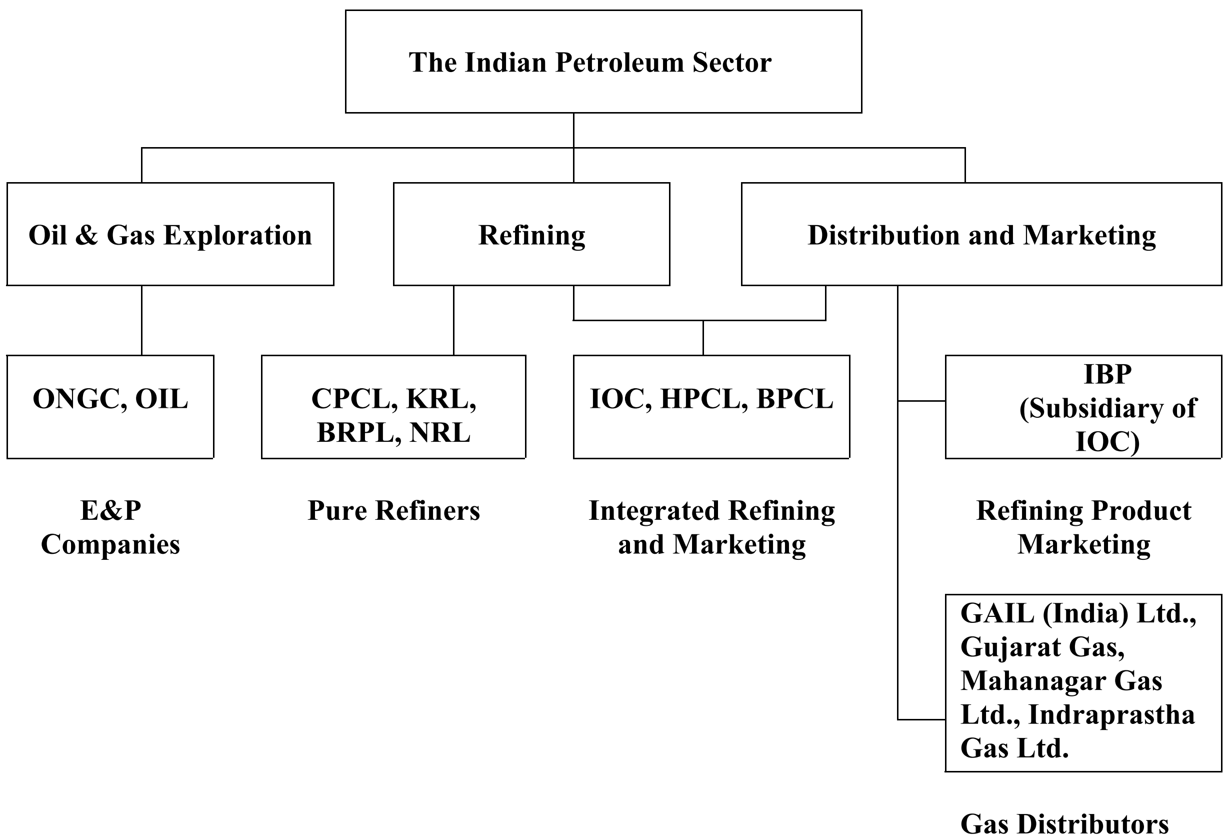
1. Oil Industry Development Board (OIDB)
2. Petroleum Conservation Research Association (PCRA)
3. Oil Industry safety Directorate (OISD)

4. Centre for High Technology (CHT)
5. Petroleum India International (PII)
6. 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 PETROLEUM & NATURAL GAS SECTOR DURING 9TH FIVE YEAR PLAN AND STRATEGIES FOR 10TH FIVE YEAR PLAN</u>

(I) <u>Performance of Petroleum & Natural Gas sector during 9th Five Year Plan (1997-2002)</u>

1.3 During IXth Five Year Plan several thrust areas were identified in Oil and Natural Gas Sector for special attention. This included:-

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

(ii) A acquisition of acreages in other countries;

(iii) 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 Pricing Mechanism;

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

(vii) Creation of adequate refining capacity;

(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 critical analysis of performance in some of the identified areas of attention has been done in the succeeding paragraphs.

(a) Demand and production of crude oil

1.5 Oil and Natural Gas Corporation Limited (ONGC) and Oil India Limited (OIL), the two national oil companies apart from private and Joint Venture companies are engaged in exploration and production of oil and natural gas in the country. The following table shows the year-wise crude oil and natural gas productions during 9th Plan:-

Year	**OIL(MMT)**				**GAS (BCM)**			
	ONGC	**OIL**	**Pvt/JV**	**Total**	**ONGC**	**OIL**	**Pvt/JV**	**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
1999-00	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	24.708	3.183	4.14	32.03	24.042	1.62	4.05	29.71

1.6 When asked about the trend of demand and production of oil and gas at the terminal year of 8th Plan and the terminal year of 9th Plan, the Ministry of Petroleum & Natural Gas submitted the following reply:-

> "At the terminal year of 8th Plan (1996-97) the crude oil and natural gas production of the country was 32.89 MMT and 23.30BCM respectively. At the terminal year of 9th Plan (2001-02) the crude oil and natural gas production of the country was 32.03 MMT and 29.71 BCM respectively.
>
> Share of private sector companies in the total oil production in the country increased from 7.4% to 12.9% during the ninth plan period. Similarly, share of private sector companies in the total natural gas production increased from 6.4% to 13.6%.
>
> The demand for petroleum products slowed down during the later half of the Plan period. Against a target of annual growth of 5.77% of consumption of petroleum products during the Plan period, the actual consumption grew around 4.8% per annum. The demand trend of natural gas indicates a continuing wide gap between the demand and supply of gas."

1.7 The Committee observed the trend of crude oil and natural gas production and asked about the justification for this type of performance of PSUs in the field of exploration and production during the 9th Plan period and wanted to know about the steps being taken to avoid such situation during current Plan. The Ministry of Petroleum & Natural Gas submitted the following written reply:-

> "So far ONGC is concerned, natural gas production increased consistently from 16.49 BCM at start of 8th Plan (1992-93) going upto 24.04 BCM by end 9th Plan (2001-02).
>
> Regarding crude oil production, the following is pertinent:-
>
> a. Towards the end of 7th Plan and beginning of 8th Plan major projects were taken up for additional development of producing fields Mumbai High, Heera, Gandhar and bringing new fields on production viz. Neelam and South Heera. These projects were completed in mid 8th Plan. As a result crude oil production which was 24.43 at start of 8th Plan (1992-93) jumped up to 31.64 MMT by 1995-96. It may be noted that two ONGC producing fields Panna-Mukta and Ravva oil fields were handed over for JV development during this period.

b. No new major field development projects were taken up for contribution to oil production in the 9th Plan period. Production rate declined to 24.71 MMT by the end 9th Plan (2001-02).

c. For oil production in the 10th Plan period, IOR/EOR projects in major fields were initiated in later part of 9th Plan including Redevelopment of Mumbai High. The impact of these efforts already observed in first year of 10th Plan with rise in oil and gas production to the level of 26 MMT and 24.25 BCM respectively in the first year of the 10th Plan i.e. 2002-03.

d. Apart from IOR/EOR in 15 major fields planned during the 10th Plan, new fields like D-1 and Vasai East in Mumbai offshore and G-1 in Krishna-Godavari offshore are being taken up for fast track development and marginal fields are being examined for feasibility of development.

So far OIL is concerned, there was increase in production of both Crude Oil & Natural Gas Production of Crude Oil in the terminal year of 8th Plan was 2.86 MMT and that at the end of the 9th Plan was 3.18 MMTPA. Similarly, production of natural gas in the terminal year of 8th Plan was 1.515 BCM and at the end of 9th Plan was 1.619 BCM/year. The production of natural gas in the terminal year of 9th Plan would have been more but for prolonged shut down of HFCL, Namrup Plant in Assam and RSEB's Power Plant at Ramgarh in Rajasthan."

1.8 When the Committee specifically wanted to know about the reasons for very poor annual growth of petroleum products during 9th Five Year Plan, the Ministry of Petroleum & Natural Gas submitted the following categorical reply:-

"The growth in consumption of petroleum products during the 9th Plan period (1997-2002) and 2002-03 has been as under:-

Year	Demand (MMT)	Growth (%)
1997-98	84.3	6.5
1998-99	90.6	7.4
1999-2000	97.1	7.2
2000-01	100.1	3.1
2001-02	100.4	0.4
2002-03*	104.1	3.7

**** Anticipated demand***

The low growth in demand of petroleum products during the recent years is mainly due to industrial slow down coupled with increasing share of service sector in the Gross Domestic Product (GDP) and increased use of I.T. by various sectors."

(b) ***Securing equity oil and gas abroad***

1.9 Considering the oil demand scenario vis-à-vis domestic production level, Government is also persuading 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.

1.10 When the Committee asked about the specific achievements made in respect of acquisition of acreage in other countries during 9th Five Year Plan, the Ministry of Petroleum & Natural Gas submitted as under:-

> "(a) ONGC Videsh Limited (OVL) has acquired 20% stake in Sakhalin-I Project in Russia. The Government has approved an investment of US$ 1.74 billion for this purpose. The other partners in the consortium with their corresponding stakes are; Subsidiaries of Exxon-Mobil with 30%, a consortium of Japanese companies –Sodeco with 30% and two Russian Government companies with a total of 20%. The crude oil production from the project is scheduled to begin by the end of 2005 at the rate of 250,000 barrels per day (12.5 Million Metric Tonne Per annum (MMTPA)). OVL's equity share would be 50,000 barrels per day (2.5 MMMTPA). Considering that OVL is financing the equity portion of Russian oil companies, their share of oil is also available to OVL. Thus, oil security of about 100,000 barrels per day (5 MMTPA) would be available to OVL. The gas production is likely to commence from 2008.
>
> In addition to acquisition of Sakhalin-I Project, in the Vietnam Project, gas price negotiations were concluded and construction activities were initiated and completed. The gas production commenced during 2002-03 (the first year of the 10th Plan Period) to generate revenues
>
> A prospective exploration block in Iraq (Block No.8) was also acquired in year 2000. In addition, negotiations for a number of projects in various oil and gas rich countries were initiated for acquisition during 9th plan period, the results of which will emerge during 10th Plan.
>
> (b) In 1998, Oil India Limited (OIL) has taken 20% participating interest in a Production Sharing Contract for Block-4 in Oman through a farm-in agreement with M/s Total Fina of France. One well was drilled in the Block in 1999, which was found to be dry. The Block has since been relinquished.
>
> (c) GAIL has taken up an assignment in Myanmar offshore along with OVL from Daewoo International corporation, Korea. The project in the exploration phase."

(c) ***Production and availability of natural gas***

1.11 In view of wide gap between demand and availability of natural gas in the country, the import of Liquefied Natural Gas is treated as very important. When the Committee specifically enquired about the broad components of LNG policy, the Ministry of Petroleum & Natural Gas submitted the following facts before the Committee:-

> "The current availability of natural gas in the country is around 65 MMSCMD. As against this, the total firm commitment in terms of gas allocations to various consumers is around 120 MMSCMD. This does not take into account the large unmet demand for gas. As per the India Hydrocarbon Vision-2025 the demand of natural gas was estimated to be 151 MMSCMD in 2002 which is expected to reach 231 MMSCMD in 2006-07, 313 MMSCMD in 2011-12 and would reach around 391 MMSCMD by 2024-25. The production and availability of natural gas seems to have reached at plateau. The old gas fields of Mumbai High and South Basin have started depleting and various initiatives by the Government of India to boost exploration and production may be able to increase production levels of natural gas marginally only unless new discoveries are available under NELP blocks or through ONGC's exploration efforts.
>
> The wide gap between the demand and supply of natural gas can only be met by import of gas through pipelines or as Liquefied Natural Gas (LNG). Various pipeline import initiatives have not progressed much because of trans-national pipeline issues, techno-economic and geo-political considerations.
>
> LNG is a new fuel and is in the initial stages of development in the country. For the development of this sector, it was envisaged to have an integrated LNG Policy covering the regulatory mechanism, LNG shipping policy and a suitable fiscal regime. Subsequently, the regulatory and shipping policy issues have been taken up separately. The LNG policy, which is not under consideration of the Government, mainly relates to setting up a conductive fiscal regime which would encourage more investment in this sector and also ensure an affordable price of delivered LNG to the consumers.
>
> LNG is under Open General License (OGL) and 100% Foreign Direct Investment (FDI) is permitted in this sector right from the import, re-gassification, distribution and marketing."

1.12 LNG import was put under OGL to promote import of LNG in the country. The following parties have shown interest for import of LNG on East coast and West coast locations in the country:-

Sl. No.	Name of Company	Location of Proposal Terminal	Capacity of Terminal in Million Tonnes per Annum
1	Enron International Inc.	Dabhol (Maharashtra)	Initial 2.5 MMTPA

			expand to 5 & 10 MMTPA
2	(British Gas) BG Plc.	Pipavav (Gujarat)	Initial 2.5 MMTPA expand to 5 MMTPA
3	Ispat Group of Industries	Kakinada (AP)	Initial 2.5 MMTPA expansion unspecified
4	Reliance Industries Ltd.	Jamnagar and Hazira (Gujarat)	5 MMTPA at each Terminal
5	Royal Dutch Shell Group of Companies	Hazira (Gujarat)	2.7 MMTPA initial. Expansion unspecified
6	Petronet LNG Ltd. (with Gaz de France & Rasgas)	Dahej (Gujarat)	5 MMTPA
7	Petronet LNG Ltd.	Cochin (Kerala)	2.5 MMTPA
8	BHP Australia	General Proposal	Not specified
9	Hardy Oil, UK and Nagarajuna Holdings	Kakinada (AP)	1 MMTPA to expand upto 5 MMTPA
10	Tractabel Belgium	General Proposal	Not specified
11	Dakshin Bharat Energy Consortium	Ennore (Tamil Nadu)	2.5 MMTPA
12	Al-Mannal	Gopalpur (Orissa)	3 MMTPA
13	IOC/Petronas	Kakinada (AP)	3.5 MMTPA

1.13 In response to specific query of the Committee about the targets and progress made so far in the direction of import of Liquefied Natural Gas, the Ministry submitted the following reply:-

> "In order to promote import of LNG in the country, Government of India in 1997 approved formation of a Joint Venture Company with equity participation of GAIL, IOC, ONGC & BPCL and others. The Joint Venture Company was formed to set up LNG terminal at suitable coastal locations in India. The JVC named Petronet LNG Limited identified LNG import and re-gassification terminals at Dahej (Gujarat) for 5 MMTPA capacity in Gujarat and Kochi for 2.5 MMTPA capacity in Kerala.
>
> Petronet LNG Limited tied up supply of 7.5 million tonnes of LNG (5 MMTPA for Dahej and 2.5 MMTPA for Kochi terminal with Ragas of Qatar in July 1999). Petronet LNG Limited is currently developing 5 MMTPA LNG import and re-gassification terminal at Dahej. The EPC Contract for Dahej project construction was awarded in December, 2000. Overall progress of project construction achieved till February, 2003 is 71%. Mechanical completion of Dahej project is planned in December, 2003.
>
> The pre-project activities at Kochi have been completed. The Construction of Kochi terminal was conceived considering the expansion of NTPC's Kayamkulam power project. Recently, NTPC has floated a global tender for supply of LNG for the existing and expanded capacity of Kayamkulam power

project. The firm market tie up will be important for the execution of the Kochi LNG project.

As regards other LNG projects, Shell LNG terminal at Hazira is currently under construction. The Dabhol LNG terminal of Enron in Maharashtra is said to be almost 85% complete but is not progressing due to financial and legal problems.

As LNG is under OGL and any party can set up the projects, no firm targets have been set in this regard by the Government."

1.14 While going into further details, when the Committee specifically wanted to know about the reasons for delay in preparation and announcement of integrated LNG Policy covering the Regulatory Mechanism and LNG Shipping Policy to encourage import of LNG in the country, the Ministry submitted the following status report:-

"The Committee of Secretaries in its meeting of 24.3.2000 deliberated on the issue of formulation of an Liquefied Natural Gas (LNG) Transportation Policy based on a note circulated by the Ministry of Surface Transport. In the aforesaid meeting, a Group of Secretaries was constituted to examine all the issues involved in the import of LNG with a view to arrive at an integrated LNG policy for the country.

The recommendations made by the above group of officers were considered by the Committed of Secretaries on 11.10.2000.

Based on the recommendations of the Committee of Secretaries a note on 'An Integrated LNG Policy' was formulated which was taken up by the Cabinet in its meeting held on 27th November, 2001. On consideration, the Cabinet decided to defer the item. Subsequently, there have been developments such as, introduction of Petroleum Regulatory Board Bill, 2002 in Parliament in the Monsoon Session of 2002 and the Ministry of Shipping separately taking action on a revised shipping policy, which necessitated the revision of the note on LNG Policy again. The revised note on an LNG Policy has been sent to the Cabinet in December, 2002 for their consideration."

1.15 The Committee noted the extensive delay in pipeline import initiatives and specifically wanted to know about the trans-national pipeline issues, techno-economic and geo-political considerations involved in each pipeline import initiatives and the reasons of failure in resolving these issues, Ministry of Petroleum and Natural Gas submitted reply as under:-

"In order to bridge the large gap between demand and supply of natural gas, one of the options is to import natural gas through pipelines. Government is examining import of natural gas from Iran, Bangladesh and Myanmar. Import of natural gas from these countries however, depend on trans-national, techno-economic and geo-political considerations which have direct bearing on security of supply of gas. The trans-national pipeline issues involve the route of the pipeline to be covered, tax structure and various mandatory approvals required from the countries through which the gas pipeline would pass through. The techno-economic issues cover the technical feasibility and economic viability of laying such long distance pipeline, including cost and quantity of gas to be imported. The geo-political issues mainly involve the bilateral relationship between the countries and the political situation prevailing in those countries.

The major initiatives for gas import through pipelines are as follows:-

(a) <u>Iran – India gas pipeline project</u>

Under bilateral cooperation, Indo-Iran Joint Committee constituted a Joint Technical Sub-Committee to assist it to explore offshore and onshore options to import natural gas from Iran. As regards the offshore option, the Joint Committee has decided to undertake feasibility study for laying of pipeline from Iran to India. Since this pipeline would be the longest deep-water pipeline passing outside the Exclusive Economic Zone (EEZ) of Pakistan, it would have major technical issues such as pipeline laying, pigging issues, repair intervention issues and other operational issues, impacting the economic viability of the pipeline. The present security environment and relationship between India and Pakistan does not seem to be conducive for considering and onland pipeline project involving Pakistan.

(b) <u>Myanmar – India gas pipeline project</u>

GAIL (India) Ltd. has taken an assignment in Block A-1 in Myanmar offshore along with ONGC Videsh Ltd. (OVL) from Daewoo International Corporation, Korea. The Block was awarded by the Myanmar Oil & Gas Enterprises to Daewoo International Corporation, Korea under Production sharing contract in October 2002. The Block extends over an area of 3885 Sq. Km. off Rakhine Coast in Arakan Offshore in North Western Myanmar close to Bangladesh. The main issues in this case would be the quantity of gas available, pipeline route and other trans-national pipeline issues since the pipeline may pass through Bangladesh.

(c) <u>Bangladesh – India gas pipeline project</u>

A consortium of three Oil Public Sector Undertakings, namely, Indian Oil Corporation Limited, Gas Authority of India Limited and Oil & Natural Gas Corporation Limited ha been formed to participate in any venture for import of natural gas from Bangladesh. The Government of Bangladesh have yet to convey their decision to export natural gas to India. The major issue involved in this case is the internal political situation in Bangladesh as it is understood that there is opposition to such a proposal from certain quarters within Bangladesh. "

1.16 While referring to the latest major gas recoveries, when the Committee specifically enquired whether the Government would like to review their targets of LNG import in view of these recoveries, Ministry of Petroleum and Natural Gas clarified the position as under:-

> "As per the India Hydrocarbon Vision-2025, the demand of natural gas is estimated to be 231 million standard cubic metres per day (MMSCMD) in 2006-07. The current supply is only around 65 MMSCMD. The major gas discovery by the consortium of Reliance Industries Ltd., and Niko Resources Ltd., Canada in the KG-DWN-98/3 block in Krishna-Godavari offshore basin on the East coast is expected to produce 25-35 MMSCMD of gas as per the estimates of the consortium. The expected production by Niko Resources Ltd., from the discovery near Surat on land block-CB-ONN-2002/2 in Gujarat has not been firmed up. Development plans and schedule of commercial production in respect of these discoveries have not been firmed up by the concerned companies.
>
> Despite the additionality in gas supply there will remain a large gap between demand and supply which can only be met by import of natural gas. Hence, Government proposes to continue their policy of encouraging import of LNG in the country."

(d) ***<u>Unfinished targets/objectives of Ninth Plan</u>***

1.17 When the Committee specifically asked about the unfinished targets/objectives of 9^{th} Plan and also enquired about the road map prepared for an early completion of the unfinished targets/objectives, the Ministry of Petroleum & Natural Gas informed as under:-

> "The total Ninth Plan outlay for the PSUs in the Petroleum and Natural gas Sector was Rs. 78, 401 crore against which the actual expenditure of the PSUs was Rs. 50,920.80 crore. In view of the subsequent changes in market conditions and reform measures initiated by the Government in the sector, many of these projects are being subject to review and rescheduled for implementation during the Tenth Plan.
>
> The Government had planned to deregulate natural gas sector by the end of the Ninth Plan. However, due to sharp rise in the international prices putting pressure on fertiliser and power industries, the gas sector deregulation has been deferred to the Tenth Plan.
>
> APM has been dismantled as scheduled on 31.3.2002. However, the statutory regulatory framework was taken up after 31.3.2002. The Petroleum Regulatory Board Bill has been introduced in the Lok Sabha.
>
> Details of these areas are given below:-
> *<u>Exploration and Production</u>*

(a) The targets set for 9^{th} plan for ONGC were largely achieved excepting shortfall in production of crude oil, natural gas and development wells. Keeping the above shortfall in view and also for addressing the medium/long term targets envisaged in India Hydrocarbon Vision 2025, ONGC has prepared a roadmap covering 10^{th} Plan and beyond. The roadmap is built around the following three principal objectives:

- ❖ Intensive exploration in producing sedimentary basins and accelerated thrust to knowledge gathering/exploration in frontier basins and deepwater. Efforts based on upgradation and absorption of technology throughout the value chain from seismic acquisition systems to drilling techniques.
- ❖ Improve recovery from the available initial in-place crude oil in existing fields through development programmes based on innovative technologies and application of best industry practices.
- ❖ Increasingly diversify the portfolio of E&P assets to include more overseas properties.

(b) For OIL, the shortfall during the 9^{th} Plan period was in crude oil and gas production, drilling and reserves accretion. In order to complete the unfinished target particularly in exploration, OIL has made a roadmap for accelerated exploration programme during the 10^{th} Plan taking in to account the analysis of success and failure of operations in the existing concession areas in the country during the 9^{th} plan period. In addition, special thrust is been given to EOR/IOR activities and development of non-associated gas resources.

(c) As regards private and joint venture operations, physical targets are not fixed and they are governed by the respective provisions of the Production Sharing Contracts (PSC) along with time frame provided therein. During the 9^{th} Plan, production of crude oil and gas from private/joint venture companies working under the PSC regime was 17.79 MMT and 15.67 BCM, respectively.

Refining and Marketing

(a) The main objectives of the IX Plan for the downstream oil sector such as (i) greater private sector participation in refining; (ii) creation of adequate domestic refining capacity and improvement in product quality; and (iii) dismantling of APM in a phased manner, were by and large achieved during the 9^{th} Plan., except non-materialisation/re-phasing of certain refining capacity addition/expansion proposals on account of demand slowdown during the Plan period. The feasibility of implementation of these projects during the 10^{th} Plan are being reviewed by the respective companies.

(b) For the improvement of product quality, a number of projects were taken up by the refineries on a continuous basis. In the case of transportation fuels, the Government had set up a Committee under Dr. R.A Mashelkar, DG, CSIR in September 2001 for recommending product quality norms and specifications. Quality improvement projects for implementation in line with the recommendations of the Committee are being taken up during the 9th Plan.

(c) As decided in November 1997, APM was dismantled effective 1st April 2002."

1.18 The Committee referred to the proposal to set up Regulatory Mechanism for downstream as well as upstream sectors and wanted to know about the reason for delay in taking final decision to set up Regulatory Mechanism in upstream sector after receipt of Narad Committee Report in this regard. The Ministry has replied as under:-

"The Ministry has taken a view that the proposal for setting up of Upstream Hydrocarbon Regulatory Board (UHRB) may be examined in light of the progress and development on dismantling of APM and on formation mechanism for the downstream hydrocarbon sectors so that a proper interface could be built between the two regulatory bodies, leaving no scope for any missing link or gap in the discharge of regulatory responsibility. Ministry will examine all the related questions further after the enactment of the Petroleum Regulatory Board Bill, 2002.

However, insofar as regulation of upstream sector is concerned, presently the Government in the Ministry of Petroleum and Natural Gas continues to regulate the upstream sector as provided under the Oilfields (Regulation and Development) Act, 1948 and the Petroleum & Natural Gas Rules, 1959 and various other statutory provisions. The Directorate General of Hydrocarbons (DGH), functioning under the administrative control of MOP&NG, is providing technical advice to the Ministry on exploration and exploitation of oil and gas. DGH is accordingly functioning as chief technical adviser to the Government and not as a regulator for the upstream sector. As of now, the Government is discharging the regulatory functions till regulatory boards for both the upstream and the downstream sectors are put in place. The responsibility of regulation of the sector by the Government is not hampered on account of any delay in formation of UHRB."

(II) Utilisation of Plan outlay by PSUs during the 9th Five Year Plan

1.19 In the original 9th Plan, the Plan outlay for petroleum sector was Rs. 81382.98 crore. It was revised to Rs. 78,401 crore. Out of this only an amount of Rs. 50920.80 crore was spent during the whole Ninth Plan. The utilisation details of plan outlay for the oil companies during each year of 9th Plan are as under:-

Rs. in crore

1997-98	1998-99	1999-2000	2000-2001	2001-02	Total
10140.65	11636.98	10087.83	10136.29	8919.05	50920.80

1.20 The following table shows the outlay and expenditure of PSUs during the Ninth Plan (1997-2002):-

PSU	Outlay	Actual Expenditure	Shortfall
Oil & Natural Gas Corporation Ltd.	20198.75	20189.35	9.40
Oil India Limited	2961.00	2217.60	743.30
Gas Authority of India Limited	6417.95	4531.45	1886.50
Indian Oil Corporation Limited	25488.13	12886.38	12601.75
Hindustan Petroleum Corporation Ltd.	7448.08	3522.78	3925.30
Bharat Petroleum Corporation Limited	6539.90	2691.95	3847.95
Chennai Petroleum Corporation Ltd.	3464.52	1011.72	2452.80
Kochi Refinery Ltd.	2230.00	928.40	1301.60
IBP Company Limited	788.85	618.45	170.40
Numaligarh Refinery Ltd.	1717.90	1975.25	(-)257.35
Bongaigaon Refinery & Petrochemicals Ltd.	754.90	166.20	588.70
Engineers India Ltd.	34.72	39.52	(-)4.80
Balmer Lawrie Ltd.	284.20	133.40	150.80
Biecco Lawrie & Co. Limited	31.70	1.40	30.30
Lubrizol India Ltd.	40.40	6.85	33.55
Total	78401.00	50920.80	27480.20

1.21 Shortfall in Plan Expenditure in Major Projects of Oil PSUs during Ninth Plan period (1997-2002) are mentioned below:-

Sl. No.	Name of the major projects	Plan outlay	Reasons for shortfall
Indian Oil Corporation Ltd. (IOC)			
1	Panipat Refinery expansion	1086	Environment clearance delayed
2	Barauni Refinery expansion	1562	Spillover to X Plan
3	Haldia Refinery expansion	110	Spillover to X Plan
4	Gujarat Refinery modernization	600	Environment clearance delayed
5	JV Refinery in the South	504	Dropped/deferred
6	Paradeep Refinery project - Crude oil pipeline - Marketing terminal	 800 742	 Dropped/deferred Spillover to X Plan
Bharat Petroleum Corporation Ltd. (BPCL)			
1	Mumbai Refinery Modernization	1059	Spillover to X Plan
2	Central India Refinery, Bina	529	Spillover to X Plan
3	DHDS, Mumbai	616	SAVING-project commissioned
Hindustan Petroleum Corporation Ltd. (HPCL)			
1	Punjab Refinery	1296	JV partner not found. Spillover to X Plan
2	LPG Plants	767	Lower LPG demand than projected. Projects reviewed.
3	Visakh Refinery Expansion + DHDS	1034 789	SAVING

Kochi Refineries Ltd. (KRL)			
1	Capacity Expansion	981	Under review
Chennai Petroleum Corporation Ltd. (CPCL)			
1	Refinery Expansion	1998	to be competed in X Plan
Gas Authority of India Ltd. (GAIL)			
1	GREP Expansion	985	Spillover to X Plan.

1.22 When the Committee specifically asked about the reasons for such poor trend of utilisation of Plan outlay by the oil sector PSUs, Ministry of Petroleum & Natural Gas summarized as under:-

> "The outlay for the 9th Plan for the Upstream sector (ONGC and OIL) was Rs. 20198.75 crore against which the achievement is Rs. 20189.37 crore (99.95% of the outlay). For the upstream sector as a whole, there has been a marginal shortfall in the Plan expenditure. While ONGC could meet its Plan target, the shortfall in the case of OIL was mainly due to less than planned exploratory and development drilling largely on account of environmental problems in Assam and Arunachal Pradesh.
>
> The shortfall in Plan expenditure on downstream projects was because of delay in project implementation by the oil PSUs. The factors responsible for the delay during the Plan are: Slowdown of demand for petroleum products, high and volatile international prices causing lower refining margins, withdrawal of joint venture partners in refinery projects of IOC, HPCL and BPCL, pending court cases relating to the Bina Refinery projects of BPCL, delay in finalisation of EPC contract for LNG project of Petronet LNG Ltd."

1.23 The following table shows the company-wise public sector outlay for 10th Plan (2002-07):-

(Rs. in crore)

Company	Plan Period (2002-07)
Oil & Natural Gas Corporation Ltd.	46968.95
Oil India Limited	5000.00
Gas Authority of India Limited	8413.52
Indian Oil Corporation Limited	24399.53
Hindustan Petroleum Corporation Ltd.	7500.00
Bharat Petroleum Corporation Limited	4000.00
Chennai Petroleum Corporation Ltd.	2400.00
Kochi Refinery Ltd.	2500.00
Engineers India Ltd.	0
IBP Company Limited	1783.00
Numaligarh Refinery Ltd.	310.00

Bongaigaon Refinery & Petrochemicals Ltd.	231.00
Balmer Lawrie Ltd.	120.00
Biecco Lawrie & Co. Limited	30.00
Total	**103656.00**

(a) Projects of Oil & Natural Gas Corporation Limited

1.24 During each year of the 9th Five Year Plan, ONGC had shown lower expenditure than the Plan Outlay. The shortfall was mainly due to lower achievements in survey work and drilling (due to environmental and law and order problems), delay in procurement of rigs/computers, less expenditure under capital items. The Revised Expenditure for 9th Plan was Rs. 20198.75 crores where as for 10th Plan it has been kept as Rs.46968.95 crores.

1.25 While going into the details of working of ONGC when the Committee wanted to know about the results of survey and development drilling work done by ONGC during the 9th Five Year Plan, the Ministry of Petroleum & Natural Gas mentioned as under:-

> "During the 9th Five Year Plan ONGC has acquired 67513 GLK of 2D, 678397 LK (24036 Sq. Km.) of 3D, drilled 694 exploratory and 752 development wells. As a result of these activities ONGC has made 39 new hydrocarbon finds and accreted 481.89 MMtoe of in-place hydrocarbons. ONGC produced 129.05 MMT of crude oil (incl. condensate) and 117.205 BCM of gas during the IX-plan"

1.26 When the Committee specifically wanted to know about the projects obtained by ONGC under New Exploration Licencing Policy independently and as Joint Venture and also whether ONGC has established any oil/gas reserve in any of these projects, the Ministry of Petroleum & Natural Gas replied as under:-

> "Under the New Exploration Licensing Policy, ONGC has been awarded a total of 37 exploratory blocks of which 19 are in its own name and 18 are in consortium with other PSUs. Out of the 18 blocks awarded to ONGC in consortium with other PSUs, ONGC is operator in 16 blocks and in 2 blocks, Oil India Ltd. is the operator.
>
> The exploration work by ONGC in blocks awarded under Round-I and II of the New Exploration Licensing Policy (NELP) is progressing as per the work programme committed in the PSC with Government of India. The exploratory drilling will be carried out during the next 2 to 3 years as envisaged in the work programme for assessing the prospectivity. The PSC for the blocks awarded to ONGC under the round-III of NELP has been signed with the Government of India on 4.2.2003."

1.27 In furtherance, when the Committee enquired whether ONGC has enhanced their deep drilling capability in view of new projects obtained under NELP, the Ministry submitted the following facts:-

> "ONGC has been drilling deep wells for many years. The deepest well #JMI-B was drilled by ONGC to 6720 M depth as early as in the year 1987. ONGC owns an onland deep drilling rig E-3000-1 with capability to drill up to 9000 M and another fleet of 16 onland deep drilling rigs to nominal drilling capability of 6000 M besides many other drilling rigs of varied capabilities. In offshore, ONGC owns 10 drilling rigs with capability to drill up to 6000 M.
>
> For deep water area drilling, however, ONGC owns two drill-ships named Sagar Bhushan and Sagar Vijay with water depth capability up to 400 M and 900 M respectively. For operations beyond 900 M water depth, charter hiring of rigs is envisaged, by ONGC."

1.28 The Committee noted that in the current scenario their hopes are on reservoir in ultra deep sea area and drilling in this area for discovering the deposit is very difficult and expensive also. technology and expertise which is required is not available in the country. The international companies like Enron, Shell etc. charge very high prices for doing these jobs and they also demand a share of production. In the same context, when the Committee referred the negotiations between Indian and Norway for an alliance for deep sea drilling and wanted to know the reasons for adopting the bidding process when there was an offer from the Norwegian Stat Oil Company. Secretary in the Ministry of Petroleum & Natural Gas clarified the position as under:-

> "The factual position is that when we have agreements amongst countries there is a broad level of agreement that we would collaborate and we would co-operate in this area of exploration, in refining and others. But there is never an understanding that we will buy or sell this product at a specified price. We have to benchmark the price against international norms and international markets. Only in case of domestic PSUs like BHEL and PSUs that are under the Ministry of Heavy Industry we give them on nomination basis because they are our own PSUs and we are promoting them. They are the only ones whom we give on nomination basis. We do not, as a policy, give on nomination basis to countries outside India. It is because it is very difficult to assess in such large contracts as to what is the benchmark price. Even if they are well negotiated between the two, we are not in a position to say this is a proper price. Therefore, the when the matter was discussed in the Board of ONGC, the hon. Finance Minister raised this issue of benchmark price and said that is a must and we must, therefore, have an international bidding. Accordingly the ONGC has gone in for this. We have explained this position to the Norwegian Ambassador and also to their Foreign Minister when he visited our country saying that we are not in a position to give the contracts just like that for a huge value contract that are around Rs. 2000 to Rs. 3000 crore without any tender and without any benchmark. This is one reason. This one reason why the ONGC

is going in for international bidding. We do realise that Stat Oil is a very important player in the market and that they have good technologies. Before taking a final view they would definitely consider their offer also.

1.29 When specifically asked about the performance of Joint Venture production sharing contracts of ONGC, the Ministry of Petroleum & Natural Gas submitted the following details:-

"ONGC is the operator in respect of 35 blocks awarded to it either on its own or as a consortium partner in the first three rounds of NELP. In the remaining two blocks awarded under NELP to ONGC as consortium partner, OIL is the operator. The implementation status of the work programme is given below:-

NELP-I : The minimum work programme commitment vis-a-vis. the achievement during phase-I in the 8 blocks awarded to ONGC under NELP-I is as follows:

	MWP COMMITMENT- PHASE-1			**ACHIEVEMENT AS ON 1.1.2003**		
	2D (LK/GLK)	**3D (Sq.km.)**	**Wells**	**2D (LK/GLK)**	**3D (Sq.km.)**	**Wells**
TOTAL FOR 8 BLOCKS	8400	250	2	8751	252	-

As per the committed Phase-I work programme, one well each is to be drilled in two blocks (MB-OSN-97/4 and KK-OSN-97/3). Phase-I of these two blocks is expected to be completed by May-2003 and these wells will be drilled by that time.

NELP-II: The minimum work programme commitment vis-a-vis. the achievement during phase-I in the 15 blocks awarded to ONGC as operator are as follows:

	MWP COMMITMENT PHASE-1			**ACHIEVEMENT AS ON 1.1.2003**		
	2D (LK/GLK)	**3D (Sq.km.)**	**Wells**	**2D (LK/GLK)**	**3D (Sq.km.)**	**Wells**
TOTAL FOR 15 BLOCKS	20860	9000	25	18906	8961	-

The work programme in the 15 PSCs under NELP-II is progressing as per the time frame and commitment given in respect to PSCs.

The PSC for the blocks awarded to ONGC under the round-III of NELP has been signed with the Government of India on 4.2.2003."

1.30 During the course of discussion on various projects of ONGCs, the Committed wanted to know the current status of Mumbai High Development Projects and also the road map and expenditure pattern chalked out in this regard. The Ministry submitted the following details:-

"The redevelopment project of Mumbai High North and South were launched in January 2001 and October 2001 respectively. The salient features of these projects are as under:

Mumbai High North:

The Redevelopment Plan for MHN LIII Reservoir envisages an incremental oil and gas production of 24.8 MMt and 5.85 BCM respectively by the year 2030. The expected oil recovery up to March 2030 is 30.67%.The inputs considered are, installation of four nine slot platforms ,installation of one process platform with water injection and gas compression facility and drilling of 73 new wells. The capital expenditure envisaged is Rs. 2929.4 crores. The project was approved by the competent authority on 16.12.2000.

Expenditure Pattern *(Rs. In Crore)*

2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
58.38	428.29	972.15	936.32	376.10	158.26

As on 01.01 2003, 22 new wells have been drilled and an average production level of 76152 Barrels of Oil Per Day (BOPD) has been achieved in December,02.

Mumbai High South:

The Redevelopment Plan for MHS LIII Reservoir envisages an incremental oil and gas production of 35.96 MMt and 9.63 BCM respectively by the year 2030. The ultimate recovery being 33.54%. The inputs considered are installation of 17 new well platforms,. one process complex and drilling of 144 wells. The total envisaged capital expenditure is about Rs. 5256 crore. The project was approved by the competent authority on 16.10.2001.

Expenditure Pattern(Rs. In Crore)

2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
12.79	343.67	1186.45	1271.65	1067.68	887.59	486.16

As on 01.01 2003, 20 new well have been drilled and an average production level of 150,709 BOPD has been achieved in December,02.

Progress Of Engineering Projects:

Work awarded for new process complex MNW (Rs.821.19 Crore), N-11 & 12 production platforms(Rs.411.63 Crore) under MHN Redevelopment. Drilling from ZA platform of MHS is in progress. Significant progress has been made on other key engineering projects of MHS redevelopment namely new process complex MSP , new production platforms ZB, FJ-1, PO-2 and PO-06 costing approximately Rs.1014 and Rs.679 Crore respectively.

Road map to redevelopment of Mumbai High Redevelopment:

The Redevelopment Projects of MHN and MHS are in the initial ph ase and entering to the phase of facility installation and drilling of large number of wells. The innovative aspect of redevelopment project is its dynamism, viz,experimenting with new technologies such as Horizontal Wells, Multilateral Wells, High angle wells, Extended Reach Drilling Side Track of poorly performing wells ,Selective stimulation, Dual Gas lift Completions , Redistribution of water injection, etc. Enhanced Oil Recovery pilot Projects like (1) High Pressure Air Injection (PAI) and (2) SWAG are being implemented in the field to take the recovery factor to higher level.

The field results and achievements with respect to establishment of emerging technologies are encouraging. The results obtained so far have also demonstrated new opportunities in the brown field redevelopment along with the green field development. Based on the success of these experiments and updation of sub surface data the deviations/ modifications are being incorporated in the scheme . The outstanding achievement of the redevelopment projects of Mumbai High is achieving a record oil production of about 260,000 BOPD on March 3 ,2003 , a rate achieved nearly five years ago."

1.31 ONGC's all activities in Nagaland including produce of oil and gas are discontinued since April-May 1994 due to environmental problems. While referring to the efforts being made for improving the situation when the Committee specifically wanted to know about the actual hurdles to reach a conclusive negotiation between the Central Government and the State Government of Nagaland for starting the projects of ONGC in Nagaland, the Ministry of Petroleum & Natural Gas submitted the following facts:-

"The exploration and production activities of ONGC were discontinued in the State of Nagaland since April-May, 1994 due to environmental problems. The State Government of Nagaland have been demanding the following:

(i) ONGC should offer certain percentage of carried interest to the State Government (i.e. State owned company) in the blocks offered under the New Exploration Licensing Policy (NELP).

(ii) Profit Sharing on 50:50 basis between Central and State Government from blocks from where oil and gas would be produced under the Production Sharing Contracts (PSCs).

(iii) Grant of an"add-on" over and above the normal rate of royalty to Nagaland on production of crude oil in the State.

With a view to resolve the above matter, there have been series of consultations with the State Government. Meetings were held with senior level officers of Nagaland on 12.6.1999, 6.4.2000, 7.6.2000, 6.10.2000, 12.3.2001, 26.4.2001 and 4.12.2002. In the meeting held on 4.12.2002 between Ministry of Petroleum & Natural Gas and the State Government of Nagaland, the outstanding issues were discussed and both sides are taking necessary measures to resolve these issues.

As a result of the ongoing discussion with the State Government of Nagaland, a number of positive development have been taken place. These, inter alia, include receipt of concurrence of Nagaland to the NELP, an assurance by the State Government to extend all possible cooperation including congenial working environment and assistance in developing the oil & gas reserves in the State etc. The Government have recently announced a New scheme of royalty on crude oil. A Resolution to this effect has been published in the Gazette of India on 17.3.2003. In the new scheme of royalty, the Government have announced a special grant of 2% over and above the rate of royalty in respect of Nagaland. These are some of the positive developments which would pave the way for resolution of problems in the way of exploration and production activities in the State of Nagaland."

1.32 During evidence this issue came up for discussion when the Committee wanted expediency and transparency in resolving the issue of production of oil and gas in Nagaland, Joint Secretary in the Ministry of Petroleum & Natural Gas described the initiatives taken by the Government as under:-

"In fact we have been having dialogues from 1999 with the Nagaland Government. The ONGC has been having dialogues with the Naga Students Union and with the villagers. In Nagaland because of the Constitutional position, each village has its own existence vis-à-vis the State Government. I think that is something unique in the country. Now, the interest groups are many. We have got the students, we have got the State Government, we have the villagers, and then we have the NSCN, which has two factions. The main problem is if it were only exchange of letters it could have been solved long ago. In fact, I remember the Chief Ministry of Nagaland had given the confirmation and the Minister thanked him. Every year we are coming to certain conclusions. But the ground situation is that the ONGC has to work in jungles. They have to go to remote areas and even though they are protected by CISF, still there are problems. In Assam last year there was an attack by some underground outfits on ONGC convoys. In Tripura also it happened last year. Unless the security is guaranteed, this cannot be taken up. We have to work with drilling machines which are worth crores of rupees. Rs. 100 crore worth of equipments were destroyed in 1994. So, these are the perplexing problems at various levels. In fact, to be very frank, last Government had come to some via media. But since the new Government had come again we will be talking to them. It is indeed taking time. But then it would be preferable rather than repeating the 1994 experience. We will go a bit slow and take all the sections with us. Through the extra royalty the Government has shown some practical gestures. The Nagas were saying show us that you care. We have shown them that we do care. We have given that extra percentage, we are hopeful that in the month s to come some solutions will emerge."

1.33 The Committee observed that in the Post-APM era, ONGC has been selling oil at international rates. Moreover, cess on National Oil Companies has also increased from Rs. 900 per tonne to Rs. 1800 per tonne and wanted to know the impact of above changes on the profitability of ONGC. The Ministry submitted the following facts and details:-

"ONGC's estimated profits after taxes have increased from Rs.4,552.66 crore for the period April-December 2001(APM period) to Rs.6,850.85 crore during the period April-December, 2002(Post APM period). This increase of about 50% is mainly due to payment of higher crude prices to ONGC by Refinery Companies.

Since the crude price receivable by ONGC post APM would be market determined and since in the international market crude oil prices have shown a considerable volatility in the last few years, the profitability of ONGC post APM may not be extrapolated on long time horizon Post APM. Further, Government have recently announced a new scheme of royalty with effect from 1.4.1998 which would impact to some extent the profitability of ONGC for the periods quoted above when the royalty payments are made. Similarly, figures for cost of production and payments of other taxes can be reckoned after finalisation of accounts for the year 2002-03."

1.34 The Committee went into the details of the projects of ONGC Videsh Limited and wanted to know about the current status of the overseas projects obtained by them. Moreover, the Committee also wanted to know about the quantity of oil and gas they expect from each such project during each year of 10th Five Year Plan. Ministry of Petroleum & Natural Gas submitted as under:-

"ONGC Videsh has acquired Sakhalin-I Project which is scheduled for oil production from the end of 2005. The development activities in the project are in progress for creation of infrastructure for processing, storage and transportation and drilling of oil wells. The crude oil production from the project is scheduled to begin by the end of 2005 at the rate of 250,000 barrels per day(12.5 Million Metric Tonne per annum). ONGC Videsh's equity share would be 50,000 barrels per day (2.5 Million Metric Tonne per annum). Considering that ONGC Videsh is financing the equity portion of Russian oil companies, their share of oil is also available to ONGC Videsh. Thus, oil security of about 100,000 barrels per day (5 Million Metric Tonnes per annum) would be available to ONGC Videsh.

The projects in Sudan and Vietnam are already on production. Sudan Project is currently producing over 12 million tons per annum of oil where, equity share of OVL shall be about three million tons per annum. The gas production in Vietnam is in progress and the cumulative target for the 10th Plan period for the project is 12 billion cubic meters of gas, where OVL holds 45%. In addition to above, the exploration projects in Iraq, Iran, Libya, Myanmar and Syria are in different stages of implementation. Being exploration projects and the outcome being probabilistic, the production will be dependent upon the extent , size and commerciality of the discovery."

1.35 In response to specific query of the Committee whether ONGC Videsh Ltd, has prepared any strategic plan to secure more equity oil and gas, the Ministry of Petroleum & Natural Gas replied that the strategic plan for equity oil and gas has been spelt out in the India Hydrocarbon Vision-2025. Keeping this in view, OVL has drawn up the 10th Plan wherein an investment of Rs 13,550 crore has been planned. The 10th Plan would be continuously reviewed and fine-tuned with time, keeping in view global geopolitical developments.

1.36 In response to specific query of the Committee about the major projects for which the plan outlay for Tenth Plan has been kept on such higher side, the Ministry of Petroleum & Natural Gas replied as under:-

"A comparative table indicating item-wise break up of actual expenditure incurred during the 9th Plan and the projected outlay for the 10th Plan by ONGC is given below:

(Rs Crore)

	9th Plan(Actual)	**10th Plan(Proj)**
Survey	1771.00	1719.14
Exploratory Drilling	5348.29	6931.24
Development Drilling	3922.06	8145.56
Capital Projects & other capital	6739.03	12622.65
R&D Institute	661.37	1323.85
EOR Pilots		1498.75
R&D Wells		300.00
CBM	31.01	209.47
Joint Venture	1516.60	668.29
Overseas E&P	200	13550.00
TOTAL	20189.36	46968.95

It can be seen from the above table that the major areas of utilization of funds has been increased in Development Drilling, Capital projects & other capital, R&D (including EOR pilots and R&D wells) for domestic activities. For overseas E&P activities, a significant allocation of Rs 13,550 crores has been provided during the 10^{th} Plan for strategic thrust for obtaining equity oil and gas.

Among the developmental schemes to be completed /executed during the 10^{th} Plan, Mumbai High North & South redevelopment, Gandhar & Heera IOR, Mumbai high- L-III and S1 development , Small & Marginal Field development and development of New Finds have significant outlay during the 10^{th} Plan."

1.37 The Committee observed that during the first year of Tenth Plan (2002-03) the Revised Estimates for ONGC was increased to Rs. 14644.94 crores against Budget Estimates of 8973.31 crores. Against this, during April to December 2002 an expenditure for Rs. 3269.34 crores has only been made and sought the justification for steep hike at revised estimates stage and very poor expenditure during first nine months of the first year of current plan. Ministry of Petroleum & Natural Gas clarified the position as under:-

"The total Plan Outlay of ONGC in Budget Estimate(BE) 2002-03 was Rs. 8,973 crore. The total investments for overseas operations and for acquisition/ diversification/ enhancement of business interest were envisaged to be increased from Rs. 1,565 crore in the BE 2002-03 to Rs. 7,502 crore in Revised Estimates 2002-03. However, the Plan Outlay for ONGC's own domestic activities was marginally moderated from Rs. 7,408 crore in Budget Estimates 2002-03 to Rs. 7,143 crore in Revised Estimates 2002-03.

The actual Plan Expenditure during the first nine months of the first year of current Plan (2002-03) was Rs. 3,269 crore towards ONGC's own domestic activities and Rs 1,383 crore for Overseas ventures. Major reasons which have led to slower utilization of Plan Budget than envisaged for ONGC's own activities during 2002-03 up to Dec'02 are delay in major acquisitions of Seismic units, Logging Units and Workover rigs and deployment of Contractual Seismic Vessels, non deployment of Offshore Charter hire rigs and phasing of major expenditure for plan schemes in the 4^{th} quarter.

In the 4th quarter up to 14.03.2003, an additional Rs 3872 crore has already been spent for overseas acquisitions and for stake in MRPL. Furthermore, funding support of Rs. 600 to Rs. 1,000 crore shall be provided to MRPL by the end of March, 2003. Further, the tempo of domestic investment has also picked up in the 4^{th} quarter."

(b) ***<u>Projects of GAIL (India) Limited</u>***

1.38 As against the revised plan outlay of Rs 6417.95 crores approved by the Planning Commission, the expenditure during Ninth Plan was Rs 5431.45 crore. This shortfall was mainly due to delay in approval of projects and grant of licences. The Committee noted the shortfall between appraisal & expenditure and wanted to know about the status of each delayed project of 9th Plan. The Ministry of Petroleum & Natural Gas submitted the following details:-

> "The Approved Ninth plan Outlay in respect of GAIL was Rs.6417.95 crore. Against this, the actual expenditure was Rs.5087.74 crore including Rs.556.29 crore made for cross holding in ONGC.
>
> The status of the delayed projects of GAIL is given below:-
>
> *(Rs.in crore)*

Schemes	9th Plan Outlay	Actual expenditure	Reasons & action taken
Dadri Bawana Pipeline	82	0	The location of the proposed power plant was shifted from Bawana to Indraprastha. The project has since been completed at a cost of Rs.3 crore.
Power plants in Joint venture	400	21	Rs.20.76 crore paid as equity contribution for participation in GSEG power project in July 2001. Others yet to materialize.
LNG East Coast	200	0	The project is being implemented by IOC
GREP Expansion	985	5	Expenditure linked to commissioning of Petronet LNG Ltd's terminal at Dahej now expected to come up in 2003-04
LNG Petronet equity investments	200	37	There has been delay in awarding EPC contract by Petronet resulting in lower capital expenditure"

1.39 The Committee further wanted to know the present status of the feasibility study for laying an offshore natural gas pipeline from Iran to India. The Ministry of Petroleum and Natural Gas submitted the following status report in a written reply:-

> "The feasibility study for a deep water gas pipeline from Iran to India has been undertaken under a bilateral initiative between Government of India and Government of Islamic Republic of Iran to develop gas sector cooperation between the two countries. As per the bilateral understanding the cost of the feasibility study is to be equally shared between GAIL and National Iranian Oil Company (NIOC). The contract for engineering and consultancy services was awarded to Snamprogetti-Saipem of Italy in May, 2001 and according to this, the study was expected to be completed by September, 2002. The above schedule included completion of marine survey by May, 2002.
>
> The Marine Survey started in March/April, 2002 and was expected to be completed by July, 2002. Till date out of four tasks in the scope of work, Task-I (Bathymetric), Task-II (High Resolution Seismic) and Task-IV (Coring Water Samples) have been completed and Task-III (Routing) remains to be completed.

The Marine contractor – M/s Gardline Surveys, U.K. lost their Survey Vessel offshore Iran during the month of July, 2002, due to an onboard accident as a result of which Task-III could not be completed. The overall schedule of work was also affected due to the need for additional work which arose following onboard interpretation of data, onset of monsoon, delays in obtaining permission from respective authorities in India and Oman and certain payment delays by NIOC. Efforts have been continuing to examine various alternatives for completion of Task-III and problems have been indicated by some of the international survey companies on account of US sanctions on Iran as a result of which specific underwater equipments required for Task-III are not available.

Based on initial information obtained from potential survey companies, it appears that Task-III can only be performed after the monsoon season (October 2003 onwards) in 2003 and it may cost about US$ 5 million. This would also mean that the engineering consultant would be in a position to give the report only by March/April, 2004. The study is already delayed and further delay of above magnitude is difficult to accept. After taking stock of the current situation NIOC is now proposing that it would be advisable to complete the feasibility study without acquiring the information contemplated under Task-III. The Engineering Consultant and DNV-Norway (Certification and Verification Agency), are of the view that non availability of 'Task-III' information may not adversely impact the overall results. The Task-III can be performed later on for route detailing in case the project is found to be techno economically viable and taken up for implementation.

Joint discussions between GAIL, NIOC as well as the consultancy companies are being planned sometime during April, 2003 to decide further course of action so that the feasibility study is completed at the earliest. In case it is finally decided to complete the feasibility study without any further marine survey, the feasibility study is expected to be completed by August, 2003."

1.40 When the Committee specifically asked about the new projects proposed to be undertaken during 10th Plan period by GAIL (India) Ltd., the Ministry submitted the following details:-

"The Tenth Plan outlay for GAIL, as approved by Planning Commission, is Rs.8413.52 crore, of which Rs.7500 crore is for schemes in the petroleum sector and Rs.913.52 in the petrochemical sector. The details of major schemes are as given below:-

(Rs. in crore)

S. No.	Schemes	X Plan
1	HBJ Expansion (Pipeline from Dahej to Vijaipur and Compressors at Vijaipur-Phase I	2600.73
2	LPG Pipeline (Vizag-Secunderabad)	461.24

3	LPG Pipeline (Mangalore-Coimbatore)	562.84
4	Business Development Projects	257.75
5	North South Gujarat pipeline project	390.00
6	Kochi Regasified LNG Pipeline	756.47
7	Dahej Hazira Uran Dabhol pipeline network	430.00
8	Other (Petroleum)	2040.97
	Total Petroleum	7500.00
9	UPPC Expansion	805.00
10	Others (Petrochemical)	108.52
	Petrochemical	913.52
	Total X Plan	8413.52

In pursuance of Supreme Court's directive, GAIL had undertaken Detailed Feasibility Studies for examining the viability of establishing CNG networks in 7 cities, viz. Kanpur, Agra, Faridabad, Patna, Pune, Lucknow and Varanasi as these cities are heavily polluted by vehicular emission. Out these, establishment of CNG networks in Agra, Kanpur, Lucknow, Pune and Faridabad is found to be viable. These projects will be undertaken during the 10th Plan at an estimated cost of Rs.554.24 crore."

1.41 The Committee noted that gas transmission and distribution forms the bulk of GAIL business today followed by gas processing for LPG production and production of petrochemicals. They have entered into telecom sector also. Moreover, in the field of exploration and production, they have obtained eight blocks under NELP-I and NELP-II.

1.42 The Committee specifically enquired about the objectives of entering into such diversified fields of business particularly when GAIL has been recognized by the Govt. as flagship company in gas sector. The Ministry of Petroleum and Natural Gas submitted a categorical reply justifying their business diversification:-

"GAIL was set up by Government of India to undertake all activities - post exploration and production - for transmission, distribution, marketing and processing of natural gas. GAIL has successfully played this role since its inception. GAIL is a midstream company and was sourcing gas from ONGC, OIL and other Indian Private and foreign companies operating in India. Under the Government Policy, whereby Government of India had the first right of refusal for marketing of gas, domestic gas supplies became available to GAIL. Accordingly GAIL developed infrastructure and facilities in different parts of the country, where gas is produced, to ensure the best utilization of domestically produced gas.

With the liberalization of hydrocarbon sector the scenario has undergone radical changes. Under New Exploration Licensing Policy (NELP) as well as Coal Bed Methane (CBM) Policy, the Indian Upstream PSUs, Indian Private and foreign companies can market gas directly and can also develop associated infrastructure. In other words, the mechanism of gas supplies coming to GAIL, as in pre-NELP period, does not exist now and GAIL is facing competition from multiple players to develop pipeline infrastructure and market gas. Similarly, there is no long term gas supply contract between ONGC and GAIL; however, efforts are under way to enter into such contractual agreement.

Gas imports, either as LNG or through pipelines, are under Open General License (OGL) and therefore, companies are free to import and market gas. There are a number of initiatives by Indian and foreign companies to develop LNG import facilities as well as pursue cross border gas pipelines for supplies to Indian markets.

Thus, though GAIL has been recognized as a strategic PSU and flagship company in gas sector, GAIL's growth is constrained by its position as a midstream company and the freedom for marketing of gas, either domestic or imported, provided under various policy formulations of Government of India.

It is with the objective of securing long term growth, GAIL has undertaken synergetic diversification, which would support GAIL to grow in its areas of core competence as well as build further expertise thereon. It is critical for GAIL to improve its gas supplies portfolio, which would enable it to expand in its traditional market as well as develop new gas markets. Towards this objective, GAIL is participating in the LNG projects, Exploration and Production blocks and would participate in CBM bidding round. Even in E&P area, the company's strategy, so far, has been to focus on sedimentary basins with high probability of gas discoveries.

In its globalization efforts also GAIL is focusing on gas supply sources from where gas can be supplied to Indian markets in a cost effective and secure manner.

Besides, GAIL has diversified into Telecom Sector to leverage its Optical Fibre Cables (OFC) system, which is already available on its cross country HBJ gas pipeline and Jamnagar Loni LPG pipeline. GAIL uses OFC on these cross country pipelines for supervision and control to ensure uninterrupted safe operations. GAIL's entry into this sector was also based on the National Telecom Policy of 1999, wherein GAIL was identified as one of the backbone service provider. The objective in entering the Telecom Sector was to create additional value for the company using bulk of the assets which were already available along the pipelines and which had some slack capacities to be leased out to telecom industry."

1.43 When asked about the expertise available with GAIL to undertake these activities and the way in which they would manage the funds for these purposes, the Ministry replied as under:-

"GAIL has been predominantly following the route of synergetic diversification to further utilize its core competence as well as leverage its core competence to other related sectors. As regards exploration and production, GAIL has made a cautious entry and taken the role of non operator. It has created an E&P team involving top Ex-ONGC officials, GAIL's own employees with past association with upstream sector companies in India, recruitment of geo scientists and setting up of hardware facilities for geo technical studies. This effort is continuing. Besides the above, certain specialized studies are being out sourced to assist in the decision making process. As GAIL is at an early stage of diversification, the fund requirement is not much and can be well accommodated within its internal resources. The deployment of major funds continues to be on the core areas of business.

The proposed investment in NELP activities and telecom sector as per the approved Tenth Plan outlay is Rs.182.91 crore and Rs.311.69 crore respectively. The funds will be met through internal resources of the company."

(c) ***Projects of Indian Oil Corporation Ltd.***

1.44 As against the approved outlay of Rs 25488.23 crore during 9th Plan, the expenditure of IOCL was Rs 12886.39 crore only. During every year of 9th Plan there was a huge shortfall :-

Year	Variation(Rs Crore)
1997-98	585
1998-99	406
1999-2000	761
2000-01	1500
2001-02	3290

1.45 When the Committee specifically enquired about the reasons for such poor utilization of plan outlay during each year of 9th Plan and huge shortfall even after revision of estimates every year, the Ministry submitted the following justification:-

"As against original approved outlay of Rs.25,488.13 crore for IX Plan, the actual expenditure was Rs.12,886.39 crore (51%). The main reasons for this are:

a) 5 major projects (Paradip Refinery, Panipat Refinery expansion, Residue Upgradation (RDS/ RFCC) at Gujarat Refinery, PX/PTA at Panipat & Crude PPL) are under review due to lower than expected demand growth. Of these, Panipat Refinery Expansion & PX/PTA at Panipat were later approved after a review in Jan'02 & Oct'01 respectively.
b) Marketing projects linked to New Refineries/Pipelines getting shifted as per shift in completion schedule of linked Refineries/Pipelines projects.
c) Rescheduling of completion of Quality Improvement projects as per road map of Bharat Stage-II and III. These include New DHDT at

Mathura, MS Quality Improvement at Mathura, Panipat, Haldia, Barauni & Gujarat.

Factors such as low growth demand and volatility in oil prices leading to low refinery margins were not under control of the oil companies."

1.46 In the same context, when the Committee specifically wanted to know about the projects of IOCL being continued during 10th Plan period and the cost/time over-run involved in each case, the Ministry of Petroleum and Natural Gas submitted the following reply:-

"The 10^{th} plan outlay for IOC is Rs.24,399 crore which constitutes mostly continuing schemes i.e. spillover, of the project outlay of the 9^{th} plan period. The new schemes in 10^{th} plan constitute only about 7% on overall outlay.

The major projects continued during 10^{th} plan are as follows. Their costs overruns are within 10 % the of approved costs.

Project	Approved cost (Rs. in crores)	Approved date of commissioning	Actual/ anticipated date of commissioning	Reasons for cost/time- overrun, if any
Barauni Refinery Expansion Project	1803	May.'02	Dec.'02 (since commissioned)	Delay was because of slow progress by LSTK contractor M/s BHPV, a PSU, due to their financial problems. IOCL provided financial & other assistance for expediting completion of project.
Hydrotreater at Guwahati	497	May.'02	Dec.'02 (since commissioned)	Delay was due to problems faced during commissioning
Catalytic Dewaxing Unit at Haldia	422	Apr.'02	Mar.'03	Delay is due to : (a) Initial delay of 6 months in receipt of Environmental Clearance. (b) Delay in delivery of High-pressure heat exchangers by LSTK contractor and due to quality problems in long neck flanges. (c) Evacuation of foreign experts during tense Indo-Pak border situation in Jul.'02. (d) Emergency shutdown of HGU on 8.2.03 while CDWU commissioning activities were going on.
Solvent Dewaxing unit at Digboi	419	Nov.02	Apr.'03	The project was mechanically completed ahead of schedule. During the commissioning activities of the plant in the month of Aug.'02, process design deficiencies were noticed, and the plant could not be commissioned. The modifications suggested by the Licensor, required for

				commissioning of the plant, are expected to be completed by Apr.'03.
Diesel Hydrotreater at Digboi	343	May.'02	May.'03	Slow progress by LSTK contractor M/s BHPV, a PSU, due to their financial problems IOCL provided financial assistance for expediting completion of project.
Linear Alkyl Benzene at Gujarat	1248	Mar.'04	Aug.'04	Delay in award of LSTK contract due to change in product specifications to meet customer requirements & higher prices quoted by LSTK bidders resulting in several rounds of negotiations.
Diesel Hydroteatment facilities at Mathura	926	Sep.'04	Dec.'04	The anticipated completion is based on completion time agreed by LSTK bidders.
MS Quality Upgradation Facilities at Mathura	557	Aug.'04	Jan.'05	Higher prices quoted by LSTK bidders resulting in several rounds of negotiations as also higher completion time required by LSTK contractors against estimated duration.
PX/PTA Project at Panipat	5,104	Aug 04	July 05	Delay of 11 months is anticipated as – Some of Licensor- nominated LSTK agencies regretted their inability to quote and more agencies were inducted to enhance competition LSTK bidders insisted on completion time of 28+2 months for of the PTA package against 22+2 months planned Decision was taken to re-site the project in Panipat refinery complex for improving its economics.

1.47 When asked about the present status of Paradeep Refinery Project of Orissa, the Ministry submitted as under:-

"Basic design for process units has been completed and acquisition of approx. 3,347 acres of land completed. Pre-project works like dredging & reclamation, bridges across Santra creek and approach road from National Highway-5A have been completed. Balance infrastructure works like railway over-bridge, boundary wall, roads & drains, buildings like site office, canteen and gate complex are in progress.

As per the original Government approval, the Paradip refinery project was scheduled to be completed within 48 months from 14.7.1998, the date of

Government approval. However, because of the withdrawal of the tax incentives and their subsequent part restoration by the Orissa Government, the original schedules could not be adhered to. The project schedules are under review by the Indian Oil Corporation Limited (IOCL).

The Orissa Government have partly restored the state sales tax incentives. The revised state sales tax incentives amount to about 32% of the incentives approved earlier. IOC and the Government have taken up with Orissa Government for full restoration of the state sales tax incentives granted earlier."

1.48 The Committee referred to their discussion with the Orissa Government in October, 2002 during their visit to Bhubaneshwar and specifically wanted to know whether the Orissa Government is cooperating in restoring the tax incentives as per requirement of IOCL. The Ministry submitted the categorical reply as under:-

"The Orissa Government have partly restored the state sales tax incentives. The revised state sales tax incentives amount to about 32% of the incentives approved earlier. IOC and the Government have taken up with Orissa Government for full restoration of the state sales tax incentives granted earlier. A comparison of the incentives initially granted by the State Government and the restored incentives, in a tabular form, is enclosed.

S. No.	Incentives granted initially	Incentives included in the revised package offered on 20.7.2001	Financial loss	Remarks
1.	Exemption/ deferment from Orissa Sales Tax for product sales in Orissa for 11 years. Based on Net Present Value (NPV) @12%, incentive on account of Orissa Sales Tax works out to be approx. Rs.3,996 crore	For a period of 11 years from the date of commercial production, IOC will issue bonds in favour of the Government with 7 years maturity period with 5% coupon rate yielding regular return.	The revised package offers a concession of Rs.1291 crore which amount to 32% of the originally approved incentive.	Statutory notification not yet issued
2.	Exemption/deferment from Central Sales Tax (CST) for products sales ex-Paradip Refinery in States other than Orissa for 11 years -	CST for finished products will be allowed for 30 years.	Impact of CST on finished products not taken into account because:- As a part of ongoing sales tax reforms, CST is planned to be abolished CST is chargeable on actual sales. However, IOC would be	This concession has no financial benefit for IOC.

			normally indulging in "stock transfer" across states. As such they would not gain significantly.	
3.	Exemption of Entry tax on crude oil for 5 years	Restored	At NPV @ 12%, financial impact Rs.57.3 crore	Statutory notification not yet issued.
4.	Exemption of entry tax on project material	Restored	At NPV @ 12%, financial impact Rs.54 crore	Statutory notification not yet issued.
5.	Exemption from works contract tax during construction of refinery	Restored	At NPV @ 12%, financial impact Rs.63 crore	Statutory notification issued
6.	Exemption of Orissa Sales Tax on purchase of materials/ equipment for 11 years from date of commissioning –	Restored	At NPV @ 12%, financial impact 22 crore	Statutory notification issued
7.	Exemption from Electricity duty on Captive Power Plant for 5 years from the date of commissioning –	Restored	At NPV @ 12%, financial impact 22 crore	Statutory notification not yet issued
8.	Concessional supply of Water during construction & operation of the refinery.	Not restored	At NPV @ 12%, financial impact 2 crore	

- The Ministry of Petroleum and Natural Gas approached the Chief Minister Orissa for restoration of the original tax concession vide letter dated December 5,2002.
- The revised package offers concession of Rs.1291 towards exemption/deferment from Orissa sales tax for product sales in Orissa for 11 years. This amounts to 32% of the originally approved tax concession.

The total incentives approved by Orissa Government originally under IPR-96 were estimated to be worth Rs.4039 crore. The revised total package works out to Rs.1515 crore, which is approximately 37.5% of the original value approved."

1.49 In response to pointed query of the Committee whether IOC propose to complete his project by the end of the Plan, the Ministry replied as under:-

"The project is presently under review by the Board of Directors of IOC for finalization of its implementation schedule and methodology. Keeping in view the demand supply projections of petroleum products in the country and revised project cost, completion of the project is likely to spill over beyond the Xth Plan."

The present installed capacity of IOC refineries is as under :

REFINERY	**Installed Capacity MMTPA, as on 1.04.2002**
GUWAHATI	1.000
BARAUNI	4.200
GUJARAT	13.700

HALDIA	4.600
MATHURA	8.000
DIGBOI	0.650
PANIPAT	6.000
IOC Total	38.150

Refinery-wise installed capacity, crude throughput and capacity utilisation during last three years and during Apr'02-Feb'03 are tabled below:-

(in MMT)

REFINERY	1999-00			2000-01			2001-02		
	Capa-city	Act Crude t'put,	% Capa-city utili-sation	Capa-city	Act Crude t'put,	% Capa-city utili-sation	Capa-city	Act Crude t'put,	% Capa-city utili-sation
GUWAHATI	1.000	0.914	91.4	1.000	0.707	70.7	1.000	0.656	65.6
BARAUNI	3.300	3.411	103.4	3.520	3.122	88.7	4.200	2.876	68.5
GUJARAT	9.500	11.112	117.0	13.385	12.004	89.7	13.700	11.696	85.4
HALDIA	4.600	4.105	89.2	4.600	3.873	84.2	4.600	4.024	87.5
MATHURA	7.500	8.126	108.3	7.870	7.133	90.6	8.000	8.031	100.4
DIGBOI	0.650	0.603	92.7	0.650	0.679	104.4	0.650	0.653	100.4
PANIPAT	4.800	4.152	86.5	6.000	5.707	95.1	6.000	5.822	97.0
IOC Total	31.350	32.423	103.4	37.025	33.225	89.7	38.150	33.758	88.5

	2002-03 (Apr'02-Feb'03)		
REFINERY	Pro rata Capacity MMT	Act Crude t'put, MMT	% Capacity utilisation
GUWAHATI	915.1	419.8	45.9
BARAUNI	3843.3	2620.4	68.2
GUJARAT	12536.4	11448.1	91.3
HALDIA	4209.3	4106.4	97.6
MATHURA	7320.5	7458.0	101.9
DIGBOI	594.8	536.9	90.3
PANIPAT	5490.4	5520.8	100.6
IOC Total	34909.9	32110.4	92.0

1.50 When asked about the fate of refinery expansion projects of IOC kept under review, the Ministry submitted a categorical reply as under:-

> "The only brownfield refinery expansion project which has been kept under review, is expansion of Gujarat Refinery upto 18 MMTPA. The project was approved by the Board of Directors of IOCL on 26.10.1999 and environmental clearance for this project was received on 30.3.2001. The positioning of the project was reviewed by IOCL constantly along with Panipat Refinery Expansion project. In view of the current surplus situation in the country and projected demand growth of petroleum products, it has been decided to defer the positioning of this project."

1.51 When specifically asked whether IOC has revised their future strategies in view of dismantling of Administered Pricing Mechanism and entry of powerful private sector in the field of refining, the Ministry of Petroleum & Natural Gas submitted the following categorical reply:-

"With the entry of private sector in refining and marketing, the market is likely to witness an intense competition. The market forces will drive the companies to improve their efficiencies. With the liberalization in the trade policy, yet another factor which will have an important bearing on the oil companies in the country is the build up of excessive refining capacity in the entire Asia Pacific Region.

In line with the situation foreseen in future, IOC has drawn up strategies with emphasis on the following issues for its refining and marketing activities:

(a) Refining : "Cost competitiveness" is the focus and the main thrust area. Accordingly plans include expanding the existing refineries as against green field refineries, improving distillate yield, and benchmarking against pace setters. Cost reduction across the entire supply chain is under focus including input cost minimization for crude, product-mix improvement, inter-refinery stream sharing, inventory management, etc.

(b) Marketing : "Customer focus" is the main focus area of the strategy drawn up with quality of product and speed of service becoming paramount. Strategies include Visual Retail Identity programme, Introduction of premium products, Innovative pricing, New distribution channels, Quality assurance, Rationalisation of marketing infrastructure, Brand development, etc."

1.52 During the course of evidence when the Committee wanted to know about the fate of Panipat Power General Plant project, CMD of IOCL stated the following details:-

"Regarding the Panipat power project, we have not only signed a MoU, but in fact we have a company with Morebeni as a partner. Now, the hon. Member is aware why a number of projects in our country are not coming. So, I am not here to expose the cause of need for power sector reforms. IOC and Morebeni were very keen to go ahead with the power project except that the cost of the project that we offered to the Government of Haryana, the Government of Haryana felt that it will not be in a position to pay that kind of cost. We have given a study made by an independent agency called CRISIL. We have given a brief to the Government of Haryana. We have talked to the Chief Secretary. We have met the Chief Minister himself. So, the issue is that we can go ahead with the project, only when the Government of Haryana will be in a position to give us a green signal. We need to sign a Power Purchase Agreement. Then only the project can go because of this delay some of the EPC contractors have withdrawn. It is because they feel that they will not be able to clinch this deal. We have not given hope and we are still pursuing these discussions with the Government and as soon as they open it, we can go ahead."

(d) Projects of Bharat Petroleum Corporation Limited

1.53 The revised plan Outlay approved by Planning Commission for the 9th Plan was Rs 6539.90 crores. The actual expenditure was Rs 2691.95 crores. The main shortfall was due to postponement of refinery modernisation project and delay in environmental clearance of the projects. When asked about the present status of Refinery Modernization Project and the time frame fixed for completion of the project, the Ministry replied as under:-

> "BPCL is implementing Modernization Project for product quality up-gradation and reduction of source emission from its Refinery at Mumbai, at an approved cost of Rs 1,831 crores. The facilities proposed are Hydrocracker Unit, Crude and vacuum distillation unit, Hydrogen unit and sulphur recovery block along with matching utilisation and offsite facilities. The overall physical progress by the end of February, 2003 was 57.2% and the project is scheduled for completion by October, 2004."

1.54 The Committee noted that Bina Refinery project was being implemented by the company Bharat-Oman Refineries Ltd., a Joint Venture between BPCL and Oman Oil Company. BPCL had submitted a proposal to increase its equity contribution to 50% of the revised equity of BORL and wanted to know about the reasons for not taking any final decision in this regard. In the same context the Committee specifically wanted to know whether any revised schedule has been fixed to complete the project or it has been left to the new management of BPCL post-disinvestment. The Ministry submitted the following reply:-

> "The proposal to permit Bharat Petroleum Corporation Limited to enhance its equity contribution in Bharat Oman Refineries Limited (BORL) from the earlier approved level of Rs.549 crore to upto Rs.1,271 crore, which is equal to 50% of revised equity requirement of BORL considering debt equity ratio of 1.5:1, for executing 6 MMTPA Central India Refinery Project at Bina (Madhya Pradesh) alongwith related crude import facility and cross-country crude transport pipeline is under consideration of the Government.
>
> The Government has decided that either the decision on implementation of the refinery project at Bina (M.P.) be left to the new management of BPCL, or the Government may take up its implementation through an agency."

1.55 While going into the reasons for keeping the projects pending for longer time, the Committee specifically wanted to know about the objections of the State governments/Central Government in giving environmental clearance to the Joint Venture Projects of BPCL with M/s. Oman Oil Company and the proposed refinery in U.P. The Ministry clarified the position as under:-

"All environmental clearances required for all the facilities of Bina Refinery project in M.P. have now been received from Central Government and also the State Governments of Gujarat and Madhya Pradesh.

As regards Refinery being proposed by BPCL at Lohagara (Allahabad) in U.P. environmental clearances from State Government and MOE&F (Central Government) for the refinery and crude oil pipeline from Bina to Lohagara have been received."

1.56 In the same context when the Committee enquired whether any time schedule has been prepared about Lohagara Refinery Project in U.P. also, the Ministry of Petroleum & Natural Gas replied as under:-

"BPCL has a proposal to set up a 7 million metric tonnes per annum capacity grassroot refinery at Lohagarha, Allahabad. Navaratna Board of BPCL has approved incurring the initial expenditure required for carrying out pre-project activities like environmental impact studies, surveys and studies required for environmental and other statutory clearances, acquisition of land etc. which they intend to complete during the X Plan period. Actual work of construction of the refinery will be progressed beyond X Plan period."

1.57 In continuation to their earlier query, when the Committee asked the present status of Bina Refinery project, the Ministry submitted as under:-

"Present status of Bina Refinery is as follows:

a) The entire land for the refinery and township blocks at Bina and crude oil terminal at Vadinar has been acquired. Acquisition of Right of User (ROU) / Right of Way (ROW) along the entire 935 kms. length of cross country crude pipeline, including land required for intermediate pump stations, etc., has been almost completed.

b) All the design-engineering packages of the licensed units have been received from the selected process licensors, for proprietary process units.

c) M/s. Engineers India Ltd (EIL) are the project Management Consultants (PMC) for the project. They have completed Front-end Engineering Design for the project."

d) As against the total commitment of Rs.228.69 crore, an expenditure of Rs.150.39 crore has so far been incurred on the project."

1.58 During the evidence when the Committee specifically asked the Ministry to clarify the position of Bina Refinery project, the Secretary in the Ministry of Petroleum & Natural Gas stated as under:-

> "For the Bina Refinery, the Government's decision is that Bina Refinery shall be built. Even if the owner did not build it up, the Government shall find ways to see that it is built. So, the question is that Bina Refinery has to be built. There is no other way out. The only point is that how it is to be built. We are just going ahead with all the action required and are just now getting the changed investment pattern of BPCL approved from the CCA. Once this is done, further work on Bina will continue and in case at any stage there is disruption in that, Government will find ways to see that it is built."

1.59 When the Committee referred the disinvestment decision on BPCL and wanted to know whether the company propose to continue with the execution of Bina Refinery as per schedule, the Ministry replied that the Government has decided that the Central India Refinery Project at Bina (Madhya Pradesh) will be implemented either by Bharat Petroleum Corporation Limited, or by the Government through an appropriate agency.

1.60 The Committee observed that Plan outlay for BPCL for the Tenth Plan is Rs 4000 crores which is even lower than the 9th Plan Outlay and sought the justification for lower plan outlay for BPCL during 10th Plan period particularly when several projects could not materialize during the 9th Plan and were expected to be completed during 10th Plan. The Ministry clarified the position as under:-

> "As against BPCL's actual expenditure of Rs. 2,691.95 crores during the IX Plan period, the approved outlay during the X Plan period is Rs. 4,000 crores.
>
> BPCL's main thrust / focus during X Plan period is on completing the ongoing schemes, producing environment friendly products in line with future specifications, increasing the refining capacity and marketing infrastructure facilities to meet the growing market demand. About 91% of the total outlay is for completing the continuing schemes."

1.61 When specifically asked whether BPCL propose to establish the delayed or new LPG Bottling Plants during Tenth Five Year Plan, the Ministry replied as under:-

> "Bottling plants are set up on the basis of techno-economic feasibility for the various locations. BPCL has commissioned 13 bottling plants with total capacity of 352 TMTPA, during the IX Plan. 4 bottling plants of total capacity of 154 TMTPA, at Hazira, Bangalore, Pune and Vijayawara planned during IX Plan are under construction and will be commissioned during the X Plan. Further, the company will review the need for setting up of 11 bottling plants of the capacity of 304 TMTPA, planned during the IX Plan, at Kanpur, Gorakhpur, Aurangabad, Rajkot, Bhopal, Vasai, Ranchi, Buldhana, Begusarai, Kalyan and Kolhapur, after

reascertaining the viability of individual proposals depending on supply-demand scenario.

Besides above, NRL has set up a LPG bottling plant at Numaligarh in lieu of proposed bottling plant at Guwahati and KRL is also developing a LPG bottling plant at Kochi. Both these bottling plants will be used by BPCL as NRL and KRL are its subsidiaries."

(e) <u>Projects of Hindustan Petroleum Corporation Limited</u>

1.62 The Committee observed that there was a huge shortfall in utilisation of Plan outlay during 9th Plan period. The major shortfall was due to change in approval of Punjab Refinery project from Joint Venture to wholly owned subsidiary. When enquired about the implementation schedule of the refinery project at Bhatinda, the Ministry replied as under:-

"All Government approvals as also statutory approvals for the refinery project at Bhatinda (Punjab) have been obtained. Land for the project has been acquired and the project is under implementation.

The refinery project at Bhatinda will be implemented either by HPCL, or by the Government through an appropriate agency.

The outlay allocated by HPCL for the project during the 10th Plan is Rs. 2,251 crore. An expenditure of Rs. 280.32 crore has been incurred on the project upto 28.2.2003."

(III) <u>Strategies and projections for petroleum and natural gas sector under the 10th Five Year Plan (2002-07)</u>

1.63 In the 10th Five Year Plan it is envisaged that the oil sector will continue to play a major role in the economic development of the country. Enhanced domestic production and oil security have been identified as two major areas of emphasis. The following thrust areas have been identified for the Tenth Plan: -

(i) Oil Security
- (a) Acceleration of exploration efforts especially in deep offshore frontier areas;
- (b) Improved Oil Recovery (IOR) / Enhanced Oil Recovery (EOR);
- (c) Securing equity oil and gas abroad;
- (d) Strategic storage of crude oil;
- (e) Development of alternate fuels.

(ii) Infrastructure development
   (a) Refining Sector;
   (b) Regulatory Mechanism and overseas consumer interests;
   (c) Marketing and distribution facilities to commensurate with demand.

(iii) Efficiency Improvement
   (a) Bench Marking of the hydrocarbon sector with international standards;
   (b) Oil conservation;
   (c) Demand side management.

(iv) Environment and Quality improvement

(v) Reforms
   (a) Dismantling of APM;
   (b) Restructuring Mechanism.

1.64 The Committee referred to the poor utilisation of Plan outlay during 9th Five Year Plan and wanted to know whether the Government have taken any steps for preparing more realistic estimates for the Tenth Five Year Plan and to ensure better utilization of plan outlay by implementing agencies. The Ministry of Petroleum and Natural Gas explained the position as under:-

> "For the upstream sector, the Tenth Five Year Plan has been prepared in the back drop of experiences gained during Ninth Plan Period (1997-98 to 2001-02) coupled with changing scenario of E&P sector due to liberalization and other policy initiatives taken by Government of India particularly keeping in view the mandate of Hydrocarbon Vision 2025. Keeping in view the instructions for relinquishment/surrender for blocks on nomination, it is imperative for NOCs to intensify their exploration & production activities, which in turn will require effective utilization of the Plan Outlay based on the physical Programme. It is expected that the plan outlay for the 10th Plan for both ONGC and OIL will be achieved.
>
> The downstream petroleum sector has been deregulated w.e.f. 1.4.2002. Therefore, the Plan outlays take into account the fast changing economic scenario, increasing competition and liberalisation. While in the case of oil PSUs, the Plan outlays would be met through internal and extra budgetary sources, substantial investment is expected from the private sector during the 10th Plan period. Further, while in case of PSUs, better utilisation of Plan outlays would be monitored through the MOUs, all necessary supports would be rendered to the private sector to facilitate their investments in terms of policy guidelines. Based on the experience gained in implementation of the 9th Plan, and also considerable expertise which has been developed in this sector over the years, the targets for the Tenth Plan have been carefully worked out and are considered realistic. Unless some major setbacks constrain the overall economic growth leading in turn to sharp

decline in the demand for energy including petroleum prouducts, these targets are considered to be achievable.,"

1.65 When the Committee enquired about the specific targets set for achieving the above mentioned objectives during the Tenth Plan and the road map prepared in this regard, the Ministry submitted a detailed reply relating to each thrust area:-

"To ensure the Oil Security the following targets have been set up and road map prepared: -

(a) *Acceleration of exploration efforts especially in deep offshore frontier areas:*

ONGC and OIL have formulated programmes and targets for the 10th five year plan which, inter alia, includes intensive and extensive exploration particularly in frontier basins and deep water areas.

ONGC

- Acquisition of 35286 GLK/LK of 2D seismic data (4786 GLK Onland, 16500 LK shallow water offshore, 14000 LK deep water offshore)
- Acquisition of 34834 Sq. Km. of 3D seismic data (3934 Sq.Km. Onland, 13000 Sq. Km. shallow water offshore, 17900 Sq.Km. deep water offshore)
- Drilling of 561 exploratory wells (408 Onland, 119 shallow water offshore, 34 deep water offshore)

OIL

- Acquisition of 9575 GLK/LK of 2D seismic data (7575 GLK Onland, 2000 LK offshore)
- Acquisition of 3070 Sq. Km. of 3D seismic data (1850 Sq. Km. Onland, 1220 Sq. Km. offshore)
- Drilling of 93 exploratory wells (86 Onland, 7 offshore)

(b) *Improved Oil Recovery (IOR) / Enhanced Oil Recovery (EOR)*:

ONGC has drawn up an aggressive, time bound-action plan for IOR/EOR in all the 15 major fields, which hold about 80% of ONGC's current oil reserves and which together contribute about 80% of the current oil & gas production. The remaining reserves are spread over 250 fields. The activities in the above fields have been planned into 19 projects (17 IOR +2 EOR). All these projects are anticipated to be commissioned as per schedule within the 10th Plan period. In addition to major 15 fields, time bound action plan for implementation has also been drawn up for 36 more fields for IOR in various producing basins, both onshore and offshore. It is envisaged to cover all the 36 fields during the 10th Plan.

Currently, 10 EOR "pilots" are under implementation. Eleven more pilots including 2 in Mumbai High field are contemplated for pilot study after ascertaining its viability in the laboratory. Feasibility of application of EOR in several other fields is being studied in the laboratory.

Similarly, OIL is implementing IOR/EOR measures in five major fields having majority of reserves(about 75%) in Assam through 28 schemes. OIL has also planned to start water injection in 9 new reservoirs in the above fields. By end of the 10^{th} plan, at least 35 reservoirs of the above fields will be subjected to IOR/EOR.

No target has been set for private/JV companies, as the blocks under NELP are awarded through competitive bidding group under various rounds announced from time to time and physical parameters such as work programme are biddable by companies.

(c) Securing equity oil and gas abroad

ONGC Videsh is responsible for acquisition of overseas oil and gas upstream projects, to help augment the oil security of the country. Projects in Sudan and Vietnam are already producing oil & gas and Sakhalin-I project in Russia is in the development stage. These projects would significantly contribute to the oil security. A number of exploration projects in Iraq, Libya, Syria, Iran and Myanmar have already been initiated and their success may further augment the oil security of the country. The recent acquisition of Sudan oil field provides three MMTPA of equity oil to the country. The 10^{th} Plan envisages a total contribution of 5.2 million tons of oil beginning with 1.2 MMTPA from the overseas acquisition from 2005-06. Efforts are on to acquire additional assets to further improve the existing achievements.

(d) Benchmarking of the hydrocarbon sector with international standards

The following areas have been taken up by ONGC and OIL to achieve global benchmarking of their activities.

- Closing technology gaps through contracts and alliances,
- Continuing access to state-of-the-art information and communication technologies,
- Correcting time-waster zero-value processes, and
- Credible emphasis on Health, Safety, Environment Protection, Boundary Management and Community Interface.

(e) Strategic storage of crude oil/petroleum products

The present stocks of crude oil and petroleum products in the country, including those in transits, are sufficient to meet the requirements of petroleum products for about two months. In addition, the Government proposes to build strategic storage of crude oil to provide for 45 days cover in phases. To begin with, detailed feasibility reports for constructing underground strategic storage to provide for 15 days cover of crude oil requirement have been prepared."

1.66 About the set up targets and road map for infrastructure development, the Ministry have submitted the following details:-

"Since the refining sector has been de-licensed, the projections of capacity additions would depend upon several factors including domestic demand and duty structure that would affect import and export possibilities and refining margins. It is envisaged that the refining capacity during the 10th Plan period by and large would be adequate to meet the projected domestic demand.

The industry has planned infrastructure development for distribution and marketing of petroleum products to commensurate with the demand during the 10th Plan period in the following manner:

- Port handling facilities: Port facilities are required to be augmented to meet the requirement of new refinery or expansion of the existing refinery capacity necessitating crude oil transportation to that refinery as well as for transportation of products from coastal refinery locations. IOC has planned to put up a product jetty as part of the Paradip Refinery project and a SBM for crude oil import at this place.

- Product Pipelines: Construction and operation of pipelines has been deregulated and is now open to private entrepreneurs. The private sector companies may consider laying pipelines during the plan period on commercial considerations. The pipeline projects being implemented by Petronet India Ltd., IOC and BPCL are expected to be completed by the middle of 2004.

- Marketing and distribution facilities: The LPG import facility in the country is of the order of 4,400 TMTPA at the end of the 9th Plan. While this capacity is sufficient to meet the present import requirements, another two major import facilities with a combined capacity of 1,200 TMTPA have been planned by IOC at Vizag and Ennore in the Southern region during the 10th Plan. About 1,000 TMTPA of LPG bottling capacity, 10,000 additional LPG and 135 TMT capacity of LPG storage tanks are planned during the 10th Plan."

1.67 About the targets in the field of Environment and Quality Control, the Ministry have submitted the following facts:-

"(a) In accordance with the terms of reference, the Expert Committee on Auto Fuel Policy has proposed an auto fuel policy for India as also for selected major cities, and a roadmap for its implementation. It has recommended suitable auto fuels with their specifications, taking into consideration the availability and logistics of fuel supplies, the economics of processing auto fuels, and the possibility of multi-fuel use in different category of vehicles. It has recommended appropriate automobile technologies, and fiscal measures for ensuring that the social cost of meeting a given level of environmental quality are minimized. It has also proposed institutional mechanism for certification of vehicles and fuels, as also monitoring and enforcement measures. The Auto Fuel Policy is founded on vehicular emissions standards for various categories of vehicles and the use of those technologies and fuels which are in conformity with the proposed emission standards. The roadmap suggested by the Committee in respect of the improvement in the fuel quality for meeting emission norms indicated application of Euro III equivalent norms in major cities from 1.4.2005 and in the entire country from 1.4.2010.

(b) The Government have permitted use of LPG as a clean and environment-friendly auto fuel. Oil PSUs have identified 192 Auto LPG Dispensing Stations (ALDS) to be set up in phases by 31.3.2004 in the various cities of the country.

1.68 About the targets set for bringing Reforms in petroleum sector during the Tenth Five Year Plan, the Ministry have submitted the following details:-

"(a) Dismantling of APM: The Government decided in November 1997 to dismantle the APM in a phased manner during 1998- 2002.. In line with the decision, the APM has been dismantled effective 1st April 2002.

(b) Restructuring/ Disinvestment:

The following decisions have been taken by the Government with respect to disinvestment/ restructuring of the public sector undertakings (PSUs) in the Petroleum sector during the Tenth Plan.

I. Disinvestment of the entire government shareholding (61.8%) in Balmer Lawrie Investments Ltd. The process of disinvestment is in progress.

II. Disinvestment of 51% equity in Engineers India Ltd. (EIL) to a strategic partner and 10% to employees. The process of disinvestment is in progress.

III. Disinvestment of 34.01% in Hindustan Petroleum Corporation Ltd. (HPCL) through strategic sale and 35.2% in Bharat Petroleum Corporation Ltd. (BPCL) through offer for sale to the public. In addition, 5% of the equity in each will be offered to the employees of HPCL and BPCL.

IV. Government shareholding in Indian Oil Corporation Ltd. (IOC), Oil and Natural Gas Corporation Ltd. (ONGC) and GAIL India Ltd. (GAIL) will not come down below 51%.

V. The Government has approved acquisition of 51% of the equity in Mangalore Refineries and Petrochemicals Ltd. (MRPL) by ONGC."

1.69 Referring the road map for setting up Regulatory Mechanism, the Ministry have submitted the following reply:-

"The Government have introduced the Petroleum Regulatory Board Bill, 2002 in the Lok Sabha on 6.5.2002. The Bill has been referred to the Standing Committee on Petroleum and Chemicals for examination. The objectives of the legislation include protection of interests of the consumers, ensuring uninterrupted and adequate supply of petroleum and petroleum products in all parts of the country and promotion of competitive markets."

1.70 The Committee specifically enquired about the initiatives being taken for Benchmarking of the Hydrocarbon Sector with international standards and initiatives which have already been taken in this direction, the Ministry of Petroleum & Natural Gas submitted the following reply:-

"The petroleum companies in India – both upstream and downstream – have designed appropriate techniques and structural framework and are monitoring on a continuous basis their performance and incorporating corrective measures as and when the need is dignosed. It is pertinent to point out in this context that the hydrocarbon sector in India is constituted in a slightly different manner than the global majors of the West. Providing uninterrupted supply of petroleum products while at the same time maintaining a fairly stable price regime in the interest of the consumers has been one of the important components of our government policy. Viewed in this light, a direct comparison of our petroleum companies with respect to global benchmarks for performance appraisal may not lead to meaningful conclusions.

(a) The following areas have been taken up by ONGC and OIL to achieve global benchmarking of their activities.

- ❖ Closing technology gaps through contracts and alliances,
- ❖ Continuing access to state-of-the-art information and communication technologies,
- ❖ Correcting time-waster zero-value processes, and
- ❖ Credible emphasis on Health, Safety, Environment Protection, Boundary Management and Community Interface.

(b) Benchmarking studies on refineries have been carried out by the PSUs w Åith the assistance of reputed international experts. The refineries are benchmarked on key parameters like Equivalent Distillation Capacity (EDC), percentage refinery utilisation, Energy Intensity Index, Maintenance Index, Cash Operating Expenses, Net margin and equivalent Personnel etc."

1.71 The Committee also enquired about the another thrust areas like demand side management and oil conservation and wanted to know about the details of specific planning to achieve the targets in this regard. The Ministry of Petroleum & Natural Gas submitted a detailed reply as under:-

"In the area of energy efficiency, the Government has passed the Energy Conservation Bill in 2001. Under this Act, a Bureau of Energy Efficiency has been constituted to work out stringent norms for conservation of energy in all forms, by recommending process norms, energy consumption standards and energy labelling. Prohibiting manufacture or sale of sub-standard energy equipment, mandating energy audits, prescribing energy nservation building codes, creating awareness & fostering R&D on efficient use of energy and its conservation are other provisions of the Act.

For demand side management the Government of India has been endeavouring to develop indigenous and renewable sources of energy like bio-diesel and ethanol for blending with diesel and petrol respectively. Blending of ethanol to the extent of 5% in petrol has already started in some parts of the country and as such saving of petrol in proportion is being effected. In addition experiments have shown that blending up to 10% is also possible in Indian conditions. As regards bio-diesel, experiments carried by IOC (R&D) have indicated that use of bio-diesel in diesel reduces pollution and also increases the life of engine. The Planning Commission proposes to establish a national mission on Jatropha curcas which, inter alia, includes large scale plantation of Jatropha plants on degraded/marginal lands, railway lines, etc., for development of oil seeds from these plants. Further, the Ministry is considering setting up pilot project(s) on blending of 5% bio-diesel with diesel to study on-road vehicular performance. Efforts to tap non-conventional gas sources such as coal bed methane and gas hydrates is also in progress.

With a view to effect conservation, the Government set up an autonomous registered society in the form of Petroleum Conservation Action Group in 1976 after the first oil crisis of 1973. It was further reconstituted as PCRA in the year 1978. PCRA is required to propose strategies/ measures to accelerate conservation of petroleum products, leading to environment protection, energy security and sustainable development, to create mass awareness of need for conservation, promote R & D efforts and efforts for adoption/ dissemination of fuel-efficient technologies, substitution of petroleum products with alternate fuels/ renewables, provide capacity building, etc.

PCRA undertakes sector-specific programmes to promote oil conservation. In the industrial sector, energy audits, fuel oil diagnostic studies, seminars/ workshops are taken up and R&D projects sponsored. In the transport sector, drivers training programme and workshops are conducted, model depots established, awards instituted for fuel efficiency. In the agriculture sector, replacement and rectification of inefficient irrigation equipment, kisan melas, etc are undertaken. In the domestic sector, education on good cooking habits, sponsoring development of fuel efficient stoves and encouraging use of alternate sources of energy is taken up. Apart from the sectoral programmes, public awareness campaigns such as the Annual Oil Conservation Fortnight, press releases, distribution of printed literature, screening of educational films, T.V spots, radio jingles and outdoor publicity are employed to propagate the message of oil conservation.

Recognising that under pricing/subsidies distort optimum utilisation of scarce resources and facilitate their diversion to sub-optimal and irrational uses, the Government had decided in 1997 itself to dismantle the administered price mechanism from April, 2002 and to phase out subsidies completely within a span of 3-5 years thereafter. Towards this end, the oil pool account which had administered the petroleum subsidies was wound up w.e.f. April, 2002. Under the extant pricing policy, the subsidy on domestic LPG and PDS kerosene is on a flat rate basis since 1st April 2002 to be borne by the Consolidated Fund of India. The oil companies are authorised to revise the retail selling prices of these products in line with changes in the international oil prices."

C. ANALYSIS OF DEMANDS FOR GRANTS 2003-04

1.72 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 6th March, 2002. Demand No.68 of the Ministry contains the following figures of Revenue as well as Capital Expenditure for the year 2003-2004: -

(Rs. in lakhs)

	Plan	**Non-Plan**	**Total**
Revenue Section	--	Secretariat Economic Services – 828.00	812828.00
Capital Section	--	--	--

HEAD-WISE DEMANDS

(I) MAJOR HEAD 2802

1.73 The following statement shows the details of expenditure made for various items during 2001-02, 2002-03 and 2003-04 under this Head: -

Rs. in Lakhs

Item		Actuals 2001-02	Budget Estimates 2002-03	Revised Estimates 2002093	Budget Estimates 2003-04
Grant for implementation of Voluntary Retirement in Biecco Lawrie Ltd.		0.00	--	--	--
Payment to oil companies in settlement of their claims under APM		900000.00	--	0.00	0.00
(i)	Subsidy on domestic LPG and Kerosene for PDS	0.00	449580.00	449580.00	630000.00
(ii)	Freight subsidy on retail products for far flung areas	0.00	23914.00	23914.00	24600.00
(iii)	Compensation for meeting the under recoveries of oil companies on sales tax payment on ATF to foreign Airlines.	0.00	22957.00	0.00	0.00
(iv)	Compensation to refineries on account of irrecoverable sales taxes.	0.00	153049.00	153049.00	157000.00
(v)	Petroleum Regulatory Board	0.00	500.00	500.00	200.00
(vi)	Anti Adulteration Cell	0.00	0.00	0.00	200.00
		900000.00	650000.00	627043.00	812000.00

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

- Subsidies for domestic LPG and PDS kerosene.
- Freight subsidy on retail products for far flung areas.
- Sales Tax payment on ATF to foreign Airlines.
- Implementation of Refineries on account of irrecoverable sales tax.

For the year 2003-04 subsidy on domestic LPG and PDS kerosene has been enhanced to 6300.00 crores from 4495.80 crores during 2002-03.

1.75 The Committee noted the amount of subsidy on domestic LPG and kerosene and enquired about the present subsidy per cylinder of LPG and per litter of PDS kerosene oil and the tax component involved in the market price of these items. The Ministry submitted the following categorical reply:-

> "The present subsidy on domestic LPG and PDS Kerosene is Rs.67.75 per cylinder and Rs.2.45 per liter respectively.

The existing retail selling prices of these products in Delhi, along with excise duty and sales tax component are as follows:

	Domestic LPG (Rs./Cylinder)	**PDS Kerosene (Rs./Litre)**
1. Retail selling price	241.20	8.98
2. Excise duty amount out of (1) above	27.34	1.11
3. Sales tax amount out of (1) above	16.66	0.33

Oil companies are, in addition to subsidy mentioned above, presently suffering under recoveries of around Rs.133/cylinder on LPG and Rs.5/litre on kerosene due to non-revision of prices of these products. This is now under their consideration."

1.76 The Ministry submitted the following justification for enhancing the subsidy amount exponentially:-

"Against the estimated budgetary requirement of Rs.6694.00 crore during 2002-03 for subsidy on PDS kerosene and Domestic LPG, the allocation was only Rs.4495.80 crore, leaving a short fall of Rs.2198.20 crore. This short fall would need to be met out of the budgetary allocation of Rs.6300 crore during the year 2003-04, leaving a balance of Rs.4101.80 crore for meeting the subsidy requirements of PDS Kerosene and Domestic LPG during 2003-04. Thus, effectively, the annual allocation for meeting the subsidy on PDS Kerosene and Domestic LPG has reduced in the year 2003-04 as compared to 2002-03.

As of now, only public sector, oil companies are participating in the subsidy scheme."

1.77 Presently, domestic refineries are compensated for irrecoverable taxes through the mechanism of the 'State Surcharge Scheme'. Under this scheme, the burden of State Taxes payable by refineries, either on raw material or on their sales turn over or the CST payable on inter company sales between refining 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 at State Specific Surcharge.

1.78 In response to specific query of the Committee whether there is any possibility of reducing this compensation amount after the introduction of Value Added Tax System in several States particularly in oil producing States, the Ministry of Petroleum & Natural Gas submitted the following clarification:-

"Under 'The Irrecoverable Taxes Compensation Scheme, 2002', compensation is provided for the following irrecoverable taxes:

a) Tax levied on the entry of crude oil in a local area including octroi, net of set off available, if any and

b) Tax levied on inter company sale transaction for moving petroleum products of domestic refineries inter state namely Central Sales Tax (CST) and Purchase Tax.

The extent to which the compensation under the scheme could be reduced after the introduction of VAT system would depend upon the extent to which the legislation on the subject would allow the setoff on account of aforesaid irrecoverable taxes, from the VAT applicable on the finished products. MoP&NG has taken up the issue of introduction of VAT system in the oil sector with MoF. Further, the matter has been taken up with the State Governments to rationalize the tax structure by withdrawing the irrecoverable taxes."

1.79 When the Committee specifically asked about the justification of bearing such costs in Post-APM era, the Ministry of Petroleum & Natural Gas submitted the following reply:-

"The compensation under the 'The Irrecoverable Taxes Compensation Scheme, 2002' would not be required once an appropriate VAT system, having provisions for providing setoff on account of irrecoverable taxes being compensated under the scheme, is put in place for the oil sector. However, till such a system is put in place, compensation for the irrecoverable taxes, eligible under the scheme, would need to be provided for providing a level-playing field between the domestic producers and importers of petroleum products .

Presently, domestic refineries are compensated for irrecoverable taxes through the mechanism of the 'State Surcharge Scheme'. Under this scheme, the burden of State taxes payable by refineries, either on raw material or on their sales turn-over or the CST payable on inter company sales between refining 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 at State Specific Surcharge."

1.80 Anti-Adulteration Cell has been set up primarily to strengthen the vigilance machinery to check adulteration of Motor Spirit and High Speed Diesel at Retail Outlets. The functions of AAC are as follows:-

- Prevention of adulteration and other malpractices
- Enquiries into benami operations
- Coordination with State Governments, Oil Companies
- Enquiries into complaints against Dealer Selection Boards

1.81 The present strength of Anti Adulteration Cell in their Headquarters is 9 and in their other offices is 34. Thus, the total strength as on date is 43. Designation wise details of posts are given as under:-

Head Office

Sl.No.	Post	Present Strength
1.	Director General	01
2.	Joint Director	01
3.	Deputy Director	01
4.	Private Secretary	01
5.	Personal Assistant	01
6.	Office Assistant	02
7.	Peon	01
8.	Driver	01
	Total	09

Other Offices:

S.No.	Post	Present Strength
1.	Regional Director	04
2.	Investigating Officer	17
3.	Accounts Officer	02
4.	Private Secretary	03
5.	Personal Assistant	02
6.	Office Assistant	02
7.	Typist/Clerk	03
8.	Peon	01
	Total	34

1.82 The Committee noted that the present strength of Anti-Adulteration Cell is 34. Out of this there are only 17 investigating officers in the regional offices against the sanctioned strength of 28. 11 posts are vacant.

1.83 When specifically asked whether this small number of investigating officers is sufficient to handle the continuously growing magnitude of the problem of adulteration and other complaints in whole of the country. The Ministry submitted the following justification:-

> "It is fact that this small number of Investigating Officers is not sufficient to handle the continuously growing magnitude of the problem of adulteration. After the creation of Anti Adulteration Cell on 26th March, 2001, till December 2002,

607 complaints were received from Ministry of Petroleum & Natural Gas and other sources. The AAC has conducted 489 inspections of retail outlets and 79 inspections of processing units which are main sources of adulterants. It may be further added that the State Governments also are authorized under the EC Act to conduct raids and to launch prosecution against offenders. Therefore, AAC apart from taking up important cases, for investigation, on complaints received by it, also is acting as a nodal agency to coordinate activities of the various agencies involved in checking adulteration."

1.84 In the same context when the Committee sought the justification of this Cell after establishment of the proposed Petroleum Regulatory Board, the Ministry submitted the following reply:-

"The Government have constituted a separate cell to tackle the problem of adulteration of petroleum products, as a large number of indigenous and imported solvent are available in the market and the magnitude of the problem of adulteration has been increasing during the past two years. Various environmental bodies have also expressed concern on the use of sub-standard fuels in automobiles. Further, there is also huge financial loss to the national exchequer as well as to the oil companies due to the problem of adulteration. In order to ensure proper fuel quality and to prevent various kinds of malpractices in petroleum trade, it is necessary to have an independent agency with substantial powers exclusively dedicated for this purpose.

The proposed Petroleum Regulatory Board would have the power to make regulations to provide for and enforce marketing service obligations for entities and retail service obligations for retail outlets. The retail service obligations include the obligations of dealers and distributors for maintaining supplies to consumers through out the specified working hours and of specified quality and quantity, etc. Even after the establishment of the proposed Petroleum Regulatory Board, there will a need for a central agency to take various measures to prevent adulteration. This cell will act as a nodal agency coordinating the efforts of other agencies such as State Governments and oil companies. However, a final view on the continuity of a separate cell for preventing adulteration after the establishment of proposed Petroleum Regulatory Board, will be taken by the Government later on."

(II) MAJOR HEAD '3451'

Secretariat - Economic Services

1.85 The following table shows the details of actual expenditure made during 2000-2001, BE and RE for 2002-03 under the Secretariat-Economic Service Head.

(Rs. in lakhs)

Items	Actuals 2001-02	BE 2002-03	RE 2002-2003	BE 2003-04
Salaries	410.28	425.24	425.24	432.85

Wages	0.03	1.22	1.22	1.12
Overtime Allowance	8.86	13.24	13.24	11.87
Domestic Travel	12.94	49.40	49.40	24.90
Foreign Travel	8.05	18.35	18.35	12.00
Office expenses	177.53	411.82	411.82	224.30
Professional services	2.75	3.74	3.74	3.16
Publication	12.99	4.26	4.26	13.86
Other Admn. Expenses	1.53	15.76	15.76	103.94
Total	**634.96**	**943.00**	**943.00**	**828.00**

1.86 The Committee observed that the Budget estimate relating to Domestic Travel Expenses, Foreign Travel expenses and Office Expenses has been reduced significantly and wanted to know about the justification for this reduction. Ministry of Petroleum and Natural Gas submitted the following reply:-

"The break-up of budgetary provision in the Revised Estimates 2002-2003 for Domestic Travel Expenses, Foreign Travel Expenses and Office Expenses under Major Head '3451' Secretariat is as below:-

REVISED ESTIMATES 2002-2003.

(Figures in Rs. Lakhs)

Sub Head	**Main Secretariat**	**AAC***	**Total**
Domestic Travel Expenses	25.02	24.38	49.40
Foreign Travel Expenses	12.26	6.09	18.35
Office Expenses	229.10	182.72	411.82

Anti Adulteration Cell

The provision for Domestic Travel Expenses, Foreign Travel Expenses and Office Expenses in the current revised estimates 2002-2003 is inclusive of provision for Anti Adulteration Cell under major head ' 3451' [Secretariat]. The Anti Adulteration Cell started functioning w.e.f 26.3.2001 under the administrative control of this Ministry. However, in the budget estimates 2003-2004 the provision for Anti Adulteration Cell has been excluded from major head '3451' [Secretariat] and the provision for the same has been made under major head '2802' – Sub Head '6', Anti Adulteration Cell.

The decrease in Budget provision in BE 2003-2004 over RE 2002-2003 for Domestic Travel Expenses, Foreign Travel Expenses and Office Expenses under Major Head ' 3451' – [Secretariat] is, therefore, mainly for the reason that the provision for these items in respect of Anti Adulteration Cell has been made separately under Major Head ' 2802'.

The expenditure on Domestic Travel Expenses, Foreign Travel Expenses and Office Expenses is kept to the minimum and the Government directions/instructions relating to economic measures issued from time to time are strictly complied with.

All efforts will be made to contain the expenditure within the budgetary allocations for these items of expenditure."

1.87 Under the Head professional services, there is proposal of Rs.1 crore meant for payment of membership fee of India to International Energy Forum Secretariat, Saudi Arabia. The Committee specifically enquired about the activities of the forum and how it was important for India. The Ministry submitted the following reply:-

"International Energy Forum, whose Secretariat is proposed to be set up in Saudi Arabia, provides a platform for informal discussion on international energy issues leading to greater understanding and coordination amongst the oil & gas producing and consuming countries. The forum inter-alia undertakes to

(a) foster the concept of mutuality of interest by presenting the opportunity and creating the atmosphere for dialogue among oil & gas producing and consuming countries, as well as dialogue between Government and industries.

(b) provide platforms to study and exchange views of the interrelationship between energy,technology, the environment and economic growth & development.

(c) promote the role of stable and transparent energy markets for the health of the world economy, security of supply and demand, and the expansion of global trade in energy resources.

India is a large importer of crude oil, with the current import dependence of about 69%. Dependence upon imports to meet a major portion of our requirements in a volatile oil market poses several challenges to the economy of the country. Therefore, it is essential that India should be in a position to express its concerns and maintain dialogue with the oil producer countries. Any failure to have a continuing interaction may not only be detrimental in terms of supply security but may also deprive us of valuable information/ inputs regarding the ongoing developments in the world energy markets."

1.88 The Oil Pool Account has been dismantled w.e.f. April 1, 2002 and outstanding balances are supposed to be liquidated by issue of oil bonds to the concerned companies. The outstandings of the oil companies against the Oil Pool Account by 31st March, 2002 were around Rs. 13500 crore. The special bonds totalling to Rs. 9000 crores were issued to the oil companies on 30th March, 2002 in the proportion to their outstandings against the Oil Pool Account.

The company-wise details are given below:-

Sl. No.	Name of the Oil Company	Amount in Rs. Crores
1	Indian Oil Corporation Ltd	5,276
2	Hindustan Petroleum Corporation Ltd	1,481
3	Bharat Petroleum Corporation Ltd.	1,018
4	ONGC	961
5	Oil India Ltd	107
6	Bongaigaon Refinery and Petrochemicals	56
7	Numaligarh Refinery Ltd.	46
8	Kochi Refinery Ltd	37
9	Chennai Petroleum Corporation Ltd.	12
10	Gas Authority of India Ltd.	6
	TOTAL	**9,000**

1.89 When asked about the reasons for no Budget proposal in this respect after initial proposal of Rs.9000 crores during 2001-2002? Whether any further schedule has been fixed in this regard, the Ministry of Petroleum & Natural Gas submitted the following reply:-

> "The Government bonds for the remaining outstandings of the oil companies against oil pool account would be issued after C&AG's audit. As the C&AG's audit is likely to be completed during 2003-04, the Ministry of Finance would be requested to make appropriate provision, after C&AG's audit, in the supplementary budget of 2003-04."

1.90 During the course of examination when the Committee wanted to know about the present status of subsidy on each product and the proposed road map for phasing out these subsidies, the Ministry submitted the following reply:-

"(i) Presently, the subsidy on PDS Kerosene and domestic LPG is Rs.2.45/litre and Rs.67.75/cylinder. This subsidy will be phased out in the next 3 to 5 years.

(ii) The freight subsidy on domestic LPG and PDS Kerosene is available effective 1st April 2002 to the markets in the following far flung areas at rates frozen at the levels prevailing on 31st March 2002:

(a) North Eastern States including Sikkim, except the districts in which Digboi, Guwahati, Bongaigaon and Numaligarh refineries are located;

(b) The States of Jammu & Kashmir excluding districts of Jammu & Kathwa, Himachal Pradesh, Uttranchal, excluding the districts of Haridwar and Udhamsingh Nagar;

(c) Andaman & Nicobar Islands; and

(d) Lakshwadweep Islands.

The aforesaid freight subsidy will also be phased out in the next 3 to 5 years."

D. MISCELLANEOUS

(a) *Dismantling of Administered Pricing Mechanism and Rationalisation of duty structure*

1.91 In November, 1997, the time table for phased dismantling of APM was approved. The Government has finally announced the dismantling of Administered Pricing Mechanism (APM) in the Petroleum Sector from 1st April, 2002 opening the way for entry of new players into marketing of transportation fuels.

1.92 While going into the details of dismantling process, the Committee specifically asked the Ministry about the approved schedule for dismantling of APM and duty rationalisation and the steps which have already been completed and the steps which are still incomplete. The Ministry submitted the following point-wise reply:-

"The Government, in November 1997, decided to dismantle the APM in a phased manner commencing 1st April 1998 with the stipulation to complete the dismantling process by 31st March 2002.

In line with the aforesaid decision, the APM has been dismantled effective 1st April 2002 and as a result, the following major changes have taken place:

(i) The pricing of all petroleum products, except for PDS Kerosene and domestic LPG, which continue to be subsidized products, has become market determined.

(ii) The subsidies on PDS Kerosene and domestic LPG have been fixed on a flat rate basis and are being borne by the Consolidated Fund of India.

(iii) The freight subsidy on PDS Kerosene and domestic LPG for far flung areas is also being met from the Consolidated Fund of India.

(iv) The pricing of indigenous crude oil produced by ONGC and OIL has become market determined.

(v) The Oil Pool Account has been wound up and Government bonds for Rs. 9,000 crores have been issued to the oil companies on 30.3.2002 with a view to partially liquidate their outstandings against the Account. The Government bonds in respect of the remaining outstandings of the oil companies will be issued after the completion of audit of the Oil Pool Account by the C&AG.

In terms of the decisions taken, while dismantling the APM effective 1st April 2002, action is yet to be completed on setting up a regulatory mechanism to oversee the functioning of the downstream petroleum sector. The Petroleum Regulatory Board Bill, 2002 for establishment of the Regulatory Board has been introduced in the Parliament and has been referred to the Standing Committee on Petroleum & Chemicals.

As regards the duty structure, the Government decision of November 1997 had broadly suggested the following duty structure post APM for crude oil and major petroleum products.

(i) Customs duties

Crude oil	0-5%
Petrol	15%
Diesel	15%
Kerosene (PDS)	0%

LPG 10%
(ii) Excise duties
Petrol 165% (inclusive of surcharge)
Diesel 15%
Kerosene (PDS) 10%
LPG 10%
As against the above, the broad existing duty structure is:
(i) Customs duties
Crude oil 10%
Petrol 20%
Diesel 20%
Kerosene (PDS)10%
LPG 10%
(ii) Excise duties
Petrol 30% plus specific excise duty of Rs 7.50/Litre
Diesel 14% plus specific excise duty of Rs 1.50/Litre
Kerosene (PDS)16%
LPG 16%

The duty structure is decided every year by the Ministry of Finance at the time of the Budget."

1.93 When the Committed asked about the experiences of the Government during deregulated period in petroleum sector, the Ministry of Petroleum and Natural Gas submitted a detailed reply as under:-

"(a) With the dismantling of the Administered Pricing Mechanism (APM) in the petroleum sector with effect from 1st April, 2002, marketing operations of the oil companies have been taken out of 'cost plus' mechanism. Further, the pricing of all petroleum products, except for PDS Kerosene and domestic LPG, which continue to be subsidized products, has been decontrolled. Thus, in the post APM scenario, the oil marketing companies are free to take decisions based on market considerations and commercial criteria.

(b) During the APM period, the supplies and pricing of retail products, namely, motor spirit (MS), high speed diesel (HSD), aviation turbine fuel (ATF), PDS Kerosene and domestic LPG were controlled by the Government through the Oil Coordination Committee. The movement of these products from the different refineries and ports used to be decided by the OCC on monthly basis in the formal Supply Plan Meetings and the consumer prices were advised to the oil marketing companies by the Government. OCC oversaw and monitored the supplies and the pricing on behalf of the Ministry. On dismantling of APM with effect from 1.4.2002, the above mentioned formal mechanisms were done away with.

(c) The concerns for the post APM era are the following: (i) To ensure uninterrupted supply of the above APM products throughout the country, including far-flung and remote areas; and (ii) to see that the oil companies, while fixing the consumer prices on their own, do not indulge in profiteering.

(d) As regard (i) above, the oil companies have, with a view to ensure smooth transition from the APM regime to the deregulated era, signed "product sharing agreements" on commercial basis reflecting , by and large, the product supplies/exchanges prevalent in the year 2001-02, the last year of the APM. The working of the agreements has been satisfactory ensuring uninterrupted physical availability of the products all over the country.

(e) As regards (ii) above, it may be mentioned that retail sales of the APM products, viz. MS, HSD, ATF, PDS Kerosene and domestic LPG are being made only by the oil PSUs so far. Since the marketing of retail product continues with the oil PSUs and the Ministry of Petroleum & Natural Gas continuously monitors the demand, supply and price trends, the reasonableness of consumer prices is also being ensured. The only area of concern has been the excessive price volatility in the international oil market in the post APM era, which has affected consumer prices of petrol and diesel."

1.94 While discussing the Cost Mechanism being followed by the Oil Companies in fixation of prices of petrol and diesel in Post-APM era, when the Committee wanted to know the contribution of each component in Retail Selling Price, the Ministry of Petroleum & Natural Gas submitted the following details:-

"Effective 1.4.2002, pricing of all petroleum products, except for PDS kerosene and domestic LPG, has become market determined.

The oil companies are fixing the prices of petrol and diesel after taking into consideration the prevalent international oil prices.

Retail selling price of petrol and diesel for the consumers is calculated by the oil companies by taking into account:

(i) Basic Price at refinery on import parity basis
(ii) Freight upto depots
(iii) Marketing cost and margin
(iv) State specific irrecoverable levies
(v) Excise Duty
(vi) Delivery charges from depot to retail pump outlet
(vii) Sales tax and other local levies
(viii) Dealers Commission

The component-wise details in the price build up of PSU oil companies for petrol and diesel at Delhi for the fortnight 16.3.2003 – 31.3.2003 is given below:-

PRICE BUILD UP OF PETROL & DIESEL AT DELHI		
Fortnight	**16.03.2003 –31.03.2003**	
	Figs. in Rs./Litre	
ELEMENT	**PETROL**	**DIESEL**
Basic price at refineries on import parity basis	14.97	15.45
Freight upto depots	0.79	0.84
Marketing Cost and margin	1.20	1.08
Under recovery to oil companies*	-1.75	-1.72
State specific irrecoverable levies etc.	0.04	0.02
Excise Duty	12.08	3.69
Delivery charges from depot to retail outlet	0.04	0.04
Sales tax	5.48	2.33
Dealers Commission	0.64	0.39
Retail selling price	33.49	22.12

** Under recovery for not charging the prices in line with the international prices.*

It may be seen that excise duty and sales tax components constitute the following proportion in the price of petrol and diesel at Delhi:

(Rs./Litre)

	Particulars	**Petrol**	**Diesel**
1	Price without Excise duty & Sales tax components	15.93	16.10
2	Excise duty & Sales tax	17.56	6.02
3	Retail Selling Price	33.49	22.12
4	Percentage of (2) in (3)	52%	27%
5	Percentage of (2) to (1)	110%	37%"

1.95 They further informed that for ensuring the smooth transition to the market-determined pricing regime, the Government have taken the following actions: -

"(i) Government have issued detailed guidelines for granting authorisation to market transportation fuels, namely, MS, HSD and ATF to the new entrants including the private sector, vide its Resolution dated 8th March 2002. The MS and HSD (Regulation of Supply and Distribution and Prevention of Malpractice) Order, 1998 has also been suitably amended vide Amendment Order, 2002 dated 15.3.2002. Till then, only public sector oil marketing companies, viz., IOC, BPCL, HPCL and IBP had authorization to market transportation fuels in the country. As per the Government guidelines, marketing authorisation is now available to a company investing or proposing to invest Rs. 2000 crore in exploration and production, refining, pipelines or terminals. After the publication of these guidelines, the Government have granted authorisation to market transportation fuels in favour of Oil and Natural Gas Corporation Limited (ONGC) & Numaligarh Refinery Limited (NRL) (both PSUs) and M/s. Reliance Petroleum Limited & M/s. Essar Oil Limited (both private companies). These companies have proposed to set up a total number of 8,659 new Retail Outlets, including 923 in remote and low service areas of the country, as follows:

Company	No. of ROs proposed
RPL	5,849
EOL	1,700
ONGC	600
NRL	510
Total	8,659

(ii) Government have notified the PDS Kerosene and Domestic LPG Subsidy Scheme, 2002 on 28.1.2003. As per the scheme, subsidy will be met from the Budget and will remain unchanged for the financial year. The scheme is effective from 1.4.2002. Initially IOC, HPCL, BPCL and IBP will participate in the scheme. Other companies will be allowed to participate later.

(iii) The Government have also notified the Freight Subsidy (for Far-Flung Areas) Scheme, 2002 on 28.1.2003. As per the scheme, freight subsidy in respect of transportation cost as on 31.3.2002 from bottling plant/depot up to LPG distributor/extension counter/wholesale dealer will be allowed w.e.f. 1.4.2002 for supplies in the North Eastern States including Sikkim (except the districts in which Digboi, Guwahati, Bongaigaon and Numaligarh refineries are located). Transport subsidy will also cover the supplies from the nearest tap-off point or rail head to the bottling plant/depot and further up to LPG distributor/extension counter/wholesale dealer in the States of Jammu and Kashmir (excluding districts of Jammu and Kathwa), Himachal Pradesh, Uttranchal (excluding the districts of Haridwar and Udhamsing Nagger), Andaman & Nicobar Islands and Lakshwadweep Islands.

(iv) As a part of the reforms process, Government have decided to phase out subsidies (including freight subsidy) on PDS Kerosene and LPG (Domestic) over a period of three to five years.

(v) With a view to provide level playing field to domestic producers vis-à-vis importers, the Government have notified the Irrecoverable Taxes Compensation Scheme, 2002 for compensating the oil companies for irrecoverable state taxes to facilitate smooth transition from the APM regime to the market determined pricing regime.

(vi) Government have issued guidelines for laying petroleum product pipelines on 20.11.2002. As per these guidelines, pipelines originating from refineries up to a distance of 300 Kms and the pipelines dedicated for supplying product to particular consumers will be treated as captive pipelines the right of user in land for which will be granted in favour of applicant company. In respect of pipelines originating from refineries and exceeding 300 Kms length and pipelines originating from ports, the proposal for laying common usage product pipelines will be publicized to invite expression of interest from any one interested in the proposal, the designated pipeline capacity will be kept at least 25% more than the capacity requirement of the proposer and of interested parties. This excess capacity will be available for use on common carrier basis to anyone interested and offering to pay the tariff. Tariff for the pipelines of this category will be subject to the control order or regulations that may be issued by Government / Statutory Authority. The guidelines will remain in force till the Petroleum Regulatory Board is constituted."

1.96 The Committee noted that after dismantling of Dealer Selection Boards in May 2002, the Ministry of Petroleum & Natural Gas have restrained Public Sector Oil Companies from setting up new retail outlets. It is reported that oil companies have been permitted to acquire sites for ROs with stipulation that dealership/distributorship shall be awarded only after new selection guidelines are finalised.

1.97 In response to specific query of the Committee about the mechanism being followed by the Government to ensure uninterrupted and adequate supply of Petroleum and Petroleum products in all parts of the country and protect the interests of the consumers in deregulated scenario, the Ministry submitted the following categorical reply:-

"Since 01.04.2002, the supply and distribution of MS, HSD, ATF and also of SKO for Public Distribution System (PDS) and LPG for domestic use has been coordinated by the four Oil Marketing Companies under the "product share agreement" signed between them on 31.03.2002. This agreement is valid for 2 years starting 01.04.2002. The detailed supply and distribution plans to meet the demand are drawn and implemented by the consortium of these Oil Marketing Companies on a monthly basis. As per the procedure detailed in the Agreement, the demand of the above products is uninterrupted and fully met by the Industry. No complaints have been received by any Oil Marketing Company for any disruption in supplies due to this change over since April, 2002.

In addition, Government have granted rights for marketing of transportation fuels to new entrants, including the private sector. The guidelines granting these rights stipulate setting up of retail outlets including in remote and low service areas."

1.98 The Committee observed that the four refineries in Assam viz. Guwahati, Digboi, Bongaigaon Refineries and Petrochemical Ltd. (BRPL) and Numaligarh Refineries Ltd. (NFL) mostly refine crude produced by ONGC and Oil India Limited. As these refineries are of sub-economic size and suffer from locational disadvantages the need Government's intervention for ensuring their viability after dismantling of APM. The year of commissioning and capacity of North East refineries are given in the following table:-

Refinery	**Year of Commissioning**	**Capacity (MMT)**
Digboi	1901	0.65
Guwahati	1962	1.00
BPRL	1979	2.35
NRL	2000	3.00
Total		7.00

1.99 During the evidence the Committee expressed their concern over the problems being faced by North East Refineries due to low crude availability and enquired about the initiatives being taken by the Ministry to resolve the situation, Secretary in the Ministry of Petroleum & Natural Gas stated that capacity of North East refineries is 7 million tonnes and crude production is 2 million tonnes. There is a gap of 2 million tonnes and it has been decided to give crude produced from Reva Satellite Field to fulfil the demand of small refineries of North East. This will affect the costing of these refineries since this oil is sweet oil and there will be no need to do any modification in these refineries to produce fuel as per Euro-norms. This will be implemented between 1 to 10 April, 2003. With this decision these refineries will become viable. Simultaneously Oil India and ONGC have also been trying to provide more crude to these refineries. All these efforts will certainly improve the crude availability.

(b) ***<u>Private Sector participation in exploration and production and role of DGH</u>***

1.100 Under the New Exploration Licencing Policy, the Government have signed several contracts for exploration and production blocks in various parts of the country. NELP-I, II and III have already been completed and NELP-Iv is at advance stage.

1.101 The details of blocks offered and Production Sharing Contracts signed in respect of Onland, Shallow Water and Deep waters areas (beyond 400 meter water depth) are as under:-

	No. of blocks offered				No. of PSCs signed			
	Onland	**Shallow water**	**Deep water**	**Total**	**Onland**	**Shallow water**	***Deep* water**	**Total**
NELP-I	10	26	12	48	1	16	7	24
NELP-II	9	8	8	25	7	8	8	23
NELP-III	11	7	9	27	8	6	9	23

1.102 When the Committee specifically asked about the fate of Blocks for which no interest was shown by the bidders, the Ministry replied as under:-

> "The areas, which have not attracted bids in the past, are being upgraded through either acquisition of new data or through reprocessing/reinterpretation of data by DGH. The prospectivity of a block is a dynamic parameter because the perception about a block changes with availability of new data in the area as well as in the contiguous area. The effort of the Government has been to attract companies for such areas through upgraded data."

1.103 While going into the details of the work being undertaken in Blocks awarded during First/Second round of NELP the Committee wanted to know about the new Hydrocarbon finds in these Blocks. The Ministry submitted the following details:-

> "Implementation of the work programme under NELP-I and NELP-II is in progress. As a result of implementation of exploration work programme, the following nine discoveries have been made in NELP-I and NELP-II blocks:-

Oil and Gas Discoveries by Pvt/JV companies

Sl.No.	Block	Operator	Discovery Name	Oil / Gas	Date
NELP BLOCKS (Deepwater)					
1.	KG DWN-98/2	Cairn Energy	Annapurna	Gas	June,2001
2.	-----do-------	-----do-------	Kanak Durga	Oil / Gas	August , 2001
3.	-----do-------	-----do-------	Padmavati	Oil / Gas	October , 2001
4.	KG-DWN-98/3	RIL	Dhirubhai-1	Gas	October, 2002
5.	-----do-------	-----do-------	Dhirubhai-2	Gas	October, 2002
6.	-----do-------	-----do-------	Dhirubhai-3	Gas	October, 2002
7.	-----do-------	-----do-------	Dhirubhai-4	Gas	December, 2002
NELP Blocks (Onland)					
8.	CB-ONN-2000/2	Niko Resources	Bhima	Gas	Nov, 2002
9.	Do	Do	North Surat(NS)	Gas	February, 2003.

1.104 When specifically asked about the response of important international companies in the bidding process and the steps taken to make the terms and conditions/fiscal concessions more lucrative to attract participation of strong international companies in this field, the Ministry replied as under:-

“Following foreign companies submitted bids for the exploration blocks offered under three rounds of NELP held so far:

(i) RSM Production Corporation , USA
(ii) Petronas LLC, Malaysia
(iii) Mosbacher India Ltd, USA
(iv) Energy Equity India Pvt. Ltd., Australia
(v) Cairn Energy Plc., U.K.
(vi) OAO Gazprom, Russia
(vii) Niko Resources Ltd., Canada
(viii) Geo Petrol International, France
(ix) Enron Oil & Gas (India) Ltd., USA
(x) South Asia O&G Plc, Australia
(xi) Petrom , S.A. Romania
(xii) Heramec Ltd, U.K.
(xiii) Hardy Oil & Gas , U.K.
(xiv) Joshi Technologies Inc , USA
(xv) Premier Oil (Eastern India) B.V.
(xvi) Geo Global Resources Inc. Canada.

Generally, oil majors are vertically integrated companies and have their own preferences and business strategies. They generally prefer to operate in countries where markets have been fully deregulated so that they can operate in the entire hydrocarbon value chain. Before entering an area, oil majors also need to have expectations of a large discovery. Many of them, therefore, prefer to farm in later. Such an option is always available to them in the liberal provisions for assignment that have been made under NELP. However, with the opening of marketing for transport fuels with the condition of investment of Rs. 2000 crores in the petroleum sector, deregulation of hydrocarbon sector, almost the sustained high price of crude oil, recent oil and gas discoveries and India’s growing energy demand, International oil companies may be interested.

Regarding improvement in fiscal terms to attract international oil companies, these need to be seen in light of the prevailing international fiscal terms vis.-a-vis hydrocarbon prospectivity and other parameters. India Hydrocarbon Vision-2025 also envisages to provide for a fiscal regime matching with the hydrocarbon prospectivity of the country.

It may be added that our basic objective is to get maximum exploration carried out either through the oil majors, the medium size companies on independent oil companies, whether foreign and domestic.”

1.105 Directorate General of Hydrocarbons has been entrusted with responsibilities concerning the production sharing contracts for discovered field and Exploration blocks and monitoring of E&P activities including review of reservoir performance of major fields. DGH is also engaged in acquiring of data in new/unexplored areas with a view to prepared data packages and offer such areas under bidding rounds. When the Committee enquired about the present number of production sharing contracts and now exploration blocks being monitored by DGH, the Ministry of Petroleum & Natural Gas submitted the following reply:-

> "DGH as representative of the Government in the Management Committees is presently monitoring the Production Sharing Contracts of 93 exploration blocks, of which, 23 are pre-NELP blocks and 70 are NELP blocks. In addition Production Sharing Contracts for 5 medium sized fields and 22 small sized fields and Contracts for 8 CBM blocks have also been signed by the Government. Thus, at present a total of 128 Contracts are in place."

1.106 The Committee noted the volume of work being handled by DGH and wanted to know whether Government have been providing the staff as per their earlier demand and new assignments. The Ministry of Petroleum and Natural Gas submitted a detailed note in this regard:-

> "DGH had proposed its manpower requirement of 95 for phase-I, 219 for phase-II and 414 for phase-III. Phase-I requirement had been approved by the Ministry sometime back.
>
> In so far as positioning of staff for phase I is concerned, DGH has a sanctioned staff strength of 95 (85 executives and 10 non-executives). Out of these, 67 executives and 10 non executives are in position at present. The vacancies that have occurred are mainly as a result of continuing process of reversion of officers, after completion of their deputation term, etc. ONGC and OIL have been relieving personnel to join DGH on deputation basis against these vacancies. It has been the effort of the Government to assist DGH to fill up the posts from Oil PSUs. The Ministry has been holding periodical reviews meetings in this regard. MOP&NG has recently addressed letters to CMDs of ONGC and OIL to provide panels of names of competent and willing officers to DGH to enable him to make selection. Simultaneously DGH has been advised to contact CMDs of ONGC and OIL directly, in case of any difficulty in this regard. CMDs of ONGC and OIL have also been directed to accord priority to this matter while finalising the Annual Transfer session for the year 2003.
>
> In regard to Staff requirement of 219 projected by DGH for phase II, the matter was discussed in the Administrative Council of DGH held on 06.06.2002 and thereafter in a meeting held in the Ministry on 11.09.2002. DGH has been requested to make a realistic assessment of its manpower requirement for phase II programme. The factors that may have to be kept in view in this regard are the standing instructions of the Government to economise expenditure on manpower deployment, leverage available to DGH to outsource staff as per empowerment given to DGH in Resolution NO.O-20013/2/92-ONG-III dated 08.04.1993 and the

scope to induct information technology to economize on requirement of manpower and its cost.

In so far as an earlier recommendation of the Committee for changing the deputation policy and creating a separate cadre of scientists and geologists for DGH is concerned, the said Resolution dated 8th April, 1993, issued by the Government for setting up of DGH, had inter-alia stipulated that the staff shall be drawn from the oil industry on deputation / tenure basis. The matter whether the office of DGH should have a permanent staffing arrangement of its own or on deputation from Oil PSUs was considered in detail in consultation with the concerned Ministries at the time of formation of DGH. The above staffing mechanism based on deputation basis, which has been in force, has been in pursuance of the decision taken by the Ministry in consultation with the concerned Ministries while finalising the said Resolution on setting up of DGH. DGH is functioning as an organisation under the Ministry in terms of the aforesaid Resolution. At present, there is a ban on creation of posts, in pursuance of a decision taken by the Government sometime back. The need for permanent staffing in DGH may thus have to be viewed in the above context. The Ministry would however have a relook on this in the context of recommendations of the report of the working group headed by Shri Narad for setting up of Upstream Regulatory Board as also in light of various instructions of the Government on creation of permanent posts in organisations like DGH."

1.107 When asked about the progress made so far for establishment of National Data Base and Archive System by DGH, the Ministry submitted the following facts:-

"In 1997, DGH had hired two foreign consultants under the grants received from Asian Development Bank and USTDA on proposal to set up National E&P data base and archive. Government has approved the proposal of DGH to implement Phase-I. DGH has proposed to take up the project in three phases.

As the above project is still at initial stage of implementation, the deployment of additional manpower for the purpose would be considered at appropriate time."

1.108 In the same context what the Committee enquired about the Estimated expenditure and time frame for the project, the Ministry replied as under:-

"National E&P Data Base and Archive system is a complex project and many countries globally are in the process of implementation. The finalisation of the project has to take into account the nature and volume of previous Data, the dynamic requirements of users, the confidentiality aspects etc. As such while Directorate General of Hydrocarbons (DGH) has estimated the project to take 36 months and the cost Rs. 40 crore approximately, it may not be possible to give any time frame for implementation and estimate the costs. However, the project will be implemented on priority basis and the funds will not be constraint."

1.109 The Committee noted that the proposal of establishment of National Data Base and Archive system is pending since 1997. The Ministry have submitted that the project is still at initial stage of implementation and wanted to know about the hurdles in implementation of such an important project prepared with the grants from Asian Development Bank and USTDA. The Ministry categorically stated that there are no hurdles in implementation of the project on setting up of National Exploration & Production Data Base and Archive system.

1.110 When specifically asked about initiatives being taken for better regulation of upstream sector including establishment of separate regulator for this sector, the Ministry submitted the following details:-

> "With a view to attract investment in exploration and production in oil and gas, Government have allowed level playing field to National Oil Companies (NOCs) vis-a-vis Private Companies under New Exploration Licensing Policy (NELP), requiring them to enter into Production Sharing Contracts (PSCs) with Government of India. These PSCs entered into by the contractors with the Government are in the nature of additional conditions under the P&NG Rules, 1959. Petroleum Exploration Licenses (PEL) granted in such cases are subject to the terms and conditions of PSC regime. Moreover, under the PSCs, DGH on behalf of Government monitors and participates in decision making process on critical issues such as reservoir health, development plans, safety aspects and carrying out of the petroleum operations in accordance with modern oilfield practices, through Management Committees and otherwise. Therefore, with the introduction of PSCs, regulatory system for petroleum operations in the Upstream has indeed been strengthened.
>
> Further, for better regulation of the upstream sector, the Narad Committee has recommended setting up of an independent regulatory body with mandate to regulate petroleum reservoir monitoring, hydrocarbon resource assessment, creation and upkeep of national data base, sub-sea pipelines, enforcement of environmental regulations for offshore areas, adjudication of disputes, etc. It has also recommended extension of Oil Mines Regulation for offshore areas in consultation with Ministry of Labour besides separation of administrative and managerial function from proposed regulatory board.
>
> The Government has taken a view that the proposal for setting up of regulatory body may be examined in light of the progress and development on dismantling of APM and on formation mechanism for the downstream hydrocarbon sectors so that a proper interface could be built between the two regulatory bodies, leaving no scope for any missing link or gap in the discharge of regulatory responsibility. Ministry will examine all the related questions further."

(c) ***Supply of Eco-Friendly Fuel***

1.111 In order to reduce pollution, unleaded petrol is being supplied throughout the country from February 1,2000. When the Committee wanted to know about the various National/International specifications being followed in respect of fuel quality and also the expenditure made so far by the refineries for upgradation of petrol and diesel quality produced by them, the Ministry replied as under:-

> "Indian companies follow the national standards notified by Bureau of Indian Standards (BIS). The standards are formulated taking into consideration various international standards, like Euro (European) and ASTM (American). All the refineries have to continuously upgrade the fuel specifications in line with the standards of BIS, orders of Honorable Courts etc. and make investments which is a continuous process. During IX plan period, refineries have incurred expenditure to the tune of Rs.10,000 crore (approx.) for quality upgradation.
>
> The list of refineries which have made major investments is given below:
>
> (i) IOC Refineries:
> Mathura Refinery
> Gujarat Refinery
> Haldia Refinery
> Panipat Refinery
> (ii) Mumbai Refinery of BPC
> (iii) Mumbai Refinery of HPC
> (iv) Vizag Refinery of HPC
> (v) KRL
> (vi) CPCL"

1.112 When the Committee specifically asked whether the Ministry propose to implement the road map suggested by the Committee in deregulated scenario, the Ministry stated that the report of the Expert Committee on Auto Fuel Policy is under consideration of the Government. Its implementation after acceptance will be through appropriate statutes, rules and regulations of the Government which will be binding on all concerned, including private companies.

1.113 R A Mashelkar Committee in their Final Report have prepared a Road map for improvement in fuel quality. In accordance with the terms of reference, the Expert Committee on Auto Fuel Policy has proposed an auto fuel policy for India as also for selected major cities, and a roadmap for its implementation. It has recommended suitable auto fuels with their specifications, taking into consideration the availability and logistics of fuel supplies, the economics of processing auto fuels, and the possibility of multi-fuel use in different category of vehicles. It has recommended appropriate automobile technologies, and fiscal measures for ensuring that the social cost of meeting a given level of environmental quality are minimized. It has also proposed institutional mechanism for certification of vehicles and fuels, as also monitoring and enforcement measures. The Auto Fuel Policy is founded on vehicular emissions standards for various categories of vehicles and the use of those technologies and fuels which are in conformity with the proposed emission standards.

1.114 The roadmap suggested by the Committee in respect of the improvement in the fuel quality for meeting emission norms is as follows:

Road Map for Vehicular Emission Norms for New Vehicles (except 2 & 3 Wheelers)
Entire Country
❖ Bharat Stage II emission norms From 1 April, 2005 ❖ "Euro III equivalent" emission norms From 1 April, 2010
For Cities of Delhi / NCR, Mumbai, Kolkata, Chennai, Bangalore, Hyderabad, Ahmedabad, Pune, Surat, Kanpur and Agra
❖ Bharat Stage II emission norms ❖ Delhi, Mumbai, Kolkata & Chennai Already introduced in the year 2000 & 2001 ❖ Bangalore, Hyderabad Ahmedabad, Pune, Surat, Kanpur and Agra From 1 April, 2003 ❖ "Euro III equivalent" emission norms for all private vehicles, city public service vehicles and city commercial vehicles. From 1 April, 2005 ❖ "Euro IV equivalent" emission norms for all private vehicles, city public service vehicles and city commercial vehicles From 1 April, 2010

1.115 In the same context of eco-friendly fuel when the Committee specifically wanted to know whether the Government/Oil Companies have taken any initiative to develop Di-Methyl Ether as alternative fuel, the Ministry submitted the following reply:-

> "GAIL, IOC, IIP and BP have signed a joint collaboration agreement (JCA) in July, 1998 to carry out feasibility study for putting up a 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 Flour Daniel and Ministry of Petroleum and Natural Gas. The Ministry of Power have conveyed no objection for use of DME as power generation fuel to 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."

1.116 When enquired about the reasons for withdrawal of BP and the initiatives being taken to continue the project, the Ministry submitted following status:-

> "BP had intimated on 3rd October 2001, after a broad strategic review as part of the gas-to-liquid technology, its decision that while the project had the potential to be viable, it did not fit in with BP's strategic priorities. BP has, therefore, to withdraw from the India DME project.
>
> The Indian consortium does not propose to continue with the project without the presence of a strategic partner, such as a multinational/global major, as the project is to be built at the source of gas, as it needs assured supply of gas. Efforts are on to identify a strategic partner for collaboration in the project and discussions initiated with Marubeni, NKK of Japan and Chevron of USA."

1.117 The Committee noted that Compressed Natural Gas has already been established as a clear and environment friendly fuel and wanted to know about the present demand and availability of CNG in the country and each Metropolitan City. They also enquired whether GAIL is able to supply the desired quantity of CNG in Mumbai and Delhi. The Ministry of Petroleum & Natural Gas submitted the following reply:-

> "Presently, compressed natural gas for the purposes of automotive sector is being supplied in the metropolitan cities of Mumbai and Delhi only. M/s. Indraprastha Gas Ltd. (IGL) in Delhi and M/s. Mahanagar Gas Ltd. (MGL) in Mumbai have been set up to take up the City Gas Distribution Project.
>
> In Delhi around 77,000 vehicles including 8,686 buses, 49,000 autos, 5,100 taxies, 4,800 RTVs and nearly 10,000 private cars are plying on CNG. IGL has set up 106 CNG stations in the city as on 01st March 2003 and the compression capacity is 11.77 lakh kg / day. Average daily sale for the month of February 2003 is 7.17 lakh kg / day. IGL is able to fully meet the demand of CNG in Delhi. To meet the CNG requirement of Delhi, Government of India has allocated 2 MMSCMD (16.11 lakh Kg) of natural gas to IGL.
>
> In Mumbai, around 66,000 vehicles including 44,000 taxis, 22,000 Three wheelers and 46 buses are plying on CNG. MGL has set up 46 CNG stations well spread across the city to cater to the CNG demand. The installed capacity is around 3.92 lakh Kg per day, having 188 dispensing points. The average sales per day is 2.50 lakh Kg per day. MGL has been allocated 1.5 MMSCMD of gas for the City Gas Distribution Project."

1.118 In response to specific query of the Committee whether the Central Government/Government of NCT of Delhi have implemented the directions of Supreme

Court given in SC Order dated 05th April 2002, the Ministry submitted the following reply:-

> "The Supreme Court, vide their order dated 05th April 2002 in WP No.13029 of 1985 MC Mehta Vs. Union of India and others, directed the following with regard to IGL:-
>
> Allocate and make available 16.1 lakh kg per day (2 MMSCMD) of CNG in the NCT of Delhi by 30th June, 2002 for use by the transport sector;
>
> Increase the above supply of CNG whenever the need arises
>
> In response IGL has submitted affidavit dated 07th May 2002 to the Supreme Court for augmenting its compression capacity to 16.11 lakh kg / day by 30th June 2003. IGL will also augment the CNG infrastructure as per the requirements.
>
> In pursuance of above, the Government have increased the allocation of natural gas to IGL to the extent of 2.0 MMSCMD on priority basis. For supplying CNG to other polluted cities, GAIL has undertaken the feasibility studies and is planning to take up CNG projects in some of those cities."

1.119 The Committee referred that IGL had decided to augment its compression capacity to 16.11 lakh kg/day by June, 2003 and wanted to know the progress made so far in the direction. The Ministry stated as under:-

> "The number of CNG stations has increased from 97 in August 2002 to 106 as on 1st March 2003 and the number of compressors has gone up from 64 to 84 during the period. The compression capacity which was 7.91 lakh Kg/day in August 2002 has increased to 11.77 lakh Kg/day as on 1.3.2003 and the daily average sales have increased from 5.53 lakh Kg/day to 7.17 lakh Kg/day."

1.120 The Committee referred to their earlier Report's recommendation that IGL should establish adequate dispensing stations in all zones of Delhi and wanted to know the status in this regard. Ministry of Petroleum and Natural Gas submitted the following reply:-

> "IGL has laid 23 km long 12" dia pipeline from Dhaula Kuan to GT Karnal Road turning point along with spur line of 8", 6" & 4" dia, enabling supply of CNG to Western parts of Delhi. As many as 14 Mother CNG Stations (8 on IGL's land and 6 in DTC depots) have already been commissioned in Western part of Delhi.
>
> The present Zonewise distribution of CNG station as on date is tabulated as below:-

Station	East	West	North	South	Central	Total
Mother – IGL	1	8	5	12	3	29
Mother – DTC	2	6	3	5	1	17
Online	2	0	1	10	6	19
Daughter	1	1	0	6	4	12
Daughter Booster	8	5	5	7	4	29
Total	14	20	14	40	18	106

By April 2003, new Mother Stations at Rohini DTC-II, Rohini Mega will be commissioned. Existing Daughter Booster Stations at Paschim Vihar, Peeragarhi, Sayaal, Nanak Pyau & Mayapuri shall also be commissioned as Online Stations by May 2003.

IGL is approaching land owning agencies for allotment of additional lands in East, Central and West Delhi for putting up more stations. IGL is also taking action for putting up CNG dispensing facilities at the Retail Outlets of Oil Marketing Companies in these areas to augment the CNG distribution system."

(d) ***<u>Alternate sources of Hydrocarbon</u>***

1.121 With the ever increasing dependence on petroleum imports, due to relatively stagnant domestic production and spiralling growth in demand, the development of alternative sources of hydrocarbons is supposed to be important. In this regard the coal bed methane and gas hydrates are supposed to be very important alternatives.

1.122 While going into the details of activities being taken in the field of exploration of alternative sources of Hydrocarbon and fuels and conversion of gas to liquids the Ministry replied as under:-

"After successful completion of 3 pilot projects on blending of 5% ethanol with petrol, the Government of India took a decision that only 5% ethanol-blended petrol should be sold in the 9 major sugar producing States and 4 contigous Union Territories in the first phase of implementation of the programme and to cover the entire country in the second phase of its implementation. Therefore, vide notification of 13.9.2002, only 5% ethanol-blended petrol was mandated to be sold in the above 9 States and 4 Union Territories w.e.f. 1.1.2003. Inadequate facilities for production of anhydrous ethanol necessitated the issue of a revised notification allowing coverage of all the above 9 States and 4 Union Territories by 30.6.2003 but starting from 1.1.2003. Regarding bio-diesel, though its utility has been proved, yet its sale at commercial scale has not yet started. The Government of India have been contemplating setting up of a pilot project to assess the impact of 5% bio-diesel blended diesel on vehicles, environment, economy etc in Indian conditions.

Hydrogen is receiving worldwide attention as a clean fuel and efficient energy storage medium for automobiles as it can replace or supplement oil used in road transportation. It can be produced from fossil fuels or renewable resources. Hydrogen gas is being produced on a commercial scale by steam reformation and thermal cracking of natural gas or partial oxidation of naphtha, conventional electrolysis and coal gasification. In India, also this methods are used for production of hydrogen. Hydrogen from water and solar energy can be produced through several ways. The cost of production of pure hydrogen from the electrolysis of water using photovoltaic device needs to be reduced substantially, before it becomes economically viable.

Fuel cells are gaining popularity abroad. They operate on hydrogen gas and oxygen from air. Hydrogen gas can be obtained from a variety of fuels. Fuel cells can be used for stationary/portable power generation and automotive applications.

In India, the Ministry of Non Conventional Energy Sources have supported project on different types of fuel cell technology with involvement of national laboratories, research institutions, universities and industries to develop suitable material, catalysts and component and to strengthen manufacturing base for production of fuel cells in the country. Efforts are being made towards development and demonstration of application of fuel cell systems for decentralised power generation and automobile application.

According to the World Energy Outlook 2002, the technology of gas- to-liquid (GTL) conversion is set to become commercially viable. GTL conversion has gained importance due to improved technology, growing reserves of stranded gas and higher oil prices. The technology converts natural gas feed stock into synthetic gas and then, through catalytic reforming, into conventional oil products. The plants are heavily capital and energy intensive and can be profitable investment compared to oil refining only if the cost of natural gas feed stock is lower than crude oil. A major disadvantage is that carbon-dioxide emissions are much higher than from oil refineries.

ONGC is carrying out preliminary studies to take up an R&D project at Tripura to convert gas to liquid fuels (GTL). OIL has not found GTL economically viable for the small gas produced by it.

Oil India Limited (OIL), during the 9th Five Year Plan had commissioned a pilot plants to convert coal and vacuum residuum from refinery to value added liquid fuels with the help of proprietary emulated bed technology from IFPNA. However the focus shifted to coal only due to constraint in availability of vacuum residuum from refinery. Based on the result obtained through the pilot project, OIL will be carrying out techno-economic feasibility study to convert coal to liquid fuels with the help of AXN, USA.

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 Flour Daniel and Ministry of Petroleum and Natural Gas. The Ministry of Power have conveyed no objection for use of DME as power generation fuel to 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.

Government has signed 8 Coal Bed Methane (CBM) contracts for exploration and production oh CBM. It is expected to take 3- 4 years before CBM could be produced at commercial scale.

Gas hydrates as an alternative fuel, is at preliminary R &D stage and globally there is no commercial production of gas hydrates."

1.123 Ministry of Petroleum & Natural Gas has notified introduction of 5% volume ethanol blending in petrol to be supplied in 9 States from January, 2003. When asked about the road map for implementation of this project, the Ministry replied as under:-

"Government have mandated supply of only 5% ethanol-blended petrol in the 9 sugarcane producing States of Andhra Pradesh, Goa, Gujarat, Haryana, Karnataka, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh and the four Union Territories of Chandigarh, Dadra & Nagar Haveli, Daman & Diu and Pondicherry in a phased manner from 1.1.2003 with complete coverage to be achieved by 30.6.2003.

Accordingly, oil companies have so far covered entire Uttar Pradesh and parts of Andhra Pradesh, Maharashtra and Punjab with 5% ethanol-blended-petrol supplies. They are in the process of covering the entire States of Goa and Maharashtra and parts of Gujarat by March/April, 2003.

Oil companies have been fixing the retail selling price of 5% ethanol-blended-petrol at that of petrol. The retail selling price of the blend would depend on the cost of anhydrous ethanol and excise duty concession allowed by the Government. Currently, the Government has allowed concession of Rs. 300 per KL in Special Additional Excise Duty on sale of 5% ethanol-blended-petrol compared to petrol.

Thereafter it is proposed to cover the entire country with 5% ethanol-blended petrol by the year 2003-04. No time bound programme has been prepared for introduction of more than 5% ethanol blending in petrol/diesel in the States. However, there are plans to introduce 10% ethanol-blended petrol and 5% ethanol blending in diesel. So far, R&D experiments have indicated that up to 10%

blending of ethanol in petrol is possible under Indian conditions. The Bureau of Indian Standards have agreed to controlled field trials being taken up by the Ministry/ the oil industry jointly with vehicle manufacturers to ascertain technical problems likely to surface with the introduction of higher blends. In addition, experiments are being conducted for blending of 5% ethanol in diesel at IOC R&D."

1.124 When the Committee specifically enquired whether the Government have made any assessment about the foreign exchange likely to be saved due to this substitution annually, the Ministry replied as under:-

"Presently, no savings in foreign exchange through reduced import of crude is envisaged, as crude import is required for production of other petroleum products used in the country. However, the petrol rendered excess by blending with ethanol could be exported to bring in foreign exchange. This would be to the extent of 320-350 million litres of petrol in phase I and about 500 million litres of petrol in phase II. On the whole, at this point of time, it is too early to make any assessment of foreign exchange savings from the programme."

1.125 In the same context when the Committee enquired whether the Government propose to offer more coal bed methane blocks for exploration and exploitation in near future, the Ministry replied that Government of India have already signed contracts for eight CBM blocks for exploration and production of CBM. The preparatory activities for offering blocks under the Second round of CBM (CBM-II) are in progress and the blocks are being finalised.

1.126 The Committee noted that Reconnaissance Surveys carried out by DGH in East coast and Andaman deep water areas in 1997 had deciphered the most promising areas of Gas Hydrate deposits and wanted to know about the progress made so far towards implementation of National Gas Hydrate Programme and the reasons for very slow progress in regard to R&D work in his field. The Ministry submitted the following factual details:-

"At present, there is no commercial production of Gas Hydrates in any part of the world and the technology is only at the Research & Development stage. Some pioneering work has been done in USA, Canada, Japan and Russia. In order to keep pace with technological development with the ultimate objective of harnessing Gas Hydrates on commercial scale, the Steering Committee under National Gas Hydrates Programme (NGHP) was reconstituted in the Ministry in October, 2000 and this Committee is backed by a Technical Committee for coordinating all the Research and Development and Exploration Works for Gas Hydrates.

Now, there are six ongoing R&D projects approved by the Steering Committee of NGHP. In addition 5 more R&D projects have been approved.

Depending on the success of resource estimation and the outcome of the R&D activities, pilot studies for production of gas from the Gas Hydrates, subject to viability are expected to be taken up by 2006-07. There are no constraints about funds for NGHP as of now. In view of the nature of R&D work involved, it is difficult to evolve or stipulate any time frame for production of gas from gas hydrates."

(e) __Conservation of Petroleum Products__

1.127 A very high priority is attached by the Government of India to conservation of petroleum products in the view of the need to reduce gap between demand of petroleum products and indigenous supply of crude oil. The continuing tension in the Middle East region which is the source of our oil imports is a potent reason for continued emphasis on conversation and sparing use of petroleum products. Accordingly, the Government persevere with the various measures initiated for conservation of petroleum products. These measures include creation of public awareness of conservation measures as well as sectoral programmes such as driver training programmes, transport depot studies, promoting high performance lubes additives in transport sector; energy audits to improve fuel efficiency and specific fuel consumption, promotion of fuel – efficient practices/equipments, technology, upgradation projects in industrial sector; rectification, replacement of fuel efficient lift irrigation pump sets, foot valves in agricultural sector; promotion of fuel-efficient appliance like kerosene/LPG stoves etc in domestic sector. Action Group Meetings are also held to propagate awareness on oil conservation among the oil users in transport, industrial and agriculture sectors. In addition educational/training programmes/awareness, school/college students and industrial workers. These activities are conducted through Petroleum Conservation Research Association (PCRA) and public sector oil companies. PCRA through its multifaceted programmes covers a large spectrum of socio-economic activities leading to increase in awareness on oil conservation.

1.128 When the Committee specifically enquired whether the Government have assessed the impact and effectiveness of Conservation efforts in reducing the gap between demand and supply of petroleum products/crude oil, the Ministry of Petroleum and Natural Gas replied as under:-

"The total savings effected by the various measures adopted by the PCRA in the year 2001- 02 was 274.97 metric tons valued at Rs. 291.06 crores. Had this saving not been effected, the demand would have been proportionately more in respect of petroleum products and in terms of money. A chart of annual savings accrued through PCRA activities is given below:-

S. No	Sector/Activity	1999-00		2000-01		2001-02	
		'ooo MT	**Saving (Rs. in crore)**	**'ooo MT**	**Saving (Rs. in crore)**	**'ooo MT**	**Saving (Rs. in crore)**
1	**Industrial Sector**						
a	Energy Audits	27.95	31.60	17.69	19.05	14.17	12.21
b	Fuel Oil Diagnostic Studies	21.08	23.83	16.92	18.21	11.11	9.58
c	Small scale Industries	3.27	3.69	3.68	3.96	3.23	2.78
d	Low Excess Air Film Burners (LAP Burners)	46.69	52.78	46.69	50.25	46.69	40.25
	Total – Industrial Sector	98.98	111.91	84.98	91.47	75.19	64.82
2	**Transport Sector**						
a	Driver Training Programme	17.33	20.21	17.99	25.99	23.58	31.50
b	Model Depot	1.34	1.56	1.32	1.90	1.61	2.16
	Total – Transport Sector	18.67	21.77	19.31	27.89	25.19	33.33
3	**Agriculture Sector**						
a	LIP rectification & Demonstration Centres	1.32	1.54	0.70	1.01	0.88	1.17
b	Footvalve replacement	0.15	0.18	0.15	0.22	0.03	0.04
	Total – Agriculture Sector	1.47	1.72	0.85	1.23	0.91	1.22
4	**Domestic Sector**						
a	Kerosene Savings (nutan Wick Stove) – Regular use	33.71	19.50	20.65	16.21	21.69	19.12
	Kerosene Saving (Nutan Wick Stove)-standby use	7.22	4.18	4.42	3.47	4.65	4.10
	Total	40.93	23.67	25.07	19.69	26.34	23.22
b	LPG Savings						
	Sale of new LPG stoves for new connections	130.65	141.69	154.31	191.76	87.94	104.93
	Replacement of LPG stoves every year	8.40	9.11	8.40	10.44	8.40	10.02
	Sale of Nutan Stoves	0.04	0.05	0.04	0.05	0.04	0.05
	Total Saving	139.09	150.85	162.76	202.26	96.39	115.01
	Total – Domestic Sector	180.02	174.52	187.83	221.94	122.72	138.22
5	Education campaign	74.80	70.32	18.20	21.31	50.95	53.14
	TOTAL SAVINGS OF PCRA	**373.94**	**380.24**	**311.17**	**363.84**	**274.97**	**291.06**

(f) <u>Storage of Petroleum Products</u>

1.129 In response to specific query of the Committee about the present storage capacity in the country and steps being taken to enhance this capacity in view of war like situation in oil producing countries, the Ministry of Petroleum and Natural Gas submitted the following reply:-

> "At present, domestic crude oil production accounts for about 30% of domestic demand of around 100 MMTPA. The remaining 70% of crude oil requirement is met by imports. During the Tenth Plan, the effort is being made to enhance indigenous crude oil production and equity oil abroad to improve self-sufficiency in oil. Under the three NELP rounds completed so far by the Government, production sharing contracts for 70 blocks have been signed with the parties. In addition, contracts for 8 Coal Bed Methane (CBM) blocks have been signed. These ventures are expected to provide additional domestic rounds of oil and gas. Persistent effort by ONGC Vides Ltd. (OVL) in acquiring equity oil

abroad has yielded encouraging results. Project in Vietnam, Russia and Sudan taken up by OVL and others in the pipeline are estimated to provide equity oil of 5.2 million metric tonnes during the Tenth Plan.

As regards strategic oil reserves in foreign countries, the developed countries like USA, Canada, Germany, France, U.K. and Japan maintain strategic oil reserves to cover at least 90 days. As per the available information, China is considering setting up a system akin to that of Japan.

The present stocks of crude oil and petroleum products with oil companies in the country, including those in transit, are sufficient to meet the requirements of petroleum products for about two months.

No strategic storage, however, has separately been developed, over and above those of oil companies. Government plan to do so and develop crude oil storage for about 15 million tonnes at a cost of about Rs. 4350 crore (approx.) in coming years. This will provide 45 days crude oil cover. To begin with, detailed feasibility reports for constructing underground strategic storage to provide for 15 days cover of crude oil requirement have been prepared."

1.130 During the course of evidence when the Committee wanted to know the long term and short term implications of Iraq-Us war on Indian Oil Sector, Secretary in the Ministry of Petroleum & Natural Gas analysed the whole situation as under:-

"As far as implications for India in the oil sector are concerned, the oil prices are the first major concern of ours. The second major concern is the availability of crude oil and our ability to supply the products to the consumers on regular basis at reasonable prices. As far as the first issue regarding price is concerned, before this US attack on Iraq, the market had been increasing continuously and the perception in the market was that there was around five dollars of war premium which had already built up in the prices. With the result, while in February last year, the prices were 19 to 20 dollar per barrel, the prices for the Indian basket had gone up to as much as 32.5 dollars per barrel about 15 days back. After the US attack, surprisingly, the prices started declining. In the last six to seven days, the prices for the Indian basket have declined from that level of 32.5 dollars per barrel to somewhere around 24.4 dollars per barrel. Then, yesterday, the prices rose again marginally and reached around slightly less than 25 dollars per barrel. The analysis say that reason for this price drop was that people were expecting that there would be short war and therefore, they would like to unload whatever stocks were there. Secondly, the OPEC countries decided to increase production. that also had an impact on the sentiments of the market and because of that also, there was a decline. As against that, in-between, there was a slight incident, which is not unrelated, in Nigeria where there were disruptions because of their internal problems in production. So, this disruption has caused a disruption in the production of oil and that had an affect on prices and the prices have increased.

As far as the Ministry is concerned, we would like to watch this phenomenon because we do not feel that this is a very transparent drop in prices. We would, therefore, like to watch it for a slightly longer time before we can say that this drop is because the market is now discounting this war premium of five dollars and they feel that it is going to be a short war. Also, last couple of days' incidents show that the war may not be short; it may be a longer war. Therefore, the market sentiments may again go up. so, as far as we are concerned, we feel that the drop in prices may be a temporary phenomenon and we would like to prepare ourselves for a slightly higher level of prices.

The other group of analysis has said that the prices may go up to as much as 40 to 50 dollars per barrel. In fact, our experts in TERI, who do analyse this on regular basis, had predicted the price to go up to as much as 80 dollars, but we in the Ministry have discussed it and analysed it and we feel that there is no possibility of the prices going beyond 40 dollars a barrel. In fact, we feel that market has risen quite a lot. We feel so for two reasons. First, the US imports 50 per cent of its requirements from the world and its requirements are around nearly 20 per cent of the world's total import. Secondly, EU imports nearly 90 per cent of its requirements. Since these are the major importers and they have also a great say in the events which are happening, our assessment is that prices may continue to be anywhere around this level but may not rise as much as some analysts say."

1.131 About the initiatives being taken to face the situation the Secretary summarized the position as under:-

"For these reasons, we have prepared ourselves in two ways. Firstly, we have got the crude oil stocks. The crude oil stocks are normally for around 25 days. Just to give you a macro picture, India has an annual requirement of around 110 million tonnes, of which around 33 million tonnes is the domestic production of ONGC, OIL and private joint ventures and we import around 80 million tonnes. That means that we are generally able to meet around 30 per cent of our requirements. For the remaining 70 per cent, we have got stocks of around two months. Now, we feel that we have got stocks for around 25 days of crude oil. In addition, we have got product stocks for a period varying around 35 days and in the case of aviation fuels, we have got stocks for more than 50 days. I would send to the Committee the actual figures of stocks. Broadly, the position is that we have stocks for more than two months for sensitive items like aviation fuels which have Defence implications. As far as we are concerned, the average availability of products is for around two months.

Secondly, as far as our ability to get oil is concerned, we had sent a delegation recently to Saudi Arabia and Kuwait. We are also in touch with the Iranian. Our oil companies are in touch with all other suppliers also. We have also the experience of 1991 war, when there was war between Iraq and Kuwait. At that time, we found that apart from disruption in supply from Iraq and partly Kuwait, we were able to get most of our supplies on regular basis and there was no disruption in our supplies. The shipping lanes were open and we were able to get it. As of now, the assessment is that shipping lanes will continue to be open. of course, the insurance premium for the shipping will go up. To that extent, this will have to be built up in the cost of oil. Broadly, the position is that as far as stocks are concerned, we are reasonably safe. We have also made efforts to see that availability of crude oil continue on regular basis. We have talked to our suppliers and we feel that in view of our past experience, the shipping lanes would continue to be open as far as supplies from countries other than Iraq and some portion of Kuwait are concerned. We feel that from our domestic production, we will be able to meet our requirements. We have asked ONGC and OIL to do more work over to increase their work and increase their operations and increase their production as much as they can on short-term basis. We hope that they would also be chipped in. If they can chip in about even half or one million tonnes in this period, that will be quite substantial amount for us to meet our requirements. The sum and substance is that as far as availability goes, we are reasonably safe. We have made reasonable arrangements.

The second question is of prices. You have rightly observed that the crude oil prices were 20 dollars per barrel and they went to around 32 dollars a barrel. We are now having our import parity regime. We has happened is that the prices of products, against which this import parity regime operates, in the international market proportionately rose very high because a large number of countries are importing products and because of that, the products rose very high and against that, we are having this import parity regime. Because of this, we found that the prices in the market were rising. So, we have taken two actions in this regard. First, we have requested the Ministry of Finance to adjust the duties downward and we have been consistently in dialogue with them. We have recently taken up this matter again because we feel that this is one of the most crucial points. Secondly, we have asked the oil companies to reduce their margins.

They have a marketing margin. We have asked them to reduce their marketing margin and see that they charge a minimum amount, when the prices are so high. They are the ones who fix up the prices. Before fixing up the prices, they inform the Ministry. At that time, we just have a check to see that they are not charging exorbitant marketing margins. We are trying to cut them out completely. We are telling them that this is not the time when they should have marketing margins tied up. We are trying to cut that out.

Thirdly, if we found that in certain fortnights, the prices rose too high and, therefore, the consumer may not be able to bear, we requested them not to increase the prices to full extent and they have agreed with our assessment. Therefore, there are under recoveries as of now. We told them that they might have under recoveries now, but they would have over recoveries subsequently when the prices go down and then they could balance it, but they should not increase the prices so sharply and pass on the burden to the consumers because this temporary phenomenon would go down. In the last fortnight and the fortnight before that, we found that the oil companies wanted to increase prices very substantially, somewhere around three rupees. We told them that this was not feasible; the consumer would not be able to bear it and the market would not be able to bear it. We requested them to modulate these prices and they have modulated it. Whatever are the under recoveries, for example, in this fortnight the average price would be down, they would be able to average it out.

Broadly, our approach is that, particularly diesel, which is very important and sensitive item and MS, we should try to modulate their prices. We are in touch with the Ministry of Finance and requesting them also to reduce their duties. We would request one support from the Committee, that is, regarding this duty structure. We have taken it up with the Ministry of Finance, and the Ministry of Finance has said 'no' because they have already announced the structure. We would like to modulate it. If the Committee gives its recommendation and views, we will then take it up further and we would, once again, request them to modulate the duties so that we are able to meet and tide over this difficult period, when the prices are high. When the prices are low, it is all right, they can adjust their duties, but when the prices are high, we are requesting them to modulate the duties. That is one point, as far as Iraq is concerned."

PART-II

RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

The Committee note that the Ninth Five Year Plan (1997-2002) envisaged acceleration of exploration efforts especially in deep offshore areas and frontier areas, acquisition of acreage abroad for equity oil and gas, deregulation/rationalisation of the Administered Pricing Mechanism (APM), import of natural gas in the form of LNG, creation of adequate refining capacity and setting up of regulatory mechanism etc. as the prime thrust areas for the petroleum sector. The Committee note that there was a major shortfall in achieving the targets and objectives set for the Ninth Plan. The Committee are surprised to note that even after a strong caution issued by the Planning Commission in the mid-term review of 9th Plan, the Government did not modify their policies with a view to achieve better targets in the areas of crude oil and natural gas production and accretion to Hydrocarbon reserves during the remaining years of the Plan. These targets cannot be said to be achieved only by offering some new blocks in frontier and deep water areas under NELP. The Committee treat it as a decimal progress since the exploration activities were focussed mainly in explored basins and some deep water and frontier basins. During the 10th Plan also, they are concentrating mainly in frontier basins and deep water areas. The Committee, therefore, strongly reiterate their earlier recommendation that the Government should take concrete steps to expand their exploration efforts into all the existing and unexplored basins in the specified time frame as spelt out in the document Hydrocarbon Vision-2025 and take all initiatives to cover 35% of the basins by the end of 10th Plan.

(Recommendation No.1)

2.2 The Committee observe that at the terminal year of 8th Plan (1996-97), the crude oil and natural gas production of the country was 32.89 MMT and 23.30 BCM respectively whereas at the terminal year of 9th Plan (2001-02) the crude oil and natural gas production of the country was 32.03 MMT and 29.71 BCM respectively. As against the target of 180.82 MMT of production during Ninth Plan, the oil production was short by 10 per cent and gas production by 2 per cent. The Committee also notice that the share of private sector companies in the total oil production in the country increased from 7.4% to 12.9% during the Ninth Plan period. Similarly, the share of private sector companies in the total natural gas production increased from 6.4% to 13.6%. The Committee are not convinced with the justification given by the Ministry for such type of performance of National Oil Companies during 9th Plan particularly when the targets fixed were already very low. The Committee are astonished to note that during 9th Plan period no new major field development projects were taken up by the National Oil Companies for contribution to oil production. Moreover, most of the Improved Oil Recovery Schemes/Enhanced Oil Recovery Schemes were initiated in the later part of 9th Plan including Redevelopment of Mumbai High. The Committee hope that there will be significant rise in oil and gas production due to IOR/EOR schemes started during later part of

9^{th} Plan. The Committee, however, desire that National Oil Companies should intensify their exploration and production efforts aggressively in the existing as well as new projects obtained under New Exploration Licencing Policy. The Committee also desire that ONGC should start the work on fast track development of new fields like D-1 and Vasai East in Mumbai offshore and G-1 in Krishna-Godavari offshore without any further delay. Simultaneously they should vigorously pursue the work relating to the examination of marginal fields for finding out the feasibility of their development. The Committee would also like to caution that oil companies should not repeat the mistakes like rescheduling of additional development Plan, non-commensurate drilling results and delay in inputs mobilisation which were responsible for their failures in achieving the targets during 9^{th} Five Year Plan.

(Recommendation No.2)

2.3 From the growth trend in consumption of petroleum products the Committee find that the demand of petroleum products has registered very poor growth of about 4.9% during 9^{th} Five Year Plan as against the target of 5.77 per cent. They are surprised to see the alarmingly low growth of 0.4 per cent between 2000-01 and 2001-02. The Committee are not convinced with the reasons given by the Government that the low growth of demand of petroleum products is mainly due to industrial slow down coupled with increasing share of service sector in the Gross Domestic Product (GDP) and increased use of I.T. by various sectors. In Committee's view, this trend is attributable to frequent and high price hike of petroleum products during recent years. Due to frequent and high price rise, people have curtailed their consumption of kerosene, diesel and petrol also. The Committee expect the similar results during the current Five Year Plan also. The Committee, therefore, recommend that the Government should undertake an independent study to analyse the various reasons including impact of price rise on consumption pattern of petroleum products during the recent years and modify their policies accordingly to make them friendly to common/poor population of the country.

(Recommendation No.3)

2.4 In view of stagnating domestic production of crude and the widening gap between demand and supply of gas, there is a need to diversify oil supply sources and acquire equity oil and gas abroad. In Committee's view this should be an important component of the strategy to achieve oil security. The Committee have noticed that during the 9^{th} Plan period ONGC Videsh Limited had tried to venture abroad to have access to exploration blocks and oil producing properties for equity oil either on its own or through strategic alliances/Joint Ventures. During the 10^{th} Plan, ONGC envisages 5.2 MT of oil and 4.94 BCM of gas production from Russia (Sakhalin-I) and Vietnam. ONGC and OIL have also been pursuing some other opportunities in countries like Iran, Iraq, Russia, Venezuela and Algeria to acquire exploration acreage and oil producing properties in these countries. The Committee also observe that an amount of Rs. 13500 crores has been kept for such ventures of ONGC Videsh Limited during 10^{th} Five Year Plan. The Committee are happy to note that GAIL (India) Limited has also started pursuing the exploration and production opportunities in natural gas overseas in coordination with ONGC Videsh Limited.

The Committee, therefore, strongly recommend that the Government should extend all necessary assistance through diplomatic channels and other sources to encourage oil PSUs/private sector companies to tap opportunities available abroad for acquiring exploration acreages either on their own or through strategic alliances.

(Recommendation No.4)

2.5 The Committee observe that current availability of natural gas in the country is around 65 MMSCMD. As against this, the total firm commitment in terms of gas allocations to various consumers is around 120 MMSCMD. The demand of natural gas is estimated to be 231 million standard cubic metres per day in 2006-07. The Committee also observe that initially the gas reserves had been developed largely for use as petrochemical feedstock and in the production of fertilisers, but gas is now increasingly being used for power generation, industrial application and more recently in the transport sector. The Hydrocarbon Vision-2025 of the Government identifies natural gas as the preferred fuel for the future. The Committee are happy to note the major gas discovery by a consortium of companies in a block in Krishna-Godavari offshore basin on the East coast. This block is expected to produce 25-35 MMSCMD of gas as per the estimates of the consortium. Similarly, the other discoveries of natural gas near Surat and in Rajasthan also indicate positive signs, although the development plans and schedules of commercial production in respect of these discoveries have not been firmed up by these companies. The Committee, therefore, desire that the Government should persuade the oil sector PSUs and private sector companies working in NELP blocks to firm up these discoveries and prepare development plans and schedules without any delay so that the wide gap between demand and supply of natural gas is minimised.

(Recommendation No.5)

2.6 It is reported that the price of imported LNG shall be quite high and beyond the reach of consumers even the bulk consumers like Fertiliser & Power Industries have shown their reluctance to buy imported LNG as the economic viability of their business activities can be hit if they have to pay for higher price for imported LNG than the present price they are paying for their feedstock. The Committee, therefore, recommend that economic viability of imported LNG be assured industry-wise and efforts should be made to explore alternate sources of import of LNG so that the delivery price of LNG is cheaper and economically viable. The Committee observe that despite the additional gas supply from new blocks, there will remain a large gap between demand and supply of natural gas. Under these circumstances, the Committee have a firm opinion that the Government should continue to explore the other options to increase the supply capacity of natural gas including building facilities to handle imports of Liquefied Natural Gas and setting up of pipelines from major gas producing countries with more vigour and sincerity. The Committee note that due to lackadaisical approach of the Government both the initiatives have not progressed in a planned way. The Committee observe that LNG is a new fuel and is in initial stages of development in the country and it requires an integrated policy for proper development of this new sector. The Committee, therefore, recommend that the Government should take all initiatives to prepare and announce an integrated

LNG policy covering the regulatory mechanism for the country in the shortest possible time.

(Recommendation No.6)

2.7 The Committee observe that in order to bridge the large gap between demand and supply of natural gas, one of the options is to import natural gas through pipelines. The Government are examining the issue of import of natural gas from Iran, Bangladesh and Myanmar since long time. The Committee do agree that there are several trnas-national, techno-economic and geo-political considerations which have direct bearing on security of supply of gas, but the fact remains that there has been negligible progress so far in the direction of gas import through pipelines during these years. The Committee desire that feasibility studies for laying pipeline from Iran to India should be completed in the shortest possible time. They also desire that all out efforts be made for an early finalisation of Myanmar-India gas pipeline and Bangladesh-India gas pipeline projects if there is sufficient availability of natural gas in these countries.

(Recommendation No.7)

2.8 The Committee are astonished to note that the Government have not taken up the statutory regulatory framework for upstream sector even after a lapse of one year of dismantling of Administered Pricing Mechanism. On one side, Narad Committee Report on this issue is pending since, 2001. Now the Government have taken a view that the proposal for setting up of upstream Hydrocarbon Regulatory Board may be examined in the light of progress and development on dismantling of APM and on formation mechanism for the downstream Hydrocarbon sector so that a proper interface could be built between the two regulatory bodies. The Committee are not happy with the uncertain and impractical approach of the Government in taking any final decision on such an important issue. The Committee, therefore, recommend that the Government should take final decision in the matter as early as possible.

(Recommendation No.8)

2.9 The Committee note that the Public Sector Undertakings under the Ministry of Petroleum & Natural Gas are maintaining a healthy trend by not taking any Budgetary support from the Government and they are funding their projects through internal resources. Monitoring of these projects is being done by the Government. The Committee are surprised to note that in the original 9th Plan (1997-2002), the Plan outlay for petroleum sector was Rs. 81382.98 crores which was revised to Rs. 78401 crores. Out of this, only an amount of Rs. 50920.80 crores was spent during those five years. Thus the utilisation of Planned outlay was about 65 per cent only. The Committee also observe that there was a marginal shortfall in utilisation of outlay by upstream sector companies (ONGC and OIL). The major shortfall in downstream sector was due to slowdown of demand for petroleum products, high and volatile international prices causing lower refining margin, withdrawal of Joint Venture partners in refinery projects of IOC, HPCL and BPCL, pending Court cases relating to the Bina refinery project of BPCL, delay in finalisation of contract for LNG project of Petronet LNG Ltd. Basically, a large number of projects were kept

under review. The Committee note that the public sector outlay for Tenth Plan has been fixed at Rs. 103656 crores and the Government have tried to project more realistic approach in making allocation for PSUs. The Committee, therefore, desire that the Government should improve their monitoring process so that no more time is exhausted in deciding the fate of pending projects of 9th Plan and there is proper utilisation of funds during 10th Plan. They should ensure that there is proper utilisation of funds allocated to each Public Sector Undertaking on yearly basis.

(Recommendation No.9)

2.10 The Committee observe that under the New Exploration Licencing Policy, ONGC has been awarded a total of 37 exploratory blocks of which 19 are in their own name and 18 are in consortium with other PSUs. The Committee observe that ONGC has better fleet of onland drilling rigs whereas they have only two drill ships for deep water drilling with maximum depth drilling upto 900 metres only. For operation beyond 900 m water depth charter hiring of rigs is envisaged by ONGC. In Committee's view this type of approach of ONGC is more expensive and time consuming. ONGC have already experienced the delays due to delay in availability of rigs. The Committee observe that several blocks obtained by ONGC under NELP are deep water blocks and they have two very important Mumbai High Development Plans in progress. The Committee, therefore, reiterate their earlier recommendation that ONGC should not depend on charter hire of rigs and they should rather enhance their deep water drilling capability so that the most important projects may be completed within time and with lesser financial involvement.

(Recommendation No.10)

2.11 The Committee note that exploration and production activities of ONGC have been discontinued in the State of Nagaland since April-May, 1994 due to environmental problems. Initially no attention was paid by the ONGC/Govt. to resolve the issue but since June, 1999 several meetings have been held with senior level officers of Nagaland to discuss the outstanding issues without any conclusive results. The Committee express their concern for not taking up this issue in right earnest. The Government have recently announced a new scheme of royalty of crude oil which envisages a special grant of 2% over and above the rate of royalty in respect of Nagaland. After this important decision, the Committee desire that the Government should take up this issue with a new dimension and manage to tackle the situation in consultation with all the concerned political and apolitical parties and pave the way for resolution of problems in the way of exploration and production activities in the State of Nagaland.

(Recommendation No.11)

2.12 The Committee observe that in the post-APM era ONGC has been selling oil at international rates. Simultaneously, they are paying an enhanced cess of Rs. 1800 per tonne. During this period ONGC's estimated profit after taxes have increased from Rs. 4552.66 crores for the period April to December, 2001 (APM period) to Rs. 6850.85 crores during the period April to December, 2002 (post-APM period). As a result all the requirement of crude by refining company is being purchased as per the

international price variations including indigenous crude being produced by national companies. The Committee also observe that in the recent past there has been a continuous rise in international crude prices and due to this reason the refineries have spent more and more amount on purchase of crude. Earlier they had been getting atleast 30% of crude produced indigenously at lower price and could bear variations in international prices of crude to some extent. Now, they have no way out and they are transferring each and every increase ultimately to the customer. Under this type of arrangement during deregulated scenario, the ultimate sufferer is the customer, because neither the oil producing companies nor the refining companies are bearing any extra burden due to crude oil price rise. The Committee, therefore, strongly recommend that the Government should analyse the impact of this type of arrangement for purchase of crude on consumers and develop a practical formula which is suitable not only for oil producing companies and refineries but also for the consumers. The Committee also recommend that enhancement of cess from Rs. 900 to Rs. 1800 per tonne imposed on National Oil Companies be withdrawn completely.

(Recommendation No.12)

2.13 The Committee observe that the revised expenditure of ONGC for 9th Plan was Rs. 20198.75 crores whereas for 10th Plan its outlay has been kept at Rs. 46968.95 crores. The major areas where increased outlay has been projected are development drilling, capital projects and R&D for domestic activities. For overseas exploration and production activities also, a significant allocation of Rs. 13550 crores has been provided. On the other hand, the Committee observe that during the first year of 10th Plan, the estimates for ONGC were revised to Rs. 14644.94 crores against the budget estimates of Rs. 8973.31 crores. Against this, an expenditure of Rs. 3269.34 crores only has been made during April to December, 2002. This is lower utilisation of planned budget for ONGC's own activities during 2002-03 was due to delay in major acquisition of seismic units, logging units and work over rigs and deployment of contractual seismic vessels, non-deployment of off-shore charter hire rigs and phasing of major expenditure of planned schemes in the 4th quarter. In the last quarter of the year, the tempo of domestic investment has picked up. The Committee do not appreciate this type of expenditure at the fag end of the year and desire that ONGC should opt a more pragmatic approach in the remaining years of the 10th Five Year Plan.

(Recommendation No.13)

2.14 The Committee note that gas transmission and distribution forms the bulk of GAIL business today followed by gas processing for LPG production and production of chemicals. They have entered into telecom sectors and in the field of exploration and production of oil and gas also. The Committee find that GAIL was set up by Government of India to undertake all activities post-exploration and production and for transmission, distribution, marketing and processing of natural gas and GAIL has successfully played this role since inception. They have developed infrastructure and facilities in different parts of the country where gas is produced to ensure the best utilisation of indigenously produced gas. The Committee also find that in its globalisation efforts GAIL are focussing on gas supply sources from where gas can be

supplied to Indian markets in cost effective and secure manner. GAIL is facing competition from multiple players in developing pipeline infrastructure and marketing gas. Similarly, there is no long term gas supply contract between ONGC and GAIL. The Committee welcome the initiatives taken by GAIL for synergetic diversification which would support GAIL to grow in its areas of core competence as well as build further expertise there on. However, they desire that such diversification should be undertaken without making any investment in other private companies. The Committee hope that GAIL has assessed the Human Resources and others requirements needed in this regard through an expert study and would take all necessary steps to fill up these at the right time. The Committee would like to be assured about this.

(Recommendation No.14)

2.15 The Committee note that as against the approved outlay of Rs. 25488.23 crores during 9th Plan, the expenditure of Indian Oil Corporation Limited was Rs. 12886.39 crores only. During every year of the 9th Plan there was a huge shortfall. This reached upto Rs. 3290 crores during 2001-02. During the Ninth Plan period five major projects relating to Paradeep Refinery, Panipat Refinery and Gujarat Refinery were kept under review due to lower than expected demand growth and re-scheduling of completion of quality improvement projects. The 10th Plan outlay for IOCL is Rs. 24399 crores which constitutes mainly continuing schemes i.e. spill over projects of the 9th Plan period. The new schemes in 10th Plan constitute only 7% of the overall outlay. The Committee find that as per the original Government approval, the Paradeep Refinery project was scheduled to be completed within 48 months from 14.7.1998. The major problem due to which the original schedule could not be adhered to was the withdrawal of tax incentives by the Orissa Government. Due to continuous efforts of the Government/IOCL, the State Government of Orissa have partly restored the sales tax incentives which amount 32% of the incentives approved earlier. The project is presently under review by the Board of Directors of IOCL for finalisation of its implementation schedule and methodology and they have informed that keeping in view the demand supply projections of petroleum products in the country and revised project cost, completion of the project is likely to spill over beyond 10th Plan. The basic design for process units and acquisition of approximately 3347 acres of land has been completed. The progress of this Project is very slow and the reluctant approach of the State Government may cause more delay in the implementation of the project. The Committee, therefore, once again reiterate that the Government/IOCL should take up with the Orissa Government the matter relating to full restoration of State sales tax incentives granted earlier for which they had agreed before the Committee during their Study Tour in Bhubaneswar. The Committee also desire that IOCL/Government should take a final decision regarding implementation schedule and methodology for the completion of the project in the shortest possible time.

(Recommendation No.15)

2.16 The present installed capacity of seven IOCL refineries is 38.150 MMTPA. Out of these, Guwahati Refinery with a capacity of 1 MMTPA and Barauni Refinery with a capacity of 4.2 MMTPA have been showing poor capacity utilisation since last

several years. The Committee understand that this situation is due to non-availability of crude oil to these refineries. The Committee do not find any justification for recently completed Barauni Refinery Expansion Project particularly in a situation when Barauni Refinery was not able to utilise its capacity due to non-availability of crude. The Committee, therefore, recommend that IOCL/Government should now take all the initiatives to provide crude oil to Guwahati and Barauni Refineries so that these may be able to improve their capacity utilisation in the coming years.

(Recommendation No.16)

2.17 The Committee note that Central India Refinery Project at Bina was being implemented by Bharat Oman Refineries Limited – a joint venture company between BPCL and Oman Oil Company. The proposal to permit BPCL to enhance its equity contribution in Bharat Oman Refineries Limited (BORL) from earlier approved level of Rs. 549 crores up to Rs. 1271 crores which is equal to 50% of revised equity requirement of BORL considering debt equity ratio of 1.5:1, for executing the 6 MMTPA project alongwith related crude import facility and cross country crude control pipeline is under consideration of the Government. The Committee regret to note that the Government have not taken any final decision about this proposal. Moreover in the changed situation where Bharat Petroleum Corporation Limited is proposed to be disinvested the Government are not sure whether the implementation of Refinery Project at Bina be left to the new management of BPCL or the Government may take up its implementation through an agency. The Committee find this situation as confusing one when the entire land for the refinery and township blocks at Bina and crude oil terminal at Vadinar has been acquired. Acquisition of right of user / right of way along the entire 935 kms. length of cross country crude pipeline including land required for intermediate pump stations has been almost completed. Engineers India Limited have completed front end design for the project and an expenditure of Rs. 150.39 crores has been incurred. The Committee, therefore, strongly recommend that the Government should take a final decision regarding implementation of Bina Refinery Project before the actual disinvestment process is initiated.

(Recommendation No.17)

2.18 The Committee observe that in the 10th Five Year Plan it is envisaged that the oil sector will continue to play a major role in the economic development of the country. Enhanced domestic production and oil security have been identified as two major areas of emphasis. To ensure the oil security, ONGC and OIL have set specific targets for seismic surveys, acquisition and drilling. Similarly, ONGC have drawn up an aggressive time bound action plan for Enhanced Oil Recovery Schemes and Improved Oil Recovery Schemes in about 80% of their fields. OIL propose to implement IOR/EOR measures in 75% of their fields. 10th Plan envisages a total contribution of 5.2 million tonnes of oil from the overseas acquisition. Several areas have been taken up for benchmarking of Hydrocarbon sector with international standards and the Government also propose to build 15 day's strategic storage of crude oil during the 10th Plan. The Committee welcome these proposals but they desire that an annual analysis of targets and achievements should be made by the

Ministry during each year of the Plan so that the targets are not defeated and oil security of the country is appropriately strengthened.

(Recommendation No.18)

2.19 The Committee observe that in the deregulated era, the refineries have to improve their efficiency to meet challenges of the competitive scenario. The four refineries (Digboi, Guwahati, Numaligarh and Bongaigaon) in the North Eastern region are of economic size compared to present day minimum/threshold size of 9 MMTPA. There is no scope for increasing their size due to low consumption of petroleum products in the region and non-availability of crude oil from the North East. As against the total capacity of 7 MMT of these refineries only 5 MMT of crude is available. The Committee feel that in addition to ongoing efforts to enhance crude oil production in Assam fields, there is a need to take other initiatives. The Committee, therefore, strongly recommend that the Government should approve the pending proposal to pump in additional crude oil from outside the region into the North-East without any delay. The Committee also recommend that the Ministry should take all initiatives to restore the excise duty exemption of NRL and also provide similar exemptions to other three refineries of North- East so that the North East refineries may be able to maintain their viability in Post-APM era.

(Recommendation No.19)

2.20 The Committee note that as the oil sector PSUs are self sustaining 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 the year 2003-04 have been placed at Rs. 8128.28 crores under the Revenue Section. There is no provision under Capital Section. The demand includes Rs. 8.28 crores for Secretariat-Economic services and Rs. 8120 crores for additional budgetary provisions to meet the subsidy requirements in Post-APM era starting from 1.4.2002. Previously, they were being paid from the Consolidated Fund of India. The additional provision includes an allocation of Rs. 6300 crores for subsidy on domestic LPG and kerosene for PDS, Rs. 246 crores for freight subsidy on retail products for far-flung areas, Rs. 1570 crores for compensation to refineries on account of irrecoverable sales taxes and Rs. 2 crores each for Petroleum Regulatory Board and 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 the Ministry should try to keep expenditure within the sanctioned Budget of the Ministry and they should follow all the instructions of the Ministry of Finance to effect economy particularly in non-Plan expenditure.

(Recommendation No.20)

2.21 The Committee note that presently domestic refineries are compensated for irrecoverable taxes through mechanism of the State Surcharge Scheme. Under this scheme, compensation is provided for irrecoverable tax levied on the entry of crude oil in the local area including octroi, net of set off available it any, and tax levied on inter-company sale transaction for moving petroleum products of domestic refineries inter state namely Central Sales Tax (CST) and Purchase Tax. The Ministry have

agreed that the compensation under the 'irrecoverable taxes compensation scheme 2002' would not be required once an appropriate VAT system having provisions for providing set off on account of irrecoverable taxes being compensated under the scheme is put in place for the oil sector. The Ministry have informed that they have taken up introduction of VAT system in the oil sector with the Ministry of Finance. Moreover, the matter has been taken up with the State Governments to rationalise the tax structure by withdrawing irrecoverable taxes. The Government have decided to implement VAT system in the States soon. The Committee, therefore, desire that the Government should pursue the proposals for introduction of VAT system in oil sector. They should also try to reduce this expenditure in the States where VAT is being implemented during the current Financial Year 2003-04.

(Recommendation No.21)

2.22 The Committee observe that the Government have constituted a separate Cell to tackle the problem of adulteration of petroleum products. This Cell is known as 'Anti-Adulteration Cell'. At present the strength of Anti-Adulteration Cell is 34. Out of this, there are only 17 investigating officers in the regional offices against the sanctioned strength of 28. In Committee's view this small number of investigating officers is not sufficient to handle the growing magnitude of problem of adulteration in all parts of the country. There is huge financial loss to the national exchequer as well as to the oil companies due to problem of adulteration. This small Cell is not able to handle the problem effectively particularly in the Post-APM era when there is no direct control of the Government on the marketing companies. The Committee, therefore, desire that the Government should fill all the 11 vacancies of investigating officers in the Anti Adulteration Cell without any delay.

(Recommendation No.22)

2.23 The Committee observe that Oil Pool Account has been dismantled w.e.f. 1.4.2002 and outstanding balances are supposed to be liquidated by issue of oil bonds to the concerned companies. The outstandings of the oil companies against the Oil Pool Account by 31st March, 2002 were Rs. 13500 crores. The special bonds totalling Rs. 9000 crores were issued to the oil companies on 31st March, 2002 in the proportion of their outstandings against their Oil Pool Account. The Ministry have informed that the Government bonds for the remaining outstandings for the oil companies against the Oil Pool Account would be issued after C&AG's audit likely to be completed during 2003-04. The Committee, therefore, recommend that the Ministry should ensure completion of the work relating to issue of bonds of remaining outstandings immediately after the availability of C&AG's Report.

(Recommendation No.23)

2.24 The dismantling of Administered Pricing Mechanism in the petroleum sector has been announced with effect from 1st April, 2002. This has been done in response to the Government's decision of November, 1997. The Committee have found that the Government have effected dismantling of Administered Pricing Mechanism without rationalising the duties structure to the specified level. After dismantling of APM, the prices of petroleum products have become market determined. Under these circumstances, the people are facing two types of burdens. On one side, they

are still bearing the burden of higher rate of Excise Duty and on the other side, they are paying the higher prices decided by the oil companies which have been revised frequently during the period of one year. The Committee, therefore, recommend that the Government should rationalise the duty structure as per the earlier decision of 1997 so that the adverse implications of dismantling of Administered Pricing Mechanism may be avoided and customer may get some relief. The Committee also note that during the last one year i.e. during the Post-APM era, the prices of petrol and diesel have been revised several times. The Committee recommend that some mechanism be evolved to stop frequent revision of prices to give relief to the customers.

(Recommendation No.24)

2.25 From an analysis of the mechanism being followed by the Oil Companies in deciding the selling prices of petrol and diesel in post-APM period, the Committee note that the Excise Duty and Sales Tax form a substantial part against the basic prices of diesel and petrol. This results in fixing higher selling prices of these products. To illustrate, the Committee note that in Delhi, Excise Duty and Sales Tax components work out 117% on petrol and 40% on diesel of the basic prices of these products at refineries on import parity basis. The Committee further note that the basic price of diesel at refineries is higher than the petrol price but Excise Duty and Sales Tax on this product has been kept lower than petrol. Obviously, this has been done to keep the selling price of diesel at affordable level. The Committee appreciate this logic since diesel is common man's transportation fuel. As against Delhi prices, the selling prices are higher in some of the States due to higher slabs of local taxations, etc. Viewing the price structure in totality, the Committee note that entire structure of Excise Duty and Sales Tax is at much higher level and needs review especially in view of the experience gained during the last one year in post-APM era when with the prices of petrol and diesel have gone up considerably. The Committee, therefore, recommend that the Ministry of Petroleum & Natural Gas should take up with Ministry of Finance and also with State Governments the necessity of reducing Excise and Sales Tax structure. Further, the Committee note that there is wide difference in selling prices of petrol and diesel which is a contributory factor of adulterating diesel in petrol. The Committee, therefore, recommend that Excise duty on petrol be reduced substantially so that there is not much difference in selling prices of these items.

(Recommendation No. 25)

2.26 The Committee observe that the Government have issued detailed guidelines for granting authorisation to market transportation fuels namely MS, HSD and ATF to the new entrants including the private sector. After the publication of these guidelines, the Government have granted authorisation to market transportation fuels in favour of Oil & Natural Gas Corporation Ltd. (ONGC), Numaligarh Refinery Limited (NRL) and some private companies. These Companies have proposed to set up a total number of 8659 new Retail Outlets including 923 in remote and low service areas of the country. The Committee express their anxiety to note that after the dissolution of Dealer Selection Boards in May, 2002, the public sector

oil companies have not taken any initiative to set up new Retail Outlets and Gas agencies in any part of the country. The guidelines for allotment of ROs/LPG agencies by oil sector PSUs have also not been finalised as yet. It is reported that the private sector companies permitted to enter in marketing sector have started their work for selection of sites and completion of other formalities vigourously. The Committee, therefore, strongly condemn the lackadaisical approach of the Government and desire that the Government should finalise the guidelines for allotment of ROs and LPG agencies without any delay to enable the marketing companies to finalise their further marketing plans immediately. They hope that there would be uniformity of guidelines for all marketing companies both in Public and Private Sector. Uniformity of guidelines is pre-necessity for creating level playing field for Public and Private Sector marketing companies. The Committee would also like that the Government should endeavour to make such guidelines applicable retrospectively w.e.f. May, 2002 when the DSBs were disbanded. Besides, a provision for setting up of ROs and LPG gas agencies in remote and low service areas should properly be incorporated in all the marketing plans both of PSUs as well as of private sector companies.

(Recommendation No.26)

2.27 The Committee observe that under the New Exploration Licensing Policy (NELP) the Government have signed the Production Sharing Contracts (PSCs) for 70 blocks. This include 16 blocks on land, 30 blocks in shallow water and 24 blocks in deep water areas. During three phases of NELP, PSCs relating to 50 blocks could not be signed due to lack of interest of bidders. These blocks mainly pertain to on land and shallow water areas. In Committee's view, the Government could not attract the bids due to poor quality of available data relating to those blocks. The Committee, therefore, recommend that the Government/DGH should reprocess/upgrade their data relating to the blocks for which bids were not offered during the NELP rounds. In Committee's view through this approach only the Government can attract the companies for such areas.

(Recommendation No.27)

2.28 The Committee observe that Directorate General of Hydrocarbons has been entrusted with responsibilities concerning the Production Sharing Contracts for discovered fields and exploration blocks and monitoring of E&P activities including review of reservoir performances of major fields. DGH is also engaged in acquisition of data in new/unexplored areas with a view to prepare data packages and offer such areas under bidding rounds. At present DGH as a representative of the Government in the management Committee is monitoring the Production Sharing Contracts of 93 exploration blocks. The Committee recommend that office of Directorate General of Hydrocarbon should be strengthened so as to enable it to perform its functions effectively.

(Recommendation No.28)

2.29 The Committee note that the proposal for establishment of National Data Base and Archive system is pending since 1997. DGH had hired two foreign consultants

under the grants received from Asian Development Bank and USTDA for the proposal to set up National E&P Data Base and Archive. The Government have recently approved the proposal of DGH to implement Phase I of this Project. In response to specific query of the Committee, the Ministry have categorically stated that there are no hurdles in the implementation of the project setting up of National Exploration and Production Data Base and Archive system. The Committee, therefore, desire that DGH/Government should now start the work on this project in a time bound manner.

(Recommendation No.29)

2.30 The Committee observe that Oil Companies have implemented major programmes for the upgradation of auto-fuel quality during the 9th Plan. Lead has been removed from petrol in phases and from 1st April, 2000 only unleaded petrol is supplied in the entire country. Petrol octane number has been increased and sulphur content reduced from 0.20% max to 0.10% max. in the entire country from 1st April, 2000. In addition, the 4 metro towns and the National Capital Region are being supplied petrol containing 0.05% max sulphur content. The sulphur content in diesel has been reduced from 1% max to 0.25% max in the entire country. The Committee observe that in order to enable Bharat Stage II vehicular emission standards throughout the country and Euro III equivalent emission norms in 7 mega cities from April, 2005, the quality of petrol and diesel would need to be further improved. For this purpose measures such as further reduction of sulphur content need to be taken in a time bound manner. The Committee, therefore, strongly recommend that the Government should ensure that Indian Refineries including private sector refineries make the required investment in secondary and tertiary processing facilities to ensure that quality of products conforms to the relevant specifications.

(Recommendation No.30)

2.31 As far as development of eco-friendly fuel is concerned, the Committee find Di-Methyl Ether as very important. GAIL, IOC, IIP and BP had signed a joint collaboration agreement in July, 1998 to carry out feasibility study for putting up a Di-Methyl Either project for application in power sector, in the domestic sector to substitute LPG and in the transport sector to substitute diesel. The results of R&D in this field were very encouraging. In between, one partner BP has withdrawn from the project on 3.10.2001. The Indian consortium is striving to have other international partner of BP's stature to take up BP's equity. The Committee also observe that Indian Consortium does not propose to continue with the project without the presence of strategic partner such as a multinational / global major, as the project needs assured supply of gas and is to be built at the source of gas. The Government have informed that the efforts are on to identify strategic partner for collaboration in the project and discussions have been initiated with Marubeni, NKK of Japan and Chevron of USA. The Committee, therefore, desire that the Government should provide all types of diplomatic and commercial/financial help to the Indian Consortium in searching the strategic partner for collaboration in such an important project and the project should be started in the right earnest.

(Recommendation No.31)

2.32 The Committee observe that as per the directions of Supreme Court the Indraprastha Gas Limited has submitted an affidavit that they would augment their compression capacity to 16.11 lakh kg per day by June, 2003. But the Committee find at present they have achieved the compression capacity upto 7.71 lakh kg per day only. The Committee, therefore, desire that the IGL should take all the necessary initiatives to augment their compression capacity to 16.11 lakh kg. per day by the target date of 30th June, 2003 since GAIL (India) Limited has already committed the availability of the required quantity of gas. For this purpose, the IGL should also augment the CNG infrastructure as per the requirements. Simultaneously, they should also ensured balanced zone-wise distribution of CNG stations in National Capital Region of Delhi because at present maximum CNG stations are situated in South and West Zones only.

(Recommendation No.32)

2.33 The Committee observe that Government have mandated supply of 5% ethanol-blended petrol in the 9 sugarcane producing states of Andhra Pradesh, Goa, Gujarat, Haryana, Karnataka, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh and the 4 Union Territories of Chandigarh, Dadra Nagar Haveli, Daman Diu and Pondicherry in a phased manner from 1.1.2003 with complete coverage to be achieved by 30.6.2003. It is proposed to cover the entire country with 5% ethanol-blended petrol during the year 2003-04. The Committee are surprised to note that no time bound programme has been prepared for introduction of ethanol-blended petrol, diesel in the States initially with 5% blending and later on with 10% blending. The Committee also observe that R&D experiments have indicated that upto 10% blending of ethanol in petrol is possible under Indian conditions. In view of encouraging results of blending of ethanol in petrol, diesel, the Committee desire that the Government should prepare a time bound programme for introduction of this type of petrol/diesel in all the States. At the same time the Committee would recommend that the Government should immediately assess the possibility of reduction in prices of ethanol-blended petrol/diesel being supplied in the market so that the benefits reach the common man.

(Recommendation No.33)

2.34 The Committee note that the reconnaissance surveys carried out by DGH in East Coast and Andaman deep water areas in 1997 had deciphered the most promising areas of gas hydrates deposits. No significant progress has been made so far since that discovery. The Committee are surprised to note that no road map has been prepared for National Gas Hydrate Programme so far. During 10th Plan all the activities connected with the NGHP are planned to be taken up concurrently and pilot studies for the production of gas hydrates, if found feasible are planned by the end of 10th Plan. Since the first year of the 10th Plan is already over, the Committee strongly recommend that the Government should now finalise the road map for National Gas Hydrate Programme. The Committee also hope that as promised by the Government there would be no constraints of funds for National Gas Hydrate Programme.

(Recommendation No.34)

2.35 The Committee look at the oil conserved through efficient utilisation as a quicker, efficient and economic source of energy. Any reduction in oil demand due to efficient utilisation would allow the diversion of this scarce resource to other areas of pressing needs and new economic activities. Various activities are being conducted through Petroleum Conservation Research Association and Public Sector Oil Companies. PCRA have been trying to cover a large spectrum of socio-economic activities leading to increase in awareness on oil conservation. The Committee, however, desire that PCRA should prepare an intensive time bound programme to educate each and every home in each part of the country through personal contracts or media so that each consumer can realise the importance of fuel- conservation. They should do more energy audits and try to develop fuel efficient pumpsets in the agricultural sector and fuel efficient domestic appliances.

(Recommendation No.35)

2.36 The Committee note that the domestic crude oil production accounts for about 30% of domestic demand and remaining 70% is met by imports. During 10th Plan efforts are being made to enhance indigenous oil production and equity oil abroad to improve self-sufficiency in oil. However, there is an urgent need for creating strategic storages in meeting the crude oil requirements. Under the APM, the storage of crude oil and petroleum products and strategic requirement were being taken care of by oil PSUs. The Ministry claim that the present stocks of crude oil and petroleum products with oil companies are sufficient to meet the requirements of petroleum products for about two months. In deregulated scenario, the oil companies will optimise their inventories to meet their margins. However, it is surprising that no strategic storage has separately been developed. The Government have recently announced to develop such storage for 15 days with an investment of Rs. 4350 crores. The Committee are not satisfied with the progress made in this important area and recommend that the Government should develop a perfect mechanism for creating strategic storage in the shortest possible time.

(Recommendation No.36)

New Delhi:
April 7, 2003
Chaitra 17, 1925 (Saka)

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

APPENDIX-I

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS

(2003)

SECOND SITTING

(26.03.2003)

The Committee sat from 1100 hrs. to 1300 hrs.

Present

Shri Mulayam Singh Yadav - Chairman

Members

Lok Sabha

2. Shri Ashok Argal
3. Dr. (Smt.) Suguna Kumari Chellamella
4. Shri Padam Sen Choudhry
5. Shri Khagen Das
6. Shri Harpal Singh Sathi
7. Smt. Sheela Gautam
8. Shri Paban Singh Ghatowar
9. Shri Bijoy Handique
10. Shri Shriprakash Jaiswal
11. Shri Jagannath Mallick
12. Shri P. Mohan
13. Shri Ashok N. Mohol
14. Dr. Debendra Pradhan
15. Shri Mohan Rawale
16. Shri Ram Sajivan
17. Dr. Bikram Sarkar
18. Dr. (Smt.) V. Saroja
19. Shri Shyama Charan Shukla
20. Dr. Ramesh Chand Tomar
21. Shri Prabhunath Singh
22. Dr. Ram Lakhan Singh
23. Shri Shankersinh Vaghela
24. Shri Ratilal Kalidas Varma
25. Shri A.K.S. Vijayan
26. Dr. Girija Vyas

Rajya Sabha

27. Shri Balkavi Bairagi
28. Shri Ramnath Kovind
29. Shri Anil Kumar
30. Shri Rajiv Ranjan Singh 'Lalan'
31. Shri Moochand Meena
32. Shri Dipankar Mukherjee
33. Shri Ahmed Patel
34. Shri V.V. Raghavan
35. Ms. Mabel Rebello
36. Shri Thanga Tamilselvan

SECRETARIAT

1. Shri P.D.T. Achary - *Additional Secretary*
2. Shri P.K. Grover - *Director*
3. Shri R.K. Saxena - *Under Secretary*
4. Shri J.N. Oberoi - *Officer on Special Duty*
5. Dr. Ram Raj Rai - *Assistant Director*

REPRESENTATIVES OF MINISTRY OF PETROLEUM AND NATURAL GAS

1. SHRI B.K. CHATURVEDI - SECRETARY
2. DR. SURAJIT MITRA - JS & FA

3. SHRI PRABH DAS - JOINT SECRETARY
4. SHRI J.M. MAUSKAR - JOINT SECRETARY (EXPLORATION)
5. SHRI S. VIJYARAGHAVAN - JOINT SECRETARY (COORD. & ADMN.)

REPRESENTATIVES OF PUBLIC SECTOR UNDERTAKINGS

1. SHRI SUBIR RAHA - CMD, OIL & NATURAL GAS CORP. LTD. (ONGC)
2. SHRI M.S. RAMACHANDRAN - CMD, INDIAN OIL CORP. LTD. (IOCL)
3. SHRI R.K. DUTTA - CMD, OIL INDIA LTD. (OIL)
4. SHRI S. BEHURIA - CMD, BHARAT PETROLEUM CORP. LTD. (BPCL)
5. SHRI B.K. GOGOI - CMD, BONGAIGAON REFINERY & PETROCHEMICALS LTD. (BRPL)
6. SHRI NARASIMHAN - CMD, CHENNAI PETROLEUM CORP. LTD. (CPCL)
7. SHRI ARUN JYOTI - MD, IBP LTD.
8. SHRI B.K. DAS - MD, NUMALIGARH REFINERY LTD. (NRL)
9.. DR. AVINASH CHANDRA - DIRECTOR GENERAL, DIRECTORATE GENERAL OF HYDROCARBONS (DGH)
10. SHRI G. PRASANNA KUMAR - DG, ANTI ADULTERATION CELL (AAC)
11. SMT. VANDANA SINGHAL - SECRETARY, OIL INDUSTRY DEVELOPMENT BOARD (OIDB)
12. SHRI D.S. MATHUR - DIRECTOR (REFINERIES), HINDUSTAN PETROLEUM CORP. LTD. (HPCL)
13. SHRI CHERIAN PUNNOOSE- DIRECTOR (FINANCE), KOCHI REFINERIES LTD. (KRL)
14. SHRI RAM SINGH - ED, PETROLEUM PLANNING & ANALYSIS CELL (PPAC)

At the outset Hon'ble Chairman welcomed the Members and officers of the Ministry of Petroleum & Natural Gas and representatives of Public Sector Undertakings and other organisations.

2. The Committee took oral evidence of the representatives of the Ministry of Petroleum & Natural Gas in connection with the examination of Demands for Grants of the Ministry of Petroleum & Natural Gas for the year 2003-04.

3. During the course of evidence the main issues which came up for discussion included the appraisal of Ninth Five Year Plan and poor-utilisation of Planned outlay by PSUs, Budget provisions for the year 2003-04, shortfall in demand of petroleum products, exploration and production in ONGC fields and deep sea drilling capability, Ethanol blending projects, storage of petroleum products including strategic storage, problems of North East refineries and implementation of Bina Refinery, Paradeep Refinery and Panipat Refinery projects. Other relevant issues which came up for discussion included the import-parity price of indigenous crude oil, price rise of Air Turbine fuel, high pressure wells, fire in gas pipeline in Mumbai, environmental problems in exploration, impact of Iraq-US war etc.

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

The Committee then adjourned

APPENDIX-II

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS
(2003)

FIFTH SITTING
(04.04.2003)

The Committee sat from 1200 hrs. to 1300 hrs.

Present

Shri Mulayam Singh Yadav - Chairman

Members
Lok Sabha

2. Shri Ashok Argal
3. Dr. (Smt.) Suguna Kumari Chellamella
4. Shri Padam Sen Choudhry
5. Shri Khagen Das
6. Shri Harpal Singh Sathi
7. Smt. Sheela Gautam
8. Shri Shriprakash Jaiswal
9. Shri Jagannath Mallick
10. Shri Ashok N. Mohol
11. Dr. Debendra Pradhan
12. Shri Ram Sajivan
13. Dr. Bikram Sarkar
14. Dr. (Smt.) V. Saroja
15. Dr. Ramesh Chand Tomar
16. Shri Prabhunath Singh
17. Dr. Ram Lakhan Singh
18. Shri Ratilal Kalidas Varma
19. Shri A.K.S. Vijayan

Rajya Sabha

20. Shri Ram Nath Kovind
21. Shri Dipankar Mukherjee
22. Shri V.V. Raghavan
23. Ms. Mabel Rebello
24. Prof. Ram Gopal Yadav

Secretariat

1. Shri P.D.T. Achary - *Additional Secretary*
2. Shri P.K. Grover - *Director*
3. Shri R.K. Saxena - *Under Secretary*
4. Shri J.N. Oberoi - *Officer on Special Duty*
5. Dr. Ram Raj Rai - *Assistant Director*
6. Shri A.K. Shah - Assistant Director

2. At the outset Hon'ble Chairman welcomed the Members and appreciated them for making suggestions and contribution in examination of Demands for Grants for the Ministries attached with this Committee.

3. The Committee then considered the following Draft Reports:-

(i) Thirty-Ninth Report on Demands for Grants of the Ministry of Petroleum & Natural Gas for the year 2003-04;

(ii) ** ** ** ** ** ** ** ** ** ** **

(iii) ** ** ** ** ** ** ** ** ** ** **

4. Some of the Members suggested minor changes in the draft Reports, which were accepted and incorporated.

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

6. The Committee also authorised the Chairman to finalise the Reports after factual verification by the concerned Ministries/Departments and present the same to the Parliament in the current Session.

The Committee then adjourned.

** ***Matters not related to this Report.***