FOURTH REPORT

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1993-94)

(TENTH LOK SABHA)

EXPLORATION, PRODUCTION, DISTRIBUTION AND CONSERVATION OF OIL AND GAS

(MINISTRY OF PETROLEUM & NATURAL GAS)

Presented to Lok Sabha on 23 FEB 1994

*Laid in Rajya Sabha on*________

LOK SABHA SECRETARIAT
NEW DELHI

February, 1994/Phalguna, 1915 (Saka)

P&CC No. 6

Price · Rs. 12.00

Published Under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Seventh Edition) and Printed by the Manager, P.L. Unit, Government of India Press, Minto Road, New Delhi.

Corrigenda to Fourth Report of the Standing Committee on Exploration, Production, Distribution and Conservation of Oil & Gas.

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(1993-94)

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2. Shri G.R. Juneja — *Deputy Secretary*
3. Shri Brahm Dutt — *Assistant Director*

INTRODUCTION

I, the Chairman of Standing Committee on Petroleum and Chemicals (1993-94) having been authorised to submit the Report on their behalf, present this Fourth Report on the Ministry of Petroleum and Natural Gas relating to "Exploration, Production, Distribution and Conservation of Oil and Gas."

2. The Committee took evidence of the representatives of Ministry of Petroleum and Natural Gas on 13th September, 1993, 11th and 12th January, 1994. The Committee also heard the views of several LPG/ Petrol/Kerosene Dealers Associations and also some of private companies engaged in exploration of oil/gas etc. on 4th November, 1993.

3. The Committee considered and adopted the Report at their sitting held on 27th January, 1994.

4. The Committee would like to express their thanks to the officers of the Ministry of Petroleum and Natural Gas and also others who appeared and placed their considered views before the Committee on the subject.

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

NEW DELHI;
February 7, 1994

Phalguna 18, 1915 (Saka)

SRIBALLAV PANIGRAHI
Chairman,
Standing Committee on Petroleum & Chemicals.

PART I—BACKGROUND ANALYSIS

Chapter I

HYDROCARBON RESOURCES AND EXPLORATORY STRATEGY

A. Role of the Administrative Ministry

The Ministry of Petroleum and Natural Gas is entrusted with the responsibility of exploration and production of oil and natural gas, its refining, distribution and marketing. Import and export as well as, conservation of petroleum products also fall within the purview of this Ministry.

1.2 The names of the Public Sector Undertakings and other organisations under this Ministry are as under:—

Public Sector Undertakings

1. Oil & Natural Gas Commission
2. Oil India Ltd.
3. Indian Oil Corporation Ltd.
4. Bharat Petroleum Corporation Ltd.
5. Hindustan Petroleum Corporation Ltd.
6. Cochin Refineries Ltd.
7. Madras Refineries Ltd.
8. IBP Co. Ltd
9. Engineers India Ltd.
10. Lubrizol India Ltd.
11. Bongaigaon Refinery and Petro-Chemicals Ltd.
12. Biecco Lawrie Co. Ltd.
13. Gas Authority of India Ltd.

Subsidiaries

14. O.N.G.C. Videsh Limited
15. Indian Oil Blending Ltd. (Subsidiary of IOC)
16. Balmer Lawrie Co. Ltd. (Subsidiary of IBP Co.)
17. Indian Additives Ltd. (Subsidiary of MRL)

Other Organisations

18. Oil Industry Development Board
19. Oil Co-ordination Committee
20. Petroleum Conservation Research Association
21. Oil Industry Safety Directorate
22. Centre for High Technology
23. Petroleum Indian International

B. Sources of Hydrocarbons

1.3 The hydrocarbons are sourced by organic matter and except in a few cases, are also accumulated in sedimentary rocks. Thus, only the sedimentary basins form the prime areas of search for hydrocarbons. The total area of Indian sedimentary basins is of the order of 1.72 million sq. kms. of which the offshore sedimentary area upto 200 m. water depth amounts to 0.38 million sq. kms.

1.4 The sedimentary area is divided into 26 sedimentary basins of which 13 are of immediate interest. In addition, drilling activities have been/being initiated in three poorly explored frontier basins *viz.* Pranhita Godavari, Vindhyan and South Rewa. The basins are grouped into the following 4 categories depending on the petroleum potential and the present status of exploration and exploitation:—

Category I basins are proved petroliferous basins with commercial production (1. Combay, 2. Upper Assam platform, 3. Bombay offshore, 4. Cauvery, 5. Krishna Godavari and 6. Assam-Arakan Fold Belt).

Category II basins have known occurences of hydrocarbons but from which no commercial production has yet been obtained (7. Rajasthan, 8. Kutch-Saurashtra, 9. Bengal, 10. Himalayan foothills and Ganga Valley and 11. Andaman).

Category III basins are those in which significant shows of hydrocarbons have not yet been found, but which on general geological consideration are assumed to be prospective (12. Kerala-Lakshdweep and 13. Mahanadi).

Category IV basins are poorly explored frontier basin with uncertain prospects, which on analogy with geological similar producing basins in the world may be prospective (14. Vindhyan, 15. Pranhita Godavari, 16. Damodar, 17. Deccan Synclise, 18. Kerewa, 19. Narmada, 20. Son-Satpura-South Rewa Mahanadi, 21. Techtonised zones of Himalayas).

1.5 The other basins viz. 22. Bhima, 23. Kaladgi, 24. Chhattisgarh, 25. Bastar and 26. Cuddapah are not grouped in the above due to their indeterminate prospectivity at the present level of knowledge on hydrocarbons generation, migration and accumulation.

(i) Prognosticated Resources

1.6 Oil & Natural Gas Commission (ONGC) and Oil India Ltd. (OIL) are the two public sector undertakings under the administrative control of Ministry of Petroleum & Natural Gas which have been carrying out exploration and production activities in the field of oil and gas so far. The prognoticated resources held by ONGC and the extent to which they have been converted into geological in-place reserves are indicated below:—

Category		Prognosticated Resources (MMT) (O + OEG)	%age
I		15510	84.29
II		2130	11.58
III		760	4.13
	Total:	18400	100.00

1.7 Out of total prognosticated resources of 18,400 MMT of (Oil & CEG), 5288.58 MMT i.e. 28% have been converted into geological reserves.

1.8 Similarly the prognosticated resources as on 1.1.93 in the PEL area of Oil India Ltd., are 3000 MMT. Out of which 718.03 have been converted into geological reserves.

1.9 Explaining the latest estimates about hydrocarbons resources, a representative of the Ministry of Petroleum & Natural Gas stated during evidence:—

> "Earlier our prognosticated results were about 18 billion tonnes. A few years ago ONGC alongwith the Russian team examined these reserves. The Planning Commission examined these things. Now our reserves are 21.5 billion tonnes. These are prognostic reserves. Now the proven reserves are of the order of 6006 million tonnes as on 1.1.93."

(ii) Criteria for selection of areas for survey/drilling

1.10 As regards the criteria for selecting areas for survey and drilling, the Ministry of Petroleum & Natural Gas informed the Committee in a written note that the selection of prospective sedimentary basins for surveys and exploratory drilling is guided by the following considerations:—

(a) thickness of sedimentary column and age of sediments.

(b) the environments of deposition of various rock units constituting the sedimentary column

(c) availability of source rocks and their levels of maturation.

(d) Availability of suitable structure, reservoir and cap rocks for entrapment of hydrocarbons, as well as conduits of migration into such traps after oil and/or gas have been generated by thermo-catalysis of the organic matter in the source rocks, and

(e) direct/indirect evidences of oil and/or gas by way of surface, seeps, shows, mud volcanoes, presence of certain chemical constituents in ground water etc.

(f) Techno-economic evaluation of basin/prospect and pursue exploration at given cost, with a view to prioritise exploration input.

1.11 The Ministry also informed that to asign inter and intra-basinal priorities the following finer factors are taken into consideration:—

(i) Prospect size distribution.

(ii) Prospect type structural i.e. stratigraphic or combination traps.

(iii) Lead time from discovery to development.

(iv) Availability of logistic support and infrastructure.

(v) Expected return on investment.

(vi) Long and short term commitments.

1.12 The Committee also wanted to know the exploration strategy being followed by ONGC and OIL in discovering more oil and gas reserves. The Ministry of P&NG replied in a written note as follows:—

"Exploration programme followed by ONGC/OIL in the last two decades was based on forward projection of the leads obtained. The end result was concentration of exploration efforts in basins where early success was achieved e.g. Cambay, Upper Assam, Rajasthan and Bombay offshore basins. The exploratory efforts expanded initially in Cat. II and III basins were not commensurate with the estimated hydrocarbons resources in them. It needs to be emphasized that (a) lowest risks are in known areas where expectations could also be moderate, (b) greater additions to reserves are expected mostly in high risk areas. As a consequence thereof it becomes imperative to pursue an exploration strategy that had an optimal mix of (i) low risk exploration in known commercially productive petroliferous basins (Cat. I basins), (ii) high risk and possible high reward exploration in basins known to have oil and gas so as to bring them to the stage of commercial production (Cat. II) and (iii) upgrading prospectivity of other basins for future intensification of exploration."

1.13 While giving the detail on the exploration programmes for ONGC during the 8th Five Year Plan, the Ministry stated:—

"The VIII Plan exploration strategy was devised in October, 1991. This exploration strategy envisaged intensive exploration in Category I basins like bombay Ofshore, Cambay and Upper Assam. The returns on investment in exploration of these basins are likely to be moderate with low risk. A high priority is also being accorded to exploration in Krishna-Godavari, Cauvery and parts of Assam-Arakan basin which have recently been upgraded to Category—I"

C. Demand Projections for Petroleum Products

1.14 The following table shows the trends in consumption of Petroleum products in the country:—

Year	Indigenous crude Prodn.	Products from Ind. crude Processing	LPG & NGL ex Oil/ONGC	Products Total Oil & ONGC	Consumption	Self-Sufficiency (%)
						(in MMT)
79-80	11.8	10.6	—	10.6	29.9	35.5
84-85	29.0	26.0	0.3	26.3	38.8	67.8
89-90	34.1	30.6	1.3	31.9	54.1	59.0
90-91	32.2	28.9	1.6	30.5	55.0	55.5
91-92	29.1	26.1	2.1	28.2	57.0	49.5
92-93 (Prov.)	25.3	22.6	2.6	25.2	58.7	42.9

1.15 As can be seen from the above self sufficiency has come down from a peak of 67.8% in 1984-85 to 42.9% in 1992-93. This has resulted in higher imports of crude and petroleum products to meet the demand. The total imports of petroleum products have increased from Rs. 4960 crores in 1985-86 to Rs. 17045 crores in 1992-93.

1.16 As per the Planning Commission estimates the demand of petroleum products by the end of 8th Five Year Plan (i.e. 1996-97) would be about 79.4 MMT whereas the estimated indigenous availability would be about 57.9 MMT.

D. Exploration and Production

(i) Physical achievement in Exploration

1.17 The following table shows target vis-a-vis actual of the exploratory activities by ONGC and OIL during the years 1986-87 to 1992-93 (cummulative).

(i) *Seismic (in COO SLK)*

	ONGC			OIL	
Target	Actual	%	Target	Actuals	%
394.13	565.36	143.4	564.75	636.57	112.7
(ii) *Exploratory Drilling (000 meters)*					
3866.16	3551.70	91.9	3931.00	2730.96	69.5
(iii) Exploratory Drilling Wells (Nos)					
1426	1391	97.5		Not available	

(ii) Physical achievement in Oil and Natural Gas

1.18 The following table shows the targets vis-a-vis actual production of crude oil/LPG and Natural Gas by ONGC and OIL during the last six years (1987-88 to 1992-93):—

(a) *Crude Oil* *(Production in MMT)*

Year	ONGC		OIL		TOTAL	
	Target	Achiev.	Target	Achiev.	Target	Achiev.
1987-88	27.62	27.91	2.84	2.45	30.46	30.36
1988-89	29.28	29.62	2.90	2.42	32.18	32.04
1989-90	31.61	31.39	2.70	2.70	34.31	34.09
1990-91	33.00	30.37	2.90	2.64	35.90	33.02
1991-92	29.00	27.82	2.80	2.52	31.80	30.35
1992-93	25.54	24.43	2.92	2.52	28.46	26.95

(b) *Natural Gas Sales*

Gas Sales (Gas sales in million M3)

Year	ONGC		OIL		TOTAL	
	Target	Achiev.	Target	Achiev.	Target	Achiev.
1987-88	5550	5873	977	737.3	6527	6610.3
1988-89	7166	6976	900	670.4	8066	7646.4
1989-90	8636	8628	800	699.6	9436	9327.6
1990-91	9920	9902	800	746.2	10720	10648.2
1991-92	10729	11346	800	723.5	11529	12069.5
1992-93	11994	13035	750	741.9	12744	13776.9

LPG Production (Production in '000 tonnes)

Year	ONGC		OIL		TOTAL	
	Target	Achiev.	Target	Achiev.	Target	Achiev.
1987-88	511	510	48	48.1	559	558.1
1988-89	656	674	52	50.3	708	724.3
1989-90	723	718	55	50.7	778	768.7
1990-91	725	876	55	46.4	770	922.4
1991-92	775	974	51	49.2	826	1023.2
1992-93	826	923	50	51.7	876	974.7

1.19 Gas Authority of India Ltd. has also set up LPG Plant at Vijaipur and at Vagodia. The following statement shows the achievement for 1991-92 and 1992-93 *viz-a-viz.* targets:—

('000 Tonnes)

Year	Target	Actual
1991-92	126.00	219.37
1992-93	255.40	347.95

C2-C3 Production

(Figs. in '000 crores)

Year	Target	Achievement
1990-91	NIL	27
1991-92	NIL	137
1992-93	450	256

E. Work Programme during 8th Plan

(i) *Eighth Plan Projections*

1.20 Work Programme envisaged by ONGC and OIL during Eighth Plan (1992-97) as given in the background note of the Planning Commission recommendations for some of the physical items are:—

Sl. No.	Description	Programme of work		
		ONGC	OIL	TOTAL
1	2	3	4	5
a)	(i) Seismic Survey Onshore (Party Years)			
	— 2D Survey (SLK)	101,445	12,400	113,845
	— 2D Survey (GLK)	15,070	6,650	21,720
	— 3D Survey sq. km.	3,043	800	3,843
	(ii) Offshore Survey			
	— 2D Survey (LK)	93,000	...	93,000
	— 3D Survey (LK)	39,000	...	39,000

1	2	3	4	5
b)	Exploratory Drilling ('000 metres)			
	(i) Onshore	2052.70	209.00	2,261.70
	ii) Offshore	768.13	12.00	780.13
	Total	2820.83	221.00	3,041.83
c)	Development Drilling ('000 metres)			
	i) Onshore	2707.43	497.00	3,204.43
	ii) Offshore	604.93	. . .	604.93
	Total	3312.36	497.00	3,809.36
d)	Crude production (MMT)			
	i) Terminal Year	43.3825	3.70	47.0825
	ii) Total	180.726	16.59	197.316
e)	Natural Gas Production (Billion cubic metres)			
	i) Terminal Year	27.94	2.24	30.18
	ii) Total	115.98	9.44	125.42

(ii) *Reasons for shortfall in Production of Crude Oil*

1.21 From the information furnished to the Committee it is observed that the plan allocations have been lower than the actual/estimated expenditure. For instance as against the approved plan outlay of Rs. 10652.67 crores for exploration and production activities during the 7th Five year Plan, actual expenditure was Rs. 14403.88 crores. Similarly, the following table shows the Eighth Plan outlay for survey, exploration and production activities by ONGC and OIL:

	ONGC	OIL (Rs. in Crores)	TOTAL
Projections by ONGC/OIL	33393	1732	35,125
Recommendations by Planning Commission	24084	1464	25,548
Final allocation	17511	1063	18,574

1.22 During the course of evidence of the representatives of Ministry of Petroleum & Natural Gas the Committee pointed out that the Planning Commission after detailed discussion with all the concerned Ministries and the PSUs had envisaged a work programme for the Eighth Plan and accordingly targets were fixed for exploration and production of oil and gas.

1.23 Asked whether the targets fixed by the Planning Commission were being achieved, the petroleum Secretary stated:—

"The Planning Commission was unable to provide the funds that were required for the programmes envisaged by the oil companies. Thay had very good reasons to do so. They reduced the outlay. The basic philosophy which this company has set, they must be able to add to the reserves at least equivalent to the oil which they took out. That means, money required for exploration should be sufficient to cover establishment of large reserves during the plan period equivalent to the oil which is taken out. On that basis, they had given the requirements and the Planning Commission made two suggestions. While cutting down the plan provision they indicated to us that there should be no reduction in the physical programme and the oil companies can come to the Planning Commission at the time of each plan discussions to ask for extra money on an year to year basis."

1.24 The Committee further wanted to know whether the availability of funds on year to year basis would help the oil companies to achieve the expoloration/production targets set for the 8th Plan. The witness replied:—

"It was also submitted to the Planning Commission that as most of these are 'long lead' items, these decisions can be for long term exploration etc. and it cannot be taken on an year to year basis. It was also submitted to the Planning Commission that a longer time indication is required to be given. ONGC have gone ahead on that basis. That has impact on the exploration programme. When resources are limited, production is taken care of first and the balance is given to the exploration."

1.25 In reply to a further query about the funds Petroleum Secretary stated:—

"We want the Planning Commission to indicate the provision for five years. In the two-year period we have already spent sixty per cent, of the entire provision for five years. So it is difficult for the oil companies to make commitment based only the forty per cent for the remaining three years. Unless they are able to have the provision, they would not be able to make commitment."

1.26 When asked about the impact of shortage of funds on exploration and production activities, the witness stated:—

"This is not allowed to come in the way of production Production at all costs is being maintained. Whatever is required to be done for production is being done. . . . . . .But if you look at the other aspects, like exploration, surveys etc., it would have an impact on them because they would not be able to commit expenditure on that."

1.27 It also came out during the evidence that the revised estimates for the Annual Plan of ONGC for the year 1992-93 were Rs. 6200 crores and the budget estimates for the year 1993-94 were Rs. 8610 crores. On being pointed out by the Committee that with this trend of expenditure the total expenditure could exceed even the ONGC's projections of Rs. 33,000 crores during 8th Plan, the Petroleum Secretary stated:—

"It is bound to exceed. In fact, even for next year's plan, the balance out of the plan provision will not be available. For example, some of the commitments which they made, will come eighteen months later or twenty-four months later. So, unless they are able to have the provisions, they would not be able to make commitment."

1.28 The Committee further pointed out that as against the crude oil production of 34 million tonnes during the year 1989-90 the crude oil production during the year 1992-93 was 27 million tonnes only. Asked about the reasons for the sharp decrease in crude oil production, the Secretary, Petroleum replied as follows:—

"For two years 1989-90 and 1990-91, when foreign exchange was a problem we had deferred certain projects. Because of the resources crunch and the foreign exchange crunch, we had a shortfall in production in Bombay High, the other additional production could not come in time. Now since the money has been given and foreign exchange has been released, the result will start flowing from 1994-95 onwards. So, if an analysis of these two years is made that will be evident. This time we hope to reverse the declining trend."

1.29 Elaborating the reasons further, the Ministry in a written note stated:—

"The main reasons for decline in indigenous crude oil production during the recent years are given below:—

i) rectificatory measures being taken in Bombay High field;

ii) reservoir constraints in some fields in Gujarat; and

iii) law and order problem in Assam.

The other reasons responsible for shortfall in production were:—

i) power shut downs, floods, bandhs, barricades etc.

ii) line leakages.

iii) delay in production from Ravva; inadequacy/interruptions in tanker availability.

iv) less gain from new/work-over wells.

v) natural decline/ceasure of wells/increase in water cut etc.

1.30 The Committee further observed that when there was foreign exchange crunch in 1989-90, the production was high, but when there was no foreign exchange crunch in subsequent years the production had gone down substantially.

The Petroleum Secretary stated:—

"The investment has got a gestation period of, say, three or four years. So when they did not make investment in 1989-90, what was to be done at that time, got delayed."

1.31 On a further clarification in the decrease of production sought by the Committee, the Secretary added:—

"34 million tonnes was the peak production of the investments already made. What happened after that was that we ran into problems of the Bombay High reservoir. Therefore, the reservoir had to be subjected to the rectificatory programme and certain wells had to be shut down. So the production declined without a corresponding increase in the production from other fields like L-2 or L-3 which they wanted to develop, which was delayed. We are hoping that this will come from 1994-95 onwards. Neelam, another major field is going to give four to five million tonnes at peak production."

1.32 It also came out during evidence that there were certain technical problems at Bombay High which also caused shortfall in crude oil production. A Committee went into these problems and made certain recommendations. As a result of implementation of the recommendations the production of crude oil was expected to go up from 1994-95 onwards.

1.33 Explaining the problems at Bombay High, Chairman, ONGC stated as under:—

"In that field (Bombay High) the problem that occurred was that the reserves were less than expected. What happened was that the amount of oil and gas which we were taking out was not proportionate to the amount of water that was put in for injection over a period of time. That is what we have called imbalance. That is what resulted in the reduction in oil production in Bombay High. We have taken rectificatory measures. We are also implementing the L-3 project for it. That would help us increase the production from Bombay High fields. This would start in a small way next year."

He further added:—

"Oil and gas is contained in the rocks. It is enclosed from all sides. It is finite quantity. But as you produce, the pressure of the reservoir falls. Technological plan was implemented. In the case of Bombay High the amount of oil and gas we were taking out we could not compensate as per the technological scheme for that period and that due to this pressure fell more and therefore more gas was liberated. That is the rectification we have done. Because we have reduced the quantity of gas which we were taking out since oil and gas are together, it is associated gas. There was also a reduction in the quantity of oil produced. it is rectification measure and we have taken the required steps. Once that is done, we have taken steps to increase the pressure. The gas is, to some extent, dissolved in the oil. We are planning to open the closed wells somewhere in the end of 1994 or beginning of 1995. We hope that Bombay High would produce then as per the scheme. But it would still be a declining field. It is not that it would go back to 20 million tonnes which it produced earlier in its absolutely peak period. It is a declining phase and that declining phase would continue."

1.34 The Committee enquired about the reserves of oil available and the likely output therefrom in the next two or three years and the plans for its full exploitation to achieve the targets fixed by the Planning Commission for ONGC which is the main producer of oil and gas, the Chairman, ONGC stated:—

"The balance of recoverable reserves of ONGC oil and gas put together, are equivalent to about 1.34 billion tonnes as on 1.4.93. Oil comprises 714 million tonnes approximately. Now we are producing at the rate of 24 million tonnes. We have enough reserves and the rate at which we are producing at present is less than what we should be producing. The exploration and exploitation work is on. We have large projects which are in the process of implementatión. One is the Neelam Project. In this oil field we are producing a very small quantity."

He further added:—

"Neelam, L-III and L-II have a major chunk in the 714 million tonnes of reserve. When the project is fully commissioned in 1994-95, it will bring the R/P ratio down. We are going to add 4 to 5 million tonnes of oil to the figures of 1993-94 and a similar quantity is expected to be added in the year 1995-96. In the next two years, starting from 1994-95 there will be a total addition of something like nine to ten million tonnes per year."

1.35 Asked about the details of projects delayed on account of foreign exchange cruch and shortage of funds, the Ministry of Petroleum and Natural Gas replied in a note furnished after the evidence that Neelam L-III, L-II, Mukta, Panna of ONGC and three projects of OIL *viz.* Brahmputra River Bed Surveys, N.E. Cost exploration and Assam and A.P. Exploration/Development were delayed/deffered due to resources/ foreign exchange crunch in 1989-90 and 1990-91.

1.36 When asked about the reasons other than the resource constraints for delay in completion of exploration/production projects. The Ministry replied in a note that some of the projects of ONGC were delayed due to the following reasons:—

(i) Delay in engineering by the contractor.

(ii) Delay in fabrication of deck due to late procurement of equipment and structural steel.

(iii) Stoppage of fabrication work for some time due to labour unrest at HHI Yard.

(iv) Labour unrest in Mangalore Yard.

(v) Delay in procurement of material and fabrication by HSL.

(vi) Delay in delivery of long lead items by indigenous vendors.

(vii) Equipment failure.

1.37 In the context of achieving the production target of 47 million tonnes for crude oil by 1996-97, the Committee were informed that the revised target was 44 million tonnes. As regards the achievement of revised targets fixed for 1996-97 the Petroleum Secretary stated as under:—

"We hope to achieve the target, it is because, out of 44 million tonnes we are taking 39 million tonnes from our own production. We are only taking 5 million tonnes from the joint ventures. Therefore, we hope that based on the current outlook, we will be able to achieve 44.45 million tonnes."

1.38 On being pointed out by the Committee that in case joint ventures fail to produce about 5 million tonnes of crude oil, the planning of the Ministry would become redundent, the witness stated:—

"We are not just relying on these investments to come from private enterpreneurs. We have evolved some internal proposals. We have already identified, before we go to the Planning Commission, further areas both for intensive exploration and exploration of deep waters beyond 200 meters which we have not done so far. In the next three years of the plan this would cost us about Rs. 5000 crores."

1.39 The Committee further enquired about the exploration policy during the 8th Five Year Plan to discover more hydrocarbons resources to enhance the production of oil and gas, the Ministry informed in a written note that ONGC has planned an intensive exploration in category I basins *viz.* Bombay offshore, Cambay, Upper Assam, Krishna-Godavari and Cauvery and parts of Assambasins. The Cachar areas, have been identified for drilling deeper wells. In Rajasthan prospects have been identified and exploratory input is planned. In Bengal basins, exploration results of ONGC and foreign oil companies have not been encouraging in last four decades. It is now planned to orient exploration for oligocene, Palaeocene and Gondwana prospects in selected areas. A large area of this basin is offered in IV round of bidding. In the Ganga Valley and Himalayan Foot hills areas, besides the areas earmarked for round the year bidding, exploration inputs are planned to continue on a low tempo of exploration to test the prospectivity in selective areas. In addition wells are also planned to be drilled in South Rowa (Gondwana) basin having hydrocarbon shows.

With regard to OIL's programmes, the Ministry stated:—

"During the VIII Plan period, seismic survey has been envisaged in Assam, Arunachal Pradesh (AP), Rajasthan and Ganga Valley areas and no survey in any offshore areas have been envisaged. However, so far exploratory drilling is concerned, exploratory drilling will be carried out in NEC/Saurashtra offshore also in addition to the above areas, where survey has already been conducted to a reasonable level."

1.40 The Committee further pointed out that the self reliance level which was 67% in 1984-85 had come down to about 42% in 1992-93. Asked about the steps being taken to make the country self-reliant besides attracting foreign investment, the Ministry of Petroleum and Natural Gas stated that Govt. have initiated the following steps to increase production of crude oil and natural gas in the country.:—

Short Term Measures

(i) Early production systems in Neelam, Panna, KG Basin, Cauvery Basin.

(ii) Horizontal wells in Heera.

(iii) Deepening of existing wells in Bombay High.

(iv) Artificial lift in fields in Bombay offshore, Gujarat and Assam.

(v) Drain hole drilling in Bombay High.

(vi) Enhancing work over efforts/round the clock operations/ increase of rigs.

(vii) Prioritization of development drilling to more productive areas.

Medium Term Measures

(i) Development of new fields — Neelam, Gandhar, South Heera.

(ii) Additional development of existing fields — Bombay High (L-II and L-II).

(iii) Joint ventures development of medium fields — 12 fields offered including Mukta, Panna, Ravva, D-1, Heavy Oil of Rajasthan.

(iv) Private development of small fields — 31 fields offered.

(v) Enhancement of water injection.

(vi) Enhanced oil recovery — North Gujarat, Bombay High, Assam.

(vii) Production from "CA" field.

(viii) Measures to attract upgraded technology for incremental production from existing fields.

Intensification of Exploration efforts.

(i) Enhanced attraction of private risk capital investment through regular offering of acreage under attractive terms and conditions.

(ii) Qualitative change in seismic data acquisition and processing more 3 D, close grid, high resolution 2 D seismic.

(iii) Greater thrust on exploration in high potential areas by ONGC/OIL (Cambay, Gulf, Dhansiri Valley, around Bombay High, Broach Syncline, North Bank Brahmputra, Saurashtra Offshore, Rajasthan).

(iv) Drilling of deeper prospects in Assam and deep water exploration.

(v) Upgradation of data base through speculative seismic surveys through private companies.

(vi) Increasing acquisition of highly prospective acreage abroad.

(vii) ONGC Videsh Ltd. — presently in Vietnam in Partnership with British Petroleum — STATOIL.

F. Involvement of Private/Foreign Investment in Exploration/Production of Oil and Gas.

1.41 The process of offering exploration activities to private companies started in 1980. Since then, six round of exploration bidding have been announced. The results of the first three rounds of bidding in 1979, 1982 and 1986 were not very encouraging as many of the foreign oil companies who signed contracts with the Government could not find oil and stopped the work. Subsequently the Government of India reviewed and revised the terms of the contract in the fourth, fifth and sixth rounds of bidding.

1.42 In order to accelerate exploration, in September, 1991 the Government had offered a total of 72 blocks in the IVth round bidding (33 onland and 39 offshore). The last date for receipt of bids, which was initially 29.2.92, was extended to 15.4.92 on requests made by a number of companies. In response to it, 31 companies, singly or jointly offered 24 bids for 13 blocks. The Govt. signed two contracts in February/March, 1993. Discussions for finalising three more contracts with private/multinational companies are in progress.

1.43 Under the fifth round of bidding, Government offered 45 blocks in onland and offshore areas. The last date of submitting the bids was 30th June, 1993. Asked about the present position of evaluation of these bids the Ministry of Petroleum and Natural Gas replied in a note (furnished in January, 1994) that 15 bids were received for 10 blocks under the 5th round of bidding. Negotiations with the bidders were in progress. Some of the offers are from multinational oil companies.

1.44 Similarly, the Government invited bids under 6th round of bidding where the Government had offered 46 blocks for exploration to Indian and multinational companies. When asked about the response under 6th round of bidding the Committee were informed by the Ministry of Petroleum and

Natural Gas that 20 bids had been received for 12 blocks (7 onshore and 5 offshore). It was also stated that under 6th bidding some of the big multinational companies have participated in the bidding and the names of such companies are as under:—

Foreign Companies

1. BHP Petroleum, Australia
2. Amoco Petroleum Company, USA
3. Enron Exploration Company, USA
4. Command Petroleum, Australia
5. Vaalco Energy Inc.,USA
6. Phoenix Geophysics, Canada
7. Samson International, USA
8. Rexwood Corporation, USA
9. Okland Oil Company, USA

Indian Companies

1. Tata Petrodyne, New Delhi
2. Reliance Industries, Bombay
3. Videocon Petroleum, Aurangabad, Maharashtra
4. Larsen & Toubro, Bombay
5. Hindustan Oil Exploration Company, Baroda
6. Gujarat State Petrochemicals Corporation, Ahmedabad
7. Phoenix Overseas, New Delhi
8. Rupsa Petroleum, West Bengal
9. Harsh Oil & Gas Consultants, Bombay
10. Naharwar Marketing Private Limited, New Delhi
11. Petrodrill (P) Ltd., New Delhi.

1.45 Elaborating the response of 6th round of bidding, the Petroleum Secretary also stated during evidence:—

> "There is definitely an improved perception of feeling that India is a better bet so far as investment is concerned. There are several reasons for this. They would like to optimise their assests and get their people fully employed. In the sixth round, we have given some of the blocks in the Cambay Basin, adjoining Bombay. There is a perception that these would be very prospective. This is the reason why some of the major companies are evincing interest."

1.46 During the course of evidence, the Committee pointed out that during the 4th round of bidding as against the 72 blocks offered, contracts could be signed in respect of five blocks only. Asked about the steps taken to attract more and more foreign/multinational companies to enter the field, the Petroleum Secretary replied:—

> "Out of 72 blocks, only 13 blocks have attracted the bids. The reason was that, the terms are under constant review. We have got the

services of experienced consultants in the matter and are under constant review. That was also the time when the investible surplus money was very small because the oil prices were started coming down.

Secondly, we have been inviting bids once in three or four years. If we want to have offers then, we must have continuous scheme of attracting foreign participation. It was one of the suggestions and advises given to us. Moreover, the investment policies of the foreign companies are formultated for their own reasons. Unless our blocks are available on a round-the year basis, it would not be possible for the people to come whenever they feel like coming. It is with this in view, the Goverment has revised the policy. Now, every six months we will have a round.

Thirdly, there are a number of terms, which again, we compared it with the neighbouring South East Asian countries, there were several trips under-taken by our own officers as well as the consultants appointed by the ADB. We evolved the customs concessions, excise concessions and the taxation concessions. We evolved it from the fourth round or the fifth round. So, we have made quite a number of modifications which are attractive enough. This is constantly under review and we do not hesitate to review this further if this is required. From the response that we got for discovering the oil fields and also the responses that we got for the fifth round, we feel that people would like to come and stay with us here to explore oil.

Apart from this, the non-economical reasons are also there like the stability of the clauses that were offered. Now, the environmental aspect is also playing a great havoc. They are seeing as to what would be their liability, in that case. These contracts are signed for, over a long period of 25 to 30 years. Now, those companies which cannot operate within their own country are coming here. They are extremely worried about the environmental problems. They say that in the event of something taking place, these are the guarantees which should be given and these are in line with the international commitments. They do not want to stand exposed to a greater risk later on. These are under review again and we have made some proposals to the Government of India and the Finance Ministry stating that while safeguarding our own interest, later on we should not shy away these investors. We hope that with these things, we should be able to sign more and more contracts."

1.47 Explaining it further, the Ministry of Petroleum and Natural Gas stated in note furnished after the evidence:—

"The response from investors is the end result of many factors, some of them are under the control of decision making agency and some are not. Some of these factors are prospectivity of the blocks under offer, the fiscal package, socio-political environment, timing of announcement, opportunities available in other parts of the world and market price of the crude oil. The Government of India have been continuously reviewing the situation and improving upon various factors. The continuous round the year bidding and offering blocks in known hydrocarbons bearing areas are steps in this direction.

As regards the offer of discovered fields is concerned, the response had been extremely good with 117 bids being received, 87 for small sized and 30 for medium sized fields."

1.48 On being pointed out by the Committee that why it was necessary to invite every now and then particularly when it has been decided to involve foreign companies in the field, the witness replied:—

"To introduce an element of competitiveness in that, the bids are introduced. We can also lay down, as you would see, a base assessment. Each company has its own assessment of geology. Quite a few of them only agree with the assessment made by our scientists. Some areas which are not prospective they consider them prospective and they would like to do some work. Therefore, we would like to judge, based on the reasonableness of the assessment, as to whether the work could be done in seven years, etc. In the fourth round, for 13 blocks, there were 24 bids which means that more than one company has bid for one block. We have to see how much they are able to invest here. In the exploration phase, there is no commitment and he has to put all his money. If one company is prepared to put more than say, ten million, then, we would like to prefer him. If you do more work, it is better to reach the oil."

He further added:—

"There is an element of technology also. If somebody has a better technology and if he is able to better that, we do not fix the norm because we would not get the benefit of the technology. In practice, it is found that the bid method is better so far as the inviting countries are concerned."

1.49 In the context of requirements of funds for oil exploration and production, the Committee pointed out that various PSU's and other agencies were capable of arranging funds even from foreign sources and enquired why it was necessary to involve foreign companies in this area. The Petroleum Secretary replied:—

"Finance is the real problem. But they can certainly put together the technical expertise. They can recruit manpower, train them and do the work. But the basic thing is finance. It was then realised that we had a very few companies which had operating experience. That was the reason for opening up to the foreign investments.

Second reason is, foreign investors also bring in technology. Third reason is, foreign investors also generally work with a number of Indian associates. This will expose more and more of Indian people to oil exploration. it would help in direct Indian capital into exploration which has not been there so far. It is only now that a large number of Indian companies who are in very diverse fields are showing interest to take up oil exploration. These are the main reasons.

About refinery investment, we have told the people that as long India is importing oil, as long as India is not self-sufficient in oil, they should sell the oil produced to us and they would be given an agreed international price."

1.50 On a specific querry from the Committee regarding the quantum of out flow of foreign exchange for purchase of crude oil, the Secretary elaborated as under:—

"If they are able to take out their money, it is as good as paying in dollars. We value this in terms of dollar. The term 'profit' means whatever one earns. He gets paid only for the oil he produces. He pays the tax also for that. What happens is he does not take the entire oil which is produced here. There is the production sharing system. He gets only a part of the oil produced and the rest, he has to give to the Government. Under the production sharing arrangement, he is paid in dollars. For example, if the production is 100 barrels of oil, he is entitled to take 30 barrels and we get 70 barrels. Otherwise we would have to pay for 70 barrels of oil. We pay him only for 30 barrels."

1.51 *Delay in Evaluation of Bids*

The Committee pointed out that there were delays in evaluation of bids and finalisation of contracts. For instance the bids which were invited in September, 1991 under 4th round of bidding could be finalised in February/March 1993. Asked about the progress made in finalising the offers received under the fifth round of bidding. The Petroleum Secretary replied:—

"The last date was 30th June for the fifth round. So, we had kept about 3-4 teams who are evaluating what has been received. We hope, now they have almost come to the conclusion of evaluating. We hope to start negotiations from October onwards for the fifth round. We are now negotiating for the discovered oilfields. After say, next month onwards, we will sit down with those people who have offered the fifth round bids. That is the programme."

1.52 When asked about any time frame for finalisation of the others, the witness replied:—

"Yes Sir, I have got the time-frame of mine. I cannot miss this but it should be recognised by the other party. For example, our experience is that a number of people have come. They have discussed. Now they want to see additional data we have made available. They have gone to the site. They make a reassessment and come back. They are working in so many countries. They have got their schedules. Even if I am ready, they would not be able to come to India for another four weeks. Urgency is ours. We have got technical teams for this."

1.53 Explaining the effect of delay in finalisation of offers received, Managing Director of a private company who appeared before the Committee stated:—

"I would say that there has to be unity among the Ministries that are handling this. The delay causes lack of interest. The longer it takes, people get discouraged. The delay is a discouraging factor."

1.54 When asked about the reasons for delay in finalisation of bids, the Ministry of P&NG replied in a note as follows:—

"There is no delay as such in finalisation of contracts. Generally, once the bids are opened, evaluation is carried out within about a month to a month and a half thereafter the companies are called immediately for negotiations. Even in respect of the offer of discovered fields, for which as many as 117 bids were received, awards for all the small fields have been made within 9 months of the closing date of bids and awards for the medium fields are also likely to be made shortly. Some time is taken in the detailed clause by clause finalisation of the contract in view of the positions, taken by companies on certain issues like contract stability, parent company guarantees, etc. There is no slackening of interest on this account."

1.55 Regarding the progress made in finalising the bids received for discovered oil fields, the Petroleum Secretary informed the Committee that they had disposed of all the bids and 13 contracts had been awarded.

CHAPTER II

REFINING

2.1 There are twelve refineries in the country engaged in the production of various Petroleum products viz. LPG, Petrol, MS Diesel, HSD Kerosene, LDO Naphtha and FO/SHS etc. All these refineries are under public sector companies viz. IOC, BRPL, HPC, BPC, CRL and MRL. The current refining capacity of these refineries is 53.25 mmt. p.a. the demand of petroleum products during the year 1993-94 has reached about 60.76 million tonnes as against 58.7 million tonnes in 1992-93. It is further expected to rise to about 79.4 million tonnes per annum during the terminal year of 8th Five Year Plan i.e. 1996-97 and to about 102 million tonnes by 2001 to 2002.

2.2 During the course of examination the Committee pointed out that the level of self sufficiency in production of petroleum products from indigenous crude has come down from peak of 67.8% in 1984-85 to 42.9% in 1992-93 and enquired as to how the Ministry plan to bridge the increasing gap between the demand and supply of petroleum products, the Petroleum Secretary stated:—

> "Today as against a demand of around 62 million tonnes, our capacity is around 52 million tonnes. As part of our reform process, Government have also liberalised. Earlier, the refining sector was exclusivaly reserved for the public sector. Now Government have thrown it open to the private sector and joint sector. Government have issued LOs to a few parties in the private sector. Government also approved that the three public sector companies, Hindustan Petroleum, Bharat Petroleum and IOC can also establish one joint sector refinery each taking into account our requirements. We see that LO is issued. We will see that well before the turn of the century, we will be self sufficient in so far as our refining capacity is concerned.
>
> In respect of the three joint sector agreements, IOC is 100%. Panipat Refinery is going ahead. Low-cost expansion of the existing refineries is also being sanctioned. That means public sector refineries are also expanding. Before the turn of the century, we will be meeting the refining capacity which will be equal or a little more than our demand numbers. There is increasing interest in the refining sector. A couple of people have taken LO's to set up 100% export-oriented refineries which will add to the value added."

2.3 The Committee further desired to know the total refinery capacity likely to be built by the end of Eighth Plan and its utilisation. A representative of the Ministry of Petroleum and Natural Gas replied:—

"The total refining capacity now is 53.25 million tonnes per annum and as against this figure, we have achieved 53.45 million tonnes in 1992-93. Our refining capacity utilisation in the last few years has been consistent and close to 100 per cent. As far as increasing the refining capacity is concerned, our Secretary had mentioned that we are giving priority to low cost expansion of the existing refineries wherever feasible, and also allowing the setting up of new grassroot refineries. With the expansion of the existing refineries, capacity is expected to increase by about 4.3 million tonnes by 1995. So far as new refineries which are coming up in Mangalore, Panipat and Assam are concerned, they would increase capacity by another 12 million tonnes per annum by the end of the 8th Plan making the total addition during 8th Plan as 16.3 million tonnes per annum. In addition to all this, we are considering expansion proposals for two more refineries which are in different stages of approval".

2.4 On a further query from the Committee about the response from the private sector for setting up the refineries to meet the growing demand of petroleum products, the witness stated:—

"After completion of the presently approved projects we should have a capacity close to about 70 million tonnes by the end of 1997-98. In addition, we are planning setting up of three refineries in joint venture, each of 6 million tonnes per annum capacity, to be set up during 9th Plan period. The public sector companies involved in these joint ventures would be Indian Oil for the Eastern India refinery, Bharat Petroleum for the Central India and Hindustan Petroleum for Western India refinery. After completion of these refineries, the capacity would further go up to about 88 million tonnes per annum, and along with expansions of two refineries under consideration. The capacity would be about 94 million tonnes by 1999 or 2000, if the projects go well. In addition to all this, there are some private domestic oriented refineries for which LOIs have been issued out of which two of the refineries are on the West Coast. They are each of 9 million tonnes capacity which will yield an additional 18 million tonnes per annum together. This will provide about 111 million tonnes per annum refinery of capacity as against a projected demand of 102 million tonnes per annum. We expect that by the end of the Ninth Plan, these projects, including the private sector ones, will be able to meet the total demand".

He further added :—

"There are a lot of proposals which have come forward. In addition to the projects that I have mentioned, there are two more which are export oriented. We expect that out of four or five proposals which are already there, at least two or three will certainly materialise. If these two or three projects materialise, indigenous refining capacity will be able to meet the demand in 2001."

CHAPTER III

DISTRIBUTION/MARKETING OF PETROLEUM PRODUCTS

A. Network for Marketing and Award of Dealership

3.1 The Ministry of Petroleum and Natural Gas is responsible for ensuring the marketing and distribution of various petroleum products like MS, HSD, Kerosene, Petrol, LPG etc. The marketing of petroleum products is carried out by the four oil marketing companies viz. Indian Oil Corporation Ltd., Hindustan Petroleum Corporation Ltd., Bharat Petroleum Corporation Ltd. and IBP Co. These oil companies have a vast network for distribution of petroleum products spread all over the country. The following table shows company-wise number of dealers/distributors in the country as on 1.4.93:—

	Retail Outlets (MS/HSD)	LPG Distributors	SKO/LDO Dealerships
IOC	5895	2132	3183
BPC	4030	816	921
HPC	3975	1184	1560
IBP	1306	—	350
TOTAL	15206	4132	6014

3.2 Various steps involved in creation of new dealerships/distributorships are as under:—

1. Finalisation of the annual Industry Marketing Plan on the basis of 5-year Survey after re-verifying the locations.
2. Categorisation for 100 point Roster Plan; Categorisation is made keeping in view social objective programme of Govt. of India including reservation in award of dealership to various categories.
3. Draw of lots for allotting the locations to by each company.
4. Ministry's approval to the Marketing Plan.
5. Release of advertisements.
6. Receipt and scrutiny of applications.
7. Selection of dealers/distributors by the Oil Selection Boards through interviews.

8. Issue of Letters of Intent to the selected candidates by the oil companies. The Letter of Intent provides that the candidate should prove to the satisfaction of the company, within a period of four months, that he has progressed satisfactorily towards the provision of the required infrastructure to develop the dealership.
9. Commissioning of the dealerships/distributorships.

B. Functioning of Oil Selection Board

3.3 The committee wanted to know the composition of Board and their mode of functioning. A representative of the Ministry stated during evidence:—

> "The allotments are made on the recommendations of the Oil Selection Board. They have been appointed 18 in number one for each State or a group of States. We determine the vacancies on the basis of market plans. These vacancies are advertised in the newspapers. Then the eligible candidates are called for an interview; and on the basis of the interview, the Oil Selection Board makes recommendations forming a panel of two persons. On the recommendation of that panel, the appointment is made".

The witness further explained:—

"It is a three-member Board. It is headed by a retired judge of the High Court. There are two other members also. One of them is supposed to be from the weaker sections. The nominations are made by the Central Government. We have constituted them in all the States except J&K where it has not been constituted so far. Term of members is for two years. They can hold an interview wherever they like. The guidelines have been issued by the Government for the selection of a dealer, and eligibility criteria are also fixed. There are restrictions about age, income, residence. Of course, there are reservations for different categories. So, under these guidelines, they try to select the best candidates. The decision is left to the Board. The Government has nothing to do with it. After issuing the guidelines, the matter is left to them. After the selection is made, they send the list of the selected candidates to the Company directly, and the Company makes an appointment".

3.4 The Committee further wanted to know whether there were some complaints about the functioning of the Board. The witness replied:—

> "The present Oil Selection Board is working from last January onwards. Earlier there was no Board. Prior to nationalisation appointments were made by the oil companies. But, it was thought that it is better to have an independent Board outside the Ministry so that an objective selection can be made. As and when any case of irregularity and wrong selection is noticed and if they are established, the oil companies and Government have not hesitated to take action.

It is readvertised also and another selection is made. The Government has full power to reconstitute the Board, at any time, either partially or wholly".

3.5 When asked to specify the nature of complaints, the witness stated:—

"We have received some complaints that the selection has been made not in a fair manner. Of course, unofficially and informally we have some complaints that some bribe has been paid to some member. However, there are no authentic complaints and so far no enquiry has been made in this matter. We have issued instructions that when such complaints come particularly about the behaviour of the members, it should be discussed in the Oil Selection Board".

3.6 When further asked by the Committee whether any action had been taken or contemplated against such members of the Board, the witness added:—

"There are some complaints. There are allegations also which may not be fully established. In these cases, the Government is contemplating reconstitution".

3.7 According to the present policy of the Government of India the reservation for appointment of dealers/distributors for various categories are as under:—

SC/ST Category	25.0%
Physically Handicapped	7.5%
Defence Category	7.5%
Freedom Fighters	5.0%
Open Category	55.0%

3.8 Apart from the above reservations the Ministry also allot dealerships on compassionate grounds. In this connection Petroleum Secretary stated during evidence:—

"These are the cases where people have some personal tragedy in the course of their duty or service to the nation. It is strictly not the Ministry which does it. These allotments are made taking the totality of the circumstances into account. The discretionary power is vested with the Minister".

3.9 Asked about the basis and norms of allocation of dealership to the candidates belonging to SC/ST, a representative of the Ministry replied:—

"The consideration by the oil companies to allot the dealership of these petroleum products to the SCs/STs is that generally these should be allotted in the Constituency areas which are reserved for them. Some times complaints do come that the dealerships are given to SCs/STs in areas where there are not many SCs/STs. But the

> instructions issued from the Centre to the oil companies are that suitable sites should be given to SC/ST people. There is a roster system also which is being followed".

3.10 On being asked whether requisite number of dealerships were being given to SC/ST candidates, the witness replied that reservation to this category was being adhered to fully.

3.11 It also came to the notice of the Committee that the site for dealership offered to SC/ST was not profitable in comparison to the sites offered in general category. Reacting to this the witness clarified that they were giving several facilities to SC/ST candidates. Elaborating it further he stated:—

> "There were complaints that SC/ST people were not able to arrange for finances. Therefore, the Government announced a scheme w.e.f. July, 1992 that the investment for setting up the dealership and the distributorship etc., alloted to SC/ST people, will be made by the companies. It will be the responsibility of the companies to provide all the facilities like site development, godowns, showrooms etc. to them. They will invest all the money to them. Later, a licence fee will be recovered from them. We have sorted out all these problems of making the money available to the distributorship. In the big cities, there is no private land available. There, we have to depend on the Government authorities Therefore, we have instructed the State Governments that they should make the land available to the people on the request of the oil companies. We have permitted SC people to purchase lands and construct godowns etc. and an oil companies will pay the lease rent. I think, this is the best arrangement".

C. Plans for meeting the demand of LPG

(i) *Public Sector Oil Companies*

3.12 As on 1.1.1993 the number of LPG customers is about 187 lakhs throughout the country. The All India waiting list for LPG connections is approximately 1.8 crores. When asked to indicate the period or plan of the Government to wipe off waiting list of LPG aspirants, a representative of the Ministry of Petroleum & Natural Gas stated during evidence:—

> "At present we have two crore LPG users in the country. There are also about 137 lakh persons on the waiting list. This year we have already released ten lakh connections. For next year also, by conservative programme, we can release ten lakh connections. But if we are able to control the diversion, etc., which will be taken care of by the private companies, then we will be able to release up to fifteen lakh connections. In 1996-97, two other import facilities will be commissioned. So, we shall be able to go up to 40 lakhs connections and subsequently to 60 lakhs connections. By the end of the century, we believe that we shall be able to wipe out the waiting list".

3.13 The Committee also wanted to know about the plans to increase the network of oil companies to supply LPG in all parts of the country. The Ministry of P&NG replied in a written note that :—

> "LPG for domestic and commercial customers, are currently met through a network of 4132 LPG distributors as on 1.4.93. In order to meet the increase in demand, LPG distributor network is proposed to be expanded as per the criteria given below:—
>
> (a) Wherever new districts are created, Head Quarters of such districts are covered, subject to potential being available to set up a viable unit.
>
> (b) Towns with population of around 20,000 and above (10,000 and above in case of North Eastern States) are being progressively covered in the Marketing Plans, subject to potential being available in those towns for setting up a viable unit.
>
> (c) Additional distributorships are also planned in the existing markets, subject to potential being available for existing and proposed distributors to reach the ceiling level in due course. The current Marketing Plan (1993-94) provides for 575 new distributorships."

(ii) *Parallel Marketing*

3.14 Till recently the marketing of all petroleum products was in the monopolistic arena of public sector oil companies. However, recently a decision has been taken by the Government to involve private sector in the marketing of kerosene, LPG and LSHS at market prices by allowing it to import and market these independently and parallel to the marketing of these products by public sector oil companies. The Government will not have price control over such parallel marketing.

3.15 Elaborating the need for decontrol of marketing of certain petroleum products, the Petroleum Secretary stated during evidence:—

> "The only way to make the petroleum products available is that either we give it at international prices or allow them to import. Giving them at international prices our own will have impact on our own finances. Therefore, we said, look since we are deregulating in petroleum and other sectors, they should be free to get their imports of petroleum products at international prices. That is why most of these items were decanalised except diesel and petrol. Today, the fuel oil and rest of the petroleum products are decanalised so that the other users have access to these products at international prices, so that they have value addition and also become competitive."

3.16 The Committee further wanted to know about the mode of control mechanism by the Government to be exercised over the parallel marketing. The Petroleum Secretary stated:—

> "Today, just like any other business activity, this will also be a

business activity. But we have told them that they should keep us informed. That means they will intimate us that they are doing this business. Similarly they will keep the State Government informed in the case of LPS marketing because there are certain orders issued by the Controller of Explosives. These people will have to comply with those orders".

3.17 In this connection, a representative of the Ministry also added:—

"So far as creation of distribution network is concerned, under the policy, the Government is not supposed to have any control on the distribution network. But so far as facilities for godowns and storage of the cylinders are concerned, they have to be approved by the Controller of the Explosives. So far as co-ordination of their activities is concerned, this is being done by the Ministry of Petroleum and Natural Gas. The only stipulation on them is that they will give an intimation before commencing their business to the Ministry and slso an intimation about the import to be made by them every month".

3.18 The Committee further pointed out that after the introduction of parallel marketing system, some fake companies had come up in a big way without being registered with the Government and were exploiting the needy people.

3.19 When asked about the safeguards by the Ministry of Petroleum and Natural Gas taken or proposed to be taken to curb the malpractices. The Petroleum Secretary submitted:—

"We have taken several steps. First of all we have to make a distinction between a consumer and a dealer. If a dealer wants to take up dealership, one should be careful about his motive as against an innocent consumer. Repeatedly we have made announcements that if somebody responds to the advertisement, he should make sure that he ascertains the bonafides of these people before he makes the investment. Secondly, as soon as we notice these advertisements we requested the oil industry to check up exactly how serious these people are and what type of a dealer or distributor they going to be. Thirdly State Governments are also alerted; in fact we have asked them to investigate them in several cases. MRTP Commisssion is taking action *suo motu*. But the best way is to increase the awareness of the people against malpractices, if any".

3.20 He added :—

"As regards registration, I am not aware whether there is any foolproof registration system, which can ensure that fraudulent practices do not take place. Even after registration, people can still disappear with the money collected".

3.21 The Committee further enquired as to how in the absence of any registration, the Government would be able to stop malpractices and take appropriate action against the defaulting companies. The Petroleum Secretary replied:—

"Whenever there is a complaint, we take action. If there is a complaint, we get it verified, We are following all the methods. This has been raised in the Consultative Committee meeting also. We have been doing this and we have asked the industry also to do this. Whenever penal action is to be taken, we are asking the State Governments to take the penal action. We have written to all the State Governments to be alert in this matter. This is being done constantly.

If we ask them to register with us, that means we take an obligation to do something. People would then ask as to what is the use of registration. So there must be an obligation on us. If I discharge that obligation, that must be backed by legal power. Otherwise, it will not do any good and simply for an administrative order, we cannot do anything. That means, we go back to the days of licencing, etc. In other words, it is like coming back to square one. The basic issue is this that there is a large gap between the controlled price and the pre-market price. We know that it is being sold for Rs. 5,000 or Rs. 8,000. This is actually the hawala rate for one gas connection. Unless this price differential comes down, there is no way we can check this practice. We can do any number of inspections. The more number of inspections and checks we do the more will be the scope for corruption. It is not that all the agencies are honest people. If it were so, none of the malpractices which we find today, would be taking place."

3.22 On being suggested by the Committee that it would be better if the concerned companies were required to register themselves with the Government before entering into the business, the Petroleum Secretary replied:—

"My submission is that, Ministry does not want to take any additional responsibility except this which they are doing. But if the Hon. Committee makes a recommendation for any such additional responsibility it is a different matter. There are laws of the land. There are authorities at the district level, at the State level and at various other levels to probe into it (malpractices)."

3.23 In reply to a question about collection of money from the prospective consumers, the witness stated:—

"The only practical way is to see that there is ban on such collections and nobody can collect money by way of advertisements till he is ready with everything. I am not a legal expert but we will have it examined."

3.24 The Committee also wanted to know the price difference in the LPG marketed by Public Sector Oil Companies and LPG to be imported and marketed by Private Companies in the parallel marketing system. The Committee were informed by the Petroleum Secretary that after the increase in LPG prices in January, 1994, there was still a subsidy content of about Rs. 50/- per cylinder weighting 14.2 kg. LPG. With the reduction in custom duties the cost of imported LPG would be reduced considerable and still there will be price difference of about Rs. 40 to 50/- per cylinder.

3.25 The witness further added that over a period of time the price difference could be narrowed down. Regarding Kerosene the witness stated:—

> "In the case of Kerosene, the difference is still very wide. For example, the Kerosene supplied through PDS is costing from Rs. 3 to Rs. 3.50 per litre, whereas Kerosene sold in the parallel market is costing about Rs. 7 per litre".

3.26 The Committee further pointed out that after the introduction of parallel marketing system two types of cylinders of LPG will be available in the market—one from public sector companies and the other from private sector having substantial price difference both for LPG and Kerosene. They wanted to know about the safeguards the Ministry had planned to avoid the likely malpractices/black marketing etc. in this regard. The Petroleum Secretary replied as under:—

> "As regards LPG cylinders, we do not intend to divert people to private sector. As everybody knows, there are certain restrictions of registration, etc. for getting Government cylinders. So, it is left to the consumer to have the choice of his supplier. In fact, in the LPG Control Order, we have prescribed that the cylinders supplied by the private sector people should be visibly distinguishable. Secondly, it is not necessary that he should also have 14.2 kg. cylinders. He can have his own size and then appropriately price it. Similarly, there are restrictions about the type of valve etc. So that anybody, just by looking at the cylinder, may be able to visualise which is from a public sector company and which is from a private sector company. These things are being taken care of in the LPG Control Order.
>
> For Kerosene also, we have allowed parallel marketing. In fact, the Kerosene that is imported by the public sector companies is dyed blue in advance so that it is not sold to the private sector people."

3.27 On being suggested by the Committee that sufficient kerosene should be supplied in rural areas through Public Distribution System by excluding affulent section of the society, from the PDS system, the representative of the Ministry stated:—

> "The recommendations were made by the Committee of Ministers, all from State Governments that certain categories should be excluded from the public distributioin system. Krosene was included in recommendations. People who pay income-tax should not be given

kerosene. LPG users should also not be given kerosene. The recommendations of that Committee are still under consideration of the Government. The Ministry has taken a decision that in future new dealerships of kerosene will not be in the District Headquarters. They will be opened only in Tehsil or Block Headquarters so that kerosene reaches those areas and is distributed to the consumers. A number of markets which are fed from 17 depot locations are now being supplied blue-dyed kerosene. I have talked to some State Secretaries. The State Government should decide that kerosene will not be given for industrial purposes. We make the allocation to the State Governments and they make allocation for PDS and industrial use. It should not be given for industrial use, that use should be taken care of by the parallel marketing system."

D. Customer Service and Complaints

3.28 It has been stated in the Annual Report of the Ministry of Petroleum & Natural Gas for the year 1992-93 that with a view to providing better customer satisfaction and to curb adulteration of petroleum products and other malpractices about 49,100 inspections were conducted by the various oil companies, between April and November, 1992. Apart from this, 3500 inspections were conducted by joint industry teams. Irregularities were detected in 530 cases and appropriate action was taken in such cases as per the Marketing Discipline Guidelines.

3.29 During the course of evidence the Committee pointed out that they were informed by the Dealers Association that at times there may be malpractices at oil companies level. For instance there have been some cases where desired quantity of LPG was not filled up at LPG bottling plant. Similarly transporters of various petroleum products also indulge in different kinds of malpractices. On being asked by the Committee as to how the Ministry ensure the availability of standardises petroleum products in term of a quality and quantity to the consumer. The Ministry of Petroleum & Natural Gas in a written note informed the Committee:—

"The Government/Oil Companies have introduced various measures for reducing/eliminating malpractices. The Oil Companies ensure that all products that go out of the installations/depots meet the BIS specifications. Once the product is loaded into the tank truck, details such as the quantity, temperature and density are recorded on the delivery challans/invoices so that the dealer will be in a position to ascertain the quantity and quality at his end. For this purpose, kits have been provided to the dealers for measuring temperature and density so as to assess quality/quantity. Other measures includes regular inspections by oil company officers, use of mobile labs for on the spot testing of product quality, injecting furfural in kerosene (at some locations) for detection when mixed with petrol or diesel, testing of samples if irregularity is suspected during inspections etc.

All these form part of the Marketing Discipline Guidelines (MDG) in which strict penalties are leviable if the dealer is found guilty of any malpractice including termination of the dealership.

In order to ensure that correct quantity of petrol/diesel is delivered to the consumer, the dispensing units are calibrated by the Weights & Measures Department and the totaliser unit of the dispensing pump is sealed by the oil company representative."

3.30 In the context of filling requisite quantity of gas in cylinders at bottling plants, the Ministry stated that adequate facilities exist at the bottling plants to ensure that the correct quantity of LPG is filled in each and every cylinder. After the filling of LPG in the cylinder each cylinder is checked to ensure that there is no under or over filling of LPG. In order to prevent pilferages from the cylinders by delivery persons etc., oil companies have introduced pilfer proof caps which are fitted on the valves of the cylinders.

3.31 The Committee enquired whether the Ministry were aware of some irregularities in LPG connections. A representative of the Ministry replied:—

"We have come to know that the dealers book certain persons who are not genuine costomers for future, but actually connections are given to some other persons later. Then, the dealers charge extra money for that."

3.32 On being further asked by the Committee whether oil companies were having necessary infrastructure to ensure that their market network ensure good marketing practices, the Ministry replied in a note that Divisional Offices of oil companies were fully equipped to handle all the requirements of the marketing network. On an everage about 30 to 40 dealers were being looked after by each Sales Officer. All dealers were required to keep complaint register.

Explaining it further, the Ministry also stated:

"The supplies to the dealers are made from depots/terminals for MS, HSD and SKO and from LPG bottling plants for LPG. The existing system ensures that the correct quantity and quality of products are delivered to the dealers.

In addition to the above, the marketing network functions as per the norms laid down in the Marketing Discipline Guidelines (MDG), the MS/HSD Control Order, the LPG Control Order and the Essential Commodities Act. The salient features of these include, *inter alia,* provisions on the following:—

(a) Handling of MS, HSD and SKO at Company's storage point.
(b) Handling of products at ROs by dealers.
(c) Stock & Price Control.
(d) Quality and quantity control measures.

(e) Observance of statutory and other regulations.
(f) Customer service and general maintenance to be provided.
(g) Maintenance of Company's equipments at ROs.
(h) Rectification of the defects in dispensing units/pipelines/tanks.
(i) Detection of presence of water in the underground storage tank.
(j) Inspection of Retail Outlet/SKO dealership, *inter-alia;*
(i) Inspection by the concerned Oil Company Official.
(ii) Inspection by the Joint Industry Inspection team.
(k) Procedure for detection of malpractices/irregularities at the ROs has also been detailed.

The oil company officers also interact with the consumers through the Consumer Service Cells which are located at all offices of the Oil Companies. These cells are manned by an officer whose responsibility is to redress the grievances of the consumer and also accept valuable suggestions from them."

3.33 It also came out during the evidence that the various recommendations of the Committee appointed by the Govt. *viz.* the Sudha Joshi Committee and Abrar Ahmed Committee have been adopted to improve customer service.

E. Commission to Dealers and other related issues

3.34. With a view to improve the services to the consumers the Committee took evidence of the representatives of All Joint Action Committee of LPG Distributors Federation of India, All India Petroleum Dealers Confederation and Kerosene Dealers Confederation alongwith various other Dealers Associations. The Committee enquired about the impediments which were coming in the way in improving their service to the various consumers. In their submission the representatives of the various associations brought out the following problems before the Committee:—

(i) The percentage of commission over the years has come down sharply. For instance commission on LPG has come down from 25% to 6% during the last 25 years. It was also stated that if they run their business on honest principles, they would certainly be incurring huge losses and dealers were forced to resort to various types of malpractices. To substantiate their point of view they stated that some of the petrol pumps being run by oil companies were incurring heavy losses.

(ii) The private companies which have recently been allowed to import and market some of the petroleum products (mainly LPG) are offering more commissions which would result in offering better services to the consumers. In the long run it could mean less business for public sector oil companies.

(iii) Different oil companies are having different sets of rules and regulations for same type of jobs and it would be better to have one big organisation on the pattern of SAIL which could look after the whole gamut of marketing.

(iv) Some of the malpractices could be at plant level also. For instance there have been some cases where desired quantity of LPG was not filled up at plants.

(v) Transporters of various petroleum products also indulge in different kinds of malpractices.

3.35 During the course of examination of the Ministry of P&NG, the Committee wanted to know about the steps taken by the Ministry to give reasonable commission to the dealers of petroleum products to enable them to run their business smoothly and honestly.

3.36 The Ministry of Petroleum & Natural Gas replied in a written note that the commission for petroleum products is not on *ad valorem* basis but is arrived at taking into account the following factors:—

(i) Operating costs such as salaries, electricity and water charges, telephone expenses, repair and maintenance, etc.

(ii) Product losses such as evaporation and handling losses.

(iii) Dealers' Margin which essentially constitutes a reasonable return on capital employed.

3.37 Elaborating the basis for commission the Petroleum Secretary stated during evidence:—

"Talking about commission, it is, in fact, a scarce commodity. All these commissions were fixed making a study of capital expenditure and operating expenditure required. Periodically, these studies have been made and commission revised. LPG commission has been revised. Kerosene commission has been revised.

In respect of the retail outlets, they came out this time a plea that it should be *ad valorem*. Now, some prices like that of petrol are very high and of others like kerosene are very low. A main selling kerosene will get unreasonably low commission because the prices are low.

The other point we made is there was no marketing effort needed. With the monopoly people have come to have petrol pumps. No effort is needed. We said, we will reasonably compensate for your effort and cost. For the last revision, a committee was appointed. A survey was done. Figures were collected. We looked at the reasonableness of the capital cost required and the operating cost, etc. Now we have indexed them. For example, for a price index level, there is automatic revision in the commission due to price rise as well as due to the price rise of the product. All these have been built into that. The commission that was given to retail petrol and diesel outlets was of the order of Rs. 100 crore. It means at no time this type of hefty figure had been given which is the highest figure that has been given. We feel that this would reasonably satisfy dealer and will reasonably compensate for all its expenses and will give him a comfortable margins."

3.38 In the context of non-viability of certain LPG Dealership a representative of the Ministry admitted that due to low volume of business about 70% of the Dealers were non-viable. To make them viable the Government introduced slab system in the last revision. Also in the last revision there has been about 14% to 28% increase in the commission of various petroleum products.

3.39 The Ministry further informed in a written note that the dealers' commission for petroleum products is on a slab basis with higher rates for the initial slab and lower rates for the subsequent slab. This is to ensure that dealers who have lower turnover are adequately compensated, while dealers who have high turnover do not receive undue gains. This is especially so for petrol and diesel. The slab system has also been introduced for LPG dealers *w.e.f.* 1.9.1993. There is no slab system for kerosene.

3.40 The revised rates of commission for various petroleum products are as under:—

MS/HSD *Rs./KL*

SLABS	*Volume Kl/ annum*	*w.e.f. 1.9.1993* *MS*	*HSD*
I	0—600	363	190
II	above 600	224	90

LPG

With effect from 1.9.1993.

upto 2500 refills—Rs. 7.30/cylinder (14.2 Kg.)

Above 2500 refills—Rs. 6.50/cylinder (14.2 Kg.)

SKO *Rs./KL*

	Wholesaler	*Retailer*
With effect from 1.9.1993	52.70	69.00

3.41 On being pointed out by the Committee that inspite of the recent increase in commission there were still some grievances from petrol dealers, the witness stated that w.e.f. 5th November, 1993 the commission payable in sales of lubricating oil have also been increased from Rs. 1.50 per litre to Rs. 5 per litre and this would improve the earnings of petrol dealers substantially.

3.42 In the context of commission to dealers by the private companies under parallel marketing and resultant service to the consumers the Ministry replied in a note:—

"Marketing of petroleum products (LPG & SKO) under the Parallel Marketing System (PMS) is yet to take off in a big way. As such, the quantum of commission offered to the dealers by the parallel marketeers is not known. However, it can be stated in general the level of competition would increase with the advent of private sector companies in the marketing of petroleum products which, in turn, would result in better customer service. The Government companies will also increase their efficiency and improve customer service, on account of competition with private companies."

3.43 On a query from the Committee whether it was not better to have an independent organisation to sort out or study the various grievances of the large number of petroleum dealers, the Secretary, Petroleum added:—

"In fact, decision is not taken by the oil industry. The decision is taken by the Government. The material facts are cross-checked by the Government. It is not as if this is totally accepted because there are two or three other concerns which the Government keeps in view. It does not get reflected in this. We want to see that these outlets—dealerships— are there in the remotest parts of the country. Few people go there. Even if there is low volume, the Government has to see that low volume outlets do not become nonviable. That is one of the reasons which the Government has to keep in view. There are metropolitan cities. There are areas where the volumes are very high. Government has also to take this into mind. We feel that a judgement should be made by the Government. We are averaging—people above the line and below the line. All these things are not passed on to the consumer. All these considerations do weigh with the Government in fixing the commission."

3.44 The Committee further wanted to know whether the Ministry ever considered to set up a tribunal/authority on the pattern of SAIL for marketing various products and to sort out the problems between the dealers of petroleum products and the oil companies.

3.45 The Ministry of Petroleum & Natural Gas in a note stated as under:—

"The basic coordination of marketing is carried out by the Oil

Coordination Committee which ensures that similar policies are adopted and implemented by the oil companies.

However, there are some differences also such as payment terms applicable to dealers, cheque discounting facilities, etc. which are very minor in nature and are due to historic reasons.

Some of the marketing policies adopted by the oil companies are based on the recommendations of various committees such as Sudha Joshi Committee and the Abrar Ahmed Committee appointed by the Government. This further ensures the uniformity of various rules and regulations that govern the functioning of the dealers."

CHAPTER IV

CONSERVATION OF OIL AND GAS

A. Steps for Conservation

4.1 During the year 1992-93 the import of crude oil was estimated to be about 29.25 million tonnes and that of petroleum products, 11.28 million tonnes. The gross foreign exchange requirement for these imports was about Rs. 17,045 crores. The gross requirement of import during 1993-94 was estimated to be about 14.72 million tonnes of petroleum products. The growth in consumption of petroleum products during the last two years is about 5.4 percent. The increasing demand for petroleum product has been imposing a heavy burden in the economy.

4.2 In view of serious implications of the huge import bill on this account the Committee wanted to know the various steps/programmes taken up or proposed to be taken up by the Government to reduce the consumption of petroleum products without hampering the developmental works. The Ministry of Petroleum and Natural Gas in a detailed note submitted to the Committee as under:—

> "A very high priority is being attached by the Government to the conservation of petroleum products. More specifically, the on-going efforts of this Ministry, the Petroleum Conservation Research Association (PCRA), and the oil companies are being intensified and diversified further, keeping particularly in view the recommendations made by the Inter Ministerial Working Group under the Chairmanship of the then Secretary, Petroleum and Natural Gas on Formulation of Action Plan to restrain the Growth in the Import Bill for Crude and Petroleum Products, which had submitted its report in July, 1990.
>
> The ongoing oil conservation efforts cover the various sectors of the economy transport, agriculture, industrial, household and oil sectors which account for the overwhelming bulk of oil consumption".

4.3 Elaborating it further a representative of the Ministry stated during evidence:—

> "In the Ministry, this work was entrusted to an exclusive cell in 1989 to not only chalk out the other areas but also to coordinate all the conservation activities on the oil sector organisations and other Ministries and Departments of the Central as well as State Governments etc. There are three specific approaches or areas which can be delineated as the broad areas through which conservation can be achieved. First is the house-keeping and better operational and

maintenance programmes comprising adoption of simple tips for conserving petroleum products in different uses. They really do not cost much or they do not cost at all.

The second are which can be made use of is that of technology. The technological developments are of two types. One is the improvisation or retrofilling or improvement in technology which is available or existing. The second is the technological upgradation of the engines, equipment and processes. In technological upgradation there is some investment involved, but in most cases, it has been found to be financially attractive.

The third major area is that of inter fuel substitution. Here the best possibility exists in respect of the transport sector and in the industrial sector where the liquid petroleum products, which are imported in substantial quantities are used. The road transport sector has recently started using methanol in substitution of petrol. These are the broad areas."

4.4 The Ministry in a written note stated that the Ministry was running various campaigns for creating mass awareness about the need for conserving petroleum products and for educating and motivating the users to take concrete steps to actually conserve such products. Such campaigns have mainly been run by the PCRA through various media *viz.* Doordarshan, Akashvani and Newspapers; display of hoardings, banners and posters; publication and distribution of booklets/pamphlets containing simple tips on oil conservation; and screening of films and cinema slides etc. van publicity campaigns; participation in exhibitions and fairs; and mass contact programmes through rallies, races, consumer meets and consumer clinics etc. The oil marketing companies have also been using various media for creating mass awareness. These efforts were being sought to be stepped up and made more effective.

4.5 In this connection a representative of the Ministry also stated during evidence that the Ministry of Petroleum & Natural Gas assisted by PCRA was illiciting participation of industry, Public Sector Undertakings and State Govts. While regularly organising Oil Conservation Weeks. About 3 years ago they started with some activities during Conservation Week throughout the country. In the first year, the number of such activities was 2000 which were expected to rise to about 23000 in the Fourth Oil Conservation Week from January 3—9-1994.

4.6 When asked by the Committee about their achievements specifically of saving in the oil sector, the witness added that as a result of various innovative measures adopted by the oil refineries, they had been successful during the VIIth Plan period in saving between Rs. 30 to 45 crores annually by reducing the fuel Consumption and loss. The companies achieving the annual targets were being rewarded too as an incentive.

4.7 On being pointed out by the Committee that there was vast potential in agriculture sector, the witness replied that 10% saving could be effected in diesel consumption in pump sets by investing a small amount of money (about Rs. 450/- per cent). It was proposed to change 55,000 foot valves in the pump sets in agriculture sector by March, 1994.

4.8 To a query from the Committee about the other measures the Govt. had planned to further slash the use of petroleum products, a representative of the Ministry informed the Committee during the evidence that the Ministry had developed a device to use the Compressed Natural Gas (CNG), a cheaper substitution to petrol on an experimental basis in the road transport vehicle at Delhi, Bombay, Baroda, Assam and Tripura in their first phase programme. Detailing the position further the witness added:—

> "CNG in its normal form is predominantly containing methane. That is a good fuel for automobiles. First it is compressed and in its compressed form it is put into a different type of cylinder. The CNG kit is mounted on to the engine of the car. The kit converts the compressed gas into the normal natural gas while it is being injected into the engine. This is a cleaner fuel, it is a more efficient fuel and better fuel in many ways than petrol or diesel. Environmentally also it is a beneficial fuel. At least six or seven makes of car kits have been optimised after every elaborate and intensive testing in the ARAI at Pune. Now depending upon the response that we get from the car owners and the ARAI further expansion can be considered. We are still awaiting a final report on the technical side from the ARAI. Based on that, plus the economic considerations, further efforts will be made in this diretion."

4.9 In reply to an another query it was stated that steps were taken for quality upgradation of lubricants, inter-fuel substitution and other energy efficiency programmes/projects in transport sector, agriculture sector and domestic sector.

4.10 When asked to specify the operational savings effected through various schemes/programmes a representative of the Ministry stated that as a result of the various schemes, undertaken by and through PCRA a saving of Petroleum Products worth Rs. 495 crores could be made during the Seventh Five Year Plan.

4.11 In the context of the Eighth Five Year Plan the Ministry expected the savings as follows:—

have been asked not to lower their exploration/production targets and further funds could be released on year to year basis. In this context, Petroleum Secretary pleaded before the Committee that as the oil companies need a longer gestation period for planning their projects, the sanction of funds should be done in advance rather than on a year to year basis. It also came out during the examination that about 60% of the funds earmarked for the VIII Plan have already been spent in the first two years of the Plan and only 40% remains for the exploration/ production activities to be undertaken during the next three years. In view of the importance of the oil sector, the Committee urge upon the Government to give priority to this sector and allocate required funds so that the country is able to raise its self-sufficiency level in the matter of petroleum products which has come down to 42% during 1992-93 from the level of about 67% achieved in 1984-85.

4. The Committee regret to note that as against the production of crude oil of 34 million tonnes during the year 1989-90, its production has come down to about 27 million tonnes in 1992-93. The Committee also note that the demand of petroleum products in the country is increasing at a faster rate and by the end of VIII Five Year Plan i.e. 1996-97, the expected requirements of petroleum products would be about 79 million tonnes. As per the production estimates, the indigenous crude oil production will be about 44 million tonnes (39 million tonnes by ONGC and OIL and 5 million tonnes by private companies) by the end of 1996-97. The Committee feel concerned to note that inspite of expected substantial increase in crude oil production by 1996-97, the yawning gap between demand and indigenous availability of crude oil would further widen during the same period swelling the current import bill of about Rs. 17000 crores to over Rs. 20000 crores at the current price level. The Committee were informed that the decline in crude oil production was mainly on account of foreign exchange crunch during the years 1989-90 and 1990-91 and also due to some technical problems at Bombay High oil field which is the major production centre. The Committee were also informed that the foreign exchange problem is no more today and steps have been taken to rectify the technical problems at Bombay High. From the year 1994-95 onwards, the production is expected to increase. To meet the growing demand of petroleum products, the Ministry has also informed that several measures have been taken which include short term, medium term and also intensification of exploration efforts. The Committee would like the Ministry to ensure that all measures/steps are taken effectively with a view to increase the oil production which is crucial for growth of Indian economy as a whole.

5. Apart from resource constraints/foreign exchange crunch/technical problems at Bombay High, the Committee find that certain projects were also delayed beyond their stipulated date of commissioning. On account of this the desired level of production of crude oil could not be achieved. The

Committee desire that the administrative Ministry as also the oil companies should improve the monitoring system for completion of the on-going projects on a regular basis with a view to avoid cost and time over-runs. This will help not only avoiding the cost over-runs but it will also ensure in enhancing the production capacity well in time.

6. With a view to increase the exploration/production activities the Government have allowed the private sector/multinational companies to enter in this field. So far six rounds of bidding have taken place. The results of first three rounds of bidding in 1980, 1982 and 1983 were not very encouraging as many of the foreign oil companies who signed contracts with the Government could not find oil and stopped the work. Subsequently, on revised terms and conditions, the 4th, 5th and 6th round of bidding have taken place. On the basis of 4th round of bidding where 72 blocks were offered for exploration, contracts have been signed in respect of two blocks only. The Committee find that under the 5th and 6th round of bidding some of the big multinational oil companies had participated in the bidding and response is quite good as compared to the earlier responses.

The Petroleum Secretary also informed the Committee that to attract foreign investment a number of modifications in the earlier conditions have been made to make the offers more attractive and the Government have also decided that they will be receiving offers round the year to attract more and more agencies to take up the exploration/production work. As per the Ministry's expectations by the end of 8th Five Year Plan i.e. 1996-97 about 5 million tonnes of crude oil will be available from such contracts. With a view to attract more responses/funds from the private/foreign sources, the Committee desire that the Government should constantly review the terms and conditions so that these can be made further attractive and are comparable to other countries.

7. The Committee find that Government takes undue long time in finalising the bids/offers. For instance the bids under the 4th round which were offered in September, 1991 were finalised only in 1993 as the contracts with the concerned companies were signed only in February/March, 1993 and thereafter. Similarly, the offers received under 5th round of bidding for which the last date was 30th June, 1993 are still under processing. The Managing Director of a private company engaged in exploration work was candid in his submission before the Committee that 'Delay causes lack of interest. The longer, it takes, people get discouraged'. The Committee would like the Government to expedite process of evaluation/finalisation of the bids received under 5th and 6th round of bidding. The Committee desire that some centralised special cell should be created to look after this task. Concerned efforts are needed to streamline the functioning/procedures of this work.

8. Presently there are 12 public sector oil refineries in the country having a refining capacity of 53.25 MMT per annum. The demand of petroleum products during the current year i.e. 1993-94 has reached about 60.76

MMT as against 58.7 MMT in 1992-93. It is further expected to rise to about 79.4 MMT per annum during the terminal year of Eighth Five Year Plan i.e. 1996-97 and to about 102 MMT by 2001-2002. The Ministry of Petroleum & Natural Gas informed the Committee that they expect to get another 4.3 MMT through expansion of the existing refineries and 16.83 MMT from the new refineries being commissioned at Mangalore, Panipat and Assam. Some refineries are expected to come in joint sector as also in the private sector. Thus, the total refining capacity is expected to swell to about 70 MMT by the end of 1996-97 (terminal year Eighth Five Year Plan). The capacity would further increase to 111 MMT by the terminal year of Ninth Five Year Plan i.e. 2001-2002. According to the Ministry the refining capacity of this magnitude would be sufficient to meet the indigenous demand of petroleum products which would be of the order of about 102 million tonnes by the end of 2001-2002.

The Committee do appreciate the advance planning for creation of additional refining capacity to meet the growing demand of petroleum products. The Committee would however, like the Ministry to ensure that the expansion programmes/new projects are completed within stipulated time so that time and cost over-runs could be avoided.

9. The marketing of petroleum products is recently being carried out by four public sector oil companies, viz., Indian Oil Corporation, Hindustan Petroleum Corporation, Bharat Petroleum Corporation and IBP Ltd. All these companies have a vast network of retail outlets throughout the country which are over 25000. Except for LPG and kerosene, all other petroleum products are available abundantly. At present, there are 2 crores customers of LPG and there is also a waiting list consisting of 1.8 crores prospective consumers. The Ministry have informed the Committee that they propose to wipe off the waiting list by 2000 A.D. positively. The Committee would like the Ministry to adhere to the target fixed in this regard. Needless to emphasise, adequate steps should be taken by the Ministry to create necessary infrastructure/facilities including appointment of requisite number of dealers so that popular cooking fuel is reached to all parts of the country.

10. Another petroleum product which is having bearing on the common people is kerosene. It came out during the course of examination that Ministry of Civil Supplies had appointed a committee to suggest if some section of the people, particularly, the affluent one could be excluded from the public distribution system. That Committee is reported to have submitted its recommendations which are under examination by the concerned Ministry. The Committee recommend that to augment the supply of kerosene in rural areas, the supply of kerosene oil supplied through PDS system should be reviewed expeditiously and people having higher income should be excluded.

11. The retail outlets/dealerships are awarded by the Ministry of Petroleum and Natural Gas. For this purpose, the Ministry have appointed Oil Selection Boards which have been constituted for a State or a group of States. Presently, there are 18 such Boards working all over the country.

The Committee were informed that the present Boards are working from the 1st January 1993. It also came out during the examination that some serious complaints of corruption have been made involving Members of some of the Boards. In this connection the Ministry informed the Committee that the Government have powers to reconstitute these Boards and Members against whom the complaints are received, could be replaced. The Committee desire that the functioning of Oil Selection Boards should be reviewed and wherever necessary, improvements may be made in the existing system.

12. According to the present policy of the Government, there are reservations for different categories, like SC/ST, Defence category, freedom fighters and physically handicapped people. The Committee were informed that requisite reservations were being made for all these categories including SC/ST. Incidentally, it came to the notice of the Committee that viable sites/good locations were not offered to SC/ST candidates. In this connection, the Ministry stated that several facilities including purchase of land, construction of godowns etc. were made available to SC/ST people. While appreciating the Ministry's commitment to fulfil the reservation requirements, the Committee would like the Ministry to ensure that no discrimination is made in regard to allotment of sites etc.

13. Till recently, marketing of all petroleum products was in the monopolistic arena of public sector oil companies. However, with the liberalisation in the industrial sector, the Govt. have allowed private companies to import and market some of the petroleum products, like kerosene, LPG and LSHS at market prices. The Government do not propose to have any price control over such parallel marketing. The companies which propose to enter this activity are not required to get registered with the Ministry and only requirement they are to fulfil is to inform the Ministry. Admittedly, fake companies have appeared in the market which are collecting huge money from the prospective dealers/customers. The Committee are not convinced with the argument given by the Ministry that registration was not legally justifiable and the law of land can take action against such fake companies. MRTP is also understood to have taken suo-moto action against some of such companies. To safeguard the interests of public at large, the Committee recommend that Government should ask the companies entering in the parallel market to get registered with the administrative Ministry before starting the business or accepting deposits/security from the prospective dealers/consumers. The Committee also desire that there should be constant vigil over the functioning of private companies. If necessary, some model code of conduct could be framed for these companies.

14. Another area where the Committee would like to express its concern is the malpractices prevalent in the marketing of various petroleum products. The quantum and magnitude of such malpractices could be guaged by the fact that between April and November, 1992 as many as 530

cases were detected. These irregularities are in the nature of adulteration, shortly supply of products, etc. It also came out that there could be instances of malpractices at plant level as also while transporting the petroleum products. To check the prevailing malpractices, Oil Companies have taken several measures so that consumers get all the petroleum products in requisite quantity having standard quality. For this purpose, dealers are required to follow Marketing Discipline, Guidelines in which strict penalties are leviable if dealers are found violating such guidelines and even their dealership could be terminated if the cause of complaint is grave. To avoid malpractices, Kerosene oil imported for PDS system is marketed after colouring it so that. It does not reach the open market. This step will ensure distinction between the Kerosene imported for PDS system and imports made by private companies under parallel marketing system. Two Committees appointed by the Government, viz. Sudha Joshi Committee and Abrar Ahmed Committee are also reported to have made certain recommendations which if implemented would improve the customer services. The Committee would like the Ministry to ensure implementation of the recommendations of these Committees. Needless to emphasise adequate steps should be taken to strengthen the marketing vigilance.

15. The representatives of the Ministry were candid in their admission before the Committee that the LPG dealers indulge in the malpractices to the extent that instead of giving connections to the genuine customers, who had booked the connections several years ago, are given to some other people at some consideration. The Committee desire that such loopholes in the present system should be removed by tightening the procedures and by checking the pending registration regularly.

16. The representatives of the LPG/petrol/kersoene dealers submitted before the Committee that they were not getting the proper commission on sale of petroleum products. For instance, commission on LPG is reported to have come down from 25% to about 6% during the last 25 years. The representatives went to the extent saying that if they run their business on honest principles, they would certainly be incurring losses and they were formed to indulge in the malpractices. To substantiate their point of view, they stated that some of the petrol pumps, run by oil companies were incurring heavy losses. When asked about the views of the Government to mitigate the grievances of dealers, the Committee were informed by the Ministry that the recent increase in commission for various petroleum products has taken care of all these problems and all dealers are expected to be viable. Since, dealers are the middlemen between the producer and the consumer, the Committee would expect that there should be a proper machinery/forum so that revision of commission on all types of products is reviewed periodically.

17. In the context of huge import bill on account of petroleum products, there is urgent need to take steps to conserve the petroleum products to the maximum possible. For this purpose, Petroleum Conservation and Research

Association has been set up under the supervision and guidance of the Ministry of Petroleum and Natural Gas. The PCRA has been envisaging various schemes in different sectors such as oil sector, agriculture sector and transport sector. Due to its efforts, the PCRA is reported to have effected a saving of Rs. 495 crores during the Seventh Five Year Plan. For instance, Oil Refineries are saving about 30-45 crores annually on account of implementation of Conservation schemes. The PCRA is also taking up various mass programmes to educate the public at large. The Committee however, regret to note that there is no central agency to monitor the conservation programmes in various Government departments/PSUs/ private sector. The Committee feel that there should be some centralised agency to coordinate such work so that targets could be fixed for different sectors. Efforts are also needed to augment the mass awareness programmes by involving various voluntary organisations and State Govts. suitable incentive schemes could be thought of to attract various users in this regard. These steps will go a long way in reducing the consumption of oil and gas.

18. Incidentally, it came out during the examination that on the one hand, there was shortage of natural gas/LPG in the country and on the other hand, some gas was flared up at Bombay High and reportedly at some other oil installations. During the 7th Five Year Plan, as against the total production of natural gas of 59.56 billion Cu.M. the actual despatches of natural gas for sale to the consumers was 40.68 billion Cu.M. only. The rest was flared up. The Govt. is reported to have taken steps to completely stop flaring of gas by 1996. Such gas could be diverted to fertiliser plants, where it is used as feed stock and its demand is not being fully met. Similarly additional gas could be diverted to the proposed Southern Gas Grid. In view of the importance of natural gas, the Committee desire that concerted efforts should be made to achieve this goal.

SRIBALLAV PANIGRAHI
Chairman,
Standing Committee on Petroleum & Chemicals.

NEW DELHI;
February 7, 1994

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