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INDIAN OIL CORPORATION LTD — INSTALLATION OF TWO L.P.G. BOTTLING PLANTS AT BANGALORE

(MINISTRY OF PETROLEUM & CHEMICALS)
(Department of Petroleum & Natural Gas)

COMMITTEE ON PUBLIC UNDERTAKINGS 1990-91

SEVENTH REPORT

NINTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

SEVENTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(1990-91)

(NINTH LOK SABHA)

INDIAN OIL CORPORATION LIMITED—INSTALLATION OF TWO L.P.G. BOTTLING PLANTS AT BANGALORE

(MINISTRY OF PETROLEUM AND CHEMICALS)
(DEPARTMENT OF PETROLEUM AND NATURAL GAS)

[Action taken by Government on the recommendations contained in the 55th Report of the Committee on Public Undertakings (Eighth Lok Sabha)]

Presented to Lok Sabha and
Laid in Rajya Sabha on 2 JAN 1991

LOK SABHA SECRETARIAT
NEW DELHI

November, 1990/*Kartika*, 1912 (*Saka*)

CORRIGENDA TO THE SEVENTH REPORT OF COMMITTEE ON PUBLIC UNDERTAKINGS (1990-91) ON INDIAN OIL CORPORATION LTD. - INSTALLATION OF TWO LPG BOTTLING PLANTS AT BANGALORE.

Page	Para	Line	For	Read
(iii)	Below the footnote the following may be added: "Shrimati Renuka Chowdhury and Shri Mohinder Singh Lather elected w.e.f. 31.8.1990 against the above vacancies."			
(v)	2	13	Sub-Committee	Sub-Committee of the Committee
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14	-	[illegible] below	For the existing sentences "Both IOC and .... rail transport", the following may be read-" Both IOC and Ministry of Petroleum have now tried to convince the Committee that transportation of LPG by road is cheaper than by railways. The Committee are not satisfied with the view taken by IOC and the Ministry. The Committee fail to understand how the road transport could be cheaper than rail transport.	

CONTENTS

APPENDICES

COMMITTEE ON PUBLIC UNDERTAKINGS
(1990-91)

CHAIRMAN

Shri Basudeb Acharia

MEMBERS

Lok Sabha

2. Shri Manoranjan Bhakta
3. Shri Narsingh Rao Dixit
4. Shri Bal Gopal Mishra
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Rajya Sabha

16. Shri Dipen Ghosh
17. Shri Ajit P. K. Jogi
18. Shri Pramod Mahajan
19. Shri Syed Sibtey Razi

*20. Dr. G. Vijaya Mohan Reddy

21. Prof. Chandresh P. Thakur

**22. Shri Virendra Verma

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*. Resigned from the Membership of the Committee w.e.f. 9-8-1990

**. Ceased to be a Member of the Committee consequent upon his resignation from Rajya Sabha w.e.f. 14-6-1990

SECRETARIAT

1. Shri S. C. Gupta—*Joint Secretary*
2. Shri K. K. Sharma—*Director*
3. Shri N. M. Jain—*Under Secretary*

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 7th Report on Action Taken by Government on the recommendations contained in the 55th Report of the Committee on Public Undertakings (Eighth Lok Sabha) on Indian Oil Corporation Limited—Installation of two L.P.G. Bottling Plants at Bangalore.

2. The 55th Report of the Committee on Public Undertakings was presented to Lok Sabha on 12 April, 1989. Replies of Government to all the recommendations contained in the Report duly vetted by Audit were received on 20th June, 1990. The Replies of Government were considered by the Action Taken Sub-Committee on Public Undertakings on 31st October, 1990. The Committee also considered and adopted this report at their sitting held on 31st October, 1990.

3. An analysis of the action taken by Government on the recommendations contained in the 55th Report (1988-89) of the Committee is given in Appendix II.

NEW DELHI;
November 16, 1990
Kartika 25, 1912 (*Saka*)

BASUDEB ACHARIA,
Chairman,
Committee on Public Undertakings.

CHAPTER-I

REPORT

The Report of the Committee deals with the action taken by Government on the recommendations contained in the Fifty-Fifth Report (Eighth Lok Sabha) of the Committee on Public Undertakings on Indian Oil Corporation Limited—Installation of two LPG Bottling Plants at Bangalore which was presented to Lok Sabha on 12th April, 1989.

2. Action Taken Notes have been received from Government in respect of all the 14 recommendations contained in the Report. These have been categorised as follows:—

(i) *Recommendations/observations that have been accepted by Government.*

Sl. Nos. 3—14.

(ii) *Recommendations/observations which the Committee do not desire to pursue in view of Government's replies.*

Sl. Nos. 1 and 2.

(iii) *Recommendations/observations in respect of which replies of Government have not been accepted by the Committee.*

-NIL-

(iv) *Recommendations/observations in respect of which final replies of Government are still awaited.*

-NIL-

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

A. *Implementation of Committee's Recommendation*

(Recommendations Sl. Nos. 3, 4, 5, 6, 7 and 9)

4. In reply to Committee's recommendations which inter-alia, emphasised the need for strengthening the system of project formulation, approval of projects including their Detailed Project Reports implementation and monitoring of the projects in undertaking/

Ministry, the Government have stated that recommendations of the Committee have been noted for compliance and oil companies have been advised to strengthen their system of project planning and implementation so as to avoid extra expenditure on the projects at a later stage. The Committee would like the Ministry to keep a close watch on the projects undertaken by the Undertakings under their administrative control to avoid cost and time over-runs so that Ministry's instructions do not remain on paper only.

B. *Delay in approval of detailed Project Reports by Ministry.*

(Recommendation S. No. 3)

5. The Committee had noted that apart from Bangalore Bottling Plant, the guidelines of Ministry of Finance in regard to approval of DPR within the stipulated period of one year were not followed in any of the projects undertaken by IOC during the last 5 years. In this connection the Committee had, *inter-alia*, observed:—

> "The Committee do not approve of granting of such ex-post-facto sanction by the Ministry. The Committee would like to know as to why DPRs could not be approved by the Ministry within the stipulated time in case of each of these projects. The Committee would also like the Ministry to fix responsibility on this account and apprise the Committee at the earliest of the action taken in this regard. The Committee also desire that in future, the guidelines issued by the Ministry of Finance with regard to project formulation and implementation should be strictly adhered to by the Ministry."

6. In their reply the Ministry have stated that the DPR contains detailed cost estimates of the project and same are examined by the Government in detail in consultation with the concerned organisaions and this takes time. In the absence of a detailed monitoring procedure as well as time taken in the detailed examination of the cost estimates given therein, there have been delays in approval of the revised cost in these cases. Proper procedure is now being followed and efforts will be made to comply with the guidelines in this regard in future.

7. The Committee note that while the Government have accepted Committee's recommendation for complying with the guidelines in regard to approval of DPRs in future, there is no mention about Committee's recommendation for fixing responsibility on account of

delay in according approval of DPRs for the projects completed by IOC during the last 5 years. The Committee desire that replies of the Government should be complete and point-wise. Accordingly, they reiterate their earlier recommendation that the Ministry should fix responsibility for delay in according Government approval of DPRs for the projects undertaken by IOC during the last 5 years. "The Committee also desire that Government should identify the time taken at various stages of decision making in according Government approval and delay at each stage with a view to fix time limit for every stage and to examine whether any of these stages could be eliminated. They would also like to know the action taken by Government in this regard within 3 months of presentation of the Report.

C. *Acquisition of land on long lease without its utilisation*

(Recommendations Serial Nos. 10, 11 and 12)

8. The Committee observed that private land measuring 728 acres was acquired by I.O.C. on lease for a period of 50 years on a monthly rent of Rs. 4337.50 for the first 30 years and at Rs. 5205 for the remaining 20 years effective from January 1984 for providing Railway siding for L.P.G. Plants. The site was found unsuitable for railway siding in view of restrictions under Explosives Regulations which came into force from April, 1984. The Committee expressed displeasure and observed that the suitability of sites for location of Plants should have been decided after ensuring the provision of a railway siding. They were also not impressed by the belaboured explanation given by I.O.C. and the Ministry that the new explosives rules (on the basis of recommendation of Vasudevan Committee) came into force after acquisition of the land in January, 1984 and felt that the representatives of IOC & HPCL who were members of the Vasudevan Committee which presented its Report in June, 1983, should have ensured the suitability of the land before its take over.

9. In reply the Ministry stated that the proposal for providing the railway siding was dropped in view of the objections of the Railways and the Chief Controller of Explosives. Regarding utilisation of land, the Ministry stated that a Research and Development Centre for LPG on industry basis was being set up on the 7.26 acres plot of land and the project was likely to be completed within a period of 18 months from the date of finalisation of design of Research and Development Centre by the oil industry. It has been further stated that as the land could not be used for a Railway siding at Bangalore for

reasons beyond individual/corporate controls, it has not been found feasible to fix responsibility in this regard.

10. The Committee are not fully satisfied with the reply given by the Ministry. The findings of the Committee clearly point out that the representatives of the IOC and HPCL were members of the Vasudevan Committee which gave its report in June, 1983 i.e., much before January, 1984 and as the representatives of IOC and HPCL were aware of the recommendations of the Vasudevan Committee there was no justification for the purchase of land on lease for railway siding in January, 1984 as the same could not be put to use. The Committee strongly feel that if IOC and HPCL had been vigilant about the acquisition of land for railway siding, then the proposal for acquiring particular land on lease would have been turned down on the grounr of its unsuitability. "Further in view of the reply given by the Ministry to recommendation at S. No. 14 wherein it has been brought out that the road transport is cheaper than rail transport for movement of bulk LPG i is evident that the whole exercise to acquire land for providing railway siding was ill conceived and infructuous. The Committee take a serious view of the casual approach on the part of management in this regard.

The Committee now find that there is a proposal to put the land to use by opening a Research and Development Centre for LPG for oil industry within a period of 18 months from the date of finalisation of its design. The Committee would like to know whether setting up of R&D Centre was a part of the overall perspective plan of Indian Oil Corporation or the same has been thought of merely because this piece of land was available.

D. *Transportation Cost*

(Recommendation S. No. 14)

11. In the context of economics of transportation of bulk LPG the Committee had recommended that whole matter regarding comparative benefits of road transport vis-a-vis rail transport should be examined afresh after taking all factors such as financial implications, speedy movement, safety, etc. into account with a view to taking policy decisions in the matter of transportation of LPG for the future.

12. In their reply, the Government have stated that a departmental study on the economics of road vis-a-vis rail transportation for the movement of bulk LPG between Bombay and Bangalore has

been carried out. The study revealed that the movement of bulk LPG between Bombay and Bangalore by road transportation was cheaper by Rs. 54.6 per MT on overall basis at the prevailing tariff rates during 1982-83. The economics of road vs. rail transportation was reviewed and updated based on 1987-88 freight structure. It also revealed that road movement on overall basis continues to be cheaper by Rs. 268.80 per MT. IOC further carried out the study to assess the break-even where cost of movement by road and rail becomes equal. It was noticed that cost of movement of bulk LPG by rail and road breaks-even if it is moved for a minimum distance of 1700 Kms.

13. The Committee observe that review of comparative benefits of transportation of LPG by rail and road was done after a gap of five years. Since the cost factors of rail and road transports vary quite often, the Committee recommend that oil companies should work out economics of transportation of LPG bulk on a regular basis and plan transportation of LPG accordingly.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation Serial No. 8

The Committee also find that apart from Bangalore Bottling Plant, the guidelines of the Ministry of Finance in regard to approval of DPR within the stipulated period of one year have not been followed in any of the projects undertaken by IOC during the last 5 years. For instance, the Feasibility Report of OIL Project was approved in December 1981, the project was commissioned in May, 1983/December 1984, whereas its DPR was approved only in January 1987 i.e. much after the commissioning of the project. Similarly, Feasibility Report of APT Phase-I project was approved in March 1983/November 1984 (Revised) and its DPR is still awaiting approval, though the plant had already been commissioned in March 1987. In case of LPG Phase-III and APT Phase-IIA projects, the feasibility reports were approved in June 1983 and March 1985, respectively, whereas the DPRs of these projects were approved only in July 1987 and June 1987, respectively. The Committee do not approve of granting of such ex-post-facto sanction by the Ministry. The Committee would like to know as to why DPRs could not be approved by the Ministry within the stipulated time in case of each of these projects. The Committee would also like the Ministry to fix responsibility on this account and apprise the Committee at the earliest, of the action taken in this regard. The Committee also desire that in future, the guidelines issued by the Ministry of Finance with regard to project formulation and implementation should be strictly adhered to by the Ministry.

Reply of the Government

The DPR contains detailed cost estimates of the project and same are examined by the Government in detail in consultation with the concerned organisations and this takes time. In the absence of a detailed monitoring procedure as well as time taken in the detailed examination of the cost estimates given therein there have been delay in approval of the revised cost in these cases. Proper procedure is now being followed and efforts will be made to comply with the guidelines in this regard in future.

[Department of Petroleum & Natural Gas's O.M. No. P-17011/16/84-MKT. (VOL. II) dated 20.06.90]

Comments of the Committee

Please See paragraphs 4 and 7 of Chapter I of the Report.

Recommendation Serial No. 4

Though the Petroleum Secretary informed the Committee during his evidence that on an average the Ministry takes about 6 to 8 months in approving a DPR, the facts as given to the Committee reveal an altogether different position. For instance, DPR of Oil Project of IOC was submitted by IOC to the Ministry in July 1985, whereas it was approved by the Ministry in January 1987 *i.e.* after 18 months. Similarly, the DPR of APT Phase-I project is awaiting Government approval since *December* 1984. The Committee take a very serious note of the fact that Ministry takes undue long period in approving the DPRs submitted by the undertakings under its administrative control. The Committee hope that in future DPRs would, as promised by the Petroleum Secretary, be invariably approved by the Ministry within six months of their receipt from the undertakings under its administrative control.

Reply of Government

The latest revised cost of APT Phase-I Project of Rs. 80.69 crores as against the DPR cost of Rs. 81.56 crores has been approved by Government in March/April 1989. The delay in the approval of the revised cost has been due to the time taken in (i) giving itemwise justification of cost escalation in respect of 92 work sites at 80 locations; and (ii) also examining in detail, the question of fixing responsibility for cost and time over run in the construction of tankages at these locations under this multi-agencies and multi-locational project.

2. The observations/recommendations of the Committee has been noted and all efforts will be made to approve the DPR/revised cost within the minimum possible time in keeping with the existing instructions on the subject.

[Department of Petroleum & Natural Gas's O.M. No. P-17011/16/84-MKT. (Vol. II) dated 20-6-90]

Comments of the Committee

Please *see* paragraph 4 of Chapter I of the Report.

Recommendation Serial No. 5

The Committee's examination of IOC's projects has also revealed that its project planning and formulation cell is weak. The cost estimates prepared at the time of Feasibility Report are nowhere near the actual expenditure. The cost escalation in all the four LPG Plants under LPG Phase-I project has been more than 200 per cent. In case of Bangalore Plant, the cost increased from Rs. 168.30 lacs to Rs. 421.53 lacs. The cost of Salem Plant increased from Rs. 158.40 lacs to as much as Rs. 466.88 lacs. The cost of Allahabad Plant increased from Rs. 149 lacs to Rs. 371 lacs. Similarly, the cost of Jullunder Plant also increased from Rs. 210 lacs to Rs. 429 lacs. Cost estimates as approved in detailed project reports are only of statistical interest as this formality has been complied with only after commissioning of the projects. The main reasons for cost escalations advanced by the IOC and the Ministry are safety, change of scope, railway siding and land cost. From the item-wise details it has been noticed that the major escalation has been due to change of scope which was Rs. 159.30 lacs, Rs. 159.24 lacs, Rs. 162.61 lacs and Rs. 183.97 lacs for Bangalore, Salem, Jullunder and Allahabad Plants, respectively. The Committee are unhappy to note the unrealistic project estimates which required steep upward revision. The Committee feel that something is seriously wrong with the project formulation, implementation, monitoring and control. The Committee need hardly stress that all efforts should be made to see that the projects are formulated realistically and completed within the estimated expenditure. The Committee also recommend that at the stage of formulation of projects, technology to be used should be taken into consideration on a realistic basis to avoid change of scope in the projects at later stages.

Reply of the Government

The recommendation of the Committee has been noted. All necessary steps in this regard will be taken by the Oil Industry.

[Department of Petroleum & Natural Gas's O.M. No. P-17011/16/84-MKT. (Vol. II) dated 20-6-90]

Comments of the Committee

Please *see* paragraph 4 of Chapter I of the Report.

Recommendation Serial No. 6

Apart from weak project planning system in the Corporation, the administrative Ministry cannot escape from the responsibility of not exercising effective control with regard to the approval of project reports. The Committee are of the view that at the time of according approval to detailed projects reports, the Ministry should examine in depth the projects so that avoidable extra expenditure on the projects at later stages could be avoided.

Reply of the Government

The views of the Committee regarding in depth examination has been noted for compliance. The oil companies have also been advised to strengthen their system of project planning and implementation so as to avoid extra expenditure on the project at a later stage.

[Department of Petroleum & Natural Gas's O.M. No. P-17011/16/84-MKT. (Vol. II) dated 20-6-90]

Comments of the Committee

Please *see* paragraph 4 of Chapter I of the Report.

Recommendation Serial No. 7

Besides cost escalations, there have been delays in execution of the projects. For instance, as per feasibility report, Bangalore Plant was to be commissioned by March 1981 but in DPR it was revised to December 1981 and it was commissioned in July, 1982. Similarly, there was delay of about 18 months each in commissioning of Salem and Allahabad Bottling Plants. While taking a serious note of such delays which result in further cost escalation, the Committee recommend that all efforts should be made to complete the projects within the stipulated time. The Corporaion as well as Ministry should regularly review the progress of all projects at regular intervals. The Committee also feel that Government/Undertakings should foresee the problems and evaluate the magnitude of their impact while formulating projects and fixing up time schedule of completion. Needless to say that large cost and time over-run not only tarnish the image of undertakings on account of slow implementation of projects but the desired production capacity is not built up in time.

Reply of Government

The observations/recommendations of the Committee have been noted for compliance in the future. It may be mentioned that implementation of the project of the Public Sector Undertakings under the Ministry is regularly monitored by the Ministry, *inter-alia,* through Monitoring Cell and Quarterly Performance Review meetings to ensure timely completion of the projects.

[Department of Petroleum & Natural Gas's O.M. No. P-17011/16/84-MKT. (Vol. II) dated 20-6-90]

Comments of the Committee

Please *see* paragraph 4 of Chapter I of the Report.

Recommendation Serial No. 8

The Committee are dismayed to learn that even though the Ministry have been holding quarterly performance reviews regularly, yet no meaningful evaluation was done in such reviews particularly in regard to implementation of projects, preparation of DPR and analysis of cost escalation of various projects undertaken by IOC. The Committee regret to note that Petroleum Secretary tried to justify it by saying that earlier there were no detailed guidelines for monitoring the projects by the Ministry. However, the Committee find that the guidelines issued by Bureau of Public Enterprises in 1975 and 1978 clearly spell out the detailed monitoring system at Ministry's level. The Committee hope that from now onwards the administrative Ministry would activate this mechanism so as to provide meaningful and timely guidance to the undertakings under its administrative control.

Reply of the Government

The observation of the Committee has been noted. The implementation of the project costing over Rs. 100 crores is being reviewed through a Monitoring Cell created for this purpose. Besides, the progress is also reviewed at quarterly and other special meetings and follow-up action is taken to ensure timely completion of projects.

[Department of Petroleum & Natural Gas's O.M. No. P-17011/16/84-MKT. (VOL. II) dated 20.6.90]

Comments of the Committee

Please *see* Paragraph 4 of Chapter I of the Report.

Recommendation Serial No. 9

The Committee are perturbed to note that besides IOC's plant, there has been huge cost escalation in HPCL plant also. The cost which was estimated to be Rs. 1.55 crores in the Feasibility Report finally went upto Rs. 3.98 crores. Besides delay of about 8 months in completion of the plant, DPR was not approved within the stipulated period *i.e.* within one year of finalisation of Feasibility Report. The Committee on Public Undertakings (1982-83) in their 72nd Report on Hindustan Petroleum Corporation Limited had emphasised the need for strengthening the project formulation, implementation and monitoring system of HPCL. In their action taken notes, the Ministry of Petroleum informed the Committee in November 1983 that they have taken certain steps to ensure that projects are formulated realistically and completed by the scheduled dates and within estimated expenditure. Since the project in question relates to period prior to November 1983, the Committee hope the HPCL must have improved its project formulation and implementation systems. The Committee desire that Ministry should have un-remiting vigil over the projects undertaken by the undertakings under its administrative control.

Reply of the Government

The recommendation of the Committee has been noted. It has been confirmed by HPCL that necessary action has been taken to strengthen the system for more realistic formulation of projects and completion of projects by the scheduled dates and within the estimated expenditure.

[Department of Petroleum & Natural Gas's O.M. No. P-17011/16/ 84-MKT. (Vol. II) dated 20-6-90]

Recommendation Serial No. 10

The Committee have been informed that IOC and HPCL Plants are located in areas of 9.18 acres and 13 acres, respectively and the initial plant was to provide a common railway siding. It was known at the time of finalising these two plants that it would not be possible to provide LPG siding within the premises of any one plant as the Railways were operationally not in a position to move LPG tank wagons across the main Railway lines to bring them to a siding within the premises of any one plant. Therefore, the acquisition of private land for locating a siding was considered necessary. The IOC is reported to have located a nearby private land measuring 7.26 acres for providing a railway siding and negotiated a lease agreement valid for a period of 50 years on a monthly rent of Rs. 4,337.50 for the first 30 years and at Rs. 5,205.00 per month for the remaining 20 years, effective from January 1984. However, as the site was found unsuitable for a railway siding in view of restrictions under Explosives Regulations, the land has not been put to effective use so far. As a result the entire expenditure on the leasehold land has proved infructuous as the lease agreement could not be rescinded. The Committee feel *that the suitability of the sites for locating the plants should have been decided after ensuring the provision of a railway siding*. Therefore, in Committee's view, it is a clear lapse on the part of IOC, HPCL and also the administrative Ministry. The Committee cannot but express their displeasure over this matter.

Reply of Government

As earlier explained to the Committee during oral evidence that at the time of acquiring the land the railway siding was feasible under the rules prevailing then on the land allotted. However, due to subsequent requirements of the Chief Controller of Explosives regarding safety distances and the Railways regarding full rake loading the land became inadequate though originally it was considered to be adequate. The Committee's conclusion that suitability of sites for locating the plants should have been decided after ensuring the provision of a railway siding has been noted and the oil company are taking action to get the concurrence of the Railways for putting up siding while finalising the site for the projects.

[Department of Petroleum & Natural Gas's O.M. No. P-17011/16/84-MKT. (Vol. II) dated 20-6-90]

Comments of the Committee

Please *see* paragraph 10 of Chapter I of the Report.

Recommendation Serial No. 11

The Committee have also been informed that even though Controller of Explosives had given permission of half rake movement, Railways were not prepared to put railway siding with half rake facilities and they insisted on full rake movement. The Committee have not been impressed by the belaboured explanation given by IOC and the Ministry that the new explosives rules, on the basis of recommendation of Vasudevan Committee, came into force after the take over of the land in January 1984. The Committee feel that the representatives of IOC and HPCL who were members of the Vasudevan Committee, which presented its report to Government in June 1983, should have ensured about the suitability of land before its take over. Immediately after take over of the land in January 1984, the IOC and the Petroleum Ministry have been unsuccessfully pursuing the matter with the Railways and in December 1988 the proposal for providing the railway siding was finally dropped.

Reply of the Government

The proposal for providing the Railway siding was dropped in view of the objections of the Railways and Chief Controller of Explosives, Nagpur.

[Department of Petroleum & Natural Gas's O.M. No. P-17011/16/84-MKT. (Vol. II) dated 20-6-90]

Comments of the Committee

Please *see* paragraph 10 of Chapter I of the Report.

Recommendation Serial No. 12

The Committee are distressed to note that even though the chances of providing a railway siding on the identified plot were very minimal, IOC has not prepared so far any alternate plan for utilisation of the land. The Corporation is also reported to have paid an amount of Rs. 2,17,849.44 to the party from which the land was taken as a rent for the period from January 1984 to March 1988. To cap it all, the Corporation has not considered it necessary to fix the responsibility for making huge payments for the acquired land which has not been put to any use so far. The Committee strongly deprecate the lackadaisical manner in which the matter has been treated. The Committee recommend that the matter be probed into with a view to fixing responsibility for not putting to any effective use so far, the land acquired for providing railway siding.

Reply of the Government

A Research and Development Centre for LPG on industry basis is being set up on the 7.26 acres plot of land. The project is likely to be completed within a period of 18 months from the date of finalisation of design of the Research and Development Centre by the oil industry. As the land could not be used so far for a Railway siding at Bangalore for reasons beyond individual/corporate controls, it is not found feasible to fix the responsibility in this regard.

[Department of Petroleum & Natural Gas's O.M. No. P-17011/16/84-MKT. (Vol. II) dated 20-6-90]

Comments of the Committee

Please *see* Paragraph 10 of Chapter I of the Report.

Recommendation Serial No. 13

The Committee have been informed that a LPG Bottling Plant of HPCL at Hazarwadi is under construction near Miraj at an estimated cost of Rs. 15.55 crores. This plant will have railway siding facilities. It will facilitate movement of bulk LPG by rail from Bombay to Hazarwadi and further by road from Hazarwadi to Bangalore which will reduce the road movement by almost 30 per cent and would cater to needs of IOC and HPCL Bottling Plants at Bangalore. The Committee desire that concerted efforts should be made to complete the Hazarwadi plant in scheduled time so that the facilities created could be utilised at the earliest.

Reply of the Government

HPCL has informed that their Hazarwadi LPG Bottling Plant was commissioned in September 1989 and the railway siding is also likely to be commissioned shortly.

[Department of Petroleum & Natural Gas's O.M. No. P-17011/16/ 84-MKT. (Vol. II) dated 20-6-90]

Recommendation Serial No. 14

The Committee note that in the absence of railway siding the bulk movement of LPG was carried out both for IOC and HPCL Bottling Plants from Bombay to Bangalore by road. According to Audit, the Oil Companies incurred an extra expenditure on freight amounting to Rs. 465 lacs during the year 1982-83 to 1985-86. The Audit has also pointed out that Government was aware that road movement of LPG would be uneconomical and contemplated bulk movement of LPG by rail at the time of setting up the plant. Both IOC and the Ministry. The Committee fail to understand how the mittee that transportation of LPG by road is cheaper than by railways. The Committee are not satisfied with the view taken by IOC and he Ministry. The Committee fail to understand how the road transport could be cheaper than rail transport. If it was so why did IOC and Ministry waste their time and money in providing railway siding for these plants all these last 10 years? Why a railway siding at a cost of Rs. 15 lacs was at all provided in DPR—approved by Government if road movement was cheaper and why the Railways and Oil Industry had geared up the LPG tank wagon fleet to move the high volume traffic in this sector? The Committee.

therefore, desire that the whole matter regarding comparative benefits of road transport *vis-a-vis* rail transport should be examined afresh taking all factors such as financial implications, speedy movement, safety, etc., into account with a view to taking policy decisions in the matter of transportation of LPG for the future. The Committee would like to be apprised of the result of such study and the decision taken thereon.

Reply of the Government

A departmental study on the economics of Road vs. Rail transportation for the movement of bulk LPG between Bombay and Bangalore has been carried out. The economics of Road vs. Rail transportation is based on the total cost of freight and recurring cost including financing cost on the investment involved. This study carried out relates to the movement of bulk LPG between Bombay and Bangalore for the tariff rates prevailing during 1982-83. An analysis of the data reveal that road transportation was cheaper by Rs. 54.6 per MT on overall basis. This economics of Road vs. Rail transportation was reviewed and updated based on 1987-88 freight structure. It revealed that road movement on overall basis continutes to be cheaper by Rs. 268.80 per MT. IOC further carried out the study to assess the break-even where cost of movement by road and rail becomes equal. It was noticed that cost of movement of bulk LPG by rail and road breaks-even if it is moved for minimum distance of 1700 Kms. The question whether Corporation should resort for moving bulk LPG by road or rail based on economics cannot be looked in isolation as relative freight economics is one of the several factors which have to be considered in reaching a decision on mode of transportation to any bottling plant and operating logistics are considered. Continuous product availability at the bottling plants is an essential input for customer satisfaction. This is achieved in two stages: firstly by providing road linkages in all cases, and secondly, with rail linkages in selective cases. While facility for receipt of the product by road is considered as minimum requirement, the additional investments and costs for rail movements get justified in specific cases. A series of Statutory and Corporate rules have been framed for ensuring safety in bulk LPG transportation. The experience shows that bulk LPG transportation by road is also safe, but bulk LPG transportation by rail is relatively safer. An analysis of LPG tank truck accidents shows that the majority of the accidents are caused by human failure *i.e.* rash driving or driving on unauthorised routes or ignoring safety instructions. Considering that operations and maintenance systems on the Railways are monitored and controlled more effectively, as compared to private tank trunck operators, the relative safety advantage becomes important in case of high volume movements over long leads by rail. Wherever rail facilities have been already installed, it is advantageous to maximize use of such low-cost facilities to get the freight advantage over higher tonnages. The decision to incur the higher investments and costs for operations by rail at the new plants is, therefore, taken in the context of traffic volume to justify block rake movement, lead distances to compare the advantage of telescopic freight, tariff of the railways and in appreciation of relative safety consideration.

[Department of Petroleum & Natural Gas's O.M. No. P-17011/16/84-MKT. (Vol. II) dated 20-6-90]

Comments of the Committee

Please *see* Paragraph 13 of Chapter I of the Report.

CHAPTER III

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

Recommendation Serial No. 1

The Committee have observed that both IOC and HPCL established LPG Bottling Plants at Bangalore with an annual capacity of 25,000 MT each at the cost of Rs. 421 lacs and Rs. 398 lacs, respectively. Both the plants have been set up on the adjoining plots. The Petroleum Secretary admitted during evidence that "we agree that the cost of installation of one big plant would have been less than that of installation of two smaller plants". The Committee are not convinced of the argument advanced by representatives of Petroleum Ministry that two small plants were set up to ensure the availability of LPG to the consumers regularly. The Committee wonder that when two small plants could ensure the availability of LPG to consumers, then why could a big plant at the same place not ensure regular availability of LPG. This view of Committee has also been upheld even by the Vasudevan Committee on Safety which has *inter alia* recommended that "it will be preferable to have the bottling facilities larger than 25,000 tonnes per year capacity centres in one location rather than have several small points scattered at various points in or around the town..."

The Committee regret to note that instead of allowing one Company to set up a big plant of 50,000 MT capacity, the Government permitted two Companies under its administrative control to set up two small plants of 25,000 MT capacity each. In Committee's view, had there been one big Plant, not only the cost of the installation would have been less, but the recurring cost of maintenance as well as management cost would also have been reduced considerably. In addition, the benefits of the economies of the large scale would also have been derived from a big Plant.

Reply of the Government

This Ministry still feels that setting up of two bottling plants, each of 25,000 tonnes capacity by IOC and HPCL at Bangalore, is ultimately in the interest of the consumers in view of the following:—

(i) The supplies from two plants ensure regular availability of this vital product as in the event of only one company putting up a single plant, the supplies from that company could be more vulnerable due to IR problem, accident etc.

(ii) From safety and security considerations, two plants by separate companies are preferable to one set up by one company and this is in line with the two company's concept.

(iii) This helps in the toning up of overall standard of service and performance by way of healthy competition between the two companies.

(iv) This provides flexibility in meeting the increasing demand by way of expansion of each plants which has subsequently taken place in increasing the total production to about 80,000 tonnes.

(v) This more or less ensures even development of the companies in keeping with their market participation.

(vi) Additional cost in setting up of two plants being marginal, is more than offset by regularity and security in the availability of the product to the consumers.

[Department of Petroleum & Natural Gas's O.M. No. P-17011/16/84-MKT. (Vol. II) dated 20-6-90]

Recommendation Serial No. 2

The Committee are distressed to note that both Indian Oil Corporation and Ministry of Petroleum and Natural Gas are not following the guidelines issued by Ministry of Finance as far back as in November 1978 in regard to approval of Detailed Project Reports. The guidelines issued by Bureau of Public Enterprises (BPE) clearly provide that in case the initial investment decision is not based on detailed projects reports or detailed cost estimates the concerned Ministries should ensure that these are *prepared within a year of the sanction of the project.* The Feasibility Report of IOC bottling plant at Bangalore was approved in February, 1979. The

Plant was commissioned in July, 1982. However, its DPR was approved by Government in December 1982 *i.e.* after the commissioning of the project. The reason advanced by IOC and Ministry is that as the Bangalore Plant was a part of LPG Phase-I Programme, it included other three plants at Allahabad, Jullunder and Salem. DPR could not be finalised because the land for Salem Plant could not be procured. The Committee are not convinced of the reason advanced. They are of the view that since these plants were independently set up at different places, their DPRs could have been prepared separately for each one of these four bottling plants, especially when inordinate delay was taking place in fixing up the land for one plant.

Reply of the Government

As LPG Phase-I was a single integrated project having individual units like LPG Plants, Tank Wagons, Cylinders/Pressure Regulators etc., DPR preparation and approval for the entire project (including Bangalore LPG Bottling Plant) got delayed due to delays in the procurement of land at Salem and then detailed deliberations and examination of the Report. Moreover, the expenditure on Bangalore Bottling Plant till the approval of D.P.R., was incurred on the basis of Feasibility Report, approved by the Government before the commissioning of the Plant. The D.P.R. had only firmed up the cost. However, the observations of the Committee has been noted.

[Department of Petroleum & Natural Gas's O.M. No. P-17011/16/84-MKT. (VOL. II) dated 20-06-90)

CHAPTER IV

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

-NIL-

CHAPTER V

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

-NIL-

NEW DELHI;
November 16, 1990
Kartika 25, 1912 (*Saka*)

BASUDEB ACHARIA,
Chairman,
Committee on Public Undertakings.

APPENDIX I

Minutes of the 14th sitting of the Committee on Public Undertakings held on 31.10.1990

The Committee sat from 11.00 hrs. to 12.00 hrs.

PRESENT

Shri Basudeb Acharia—*Chairman*

MEMBERS

2. Shri Bal Gopal Mishra
3. Shri Kalpnath Rai
4. Shri Rajdev Singh
5. Shri Daulat Ram Saran
6. Prof. Saif-ud-Din Soz
7. Shri Piyus Tiraky
8. Shrimati Renuka Chowdhury
9. Shri Dipen Ghosh
10. Shri Ajit P. K. Jogi
11. Shri Mohinder Singh Lather
12. Prof. Chandresh P. Thakur

SECRETARIAT

1. Shri S. C. Gupta—*Joint Secretary*
2. Shri K. K. Sharma—*Director*
3. Smt. P. K. Sandhu—*Under Secretary*
4. Shri N. M. Jain—*Under Secretary*

The Committee considered and adopted the following draft Reports, as approved by the Action Taken Sub-Committee:

(i) Report on Action Taken by Government on the recommendations contained in 55th Report of C.P.U. (1988-89) on Indian Oil Corporation Limited—Installation of two LPG Bottling Plants at Bangalore.

* * * *

2. The Committee also authorised the Chairman to finalise the Reports on the basis of factual verification by the concerned Ministries/Undertakings and Audit and to present the same to Parliament.

* * * *

The Committee then adjourned.

APPENDIX II

(*Vide* Para 3 of the Introduction)

Analysis of the Action Taken by Government on the recommendations contained in the 55th Report of the Committee on Public Undertakings (Eighth Lok Sabha) on Indian Oil Corporation Limited - Intstallation of two LPG Bottling Plants at Bangalore.

I.	Total number of recommendations	14
II.	Recommendations that have been accepted by the Government (*Vide* recommendation at Sl. Nos. 3 - 14)	12
	Percentage to total	85.7
III.	Recommendations which the Committee do not desire to pursue in view of Government's replies (*Vide* recommendation at Sl. Nos. 1 & 2) . .	
	Percentage to total	14.3
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee.	NIL
V.	Recommendations in respect of which final replies of Government are still awaited.	NIL

C.P.U. No. 675

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