FIFTY-FIFTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1988-89)

(EIGHTH LOK SABHA)

INDIAN OIL CORPORATION LTD. — INSTALLATION OF TWO L.P.G. BOTTLING PLANTS AT BANGALORE (MINISTRY OF PETROLEUM AND NATURAL GAS)

Presented in Lok Sabha on 12 April, 1989
Laid in Rajya Sabha on 25 April, 1989

LOK SABHA SECRETARIAT
NEW DELHI

April, 1989/Chaitra, 1911 (Saka)

CONTENTS

COMMITTEE ON PUBLIC UNDERTAKINGS
(1988-89)

CHAIRMAN

Shri Vakkom Purushothaman

MEMBERS

Lok Sabha

2. Shri Saifuddin Chowdhary
3. Shri K. P. Singh Deo
4. Shri S. G. Gholap
5. Shri Virdhi Chander Jain
6. Shrimati Sheila Kaul
7. Shri Mohd. Mahfooz Ali Khan
8. Shri Keshorao Pardhi
9. Shri Balwant Singh Ramoowalia
10. Shri K. H. Ranganath
11. Shri Harish Rawat
12. Shri E. Ayyapu Reddy
13. Shri Lal Vijay Pratap Singh
14. Shri S. D. Singh
15. Prof. Saif-ud-din Soz

Rajya Sabha

16. Shri Dipen Ghosh
17. Shri A. G. Kulkarni
18. Shri Kamal Morarka
19. Shri V. Narayanasamy
20. Thakur Jagatpal Singh
21. Shri Raoof Valiullah
22. Shri Virendra Verma

SECRETARIAT

1. Shri R. D. Sharma — *Joint Secretary*
2. Shri Rup Chand — *Deputy Secretary*
3. Smt. P. K. Sandhu — *Under Secretary*

STUDY GROUP-IV ON THE FERTILIZERS AND CHEMICALS (TRAVANCORE) LTD.; ROURKELA STEEL PLANT: NATIONAL PROJECTS CONSTRUCTION CORPORATION LTD. STATE TRADING CORPORATION OF INDIA LTD. ALONGWITH CASHEW CORPORATION OF INDIA LTD.; INDIAN OIL CORPORATION LTD.— INSTALLATION OF TWO L.P.G. BOTTLING PLANTS AT BANGALORE (ASPECT STUDY) AND FOOD CORPORATION OF INDIA-DESPATCHES OF SUB-STANDARD WHEAT (ASPECT STUDY).

---

1. Smt. Sheila Kaul — *Convener*
2. Shri Mohd. Mahfooz Ali Khan *Alternate Convener*
3. Shri Saifuddin Chowdhary
4. Shri Virendra Verma
5. Shri S. G. Gholap

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Fifty-fifth Report on Indian Oil Corporation Ltd.— Installation of two LPG Bottling Plants at Bangalore.

2. The Committee's examination of the working of the Company was mainly based on an audit para XXII from the Report of the Comptroller & Auditor General of India, 1986, Union Government, (Commercial) Part VIII.

3. The Committee took evidence of the representatives of Indian Oil Corporation Ltd. on 20 September, 26 October, 1988 and also of the representatives of the Ministry of Petroleum and Natural Gas on 6 December, 1988.

4. The Committee considered and adopted the Report at their sitting held on 6 April, 1989.

5. The Committee wish to express their thanks to the Ministry of Petroleum and Natural Gas, Indian Oil Corporation Ltd. and Hindustan Petroleum Corporation Ltd. for placing before them the material and information they wanted in connection with examination of the subject. They also wish to thank in particular the representatives of the Ministry of Petroleum and Natural Gas and the Indian Oil Corporation Ltd. who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

6. The Committee also place on record their appreciation of the assistance rendered by the Office of the Comptroller & Auditor General of India.

NEW DELHI;

11, April, 1989

21, Chaitra, 1911(S)

VAKKOM PURUSHOTHAMAN,
Chairman,
Committee on Public Undertakings.

PART I

BACKGROUND ANALYSIS

CHAPTER I

INSTALLATION OF TWO L.P.G. PLANTS AT BANGALORE

Indian Oil Corporation Ltd. (IOC) established a LPG Bottling Plant at Bangalore with an annual capacity of 25,000 MT on single shift working at a total cost of Rs. 421.53 lakhs as on March 1985, as against the estimated cost of Rs. 168.30 lakhs as per feasibility report (September 1978). The plant was commissioned in July 1982. Hindustan Petroleum Corporation Limited (HPCL) also established a similar plant at a cost of Rs. 398 lakhs (commissioned in June 1981) adjacent to the IOC plant at Bangalore. The estimated cost of HPCL plant as per feasibility report (October, 1978) was Rs. 155 lakhs.

1.2 During the course of evidence of the representatives of Indian Oil Corporation Ltd. the Committee wanted to know as to whether both IOC and HPCL plants were necessary in the same area. A representative of IOC replied as follows:—

> "According to the original feasibility report, there was a need for 1,00,000 tonnes capacity plant for the industries in Bangalore, 50,000 tonnes capacity for the Indian Oils and other 50,000 for the other companies. Later on it was decided that instead of putting a 1,00,000 tonnes capacity plant at Bangalore alone it would be desirable to put up a 50,000 tonne capacity plant each in Bangalore and Tamil Nadu. The 50,000 tonne capacity plant scheduled for Bangalore was divided into two plants of 25,000 tonne capacity each to be put in Karnataka at Bangalore and 50,000 tonne capacity plant was also divided into two plants of 25,000 tonne capacity each to be installed at Salem and Coimbatore in Tamil Nadu."

1.3 During evidence of the representatives of Ministry of Petroleum and Natural Gas, the Committee pointed out that the cost of installation of one big plant (of 50,000 tonne capacity) would have been much less than that of two small plants of 25,000 tonne capacity. On being asked about the considerations on which the Government approved the proposals for setting up of two Bottling Plants of 25,000 M.T. capacity each — one by IOC and the other by HPCL — instead of allowing one of these oil companies to set up a composite plant of 50,000 M.T. capacity, Secretary, Petroleum stated as follows:—

"We agree that the cost of installation of one big plant would have been less than that of installation of two smaller plants. A detailed analysis was made in this connection by both IOC and the Ministry of Petroleum. They felt that though the cost of installation of one big plant would be less than the cost of installation of two smaller plants, from the point of view of ensuring regular availability of this vital LPG, it was better to put up two smaller plants.

We feel that the additional cost is more than compensated by supplying this very important commodity to the consumers without any break."

1.4 The Committee further pointed out that the matter regarding providing a common railway siding (as discussed elsewhere in this Report) was hanging fire for the last 7-8 years and this problem would not have arisen, had there been a composite big plant installed on one plot and railway siding provided on the other plot. To this Secretary replied as follows:—

"There are two points. One is that, we felt that two plants would give us better flexibility than one plant. Secondly, the location that was available to us, it was not possible to put up two plants on one side and the railway siding on the other. So from both points of view that was not practical."

1.5 The Committee further wanted to know as to why these two plants could not be installed at different places. Secretary, Petroleum stated:

"Bangalore was considered a good location for these plants as this is the central point."

CHAPTER II

IOC BOTTLING PLANT

A. Detailed Project Report

2.1 The Feasibility Report of LPG Bottling Plant of IOC at Bangalore was submitted in September, 1978 and it was approved by Govt. in Feb. 1979. The plant was commissioned in July, 1982. However, its DPR was approved by Government in December, 1982. During the course of evidence of the representatives of IOC the Committee wanted to know the reasons for delay in approval of DPR. A representative of the IOC stated as follows:—

> "The Bangalore plant was one of the four plants under one project called the LPG phase I. The other plants were at Salem, Allahabad and Jullundhar. Although the Bangalore plant was commissioned in July 1982, Salem Plant was commissioned in Oct. 1983. Allahabad and Jullundhar plants were also commissioned around that time, i.e. 1983... As far the delay is concerned, it took place because we could not get land for Salem plant till as late as July 1981 and we could not complete the DPR until the land was secured in Salem."

2.2 The Committee further pointed out that these four plants were independent and that two at different places and enquired as to why the DPR could not be prepared separately for these plants. Chairman, IOC replied as follows:—

> "We had prepared one FR, there was a certain incremental quantity of LPG available, i.e., about 5,17,000 metric tonnes. This was allocated between the three companies — Indian Oil Corporation, Hindustan Petroleum and Bharat Petroleum. We were asked to prepare an integrated marketing plan for our share which was 50%. This plan included purchases of cylinders, tank wagons and bottling plants. So, it was an integrated plan and the bottling plants were at four places. Though this could have been separated but the Government wanted an integrated picture. Obviously, the DPR is a detailed estimate of the FR taken up for each component and submitted to the Government. Even when we gave the DPR in August, 1981, we had not exceeded the estimate of the FR at that state."

2.3 During the course of evidence of the representatives of Ministry of Petroleum and Natural Gas, the Committee pointed out that in case of Bangalore LPG Bottling Plant of IOC, its DPR was approved by the

Ministry after commissioning of the plant. Asked as to how DPR's could not be prepared separately for this plant, Secretary, Petroleum replied as follows:—

"There are two aspects. One was that the Ministry at that stage was visualising the project as a complete phase and not bottling unit-wise. A detailed project report was prepared for the entire phase. Because of the delay in Salem Steel Bottling the DPR was delayed, but the expenditure was incurred on the basis of the feasibility report prepared by the Company and approval given by Government. So the DPR had only firmed up the cost, but the feasibility report was submitted by the company and approved by the Government."

2.4 The Committee further drew the attention of witnesses to the following guidelines issued by Ministry of Finance as back as in November, 1978 in regard to the project implementation:

"...In case, the initial investment decision is not based on detailed project reports or detailed cost estimates the concerned Ministries should ensure that these are prepared within a year of the sanction of the project."

To this, Secretary, Petroleum states as follows:—

"I do admit that in this case there has been delay in the preparation of DPR and there has been undue escalation in the cost."

2.5 Apart from the LPG Bottling Plant at Bangalore, the following table shows the date of approval of Feasibility Report/DPR by Government in respect of other projects undertaken by IOC during the last 5 years:—

Projects

		OIL Project	APT Phase I	LPG Phase III	APT Phase IIA
(i)	Date of approval of FR	19.12.81	3.3.83 18.11.83 (Rev.)	18.6.83 16.12.85 (Rev.)	8.3.85
(ii)	Date of approval of DPR	19.1.87	Approval awaited	21.7.87	5.6.87
(iii)	Actual date of starting the work	Dec.81 & Sept.82	March 83 to June 85	June 83	March 85 onwards

1	2	3	4	5
(iv) Date of Commissioning	May 83 & Dec. 84	March 87 as per DPR target	March 89 & Dec.89	March 87 as per DPR target

It would be seen from the above that generally DPR have been approved by the government after commissioning of the projects. On being pointed out by the Committee that Ministry of Finance guidelines regarding approval of DPR within one year of the finalisation of Feasibility Report have not been followed in the case of above projects also, the Secretary Petroleum stated during oral evidence that:—

"These are old cases about which I do submit that there was delay of over a year in the preparation of DPR . . . . . Now, the procedure is being followed. At that time such a procedure of monitoring was not there."

2.6 On being further pointed out by the Committee that the administrative Ministry should ensure the compliance of guidelines issued by Ministry of Finance, the witness stated:—

"There is no doubt about the guidelines of the Finance Ministry that the DPR must be prepared within a year after feasibility report. But this was not done in this case. But we are ensuring that this is done now."

2.7 When enquired as to what was the purpose of approval of DPR after the commissioning of the project, the witness replied:—

"The purpose that is served is that the Ministry or the Government ensures that no wastage has taken place, that no wrong expenditure has taken place and that the final cost was approximate to what was given."

2.8 On being further pointed out by the Committee that in case DPR was approved after the completion of the project, it was only *expost facto* approval. To this the Secretary replied:

"The detailed project report is submitted to the Ministry and the Ministry scrutinises it. When it is not satisfied, it even asks for details, full justification. Then only, the DPR is approved. DPR is approved only when it reflects the expenditure properly. It is not merely *expost facto* sanction. It is a sanction depending on full consideration of the economic justification of this expenditure."

2.9 Asked about the time taken normally for approval of DPR, the witness stated that "On an average, it is about 6 to 8 months." In the following cases, however, the time taken by Ministry in approval of DPR's submitted by IOC/ranged from 4 months to as much as 4 years:

Project	Date of submission of DPR by the Company.	Date of approval of DPR by Government.	Approx. time taken by Ministry.
1. OIL	July 1985	January 1987	18 Months
2. APT Phase I	December 1984	Pending Government approval. (Cleared by PIB in Feb. 1987)	4 years and yet to approve
3. LPG Phase III	March 1987	July 1987	4 Months
4. APT Phase IIA	December 1986	June 1987	7 months

B. Cost Escalation

2.10 The LPG Phase I programme consisted four LPG Bottling Plants at Bangalore, Salem, Jullunder and Allahabad. The following table shows the estimated cost *vis-a-vis* actual cost of LPG Phase I project of IOC:—

Name of Project	Cost as per F.R.	Cost as per DPR	Actual Cost
	(Rs. in crores)		
LPG Phase I (Composite)	84.28	104.37	101.34
	(Rs. in Lakhs)		
Bangalore LPG Bottling Plant	168.30	446.07	421.53
Salem LPG Bottling Plant	158.40	456.07	466.88

1	2	3	4
Allahabad LPG Bottling Plant	149.00	409.00	371.00
Jullunder LPG Bottling Plant	210.00	462.00	429.00

2.11 Detailing the cost escalation in LPG Phase I project from Rs. 84.28 crores to Rs. 101.34 crores the IOC stated in a written reply, as follows:

"The project consisted of —

(a) Construction of Bottling Plants at Bangalore, Salem, Jullunder and Allahabad.

(b) Provision of additional tankage at Shakurbasti & Kanpur

(c) 383 Tank Wagons

(d) Cylinders and Regulators

The cost data is as under:

(Rs. in crores)

	FR Cost	DPR Cost	DPR Cost increase over FR Cost
(a) Construction Bottling Plants and Additional Tankage	7.17	18.58	11.41
(b) 383 Tank Wagons	7.66	8.65	0.99
(c) Cylinders and Regulators	65.20	77.14	11.94
(d) Financing	4.25	—	(−) 4.25
Total	84.28	104.37	20.09

2.12 During the evidence of the representatives of IOC, the Committee pointed out that the estimated cost of Bangalore bottling plant increased from Rs. 168.30 lakhs (as per feasibility report) to Rs. 446.07 lakhs (as per DPR). When asked about the reasons for steep cost escalation, a representative of IOC stated:—

> "The increase in cost was to the tune of Rs. 277 lakhs from Rs. 168.3 lakhs to Rs. 446.07 lakhs. I would like to enumerate the main reasons why this escalation took place. There was escalation to the tune of Rs.48 lakhs due to extra cost in civil works. This is because the Chief Controller of explosives required that the empty cylinders must be stored in a covered shed. Rs. 108 lakhs is due to equipment and pipelines. It is due to introduction of mechanised bottling machine by which bottling is done almost mechanically, then there was an escalation of Rs. 43 lakhs on storage vessels. They are spherical tanks."

2.13 The Committee further enquired as to why these technical improved facilities could not be envisaged at the time of preparing the feasibility report. The witness stated:—

> "The technology in this area changes very fast. As a matter of fact, if you were to rebuild this plant today, we would be spending Rs.14 or Rs. 15 crores. It is not because of price escalation but because of latest equipment and technology."

2.14 Asked whether any consultants were associated with this plant, the witness replied:—

> "This plant was designed departmentally by our own engineers. No outside consultant was appointed."

2.15 The witness also explained that escalation was also due to automatic sprinkler system as against the provision of manual system in the feasibility report. When asked whether the automatic system was available in 1978, the witness admitted that "it was there".

2.16 On being further pointed out by the Committee that if the technology was available in 1978 why was it not incorporated in the feasibility report, the witness stated "I accept that point."

2.17 In the post evidence replies furnished to the Committee IOC explained item-wise details of cost escalations in respect of four LPG bottling plants at Bangalore, Salem, Jullunder and Allahabad. The cost escalations have been mainly due to the following reasons.

(a) Safety due to (Vasudevan Safety Committee Recommendations) VSCR implications.

(b) Change of Scope

(c) Duties and taxes on storage tanks.

(d) Railway siding

(e) Land cost

The following table shows the extent of cost escalations on account of above factors.

Factors	Bangalore Plant	Salem Plant	Jullunder Plant	Allahabad Plant
		(cost of escalations in Rs. lakhs)		
I. Safety	54.66	78.67	56.22	50.11
II. Change of scope	159.30	159.24	162.61	183.97
III. Duties & Taxes and cost of plates	43.00	45.00	38.50	19.50
IV. Railway siding/tank wagon discharge facilities	23.50	15.00	(-) 1.00	6.00
V. Land cost	(-) 2.75	0.55	(-)4.40	-
Total escalation	277.71	298.46	251.93	259.58

2.18 During the course of evidence of the representatives of Ministry of Petroleum and Natural Gas the Committee pointed out that there were wide variations between the cost estimates as per feasibility report and cost as per DPR. When enquired about its reasons, the Secretary Petroleum stated:—

> "There is no doubt a very large escalation in cost over the original feasibility report. This (LPG Bottling Plants) was started in early Eighties. Afterwards there was acute concern for the safety measures to be taken in these bottling plants and therefore, a Committee was set up, its report was brought in and even during the course of the report a number of safety measures were incorportated. These safety measures added considerably to the cost of the project."

2.19 Asked as to whether the Ministry have analysed the reasons for cost escalations in all the plants, the Ministry stated in a note furnished after the evidence as follows:—

> "Detailed analysis is carried out by the Ministry in consultation with the concerned company with regard to reasons for huge cost escalation in all projects. In the cases referred to, the main reasons for the cost increase were:

(i) Requirement of Railways/Chief Controller of Explosives (Revised norms for safety distances).

(ii) Upgradation of technology (e.g., the FR for LPG Phase-I had provided for manual bottling machines, while in the DPR automatic filling carousels were provided).

(iii) Enhanced safe measures (e. g., Mastic flooring in sheds, additional storage space for storing empty cylinders, MV spray system besides hydrant facility).

(iv) Additions/Deletions after detailed engineering (increase in length of Gantry & Pipelines, increase in pipeline diameter additional compressor pumps.)

(v) Change in scope (e.g. additional accommodation for increased worker amenities).

(vi) Changes in duties and taxes structure.

(vii) Fluctuations in international currency value.

(viii) General cost escalation particularly of price sensitive items such as steel."

C. Time over-run

2.20 The Committee wanted to know as to whether any time schedule was prepared for IOC's Bottling plant at Bangalore. A representative of

IOC stated during evidence as follows:—

"As per the feasibility report, the commissioning was in March, 1981 however, as per the DPR, this date was shifted to December, 1981. Actual commissioning took place in July 1982 i. e. after lapse of about eight months from December 1981. The reason for that is we were hoping to secure land by March, 1979 but actually we were able to get it in January, 1980. Nine months later we got it. This delay in getting the land was responsible for the delay in commissioning the project."

2.21 Besides Bangalore LPG/bottling plant there were delays in commissioning of bottling plants at Jullunder, Allahabad and Salem. The following table shows the scheduled dates vis-a-vis actual date of commissioning of these plants:—

	Expected date of completion as per FR	Expected date of completion as per DPR	Anticipated date of completion as approved by Ministry.	Actual date of completion
i) Salem LPG Bottling Plant	March '81	Dec.82	Dec. 82	Oct'83-plant May'84-siding facilities
ii) Jullunder LPG Bottling plant	March '82	Dec.81	June. 82	Aug.'82-plant Aug.'83-siding facilities.
iii) Allahabad	March '82	Mar.'82	Oct.82	Oct.83

2.22 During the course of evidence of the representatives of the Ministry of Petroleum and Natural Gas the committee pointed out that there had been cost and time over-runs in the projects undertaken by the IOC asked about the mechnanism available in the Ministry to monitor the implementation of the projects undertaken by the public enterprises under its administrative control, Secretary Petroleum stated:—

"The mechanism is the Quarterly Performance Reviews with each company. We monitor implementation of the projects through them. Now we have regular monitoring."

2.23 The Committee wanted to know as to whether the Ministry satisfied themselves with the cost of projects while analysing cost escalations. The Secretary Petroleum stated:—

"We are satisfied. That is why, we approved the DPR."

The Committee then pointed out the DPR was approved by Ministry after completion of work. Therefore, had the Ministry not been satisfied with cost escalation at that stage, then what would have been their course of action. Thereupon, the Secretary replied:—

"We would have taken action against the persons responsible."

2.25 The Committee enquired whether the Ministry's nominee on the Board of IOC ever brought to the notice of the Ministry the delay in preparation of DPR or cost escalations in the projects undertaken by the Company, the witness then stated:—

"From the records available with me now, I am not able to say whether it was brought to the notice of the Ministry or not in writing at that time."

2.26 In this connection the Ministry informed in a written note furnished after the evidence as follows:—

"IOCs LPG Phase I was considered in detail in its Board meetings on nine occasions between April 1980 and March 1982. In its meeting held on 29.5.1981 in which the Ministry's nominees participated, the Board was advised that the DPR on LPG Phase-I was being revised. The Board authorised the Managing Director and Director (Finance) to submit the report after revision to the Government for approval of the Revised Project Cost. The Board, however, desired that the report, after submission to Government, be put up to the Board for information in the next meeting. In its meeting held on 4.12.1981. the Board noted the Revised Project Report on marketing of LPG Phase-I submitted to Government for approval."

2.27 The Committee further wanted to know as to whether the

Ministry's nominee on the Board of the company submits any written report to the Ministry the witness replied:—

"During the course of the Board Meeting, if he finds that there is something which is not correct, he immediately reports to the Ministry. For instance, only recently, we had some such report which is on record."

Explaining it further he stated:—

"First, he points out to the company and ask them to take action to get it corrected at that level. If he finds that it is not being done then he brings it to the notice of the Ministry. He can ask for the reasons why the DPR is taking time."

2.28 According to the guidelines issued by Bureau of Public Enterprises in 1975, 1980 and 1984, administrative Ministries should hold performance review meetings every quarter in respect of all undertakings under their administrative control associating the representatives of BPE and Planning Commission. Asked as to how many quarterly performance review meetings were held by the Ministry in respect of IOC during each of the last 3 years, Secretary Petroleum replied that during the last three years, 12 quarterly performance review meetings were held. For each year, four review meeting were held.

2.29 The Committee further enquired as to whether the matter regarding implementation of projects or delay in preparing DPR and cost escalations in the projects were discussed in any of the such reviews. The Secretary Petroleum replied as follows:—

"At that time when it was conceived this system was not in operation. This is in operation now. Of course, now it is done immediately."

2.30 When asked about the reasons for not following the review system earlier, the Secretary stated:—

"Detailed procedure presented by BPE was not there at that time. There was provision for review. But recently, the guidelines that have been prescribed - *i.e.* detailed review, the manner in which it should be done, the points which should be attended to - They were not there at that time."

2.31 When enquired about the earlier practice of monitoring followed, the Secretary replied:—

"Earlier, it was in the form of a general review. At present, monitoring is done very carefully."

He added:—

"In the recent guidelines, there is a very specific way of monitoring which is laid down and which we are observing now a days."

CHAPTER III

HPCL BOTTLING PLANT

3.1 According to Audit, Hindustan Petroleum Corporation Limited (HPCL) also established a similar plant of 25000 MT capacity at Bangalore adjacent to IOC Plant. The estimated cost of HPCL bottling plant at Bangalore as intimated by HPCL, is given below:—

	Rs. in crores
(i) As per Feasibility Report	1.55
(ii) As per Detailed Project Report	3.61
(iii) Final Actual Cost	3.98

3.2 Asked about the reasons for increase in cost from Rs. 1.55 crores of 3.98 crores. HPCL stated in a written note as follows:—

"There has been an increase of Rs. 37 lakhs over the DPR cost of Rs. 3.61 crores. This is primarily due to the increase in the cost of imported carousel, Conveyor and instrumentation items due to depreciation of the Rupee in terms of Danish Kroner; and the imposition of additional import duty between the time of the preparation of DPR and actual imports."

3.3 The Committee further enquired about the reasons for increase in the cost of plant from Rs. 1.55 crores (as per feasibility report) to Rs. 3.61 crores (as per DPR). HPCL stated in a written note as follows:—

"Reasons for this increase are:—

Scope Change

1. At the time of FR, it was assumed that the LPG Plant will be located near the Existing POL Depot at Byappendholli on *Leased (Railway) Land* so as to utilize the Existing POL Siding for LPG also.

However, no Railway or other land was available near the POL Depot inspite of best efforts. Consequently, the location had to be shifted to the present location, resulting in cost escalation of Rs. 94.7 lakhs.

2. Present location, being far away from POL Depot, grass root fire fighting facilities and electrification had to be done at an additional cost of Rs. 26.2 lakhs.

3. Scope had to be enlarged to provide for storage sheds for holding additional inventory of filled/empty cylinders and facility for testing and painting of cylinders at additional cost of Rs. 49 lakh.

4. While no consultancy was contemplated at F.R. stage, services of EIL and to be retained for consultancy at Rs. 15 lakhs.

Cost Increase

Cost of imported carousel/conveyor had increased by Rs. 17.5 lakhs at the time of ordering (between July 1977 and June 1980)."

3.4 The Committee also wanted to know as to whether the cost escalation had the approval of the administration Ministry. HPCL replied in written note as follows:—

"Yes, Sir, It was sanctioned by Ministry of Petroleum and Natural Gas in December 1980."

3.5 The following table shows the time schedule for completion of the HPCL plant:—

(i)	Date of approval of Feasibility Report by Government;	October, 1978
(ii)	Date of approval of Detailed Project Report by Government;	December, 1980
(iii)	Date of starting the construction	April, 1979
(iv)	Scheduled date of completion	March, 1981
(v)	Date of actual completion of the Plant.	July, 1981

3.6 The Committee wanted to know as to why the plant could not be commissioned in scheduled time. HPCL replied as follows:—

> "The delay was primarily due to delay in completion of the Horton Spheres by the contractor M/s. Vijay Tanks and Vessels Pvt. Limited, who faced liquidity problems."

3.7 During the course of evidence of the representatives of the Ministry of Petroleum and Natural Gas, the Committee wanted to know as to whether the Ministry have examined the reasons for cost escalation to the tune of Rs. 206 lakhs at the time of approving the DPR. The Secretary, Petroleum stated as follows:—

> "We have done detailed calculation of difference in costs. For instance the change in location. Originally it was in different site. Electrification was to be done. Inventory was increased involving a cost of Rs. 40 lakhs. Then cost of imported conveyors was also increased between the first stage and the time when it was ordered."

3.8 The Committee also wanted to know as to whether the cost escalation from Rs. 3.61 crores to Rs. 3.98 crores had been approved by the Ministry. The Petroleum Secretary stated that "It was within the competence of the Company itself to approve it."

3.9 On being pointed by the Committee that the cost escalation was more than 10 per cent and it should have been approved by the Ministry, a representative of the Ministry replied:—

> "The HPCL LPG Phase I Project was for Rs. 38.89 crores and this Bangalore Plant was one of the elements of that project, in HPCL. The project cost increased from 38.88 crores to Rs. 39.63 crores which is an increase of 1.7 per cent."

3.10 Asked as to why separate DPR could not be prepared for Bangalore Plant, the Petroleum Secretary stated:

> "I may add that within the Ministry itself this procedure is being re-examined, whether it should be done as a clubbing or as a separate plants."

CHAPTER IV

RAILWAY SIDING FOR LPG BOTTLING PLANTS AT BANGALORE

4.1 According to audit the IOC and HPCL Plants were located in areas of 9.18 acres and 13 acres respectively and the initial plan was to provide a common railway siding but at the time of finalising these two plants it was known that it would not be possible to provide the LPG siding within the premises of any one plant as the Railways were operational not in a position to move the LPG tank wagons across the main Railway lines to bring them to siding within the premises of any one plant and acquisition of private land for locating a siding would be necessary.

4.2 The IOC 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. 4337.50 for the first 30 years and at Rs. 5205 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 Explosive Regulations, it has not been put to effective use so far. The entire expenditure on the lease hold land proved infructuous as the lease agreement could not be rescinded.

4.3 As regards the unsuitability of land for railway siding IOC informed the Committee in a written note as follows:—

(i) Till February 1981, there were no separate Explosives Rules for storage/handling of LPG. Approval of Chief Inspector of Explosives was *necessary* for the *layouts*. For safety distances the prevailing Explosives Rules for other Petroleum products (the Petroleum and Carbide of Calcium Manual) were made applicable. As per these rules, full rake siding could be accommodated on the identified plot of land.

(ii) The Gas Cylinder Rules and SMPV (Static and Mobile Pressure Vessels) Rules came into effect in February, 1981 through Government Gazettes. After the fire accident at Shakurbasti, recommendations of Vasudevan Safety Committee were accepted by the Government (Ministry of Energy, Department of Petroleum) *vide* letter No. P-43011/12/83-MKT, dated 26.8.1983. As per these recommendations, the actual loading and unloading operation must be carried out in a safe manner consistent with the stipulation by Chief Controller of Explosives.

(iii) The land was taken over on 25.1.1984. Thereafter CCE was approached for his approval for provision of full rake siding. CCE *vide* his letter No. PV (SC)-S-8/KL dated 6th March, 1984 advised IOC to provide a clearance of at least 50 meter distance between the two spurs of 36 wagons each and also a clearance of 50 meters around each of the spurs. Ministry of Railway (Railway Board) also advised the Oil Companies *vide* their letter No. 83/TT.11/9/1 on 11.5.84 to follow direction received from CCE, Nagpur for maintaining clearance of 50 meters around the spurs from outside the facilities and the facilities inside the bottling plant. In CCE letter it has been stipulated that only one of the two spurs should be used at a time for loading/unloading of tank wagons with quantity/not exceeding 500 metric tonnes.

(iv) In view of the above, the land can accommodate only half rake facilities and the same was approved by CCE *vide* their letter No. PU/(SC)-S/8KK dated 27.6.1984, when railways were approached for provision of half rake siding, they insisted on full rake movement/handling. Efforts continued. Matter was again discussed with Railways on 30.7.1987 when they expressed reservations to place half rake in the Loco Shed area or in the Yard because of expansion of the Loco Shed as also safety reasons."

4.4 During the evidence of the representatives of Indian Oil Corporation, the Committee wanted to know as to why the proposal for setting up two plants (one by IOC and other by HPCL) finalised without proper ensuring about the provisioning of the suitable railway siding. A representative of the IOC stated as follows:—

"When the HPC got land they were already in touch with the Railways for providing a siding for industry. They had some sort of understanding that the siding would be provided by the Railways. When we were looking for our bottling plant, we wanted to have it in the vicinity of the HPC so that there would be common siding for both the parties. We had discussions with the Railways and identified a 20 acre land in the nearby area. It was agreed that the railways would put a siding in the 20 acres plot. The railways agreed to take up with the Karnataka Government to acquire that land so that they could put the siding and we could put a bottling plant. When the Karnataka Government was approached, the Chief Secretary of Karnataka Government himself took a meeting. He found that there were other people (ITI) who had wanted that land and they had been waiting for several years.

The Chief Secretary then decided that he would divide that land 50:50 between the ITI and the IOC. In half of the land, it was quite clear that we would not be able to accommodate a siding as well as a plant. So, we explained the circumstances. The Karnataka Government then said: We would give another plot nearby where you could put a bottling plant. And in half of the 20 acres plot, you can put a siding. On that basis, a piece of land measuring 9 acres was given to us in January 1980, that is, where our bottling plant exists. In the meantime, after discussion with the railways, the railways agreed to approach the Karnataka Government for the acquisition of the half of the earlier 20 acre plot where they could provide a siding. When that happened, there was a legal battle. The private party who owned that land, contested the right of the Karnataka Government to acquire the land. And there was a High Court judgement in favour of the party. The High Court decided the land should be acquired in the normal course—not using any emergency clause. When proceeding started we felt that we should deal directly with the party for a negotiated settlement. That was done. After much discussion and negotiations, finally, we were able to get that land in January, 1984."

He further added:—

"When we got it in Janaury, 1984, unfortunately, by that time, the Shakurbasti fire had taken place. The Government had appointed a sub-committee headed by Shri Vasudevan. The Vasudevan Committee recommended that safety distance between the siding and other constructions should be widened. Before the fire, only 9-10 meters were allowed between the siding and other constructions.

On 6th March 1984, we got a letter from the CCE that under the new rules, a 50-meter all around safety space is required. Not only that, the CCE also said that they will not allow on one siding a full rake of 1,000 tonnes. They would only allow 400-500 tonnes to be unloaded at a time for reasons of safety. It was hindsight learning from the Shakurbasti accident. The railways, on the other hand, said that they were not prepared to allow a rake siding which cannot take a full rake. So, we were caught that if you would follow the CCE rules, only half rake could be accommodated and the railways were not willing to accommodate less than a full rake. That sort of debate and argument kept going on for several years. It was considered desirable to have a railway siding for many reasons, the most important of which was the safety."

4.5 Asked about the latest position, the witness stated:—

"In this dialogue, no finality came. In 1987, we approached the Government and the OCC for bringing a finality. The OCC decided to have a meeting in Bangalore in January 1988. No finality could come about becasue the railway representatives were not present.

When that happened, it was decided by the OCC that they would approach the Railway Board to give a final decision on whether or not, they would provide a siding space."

4.6 The Committee further enquired as to why IOC did not seek the permission of CCE before acquiring the land. The reoresentative of the IOC replied as follows:—

"CCE does not give views before being given a concrete proposal."

He added:—

"Now, after we got this land in January 1984, we applied to CCE for approval of the siding. Then the CCE has given approval for railway siding in the land on 27.6.1984. So, from the CCE point of view, we had the approval. But the point is that CCE said that they could not unload more than half the rake of LPG, that is about 400 or 500 tonnes."

4.7 As regards the objection from Railways, the witness replied:—

"The Railways did not agree to the arrangements proposed by Chief Inspector of Explosives. The condition imposed is about the loading of the rake. It is not an objection to that land. Land is sufficient. But the railways refused to unload half rake of LPG. The rake consist of 68 to 72 wagons. They said that they would not unload it in half rake."

Explaining it further the witness added:—

"The Chief Controller's approval was for not more than half-a-rake, while the Railways later on said that they will accept only a full rake and would not accept half-a-rake."

4.8 The Committee pointed out that Vasudevan Committee submitted its Report in June, 1983, whereas, the land was purchased in January, 1984. Asked as to how the Corporation failed to ensure suitability of the land, the witness stated:—

"In the Vasudevan Committee's Report they made recommendations regarding safety. They said, there should be special emphasis on safer tank wagon loading and unloading operations. The CCE was the member of the Vasudevan Committee. He later on came out with new rules on the topic which were released in April, 1984, which requires 50 meters clearance all round."

4.9 It also came out during evidence that this matter was discussed in the Oil Coordination Committee held on 25.1.1988. Asked about the outcome of this meeting, Chairman IOC stated as follows:—

> "The discussions have been held but the matter has not been finally concluded. More or less it was rejected."

4.10 Asked as to how long IOC would wait to settle the matter, witness replied:—

> "We do not propose to wait indefinitely, we have to take a view on it. In fact we have been reminding the Ministry about that. We are trying our last chance and in the next one or two months it can be sorted out."

4.11 The Committee pointed out that HPCL had agreed to share 50% of cost towards the rent of the land. Asked whether HPCL had been paying their share, the witness stated that "We have not recovered it from them. But there is no risk of this liability."

4.12 In this connection, the Corporation also informed the Committee in a written reply that rent is being paid regularly and an amount of Rs. 2,17,849.44 has been paid to the party from 25.01.84 to 31.3.1988. Asked as to whether any responsibility has been fixed for making huge payments for the acquired land which has not been put to effective use so far, the Corporation intimated in a written reply that "no, it was not considered necessary."

4.13 The Committee also wanted to know as to whether IOC has drawn up any alternative plan to use the land in case plan for setting up railway siding was dropped. The Chairman, IOC replied "We have some idea, but we have not come to a final conclusion."

4.14 The Committee also wanted to know as to whether any proper consultation with regard to the suitability of siding was made with Railways authorities. HPCL replied in a note that Southern Railways were consulted, HPCL has also informed the Committe that:-

> "During 1984, Railways took a policy decision that all LPG movement by rail would be through full rake only in order to ensure improvement in the availability of LPG Tank Wagons. The same having been implemented in 1978, in the case of other POL products. Accordingly, the Railways insisted on movement of full rakes as against the half rake as planned for this bottling plant and also according to the Explosives Regulations. The land was not adequate for the siding facilities near the bottling plant at Bangalore. Hence the railway siding could not be developed to serve IOC and HPCL bottling plants."

4.15 The Committee enquired whether HPCL has made any alternate plan in case Railways finally say no to the proposal of railway siding at Bangalore. HPCL replied in a note as follows:-

"An LPG bottling plant of HPCL is under construction at Hazarwadi (near Miraj) where adequate tankage and Railway siding (based on full rake) are being provided with all the safety requirements; this is expected to be commissioned shortly. It will facilitate movement of bulk LPG by rail from Bombay to Hazarwadi and further by road from Hazarwadi to Bangalore which will reduce by almost 30% the road movement from Bombay to Bangalore."

4.16 The Committee were informed through a written note that the estimated cost of Hazarwadi Plant was Rs. 15.55 crores. When asked whether the facilities at Hazarwadi HPCL plant would meet the requirements of HPCL Plant at Bangalore or it could accommodate both IOC and HPCL plants, HPCL informed as follows:-

"We confirm that the facilities being provided at the HPCL, Hazarwadi Plant with Railway Siding are so designed as to enable meeting the bulk LPG reqirements of Bangalore by road from Hawarwadi both for Hindustan Petroleum Corporation Limited as well as for Indian Oil Corporation Limited and Bharat Petroleum Corporation Limited."

4.17 During the evidence of the representatives of the Ministry of Petroleum and Natural Gas, the Committee enquired as to why the Ministry permitted setting up of two LPG Bottling Plants without ensuring the provisioning of the railway siding. The Petroleum Secretary stated:

"At the time of acquiring, the railway siding was feasible under the rules prevailing at that time on the land or in the area allotted. It was only later on when fresh instructions were given by the Chief Controller of Explosives to the Railway Board and the safety measures were revised which did not become feasible."

Explaining it further, he stated:-

"In consultation with the Railways certain plot of land was earmarked. Later on, both the Railways and the Chief Controller of Explosives added certain additional stipulations. With these stipulations this land became inadequate. As visualised originally, the land was adequate, but with additional stipulations the land is inadequate."

4.18 Vasudevan Committee Report is reported to have been accepted by Government on 26th August, 1983. The committee enquired that since the representatives of both IOC and HPCL were associated with the Vasudevan Committee, these companies must be aware of the deliberation of Vasudevan Committee. The witness then stated:-

"The recommendations of the Vasudevan Committee are that the actual loading and unloading operation must be carried out in such a manner consistent with the stipulation of the Chief Controller of Explosives. The land was taken over on 25-1-1984. Then the Chief Controller was approached for his approval. On 6th March, 1984 the Chief Controller advised the IOC to provide for at least 50 meters distance between the two rakes."

4.19 When enquired about the progress made by the Ministry for seeking approval of Railways for the railway siding, the witness stated:—

"We are going to have a meeting on 16th of this month (December, 1988)."

4.20 Subsequently, in their written note, the Ministry informed the Committee that:

"In the meeting convened at Bangalore on December, 15, 1988 to discuss the provision of Railway siding at IOC's Bottling Plant at Bangalore, the Oil Coordination Committee of this Ministry participated along with representatives of the Railways and of Indian Oil Corpn.

Arising out of the discussion the consensus was that the proposal for provision of a railway siding at Krishnarajapuram (Bangalore) be dropped".

CHAPTER V

TRANSPORTATION COST

5.1 Audit has pointed out that the feasibility report (September 1978) contemplated movement of bulk LPG mainly from Bombay (BH Associated Gas) by rail and Railways and Oil Industry had geared up the LPG tank wagons fleet to move the high volume traffic in this sector. During 1982-83 to 1985-86, total quantity of 1,43,265 tonnes of LPG had to be transported by road from Bombay to Bangalore by IOC and HPC incurring extra expenditure on frieght amounting to Rs. 465 lakhs, both companies paying different rates to the contractors for the same point to point movement.

5.2 Audit has also reported that a part of the product was moved by rail from Bombay to Salem and by road from Salem to Bangalore by IOC in 1983-84. IOC paid Rs. 5754 lakhs towards storage and handling charges to Salem Steel Plant for utilising their Railway siding, storage tanks and connected handling facilities as the railway siding at Salem Bottling Plant of IOC was not ready till June 1984 and also incurred an extra expenditure of Rs. 51.53 lakhs for movement of product (16080 MT) from Salem to Bangalore by road.

5.3 The Committee pointed out that had the bulk LPG been transported from Bombay to Bangalore by rail, as contemplated in Feasibility Report, and had there been a railway siding close to the plants, the extra expenditure to the tune of Rs. 465 lakhs spent on road transport for the years 1982-83 to 1985-86 could have been avoided. To this, IOC replied in are as follows:-

> "Rs. 465 lakhs is a nominal amount of the frieght differential between road and rail on supplies from Bombay to Bangalore. A proper rail/road transport frieght comparison requires weightage for additional investment towards facilities to accept LPG by rail, such as Addl. bulk store for receipt of LPG, cost of the bullets for railway tank wagons, cost of Railway Siding, maintenance cost of T/W bullets etc. and cost of other ancillary facilities including fire-fighting. In view of these, considering additional incidental charges, the road transportation is cheaper than rail transportation."

5.4 As regards the extra expenditure on road transport for the years 1986-87 and 1987-88, the Corporation stated in written note as follows:-

"During 1986-87 as 1987-88, 18294 MT of bulk LPG was moved on IOC account from Bombay to Bangalore. The difference between road freight for movement of above quantity and the notional rail freight is about Rs. 65 lakhs. If the additional incidence of cost towards rail facilities, bullets etc. is taken into account, road movement will prove to be cheaper."

5.5 During oral evidence of the representatives of IOC, when the Committee asked IOC officials to explain as to how the road transport could be cheaper than railways, the Chairman of IOC then stated:-

"This should be looked at from the historical context. Over the years, the difference between road transport and rail transport narrowed down and in some cases, the road transport has become cheaper. We have done the calculations about the increased tariff and we will submit it to the Committee."

5.6 The IOC subsequently furnished details showing the comparative cost of railway vis-a-vis road transport. The following table shows the comparative statement of transportation cost of railway vis-a-vis road:

	1982-83			1987-88		
	Rail	Road		Rail	Road	
		Jointly owned	Fully owned		Jointly owned	Fully owned
		(Rs. in Lakhs)				
A. Expenditure / MT (25000 MTPA plant capacity)	738.8	485.2	439.2	781.2	485.2	439.2
B. Freight / MY	592.0	610.0	837.0	766.6	649.9	839.8
C. Total derived cost of trans-por-tation(A+B) per MT	1330.8	1095.2	1276.2	1547.8	1135.1	1279.0
D. Addl. cost of Rail transpor-tation / MT compared to Road	—	235.6	54.6	—	412.7	268.8

5.7 When asked about the reasons for differnce in rates of road transport given by IOC and HPCL for the same point of movement, the Chairman, of IOC stated:

> "It is open tender system. From 1982-83 to 1987-88 our rates were slightly cheaper than those of HPC."

Explaining it further a representative of IOC stated:

> "In case of HPC, the rate for full distance was coming to Rs. 1015 per MT per Km. in May 1987 say from Bombay to Bangalore. In our case in August, 1987, the rate is Rs. 1066. Difference is because of the expiry dates of the contracts vary. All along, our rates have been cheaper, except the last one."

5.8 The Committee further enquired as to whether utilising the railway siding of Salem Steel Plant in 1983-84 for transportation of LPG from Bombay to Salem by rail and from Salem to Bangalore by road was cheaper.

The IOC stated in a written note as follows:

> "It was not economical to meet Bangalore Plant requirements by rail via Salem Steel Plant and by road from Salem to Bangalore. In spite of this, we resorted to this movement because:

(i) The then available fleet of road tank trucks were inadequate to move additional product to Bangalore to operate the plant on 2 shift basis.

(ii) There was additional availability of LPG from Koyali because of commissioning of RCC which had to be utilised. The distance from Koyali to Bangalore is more and additional trucks would be needed if movement had to be maximised.

(iii) MRL was going for shut down for maintenance from March, 1983 for about 1½ months. (MRL has no rail receipt facilities for LPG).

(iv) Salem Plant of IOC was likely to be ready for commissioning in April/ May, 1983. The Railway siding was delayed. Therefore, the only way to overcome the situation was to operate the Bangalore Plant in Second Shift and resort to supply by rail *via* Salem Steel Plant and meet the requirements."

5.9 In regard to setting up of railway siding at IOC Plant at Salem, IOC informed the Committee in a written reply that siding has been put to use in May 1984.

5.10 When asked whether any alternate scheme has been prepared by IOC to avoid extra expenditure on road transport, IOC explained:

"After commissioning of RCC and expansion units at CRL, Cochin and MRL, Madras, the supply pattern to Banglore Plant has undergone changes, as is evident from the following:—

Source of supply to IOC Bangalore LPG Plant	1986-87 Qty. (MT)	%	1987-88 Qty. (MT)	%
Ex-CRL, Cochin	30914	71.23	17899	41.92
Ex-MRL, Madras	7906	18.22	8921	20.89
Ex-Bombay	3435	7.92	14859	35.04
Ex-others	1143	2.63	918	2.15
Total:	43398	100.00	42597	100.00

5.11 During oral evidence of the representatives of Ministry of Petroleum and Natural Gas, the Committee wanted to know as to whether Ministry shared the views of IOC that road transport was cheaper than rail transport. The Secretary, Petroleum stated:—

"We have obtained the comparative rail and road transport figures from IOC. We have scrutinised them. The figures show that if you take all the items into consideration, that is, investment, interest on other charges, etc. then there is additional cost for movement by rail."

5.12 Asked whether Ministry have themselves examined the matter, the Secretary then replied, "I have examined. The whole statement is before me."

5.13 The Committee further pointed out that IOC and HPCL were paying different rates for road transport for the same point movement. For instance the rate of HPCL for Bombay-Bangalore was Rs. 1015 per MT/Km. while IOC's rates for the same distance was Rs. 1066 per MT/Km. Asked about the reasons for difference in rates, the Secretary, Petroleum stated as follows:-

"There are two reasons for this. One, there is difference in the terms and conditions of the contract. For instance, in some cases, there are provisions for detention charges. The other reason is that the contracts are entered into at different time periods by the companies. That's why there is difference."

5.14 Enquired about the major change in the terms and conditions, the witness replied:-

"We have found out that the IOC is paying detention charges which HPCL is not paying."

5.15 The Committee further pointed out that in case road transport was cheaper then why IOC and HPCL were trying for railway siding. To this, the witness stated, "We have to have both."

5.16 Asked whether these contracts for road transport were approved by the Ministry, the witness replied, "These contracts do not require that permission."

5.17 Further asked whether the transport companies engaged for road transportation were same both for IOC and HPCL. The Ministry informed the Committee in the post-evidence written replies as follows:-

"During the year 1988-89, IOC has engaged 81 bulk LPG transport contractors while HPCL has engaged 70 bulk LPG transport contractors. Out of these, about 11 transport companies are common for the two Corporations."

5.18 From the point of view of safe movement of LPG, Chairman, IOC stated:-

"Sending by road is also safe. Rail is convenient. Sixty per cent of our movement is by road. Now, rail is no longer cheaper. From the safety angle, rail is relatively convenient and comparatively safer. The statement that road is unsafe is not correct."

PART II

CONCLUSIONS/RECOMMENDATIONS OF THE COMMITTEE

On the basis of a paragraph appeared in the Report of Comptroller & Auditor General of India, Union Government (Commercial) 1986, Part VIII, the Committee have examined the question of setting up of two adjacent L.P.G. Bottling plants at Bangalore - one by Indian Oil Corporation Ltd. (IOC) and another by Hindustan Petroleum Corporation Ltd. (HPCL). The Committee's examination has revealed several disquieting features with regard to Project Planning and execution of these plants. The Committee's findings and their recommendations are set out in the succeeding paragraphs.

1. The Committee have observed that both IOC and HPCL established LPG Bottling Plants at Bangalore with an annual capacity of 25,000 M.T. each at the cost of Rs. 421 lakhs and RS. 398 lakhs respectively. Both the plants have 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 M.T. capacity, the Government permitted two Companies under its administrative control to set up two small Plants of 25,000 M.T. 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 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.

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 project 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.

3. The Committee also find that apart from Bangalore Bottling Plant, the guidelines of the Ministry of Finance in regard to the approval of D.P.R. 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 D.P.R. 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 D.P.R. 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.

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.

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 no where 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 lakhs to Rs. 421.53 lakhs. The cost of Salem Plant increased from Rs. 158.40 lakhs to as much as Rs. 466.88 lakhs. The cost of Allahabad Plant increased from Rs. 149 lakhs to Rs. 371 lakhs. Similarly, the cost of Jullunder Plant also increased from Rs. 210 lakhs to Rs. 429 lakhs. 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 lakhs, Rs. 159.24 lakhs, Rs. 162.61 lakhs and Rs. 183.97 lakhs 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.

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.

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 Corporation 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.

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 escalations 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.

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 3 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 Ltd. had emphasised the need for strengthening the project formulation, implementation and monitoring systems of HPCL. In their action taken otes 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.

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 plan 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. 4337.50 for the first 30 years and at Rs. 5205 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 lease hold 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.

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.

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. 217849.44 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 of any use so far. The Committee strongly deprecate the lackadaisical manner in which the matter has been treated. The Committee recommend that the matter may 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.

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% 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.

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 lakhs 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 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. If it was so why did IOC and Ministry wasted 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 lakhs was at all provided in DPR - approved by Govt. 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.

NEW DELHI;
11 April, 1989
21 Chaitra, 1911 (Saka)

VAKKOM PURUSHOTHAMAN,
Chairman,
Committee on Public Undertakings

Corrigenda to Fifty-fifth Report of Committee on Public Undertakings (Eighth Lok Sabha)

Page	Para	Line	For	Read
3	2.2	2	two	too
11	2.22	3	IOC asked	IOC. Asked
16	3.3	13	and	had
16	3.4	2	adminis- tration	adminis- trative
18	4.1	5	operational	operationally
25	5.2	3	5754 lakhs	57.54 lakhs
25	5.3	6	are	a note
26	5.4	1	as	and
27	5.8	12	RCC	FCC
28	5.10	1	RCC	FCC
29	5.14	3-4	For the existing lines "we have.....not paying" Read "We have found out that the IOC is not paying detention charges while HPCL is paying."	
33	9	2 from bottom	otes	notes