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STANDING COMMITTEE ON PETROLEUM & NATURAL GAS (2006-07)

FOURTEENTH LOK SABHA

MINISTRY OF PETROLEUM & NATURAL GAS

DEMANDS FOR GRANTS (2006-07)

[Action Taken by the Government on the recommendations contained in the Ninth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas (2005-06) on 'Demands for Grants (2006-07) of the Ministry of Petroleum & Natural Gas']

THIRTEENTH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

March, 2007/Phalguna, 1928 (Saka)

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LOK SABHA SECRETARIAT
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March, 2007/ Phalguna, 1928 (Saka)

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INTRODUCTION

I, the Chairman, Standing Committee on Petroleum & Natural Gas having been authorised by the Committee to submit the Report on their behalf, present this Thirteenth Report on Action Taken by the Government on the recommendations contained in the Ninth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas on 'Demands for Grants (2006-07) of the Ministry of Petroleum & Natural Gas'.

2. The Ninth Report of the Standing Committee on Petroleum & Natural Gas was presented to Lok Sabha on 15th May, 2006. The Action Taken Replies of the Government to the recommendations contained in the Ninth Report were received on 19th September, 17th November and 14th December, 2006.

3. The Standing Committee on Petroleum & Natural Gas (2006-07) considered and adopted the Report at their sitting held on 19th March, 2007.

4. An analysis of the action taken by the Government on the recommendations contained in the Ninth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas is given in Annexure-II.

5. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the body of the Report.

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

New Delhi;
21 March, 2007
30 Phalguna, 1928 (Saka)

N. JANARDHANA REDDY,
Chairman,
Standing Committee on
Petroleum & Natural Gas

CHAPTER I

REPORT

This Report of the Standing Committee on Petroleum & Natural Gas deals with the action taken by the Government on the Recommendations contained in the Ninth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas (2005-2006) on 'Demands for Grants (2006-07) of the Ministry of Petroleum & Natural Gas' which was presented to Lok Sabha on 15.5.2006.

2. Action Taken Notes have been received from the Government in respect of all the 15 Recommendations /Observations contained in the Report. These have been categorised as follows:-

(i) Recommendations/Observations that have been accepted by the Government:- 6,7,8,14,15

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:- NIL

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:- 4,12

(iv) Recommendations/Observations in respect of which final replies of the Government are still awaited:- 1,2,3,5,9,10,11,13

3. The Committee trust that utmost importance would be given by the Government to the implementation of their recommendations. In cases where it is not possible for the Ministry to implement the recommendations in letter and spirit for any reason, the matter should be reported to the Committee with reasons for non-implementation. The Committee further desire that the Action Taken Notes on the Recommendations/Observations contained in Chapter-I of this Report and Final Replies in respect of the recommendations for which interim replies have been furnished by the Government (included in Chapter-V), should be furnished expeditiously.

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

A. Plan Spending of PSU Oil Companies.

Recommendations (Sl. No. 1, Para No. 3.1)

5. The Committee had found that as against the total approved 10th Plan Outlay of Rs. 103656.00 crore for oil PSUs, an amount of Rs. 76448.28 crore had been spent till February 2006 which was about 74 per cent of the total outlay. Thus, 26 per cent of the outlay was left to be spent in the last 13 months of the plan. From the data furnished to the Committee, they were unhappy to observe that oil PSUs had not been able to fully utilise the RE allocations during 2003-04 and 2004-05. While the shortfall in expenditure in 2004-05 had been to the tune of 8 per cent, the same in 2003-04 had been as much as 28 per cent. In the year 2005-06 also, the expenditure upto February, 2006 had been only Rs. 19946.47 crore out of the RE amount of Rs. 29403.08 crore i.e. 67.8%. The Committee had also observed that oil PSUs excepting ONGC, OVL and CPCL had shown poor performance in Plan spending during the first three years of the 10th Plan (2002-03 to 2004-05). A number of PSUs viz. HPCL, KRL, BRPL, Balmer Lawrie and Biecco Lawrie had spent less than 20 per cent of the allocation during the said period. The Committee had recommended that oil PSUs should pull up their socks and make concerted efforts to fully utilize the allocated amount so as to ensure that important projects were completed without any time and cost overrun.

6. The Ministry of Petroleum and Natural Gas has submitted the following reply in this regard:

> "Oil PSUs do not receive any plan allocations from the Government Budget. All the Plan Expenditures are met from out of their internal resources.
>
> Based on the economic, industrial and commercial factors governing the Oil Sector and the market projections for future business growth available at the time of formulation of the Plan, Oil Sector PSUs had finalized the physical and financial targets for the 10th Five Year Plan. The oil companies themselves push for early implementation of projects where the market is ready and, similarly, the oil companies go slow on projects where commercial factors and market situations demand so.

Details regarding allocations & actual expenditure during the first four years of the 10th Five Year Plan are as under:

Year	Revised Estimates (Rs Crore)	Actual Expenditure (Rs Crore)	Expenditure (%age)
2002-03	21100.44	16279.51	77.15
2003-04	24393.22	17590.96	72.11
2004-05	24615.12	22631.34	91.94
2005-06	29403.08	26854.32	91.33
Total	99511.86	83356.13	83.76

It may be seen that against the allocation of Rs. 99511.86 crore, the actual expenditure during first four years of X Five Year Plan was Rs. 83356.13 crore which is 83.76% of the allocation. The Budget Estimate for Annual Plan 2006-07 is Rs. 36003.33 crore. Taking into account Rs. 83356.13 crore already spent during the first four years of X Five Year Plan and the Annual Plan of 2006-07, the oil companies propose to spend Rs. 119359.46 crore during the X Plan period, which would be 115% of the X Plan allocation of Rs. 103656 crore. This would be a significant improvement over the IX Five Year Plan period during which the actual expenditure as a percentage of the total allocation was about 65%".

7. The Committee, in their 9th Report, had expressed their displeasure over the shortfall in meeting the targets with regard to utilisation of allocations by oil PSUs. They had recommended that oil PSUs should make concerted efforts to fully utilise the allocated amount. The Committee find from the Government's Action Taken Reply that in each of the first four years of the 10th Plan period, the actual expenditure has fallen short of the Revised Estimates (RE), even though the expenditure in the last two years viz. 2004-05 and 2005-06 has been over 90 per cent of RE which is no doubt a positive sign. The Ministry has also mentioned in the reply that the oil companies propose to spend 15 per cent more than the 10th Plan allocation by the end of the Plan period. They would like to know the expenditure made by various oil companies vis-à-vis allocations during the 10th Plan.

The Committee had also observed in their earlier Report that expenditure by HPCL, KRL, BRPL, Balmer Lawrie and Biecco Lawrie during the first three years of the 10th Plan had been less than 20 per cent of the Plan allocation. The reply furnished by the Ministry does not specify the

subsequent improvements, if any, effected by these companies in the spending pattern. They would like to be apprised of the factual position in this regard.

B. City Gas Projects of GAIL

Recommendation (Sl. No. 3, Para No. 3.3)

8. The Committee had found that under the Project 'Blue Sky', GAIL (India) Ltd. had formed joint ventures for supply of Piped Natural Gas (PNG) to domestic, commercial and industrial consumers and Compressed Natural Gas (CNG) to automobiles in the cities of Agra, Lucknow, Kanpur and Pune for which approval had been accorded by the GAIL Board on 25.10.2002. Joint venture agreements had been signed for implementation of city gas projects in Agra/Lucknow with IOCL and in Pune/Kanpur with BPCL. Besides, GAIL had also signed an MoU with BPCL for implementing city gas projects in the States of Kerla and Karnataka. The Committee had been informed that one CNG station each had been commissioned in Kanpur, Agra and Lucknow in April 2006 and that CNG supply was due for commencement in these cities by end of April, 2006 subject to gas supply being tied up. They, therefore, had desired to know whether CNG supply had commenced in these cities as per schedule. Considering the poor progress in sourcing of gas, the committee had apprehended that the supply of CNG and PNG to the consumers in the cities approved under the city gas projects would not take place on time. Keeping in view the fact that the implementation of the 'Blue Sky' Project would reduce environmental pollution in these cities, the committee had desired that GAIL should expeditiously ensure gas supply tie-ups and complete these projects without any time and cost overruns.

9. The Ministry of Petroleum and Natural Gas, in its Action Taken Note, has explained the position as under:

> "M/s GGL had commissioned the 1st CNG station in Lucknow on 1st April 2006 and CNG supply has commenced in a limited way. The JV has plans to open a few more CNG station within a few months.
>
> In Kanpur, M/s Central U.P. Gas Limited, a JVC of GAIL and BPCL, had commissioned the 1st CNG station on 07.04.2006. The CNG is being

supplied to consumers since then. The JV has plans to open a few more CNG station within a few months.

In Agra, M/s Green Gas Limited (GGL) a JV of GAIL and IOC have set up one CNG station in June, 2006. The gas for this station is presently being sourced RLNG on fall back basis till alternate arrangements is made.

The City Gas project in Pune city will be implemented by M/s. Maharashtra Natural Gas Limited, a JVC of GAIL and BPCL. The gas supply for City gas project is planned to be made available through the Dehej - Uran pipeline, which is under implementation. Anticipated date of commencement of CNG supply in Pune is likely to be the second half of June, 2007.

Sourcing of additional quantities of natural gas to meet the demand in the respective cities is being taken up by the respective JV companies/GAIL".

10. In their earlier Report, the Committee had expressed apprehension that the supply of CNG and PNG to the consumers in the cities approved under the city gas projects would not take place on time due to poor progress in sourcing of gas and had, therefore, advised GAIL to expeditiously firm up gas supply tie-ups. They are unhappy to learn from the Action Taken Replies that GAIL has not been able to make comprehensive gas sourcing tie-ups which has resulted in limited supply of CNG to some of these cities. The Committee have been informed that sourcing of additional quantities of gas to meet the demands of these cities is being taken up by GAIL/JV companies. They would like the Government to advise GAIL and other concerned companies to expedite the process and also closely monitor the developments on this issue. The progress made in this regard may be conveyed to the Committee.

C. PNG network in Delhi

Recommendation (Sl. No.4, Para 3.4)

11. The Committee had noted that the Indraprastha Gas Limited (IGL) had been supplying Piped Natural Gas (PNG) in Delhi. As on March 1,2006, 44465 domestic customers, 194 small commercial consumers and 40 large commercial consumers in Delhi had been connected to PNG. The Committee had found that the supply of PNG in Delhi had been confined mostly to areas in and around South Delhi, while the areas in North, East and West Delhi had not been given

due weightage, with only a few pockets in these areas being touched. The Committee had desired to be apprised of the reasons for the uneven supply of PNG in the capital. Keeping in view its numerous advantages viz., uninterrupted supply, convenience, safety, lower maintenance cost, tamper-proof supply, etc., the Committee had recommended that a comprehensive road-map should be prepared to cover the entire Capital with PNG within a period of five year.

12. In response, the Ministry of Petroleum and Natural Gas has, inter-alia, submitted that as on March 31, 2006, Indraprastha Gas Limited (IGL) has connected 55,475 houses for Piped Natural Gas (PNG) supply. Out of these, 46727 houses are using the PNG supply. These 55,475 houses cover around 40 colonies and are spread all over Delhi. Apart from the coverage in South Delhi, where IGL is supplying PNG to 15205 houses, IGL has laid the infrastructure in the colonies of East Delhi, like Patparganj (6289 houses), Mayur Vihar Phase-I (4818 houses), Mayur Vihar Phase-II (387 houses) and Vasundhra Enclave (1624 houses). In North Delhi, IGL have supplied PNG to 7275 houses in various sectors of Rohini. In Central Delhi, PNG is being supplied to 19352 houses, coverning colonies, like, Kaka Nagar, Bapa Nagar, Chankya Puri, Netaji Nagar, Sarojini Nagar, Kidwai Nagar and Kali Bari. The work of expanding IGL's network in other parts of NCT of Delhi is a continuous process. In the current year, IGL is laying network in various colonies of West Delhi like Pitampura, Paschim Vihar, Vikas Puri, Dwarka and Naseer Pur, where they expect to have large number of users. The expansion of PNG infrastructure depends on many factors like availability of natural gas, permission of the land owning agencies and other statutory bodies for laying gas pipelines, technical feasibility and the terrain of the area, availability of space in the narrow lanes, response of the prospective Resident Welfare Associations (RWA), etc.

13. Keeping in view the numerous advantages of Piped Natural Gas (PNG), the Committee had recommended that a comprehensive road-map should be prepared to cover the entire Capital with PNG within a period of five years. However, the reply of the Government is silent about such a road-map. The Committee do not approve of this lackadaisical approach of the Government towards their important recommendations. They desire

the Government to prepare such a road-map on priority basis. This will enable various agencies, involved in activities relating to laying of PNG infrastructure, to plan their action accordingly which will help in smooth implementation of the project.

D. Mega Projects in Panipat Refinery

Recommendation (Sl. No.9, Para No. 3.9)

14. The Committee, in their earlier Report, had expressed their unhappiness that there had been delay in completion of two mega projects at the Panipat Refinery of the Indian Oil Corporation Limited (IOCL). The first mega project viz. Integrated Paraxylene/Purified Terephthalic Acid Project was originally scheduled to be completed in March, 2003. The completion schedule of this project was first revised to August, 2005 and subsequently to April, 2006. Similarly, in case of the second mega project viz. Panipat Refinery Expansion Project, the completion schedule was extended to December, 2004 from the original completion schedule of May, 2002. Subsequently, it was further extended to July, 2006. The Committee had taken note of the fact that the initial approved cost of the first project was Rs. 4228 crore which was later revised to Rs. 5104 crore. Similarly, in case of the second project, the initial approved cost of Rs. 3365 crore was subsequently revised to Rs. 4165 crore. Besides, there had been a further cost increase in case of the second project which had been stated to be within 5 per cent of the revised approved cost. The time overrun on these projects had been, inter-alia, attributed to delay in engineering by Project Management Consultant, delay in delivery of equipments by some vendors/suppliers/contractors, etc. The Committee had desired that the responsibility for the time and cost overruns should be fixed and suitable action be taken against those held responsible. They had been informed that the penalty clause for price reduction had been applied as per contract against the Project Management Consultants for delay on their parts. The committee had further desired that the details of action taken against other erring agencies/persons and progress made on the projects be conveyed to them.

15. The Ministry of Petroleum and Natural Gas has submitted the following reply in this regard:

> "During the course of execution, there was an unprecedented price rise of major raw material, viz., steel (about 50%) & copper (about 55%) from mid-2003 to mid-2004 and non-availability of steel from approved manufacturers such as Steel Authority of India Limited, Tata Iron & Steel Co., Rastriya Ispat Nigam Limited and Indian Iron Steel Co. on continuous basis. This resulted in delay in supply of equipment and bulk materials involving steel by the vendors due to inherent loss to them on account of price rise of steel, despite continuous follow up by PMC/IOCL. This resulted in slow construction progress. Transporters' strike in two spells one in March' 04 for about 40 days and second in August' 04 for 7 days also contributed to delay in delivery of equipment/material.
>
> As IOCL contracts are awarded on fixed-price basis and no escalation is allowed, some agencies did not execute the contract in view of impact of the steep price rise in steel/copper. Consequently jobs had to be offloaded.
>
> Price reduction clause is a standard clause incorporated in all purchase orders/contracts and is invoked in cases wherever delays are attributed to contractors/suppliers.
>
> At Present, commissioning activities are in progress followed by closing of contracts. Closure of mega projects of such magnitude takes about 6-12 months time when performance of each contract will be reviewed in detail & reasons for delay analyzed jointly with PMCs. Based on analysis, in case of Contractors/Suppliers who could not meet the delivery targets as stipulated in the contract for the reasons solely attributable to them, price reduction clause will be invoked.
>
> Originally Power was to be supplied by M/s IPPCL, a JV of IOCL, which did not materialize. Therefore, Captive Power Point (CPP) cost was included in the revised estimate and further increase took place due to foreign exchange escalation, variation in Wholesale Price Index/ Consumer Price Index".

16. The Committee had expressed their dissatisfaction over the delay in completion of the two mega projects at the Panipat Refinery of the Indian Oil Corporation Ltd (IOCL), viz. Integrated Paraxylene/Purified Terephthalic Acid Project and Refinery Expansion Project. They had desired that the responsibility for the time and cost overrun should be fixed and suitable action be taken against those held responsible. In response, the Government has, inter-alia, stated that the price reduction clause against the contractors/suppliers, who could not meet the delivery targets as per

stipulations in the contracts, would be invoked after a review of performance of each contract and analysis of reasons for delay. The Committee desire that the Government/IOCL should complete this exercise urgently and take appropriate action against the defaulters. The details of action taken in the matter be conveyed to them at the earliest.

E. Retail outlets of Oil Marketing Companies.

Recommendation (Sl. No. 10 Para No. 3.10)

17. The Committee had observed that Oil Marketing Companies (OMCs) viz. IOC, BPC, HPC and IBP had set up countrywide networks of retail sales points either operated by the Company or through dealers for making available petroleum products to the customers. The Committee had been informed that the number of retail outlets had gone up to about 31000 including about 1700 of the private sector from about 18,500 five years ago when the private sector was not in this business. The committee had observed that the growth in the volume of sale of the products at the outlets of OMCs had not been to the desirable extent. An analysis of the sales data pertaining to the years 2002-03, 2003-04 and 2004-05 revealed that the sale of products, particularly diesel, had registered either marginal or negative growth in case of almost all the OMCs. The committee had also observed that the throughput per retail outlet of OMCs had come down from 250-275 kilo litres per month five years ago to 140-145 kilo litres per month at present. The Committee had expressed their dissatisfaction over this poor state of affairs and felt that there was an urgent need for an in-depth analysis of the situation followed by result-oriented remedial action. In their opinion, the present situation had arisen because of indiscriminate setting up of outlets by OMCs without proper judgement/application of mind, failure on the part of OMCs to prepare any strategy to compete with the private sector, lack of professionalism and marketing wisdom on the part of OMCs, unhealthy and undesirable competition among OMCs arising out of proximity of their outlets in an area, doubts about the quality and quantity of fuel supplied at the outlets of OMCs, inadequate implementation of anti- adulteration measures, lack of efforts to either wind up or rehabilitate the outlets consistently yielding very low throughput, improper monitoring of the situation by the Ministry, etc. The

Committee were of the strong view that unless suitable and timely measures were taken, the situation might further deteriorate. They, therefore, had recommended that the Government should constitute an expert team, independent of the Ministry and oil PSUs, to look into the above issues and suggest corrective measures to improve the situation. The Committee had desired that the report of the expert team should be furnished to the Committee within a period of two months from the presentation of this Report. The Committee had also desired to be apprised of the action taken in this regard.

18. In this regard, the Ministry of Petroleum and Natural Gas, in its Action Taken Report, has submitted the following reply:

> "On the basis of the recommendation of the Hon'ble Committee, it was decided that Indian Oil Corporation Limited (IOC) would engage an independent agency for study of the retail outlets of the public sector Oil Marketing Companies (OMCs), namely, Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited and IBP Co. Limited. It was further decided that the study might be completed within a period of two months from the date of commissioning. IOC was asked to finalize the terms of reference for the independent agency in consultation with other OMCs. IOC was further asked to engage an agency of repute which has expertise in the job.
>
> In compliance with this decision, the OMCs decided to get the study done through the Indian Institute of Management, Ahmedabad, and have since entrusted the study to it. The study is now in progress and the report is expected by the end of August, 2006. It has been reiterated to IOC that the study should be totally independent".

19. The Committee have subsequently been informed that a team from the Indian Institute of management, Ahmedabad comprising Prof. Piyush Kumar Sinha (Professor of Marketing and Chairperson, Centre for Retailing), Prof. Rajendra D. Patel (Professor of Finance) and Shri Kamaljit Singh Anand (FPM participant) carried out the relevant study. The report of the expert team titled 'Network Expansion Analysis of PSU – OMCs' has since been furnished to this Committee.

20. The Committee learn from the above-mentioned report that the expert team evaluated the process of network expansion of OMCs through study of relevant guidelines, marketing plans and other laid down procedures. It also gauged the performance of retail outlets in terms of sales, investment and returns on the basis of data collected from the OMCs.

21. The expert team also got conducted a field study to understand the store choice and patronage behaviour of customers. The said study involved 2200 respondents from 12 cities.

22. The expert team has viewed that the investment in network expansion seems justified economically from the PSU-OMCs' perspective.

23. The team has, inter-alia, also observed that the current concern of dealers and the Ministry regarding the profitability of the new RO dealers is explained by the shortfall in throughput. Consequently, many ROs operate below the break even point.

24. The major conclusions arrived at by the team of IIM, Ahmedabad are as under:

(i) The expansion by OMCs is in line with the developed markets where the number of outlets swelled and then shrank to stabilise.
(ii) OMCs are getting the Return on Investment (ROI) as per the norm.
(iii) Customers are satisfied with the OMCs. The current actions by private players have not helped much and they may not have emerged as a good choice.
(iv) Some of the dealers may not be getting the desired return. But, dealer commission is not in the hands of the OMCs and is in addition to the billable rates. Network can be made more profitable by increasing the commission and introducing the variable Licence Fee Recovery (LFR).
(v) OMCs seem justified in expanding in the current competitive scenario as a business entity and achieving/retaining the market share and incremental return above the threshold. This could have been lost to private competition otherwise.
(vi) PSUs – OMCs must develop strategies that would enhance value for the three important members of the value chain viz. company, dealer and customer.

25. The action suggested by the expert team to enhance the value for the above three members of the value chain is as under:

(i) There is a need to rationalise the network and find other ways of network structure to increase the company profitability.
(ii) A need has arisen to convert from Dealer to Entrepreneur and also utilise the property profitably in order to enhance the Dealer profitability which has been under pressure due to fall in per RO throughput.
(iii) There is a need to utilise the ROs for more services in order to increase the customer value.

26. The expert team has also viewed that network rationalisation and structure should be decided based on a separate study. This study should identify strategy and action based on network performance of each OMC for different market clusters. The team has further stated that training of dealers for

entrepreneurship, better management and retail practice, managing funds and resources efficiently and effectively is required.

27. The Ministry of Petroleum and Natural Gas has given its comments/observations on the report of IIM, Ahmedabad which are as under:

(i) There appear to be severe statistical limitations to the study as the locations selected for the study did not properly reflect the geographical diversity of the country. The sample size of 2200 respondents interviewed for the study appear to be inadequate for studying 29,000 odd retail outlets.

(ii) The study was conducted during August, 2006 when most of the private OMCs' retail outlets were out of business due to price distortions in the market i.e., while PSU-OMCs could maintain relatively lower MS & HSD selling price on account of Government support, the private companies were not in a position to do so. This might have resulted in poor feedback for them from the consumers. The actual competitive scenario in the retail market between PSU-OMCs and private OMCs does not appear to have been reflected properly in the study.

(iii) The Report does not indicate the actual number of ROs operating below the breakeven point, though it says that many ROs are in that category. The Report also says that "investments in Network Expansion seem justified economically from PSU-OMCs perspective", especially those that were commissioned after the dismantling of the Administered Price Mechanism (APM) w.e.f 1.4.2002.

(iv) The Report had drawn parallels with similar experience in the developed countries such as USA. In this connection, it is noted that the consumption of petroleum products in USA is more than ten (10) times the consumption in India and that the geographical size of USA is 3.2 times that of India. The vehicular density of USA is over 30 times that of India. Moreover, the per capita energy consumption greatly differs in the two countries. Given this consideration, the total number of ROs in India appear to be on a much higher side. Further, the existence/continuance of an RO in USA solely depends on its economic viability and there is easy exit option for unviable ROs. Therefore, it may not be appropriate to conclude that similar retail network expansion as witnessed in the USA may be relevant to the Indian context.

28. The Ministry of Petroleum and Natural Gas has also advised the PSU – OMCs to resort to the following course of action:-

(i) As per the Report, the threshold per pump throughput for a viable RO is much lower for the OMCs as compared to the dealers, i.e., an RO viable for an OMC may be unviable for the concerned dealer. OMCs have been advised to work out a detailed plan of action on the variable Licence Fee Recovery (LFR) for a specified period as recommended by IIM-A, which would enable OMCs to introduce a variable mechanism of incentives for RO dealers which, at the same time, make provisions for support/assistance to the low performing ROs for their improvement during the specified period.

(ii) OMCs have also been advised to seriously consider exit roadmap for economically unviable ROs whose performance/sales could not be improved despite best efforts of the dealers or the OMC concerned.

29. The Committee had expressed their concern over the indiscriminate setting up of retail outlets resulting in lowered throughput per retail outlet per month in the recent years. Such a situation, in their view, had arisen because of a multitude of reasons, viz. setting up of outlets without proper judgement, lack of professionalism/marketing wisdom, unhealthy competition among Oil Marketing Companies(OMCs), inadequate implementation of anti-adulteration measures, etc. The Committee had, therefore, desired that an expert team should be constituted to study the whole issue and submit a report on the same to the Committee. Accordingly, a study was conducted by Indian Institute of Management, Ahmedabad and the report titled 'Network Expansion Analysis of PSU-OMCs' has since been furnished to the Committee.

The IIM study team has observed that the expansion of OMCs is in line with the developed market trends and their return on investment is as per the norm. To improve the profitability of the network, the study has, inter-alia, suggested increase in commission and introduction of variable Licence Fee Recovery (LFR) for the dealers.

The Committee have also noted the shortcomings pointed out by the Ministry of Petroleum & Natural Gas in the study conducted by IIM, Ahmedabad viz. small sample size of respondents, price distortions between private and OMC retail outlets at the time of the study and parallels drawn with developed countries. The Ministry has stated that the actual competitive scenario in the retail market between PSU-OMCs and private OMCs does not appear to have been reflected properly in the study. The Ministry has, however, advised the PSU-OMCs to work out a detailed plan of action on the variable Licence Fee Recovery (LFR) for a specified period as recommended by IIM-A, which would enable OMCs to introduce a

variable mechanism of incentives for RO dealers and to seriously consider exit roadmap for economically unviable ROs. The Committee, while endorsing the advice given by the Ministry of Petroleum and Natural Gas to the PSU-OMCs, desire the Ministry to closely monitor the action taken by OMCs in this regard and results achieved be conveyed to them at the earliest.

F. Measures to check Adulteration.

Recommendation (Sl. No.11, Para No. 3.11)

30. The Committee had been informed that a slew of measures/provisions had been put in place to contain the problem of adulteration of petroleum products viz. surprise checks/inspections, action against errant dealers, creation of a separate wing in OMCs, implementation of Jan Kerosene Pariyojana to prevent diversion of PDS kerosene, issue of a set of stringent Marketing Disciplinary Guidelines (MDG) 2005, etc. However, they were unhappy to observe that the problem had remained very much the same. In the opinion of the Committee, extensive technological applications by PSU oil companies from the refinery end to the customer end would go a long way in checking this menace. They had been informed that OMCs had taken up technological solutions to contain adulteration activities. However, the Committee had viewed that the application of technology by oil PSUs had not been done in the right earnest. Even the Secretary, Ministry of Petroleum & Natural Gas was candid enough to admit this fact during evidence. The Committee, therefore, had recommended that technological applications by the oil PSUs including setting up of centralised monitoring system to track down the movement of their fuel vehicles, opening/closing of locking systems, etc. should be intensified. Besides, the frequency of surprise checks should also be increased. The Committee had also desired that the performance of the 'Jan Kerosene Pariyojana' should be evaluated and based on its success, the project should be extended to other parts which would also help in preventing the diversion of PDS kerosene for adulteration purpose. The Committee had further recommended that an incentive scheme should be introduced for oil company officials displaying extra-ordinary performance in the direction of checking the menace.

31. The Ministry of Petroleum and Natural Gas has submitted the following reply in this regard:

> "Ministry have reviewed the existing practices being followed by the OMCs to reduce and minimize adulteration. With a view to taking effective measures for preventing this menace, the OMCs have been asked to take the following steps:-
>
> (i) Monitor the movement of all Tank Trucks viz, Company owned/Dealer owned/Contractor tank trucks through Global Positioning System (GPS) based vehicle tracking system to ensure that TTs don't get diverted en route.
>
> (ii) OMCs to undertake automation of all their retail outlets selling more than 200 KL per month on a priority.
>
> (iii) OMCs have been asked to move away from the routine nature of inspection/sampling. Instead, the surprise element in conducting inspections and drawing samples must be emphasized. OMCs have been asked to fix targets for surprise inspections under the MDG, 2005 and to ensure that the inspections are carried out in an effective manner. OMCs have been asked to strengthen their Vigilance Wings/Quality Controls Cells to make them more effective.
>
> (iv) OMCs to undertake third party certification of all their retail outlets selling more than 100 KL per month.
>
> (v) OMCs to identify and suggest the names of reputed agencies/NGOs who could be entrusted with the drawal/testing of MS/HSD samples from retail outlets.
>
> (vi) OMCs to introduce marking of potential adulterants".

32. In their earlier Report, the Committee had recommended that an incentive scheme should be introduced for oil company officials displaying extra-ordinary performance in the direction of checking the menace of adulteration. However, the Committee are unhappy to note that the reply of the Government is silent on this vital recommendation. They desire to be apprised of the reasons for the same and also the response of the Government on this issue.

The Committee have been informed that the Government has asked the Oil Marketing Companies to take various measures to check

adulteration. They desire the Government to monitor and review the progress of implementation of these measures by the OMCs and apprise the Committee of the success achieved in checking adulteration as a result of implementation of these measures.

G. Cess on indigenous crude.

Recommendation (Sl. No.12, Para No. 3.12)

33. The Oil Industry Development Board (OIDB) was set up in January, 1975 under the Oil Industry (Development) Act, 1974 to provide financial assistance for the development of the oil industry and funds were supposed to be made available to OIDB by the Central Government from the proceeds of cess levied and collected on indigenous crude to enable the organization to carry out various developmental activities. However, the Committee were unhappy to note that adequate amount from the proceeds of cess was not being made available to OIDB or the Ministry of Petroleum & Natural Gas. They had been informed that up to 31.3.2005, the Central Government had collected a sum of about Rs. 55,900 crore as cess out of which OIDB had received a paltry sum of about Rs. 902 crore only. The Committee had been expressing their concern over this disturbing trend through their various Reports. In spite of their recommendations reiterated in the earlier Reports of the Committee, the situation had not been remedied which the Committee had strongly disapproved of. They had desired to be apprised of the amount collected as cess on crude by the Government during each of the last 5 years, the amount made available to OIDB during this period, various activities on which cess amount was utilised and the extent to which the Oil Industry benefited from such utilisation.

34. The Ministry of Petroleum and Natural Gas, in its Action Taken Notes, has submitted the following reply:

> “The Cess is collected under the Oil Industry (Development) Act, 1974 and the proceeds of the Cess are credited to the Consolidated Fund of India and the Central Government (Ministry of Finance) with the approval of Parliament, pays to Oil Industry Development Board, from time to time, out of such proceeds. Out of the total Cess collected by Govt. of India, only an amount of Rs. 902 crores has been paid to OIDB so far by the Ministry of Finance.

Since, the proceeds of the Cess are credited to the Consolidated Fund of India, the comments of Ministry of Finance were sought in respect of the above recommendation. They have furnished their comments as follows:-

(i) The Cess on crude oil levied under the Oil Industry Development Act, 1974 is meant for funding the "oil industry" and Section 2(k) of the Act defines this term to include all activities by way of prospecting or exploring for or production of mineral oil, production and marketing of all products down stream of an oil refinery and the production of fertilizers and petrochemicals and all activities directly or indirectly connected therewith. Thus, the term "oil industry" includes production of fertilizers and petrochemicals also and all activities directly or indirectly connected therewith for the purposes of the Act.

(ii) A statement showing the Cess and the Ministry-wise expenditure on areas covered by the OID Act for the last 5 years is enclosed at Appendix-III. From the statement it is seen that the expenditure on the 'Oil industry' is in excess of the Cess collection. In fact, the issue regarding levy and utilization of Cess has been raised on earlier occasions also by the Parliamentary Standing Committee in 1997 and 2004 when the Ministry of Finance has expressed a similar view".

Appendix-III

Receipts from oil Cess/Expenditure as per Act

(Rs. Crores)

	2001-02	2002-03	2003-04	2004-05	2005-06
	Actuals				RE
Cess on Crude Oil	2663.6	4674	5059.41	5225.13	3808**
(MH-0038)					
Capital Expenditure on:-	1164.89	1198	759.38	39.03	111.65
Fertilizer Industries	546	1197	439.15	36.52	98.16
(MH –4855 & 6855)					
Petrochemical Industries	0.71	1	0.87	0.51	13.49
(MH-4856 & 6856)					
Petroleum Industries	618.18	0	319.36	2	0

(MH-4802 & 6802)					
Revenue Expenditure:-	8092.68	13046	15458.26	13233.37	30660.34
Fertilizer Industries	8085	7812	8542	10266.36	10429.86
(MH-2852)					
Petrochemical Industries	7.68	9	14.77	9.86	34.26
(MH-2852)					
Petroleum Industries	0	5225	6901.49	2957.15	20196.22
(MH-2802)					
Total Expenditure (Rev+Cap)	9257.57	14244	16217.64	13272.4	30771.99

As is evident from the above, total expenditure incurred for various industries in conformity with OIDB Act, 1974, is substantially larger than the cess collections

**Prov Actuals (Apr-Jan)

35. The Committee, in their 9th Report, had expressed their displeasure over the fact that adequate amount from the proceeds of cess levied and collected from indigenous crude was not being made available to the Oil Industry Development Board (OIDB). They had, inter-alia, desired to know the various activities on which the cess amount was utilised during the last 5 years and the extent to which the oil industry benefited from such utilisation. In response, the Ministry of Finance, to whom the recommendation was forwarded by the Ministry of Petroleum and Natural Gas for comments, has furnished data on capital and revenue expenditure incurred by Petroleum, Petrochemical and Fertilizer Industries and attempted to substantiate that the expenditure on Oil Industry is in excess of the cess collection. The Committee are not at all convinced by the argument of the Ministry of Finance which, in their opinion, is far-fetched. They feel that the expenditure on activities pertaining to production of fertiliser/petrochemical should not be adjusted from cess collection. They would, therefore, like the Ministry of Finance to change the negative mindset on the issue and release adequate amounts to OIDB out of the cess proceeds. The Committee would also like to know the break-up of

the capital and revenue expenditure incurred on Petroleum and other industries from cess collected from 2001- 02 to 2005 - 06, year wise.

H. LNG terminals on the East Coast.

Recommendation (Sl. No.13, Para No. 3.13)

36. The Committee had been informed that IOC had undertaken a study through a consultant to identify the most suitable port for supply of gas to various potential customers and that the said study established Ennore as the most suitable port for setting up the LNG terminal on the Eastern coast. The key factors which had favoured Ennore had been stated to be its proximity to the demand centres and its developed port facilities. However, the Committee had reminded the Government that in their 8th Report (14th Lok Sabha), they had advised the Government not to take the outcome of this study as final and conclusive in view of the fact that Krishnapatnam was considered favourably for LNG terminal purpose by a study conducted by another agency a few years ago. Meanwhile, the Secretary, Ministry of Petroleum & Natural Gas had informed the Committee during evidence on Demands for Grants (2006-07) of the Ministry that LNG terminal along the Eastern Coast would not have any future as imported LNG could not compete with indigenous gas. This implied that the Government did not have any intention of setting up LNG terminals on the Eastern Coast in the near future. The Committee had therefore, desired to know the actual plan of action envisaged by the Government in the matter. They had further desired that, as and when a decision was taken about setting up of LNG terminals on the Eastern Coast, the merits of Krishnapatnam should not be overlooked by the Government.

37. The Ministry of Petroleum and Natural Gas has submitted the following reply in this regard:

> "With regard to the observation that 'during evidence on Demands for Grants(2006-07) of the Ministry that LNG terminals along the Eastern Coast would not have nay future as imported LNG cannot compete with indigenous gas. This implies that the Government does not have any intension of setting up LNG terminals on the Eastern Coast in the near future', it is submitted that this was the general observation considering the huge find of natural gas in KG Basin. Government neither sets –up any LNG terminal nor gives any approvals for setting-up such terminal. It

is for the companies to decide on techno-economic viability of any LNG project. The Committee's observation that, as and when a decision is taken about setting up of LNG terminals on the Eastern coast, the merits of Krishnapatnam should not be overlooked by the Government, have been brought to the notice of oil and gas PSUs under the administrative control of Ministry of Petroleum & Natural Gas".

38. In their 9th Report, the Committee had desired to know the actual plan of action envisaged by the Government regarding setting up of LNG terminals on the East Coast. They are unhappy to note that the reply of the Government does not specify the future plans regarding setting up of such terminals on the East Coast. In the opinion of the Committee, the Ministry of Petroleum & Natural Gas, instead of just conveying 'it is for the companies to decide on techno-economic viability of any LNG project', should have obtained the relevant details from the oil and gas PSUs viz. their plans/programmes to set up LNG terminals on the East Coast and informed the Committee accordingly. The Committee would like to know the action taken or proposed to be taken by the oil and gas PSUs in the matter relating to setting up of such terminals on the East Coast, especially at Krishnapatnam.

CHAPTER II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation Sl. No. 6 (Para No. 3.6)

The Committee find that the Engineers India Limited (EIL) has been serving the petroleum, petrochemicals and other process industries including metallurgical industry since the mid-sixties providing a comprehensive range of project engineering services. The organisation has been continuously endeavouring to achieve high standards of excellence in its services in process design, engineering, procurement, construction and overall project management in the hydrocarbon sector. The Committee appreciate the vision of EIL to become a globally competitive organisation. However, they are unhappy to note that the value of business secured by EIL during the last two years show a very discouraging trend. In 2005-06 (upto December) the value of business secured was only of Rs.502.77 crore which is almost one-third of what the organisation had secured in 2003-04. The business secured in 2004-05 was also on the lower side at Rs.624.66 crore as against Rs. 1525.85 crore in 2003-04. The Committee are of the view that the organisation should make an in-depth analysis of the factors responsible for such a scenario and take corrective measures urgently. They have been informed that EIL has undertaken a Customer Satisfaction Survey in the domestic market in the recent past and a similar initiative is envisaged for overseas customers in 2006-07. The Committee, while appreciating the initiatives taken by the organisation to obtain the much needed customer feedback/satisfaction, desire the organisation to take cues from these studies and make appropriate changes in its business processes to suit the needs of the clients. They would like to be apprised of the outcome of such survey and the follow-up measures taken by EIL at the earliest.

Reply Of The Government

Engineers India Limited (EIL) secured a business of Rs. 800.8 crore during 2005-06. The breakup of the business in domestic and overseas market in last six years is shown below:

(Rs. crores)

SNO	YEAR	DOMESTIC		OVERSEAS	TORAL SERVICES	TOTAL
		SERVICES(1)	LSTK(2)	SERVICES(3)	(1)+(3)	(1)+(2)+(3)
1	2000-01	364	258	24	388	646
2	2001-02	375	882	74	449	1331
3	2002-03	288	407	53	341	748
4	2003-04	199	1199	127	326	1525
5	2004-05	480	-	144	624	624
6	2005-06	437	30	333	770	800

Concerted efforts have been made in the recent past and as a result the company has secured the highest ever volume of Rs. 770 crores business in 2005-06 in the services sector. This also includes the highest ever volume of business secured from the overseas services sector at Rs. 330 crores. Efforts are further being strengthened and for the year 2006-07, it is intended to increase the total volume of business secured by a substantial amount.

However, in the LSTK sector the company could not secure business in the year 2005-06, except a small amount of Rs. 30 crores. Analysis has shown that for successful completion of LSTK projects, pre-bid tie-ups are essential and efforts are being made to establish the tie-ups at the earliest.

Regarding Customer Satisfaction, as informed, during 2006-07 overseas customers would be contacted for obtaining customer feedback and assessing customer satisfaction. For the domestic market, the Customer Satisfaction Survey done in 2005-06 by an independent Consultant showed that overall satisfaction of customers with Engineers India Ltd. is 7.09 on a scale of 0 to 10.

(Ministry of Petroleum and Natural Gas
OM No. G 25015/4/2006 Fin 1 dated 14.08.06)

Recommendation Sl. No. 7 (Para No. 3.7)

The Committee note that since oil sector PSUs are self-sustained, having Navratna status, no budgetary support is offered to them and as such their financial requirements are not reflected in the Demands for Grants of the Ministry. These PSUs are funding their projects through internal and external resource mobilization. The Demands for the year 2006-07 in respect of the Ministry of petroleum & Natural Gas have been pegged at Rs. 3106.62 crore under the Revenue Section. No provision has been made under the Capital Section. Out of the total Demand of Rs. 3106.62 crore, an amount of Rs. 2900.00 crore has been earmarked for subsidy on domestic LPG and PDS kerosene, a sum of Rs. 30.00 crore for freight subsidy on retail products for far flung areas, an amount of Rs. 150.00 crore earmarked for subsidy to oil companies for supply of natural gas to the North-Eastern Region and Rs. 15.00 crore for the Regulatory Board. Besides these, an allocation of Rs. 11.62 crore has also been made for Secretariat Economic Services, The Committee desire that the Ministry should contain the expenditure during the year within the Budget sanctioned for it and observe austerity in Non-Plan expenditure.

Reply of the Government

The Ministry shall endeavour to curtail the expenditure within the Budget sanctioned for it and observe austerity in Non-Plan expenditure during the current Financial Year.

(Ministry of Petroleum and Natural Gas
O.M NO. G-25015/4/2006-Fin.I dated 14.08.06)

Recommendation Sl. No. 8 (Para No. 3.8)

The Committee have been informed that the refining sector has registered an impressive growth in the recent years enabling the country to emerge as a net exporter of petroleum products. Over the next four to five years, with the completion of expansion projects and new refineries at Bhatinda, Paradeep and Bina, the country might emerge as a major regional export hub. The Committee view this trend of growth in the refining sector as commendable and expect that these projects would be completed as per the current schedule. In the opinion of the Committee, the self-sufficiency in refining needs to be further augmented through upgradation of the distillation and processing units which would reduce the low – value products and increase the output of the high – value products. The Committee desire that efforts should be made by the refineries to develop the ability to process more and more sour/heavy crude, thereby reducing the input cost. They further desire the Government to implement these measures at the earliest and apprise them of the success achieved as a result of implementation of these measures.

Reply of the Government

The Ministry of Petroleum & Natural Gas is actively seized with the need for improvement in bottom lines of the refineries through process and configuration improvements. During the last one year series of meetings were taken by Secretary (P&NG) with the PSUs under the Ministry on this issue. Realising the need to switch over to high sulphur crude, all the PSU refineries were directed to carry out improvement in the configuration of their refineries in order to improve the distillate yields from existing 72.6% to at least 85-90% in the coming years. PSU refineries are processing substantial quantity of imported low surphur crude mainly due to lack of residual upgradation facilities at most of these refineries. By setting up facilities for maximising heavy and sour crude processing along with residue upgradation the refineries, the PSUs were also directed to maximise LPG production from these facilities. Engineers India Ltd. (EIL), a premier consultancy firm under the Ministry was requested to study the existing configuration of the refineries and come up with proposals for upgradation of the facilities.

2. Based on the studies undertaken by EIL following initiatives/decisions have been initiated towards residue upgradation and improving the bottom lines of the refineries:

a) While the coastal refineries would focus on export markets, the inland refineries would concentrate on domestic markets.

b) The refineries of HPCL and BPCL at Mumbai, instead of working independent of each other, would now work in synergy, for further plans of expansions based on the roadmap prepared by the EIL. Accordingly, as of now, both the PSUs would together, under the consultancy of EIL, take up following activities:

- setting up of a desalination plant;
- set up a common Delayed Coker United(DCU) which would greatly improve the efficiency and competitiveness of both the refineries;
- move for additional land close to the existing locations for decongesting the existing facilities and also for setting up a Poly Propylene Unite (PPU)
- construction of a jetty in consultation with Mumbai Port Trust.

3. Based on another study undertaken by EIL for KRL refinery at Kochi, CPCL refinery at Chennai and HPCL refinery at Visakh, work plan has been prepared to be executed by all the three refineries within next three years, through the EIL for capacity expansion, setting up a DCU and decongesting the existing units so as to improve efficiency of all the refineries.

4. In addition, Centre for High Technology (CHT) in collaboration with Shell Global Solutions International, USA have been entrusted with the responsibility of undertaking an Integrated Cap Reduction Programme for CPCL refinery at Manali, MPRL refinery at Manglore and KRL refinery at Kochi on so at to improve the overall refinery performance, within a given period of time, to be assessed in terms of identified parameters.

5. All these proposals are under active stages of implementation and would, in the coming years, have substantial impact on GRMs of the refinery as well as their capacity to process high sulphur crude.

(Ministry of Petroleum and Natural Gas
OM No. 25015/4/2006 Fin I dated 14.08.06)

Recommendation Sl. No. 14 (Para No. 3.14)

As regards the status of implementation of the recommendations contained in the First Report (14th Lok Sabha) of the Committee on Demands for Grants (2004-05) of the Ministry of Petroleum and Natural Gas, it is observed that out of the 28 recommendations made in this Report, the Government has accepted 24 recommendations as per the Statement of the then Hon'ble Minister of Petroleum & Natural Gas and Panchayati Raj laid in Lok Sabha on 25.08.2005 under Direction 73-A of the Direction by the Speaker. 2 recommendations have not been accepted. These recommendations relate to setting up of a Price Stabilisation fund and revival of Anti-Adulteration Cell. The remaining 2 recommendations regarding implementation of ethanol-blended petrol programme and bio-diesel blended diesel programme have not been specifically categorised as 'accepted' or 'not accepted'. The Government has mentioned about certain difficulties coming in the way of implementation of these two programmes such as shortage of ethanol, high cost of bio-diesel, etc. The Committee learn from the Government's implementation status report that some measures have been taken in the direction of implementation of these programmes such as finalisation of contract by Oil Marketing Companies for procurement of ethanol, seeking export permission to facilitate inter-state transportation of ethanol, announcement of Bio-diesel Purchase Policy in October, 2005, etc. The Committee desire that further necessary action in the matter be taken by the Government in an expeditious manner.

The Committee observe that 15 out of 28 recommendations made in the First Report have been fully/substantially implemented by the Government and 2 recommendations pertaining to setting up of a Price Stabilisation Fund and revival of Anti-Adulteration Cell have not been implemented. Regarding the setting up of a Price Stabilisation Fund, the Committee strongly believe that the creation of such a fund would insulate the consumer from the volatility in the international market. As regards the revival of Anti-Adulteration Cell, the Committee would once again like to emphasise that the presence of a central agency, with substantial statutory powers, would prove beneficial, supplementing other technological and administrative efforts, in checking the menace of adulteration of petroleum products. They, therefore, reiterate their earlier recommendations regarding creation of a Price Stabilisation Fund and the revival of Anti-Adulteration Cell.

The Committee further find that 11 other recommendations contained in the First Report are in the process of being implemented on which the Government has taken some action for their implementation. These recommendations pertain to bidding under New Exploration Licensing Policy, in-place hydrocarbon accretion, implementation of new refinery projects, fuel and non-fuel cost, replacement of *ad-valorem* duty structure, strategic storage facility, ethanol-blended petrol programme, bio-diesel blended diesel programme, coal gasification projects, extension of CNG system in the Eastern region and National Gas Hydrate Programme. They desire the Government to make concerted efforts to ensure the speedy implementation of these recommendations.

Reply of the Government

A statement showing the latest status of implementation of the recommendation is given in **Annexure**

(Ministry of Petroleum and Natural Gas
OM No. G 25015/4/2006 Fin I dated 14.8.2006)

Annexure

STATEMENT CONTAINING THE GIST OF OPERATIONAL PORTION OF THE RECOMMENDATIONS, POSITION INDICATED IN MINISTER'S STATEMENT AND THE LATEST STATUS OF IMPLEMENTATION OF RECOMMENDATIONS CONTAINED IN THE FIRST REPORT OF THE COMMITTEE ON DEMANDS FOR GRANTS (2004-05) OF MINISTRY OF PETROLEUM & NATURAL GAS

S. No.	Recommendation No of the First Report.	Gist of operational portion of the recommendation	Position as indicated in Minister's Statement	Latest status of implementation of the Recommendation
1.	2.	The Committee had desired that the frequency of bids under the new Exploration Licensing Policy (NELP) rounds should be enhanced.	Accepted, subject to the time required for completion of various activities for bidding under NELP rounds. Offering of NELP rounds involve	The activities related to carving out the blocks from poorly explored areas after carrying out speculative surveys and from relinquished areas after getting the

			multiple activities which usually take about one year.	data from National Oil Companies and Private Operators take about 5-6 months. Preparation of Information Dockets and Data Packages of the blocks followed by printing of hard copies, making soft copies etc. also requires about 4-5 months. The offered blocks require clearance from MOEF and MOD, which also require about 3-4 months. Moreover, finalization of NELP round, preparation of promotional material and material for website etc also require about 1-2 months. In view of above, NELP round can only be held once in a year.
2.	4.	The Committee had desired the Public sector oil companies to put in concerted efforts to improve their performance in the area of in-place hydrocarbon accretion in future.	Accepted. As a result of the mid term review of their 10th Plan programmes, the PSUs will be able to put in the concerted efforts to improve their performance in the remaining period of the 10th Plan.	In-place oil and gas reserve accretion by ONGC and Oil in first 4 years of X Plan were about 507 MMTOE and 81 MMTOE respectively. Oil PSUs are likely to achieve in-place hydrocarbon reserve accretion targets during X Plan period.
3.	8.	The Committee had recommended that due attention should be given to timely completion of four new refinery projects to avoid cost overruns.	Accepted The progress of major ongoing projects is constantly monitored through monthly progress reports, quarterly performance reports, Board meetings, etc. and corrective measures are taken keeping in view the dynamic market conditions.	**<u>Paradip Refinery Project of India Oil Corporation Limited.</u>** The capacity of Paradip Refinery has been increased to 15 MMTPA from 9 MMTPA envisaged earlier. Further, integration with petrochemicals for production of Paraxylene, Polypropylene and Styrene, etc. has also been envisaged. Considering the complexity of the

				refinery project as configured now, and the considerable increase in the investment as well as quantum of work together with current delivery schedules of major equipment and materials, this refinery and petrochemicals project is expected to take approx. 61 months for mechanical completion from the date of in principle approval, accorded on 25.3.2006. Construction of boundary wall, internal roads, buildings like site office, canteen and coastal approach road are in various stage of completion. Action for balance land development by dredging & reclamation, construction of township and selection of technology licensors for process units and Project Management Consultant (PMC) for the project are in progress. The first phase of the project, namely the installation of Single Point Mooring (SPM) system and Crude Oil Terminal alongwith Paradip-Haldia Crude Oil Pipeline is under implementation and is anticipated to be completed by July, 2006. **Bhatinda Refinery Project of HPCL** In view of the changes in the supply/demand scenario and more stringent requirement in

				product specification the configuration of the Punjab Refinery Project has been reviewed and consequently the cost estimates have been updated. The financial tie up for the project is under way and is likely to be achieved by September 2006. Accordingly, the project is likely to be completed in early 2010-2011. **<u>Bina Refinery-Project of BPCL</u>** Project management Consultants have been appointed and process Licensors for major units finalized. While the process design work for the process units are in progress, the detailed engineering and procurement activities for Crude/Vacuum Distillation unit has been taken off. Works for site developmental activities, viz, site grading, boundary wall, roads, drains & culverts and other infrastructure facilities, viz, site office, accommodation, warehouse have been awarded and activities commenced. The project is scheduled for completion by December,2009. **<u>Lohagara (U.P.) Refinery Project of BPCL</u>** The Ministry would take up a pragmatic evaluation of U.P. Refinery Project and a decision would be taken accordingly for its implementation after Bina Refinery is commissioned.

4.	10.	The Committee had reasoned that there should be minimum increase in fuel and non-fuel cost to lessen the burden on common man. The subsidy on domestic LPG and PDS kerosene should continue.	Accepted. The following measures have been taken to lessen the burden of price rise on common man- - Excise duty on domestic LPG has been reduced from 16% to 8% w.e.f. 16.6.04. - Customs duty on domestic LPG and PDS kerosene has been reduced from 10% to 5% w.e.f. 19.8.2004. - Excise duty on kerosene has been reduced from 16% to 12% w.e.f. 19.8.04. Consumer price of domestic LPG and PDS kerosene have not been increased after 1.3.02 despite increase in international prices, except for Rs. 20/ cylinder increase in retail selling price of domestic LPG w.e.f. 16.6.04.	The Government has accepted the following recommendations of Dr. Rangarajan Committee Report: (i) Implementation of principle of trade parity with reduction in customs duty on petrol & diesel from 10% to 7.5 %. (ii) Permitting autonomous adjustment in prices of sensitive petroleum products by Oil Marketing Companies (OMCs) without prior consultation with the Government once very month. (iii) Restricting 'in principle' subsidy on PDS Kerosene of BPL families only.
5.	13.	The Committee had recommended that a fixed/specific duty should be levied on each petroleum product instead of ad valorem duty. Sales tax levied by States should also be specific instead of valorem.	Accepted. The Government has reduced customs duty on PDS kerosene and domestic LPG from 10% to 5% w.e.f. 19.8.2004. MOPNG has requested State Governments to reduce/maintain sales tax rates on petrol and diesel at earlier agreed levels i.e. 12% on diesel and 20% on petrol. MOPNG has taken up the issue to replace ad valorem sales tax rates with specific rates.	

6.	17.	The Committee had recommended that the Government should expedite the work on the project relating to setting up of strategic storage of crude oil.	Accepted. The recommendation of the Committee has been noted and necessary action to finalise the details in this regard are being undertaken.	**Strategic storage of crude oil** Government has approved setting up a 5 MMT strategic reserve, being the core critical sovereign reserve, estimated to cost about Rs 11,267 crore. The capital cost of the three storages is estimated to be around Rs. 2,397 crore i.e. Mangalore : Rs. 732 crore, Vizag: Rs. 672 crore and location near Mangalore: Rs.993 crore. The cost of filling up crude is estimated to be Rs. 8,870 crore assuming $ 55 per bbl average cost of Indian basket and exchange rate of 1 US$=Rs.44. The funding will be through utilization of existing legal and fiscal measures. The capital cost which will be required during the first 5 years would be met from the existing funds available with OIDB. The filling of crude oil would commence after completion of the strategic crude oil storages in about 6 years time from now and will continue over three years. The cost of filling up the storage would be made available from the existing OIDB cess collection. The Special Purpose Vehicle, namely, Indian Strategic Petroleum Reserve Limited (ISPRL) which is presently a subsidiary of Indian Oil Corporation Limited

				(IOCL), will be made a subsidiary of Oil Industry Development Board for implementation and management of strategic crude oil storages by way of transfer of the ISPRL equity held by IOC to OIDB. The construction of strategic crude oil storage is expected to commence in July 2007 and the filling of crude oil is expected to start four years later. OIDB is moving ahead with the implementation of the project.
7.	18	The Committee had wanted the Government to vigorously pursue the issues of shortage of ethanol for blending with petrol delay in grant of transport permits with State Government and to take urgent steps to cover the entire country with 5% ethanol blended petrol by end of 2004-05.	Covering of entire country with 5% ethanol blended petrol by the end of 2004-05 does not appear to be feasible due to reasons given below: Shortage of molasses which is raw material for production of ethanol has affected the scheme of blending ethanol with petrol. The shortage is expected to continue in the coming sugarcane crushing season also. Due to non-availability of sufficient ethanol, covering the entire country with 5% ethanol blended petrol by the end of 2004-05 does not appear to be feasible.	In line with the Gazette Notification dated 27/10/2004, Oil Companies have finalized contracts for procurement of ethanol for the notified States of Uttar Pradesh, Punjab, Uttaranchal, Karnataka, Tamil Nadu (9 districts), Andhra Pradesh (partially) & Maharashtra(partially) and have also started releasing Ethanol Blended Petrol (EBP) to the market in these States. The ethanol procurement contracts ere not finalized for remaining notified States of Gujarat, Goa and Union Territories of Chandigarh, Dadra and Nagar haveli & Daman Diu as the rates offered by the parties were not in line with the Gazette Notification dated 27/10/04 rates finalized for other States. As regards Haryana, the EBP programme has been withdrawn due to imposition of additional

				tax in the form of Import fee of Rs. 2000/KL plus permit fee of Rs. 3000/KL on ethanol by the State Excise Deptt., Haryana. As regards the issue of granting of export permit by the State Govt., the matter has been taken up with the Chief Secretary, Govt. of Maharashtra at Secretary (P&NG)'s level. Further, Minister (P&NG) has impressed upon the Chief Ministers of all the concerned State Govts. requesting them not to put any restrictions on industries relating to production/manufacturer/storage/transportation/distribution/sale of ethanol meant for doping in petrol so that EBP programme is not jeopardized. MOP&NG envisages to cover the whole country under 5 % EBP in the next phase after the programme stablises in the notified States/UTs (Copy enclosed at Appendix)
8.	19	The Committee had recommended that the Government should urgently complete the trials of bio-diesel blended diesel programme and launch the same in various parts of country on large scale subject to satisfactory outcome of trials.	Launching of country wide bio-diesel programme not considered feasible at this stage because of the following reasons: The price of bio-diesel obtained through tender is 3-4 times more than price of petroleum diesel. Although trials have resulted in reduction of smoke and have not caused any operational problem in buses, till the price of bio-diesel becomes competitive, launching of bio-diesel programme in various	MOP&NG has formulated a bio-diesel purchase policy in October 2005, effective 1.1.2006. This policy is a statement of intent on purchase of bio-diesel by the oil marketing companies. This policy, inter-alia, identifies 20 purchase centres of the public Sector Oil Marketing Companies (OMCs) all over the country. Where these companies would purchase bio-diesel which meets the standards prescribed by the Bureau of Indian

			parts of India on large scale would not be feasible.	Standards (BIS), from those bio-diesel manufacturers, who register with them after satisfying the technical specification, at a delivered price of Rs. 25/- per litre. As of now, this price is considered viable up to 30/6/2006 and the OMCs will review it thereafter.
9.	20	The Committee had wanted the Government to encourage the coal gasification process as alternative energy development and pursue the project in consultation with Planning Commission and Ministry of Power and Deptt. of Fertilizer.	Accepted In order to meet the gap between demand and supply of natural gas, GAIL, as one of the measures, has been examining the issue of exploiting synthesis gas (Syngas) recoverable from coals especially in eastern sector. Syngas is a mixture of carbon monoxide and hydrogen which can be commercially used for power generation, fertilizer, hydrogen and methanol production. Based on preliminary discussions with M/s.Shell who are one of the pioneer in field of coal gasification, a Detailed Feasibility Report (DFR) is being prepared. For finalisation of location of plant and coal availability, an MOU between GAIL and Coal India Ltd. has been initiated and CIL is awaiting its Board's approval. Further action including consultation with Ministry of Power, Deptt. of Fertilizers and Deptt. of Chemicals and Petrochemicals would be taken up depending upon DFR.	The first phases of the contract suggest examination of the data/information of coal deposits leading to site selection. ONGC signed MOUs with Gujarat Mineral Development Corporation Limited (GMDC), Neyveli Lignite Corporation Limited (NLC), Gujarat Industries Power Company Limited (GIPCL), Coal India Limited (CIL) and the Singareni Collieries Company Limited (SCCL) for co-operation in the area of UCG. The relevant coal data from fifteen different possible sites in India in the states of Maharashtra, West Bengal, Jharkhand, Andhra Pradesh, Gujarat, Rajasthan and Tamil Nadu had been sent to Skochinsky Institute of Mining (SIM) Russia for analysis. Out of the fifteen sites, only eleven sites were studied. Out of eleven sites studied, five were found not suitable for UCG, five sites require additional data generation for further analysis and one site

				namely Vastan Mine block belonging to GIPCL in Surat district, Gujarat has been found most suitable for UCG. Studies in Five sites namely Kasta (West Bengal), Lapanga and part of Lapanga extension block (Jharkhand), Manugunj (Andhra Pradesh), G-19 block extension (Gujarat), and Barka-Bothia (Rajasthan) are inconclusive due to requirement of additional data. For these sites, follow up action with the companies for generation of additional data is under way. In the Vastan site, further data generation for the design and execution of UCG pilot experimentation is in progress. GAIL has entered into an MoC with Government of Rajasthan for jointly evaluating Insitu Lignite Gasification Project in Barmer, Rajasthan. GAIL has signed an MOU with M/s Ergo Energy Technologies Inc., Canada for the Insitu Lignite Gasification Technology. Site selection and pre-feasibility stage of the project in Rajasthan is in progress. A feasibility report has been prepared by GAIL for surface coal gasification Project in Orissa.
10.	22.	The Committee had wanted	Accepted	Supply of CNG in cities

		that the CNG system should be extended to cities in the eastern region of the country such as Kolkata, Patna, Bhubneswar and Ranchi. There should be no time overrun in implementing these projects owing to lack of funds.	in principle, subject to availability of natural gas. Supply of CNG in cities requires the following facilities - Source of natural gas supply usually through trunk pipeline - Natural gas distribution network in city - CNG dispensing station comprising basic facilities access to gas distribution network, CNG compressors, cascades and dispensers. There is no natural gas pipeline in the eastern states of WB, Bihar, Orissa and Jharkhand. The nearest source of gas supply is GAIL's Jagdishpur terminal which is about 800 km. from Kolkata. CNG projects in these cities will only be taken up when source of gas supply is identified and it is found feasible to lay pipelines to supply gas for CNG projects. Funds are no constraints.	requires the following facilities:- - sources of natural gas supply usually through trunk pipeline - natural gas distribution network in city. - CNG dispensing station comprising basic facilities access to gas distribution network, CNG compressors, cascades and dispensers. There is no natural gas pipeline in the eastern states of WB, Bihar Orissa and Jharkhand. The nearest source of gas supply is GAIL's Jagdishpur terminal which is about 800 km. from Kolkata. CNG projects in these cities will only be taken up when source of gas supply is identified and it is found feasible to lay pipelines to supply gas for CNG projects. In addition to above, GAIL has planned to carry out the market survey and demand assessment for preparation of Detailed Feasibility Report (DFR) to implement City gas project in Kolkata. Further GAIL is in discussions with IOCL to form a JVC for West Bengal state for implementation of city gas projects in the state.
11.	25.	The activities for National Gas Hydrate Programme (NGHP) should be followed as per road-map. More emphasis should be given to R&D activities, scientists	Accepted At present, all activities under NGHP and its projects are being implemented as	At present all activities under NGHP are being implemented as per NGHP roadmap. Till date, since its

		possessing adequate expertise should be appointed and extra financial benefits besides commendation certificates should be given to them on achieving significant breakthroughs.	per NGHP road-map. Scientists engaged in NGHP are highly experienced, possess adequate expertise in oil and gas exploration/production and have good exposure to gas hydrate related scientific activities. As recommended by the Committee, MOP&NG would consider reward in terms of financial benefits for scientists achieving significant breakthrough.	inception, a larger number of seismic data covering entire offshore areas of the country has been studied including special processing of larger data for identification of gas hydrate signatures. Based on these studies, three areas in KG Basin, Andaman sea and west coast were identified for further scientific investigations. A road map was also prepared for NGHP. As per the road map, detailed geo-scientific investigations were carried out in the Krishna-Godavari (KG) Basin and Kerala-Konkan (KK) basin by NGHP through National Institute of Oceanography (NIO). Based on the results of seismic data studies and geo-scientific investigations, ten sites in Mahanadi, KG & KK basins and Andaman sea have been identified for drilling/coring of gas hydrates in the deepwaters. The drilling/coring for gas hydrates is a very specialized activity and India is the third country in the world to do so, after USA and Japan. Under an agreement between DGH and US consortium, the Research Vessel "JOIDES Resolution" which is the only of its kind in the world, started operations in Indian Offshore areas on 5th May 2006. The coring in offshore Goa in the west coast has

				been completed and now 'JOIDES' is operating in the Krishna-Godavari & Mahanadi basins on the east coast. The present operation of about 115 days is likely to be completed by mid August 2006. After obtaining the gas hydrate cores, several scientific studies will be carried out onboard the ship and also in several laboratories in India, USA and Canada for which separate agreements are being signed by DGH and corresponding agencies. A specialized core repository is also being constructed in Panvel, Mumbai for storing all the valuable gas hydrate cores for future studies.

MURLI DEORA

MINISTER
PETROLEUM & NATURAL GAS
GOVERNMENT OF INDIA
NEW DELHI-110001

D.O.No. P-32017/2/2006-CC 31May, 2006

Dear

I wish to draw your kind attention to the Central Government's initiative of facilitating marketing of ethanol-blended petrol (EBP) in the country by the oil marketing companies and seek your active cooperation for successful implementation of the programme. The development of an alternative renewable fuel would be useful from various perspectives at this juncture.

To recapitulate, vide Gazette Notification [GSR 618(E)] of 3.9.2002, this Ministry allowed the doping of Petrol with a specified quantity of anhydrous Ethanol for supply in specified States/areas. This policy was adopted by the government to give a boost to the agriculture sector, reduce environmental pollution and also progressively reduce dependence on imported fossil fuel. However, the programme faced problems on account of high prices of ethanol and its erratic supply. The Ministry has issued a fresh notification on 27.10.2004, providing that 5% EBP, meeting BIS standards, shall be sole in 10 notified states and 3 Uts if the price of souring indigenous ethanol is comparable to the price of indigenous ethanol for alternative uses and the delivery price of the ethanol at that location is comparable to the import parity price of petrol at the same location and the indigenous ethanol industry is able to maintain the availability of ethanol for EBP at such prices.

I wish to reiterate the commitment of the Central Government to the programme. The Government is moving towards giving EBP programme a national character. It is planned to extend the 5% EBP programme, throughout India, and also increase the blending of anhydrous ethanol to 10% in the next phase. You would appreciate that for successful implementation of the Central Government's policy, it is essential to ensure uninterrupted and assured supply to ethanol, through removal of obstacles in its free interstate movement. This has assumed particular significance in view of the spiraling prices of crude oil in the international market.

The Ministry has been informed by the oil companies as well as ethanol suppliers that some State Governments levy high rates of taxes on ethanol besides levy of import and export 'pass fee' which hamper interstate movement of ethanol making its cost prohibitive. Some states have reportedly imposed restriction on supply of ethanol for the EBP programme, which adversely affects its smooth implementation.

Contd…..2/-

The legal position has been examined in consultation with the Law Ministry. Ethanol, a denatured anhydrous alcohol, falls within the domain/jurisdiction of the Central Government in terms of Entry-52 list of the Constitution of India. The list of such industries has been declared and incorporated in the first schedule of the IDR Act. Entry 26, therein, relates to "Fermentation industries (i) alcohol (ii) other products of fermentation industries". Clearly, the levy of taxes/export/import pass fees levied by the State Governments on rectified spirit for industrial use is without jurisdiction. This position has been confirmed by the Hon'ble Supreme Court of India, in the case of Bihar Distillery & another V/s. Union of India (1997 (2) Supreme Court Cases 727) and Synthetics and Chemicals Ltd. V/s. State of Up (1990(1) Supreme Court Cases 109). The gist of the Hon'ble Court's ruling is enclosed.

Unfortunately, despite the clear legal position that ethanol falls within the domain of the Central Government, some State Governments, contrary to the Central Government's policy of blending petrol with ethanol,have imposed restrictions on its supply and have also levied various taxes, thereby hampering implementation of this critically needed programme. We, in the Ministry of Petroleum & Natural Gas are seriously concerned about the issue and request the State Governments to extend their immediate and whole hearted cooperation in implementing the EBP programme by:

a) not putting any procedural restrictions on the industrial alcohol/ethanol-its production, sale and distribution meant for blending with petrol.

b) not levying any imposts-excise, entry tax, export or import fee or any other kind of levy which does not fall within the jurisdiction of the State Governments on ethanol meant for blending with petrol.

c) creating a transparent unambiguous and well defined mechanism against the possibility of evasion of excise duty and misuse of diversion of rectified spirit meant for ethanol blending in petrol for portable purposes. Such a mechanism should not however pose any implement in the production, sale and distribution of ethanol for blending in petrol.

I shall be grateful, if the action taken in the matter by the State Government is communicated to us accordingly early.

With regards,

Yours sincerely

Sd/-

(MURLI DEORA)

SHRI VILASRAO DESHMUKH
Chief Minister of Maharashtra
Mumbai

Recommendation Sl. No. 15 (Para No. 3.15)

In regard to the status of implementation of the recommendations contained in the Fifth Report (14th Lok Sabha) of the Committee on Demands for Grants (2005-06) of the Ministry of Petroleum & Natural Gas, it is observed that out of the 26 recommendation made in this Report, 24 recommendations have been accepted and 2 recommendations not accepted by the Government as per the Statement of the then Hon'ble Minister of Petroleum & Natural Gas and Panchayati Raj laid in the Lok Sabha on 22.12.2005 under Direction 73-A of the Directions by the Speaker. The two recommendations that have not been accepted relate to setting up of a Price Stabilisation Fund and revival of Anti-Adulteration Cell.

The Committee observe that 8 out of 26 recommendations contained in the Fifth Report have been fully/substantially implemented by the Government, while 2 recommendations relating to setting up of a Price Stabilisation Fund and revival of the Anti-Adulteration Cell have not been implemented. The Committee desire the Government to seriously evaluate the merits of these 2 recommendations and take necessary action for their implementation.

The Committee further observe that the remaining 16 recommendations contained in the Fifth Report are in the process of being implemented on which the Government has taken some measures in the direction of their implementation. These recommendations relate to Integrated Energy Policy, setting up of strategic storage facility, coal gasification projects, Dahej-Uran Pipeline Project, development of National Gas Grid, implementation of new refinery projects, restructuring of excise duty on petroleum products, revenues from petroleum sector, transitional gas pipelines, setting up of LNG terminals, hydrogen fuel cell technology, promoting bio-diesel & Jatropha plantation, ethanol-blended petrol programme, development of alternative sources of hydrocarbons like CBM & Gas Hydrates, coal liquefaction programme by OIL and grant of excise duty concession of BRPL. They desire the Government to make further efforts to ensure the early implementation of these recommendations.

Reply of the Government

A Statement showing the latest status of implementation of the recommendations is given in **Annexure**

(Ministry of Petroleum and Natural Gas
OM No. G 25015/4/2006 Fin I dated 14.8.2006)

Annexure

STATEMENT CONTAINING THE GIST OF OPERATIONAL PORTION OF THE RECOMMENDATIONS, POSITION INDICATED IN MINISTER'S STATEMENT AND THE LATEST STATUS OF IMPLEMENTATION OF RECOMMENDATIONS CONTAINED IN THE FIFTH REPORT OF THE COMMITTEE ON DEMANDS FOR GRANTS (2005-06) OF MINISTRY OF PETROLEUM & NATURAL GAS

S. No.	Reccomendation of the Fifth Report.	Gist of operational portion of the recommendation	Position as indicated in Minister's Statement	Latest status of implementation of the Reccomendation
1.	1.	The Committee had desired that the Government should formulate an Integrated Energy Policy at the earliest.	Accepted Energy security is a holistic concept, with both supply side and demand side management. Government has recently constituted an Energy Coordination Committee (ECC) to enable a systematic approach to policy formulation, promote coordination in inter-Departmental action and function as a key mechanism for providing institutional support to decision making in the area of energy planning and security. The Committee will be Serviced by the Prime Minister's Office and the Energy Division of the Planning Commission will facilitate any policy analysis required by the Committee.	The Energy Coordination Committee under Chairmanship of Prime Minister has held six meetings so far and have inter-alia discussed issues relating to power, coal and petroleum & natural gas sector. Separately, an Expert Committee under Chairmanship of Dr. Kirit Parikh, Member, Planning Commission had been constituted to work on an integrated energy policy. Planning Commission has informed that a draft report has been placed on the website of Planning Commission for public discussion on the subject. The Report of the Expert Committee has not yet been finalized.
2.	5.	The Committee had recommended that the Government should expedite the process of preparation of bid documents, tendering, awarding of contracts for	Accepted Government has taken a decision to build Strategic Crude Oil Reserve of 5 MMT at 3 locations.	**Strategic storage of crude oil** Government has approved setting up a 5 MMT strategic reserve, being the core critical

		detailed engineering and construction of the strategic storage for crude oil and petroleum products in the stipulated time. The Committee had also desired to be apprised of the progress made in this regard.	The Expenditure Finance Committee (EFC) considered the project proposal in its meeting held on 10.11.2005 and has recommended the proposal for the consideration of Cabinet Committee on Economic Affairs (CCEA).	sovereign reserve, estimated to cost about Rs 11,267 crore. The capital cost of the three storages is estimated to be around Rs.2,397 crore i.e. Mangalore : Rs.732crore, Vizag: Rs.672 crore and location near Mangalore: Rs.993 crore. The cost of filling up crude is estimated to be Rs. 8,870 crore assuming $ 55 per bbl average cost of Indian basket and exchange rate of 1US$=Rs.44. The funding will be through utilization of existing legal and fiscal measures. The capital cost which will be required during the first 5 years would be met from the existing funds available with OIDB. The filling of crude oil would commence after completion of the strategic crude oil storages in about 6 years time from now and will continue over three years. The cost of filling up the storage would be made available from the existing OIDB cess collection. The Special Purpose Vehicle, namely, Indian Strategic Petroleum Reserve Limited (ISPRL) which is presently a subsidiary of Indian Oil Corporation Limited (IOCL), will be made a subsidiary of Oil Industry Development Board for implementation and management of strategic crude oil storages by way of transfer of the ISPRL equity held by IOC to OIDB. The construction of

				strategic crude oil storage is expected to commence in July 2007 and the filling of crude oil is expected to start four years later. OIDB is moving ahead with the implementation of the project.
3.	6.	The Committee had recommended that efforts in harnessing the vast unexplored coal reserves and converting the same to a combustible gas should be intensified. They had also desired that a road map be prepared for completion of each activity relating to the ONGC's pilot project on Underground Coal Gasification. The Committee had also desired to be apprised of the progress made on GAIL's Coal Gasification Project.	Accepted ONGC has entered in an MOU with Skochinsky Institute of mining (SIM) – Russia for execution of the pilot project on underground Coal gasification project which is expected to be completed in 60 months time. GAIL is also keen on setting up a Coal Gasification project in eastern India with the help of M/s Shell. A detailed feasibility report is in the process of being prepared.	ONGC has signed an A.O.C.(Agreement of Collaboration) with Skochinsky Institute of Mining(SIM), russia for implementation of UCG in shallow coal/lignite seams in India on 25/11/2004. As a follow up, Ist stage contract was signed on 13/12/2004. As stipulated in the MOU(AOC), there are six phases. The first phase of the contract suggests examination of the data/information of coal deposits leading to site selection. The relevant coal data from fifteen different possible sites in India in the states of Maharashtra, West Bengal, Jharkhand, Andhra Pradesh, Gujarat, Rajasthan and Tamil Nadu had been sent to SIM, Russia for analysis. Out of the fifteen sites, only eleven sites were studied. Out of eleven sites studied, five were found not suitable for UCG, five sites require additional data generation for further analysis and one site namely Vastan Mine block belonging to GIPCL in Surat district, Gujarat has been found

				most suitable for UCG. Studies in Five sites namely Kasta (West Bengal), Lapanga and part of Lapanga extension block (Jharkhand), Manugunj (Andhra Pradesh), G-19 block extention (Gujarat), and Barka-Bothia(Rajasthan) are inconclusive due to requirement of additional data for these sites, follow up action with the companies for generation of additional data is under way. In the Vastan site, further data generation for the design and execution of UCG pilot experimentation is in progress.
4.	7.	The Committee had desired that a high level fact finding team should be appointed by the Ministry to look into the matter pertaining to the Dahej Uran Pipeline Project and its report be submitted to the Committee within a fortnight from the presentation of this Report. The Committee had also desired the Ministry to apprise them of the number of tenders invited/finalised by GAIL, specifying only LSAW pipes, after the findings of the CHT came to the knowledge of the Government and the financial loss caused as a result thereof. They had also desired that GAIL should expedite the decision in the matter and issue fresh tenders facilitating wider participation of bidders.	Accepted No tender has been invited by GAIl, specifying only LSAW pipes, after the findings of the CHT GAIL has been advised to ensure wider participation of bidders in their tenders. GAIL has been asked to finalise the revised schedule of project taking into consideration the source tie-up and the actual date of award of job.	On the recommendations of the Standing Committee a high Level Fact Finding Committee was formed to look into the matter. The issue of using LSAW or HSAW type of pipes has been finally settled with the issuance of Presidential Directive dated 28.10.2004 which stipulates that no technological restrictions of pipe manufacturing should be included in the pipeline procurement tenders and that task specifications should be prescribed. This communication was also sent to all other oil sector PSUs for taking necessary action. This decision of the Government has been fully corroborated by the Expert Committee in its report. A copy of the report has been sent to GAIL and EIL for future guidance. As regards,

				DUPL project, GAIL has already implemented the Presidential Directive and invited bids for both type of pipes and is in the process of implementing the project. GAIL has already awarded the project for implementation of 474 Kms to M/s PSL Holdings and M/s Man Industries. GAIL has reported that the project is likely to be completed by end of March, 2007.
5.	8.	The Committee had recommended that the Government should develop a National Gas Grid on the line of Power Grid, under Government control, to ensure regional balance keeping in view the uneven availability of gas in various regions of the country.	Accepted India is in the initial stage of the development of gas markets. With the increase in availability of gas from various sources, various pipeline projects have been planned for implementation in due course synchronising with the availability of gas. Government is finalizing a Natural Gas Pipeline Policy which envisages progressive development of a nation-wide gas grid in a competitive environment, involving both the public sector and the private sector, under the overview of a Regulator.	A Draft Pipeline Policy is under formulation to facilitate the establishment of an efficient gas grid with open access for all players on a non-discriminatory basis, encouraging investment in the gas pipelines including city or local distribution networks, promoting competition among entities thereby avoiding any abuse of the dominant position by any entity, and securing the consumer interest in terms of gas availability and reasonable tariff for transmission pipelines and city or local natural gas distribution networks. GAIL has completed the Dahej – Vijaipur Pipeline and presently evacuating Regasified Liquified Natural Gas(RLNG) from PLL Dahej – Uran pipeline and vijaipur – Kota pipeline are under execution. Thulendi-Phulpu Pipeline, Jagoti-Pithampur Pipeline, Kelaras-Malanpur Pipeline projects are also under implementation.

				Reliance Gas Pipelines Limited a subsidiary company of Reliance Industries Limited intends laying gas pipelines viz. Kakinada-Hyderabad-Uran-Ahmedabad-Jamnagar-Bhopal, Goa-Hyderabad.
6.	9.	The Committee had expressed their displeasure over the delay caused in implementation of refineries at Paradip in Orissa by IOC, at Bhatinda in Punjab by HPCL and at Bina in Madhya Pradesh by BPCL. Early completion of these projects was desired by them.	Accepted A Memorandum of Understanding (MoU) has been signed between Government of Orissa & Indian Oil Corporation Limited on 16.2.2004 regarding package of tax incentives for Paradip Refinery Project and it is scheduled to be completed by end 2009. HPCL has now been able to sign a Deed of Assurance (DOA) with Government of Punjab on grant of various incentives for setting up refinery at Bhatinda. Delay in the receipt of the DOA has adversely affected implementation of the project. The refinery is expected to be commissioned in 2009. Memorandum of Understanding between Government of Madhya Pradesh and Bharat Oman Refineries Limited (BORL) was signed on 6.5.2005, for grant of certain concessions for the project. This Ministry has asked BORL to take up implementation of the project immediately.	**<u>Paradip Refinery Project of Indian Oil Corporation Limited:</u>** The capacity of Paradip Refinery has been increased to 15 MMTPA from 9 MMTPA as envisaged earlier. Further, integration with petrochemicals for production of Paraxylene, Polypropylene and Styrene, etc. has also been envisaged. Considering the complexity of the refinery project as configured now, and the multifold increase in the investment as well as quantum of work together with current delivery schedules of major equipment and materials, this refinery and petrochemicals project is expected to take approx. 61 months for mechanical completion from the date of in principle approval, accorded on 25.3.2006. Construction of boundary wall, internal roads, buildings like site office, canteen and coastal approach road are in various stage of completion. Action for balance land development by dredging & reclamation, construction of township and selection of technology licensors for

				process units and Project Management Consultant (PMC) for the project are in progress. The first phase of the project, namely the installation of Single Point Mooring (SPM) system and Crude Oil Terminal alongwith Paradip-Haldia Crude Oil Pipeline is under implementation and is anticipated to be completed by July, 2006. **Bhatinda Refinery Project of HPCL** In view of the changes in the supply/demand scenario and more stringent requirement in product specification the configuration of the Punjab Refinery Project has been reviewed and consequently the cost estimates have been updated. The financial tie up for the project is under way and is likely to be achieved by September, 2006. Accordingly, the project is likely to be completed in early 2010-2011. **Bina Refinery-Project of BPCL** Project Management Consultants have been appointed and process Licensors for major units finalized. While the process design work for the process units are in progress, the detailed engineering and procurement activities for Crude/Vacuum distillation unit has been taken off. Works for site developmental activities, viz, site grading,

				boundary wall, roads, drains & culverts and other infrastructure facilities, viz, site office, accommodation, warehouse have been awarded and activities commenced. The project is scheduled for completion by December, 2009.
7.	12.	The Committee had recommended that excise duties on petroleum products should be so structured that the additional revenue of Rs. 3000 crore is neutralised so that the Budget Statement of revenue neutrality is adhered to in letter and spirit.	Accepted Ministry of Finance has been requested to examine the issue of restructuring/rationalizing of duty structure.	The Government has accepted the following recommendations of Dr. Rangarajan Committee Report: (i) Implementation of principle of trade parity with reduction in customs duty on petrol & diesel from 10% to 7.5%. (ii) Permitting autonomous adjustment in prices of sensitive petroleum products by Oil Marketing Companies (OMCs) without prior consultation with the Government once every month. (iii) Restricting 'in principle' subsidy on PDS Kerosene to BPL families only.
8.	13.	The Committee had urged the Government to exercise restraint and apply the policy of prudence in taking revenues from a strategic sector like hydrocarbons.	Accepted The recommendation of the Committee has been taken up with the Ministry of Finance.	No further Comments.

9.	16.	The Committee had desired to be apprised of the progress made in setting up of the following transnational pipelines for import of natural gas:- 1. Iran-India gas pipeline 2. Myanmar-Bangladesh India Gas pipeline 3. Turkmenistan Afghanistan Pakistan pipeline. The Committee had emphasised that the security concern about gas pipelines across the borders have to be carefully considered in our energy strategy and desired that adequate precautions through sophisticated monitoring and state of the art maintenance system have to be taken to ward off any supply disruption.	Accepted The present status in respect of three pipelines to import natural gas is as under: **<u>Iran-India gas pipeline</u>** This is an onland gas pipeline from Iran to India passing through Pakistan. A high level delegation led by Minister (P&NG) visited Pakistan during 4-8 June, 2005 to discuss the project with Pakistan. For purpose of security, stability of supplies it is proposed to have a separate back-to-back agreements between Iran and India for delivery of gas by pipeline to our agreed point on India-Pakistan border. There would be strict 'supply or pay' and 'take or pay' clause in the agreement. Appropriate steps would be taken to meet the eventuality of temporary disruption of supplies. **<u>Myanmar-Bangladesh-India Gas pipeline</u>** The project is being pursued trilaterally among Government of Bangladesh, Myanmar and India. A trilateral meeting was held on 12.1.2005. After meeting the three sides agreed to transport natural gas from Myanmar to India by pipeline, the route of which is to be decided among three Governments with mutual consent. However, there are certain bilateral issues which Bangladesh want a mention in the Trilateral MOU proposed to be signed. Bangladesh	**<u>Iran-Pakistan-India (IPI) Pipeline Project</u>** India has been pursuing the import of natural gas from Iran through the Iran-Pakistan-India transnational gas pipeline. For this purpose, two sets of separate Secretary-level bilateral Joint Working Groups (JWGs) have been set up with Pakistan and Iran. So far, three meetings each of these JWGs have been held, in which various technical, commercial, financial, legal and other project related issues have been discussed. The discussions are continuing. Ministerial level bi-lateral meeting between India and Pakistan was held at New Delhi on 17th Feb 2006. First tripartite JWG meeting between Iran, Pakistan and India was held on 14th & 15th March 2006, to address the main points, viz., project structure, gas pricing and framework agreement. This was a Secretary level meeting and the Indian delegation was led by Secretary (P&NG). Second trilateral meeting of Iran-Pakistan-India was held on 22-24 May, 2006 at Islamabad. Third Trilateral meeting was held in New Delhi on 3-4 August, 2006. These issues are being further discussed for resolution. **<u>Myanmar-Bangladesh-India Gas Pipeline Project:</u>**

			is yet to respond in the matter. India is exploring the alternative option of import of natural gas from Myanmar other than a pipeline through Bangladesh. These include an onland pipeline through North Eastern states of India. The matter is being pursued vigorously. **Turkmenistan-Afghanistan-Pakistan Pipeline(TAP)** Daulatabad area of Turkmenistan has reported sufficient gas reserves. Governments of Turkmenistan-Afghanistan-Pakistan proposed the transnational gas pipeline to exploit the available gas reserves. They have designated ADB as lead development partner. ADB has approached India for participating in project. TAP pipeline project is being explored vigorously for India's energy security.	In January 2005, Minister (P&NG) participated in a trilateral Ministerial meeting between the Oil Ministers of Bangladesh, Myanmar and India. In pursuance of the trilateral Joint Press Statement released after that meeting, a Techno-Commercial Working Committee (TCWC) of the representatives of the three countries was constituted. The first meeting of the TCWC was held in Yangon on 24th – 25th February, 2005. The TCWC prepared a draft MOU to be signed by the tree oil Ministers after the approval of their respective Governments. However, the approval of the MOU has been delyaed on account of differences between India and Bangladesh over one preambular paragraph in the draft MOU. The then (P&NG) visited Dhaka on 5th September, 2005 to discuss issues relating to the draft MOU. However, no further progress could be achieved. In view of the above, India is pursuing the option of a pipeline from Myanmar through North-Eastern States of India. GAIL has recently received the detailed feasibility report of the onland pipeline from Myanmar to India through North-Eastern Indian States, by passing Bangladesh territory. The matter is under discussion with

				Myanmar side. **<u>Turkmenistan-Afghanistan-Pakistan(TAP) pipeline</u>** The Governments of Turkmenistan, Afghanistan and Pakistan have been pursuing the Turkmenistan-Afghanistan-Pakistan(TAP) Project. ADB has been designated as the lead development partner for the project. An Indian delegation led by the Minister of State for Petroleum and Natural Gas visited Ashgbat, Turkmenistan on 14-15 February, 2006 to participate in the 9th Steering Committee Meeting of TAP project as on 'Observer'. The Steering Committee has invited India to become an official member of the project. Cabinet approved proposal of MOPNG for joining the TAP project in its meeting held on 18th May, 2006. MOPNG has written to Asian Development Bank (ADB) to appropriately take up India's request for joining the project with the Governments of Turkmenistan, Afghanistan and Pakistan.
10.	18	The Committee had recommended that the feasibility study for setting up an LNG terminal at Krishnapatnam, Andhra Pradesh by IOC and GAIL should be completed expeditiously and the outcome thereof be conveyed to them. The Committee had also recommended that the Government should carry	Accepted As a result of the study carried out by IOC, Ennore has been proposed as most suitable location for setting up LNG terminal instead of Krishnapatanam in AP. GAIL's feasibility study on setting up of LNG terminal at	GAIL has completed the Port Selection Study to assess the feasibility of setting up LNG terminals at Gopalpur, Orissa and Haldia, West Bengal. Gopalpur port has been found to be better option for setting-up the LNG terminal compared to Haldia as the additional cost towards port

		out similar studies to assess the feasibility of setting up of LNG terminals at Golpalpur, Orissa and Haldia, West Bengal.	Gopalpur/Haldia would be completed shortly.	construction at Gopalpur port is half compared to Haldia port. Due to major gas find in eastern coast and uncertainty over LNG sourcing, GAIL has no plans for the present to prepare Detailed Feasibility Report (DFR) for setting up LNG terminal on Gopalpur Port.
11.	21.	The Committee had recommended that the research projects for developing hydrogen fuel cell technology should be supported with all financial assistance so as to ensure that these projects are completed in a time bound manner.	Accepted IOC has framed a proposal to take up demonstration projects using hydrogen blended compressed natural gas CNG in vehicles. Further IOC, R&D is in preliminary dialogue with few vehicle manufacturers who have electric vehicles in their product range for converting them into fuel cell powered vehicles by integrating fuel cells.	A proposal for "Demonstration Project on Use of H2-CNG Blends in Automotive Vehicles in Delhi" has been submitted to CHT for funding from Hydrogen Corpus Fund. The Cost of this project is Rs. 17.6 Crores. The objective of this project is to conduct demonstration trial on buses and three wheelers running with optimized H2-CNG blended fuel in Delhi to study the workability of hydrogen in IC engine powred vehicles in commercial use with regard to performance, safety aspects and public awareness. For fueling the demo vehicles, an infrastructure will be created in Delhi, including setting up of a H2-CNG dispensing station, the hydrogen for this purpose will be sourced from GAIL, Pata. The methodology of the project is as follows: The project will be executed in 2 phases. Phase-1 will consist of mainly the development activities, such as, engine calibration for optimum H2-CNG blend and creating fueling facility for H2-CNG blend. Phase-1 will be

				taken up at IOC, R&D, Faridabad while Phase-II is meant for conducting full-scale durability trials at Delhi. However, action will be taken simultaneously for developing infrastructure for both the phases.
12.	22.	The Committee had recommended that the Government should explore all options to ensure availability of bio-diesel in large quantities before long. They had appreciated the initiative taken by the Indian Oil Corporation (IOC) to plant Jatropha saplings and had recommended that other PSUs/ organisations under the administrative control of the Ministry should take a cue from IOC and endeavour to contribute to Jatropha plantation.	Accepted Ministry of Rural Development has been made the nodal Ministry for a National mission on Bio-diesel which envisages large scale plantation of Jatropha in a phased manner. Detailed feasibility report prepared for the purpose is with Planning Commission for further scrutiny and approval. The role of oil companies and MOPNG has been recognised as one of extending blending and marketing support for lifting bio-diesel when it becomes available through Jatropha plantation. Ministry of Petroleum and Natural Gas has announced a bio-diesel purchase policy which would come into effect from 1st January, 2006.	HPCL has signed an MOU with GB Pant University of Agriculture and Technology(Uttaranchal) for Mass cultivation of high yielding varieties of Jatropha under standard agronomic conditions. About 10 lakhs Jatropha plants will be cultivated in the land/farms owned by GB Plant University. HPCL is carrying out feasibility study of cultivation of Jatropha plantations in the States of Rajasthan and chattisgarh. The study will cover the climatic conditions, site selection, Govt. policies, etc. This study is expected to be completed by September 2006. However, it may be noted that the OIL Marketing Companies (OMCs) are not in the business of growing Jatropha or Producing bio-diesel. Their role would be limited to facilitating procurement of bio-diesel of specified quality at identified purchase centres at economic viable prices for blending with diesel and selling the blend.
13.	23.	The Committee had recommended that the Government should direct the Oil Companies to cover the entire country with 5% ethanol blended petrol in a fixed time frame and sort out all related	Accepted The Govt. is committed to implementing the programme if ethanol is made available by sugar industry at reasonable prices and in adequate	In addition to the reply given for Recommendation No. GSR705 dated 27/10/2004. Public Sector Oil Marketing Companies (OMCs) invited tenders for

		issues such as supply, procurement, pricing etc. among the stake holders. They had also desired that all pending ethanol tenders should be processed in a time bound manner.	quantities on sustained basis. To ensure sustained supply of adequate ethanol and as a confidence building measure, a MOU was signed on 4th August, 2005 between Indian Sugar Mills Association (ISMA) and IOC in the capacity of industry coordinator for oil companies. The oil companies have invited tenders and, at present, tender negotiations have been completed in U.P., Pubjab, Tamil Nadu and 8 locations of Andhra Pradesh. When Ethanol suppliers are in a position of supply Ethanol of requisite quantity at reasonable economic prices for covering the entire country with 5% ethanol blended petrol, Govt. will have no difficulty in directing the oil companies to cover the entire country in a time bound manner.	purchase of ethanol and have till now finalized the contracts for one year requirement of ethanol in the States of U.P. (approx. 73 TKL), for Punjab (approx. 35 TKL), for Tamil Nadu (only 9 districts/approx. 19 TKL), for 8 Industry Locations in Andhra Pradesh (except 2 districts. Approx. 41 TKL) and for Karnataka (approx. 42 TKL). It has not been possible so far to implement the EBP programme in the remaining notified States/UTs on account of court cases and other administrative problems. Oil Companies are finalizing the ethanol procurement contracts through Public Tender on industry basis. Generally, contracts are finalized within 2 to 3 months from the date of publication in the newspapers. This includes mandatory 30 days for responding to the tender, and thereafter technical evaluation, inspection of manufacturing plants, opening of price bids and negotiations before finalization of the tender. This process is adopted in procurement of other items also. However, there has been some delay due to litigations and prolonged negotiations on account of quoting of high price, which was completely beyond the control of Oil Companies.
14.	24.	The Committee had desired that in the backdrop of ever increasing dependence on oil imports, the	Accepted In Coal Bed Methane (CBM) contracts duration of exploration phase	In Coal Bed methane (CBM) contracts duration of exploration phase (Phase-I) and pilot assessment, market

		development of alternative sources of hydrocarbons should be given due importance it deserves. A time bound aggressive strategy should be adopted for the exploration and development of alternative sources of hydrocarbons, especially CBM and Gas Hydrate. The Committee had also desired that the commercial production in some of the CBM blocks would start and the pilot studies for production of gas from Gas Hydrate would be completed by 2006-07 as targeted.	(Phase-I) and pilot assessment, market assessment and commitment phase (Phase IIA and IIB) varies from 2-3 and 3-4 years respectively in different blocks, after which development phase starts and commercial production begins. Phase-I activities are in progress in most of 16 blocks. 3 blocks have entered into Phase-II. Keeping in view the aggressive strategy adopted by oil companies the development phase/commercial production in some of CBM blocks is likely to start by 2007 as envisaged. The pilot studies for production of gas from hydrates were tentatively planned to be carried out during 2006-07 as per National Gas Hydrate Programme (NGHP) road map. However, it would entirely depend upon the present of commercial quantities of gas hydrates in Indian deepwater as well as break through in development of a commercially viable production technology in India or anywhere else in world.	survey and commitment phase (Phase IIA and IIB) varies from 2-3 and 3-4 years respectively in different blocks, after which development phase starts and commercial production begins. Phase-I activities are in progress in most of the 16 awarded blocks. Meanwhile, 5 blocks have entered into phase-II. Keeping in view the time frame and the work programme given in respective contracts for these blocks, commercial production in some of the CBM blocks is likely to start by 2007 as envisaged. As per the NGHP road map, drilling/coring/logging for gas hydrates sediments, which was originally planned for December 2004, got delayed due to non-availability of suitable services. It is now likely to be completed by October 2006. The Resource Estimation for gas hydrates in the drilled/cored areas, which was likely to be completed by mid-2008, depending on successful completion of drilling/coring, is now likely to be completed by mid-2007. Pilot test production, which was planned to be carried out during 2006-07, got delayed, as drilling/coring could not be completed. It is now likely to be carried out in 2008-09. It may be noted that the

				above activities are dependent on the successful completion of the previous activity.
15.	25.	Considering the vast coal reserves especially in the North-East Region and the growing need to develop alternative sources of energy, the Committee had desired that the Liquefaction feasibility study be expedited so as to enable OIL to finalise the most appropriate technology in converting coal to oil. The Committee had also desired to know the latest status of the initiative taken by Oil with the Coal India Limited (CIL) and Government of Meghalaya for assessment/availability of coal in K&J hill area.	Accepted In order to develop alternate sources of Energy and R&D project on conversion of low grade high sulphur coal and refinery vacuum residuum of North East Region to hydrocarbon was undertaken by Oil. It was found that coal conversion was 95% and liquid yield was 75%. However, due to constraints in getting refinery residuum with changed refinery process configuration Oil took up another study for Coal-Only-Processing in same plant with certain modifications. Test run was completed successfully and results were found encouraging. Presently OIL has initiated action to carry out another feasibility study on coal liquefaction processing using technology of M/s Hydrocarbon Technologies Inc. (HTO) of USA. Regarding availability of coal from K&J hills, it has been decided to form a Joint Task Force between OIL and CIL to study long-term availability of coal. OIL has also initiated discussions with State Govt. of Meghalaya as well as Coal Traders and Exporters to explore various avenues for availability of coal in Meghalaya.	In order to develop alternate source of energy, a R&D project on conversion of low grade high sulphur coal and refinery vacuum residuum of North East region to hydrocarbon was undertaken by Oil India Limited (OIL). In the year 1999, a Pilot plant was setup at Oil's R&D Centre at Duliajan, Assam under technical assistant from M/s. Axens, USA based on Coal-Oil Co-processing Technology of M/s. Hydrocarbon Research Inc. (HRI), USA. In this Pilot plant, studies on co-processing of coal and refinery residuum were successfully carried out. It was found that the coal conversion was 95% and liquid yield was 75%. Considering the constraint in getting refinery residuum with changed refinery process configuration, OIL took up another study for Coal-Only-Processing in the same plant with certain modifications to adopt CTSL (Catalytic Two Stage Liquefaction) technology with the help of M/s. Axens, NA, USA. Test run was successfully completed and result found to be very encouraging – coal conversion is 99% and liquid yield is 78%. Feasibility study report on such Coal-Only-Processing is also received from M/s. Axens.

				To study the long term availability of coal, a Joint Task Force between Coal India Ltd. and Oil India ltd. has been formed. The Joint Task Force is currently reviewing the availability of coal from North Eastern coalfields (NEC) of Coal India Ltd. (CIL)
16.	26.	The Committee had desired that the decision on grant of excise duty concessions to BRPL as per North-East Industrial Policy and setting up of a DHDT Project at BRPL site be taken expeditiously.	Accepted MOPNG has repeatedly recommended to MOF for grant of full excise duty benefit to BRPL's petrochemicals & PSF products as has been given to fibre industries located in North East. Response of MOF is awaited.	In respect of the excise duty, it is stated that in the Budget proposals of this Ministry, it was recommended for continuation of the excise duty concession at the rate of 50% to all North-East refineries, which had been maintained and continued for the year 2006-07.

CHAPTER III

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

NIL

CHAPTER IV

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

Recommendation No. 4 (Para No. 3.4)

The Indraprastha Gas Limited (IGL) has been supplying Piped Natural Gas (PNG) in Delhi. As on March 1,2006, 44465 domestic customers, 194 small commercial consumers and 40 large commercial consumers in Delhi have been connected to PNG. The Committee find that the supply of PNG in Delhi has been confined mostly to areas in and around South Delhi, while the areas in North, East and West Delhi have not been given due weightage, with only a few pockets in these areas being touched. The Committee would like to be apprised of the reasons for the uneven supply of PNG in the capital. Keeping in view its numerous advantages viz., uninterrupted supply, convenience, safety, lower maintenance cost, tamper-proof supply, etc., the Committee recommend that a comprehensive road-map should be prepared to cover the entire Capital with PNG within a period of five years.

Reply of the Government

As on March 31, 2006, Indraprastha Gas Limited (IGL) has connected 55,475 houses for Piped Natural Gas (PNG) supply. Out of these, 46727 houses are using the PNG supply. These 55,475 houses cover around 40 colonies and are spread all over Delhi. The zone-wise list is enclosed as Appendix-I

Apart from the coverage in South Delhi, where IGL is supplying PNG to 15205 houses, IGL has laid the infrastructure in the colonies of East Delhi, like Patparganj (6289), Mayur Vihar Phase-I (4818 houses), Mayur Vihar Phase-II (387 houses) and Vasundhra Enclave (1624 houses). In North Delhi, IGL have supplied PNG to 7275 houses in various sectors of Rohini. In Central Delhi, PNG is being supplied to 19352 houses, coverning colonies, like, Kaka Nagar, Bapa Nagar, Chankya Puri, Netaji Nagar, Sarojini Nagar, Kidwai Nagar and Kali Bari.

The work of expanding IGL's network in other parts of NCT of Delhi is a continuous process. In the current year, IGL is laying network in various colonies of West Delhi like Pitampura, Paschim Vihar, Vikas Puri, Dwarka and Naseer Pur, where they expect to have large number of users. The details are shown in Appendix-II.

The expansion of PNG infrastructure depends on many factors like availability of natural gas, permission of the land owning agencies and other statutory bodies for laying gas pipelines, technical feasibility and the terrain of the area, availability of space in the narrow lanes, response of the prospective Resident Welfare Associations (RWA), etc.

(Ministry of Petroleum and Natural Gas
OM No. G 25015/4/2006 Fin 1 dated 14.08.06)

Appendix-I

SPREAD OF PNG IN THE NCT OF DELHI- STATUS AS ON 31/03/2006

Zone	No. of Colonies	Connected Houses	Actual Users*
East	Patparganj Mayur Vihar Vasundhra Enclave	13118	11269
West	Pitampura	525	110
North	Rohini	7275	6784
South	Sarita Vihar Sukhdev Vihar Zakir Bagh Ishwar Nagar Kalindi Colony Friends Colony Maharani Bagh New Friends Colony Bharat Nagar Asian Games Village Gulmohar Park/ Enclave Neeti Bagh Andrews Ganj Mayfair Garden HUDCO Mohammad Pur R.K.Puram Vasant Kunj	15205	12426
Central	Kaka Nagar Bapa Nagar Pandara Road/Park Sujan Singh Park Nizamuddin (East/West) Sunder Nagar Golf Links Khan Market IIPA Aurangzeb Road Dr. B.D.Marg Baba Kharak Singh Marg Jangpura Pant Nagar Jor Bagh Sarojini Nagar Naroji Nagar Chankyapuri Kidwai Nagar (E&W)	19352	16138
Grand Total		55475	46727

*Number of actual users is less because even though a house is provided with a PNG connection, the house-owner takes his own time to use-up LPG cylinders before switching over to PNG.

Appendix-II

AREAS TARGETED IN WEST DELHI IN 2006-07	
Pitam Pura	3400
Paschim Vihar	3500
Vikas Puri	3000
Dwarka	4500
Naseerpur	600
GRAND TOTAL	15000

Comments of the Committee

(Please see para 13 of Chapter I of the Report)

Recommendation No.12 (Para No. 3.12)

The Oil Industry Development Board (OIDB) was set up in January, 1975 under the Oil Industry (Development) Act, 1974 to provide financial assistance for the development of the oil industry and funds are supposed to be made available to OIDB by the Central Government from the proceeds of cess levied and collected on indigenous crude to enable the organization to carry out various development activities. However, the Committee are unhappy to note that adequate amount from the proceeds of cess is not being made available to OIDB or the Ministry of Petroleum & Natural Gas. They have been informed that up to 31.3.2005, the Central Government has collected a sum of about Rs. 55,900 crore as cess out of which OIDB has received a paltry sum of about Rs. 902 crore only. The Committee have been expressing their concern over this disturbing trend through their Reports every now and then. In spite of their recommendations reiterated in the earlier Reports of the Committee, the situation has not been remedied which the Committee strongly disapprove of. They would like to be apprised of the amount collected as cess on crude by the Government during each of the last 5 years, the amount made available to OIDB during this period, various activities on which cess amount was utilized and the extent to which the Oil Industry benefited from such utilization. The Committee further observe that cess on crude per metric tonne has been enhanced to Rs. 2500/- from Rs. 1800/- through the Budget (2006-07). They would like to know the manner in which and the specific purposes for which the additional amount thus collected would be utilized by the Government.

Reply of the Government

The Cess is collected under the Oil Industry (Development) Act, 1974 and the proceeds of the Cess are credited to the Consolidated Fund of India and the Central Government (Ministry of Finance) with the approval of Parliament, pays to Oil Industry Development Board, from time to time, out of such proceeds. Out of the total Cess collected by Govt. of India, only an amount of Rs. 902 crores has been paid to OIDB so far by the Ministry of Finance.

Since, the proceeds of the Cess are credited to the Consolidated Fund of India, the comments of Ministry of Finance were sought in respect of the above recommendation. They have furnished their comments as follows:-

(i) "The Cess on crude oil levied under the Oil Industry Development Act, 1974 is meant for funding the "oil industry" and Section 2(k) of the Act defines this term to include all activities by way of prospecting or exploring for or production of mineral oil, production and marketing of all products down stream of an oil refinery and the production of fertilizers and petrochemicals and all activities directly or indirectly connected there therewith. Thus, the term "oil industry" includes production of fertilizers and petrochemicals also and all activities directly or indirectly connected therewith for the purposes of the Act.

(ii) A statement showing the Cess and the Ministry-wise expenditure on areas covered by the OID Act for the last 5 years is enclosed at Appendix. From the statement it is seen that the expenditure on the 'Oil industry' is in excess of the Cess collection. In fact, the issue regarding levy and utilization of Cess has been raised on earlier occasions also by the Parliamentary Standing Committee in 1997 and 2004 when the Ministry of Finance has expressed a similar view".

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Appendix

Receipts from oil Cess/Expenditure as per Act

(Rs. Crores)

	2001-02	2002-03	2003-04	2004-05	2005-06
	Actuals				RE
Cess on Crude Oil	2663.6	4674	5059.41	5225.13	3808**
(MH-0038)					
Capital Expenditure on:-	1164.89	1198	759.38	39.03	111.65
Fertilizer Industries	546	1197	439.15	36.52	98.16
(MH –4855 & 6855)					
Petrochemical Industries	0.71	1	0.87	0.51	13.49
(MH-4856 & 6856)					
Petroleum Industries	618.18	0	319.36	2	0
(MH-4802 & 6802)					
Revenue Expenditure:-	8092.68	13046	15458.26	13233.37	30660.34
Fertilizer Industries	8085	7812	8542	10266.36	10429.86
(MH-2852)					
Petrochemical Industries	7.68	9	14.77	9.86	34.26
(MH-2852)					
Petroleum Industries	0	5225	6901.49	2957.15	20196.22
(MH-2802)					
Total Expenditure (Rev+Cap)	9257.57	14244	16217.64	13272.4	30771.99

As is evident from the above, total expenditure incurred for various industries in conformity with OIDB Act, 1974, is substantially larger than the cess collections

** Prov Actuals (Apr-Jan)

Comments of the Committee

(Please see para 35 of Chapter I of the Report)

CHAPTER V

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

Recommendation No. 1 (Para No. 3.1)

The Committee find that as against the total approved 10th Plan Outlay of Rs. 103656.00 crore for oil PSUs, an amount of Rs. 76448.28 crore has been spent till February 2006 which is about 74 per cent of the total outlay. Thus, 26 per cent of the outlay is left to be spent in the last 13 months of the plan. From the data furnished to the Committee, they are unhappy to observe that oil PSUs have not been able to fully utilise the RE allocations during 2003-04 and 2004-05. While the shortfall in expenditure in 2004-05 has been to the tune of 8 per cent, the same in 2003-04 has been as much as 28 per cent in the year 2005-06 also, the expenditure upto February, 2006 has been only Rs. 19946.47 crore out of the RE amount of Rs. 29403.08 crore i.e. 67.8%. The Committee also observe that oil PSUs excepting ONGC, OVL and CPCL have shown poor performance in Plan spending during the first three years of the 10th Plan (2002-03 to 2004-05). A number of PSUs viz. HPCL, KRL, BRPL, Balmer Lawrie and Biecco Lawrie have spent less than 20 per cent of the allocation during the said period. The Committee recommend that oil PSUs should pull up their socks and make concerted efforts to fully utilize the allocated amount so as to ensure that important projects are completed without any time and cost overrun.

Reply of the Government

1. Oil PSUs do not receive any plan allocations from the Government Budget. All the Plan Expenditures are met from out of their internal resources.

2. Based on the economic, industrial and commercial factors governing the Oil Sector and the market projections for future business growth available at the time of formulation of the Plan, Oil Sector PSUs had finalized the physical and financial targets for the 10th Five Year Plan. The oil companies themselves push for early implementation of projects where the market is ready and, similarly, the

oil companies go slow on projects where commercial factors and market situations demand so.

3. Details regarding allocations & actual expenditure during the first four years of the 10th Five Year Plan are as under:

Year	Revised Estimates (Rs Crore)	Actual Expenditure (Rs Crore)	Expenditure (%age)
2002-03	21100.44	16279.51	77.15
2003-04	24393.22	17590.96	72.11
2004-05	24615.12	22631.34	91.94
2005-06	29403.08	26854.32	91.33
Total	99511.86	83356.13	83.76

4. It may be seen that against the allocation of Rs. 99511.86 crore, the actual expenditure during first four years of X Five Year Plan was Rs. 83356.13 crore which is 83.76% of the allocation. The Budget Estimate for Annual Plan 2006-07 is Rs. 36003.33 crore. Taking into account Rs. 83356.13 crore already spent during the first four years of X Plan period, which would be 115% of the X Plan allocation of Rs. 103656 crore. This would be a significant improvement over the IX Five Year Plan period during which the actual expenditure as a percentage of the total allocation was about 65%.

(Ministry of Petroleum and Natural Gas
OM No. G 25015/4/2006 Fin I dated 14.08.06)

Comments of the Committee

(Please see para 7 of Chapter I of the Report)

Recommendation No. 2 (Para No. 3.2)

The Committee regret to find that the Oil India Limited (OIL) has not been able to meet the seismic surveys and drilling targets in 2003-04 in respect of four items viz. 2D seismic survey, 3D seismic survey, exploratory drilling and developmental drilling. Similarly, in the year 2005-06, the anticipated achievements in respect of these items, except 3D seismic survey, fell short of the targets fixed in this regard. However, the Company has performed better in

2004-05, with shortfall being registered in case of exploratory drilling only. The Committee have been appraised that the non-receipt of security clearance, inability to finalise contracts, delay in acquisition of land for drilling locations, problems with chartered drilling rigs, blockade by local people, environment issues, etc. have hampered the surveys/ drilling activities of OIL. They have further been informed that as a part of the strategy chalked out to overcome these problems, Oil has significantly enhanced the value of land acquired for drilling and procured a mobile drilling rig to supplement the drilling capabilities. The Committee, while appreciating the initiatives taken by OIL in tackling the problems, are of the view that the company should have initiated these measures earlier which could have significantly improved its drilling activities. They desire the company to strive hard to achieve its targets in future with regard to seismic survey and drilling activities taking cues from the lessons learnt in the past.

Reply of the Government

<u>Oil India Limited:</u>

The performance of Oil India Limited in respect of seismic survey and drilling is as under:

		2003-04		2004-05		2005-06	
		Target (BE)	Actual	Target (BE)	Actual	Target (BE)	Actual
1.	Seismic Survey						
	2D GLKM	2,585	2,088.22	1,600	1,978.59	1,500	1,143.75
	3D SQKM	750	352.02	750	889.44	600	889.90
2	Drilling ('000Mtr)						
	Exploratory	66	49.283	54.70	37.89	81.005	52.134
	Development	70	59.34	85.10	115.673	83.095	77.514
	Total (Drilling)	136	108.623	139.80	153.563	164.10	129.648

Reasons for shortfall in the year 2005-06:

Seismic Survey:

Oil had planned to carry out 1,700 GLKM of 2D seismic survey in Brahmaputra River Bed from the year 2005-06 onwards in the next 3 to 4 years. However, the necessary contract could not be finalized in time due to the absence of clearance from Ministry of Home Affairs. The issue was referred to the Committee of Secretaries for a decision. As a result, 500 GLKM of 2D seismic survey planned during the year 2005-06 in Brahmaputra River Bed stands deferred to the year 2006-07. In 2005-06, OIL achieved the highest ever 3D seismic data acquisition, which is 148.32% of target.

Drilling:

1. Delay in acquisition of land for drilling locations in Assam as result of reluctance of the land
2. OIL planned for deployment of 2 nos. charter hired drilling rigs by October, 2004to supplement its in-house drilling capabilities. However, due to legal problems arising out of rivalry between tenderers, 1 no. charter hired drilling rig could be put into service only in September, 2005 while the other rig is yet to be mobilized.
3. Prolonged blockade against OIL operations by local people in Barekuri area in Upper Assam from August, 2005 to October, 2005. Although the blockade was lifted on 19.10.2005, sporadic incidents are still continuing in the area.
4. Other environmental problems such as frequent bandhs, local obstructions, intimidation, miscreants' activities, floods etc. Early onset of monsoon also hampered/delayed site preparation works in a number of drilling locations.

Strategy chalked out by OIL to overcome the problems:

Oil India Limited has undertaken the following initiatives to enhance seismic survey and drilling activities in its operational areas:

1. Necessary contract has since been awarded for 1,700 GLKM of 2D seismic survey in Brahmaputra River Bed. Works are likely to start in the next working season after the monsoon break in the current year of 2006-07for completion in a total 3 field seasons.
2. Significant enhancement in the value of land acquired for drilling locations to compensate the land owners at attractive rates.
3. To further supplement the drilling capabilities, OIL had recently procured one 1000 HP mobile drilling rig, which is being currently deployed in Rajasthan. In addition, action is in hand for charter hire/purchase of one mobile drilling rig for drilling in shallow depths. Two additional charter hired drilling rigs are planned for deployment from the year 2006-07 onwards.
4. Constant liaison is being maintained at the district level, state government level as well as Ministry level to resolve the environmental issues.

(Ministry of Petroleum and Natural Gas
OM No. G 25015/4/2006 Fin I dated 14.08.06)

Recommendation No.3 (Para No. 3.3)

The Committee find that under the Project 'Blue Sky', GAIL (India) Ltd. has formed joint ventures for supply of Piped Natural Gas (PNG) to domestic, commercial and industrial consumers and Compressed Natural Gas (CNG) to automobiles in the cities of Agra, Lucknow, Kanpur and Pune for which approval has been accorded by the GAIL Board on 25.10.2002. Joint venture agreements have been signed for implementation of city gas projects in Agra/Lucknow with IOCL and in Pune/Kanpur with BPCL. Besides, GAIL has also signed an MoU with BPCL for implementing city gas projects in the States of Kerlala and Karnataka. The Committee has been informed that one CNG station each has been commissioned in Kanpur, Agra and Lucknow in April 2006 and that that CNG supply is due for commencement in these cities by end of April, 2006 subject to gas supply being tied up. They would like to know whether CNG supply has commenced in these cities as per schedule. Considering the poor progress in sourcing of gas, the committee apprehend that the supply of CNG and PNG to the consumers in the cities approved under the city gas projects would not take place on time. Keeping in view the fact that the implementation of the 'Blue Sky' Project would reduce environmental pollution in these cities, the committee desired that GAIL should expeditiously ensure gas supply tie-ups and complete these projects without any time and cost overruns.

Reply of the Government

M/s GGL had commissioned the 1st CNG station in Lucknow on 1st April 2006 and CNG supply has commenced in a limited way. The JV has plans to open a few more CNG station within a few months.

In Kanpur, M/s Central U.P. Gas Limited, a JVC of GAIL and BPCL, had commissioned the 1st CNG station on 07.04.2006. The CNG is being supplied to consumers since then. The JV has plans to open a few more CNG station within a few months.

In Agra, M/s Green Gas Limited (GGL) a JV of GAIL and IOC have set up one CNG station in June, 2006. The gas for this station is presently being sourced RLNG on fall back basis till alternate arrangements is made.

The City Gas project in Pune city will be implemented by M/s. Maharashtra Natural Gas Limited, a JVC of GAIL and BPCL. The gas supply for City gas project is planned to be make available through the Dehej - Uran pipeline, which is under implementation. Anticipated date of commencement of CNG supply in Pune is likely to be the second half of June, 2007.

Sourcing of additional quantities of natural gas to meet the demand in the respective cities is being taken up by the respective JV companies/GAIL.

(Ministry of Petroleum and Natural Gas
OM No. G 25015/4/2006 Fin 1 dated 14-08-06)

Comments of the Committee

(Please see para 10 of Chapter I of the Report)

Recommendation No. 5 (Para No. 3.5)

The Committee note that the Union Cabinet has accorded approval on 20.10.2005 for the merger of IBP, a subsidiary of IOC, with its parent company. They further note that the respective Stock Exchanges of IOC and IBP have also accorded approval to the merger and that the matter is pending with the Ministry of Company Affairs- the competent authority to approve merger in all Government companies. The Committee have been informed that the proposed amalgamation of IBP with IOC is in line with the global trends to achieve size, scale, integration, greater financial strength, flexibility and in the interests of maximizing shareholder value. Keeping in view the precarious financial health of IBP, the Committee consider this proposed amalgamation as a step in the right direction. Besides, the amalgamation would also help in synergising and imparting a competitive edge to their operations by optimizing resources, products, strategies, systems and procedures which will, in turn, enhance shareholder value. The Committee, therefore, desire that further steps in line with the laid down policy for merger be taken and the process of amalgamation completed without delay. The Committee would like to be apprised of the measures taken by the Government in this regard.

Reply of the Government

Subsequent to the approval of the respective Stock Exchanges of IBP Co. Limited (IBP) and Indian Oil Corporation Limited (IOC), shareholders of IOC and IBP also accorded approval to the Scheme of Amalgamation in their meeting held on 29.5.2006 and 29.6.2006 respectively. The Chairman's Report along with the minutes of the Shareholders' meeting as well as the Independent Scrutineer's Report was filed with the Ministry of Company Affairs (MCA) on 5.7.2006 and, thereafter, as required under the provisions of the Companies Act, a Confirmation Petition was filed on 12.7.2006, jointly by IOC and IBP, before MCA.

In the hearing, held by MCA on 27.7.2006, on the Scheme of Amalgamation between IBP and IOC, the Companies were directed to publish

Notice in the prescribed newspapers addressed to the Creditors and the Public on the Scheme of Amalgamation, so as to enable filing of objections, if any by any of the parties. The said Notice has been published in leading newspapers on 8.8.2006 by the two companies. The MCA has also directed delivery of Notice to the Regional Director and Registrar of Companies in Mumbai and Kolkata as well as the Official Liquidator based at Kolkata, inviting their comments, it any, on the Scheme of Amalgamation. This Notice has been served. The next date of hearing in the matter is fixed for the 21st August, 2006, before the MCA.

(Ministry of Petroleum and Natural Gas
OM No. G 25015/4/2006 Fin I dated 15-08-06)

Recommendation No 9 (Para No. 3.9)

The Committee are unhappy that there has been delay in completion of that two mega projects at the Panipat Refinery of the Indian Oil Corporation Limited (IOCL). The first mega project viz. Integrated Paraxylene/Purified Terephthalic Acid Project was originally scheduled to be completed in March, 2003. The completion schedule of this project was first revised to August, 2005 and subsequently to April, 2006. Similarly, in case of the second mega project viz. Panipat Refinery Expansion Project, the completion schedule was extended to December, 2004 from the original completion schedule of May, 2002. Subsequently, it was further extended to July, 2006. The Committee took note of the fact that the initial approved cost of the first project was Rs. 4228 crore which was lated revised to Rs. 5104 crore. Similarly, in case of the second project, the initial approved cost or Rs. 3365 crore was subsequently revised to Rs. 4165 crore. Besides, till now, there has been a further cost increase in case of the second project which has been stated to be within 5 per cent of the revised approved cost. The time overrun on these projects has been, inter-alia, attributed to delay in engineering by Project Management Consultant, delay in delivery of equipments by some vendors/suppliers/contractors, etc. The Committee desire that the responsibility for the time and cost overruns should be fixed and suitable action be taken against those held responsible. They have been informed that the penalty clause for price reduction has been applied as per contract against the Project management Consultants for delay on their parts. The committee further desire that the details of action taken against other erring agencies/persons and progress made on the projects be conveyed to them.

Reply of the Government

During the course of execution, there was an unprecedented price rise of major raw material, viz., (about 50%) & copper (about 55%) from mid-2003 to mid-2004 and non-availability of steel from approved manufacturers such as Steel Authority of India Limited, Tata Iron & Steel Co., Rastriya Ispat Nigam Limited and Indian Iron Steel Co. on continuous basis. This resulted in delay in supply of equipment and bulk materials involving steel by the vendors due to inherent loss to them on account of price rise of steel, despite continuous follow up by PMC/IOCL. This resulted in slow construction progress. Transporters' strike in two spells one in March' 04 for about 40 days and second in August' 04 for 7 days also contributed to delay in delivery of equipment/material.

As IOCL contracts are awarded on fixed-price basis and no escalation is allowed, some agencies did not execute the contract in view of impact of the steep price rise in steel/copper. Consequently jobs has to be offloaded.

Price reduction clause is a standard clause incorporated in all purchase orders/contracts and is invoked in cases wherever delay are attributed to contractors/suppliers.

At Present, commissioning activities are in progress followed by closing of contracts. Closure of mega projects of such magnitude takes about 6-12 months time when performance of each contract will be reviewed in detail & reasons for delay analyzed jointly with PMCs. Based on analysis, in case of Contractors/Suppliers who could not meet the delivery targets as stipulated in the contract for the reasons solely attributable to them, price reduction clause will be invoked.

Originally Power was to be supplied by M/s IPPCL, a JV of IOCL, which did not materialize. Therefore, Captive Power Point (CPP) cost was included in the revised estimate and further increase took place due to foreign exchange escalation, variation in Wholesale Price Index/ Consumer Price Index.

(Ministry of Petroleum and Natural Gas
OM No. G 25015/4/2006 Fin I dated 14.08.06)

Comments of the Committee

(Please see para 16 of Chapter I of the Report)

Recommendation No. 10 (Para No. 3.10)

Oil Marketing Companies (OMCs) viz. IOC, BPC, HPC and IBP have set up countrywide networks of retail sales points either operated by the Company or through dealers for making available petroleum products to the customers. The Committee have been informed that the number of retail outlets has gone up to about 31000 including about 1700 of the private sector from about 18,500 five years ago when the private sector was not in this business. The committee observe that the growth in the volume of sale of the products at the outlets of OMCs has not been to the desirable extent. An analysis of the sales data pertaining to the years 2002-03, 2003-04 and 2004-05 reveals that the sale of products, particularly diesel, has registered either marginal or negative growth in case of almost all the OMCs. The committee also observe that the throughout per retail outlet of OMCs has come down from 250-275 kilo litres per month five years ago to 140-145 kilo litres per month at present. The Committee express their dissatisfaction over this poor state of affairs and feel that there is an urgent need for an in-depth analysis of the situation followed by result-oriented remedial action. In their opinion, the present situation has arisen because of indiscriminate setting up of outlets by OMCs without proper judgment/application of mind, failure on the part of OMCs to prepare any strategy to compete with the private sector, lack of professionalism and marketing wisdom on the part of OMCs unhealthy and undesirable competition among OMCs arising out of proximity of their outlets in an area, doubts about the quality and quantity of fuel supplied at the outlets of OMCs, inadequate implementation of anti- adulteration measures, lack of efforts to either wind up or rehabilitate the outlets consistently yielding very low throughput, improper monitoring of the situation by the Ministry, etc. The Committee are of the strong view that unless suitable and timely measures are taken, the situation may further deteriorate. They, therefore, recommend that the Government should constitute an expert team, independent of the Ministry and oil PSUs, to look into the above issue and suggest corrective measures to improve the situation. The report of the expert team should be furnished to this Committee within a period of two months from the presentation of this Report. The Committee would like to be apprised of the action taken in this regard.

Reply of the Government

1. On the basis of the recommendation of the Hon'ble Committee, it was decided that Indian Oil Corporation Limited (IOC) would engage an independent agency for study of the retail outlets of the public sector oil marketing companies (OMCs), namely, Indian Oil Corporation Limite, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited and IBP Co. Limited. It was further decided that the study might be completed within a period of two months from the date of commissioning. IOC was asked to finalize the terms of reference for the independent agency in consultation with other OMCs. IOC was further asked to engage an agency of repute which has expertise in the job.

2. In compliance with this decision, the OMCs decided to get the study done through the Indian Institute of Management, Ahmedabad, and have since entrusted the study to it. The study is now in progress and the report is expected by the end of August, 2006. It has been reiterated to IOC that the study should be totally independent.

(Ministry of Petroleum & Natural Gas
G-25015/4/2006-Fin-I dated14.8.2006)

Comments of the Committee

(Please see para 29 of Chapter I of the Report)

Recommendation No.11 (Para No. 3.11)

The Committee have been informed that a slew of measures/provisions have been put in place to contain the problem of adulteration of petroleum products viz. surprise checks/inspections, action against errant dealers, creation of a separate wing in OMCs, implementation of Jan Kerosene Pariyojana to prevent diversion of PDS kerosene, issue of a set of stringent Marketing Disciplinary Guidelines (MGD) 2005, etc. However, they are unhappy to observe that the problem has remained very much the same. In the opinion of the Committee, extensive technological applications by PSU oil companies from the refinery end to the customer and would go a long way in checking this menace. They have been informed that OMCs have taken up technological solutions to contain adulteration activities. However, the Committee view that the application of technology by oil PSUs has not been done in the right earnest. Even the Secretary, Ministry of Petroleum & Natural Gas was candid enough to admit this fact during evidence. The Committee, therefore, recommend that technological applications by the oil PSUs including setting up of centralised monitoring system to track down the movement of their fuel vehicles, opening/closing of locking systems, etc. should be intensified. Besides, the frequency of surprise checks should also be increased. The Committee also desire that the performance of the 'Jan Kerosene Pariyojana' should be evaluated and based on its success, the project should be extended to other parts which would also help in preventing the diversion of PDS kerosene for adulteration purpose. The Committee further recommend that an incentive scheme should be introduced for oil company officials displaying extra-ordinary performance in the direction of checking the menace.

Reply of the Government

Ministry have reviewed the existing practices being followed by the OMCs to reduce and minimize adulteration. With a view to taking effective measures for preventing this menace, the OMCs have been asked to take the following steps:-

(i) Monitor the movement of all Tank Trucks viz, Company owned/Dealer owned/Contractor tank trucks through Global Positioning System (GPS) based vehicle tracking system to ensure that TTs don't get diverted en route.

(ii) OMCs to undertake automation of all their retail outlets selling more than 200 KL per month on a priority.

(iii) OMCs have been asked to move away from the routine nature of inspection/sampling. Instead, the surprise element in conducting inspections and drawing samples must be emphasized. OMCs have been asked to fix targets for surprise inspections under the MDG, 2005 and to ensure that the inspections are carried out in an effective manner. OMCs have been asked to strengthen their Vigilance Wings/Quality Controls Cells to make them more effective.

(iv) OMCs to undertake third party certification of all their retail outlets selling more than 100 KL per month.

(v) OMCs to identify and suggest the names of reputed agencies/NGOs who could be entrusted with the drawal/testing of MS/HSD samples from retail outlets.

(vi) OMCs to introduce marking of potential adulterants.

(Ministry of Petroleum and Natural Gas
OM No. G25013/4/2006 Fin I dated 14.08.06)

Comments of the Committee

(Please see para 32 of Chapter I of the Report)

Recommendation No.13 (Para No. 3.13)

The Committee have been informed that IOC has undertaken a study through a consultant to identify the most suitable port for supply of gas to various potential customers and that the said study established Ennore as the most suitable port for setting up the LNG terminal on the Eastern coast. The key factors which favoured Ennore have been stated to be its proximity to the demand centres and its developed port facilities. However, the Committee would like to remind the Government that in their 8th Report (14th Lok Sabha), they had advised the Government not to take the outcome of this study as final and conclusive in view of the fact that Krishnapatnam was considered favourably for LNG terminal purpose by a study conducted by another agency a few years ago. Meanwhile, the Secretary, Ministry of Petroleum & Natural Gas has informed the Committee during evidence on Demands for Grants (2006-07) of the Ministry that that LNG terminal along the Eastern Coast would not have any future as imported LNG cannot compete with indigenous gas. This implies that the

Government does not have any intension of setting up LNG terminals on the Eastern Coast in the near future. The Committee would like to know the actual plan of action envisaged by the Government in the matter. They further desire that, as and when a decision is taken about setting up of LNG terminals on the Eastern Coast, the merits of Krishnapatnam should not be overlooked by the Government.

Reply of the Government

With regard to the observation that 'during evidence on Demands for Grants (2006-07) of the Ministry that LNG terminals along the Eastern Coast would not have nay future as imported LNG cannot compete with indigenous gas. This implies that the Government does not have any intension of setting up LNG terminals on the Eastern Coast in the near future', it is submitted that this was the general observation considering the huge find of natural gas in KG Basin. Government neither sets –up any LNG terminal nor gives any approvals for setting-up such terminal. It is for the companies to decide on techno-economic viability of any LNG project. The Committee's observation that, as and when a decision is taken about setting up of LNG terminals on the Eastern coast, the merits of Krishnapatnam should not be overlooked by the Government, have been brought to the notice of oil and gas PSUs under the administrative control of Ministry of Petroleum & Natural Gas.

(Ministry of Petroleum and Natural Gas
OM No. G25013/4/2006 Fin I dated 14.08.06)

Comments of the Committee

(Please see para 38 of Chapter I of the Report)

New Delhi;
20 March, 2007
29 Phalguna, 1928 (Saka)

N. JANARDHANA REDDY,
Chairman,
Standing Committee on
Petroleum & Natural Gas.

MINUTES

STANDING COMMITTEE ON PETROLEUM & NATURAL GAS (2006-07)

SEVENTH SITTING

(19.3.2007)

The Committee sat on Monday, March 19, 2007 from 1530 hrs. to 1600 hrs. in Committee Room No. 62, Parliament House, New Delhi.

PRESENT

Shri N. Janardhana Reddy - Chairman

MEMBERS

Lok Sabha

2 Shri M.Appadurai
3 Shri Kirip Chaliha
4 Dr. Tushar A. Chaudhary
5 Shri Lal Muni Choubey
6 Adv. Suresh Kurup
7 Shri P Mohan
8 Shri Nakul Das Rai
9 Shri Rajiv Ranjan 'Lalan' Singh
10 Shri Ram Kripal Yadav

Rajya Sabha

11 Shri Suresh Bhardwaj
12 Shri Tapan Kumar Sen
13 Shri C. Perumal

Secretariat

1	Shri P.K.Misra	-	Joint Secretary
2	Smt. Anita Jain	-	Director
3	Shri P.C. Tripathy	-	Deputy Secretary

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee.

3. The Committee, then, took up for consideration the draft Thirteenth Report on Action Taken by the Government on the recommendations contained in the Ninth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum and Natural Gas (2005-06) on 'Demands for Grants (2006-07) of the Ministry of Petroleum and Natural Gas'.

4. After some discussion, the Committee adopted the Report with some modifications.

5. The Committee, thereafter, authorised the Chairman to finalise the Report in the light of the modifications and make consequential changes, if any, arising out of the factual verification of the Report by the Ministry and present the same to both Houses of Parliament.

The Committee then adjourned.

ANNEXURE II

(*Vide* Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE NINTH REPORT (FOURTEENTH LOK SABHA) OF THE STANDING COMMITTEE ON PETROLEUM AND NATURAL GAS (2005-06) ON 'DEMANDS FOR GRANTS *(*2006-07*)* OF THE MINISTRY OF PETROLEUM & NATURAL GAS'.

I	Total No. of Recommendations	15
II	Recommendations/Observations which have been accepted by the Government (*Vide* Recommendations at Sl. Nos. 6, 7, 8,14 and15)	5
	Percentage to Total	33.33%
III	Recommendations/Observations which the Committee do not desire to pursue in view of Government's Reply	Nil
	Percentage of Total	-
IV	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee (*Vide* Recommendations at Sl. Nos. 4 and 12)	2
	Percentage of Total	13.33%
V	Recommendations/Observations in respect of which final replies of the Government are still awaited (*Vide* Recommendations at Sl. Nos. 1, 2, 3, 5, 9, 10, 11 and 13)	8
	Percentage of Total	53.33%