FOURTH REPORT

STANDING COMMITTEE ON PETROLEUM & NATURAL GAS (2004-05)

(FOURTEENTH LOK SABHA)

DEMANDS FOR GRANTS (2004-05)

MINISTRY OF PETROLEUM AND NATURAL GAS

[Action Taken by the Government on the recommendations contained in the First Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas (2004-05) on `Demands for Grants (2004-05) of the Ministry of Petroleum & Natural Gas']

Presented to Lok Sabha on ***25.02.2005***

Laid in Rajya Sabha on ***26.02.2005***

LOK SABHA SECRETARIAT
NEW DELHI
January, 2005/Magha, 1926(Saka)

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1.	Shri P.D.T. Achary	-	*Secretary*
2.	Shri P.K. Grover	-	*Director*
3.	Shri B.D. Swan	-	*Under Secretary*
4.	Shri.P.C.Tripathy	-	Assistant Director

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 Fourth Report on Action Taken by the Government on the recommendations contained in the First Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas on 'Demands for Grants (2004-05) of the Ministry of Petroleum & Natural Gas'.

2. The First Report of the Standing Committee on Petroleum and Natural Gas was presented to Lok Sabha on 20th August, 2004. The Action Taken Replies of Government to all the recommendations contained in the First Report were received on 6th December, 2004.

3. The Standing Committee on Petroleum & Natural Gas (2004-05) considered and adopted the Report at their sitting held on 27th January, 2005.

4. An analysis of the action taken by the Government on the recommendations contained in the First Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas is given in Appendix-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,
January 27, 2005
Magha 7, 1926 (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 First Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas (2004-05) on 'Demands for Grants (2004-05) of the Ministry of Petroleum & Natural Gas' which was presented to Lok Sabha on 20th August, 2004.

2. Action Taken Notes have been received from the Government in respect of all the 28 Recommendations/Observations contained in the Report. These have been categorised as follows:-

(i) Recommendations/Observations that have been accepted by the Government:-
Sl. Nos. 1, 3, 5, 6, 7, 8, 11, 16, 21, 24, 25, 26 and 28.

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:
Sl. No. 22.

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:
Sl. Nos. 2, 10, 12, 14, 15, 18 and 19.

(iv) Recommendations/Observations in respect of which final replies of the Government are still awaited:
Sl. Nos. 4, 9, 13, 17, 20, 23 and 27.

3. The Committee trust that utmost importance would be given to the implementation of the recommendations accepted by the Government. In cases, where it is not possible for the Ministry to implement the recommendations in their 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. New Exploration Licensing Policy

Recommendation No. 2 (Para No. 2.2)

5. In order to reduce the widening gap between the demand and production, the Committee had recommended that the ONGC and OIL should vigorously pursue the accretion process. The Committee had observed that a number of oil/gas discoveries had been made recently from the blocks offered under the New Exploration Licensing Policy. In view of the encouraging results obtained from the NELP, the Committee had recommended that the frequency of bids under this policy should be enhanced.

6. In its Action Taken Note, the Ministry of Petroleum & Natural Gas has submitted the following reply in this regard:-

> "To accelerate the exploration programme, the Government of India announced the New Exploration Licensing Policy (NELP) on 8th January 1999. Since then, four rounds of NELP have been held so far and Production Sharing Contracts (PSCs) for 90 exploration blocks have been signed.
>
> The technical data available in the identified blocks are required to be collected from the respective agencies namely, ONGC, OIL and different operating Pvt./JV companies. This data is digitized, key seismic lines are reprocessed for value addition and entire data is re-interpreted. New time-structure maps are prepared, new play types are identified and new geological models are prepared so that more E&P companies come forward and participate in the bidding process. The entire process i.e. collection of data, reprocessing, re-interpretation and preparation of updated Basin Information Dockets and digital block-wise Data Packages usually takes about 8-9 months. Before offering of the blocks under NELP rounds, inter-Ministerial clearances for the blocks have to be obtained from Ministry of Defence, Ministry of Environment & Forest, Ministry of External Affairs and Ministry of Home Affairs.

It can be seen from the above, that offering of blocks under NELP rounds involves multiple activities, which usually take about one year and any obstacle in any activity may affect the process further thereby affecting the offering of blocks."

7. The Committee had recommended that the frequency of bids under the New Exploration Licensing Policy should be increased in view of the encouraging results obtained from the Policy. The Government has, *inter-alia*, stated in its reply that offering of blocks under NELP rounds involves multiple activities which usually take about one year and any obstacle in any activity may affect the process further, thereby affecting the offering of blocks. The Committee do not dispute the fact that offering of blocks under NELP involves multiple activities. However, they are of the opinion that the time period can be reduced by taking up certain activities simultaneously instead of sequentially. For example, Inter-Ministerial clearances for the blocks can be processed in the Ministries of Defence, Environment & Forests, External Affairs and Home Affairs simultaneously. Alternatively, the Government can also consider constituting an empowered Committee comprising representatives of these Ministries for obtaining clearances at one go. The Committee feel that the entire process can be completed in 7/8 months if the Government makes concerted efforts to achieve the same. Considering the huge discoveries of oil/gas under the NELP recently, the Committee reiterate their earlier recommendation that the frequency of bids under this policy should be enhanced.

B. Import of Crude Oil

Recommendation No. 7 (Para No. 2.7)

8. The Committee, in their earlier Report, had noted with concern that there had been an alarming increase in the import of crude oil over the years. The crude imports which were 34493 TMT during 1997-98,had gone up to 90434 TMT during 2003-04. The Committee had further noted that indigenous production of crude oil had remained more or less stagnant whereas the demand for petroleum products had been rising steadily leading to growth in import dependence. The import dependence in respect of crude oil to meet the domestic demand of petroleum products which was 61.3 per cent in the terminal year of the 8^{th} Plan i.e. 1996-97, had risen to 70.7 per cent during 2003-04. The Committee had been informed that the import dependence was likely to increase further by the end of the 10^{th} Plan period. Considering the hefty expenditure involved in the payment of the import bill and its deleterious impact on the economy, the Committee had recommended that special initiatives should be taken to further increase the volume of exports and thereby compensate for the loss of foreign exchange caused by increasing import of crude oil to some extent. Besides, other measures like vigorous implementation of energy conservation measures, aggressive exploration activities and tapping of alternative sources of energy could also go a long way in reducing the import dependence. The Committee had recommended that the Government should implement these measures in the right earnest and endeavour to reduce the import dependence.

9. In its Action Taken Note, the Ministry of Petroleum & Natural Gas has submitted the following:-

> "With increase in refining capacity over a period of time, the country has emerged as a net exporter of petroleum products. During the year 2003-04, 14.6 MMT of petroleum products valued at Rs 16, 781 crores were exported. As the country is projected to continue to have surplus

refining capacity in the foreseeable future, we would continue to be the net exporters of petroleum products.

As regards conservation measures, Petroleum Conservation Research Association (PCRA) under the aegis of MoP&NG, is entrusted with the task of conservation of petroleum products and to spread synergetic linkages between oil conservation, economic development and environment protection. PCRA's efforts are directed at the four major sectors of the country's economy, viz. Industrial, Transport, Domestic and Agriculture Sector. The methods adopted include field activities, education campaigns, R&D activities and HRD activities.

As regards increasing E&P activities, the following measures have been taken:

(i) to improve the recovery factor from existing major fields by implementing Enhanced Oil Recovery (EOR)/Improved Oil Recovery (IOR) schemes; in particular Oil and Natural Gas Corporation Limited (ONGC) has taken up 15 fields for this purpose at an estimated investment of Rs. 10,000 crore, which would also help in accelerating oil production from these fields.

(ii) to increase exploration efforts through the New Exploration Licensing Policy (NELP); Under the four rounds of NELP, Production Sharing Contracts (PSCs) have been signed for 90 blocks.

(iii) to explore in new areas, especially in deep water and difficult frontier areas, as also explore in the deeper layers of the producing fields.

(iv) to develop faster the newly discovered fields and to step up the use of new technologies for seismic surveys, work over, stimulation operations, drilling of wells etc. in producing areas.

(v) to acquire acreages abroad.

(vi) develop alternative sources such as CBM and gas hydrates etc.

On the issue of tapping of alternative sources of energy, it is submitted that this subject comes within the purview of Ministry of Non Conventional Energy Sources and accordingly the recommendations of the Committee are being forwarded to them for necessary action.

To the extent possible, Ministry of Petroleum & Natural Gas has been trying to implement the ethanol-blended petrol programme. Further work on bio-diesel and hydrogen as an alternative fuel for future is already in progress."

10. The Committee are pleased to note that with increase in the refining capacity, the country has emerged as a net exporter of petroleum products and this situation is likely to continue in the foreseeable future. They are further pleased to note that the Government is also taking a number of measures to conserve oil and tap alternative sources of energy. However, they regret to note that these measures of the Government have not been effective in bringing down the percentage of import dependence. The Committee recommend that the Government should intensify its efforts to bring down this percentage to about 60 per cent in a time bound manner.

C. Subsidy on Domestic LPG and PDS Kerosene

Recommendation No. 10 (Para No. 2.10)

11. The Committee had noted that under the scheme of subsidy on domestic LPG and PDS kerosene, the Government was providing subsidy on these items. During the Administered Pricing Mechanism (APM) period i.e. upto 31.3.2002, domestic LPG and PDS kerosene were being cross-subsidised through the Oil Pool Account. After the dismantling of the APM i.e. w.e.f. 1.4.2002, the Government subsidy was being decided on flat rate basis. Apart from the Government, the Oil Sector PSUs had also been sharing the burden of subsidising PDS kerosene and domestic LPG. The Committee had been informed that at the time of APM dismantling, the Government had decided that the subsidy on these items would be phased out over a period of 3 to 5 years from 1.4.2002. However, the Ministry of Finance subsequently expressed the view that subsidy should be phased out in 3 years and made Budgetary allocations accordingly. The Committee had further been informed that the Ministry of Petroleum & Natural Gas had requested the Ministry of Finance to make Budgetary provisions in line with 5 years phase-out period. The Committee had felt that the phase out of the subsidy on LPG and PDS kerosene would adversely affect the common man. After dismantling of APM, the prices of petroleum products had become market determined. Under the circumstances, people were facing two types of burdens. On one side, they were bearing the burden of increased import duty, excise duty and sales tax as the fuel prices increase globally and on the other side, they were paying higher prices decided by the Oil Companies because of increased refining margin. The Committee had felt that there should be minimum increase on fuel and non-fuel cost so as to lessen the burden of the common man. This could be achieved by continuing subsidy on domestic LPG and PDS kerosene.

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

"Government have already decided to extend the subsidy for a period of five years effective 1.4.2002 on domestic LPG and PDS Kerosene, i.e. uptil 31.3.2007. With a view to containing the pressure of increase in international prices of these products on the domestic consumer prices, the following fiscal measures have been taken:

(i) The excise duty on domestic LPG has been reduced from 16% to 8% effective 16.6.2004.

(ii) The customs duty on domestic LPG and PDS Kerosene has been reduced from 10% to 5% effective 19.8.2004. In addition, excise duty on Kerosene has been reduced from 16% to 12% effective 19.8.2004.

In addition to the above, it may be noted that despite increase in international prices, the domestic consumer prices of domestic LPG and PDS Kerosene have not been increased after 1.3.2002 except for an increase by Rs. 20/cylinder in the Retail Selling Price (RSP) of domestic LPG effective 16.6.2004."

13. The Committee had expressed their concern that the phasing out of the subsidy on Domestic LPG and PDS Kerosene would adversely affect the common man. They had advocated for continuation of subsidy on these products so as to lessen the burden of the common man. The Government has informed the Committee that it has already decided to extend the subsidy on such products for a period of 5 years w.e.f. 1.4.2002 i.e. upto 31.3.2007. The Committee would like the Government to continue the subsidy on Domestic LPG and PDS Kerosene beyond the 5 year deadline period ending 31.3.2007 keeping the interests of the common man in mind.

D. Cess on Crude Oil

Recommendation No. 12 (Para No. 2.12)

14. The Committee had noted that the current rate of cess on crude oil produced in the country was Rs. 1800 per tonne since March, 2002. The Committee had regretted to note that no amount generated out of cess levied on crude oil had been allocated to the organisation since 1992-93. As admitted by the Secretary, the annual average of such cess came to about Rs. 5000.00 crore which over a period of 12 years would amount to about Rs. 100000.00 crore including interest. This amount had not been made available to the OIDB or the Ministry of Petroleum and Natural Gas. In the Committee's view, there was no justification in levying the cess if the amount generated from it was not being utilised for the development of the oil sector. The Committee had recommended that a Price Stabilisation Fund should be created to bring in stabilisation in the prices of petroleum products by using the money collected from cess on crude oil. This fund should be utilised to absorb fluctuations in the international price of crude oil. Funds may be credited or debited in this fund depending upon the fall or rise in international prices. This amount could also be used as a cushion in case of reduction in the import duty/excise duty on LPG, kerosene, petrol and diesel and to provide subsidy on kerosene and LPG. The Committee had desired to be apprised of the action taken by the Government in this regard.

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

> "The Oil Industry (Development) Act, 1974 provides for collection of cess as a duty of excise on indigenous crude oil and natural gas. The proceeds of this duty are credited to the Consolidated Fund of India and sums of moneys as Central Government thinks fit are made available to the Oil Industry Development Board (OIDB) after appropriation by Parliament. Since inception and upto 31.3.2004, the Central Government has collected a sum of about Rs 51007.6 crore cess. Out of this, OIDB has received an amount of Rs. 902.40 crore till March, 2004.
>
> The rate of cess currently is Rs. 1800/- per tonne on crude oil produced in the country as compared to Rs. 900 per tonne till 28.2.2002.

Cess has been abolished under the New Exploration Licensing Policy (NELP) in order to encourage Exploration & Production activities in India. All investors venturing in E&P activities in India under NELP including National Oil Companies both Public & Private and Multinational Companies are provided level playing field and no cess is payable on production from areas licensed/leased under NELP. Under PSC regime applicable discovered fields, cess has been frozen at Rs. 900 per MT. No cess has been levied on Natural Gas Production in the country.

As on 31.3.2004, the OIDB has given Rs. 16,861 crore financial assistance to the oil industry of which Rs. 16,182 crore was loan and Rs. 679 crore was in the form of grant given to oil companies since 1975.

The price band mechanism for petrol and diesel has an inbuilt mechanism to allow variations in product prices in tandem with import parity prices. As such, no price stabilisation fund is required for petrol and diesel. As regard, PDS kerosene and domestic LPG, as per the existing practice, in addition to the Government subsidy, the oil PSUs are sharing the burden of subsidizing these products. As per the existing mechanism, the under recoveries of oil marketing companies (OMCs) on account of PDS kerosene and domestic LPG, after accounting for the Government subsidy, are shared by ONGC/GAIL/OIL by giving appropriate discounts on supplies of crude oil, LPG and SKO to IOC/HPC/BPC/IBP. This mechanism is working since 2003-04 onwards and obviates and need for creating any physical price stabilizing fund. Vide their recommendation no. 11, the Committee has recommended that this policy may be continued in future.

While, the aforesaid mechanism of sharing the under recoveries of OMCs on account of PDS kerosene and domestic LPG amongst the oil PSUs has been put in place effective 2003-04, ideally, the Government subsidies should be transparent and met directly from the Government's budget. Also, the present sharing mechanism considerably reduces the investible surplus with oil PSUs to meet their future investment requirements. Therefore, MOP&NG is in agreement with the recommendation of the Committee that the cess collected under the Oil Industry (Development) Act, 1974 should be used to meet the subsidy on PDS kerosene and domestic LPG. MOP&NG is of the view that the balance requirement of subsidy, after taking into account the budgeted subsidy, and presently being borne by the oil PSUs, should be met from the cess amount collected under the Oil Industry (Development) Act, 1974. Accordingly, a proposal is being forwarded to MOF by MOP&NG."

16. The Committee have been informed that since inception upto 31.3.2004, the Central Government has collected a sum of about Rs. 51007.6 crore cess on indigenous crude oil, out of which the Oil Industry Development Board (OIDB) has received a meagre amount of Rs. 902.40 crore till March, 2004. This speaks volumes about the way the cess collected for the development of the Oil Sector is being utilised. The Committee, therefore, reiterate their earlier recommendation that there is no justification in levying the cess if the amount generated from it is not being utilised for the development of the Oil Sector. In case the cess is to be levied, it should be used to meet the subsidy on PDS Kerosene and Domestic LPG. The Ministry of Petroleum & Natural Gas has agreed to this recommendation and is in the process of forwarding a proposal to the Ministry of Finance to this effect. The Committee recommend that the matter should be pursued vigorously with the Ministry of Finance and a decision taken in this regard before the presentation of the next Budget, under intimation to the Committee.

They also recommend that the proceeds of this cess should not be credited to the Consolidated Fund of India. Instead, as recommended by the Committee earlier, a separate Price Stabilisation Fund should be created by using the money collected from cess on crude oil to bring in stabilisation in the prices of petroleum products and to provide subsidy on Kerosene and LPG. In this regard, the Government has informed the Committee that no Price Stabilisation Fund is required for petrol and diesel since the price band mechanism for these products has an inbuilt mechanism to allow variations in product prices in tandem with import parity prices. In the Committee's view, this inbuilt mechanism is not enough to achieve the requisite price stabilisation. The Committee, therefore, reiterate their earlier recommendation on this point.

E. Rationalisation of Duty Structure

Recommendation No. 13 (Para No. 2.13)

17. The Committee had recommended that in order to control the domestic selling price of kerosene and LPG, the customs duty levied on these products should be brought to nil. This would involve no financial burden on Oil Companies which were already supplying subsidised products. The Government would not lose any money on kerosene as it was not imported. Though some loss would be incurred by the Government on the LPG, the same could be made up by the cess collected on crude oil. Besides, the Committee had felt that charging excise duty on subsidised products was an anomaly. The Committee had also felt that ad valorem duty structure amplified the rise in international prices on the domestic economy. Therefore, the Committee had recommended that a fixed/specific duty should be levied on crude oil and petroleum products instead of ad valorem duty. They had further desired that efforts should also be made to make the sales tax levied by States on these products specific instead of ad valorem.

18. The Ministry of Petroleum & Natural Gas has submitted the following reply in this regard:-

> "The issue of rationalization of taxes and duties in the petroleum sector has been taken up by MOP&NG with MOF time and again. The Government has already reduced the customs duty on PDS Kerosene and Domestic LPG from 10% to 5% effective 19.8.2004. The recommendations of the Committee would once again be brought to the notice of MOF for necessary action.
>
> As regards the issue of sales tax levied by the States, we have taken up with the State Governments to reduce/maintain the sales tax rates on petrol and diesel at the earlier agreed levels i.e., 12% on diesel and 20% on petrol. So far as asking State Governments to replace ad valorem sales tax rates with the specific rates is concerned, it is submitted that we may take this issue with the State Governments once the Government of India agrees to levy excise duties on specific basis in place of ad valorem basis on petroleum products."

19. The Committee had specifically recommended that in order to control the domestic selling price of Kerosene and LPG, the customs duty levied on these products should be brought to nil. They have been informed that the customs duty on these products has already been reduced from 10% to 5% w.e.f. 19.8.2004. Although the issue of rationalisation of taxes and duties in the petroleum sector is stated to have been taken up by the Ministry of Petroleum & Natural Gas with the Ministry of Finance time and again, no decision seems to have been taken in the matter. The Committee reiterate that charging import/excise duty on subsidised products is anomalous and therefore, desire that the same should be brought to 'nil' from the next financial year. In this connection, the Committee would also like to be apprised of the actual revenue loss to the Government during April-December, 2004 as compared to 2003-04 on account of reduction in excise and customs duties on domestic LPG and PDS Kerosene *vis-à-vis* increase in revenue because of higher crude price during this period.

The Committee had also recommended that a fixed/specific duty should be levied on crude oil and petroleum products instead of ad valorem duty. It seems that no decision has been taken by the Government even on this vital recommendation. The Committee do not appreciate the casual approach of the Government to the important recommendations of the Committee. Since the issue of replacement of ad valorem sales tax rates of the State Governments with specific rates is contingent upon the action of the Central Government on this recommendation, the Committee urge that the Central Government should implement this specific recommendation with a great sense of urgency.

The Committee have now learnt from press reports that in spite of their specific recommendation for a specific excise duty regime for petroleum products and a 'nil' customs duty on the subsidised petroleum products, the Ashok Lahiri panel has recommended a uniform 8 per cent ad valorem duty. The Committee express their strong displeasure over lack of seriousness in implementation of their important recommendations. They would like to be apprised of the factual position in this regard as well as the future course of action proposed to be taken by the Ministry of Petroleum & Natural Gas in the matter.

F. Petroleum Regulatory Board Bill

Recommendation No. 14 (Para No. 2.14)

20. The Petroleum Regulatory Board Bill was introduced in the Lok Sabha in May, 2002 and subsequently referred to this Committee for examination and Report. This Committee had submitted their Report on the subject in May, 2003. On the basis of the recommendations of this Committee, the Government had prepared the official amendments to the Bill and moved the amended Bill in the Lok Sabha in December, 2003. However, the said Bill could not be considered by the House owing to lack of time. The Committee had been informed that the Government was contemplating to introduce a fresh Bill in the House after obtaining the approval from the Cabinet, for which a note was being prepared as per the new inputs received from the Petroleum & Natural Gas Minister. The Ministry had also informed the Committee that the said Bill would be ready for introduction in the Lok Sabha in the Winter Session of Parliament. The Committee had felt that there had been delay in the introduction of the amended Bill which should have been introduced in the Session itself. Considering the fact that the setting up of the Regulatory Board would go a long way in protecting the interests of the consumers and fostering healthy competition in the oil and gas sectors, the Committee had recommended that the Government should attach utmost importance to the issue and move the amended Bill as soon as possible.

21. The Ministry of Petroleum & Natural Gas has submitted the following details in this regard:-

> "Draft Bill prepared earlier by Ministry has been reviewed by new Minister (P&NG) and it has been desired that proposed Bill need to have provisions for:-
>
> (a) Setting up of a technical body namely Oil & Gas Authority on the lines of Central Electricity Authority to advise on technical matters;
>
> (b) Setting up of an Appellate Authority to sort out contentious, legal and technical issues among entities expeditiously;
>
> (c) Salary and other terms & conditions of service of the officers and staff of the Board to be decided by the Board with the approval of Government.
>
> Accordingly, a revised Bill is being prepared in consultation with Law Ministry. After consulting the other Ministries on issue as per procedural requirement, Cabinet approval would be sought for introduction of Bill in Lok Sabha. It is expected that this exercise would be completed before the Winter Session."

22. During the course of the examination of the Demands for Grants (2004-05), the Committee were informed by the Government that the amended Petroleum Regulatory Board Bill would be ready for introduction in Lok Sabha by the Winter Session of Parliament. The Committee had viewed that the Government, instead of waiting for the Winter Session, should have introduced the amended Bill in the last Budget Session. They had asked the Government to attach utmost importance to the issue and move the amended Bill as soon as possible. In response to this recommendation, the Government again assured the Committee that the requisite exercise would be completed before the Winter Session. However, the Committee regret to note that the amended Bill has not been introduced in the Lok Sabha in the already concluded Winter Session. They desire that the amended Bill should be introduced as early as possible.

G. Anti-Adulteration Cell

Recommendation No. 15 (Para No. 2.15)

23. In their earlier Report, the Committee had observed that the Anti-Adulteration Cell was set up primarily to strengthen the vigilance machinery to check adulteration of Motor Spirit and High Speed Diesel at the Retail Outlets. The Committee had been informed that this Cell had conducted 1375 inspections/surprise checks since its inception till December, 2003. Besides, 653 cases of complaints relating to Dealer Selection Boards had also been enquired into by the Cell. As a result of these initiatives by the AAC, a number of cases of irregularities/malpractices by LPG Distributorships, Naphtha processing units, Retail Outlets and subsidised kerosene selling units had been detected and action as per relevant laws taken. The Committee were surprised to observe that the Government had wound up this Cell in July, 2004 on the basis of the recommendations of a Committee which was set up to make a comprehensive review of its functioning. The Government had averred that Retail Outlet dealerships were subject to various checks/inspections by multiple agencies such as the State Government Authorities, concerned Oil Marketing Company, Police, etc. and as such the existence of another agency like the AAC merely to inspect the Retail Outlets was superfluous. Interestingly, the Committee were informed by the Government during the examination of Demands for Grants (2003-04) that various environmental bodies had expressed concern over the use of sub-standard fuels in automobiles and that in order to ensure proper fuel quality and to prevent various kinds of malpractices in petroleum trade, it was necessary to have an independent agency with substantial powers exclusively dedicated for this purpose. Moreover, the machinery of the Oil Marketing Companies, Police, etc. were already in vogue when the Anti-Adulteration Cell was set up. Therefore, the Committee were at a loss to understand the sudden volte face of the Government in the matter. In the Committee's view, an organisation did not become superfluous or meaningless by a few acts of impropriety on the part of a couple of officials. The situation could be remedied by posting officials of proven track

record in the organisation. Considering the magnitude of the problem of adulteration of petroleum products and the huge financial loss to the national exchequer and the Oil Companies as a result of the problem of adulteration, the Committee had recommended that the Anti-Adulteration Cell be made functional forthwith.

24. The Ministry of Petroleum & Natural Gas, in its Action Taken Note, has submitted the following details:-

> “The jurisdiction of powers for action in case of adulteration/malpractices lies with multiple agencies, like the concerned Civil Supplies Department of State Governments/UT Administration and the Oil Marketing Companies (OMCs), and frequently overlap. It was observed that the Anti-Adulteration Cell (AAC) staff was inadequate to detect malpractices in about 23,000 ROs in the country. There had been reports of inconsistency in AAC inspections, and it was felt that the Cell had not made the desired impact.
>
> Two senior officers of AAC were arrested by CBI on charges of corruption and the AAC get mired in controversy. Therefore, a one member committee of Shri M.S. Srinivasan, Additional Secretary was constituted to review its functioning. The report of the committee recommended that AAC with its existing structure and functions cannot play a meaningful role in the efforts to curb the menace of adulteration.
>
> Since the powers of search and seizure are already vested in State Government machinery/OMCs, it was felt that continuing the Cell, functioning of which involved huge expenditure was not feasible.
>
> Government decided to wind up the AAC of the Ministry with effect from 31.7.2004. This Ministry has requested all the State Governments/UT Administrations to strengthen their inspection machinery/system so as to ensure that checks/inspections are carried out and stringent action taken against the errant dealers. With a view to further strengthening the Anti-Adulteration activities, it has been advised to Oil Marketing Companies to consider creation of a separate wing to be headed by an Executive Director to report to a Director other than Director (Marketing). The wing will oversee and monitor all activities and operations to curb adulteration and specify norms and guidelines in this regard. The penal provisions listed in Marketing Discipline Guidelines are also being made more stringent, and also to fix accountability of product quality on Oil Companies and their officers.

This Ministry has also taken up this matter with all the State Governments/Union Territory Administrations at the Chief Secretary/Administrator level to step up inspections/surprise checks to ensure that adulteration related activities are eliminated and exercise vigil/conduct inspections at various private firms, factories, processing units etc., under their jurisdictions so as to identify the perpetrators of adulteration and take stringent action against them within the available legal framework. Chief Ministers of all the State Governments/Union Territories have also been requested for their cooperation in activating their enforcement agencies in detecting and prosecuting cases of adulteration and also involving the elected local bodies and consumer organizations in this endeavour."

25. The Committee had recommended that the Anti-Adulteration Cell be revived immediately. However, they regret to note that the Government has not implemented this vital recommendation. The Government has contended that the AAC staff was inadequate to detect malpractices in about 23,000 ROs in the country. The Committee do not find this argument convincing as the Government was always at liberty to strengthen the AAC in accordance with the requirement. As regards the malpractices by two senior officers of the AAC, the Committee have already pointed out in their Report on Demands for Grants (2004-05) that such a situation can be taken care of by posting officials of proven track record in the Cell. Considering the magnitude of the problem of adulteration of petroleum products and the huge financial loss to the national exchequer and the oil companies as a result of the problem of adulteration, the Committee reiterate their earlier recommendation that the AAC be made functional forthwith. The Committee would like to be informed in this regard.

H. Supply of Ethanol Blended Petrol

Recommendation No. 18 (Para No. 2.18)

26. The Ministry of Petroleum & Natural Gas had introduced a programme of supplying petrol blended with 5 per cent ethanol in the sugarcane producing states since 2003. The Committee had noted that the programme had been fully implemented only in 8 States and 3 Union Territories viz. Uttar Pradesh, Punjab, Haryana, Maharashtra, Gujarat, Goa, Karnataka, Uttaranchal, Chandigarh, Dadra & Nagar Haveli and Daman & Diu. Besides, 21 districts in Andhra Pradesh and 9 districts in Tamil Nadu had also been covered. During the examination of Demands for Grants (2003-04), this Committee had been informed that there was a proposal to cover the entire country with 5 per cent ethanol-blended petrol during the year 2003-04. However, they had regretted to observe that less than one third of States and less than half of Union Territories had been covered. The slow progress on the scheme had been attributed to shortage of ethanol in some States, increase in the cost of production/ prices of ethanol, delays in the issue of transport permits, etc. The Committee had recommended that the Government should vigorously pursue the issues of shortage of ethanol and delay in grant of transport permits with the concerned State Governments and resolve the same at the earliest. The Committee had further recommended that the Government should work out some alternatives urgently and take appropriate steps so as to cover the entire country with 5 per cent ethanol blended petrol by the end of 2004-05.

27. In its Action Taken Reply, the Ministry of Petroleum & Natural Gas has submitted the following:-

> "The programme of supplying ethanol-blended petrol was taken up with the objectives of promotion of alternative renewable fuels, giving a boost to agriculture and reduction of pollution. Thus, one of the objectives of implementing the scheme of blending ethanol with petrol was to benefit agricultural sector, specifically sugarcane growing farmers in the country. Owing to acute drought conditions, there has been shortage in availability of molasses, which is the raw material for production of alcohol in the country.

> Therefore, the scheme of blending ethanol with petrol got affected due to non-availability of ethanol. Discussions were held with the State Governments of Andhra Pradesh, Karnataka and Maharashtra on the availability of ethanol for blending with petrol. These State Governments have confirmed shortage due to drought and further informed that the shortage would continue in the coming sugarcane crushing season as well. Also discussions have been held with the Ministry of Agriculture, Food and Consumer Affairs in presence of major ethanol manufacturers and the oil manufacturing companies. In the light of the discussions, various options including linking of supply of ethanol-blended petrol to prevalent indigenous market conditions have been considered by the Ministry. Under the circumstances, when ethanol is not available even for continuing the scheme uninterruptedly in the 10 States and 3 Union Territories, covering of the entire country with 5% ethanol-blended petrol by end of 2004-05 would not be feasible."

28. During the examination of Demands for Grants (2003-04), the Committee were informed that initially there was a proposal to cover the entire country with 5 per cent ethanol-blended petrol during the year 2003-04. The Government utterly failed to meet this deadline. The Committee, in their Report on Demands for Grants (2004-05), had asked the Government to cover the country with 5 per cent ethanol-blended petrol by the end of 2004-05. They have now been informed by the Government that this too would not be feasible because of shortage of ethanol. This is indicative of faulty planning and lack of seriousness in the approach of the Government to such a vital issue. The Committee would like to know the future programme of the Government in the matter as well as the time by which it would be in a position to cover the country with 5 per cent ethanol-blended petrol.

I. Bio-Diesel Blended Diesel Programme

Recommendation No. 19 (Para No. 2.19)

29. As regards the bio-diesel blended diesel programme, the Committee had been informed that the Ministry had launched a pilot project at Rewari, Haryana on use of 5 per cent bio-diesel and diesel blend on vehicles to examine the operational, environmental, financial and other aspects of such blending in Indian conditions. The Indian Oil Corporation had been monitoring the project. A similar project was also being run/ monitored by the HPCL in Mumbai in association with the Brihan Mumbai Electric Supply and Transport Undertaking (BEST). The field trials had been in progress in Rewari and Mumbai since April, 2004 and February, 2004 respectively. The Committee had found that 4 to 6 months had already been consumed in conduction of trials and the trials were still in progress. They had recommended that the process should be completed without any further delay and the outcome of the trials be conveyed to them at the earliest. The Committee had further recommended that subject to the satisfactory outcome of the trials, the programme should be launched in various parts of the country on a large scale.

30. The Ministry of Petroleum & Natural Gas, in its Action Taken Reply, has submitted the following details:-

> "Trials at Rewari have indicated that use of bio-diesel has not caused any operational problem in the buses. Further, considerable (around 15%) reduction in smoke has been observed. No appreciable change in mileage has been noticed.
>
> In Mumbai, the trial buses are currently running on B5 and B10 fuels. B20 fuel trials will start at the end of October, 2004.
>
> The trials are continuing based on bio-diesel obtained through tender, which are priced at three to four times the price of petroleum diesel. Therefore, even if the trials yield satisfactory outcome, till the price of bio-diesel becomes economical, and availability of bio-diesel improves through large scale oil seeds plantation, launching bio-diesel programme in various parts of India on a large scale would not be feasible."

31. The Committee had recommended that the bio-diesel blended diesel programme should be launched in various parts of the country on a large scale subject to the satisfactory outcome of trials. The Government has informed the Committee that launching of the programme in various parts of the country would not be feasible till the price of bio-diesel becomes economical and availability of bio-diesel improves through large scale oil seeds plantation. The Committee are not satisfied with the approach of the Government to such an important issue. The trials at Rewari have already indicated that the use of bio-diesel has led to considerable reduction in smoke. Therefore, the Committee feel that there is an urgent need to launch the programme in the right earnest. They recommend that special drives should be undertaken to encourage large scale oil seeds plantation. The Government may also consider measures like effecting reduction in duty on bio-diesel blended diesel to make the project cost-effective.

J. Coal Gassification Project

Recommendation No. 20 (Para No. 2.20)

32. In their earlier Report, the Committee had noted that the GAIL (India) Ltd. was having a collaboration with Shell for Coal Gassification Process. The Government had also informed that GAIL had undertaken feasibility studies for coal gassification projects. The Committee had recommended that this should be encouraged as a part of alternative energy development and pursued in consultation with the Planning Commission, Ministry of Power and Department of Fertilisers.

33. The Ministry of Petroleum & Natural Gas has submitted the following reply in this regard:-

> "In order to meet the gap between the demand and supply of natural gas in the country, GAIL has been evaluating various options for supplementing the availability of natural gas in the country through measures including exploration and production, import from neighbouring countries, etc. As one of the measures GAIL has also been examining the issue of exploiting synthesis gas (Syngas) recoverable from coal especially in the eastern sector which has been persistently devoid of any natural gas sources.
>
> Syngas is a mixture of Carbon Monoxide (CO) and Hydrogen (H2), which can be commercially used for power generation, fertilizer, hydrogen and methanol production. Keeping this aspect in view, and to meet the deficiency of availability of natural gas in the eastern sector of India, GAIL has been holding discussions with Shell, who are one of the pioneers in the field of coal gassification, for acquiring a suitable technology.
>
> Shell Coal Gassification Process has an inherent property of handling high ash content which is suitable for Indian coal. Preliminary study report from M/s Shell which was based on Coal sourced from Eastern Fields, Mahanadi Coal Fields and Central Coal Fields, has suggested positive results. Based on this, a Detailed Feasibility Report (DFR) is being prepared.
>
> The DFR will look into various possible end-uses of the synthesis gas, availability, proximity of source and quality of coal.

For finalization of location of the plant and coal availability, in addition to the DFR, an MOU between GAIL and Coal India Limited (CIL) has also been initiated. Draft MOU initiated by GAIL for availability of coal with CIL awaits CIL Board's approval. The proposal is at a preliminary stage. Further action including consultation with Ministry of Power, Department of Fertilizers and Department of Chemicals & Petrochemicals will be taken depending upon the DFR."

34. The Committee have been informed that a Detailed Feasibility Report (DFR) is being prepared for setting up of a Coal Gassification Plant in the Eastern Region. However, they regret to note that the reply of the Government is silent on the time frame within which the said DFR would be completed. The Committee would like to be apprised of the progress made in this regard. The Committee have further been informed that an MOU between GAIL (India) Limited and Coal India Limited (CIL) has been initiated to finalise the location of the plant, coal availability and the DFR and that the said MOU is awaiting CIL Board's approval. The Committee recommend that keeping in view the increasing import of oil and gas, the Coal Gassification Project should be taken up more seriously. They understand that in some countries, the existing naphtha based fertilizer plants are being replaced in a planned manner by coal based plants. The Committee, therefore, recommend that the Ministry of Petroleum & Natural Gas should take a proactive approach in addressing this issue in consultation with other concerned Ministries, with GAIL as the nodal agency.

K. CNG facilities in Delhi

Recommendation No. 23 (Para No. 2.23)

35. The Committee were unhappy to note the uneven installation of CNG stations in various zones of Delhi. While 44 such stations had been set up in South Delhi, East Delhi had only 14. The Central, North and West zones possessed 18, 20 and 26 stations respectively. It was very surprising that East Delhi, which was one of the most populous zones in Delhi, was having the least number of CNG stations. The Committee had been informed that IGL was making efforts to set up more CNG stations for which it had requested the land owning agencies to allot suitable sites. Besides, IGL had also requested the Oil Marketing Companies to offer more outlets to it for setting up CNG facilities. The Committee had recommended that a small but separate section be created in the IGL which might be exclusively assigned the job of pursuing/liaisoning with land owning agencies and OMCs for obtaining sites for CNG facilities. The Committee had been informed that a few sites were expected to be allotted to IGL by the land owing agencies shortly. The Committee had desired to be apprised of the factual position in this regard.

36. In its Action Taken Reply, the Ministry of Petroleum & Natural Gas has submitted the following details:-

> "IGL has five types of CNG stations : Daughter, Daughter Booster, Online, Mother and Mega CNG stations. The Mega CNG station has the maximum compression/dispensing capacity and also is spread over a bigger area than other station types.
>
> Though the number of stations that IGL has in the East Zone is 14, it has a Mega CNG station in Patparganj which is called Patparganj Mega CNG station. This particular station is not only the largest/highest selling CNG station in Delhi but also in the entire country. The said station has the facility to simultaneously refuel 6 buses and 10 non-bus category vehicles which is unparalleled across any of the zones and is catering to the following on a round-the-clock basis:
>
> - Buses : 600
> - Other Vehicles : 2000

The other stations in the area (including Mother and Daughter Booster stations) are geographically spread in such a manner that they are able to maintain queue-less operations.

In addition to the above, IGL is in talks with the Oil Marketing Companies (OMCs), for additional Retail Outlets where CNG facilities can be installed. Three such sites have been already identified for putting the CNG facility for which the feasibility study is at an advanced stage. The said facilities are expected to be operational by the end of March/April, 2005.

Moreover, IGL is also planning to take its steel pipeline network further in East Delhi area thus targeting to upgrade the existing 6 Daughter Booster stations to Mother/Online stations including one new DTC station thereby improving the situation further.

Over and above this, a dedicated team of personnel from IGL's planning department is in constant touch with the Land owing agencies, DDA, so as to get some more plots in East Delhi Area. Two such sites at IFC Pocket in Ghazipur (Mayur Vihar Phase III) have already been identified and are expected to be in the possession of IGL in the near future."

37. The Committee had specifically recommended that a small but separate section be created in the Indraprastha Gas Limited which may be exclusively assigned the job of pursuing/liaisoning with land owning agencies and OMCs for obtaining sites for CNG facilities. They regret to note that the reply of the Government is silent on this issue. The Committee would like to know the reasons for the same.

The Committee have been informed that IGL is in talks with the OMCs for additional Retail Outlets where CNG facilities can be installed. They have further been informed that three such sites have already been identified for putting CNG facility for which the feasibility study is at an advanced stage. The said facility is expected to be operational by the end of March/April,

2005. The Committee would like to be apprised of the factual position in this regard within three months from the date of presentation of this Report.

L. Petroleum Conservation Research Association

Recommendation No. 27 (Para No. 2.27)

38. The Committee had noted that the PCRA was implementing some promotional soft loan schemes in the industrial, transport and agriculture sectors to promote efficient use of energy and its conservation. The rate of interest charged on these loans was reduced from 8 per cent to 7 per cent per annum on reducing principal in November, 2001. The Committee had also noted that the loan amounts sanctioned and disbursed under these schemes had been showing a downward trend since 2001-02. The Committee had desired that the organisation should make an analysis of the declining trend of the sanctioned loan and disbursal amounts and take remedial measures in this regard. If necessary, the rate of interest charged on such loans might be reduced so as to encourage more consumers to go in for procurement/ installation of energy saving instruments which would lead to further energy conservation.

39. The Ministry of Petroleum & Natural Gas, in its Action Taken Reply, has submitted the following:-

> "For arresting the downward trend in the Soft Loan sanctioned and disbursed, PCRA has reported that the following strategies are under implementation:-
>
> 1. The Regional offices and Sub-Regional offices are being sensitized to spread the awareness about the Soft Loan Promotional Schemes to prospective beneficiaries.
>
> 2. An agenda for consideration in the next Executive Meeting proposing a lower rate of interest and other modifications in the existing scheme for Soft Loan shall be put up."

40. The Committee had desired that the Petroleum Conservation Research Association (PCRA) should make an analysis of the declining trend of the sanctioned loan and disbursal amounts and take remedial

measures thereon. They had recommended that if necessary, the rate of interest charged on such loans might be reduced. They have been informed by the Government that the matter of effecting reduction in the rate of interest and other modifications in the existing scheme for Soft Loan would be considered in the next Executive Meeting. The Committee would like to be apprised of the details of modifications suggested/decisions taken in the said Meeting.

CHAPTER – II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation No. 1 (Para No. 2.1)

The Committee note that several thrust areas have been identified in the Oil and Natural Gas Sectors for special attention during the 10th Five Year Plan. Some of the thrust areas are acceleration in exploration in deep offshore and frontier areas, obtaining equity oil and gas abroad, Improved Oil Recovery / Enhanced Oil Recovery, strategic storage of crude oil, Regulatory Mechanism to oversee consumer interests, refining capacity, etc. Though the Government has taken measures in all these areas, the results have not been very encouraging except in the area of expansion of refining capacity. A number of wells drilled during the 9th Plan did not prove to be hydrocarbon bearing leading to wasteful expenditure. A similar trend is being noticed in the 10th Plan also. In-place hydrocarbon accretion was low during the 9th Plan. A similar scenario has emerged in the 10th Plan too. Strategic storage of crude oil and the Petroleum Regulatory Board have still not been put in place. It seems that the Government has not learnt from the mistakes committed during the 9th Plan. The Committee desire that the Government should evaluate its programmes relating to each area carefully and implement the same in a time bound manner so that the objectives of identifying the thrust areas for special attention can be achieved during the 10th Plan.

Reply of the Government

During formulation of 10th Plan, several thrust areas, including acceleration in exploration in deep offshore and frontier areas, obtaining equity oil and gas abroad and Improved Oil Recovery / Enhanced Oil Recovery methods were identified to achieve the set targets of exploration and production during the Plan period.

As regards **acceleration in exploration**, the Government of India had announced the New Exploration Licensing Policy (NELP) in 1999. Till now, Production Sharing Contracts (PSCs) for 90 exploration blocks have been signed and 76% of Petroleum Exploration License (PEL) area is under NELP regime. Exploration efforts of the exploration companies have resulted in 19 hydrocarbon discoveries in the NELP exploration blocks. The fifth round of NELP is on the anvil.

As regards **oil equity abroad**, OVL along with other Indian Public Sector undertakings is pursuing exploration and development efforts outside India and has its presence in over 10 countries including Russia, Sudan, Vietnam, Iran, Libya, Syria, Myanmar, Iraq, Australia and Cote d' Ivoire. OVL's share of oil production from Sudan and gas production from Vietnam was 3.345 MMT and 0.523 BCM respectively in 2003-04. Equity oil from Sudan was first received in May, 2003 by MRPL Refinery. OVL's projected oil & gas production during 10th Five Year Plan is 5.2 MMT and 4.88 BCM respectively against which, the likely production as per revised projection by OVL will be around 16.45 MMT of crude oil and 4.41 BCM of natural gas.

During 9th Five Year Plan, 795 MMTOE of in-place hydrocarbon reserves were accreted and about 304 MMTOE oil & gas was produced. The 10th Plan projections are higher than the 9th Five Year Plan. This indicative projection in 10th Plan for the Exploration & Production (E&P) sector of the Petroleum Industry is a significant departure from earlier Five-Year Plans in the following critical aspects.

Firstly, under the previous system of awarding acreages to National Oil Companies (NOCs) on nomination basis, availability of exploration areas was assured and the estimation of the quantum of the future work to be undertaken was relatively straight-forward. The new system of awarding exploration blocks through international competitive bidding has introduced a large element of uncertainty and present projections for the medium/ long term are indicative in nature, based on the perception of acreage availability and likely to be available. *Hence the physical parameters given in the 10th Plan document are indicative in nature.*

The second aspect that distinguishes the 10^{th} Plan is regarding the issues emerging from the transformation of the upstream sector in the country into a competitive and market oriented business.

In Exploration & Production business long lead time is required from knowledge building to exploration activities to accretion of reserves and to put them on production. Therefore, the investments made during 9^{th} Plan period can not be treated as wasteful expenditure because knowledge building in the beginning and exploration leads obtained contribute to reserve accretion and production in subsequent years. Investment made during the 9^{th} Five Year plan on E&P activities resulted in addition of reserves as well as arresting decline from the major producing fields. ONGC is implementing IOR/EOR projects, which are likely to be completed within 10^{th} Five Year Plan period (2002-07).

In order to expedite the process of acreage appreciation and up gradation within the time of current PEL cycle and reserve accretion, the approach of forward modelling leading to sector specific and objective specific exploration planning is done. The acreages are categorised into high, medium and low prospectivity areas based on the potential of plays established, the risk perception and exploratory requirement in the present PEL cycle. The prospectivity analysis is a dynamic process and is continuously incorporated into the yearly input planning which is done to prioritize inputs by considering the priority areas, acreage holding position and minimum work programme commitment in the NELP acreages.

Based on the results obtained during the first two years of the plan period, ONGC and OIL are in the process of mid-term review of their X-Plan exploration programme which will further narrow down the thrust areas for the remaining period of X-plan.

With increase in refining capacity over a period of time, the country has emerged as a net exporter of petroleum products. During the year 2003-04, 14.6 MMT of petroleum products valued at Rs. 16,781 crores were exported. As the country is projected to continue to have surplus refining capacity in the foreseeable future, we would continue to be the net exporters of petroleum products.

The recommendations of the Committee on strategic storage of crude oil have been noted and necessary action is being taken to finalise the mode of financing.

Draft Petroleum Regulatory Board Bill prepared earlier by Ministry has been reviewed by new Minister (P&NG) and it has been desired that proposed Bill need to have provisions for:-

(a) Setting up of a technical body namely Oil & Gas Authority on the lines of Central Electricity Authority to advise on technical matters;

(b) Setting up of an Appellate Authority to sort out contentious, legal and technical issues among entities expeditiously;

(c) Salary and other terms & conditions of service of the officers and staff of the Board to be decided by the Board with the approval of Government.

Accordingly, a revised Bill is being prepared in consultation with Law Ministry. After consulting the other Ministries on issue as per procedural requirement, Cabinet approval would be sought for introduction of Bill in Lok Sabha. It is expected that this exercise would be completed before the Winter Session.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Recommendation No. 3 (Para No. 2.3)

The Committee are pleased to note that as against the target of 25.897 MMT of crude oil in 2002-03, the actual production by ONGC has been 26.005 MMT which is slightly higher than the target. However, in the year 2003-04, ONGC's actual production of crude oil has fallen short of the target. While the target was 26.387 MMT, the actual production was 26.057 MMT. The Committee also note that ONGC has been able to exceed the targets of natural gas production in both these years. While the targets for natural gas production were

23700 MMSCM and 23315 MMSCM in 2002-03 and 2003-04, the actual production was 24244 MMSCM and 23584 MMSCM respectively. The Committee are pleased that ONGC's actual gas production has exceeded the targets set in this regard. However, they are unhappy to observe that the actual production in 2003-04 has been less than that in 2002-03. The Committee desires to be apprised of the factors that led to such a scenario. The Committee would like the organization to make concerted efforts and improve its performance in future. As regards OIL, the Committee find that the OIL has failed to achieve its targets in crude oil and natural gas production in both these years. While the targets for crude oil production were 3.5 MMT and 3.6 MMT in 2002-03 and 2003-04 respectively, the actual production was 2.95 MMT and 3.002 MMT respectively. Similarly, in case of gas production, as against the targets of 2192 MMSCM and 2346 MMSCM in 2002-03 and 2003-04, the actual production was 1743.31 MMSCM and 1886.74 MMSCM respectively. The shortfall in production of crude oil has been attributed to depletion of producing fields, no medium to large size discovery since 1995, discovery of dry wells in the North Bank of Brahmputra contrary to expectations etc. The Committee feel that vigorous implementation of Improved Oil Recovery/Enhanced Oil Recovery methods and use of latest technology/equipments can improve the situation to a great extent. Besides, the quality of data needs to be improved to ensure that dry wells are not drilled, thereby saving wasteful expenditure in drilling. As regards meeting the natural gas production target, the Committee have been informed that it depends on the market upliftment in Assam, Andhra Pradesh and Rajasthan. The Committee recommend that the Ministry should take adequate steps to ensure such market development in these States after a detailed survey of demand not only in these States but also adjoining states. The assistance of GAIL may be sought in expanding the gas network.

Reply of the Government

ONGC

Crude oil production is based on the potential of producing fields, which goes on reducing from old fields which have crossed their plateau production and have entered into natural declining phase (a natural process in the production life of oil fields). Increase in production comes either through additional development in the existing fields or discovery of new fields, which can offset the decline from older fields. Similarly the trend of associated natural gas production generally follows the trend of crude oil production.

The steps taken by ONGC to increase production inter-alia include IOR/EOR Plans for Major fields and new initiatives and technology for production enhancement. Apart from this, more emphasis is given on acquisition of better quality seismic data, processing and interpretation.

With the ongoing implementation of IOR/EOR schemes, the natural decline of crude oil production has been arrested/reversed with improvement of the recovery factor of fields being operated by ONGC.

OIL

In order to improve crude oil production, the following steps have already been initiated by OIL.

- For EOR, OIL has already enhanced water injection rate to a level of 8000 Kilo Litres per day (KLPD) from 6000 KLPD in the beginning of 2003-04. Action is already in hand to increase water injection to 13500 KLPD in the next 3 years and for this procurement of equipment is in progress.

- New technologies/equipment are being deployed/ planned for enhancement of crude oil production e.g. 3D seismic, horizontal drilling, stimulation of sick wells, jet pump and electrical submersible pumps etc.

In order to raise the market demand of gas particularly in the North East, OIL has already taken steps to market gas on its own. OIL has also initiated necessary steps towards development of non-associated gas reserves by way of drilling of gas wells, work-over of wells for conversion as gas producers, construction of surface production and evacuation facilities.

Regarding the gas supply in Assam, Andhra Pradesh and Rajasthan, it may be mentioned that the gas market in these States, and for that matter in India is supply driven. The allocated demand is much more than the supply in all these States. Further, adequate pipeline infrastructure has also been developed by GAIL in Andhra Pradesh and Rajasthan, GAIL/Assam Gas Company Limited (AGCL) in Assam. However, efforts are being made to increase the availability of gas from the NELP blocks and imported LNG, which will be available at market determined prices.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Recommendation No. 5 (Para No. 2.5)

To provide a thrust to the deep water exploration programme, the Oil and Natural Gas Corporation Ltd. (ONGC) has launched a campaign called `Sagar Samridhi' to explore hydrocarbons in deep water areas of East and West Coast. The Committee have been informed that during the period 2002-04, ONGC has drilled 5 deep water exploratory wells. 3 out of these 5 wells have proved to be hydrocarbon bearing and accreted 25.01 MMT in-place volume of hydrocarbon. On the other hand, the Private Sector/Joint Venture Companies have managed to drill 10 exploratory wells during the period out of which 6 wells proved to be hydrocarbon bearing. The total initial gas in-place reserves for these 6 discoveries is estimated to be 393.9 BCM. The Committee also note that in the activities of collection of 2D and 3D data also, ONGC has lagged behind the Private/Joint Venture Companies. The Committee note that the ONGC has in-house capacity of drilling upto a water depth of 900 M. It has hired two deep water rigs with latest technology to drill beyond 900 M depth and engaged internationally reputed consultants to carry out risk mitigation. Moreover, it has no funds constraints. In-spite of having these capabilities/advantages, ONGC's performance/achievement in deep water drilling has not been as good as it should have been. Since deep water drilling involves huge investments, the Committee recommend that adequate precautions should be taken in the collection and interpretation of pre-drill seismic data so as to ensure that the drilling exercise does not turn out to be futile in the end.

Reply of the Government

A major thrust was given to deepwater exploration at the time of formulation of 10th Plan. To give impetus to deepwater exploration, project Sagar Sammriddhi was launched in August, 2003. This project, the biggest ever deepwater exploration campaign by a single operator any where in the world is in progress with 3 drill ships, Belford Dolphin, Discoverer Seven Seas and ONGC's own rig Sagar Vijay.

The current emphasis is on pre-drill risk reduction measures through validation of the interpretation carried out in house by internationally reputed consultants. The efforts include:

- As a risk reduction measure, ONGC is constantly making use of pre-drill 3D Acquisition, Processing & Interpretation (API) in different deep water areas. Based on this, prospects for test drilling have been firmed up. In this direction technological advances in data API in the form of volume attribute studies and AVO analysis have been used.

- Being a cost and technology intensive activity, for risk reduction, process validation through best in class internationally reputed consultants was also availed for firming up of deepwater locations.
- Large structural prospects have been test probed and additional plays available in the area are being analysed/ synthesized before firming up drillable prospects.
- Mid course correction is being worked out through Post-drill analysis to devise future exploration approach. Additionally, entire deep water exploration programme is being reviewed through Mid Term Review of 10th Plan.
- ONGC is pursuing consolidation of the leads obtained in the Krishna Godavari deepwater offshore.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Recommendation No. 6 (Para No. 2.6)

The Committee have been informed that 124 exploration blocks have been offered under the four rounds of exploratory bidding held under the New Exploration Licensing Policy (NELP) so far. Out of 124 exploration blocks, the Production Sharing Contracts have been signed for 90 blocks. Exploration has started in 80 out of 90 blocks and in the remaining 10 blocks, the requisite licenses/clearances are awaited. The Committee further not that under the NELP, 16 discoveries of oil and gas have been made between June 2001 and January 2003. The Committee find that the progress under the NELP Programme has been quite satisfactory. The Committee, therefore, recommend that the preparatory work relating to the next round of NELP bidding should be completed expeditiously. The Committee further recommend that adequate arrangements should be made to ensure proper dissemination of relevant data so as to attract prospective clients to do the bidding.

Reply of the Government

The fifth round of NELP is on anvil. In this regard preparation of digital Data Packages and Basin Information Dockets for about 20 identified blocks in going on. Further follow-up actions regarding environmental / Defence clearances etc. are being pursued.

Arrangements are being made to disseminate the data to prospective companies. An exclusive web portal highlighting the salient geo-technical aspects, play types, hydrocarbon prospect perceptions etc. would be launched on the day of announcement of NELP-V, as being followed in earlier rounds of NELP. This would facilitate the interested E&P companies all over the world to visit the site, download the contents and pre-study the relevant data.

Data viewing rooms would also be opened at Delhi, Houston and London to facilitate E&P companies to view the data, hold discussions and seek clarifications about the acreages on offer.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Recommendation No. 7 (Para No. 2.7)

The Committee note with concern that there has been an alarming increase in the import of crude oil over the years. The crude imports which were 34493 TMT during 1997-98, have gone up to 90434 TMT during 2003-04. The Committee further note that indigenous production of crude oil has remained more or less stagnant whereas the demand for petroleum products has been rising steadily leading to growth in import dependence. The import dependence in respect of crude oil to meet the domestic demand of petroleum products which was 61.3 per cent in the terminal year of the 8th Plan i.e. 1996-97, has risen to 70.7 per cent during 2003-04. The Committee have been informed that the import dependence is likely to increase further by the end of the 10th Plan period. Considering the hefty expenditure involved in the payment of the import bill and its deleterious impact on the economy, the Committee recommend that special initiatives should be taken to further increase the volume of exports and thereby compensate for the loss of foreign exchange caused by increasing import of crude oil to some extent. Since the country has surplus refining capacity, there should not be any problem on this front. Besides, other measures like vigorous implementation of energy conservation measures, aggressive exploration activities and tapping of alternative sources of energy can also go a long way in reducing the import dependence. The Committee recommend that the Government should implement these measures in the right earnest and endeavour to reduce the import dependence.

Reply of the Government

With increase in refining capacity over a period of time, the country has emerged as a net exporter of petroleum products. During the year 2003-04, 14.6 MMT of petroleum products valued at Rs 16, 781 crores were exported. As the country is projected to continue to have surplus refining capacity in the foreseeable future, we would continue to be the net exporters of petroleum products.

As regards conservation measures, Petroleum Conservation Research Association (PCRA) under the aegis of MoP&NG, is entrusted with the task of conservation of petroleum products and to spread synergetic linkages between oil conservation, economic development and environment protection. PCRA's efforts are directed at the four major sectors of the country's economy, viz. Industrial, Transport, Domestic and Agriculture Sector. The methods adopted include field activities, education campaigns, R&D activities and HRD activities.

As regards increasing E&P activities, the following measures have been taken:

(i) to improve the recovery factor from existing major fields by implementing Enhanced Oil Recovery (EOR)/Improved Oil Recovery (IOR) schemes; in particular Oil and Natural Gas Corporation Limited (ONGC) has taken up 15 fields for this purpose at an estimated investment of Rs. 10,000 crore, which would also help in accelerating oil production from these fields.

(ii) to increase exploration efforts through the New Exploration Licensing Policy (NELP); Under the four rounds of NELP, Production Sharing Contracts (PSCs) have been signed for 90 blocks.

(iii) to explore in new areas, especially in deep water and difficult frontier areas, as also explore in the deeper layers of the producing fields.

(iv) to develop faster the newly discovered fields and to step up the use of new technologies for seismic surveys, work over, stimulation operations, drilling of wells etc. in producing areas.

(v) to acquire acreages abroad.

(vi) Develop alternative sources such as CBM and gas hydrates etc.

On the issue of tapping of alternative sources of energy, it is submitted that this subject comes within the purview of Ministry of Non Conventional Energy Sources and accordingly the recommendations of the Committee are being forwarded to them for necessary action.

To the extent possible, Ministry of Petroleum & Natural Gas has been trying to implement the ethanol-blended petrol programme. Further work on bio-diesel and hydrogen as an alternative fuel for future is already in progress.

[M/o Petroleum & Natural Gas O.M. No.
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Comments of the Committee

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

Recommendation No. 8 (Para No. 2.8)

The country has achieved self-sufficiency in the refining sector. The Committee have been informed that during the first two years of the 10^{th} Plan, the refining capacity of the Oil Public Sector Undertakings has increased by 3.7 million metric tonnes per annum (MMTPA). The Committee have further been informed that Oil PSUs have proposed to set up four new refineries for which funds have been allocated during the 10^{th} Plan. The completion schedule of these projects is likely to spill over to the 11^{th} Plan. Besides, there are 4 refinery expansion projects which are in the process of being implemented. The total addition to the refining capacity on completion of these new and expansion projects would be to the tune of 31 MMTPA and 14.33 MMTPA respectively. The Committee recommend that due attention should be given to timely completion of these projects so as to ensure that there is no cost overruns on these projects. Besides, timely completion of these projects would also lead to early enhancement of the refining capacity which would enable the country to make more exports of petroleum products.

Reply of the Government

Major on-going projects are included in the Memorandum of Understanding signed by the Corporation with the Government. The progress of the projects is constantly monitored by the Government through Monthly Progress Report, Quarterly Performance Reports. Besides, the Board of Directors of the PSUs monitor the progress of the projects every month through a detailed Board agenda. The above reviews help the corporation to take stock of progress achieved and take corrective measures keeping in view the dynamic market conditions.

[M/o Petroleum & Natural Gas O.M. No.
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Recommendation No. 11 (Para No. 2.11)

During 2004-05, the total subsidy to the consumer per cylinder has been provisionally assessed as Rs. 112.77 out of which the Government's share is Rs. 40.65 and the under recoveries of Oil PSUs, Rs. 72.12. Similarly, in case of PDS kerosene, out of a total subsidy of Rs. 4.77 to the consumer per litre, the share of the Government is Rs. 1.47 and the under recoveries of Oil PSUs, Rs. 3.30. The estimated under-recoveries of the Oil Sector PSUs on domestic LPG and PDS kerosene during 2003-04 and the first quarter of 2004-05 have been Rs. 9367.00 crore and Rs. 3552.00 crore respectively. Thus, it may be seen that Oil Marketing PSUs such as IOC, BPCL, HPCL and IBP Ltd. are sharing a burden of subsidising domestic LPG and PDS kerosene. However, considering the financial health of the OMCs, the Committee believe that they should be in a position to absorb the subsidy burden. The companies except IBP Ltd. – which is an exclusively marketing company- are gaining high refining margins. Besides, they can also partly compensate the burden through the profits earned from petrol and diesel. Moreover, the Government is also involving other Oil Sector giants such as ONGC, OIL and GAIL in the process of sharing the subsidy to lessen the burden of OMCs. The Committee recommend that the policy of involving other Oil Sector PSUs in sharing the subsidy burden may be continued in future.

Reply of the Government

Ideally, the Government subsidies should be transparent and met directly from the Government budget. However, considering that there is a gap between the cost price and selling price of the PDS Kerosene and Domestic LPG, after accounting for the available Government subsidy, and non-increase in the selling price of these products, from the year 2003-04 onwards, the under-recoveries of Oil Marketing Companies on account of these products are being shared amongst the oil PSUs. The recommendation of the Committee has been noted please.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Recommendation No. 16 (Para No. 2.16)

The Committee note that the Ministry of Petroleum & Natural Gas is primarily a PSU based Ministry. They also find that most of these PSUs are self-dependent and as such their financial requirements are not reflected in the Demands for Grants of the Ministry. These PSUs manage their finance through internal generation or extra Budgetary resources or loans from reputed financial institutions in the country or external resources. The Demands for the year 2004-05 in respect of the Ministry of Petroleum & Natural Gas have been placed at Rs. 3573.42 crore under the Revenue Section. No provision has been made under the Capital Section. Out of the total Demand of Rs. 3573.42 crore, an amount of Rs. 3500.00 crore has been earmarked for subsidy on domestic LPG and kerosene for PDS and a sum of Rs. 59.00 crore has been allocated for freight subsidy on retail products for far-flung areas. While the BE in respect of subsidy on domestic LPG and PDS kerosene during 2003-04 amounted to Rs. 6300.00 crore, the same in respect of freight subsidy on retail products for far-flung areas was Rs. 246.00 crore during 2003-04. Besides these subsidy provisions, allocations have also been made for Secretariat-Economic Services (Rs. 10.42 crore) and the Petroleum Regulatory Board and Anti-Adulteration Cell (Rs. 2.00 crore each). An identical provision of Rs. 2.00 crore each was made in respect of the Petroleum Regulatory Board and Anti-Adulteration Cell in the BE of 2003-04. However, in case of the Secretariat-Economic Services, the BE of 2004-05 has exceeded the BE of 2003-04 by Rs. 2.14 crore. The increase has been attributed to Annual incremental growth and impact of Dearness Allowance, renovation of office accommodation, purchase of hardware/software, setting up of computer centre, overtime allowance to meet the exigencies of work, foreign and domestic travel in connection with the New Exploration Licensing Policy, grant-in-aid for the Fuel Testing Laboratory, etc. Since the Demands of the Ministry appear to be justified, the Committee endorse the same. However, they recommend that the Ministry should contain the expenditure for the year within the sanctioned Budget of the Ministry and follow the instructions of the Ministry of Finance to observe austerity in Non-Plan expenditure.

Reply of the Government

It has always been the endeavour of this Ministry to contain the administrative expenditure within the sanctioned budget grant by following the guidelines on expenditure management and austerity. The following table reflect the sanctioned budged and actual expenditure during the last three years under Major Head '3451' – Secretariat – Economic Services:

(*Rs. in lakh)*

Year	2001-02	2002-03	2003-04
Budget Estimates	721.00	943.00	828.00
Actual	635.00	694.36	734.07

Sincere efforts will also be made to keep the expenditure within the sanctioned budget for the year 2004-05.

[M/o Petroleum & Natural Gas O.M. No. G-25015/3/2004-Fin.I dated 3.12.2004]

Recommendation No. 21 (Para No. 2.21)

The Mangalore Divisional Office of the IOCL has launched a premium grade of petrol 'XTRAPREMIUM' in the city of Mangalore in May, 2004. By keeping the engine deposit-free, this brand of petrol enables vehicles to deliver peak performance. The Committee have been informed that XTRAPREMIUM has so far been launched in as many as 312 cities/towns. The cost of this fuel is almost similar to HPCL's premier petrol brand of 'POWER' and slightly more than the normal brand of petrol in Mangalore city. The Committee feel that launching of this brand would lead to healthy competition among Oil Marketing Companies, ultimately leading to improvement in the quality of fuel. The Committee would like the Marketing Divisions of the OMCs to conduct a survey of the vehicle owners using premium brand of petrol and obtain feedback from them in regard to the pros and cons of their premier grade. This would enable the OMCs to bring in further improvements in their products.

Reply of the Government

The multi-functional additives in the branded fuels clean the fuel injection system and the intake valves of the engines. Deposit formation in the fuel injectors and intake valves is a common phenomenon and can affect the performance of the engine adversely. The deposits lead to improper burning of fuel in the engine, which directly results in lower fuel efficiency, higher emission level, loss of power & acceleration and an over-all reduction in life of the engine. By cleaning the deposits, the multi-functional additives restore the optimal burning of fuel in the engine and result in better fuel efficiency, lower emission levels, better power and acceleration and improvement in the engine life.

Regular interactions with the customers at the Retail Outlets and the surveys/tests carried out have revealed that the customers are extremely happy with the usage of premium brand of petrol and have experienced one or more of the following benefits:-

- Extra Milage
- Extra Power and greater acceleration
- Easy starting
- Smoother running
- Knock-free drive
- Reduced emissions

In view of the positive response from the customers, steps have been taken by the Oil Marketing Companies to expand the coverage of premium brand of petrol by launching them in new markets and in additional Retail Outlets at existing markets. Regular interactions with the Customers are being made to obtain continuous feedback on the performance of the Premium fuels and the benefits derived by the Customers.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Recommendation No. 24 (Para No. 2.24)

The Committee would like to point out that in view of the growth in demand of petroleum products and more or less stagnant domestic production of crude oil, the development of alternative sources of hydrocarbons has assumed increasing significance. In this connection, Coal Bed Methane (CBM) and Gas Hydrates have the potential to prove to be important alternatives. The Committee have been informed that the Government has formed a CBM policy. It has signed 16 contracts for exploration and production of CBM in the country. Exploration activities in the blocks for which Petroleum Exploration License has been granted by the respective State Governments, have already commenced. The Committee have further been informed that the commercial production of CBM from one of the awarded blocks is likely to start by 2006-07. The Committee regret to observe that the CBM programme did not get the degree of attention which it should have got. Though there are abundant resources of methane in the country, the progress in their exploration has been rather slow. The Committee recommend that the frequency of exploration bids for these blocks should be increased, as faster development/exploration of CBM blocks would go a long way in achieving energy security. The Committee desire to be apprised of the block-wise progress of CBM exploration and production so far and the programme for the next two years alongwith specific milestones anticipated to be achieved during this period.

Reply of the Government

Two rounds of bidding for award of contract for exploration and production of CBM in the country has been completed so far. The first offer of CBM bidding was announced by the Govt in April, 2001 and second offer in May, 2003. 16 contracts for exploration and production of CBM have been signed. In order to increase the pace of development / exploration of CBM, DGH has identified about seven blocks in different coalfields of the country likely to be offered in 3rd round of CBM.

The details of block-wise minimum work commitment and progress of CBM exploration are given in the following Table. The work for next two years would be carried out as per the minimum work commitment of the block as given in the table.

Table : Status of Work Progress in CBM Blocks

A. Blocks awarded through CBM-I Bidding Round

SL. No.	Block Details	Awardee (P.I.%)	Contract Work Programme (MWP)	Work Progress and Status (As on 15.08.2004)
1	**Block**: Bokaro (BK-CBM-2001/1) **Area** : 95 sq.km. **State**: Jharkhand	ONGC – 80% (Operator) IOC – 20% (*Consortium*)	**Exploration Phase (Phase-I) :** 2 years (21.2.03 – 20.2.2005) • 8 Coreholes • 2 Test wells **Pilot Asses. & Market Survey (Phase-II) :** 4 years • 12 Pilot Wells	• Contract signed on 26.7.02 • PEL granted on 21.2.03 • Corehole drilling started on 18.11.2003 • Drilling & geophysical logging of 6 coreholes completed. 7th corehole is in progress (510 m). • CBM related studies on coal cores is in progress • Test well location finalised. • NOC from Jharkhand Pollution Board received.
2	**Block**: North Karanpura (NK-CBM-2001/1) **Area** : 340 sq.km. **State**: Jharkhand	ONGC – 80% (Operator) IOC – 20% (*Consortium*)	**Exploration Phase (Phase-I) :** 2- ½ years (21.2.03 – 20.8.2005) • 9 Coreholes • 2 Test wells **Pilot Assess. Phase and Market Survey** (Phase-II) **:** 4 years • 6 Pilot Wells	• Contract signed on 26.7.02 • PEL granted on 21.2.03 • Corehole drilling started on 17.11.2003 • Drilling & geophysical logging of 7 coreholes completed. • CBM related studies on coal cores is in progress • Test well location finalised. • NOC from Jharkhand Pollution Board received. • Drilling of Test wells to start soon
3	**Block:** Sohagpur East (SP(East)-CBM-2001/1) **Area :** 495 sq.km. **State:** Madhya Pradesh	RIL – 100% (Operator)	**Exploration Phase (Phase-I) :** 2 years (29.10.02 – 28.10.04) • 8 Coreholes • 2 Test wells(but RIL proposed to drill 5 wells in a cluster) **Pilot Assess. And Market Survey** (Phase-II) : 2 years • 10 Pilot Wells	• Contract signed on 26.7.2002 • PEL granted on 29.10.2002 • Corehole drilling started in May, 2004. • Drilling, geophysical logging and injection fall off test in 6 coreholes completed. • CBM related studies on coal cores is in progress • Test well location finalised, well to be drilled soon. • Initial Environmental Impact Assessment (IEIA) studies completed and report submitted. • Technical tie up done with ARI of USA.

4	**Block:** Sohagpur West (SP(West)-CBM-2001/1) **Area :** 500 sq.km. **State:** Madhya Pradesh	RIL – 100% (Operator)	**Exploration Phase (Phase-I):** 2 years (29.10.02 – 28.10.04) • 8 Coreholes • 2 Test wells(but RIL proposed to drill 5 wells in a cluster) **Pilot Asses. & Market Survey (Phase-II)** : 2 years • 10 Pilot Wells	• Contract signed on 26.7.2002 • PEL granted on 29.10.2002 • Corehole drilling started on 3rd March, 2004. • Drilling and geophysical logging of 4 coreholes completed. 5th corehole is in progress. • CBM related studies on coal cores is in progress • Test well location finalised • Test well drilling to start by September, 2004 • Initial Environmental Impact Assessment (IEIA) studies completed and report submitted. • Technical tie up done with ARI of USA.
5	**Block:** Raniganj East RG(East)-CBM-2001/1 **Area :** 500 sq.km. **State:** West Bengal	Essar Oil Ltd. : 100% (Operator)	**Exploration Phase (Phase-I):** 2 years • 12 Coreholes • 15 Test wells • 120 LKM of HRSS Survey **Pilot Asses.& Market Survey: (Phase-II)** : 3 years • 75 Pilot Wells	• Contract signed on 26.7.2002 • PEL awarded vide letter dt. 02.06.2003. Execution of signing of PEL deed with the State Govt. awaited.

B. Blocks awarded on nomination basis

Sl. No	Block Details	Awardee (P.I.%)	Contract Work Programme (MWP)	Work Progress and Status (As on 15.08.2004)
1	**Block:** Jharia **Area :** 85 sq.km. **State:** Jharkhand	ONGC – 90% (Operator) CIL – 10% (Coal India Ltd.)	**Exploration Phase (Phase-II) :** 3 years (28.8.2003 – 27.8.2006) • 8 Coreholes • 2 Test wells **Pilot Assess. & Market Survey: (Phase-II):** 4 years 11 Pilot Wells.	• Contract signed on 6.2.2003 • PEL granted on 28.8.2003 • Location of corehole and test well finalised • Drilling of corehole and test well likely to start soon • Last SCM held on 18.5.2004 ***Note**: Before the award of the block, ONGC drilled 6 coreholes and 4 test wells under R&D activities in Parbatpur sector of the block.* ***One test well No. JH-2 is producing @ about 7000 cu.mt. / day.]***
2	**Block:** Raniganj **Area :** 350 sq.km. **State:** West Bengal	ONGC – 74% (Operator) CIL – 26% (*Consortium*)	**Exploration Phase (Phase-II) :**3 years • 8 Coreholes • 1 Test well **Pilot Assess. & Market Survey: (Phase-II)** 3 years • 2 Pilot Wells	• Contract signed on 6.2.2003 • PEL granted on 9.6.2004. Execution of signing of PEL deed with the State Govt. awaited. ***Note**: Before the award of the Block, ONGC drilled 7 coreholes under R&D activities for CBM related studies and resource assessment.*
3	**Block:**Raniganj South	GEECL : 100%	**Exploration Phase (Phase-I): 3 years**	• Contract signed on 31.5.2001 • PEL awarded vide letter dt. 9.11.2001

	Area : 210 sq.km. **State**: West Bengal	(Great Eastern Energy Corpn.Ltd.)	• 2 coreholes drilled, report submitted *Phase-I MWP Completed* **Pilot Assess. And Market Survey**: (Phase-II) (5 years) (9.11.01 – 8.11.06) • 3 Pilot wells • 1 Corehole	• Initial Environmental Impact Assessment (IEIA) studies completed and report submitted. • Drilling & hydrofracturing of all the 3 Pilot wells completed; • Dewatering in all the 3 pilot wells is in progress. • Injection fall off test in pilot well (SN-3) done. • Drilling of 1 corehole completed in Dec.2003; CBM related studies on coal core are in progress. • Market Survey & Commitment study completed.

C. Blocks awarded through CBM-II Bidding Round

SL. No.	Block Details	Awardee (P.I.%)	Contract Work Programme (MWP)	Current Status (As on 15.08.2004)
1	**Block**: South Karanpura (SK-CBM-2003/II) **Area** : 70 sq.km. **State**: Jharkhand	ONGC – 100% (Operator)	**Exploration Phase (Phase-I) : 2 years** • 10 Coreholes • 3 Test wells **Pilot Asses. & Market Survey (Phase-II) : 4 yrs** • 13 Pilot Wells	• Contractor has submitted PEL application to the State Government. PEL awaited
2.	**Block**: North Karanpura (NK(West)-CBM-2003/II) **Area** : 267 sq.km. **State**: Jharkhand	ONGC – 100% (Operator)	**Exploration Phase (Phase-I) :** 2 years • 10 Coreholes • 3 Test wells **Pilot Asses. & Market Survey (Phase-II) :** 4 years • 10 Pilot Wells	• Contractor has submitted PEL application to the State Government. PEL awaited
3.	**Block**: Satpura (ST-CBM-2003/II) **Area** : 714 sq.km. **State**: Madhya Pradesh	ONGC – 100% (Operator)	**Exploration Phase (Phase-I) :** 2 years • 3 Corehole **Pilot Asses. & Market Survey (Phase-II) :** 4 years • 3 Pilot Wells	• Contractor has submitted PEL application to the State Government. PEL awaited

4.	**Block**: Wardha (WD-CBM-2003/II) **Area** : 503 sq.km. **State**: Maharashtra	ONGC – 100% (Operator)	**Exploration Phase (Phase-I) :** 2 years • 2 Coreholes **Pilot Asses. & Market Survey (Phase-II) :** 4 years • 2 Pilot Wells	• Contractor has submitted PEL application to the State Government. PEL awaited
5.	**Block**: Barmer (BS(3)-CBM-2003/II) **Area** : 790 sq.km. **State**: Gujarat	ONGC – 70 % (Operator) GSPCL- 30 %	**Exploration Phase (Phase-I) :** 2 years • 8 Coreholes • 2Test wells **Pilot Asses. & Market Survey (Phase-II) :** 4 years • 12 Pilot Wells	• Contractor has submitted PEL application to the State Government. PEL awaited
6.	**Block**: Barmer (BS(2)-CBM-2003/II) **Area** : 1020 sq.km. **State**: Rajasthan	Reliance – 100% (Operator)	**Exploration Phase (Phase-I) :** 2 years • 8 Coreholes **Pilot Asses. & Market Survey (Phase-II) :** 4 years • 10 Pilot Wells	• Contractor has submitted PEL application to the State Government. PEL awaited
7.	**Block**: Barmer (BS(1)-CBM-2003/II) **Area** : 1045 sq.km. **State**: Rajasthan	Reliance – 100% (Operator)	**Exploration Phase (Phase-I) :** 2 years • 8 Coreholes **Pilot Asses. & Market Survey (Phase-II) :** 4 years • 10 Pilot Wells	• Contractor has submitted PEL application to the State Government. PEL awaited
8.	**Block**: Sonhat SH(North) -CBM-2003/II) **Area** : 825 sq.km. **State**: Chattisgarh	Reliance – 100% (Operator)	**Exploration Phase (Phase-I) :** 2 years • 10 Coreholes **Pilot Asses. & Market Survey (Phase-II) :** 4 years • 10 Pilot Wells	• Contractor has submitted PEL application to the State Government. PEL awaited

[M/o Petroleum & Natural Gas O.M. No. G-25015/3/2004-Fin.I dated 3.12.2004]

Recommendation No. 25 (Para No. 2.25)

The Committee are pleased to note that a time bound programme for exploration and development of gas hydrates as an alternative source of hydrocarbon is being implemented under the National Gas Hydrates Programme (NGHP) for which roadmap has been finalized. Based on detailed analysis of seismic data, three best areas in East Coast, West Coast and Andaman have been identified for further scientific investigation. The Committee have been informed that the Government plans to carry out pilot studies for production of gas from gas hydrates in one of the three best areas by the year 2006-07 and depending on the success of the pilot studies, pre-production Techno-Economic Studies can be planned beyond 2008. The Committee have further been informed that the technology for production of gas from gas hydrates is not available anywhere in the world at present and that the NGHP scientific team is engaged in vigorous R&D studies to develop a suitable technology. The committee are pleased to note that a roadmap for the NGHP has been finalized. They desire that all activities on the project be carried out as per the road map. The Committee also recommends that more emphasis should be given to R&D activities. For this purpose, only those scientists, who possess adequate expertise, should be appointed. They further recommend that scientists achieving significant breakthroughs, should be given extra financial benefits, besides commendation certificates. The Committee have no doubt that our scientists will leave no stone unturned in achieving their goal.

Reply of the Government

At present all the activities under NGHP and its projects are being implemented as per the NGHP road map. National Gas Hydrate Programme being basically an R&D programme, full emphasis is being given on R&D activities. The scientists who are engaged in the NGHP technical projects, are highly experienced and possess adequate expertise in oil and gas exploration/production and also have got good exposure to the gas hydrate related scientific activity. The scientists/engineers working under NGHP are working with R&D institutes of ONGC, GAIL, CSIR research institutes, and Department of Ocean Development.

As desired by the Committee, MOP&NG could consider reward in terms of financial benefits for the scientist achieving significant break through.

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Recommendation No. 26 (Para No. 2.26)

The Petroleum Conservation Research Association (PCRA) is undertaking a number of activities such as energy audits, fuel oil diagnostic studies, driver training programmes, workshops, exhibitions, demonstration centres for energy saving in agriculture, rectification in lift irrigation pumps, etc. to promote energy conservation. As a result of the activities of the organisation, considerable quantities of oil have been saved over the years. The Committee have been informed that the savings achieved during the years 2001-02, 2002-03 and 2003-04 were 65612, 79938 and 58201 kilo litres of oil equivalent respectively. The Committee appreciate the efforts made by the PCRA towards achieving energy conservation. However, they are unhappy to note that the number of fuel oil diagnostic studies came down to 271 in 2002-03 from 363 in the year 2001-02. This was further reduced to 232 in 2003-04. Similarly, another field activity viz. follow up activity also showed a declining trend after 2001-02 – reduced from 1647 in 2001-02 to 1181 in 2002-03 and further to 717 in 2003-04. Again, in case of another field activity viz. awareness building and energy audit in SSI, shortfalls have been registered in the years 2002-03 and 2003-04 as compared to the year 2001-02. While the number of such activity was 389 in the year 2001-02, it came down to 318 in 2002-03 although subsequently it slightly increased to 378 in 2003-04. The Committee do not approve of this declining trend in the field activities of the PCRA. They desire that the organisation should put in more efforts and step up its field activities in future.

Reply of the Government

The direction given by the Standing Committee on Petroleum & Natural Gas (2004-05) in its First Report has been communicated to PCRA, for stepping up its field activities in future.

It has been submitted by PCRA for information of the Committee that during 2002-03 and 2003-04 the focus has been on conducting quality Energy Audits which require more time and efforts of the Field Engineers. The efforts in improving quality of these audits is reflected in the increase in Revenue Generation from Rs. 19.76 lakh in 2001-02 to Rs. 49.21 lakh in 2003-04.

A few of the prestigious Energy Audits carried out during 2003-04 are as under:-

Sl. No.	Name of Organisation	Location	Potential Saving Identified (Rs. in lacs)
1.	IOCL	Guwahati Refinery	228.14
2.	IBP Terminals	14 Nos.	132.84
3.	ONGC	Uran & Hazira	127.57
4.	GAIL	Pata	1319.53
5.	Scooter India Limited	Lucknow	92.83
6.	Stair Wire India Limited	Haryana	80.47

However, PCRA would make all efforts to step up its field activities in future.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Recommendation No. 28 (Para No. 2.28)

The Committee are concerned to note that as admitted by the CMD, Oil & Natural Gas Corporation Limited (ONGC) during evidence, pilferage of crude oil is taking place on a large scale but it has not been possible to penalize the persons involved in pilferage as per the law of the land. This is in-spite of the fact that apart from the local police, ONGC has its own security of about 4000 personnel in Gujarat. The Committee take a serious view of the matter and feel that the present arrangements to check/stop the pilferage of crude oil are not adequate. Therefore, the Committee desire that the Ministry should take immediate and stringent steps to curb the pilferage. If need be, assistance of the CBI may be sought in the matter. The Committee would like to be apprised of the action taken in the matter.

Reply of the Government

The problem of Theft / Pilferage of Crude Oil in the State of Gujarat dates back to the commencement of ONGC Production activities in the State. The problem grew with rapid industrialization of the State and consequent demand for cheap fuel for industrial use in Boilers, Furnaces, Brick Kilns, and Ceramic Industries. As a result of the very high demand for the Crude Oil, its Theft / Pilferage is now managed by well-organised groups of criminals with enough expertise and know-how to puncture the Pipelines / Flow-lines, manipulation of Valves, Wellheads and Flow-lines, equipped with facilities for storage of Crude and its transportation for marketing through Tankers.

Though the Oil fields in Gujarat extend over a vast area and are remotely located, yet they are well connected by a network of roads which permit fast and free movement of vehicles with stolen Crude Oil. The Oil Fields and Installations of Western Region have a spread of over 1,60,000 Square KMs of Area in Gujarat and Rajasthan with more than 4360 Oil & Gas Producing Wells, 1900 Kms of

Trunk /Feeder Oil Pipeline, 7900 Kms of Oil & Gas Pipeline and 196 Production Installations.

ONGC Security was successful in detecting a number of Theft / Pilferage cases and reporting them to the Jurisdictional Police Authority for investigation and bringing the culprit to books. The Crime Data for the period 1995 – 2004 (10 years) is annexed.

<u>The following Preventive Measures were taken by ONGC in last few years to curb the incidents</u>:

(1) A Special EC Meeting (218th EC Meeting) was held on 20.02.2002 to review Theft / Pilferage of Crude Oil and to augment Security Measures in Western Region. Various decisions taken in the EC Meeting are implemented / in the process of implementation.

(2) A detailed Survey of Trunk Pipeline was conducted and based on history / data/ number of incidents and modality of puncturing, vulnerable areas were identified, and Line-Walker System instituted to cover the vulnerable area and to report and detect any tampering / unusual activities. In addition, a Trunk Pipeline (TPL) Patrolling System was constituted for TPL Patrolling at Asset level.

(3) Mobile Patrolling of Oil Field with Representatives from Jurisdictional Police to maintain vigil in the Oil field areas.

(4) Vulnerable and high-yielding Self-flow Wells / Sucker Road Pump (SRP) Wells were brought under Sarpanch Security System / Gram Rakshak Dal in Mehsana and Ahmedabad.

(5) Vulnerable Areas and Roads have been identified in consultation with the Jurisdictional Police Authorities for conducting Mobile Nakabandi by joint team of Local Police and ONGC Security Personnel to check unauthorized movement of Crude Oil Tankers. Similarly, with the help of Civil Administration, movements of Tankers from dusk-to-dawn in Oil Field Areas were banned in few highly-affected districts.

(6) In order to sensitize the local populations about the serious environmental, Safety and Fire hazards involved in Crude Oil Theft and Pilferage, Audio-visual projections were organized in villages.

(7) Effective Liaison and coordination is maintained with District and State-level Police Authorities to ensure prompt reporting and investigation and follow-up on all reported / detected cases of Pilferage and Theft.

(8) Onland Security Coordination Committee Meetings are held every quarter under the chairmanship of DG, Police Gujarat and attended by representatives from Civil Administration / Jurisdictional Police Authorities to review the prospective plan and activities of ONGC and for exchange of information required for prevention of Crime, ensuring Security, and maintaining better coordination with the Police.

(9) In order to motivate the Security personnel and Jurisdictional Police to ensure prevention and detection of Theft / attempted Theft / Pilferage and Transportation of Crude, Rewards are distributed to Police Officers who detected and busted the Gangs involved in Oil Theft / Pilferage / Transportation of stolen Crude Oil.

(10) For obtaining actionable Intelligence on Crude Oil Theft and Pilferage, Funds are provided to Security Branch.

(11) ONGC has requested the Gujarat Government to raise a dedicated State Police Battalion for ONGC Security duties in the State of Gujarat so that the immediate Security concern particularly the integrity of Trunk Pipelines and other Flow-lines can be ensured through regular and dedicated patrolling by Police personnel.

(12) ONGC is also examining the possibility of putting in place a Pipeline Monitoring System which can detect any third party intervention on the Pipeline in real-time so that Security can respond immediately for preventing / apprehending the criminals.

(13) All cases of Attempted Theft / Theft / Pilferage of Crude Oil are reported to Jurisdictional Police Authorities by filing FIR. ONGC Security is also getting progress of investigation by the Police Authorities through regular liaison.

The investigation / charge sheeting of case is the responsibility of Jurisdictional Police Authority.

(14) The process of ensuring the safety and security of oil installations is a continuous one, Both ONGC and the Ministry are constantly keeping a watch on this. The Ministry is processing separately the recommendation of the Standing Committee of Parliament for seeking the assistance of CBI in the matter, if needed

ONGC SECURITY – WESTERN REGION – CRIME DATA (CRUDE OIL)

Sl. No	ITEM	CALENDAR YEAR										
		1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**Total**
1	**Total Number of Theft / Pilferage cases reported**	13	9	25	22	11	25	23	54	43	16	**241**
4	**Total No of Persons arrested by Police**	26	15	113	67	53	32	72	130	75	21	**604**
5	**Total No of Vehicles seized by Police**	3	3	17	13	5	6	13	21	16	26	**123**

[M/o Petroleum & Natural Gas O.M. No. G-25015/3/2004-Fin.I dated 3.12.2004]

CHAPTER –III

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

Recommendation No. 22 (Para No. 2.22)

The Committee note with satisfaction that the Government has a number of proposals for the expansion of the CNG system to various parts of the country. The Committee have been informed that GAIL, in association with Oil Marketing Companies, proposes to introduce the system in various polluted cities of the country in a phased manner. The Indraprastha Gas Limited proposes to expand its CNG infrastructure in Faridabad, NOIDA and Gurgaon. The Mahanagar Gas Ltd. also plans to increase its distribution network to Thane and Navi Mumbai. GAIL is carrying out detailed feasibility study for CNG projects in Kota and Indore. GAIL also proposes to introduce the system in Agra, Lucknow, Kanpur, Pune and Bareily through Joint Ventures. GAIL has also formed a Joint Venture Company to implement City Gas Distribution Projects in Andhra Pradesh. The Committee appreciate the efforts made by the Government in the direction of introduction of the CNG system in various parts of the country. However, the Committee regret the complete lack of planning in extending the CNG system to the cities in the eastern region of the country such as Kolkata, Patna, Bhubaneswar and Ranchi. They desire that utmost importance/ priority is accorded to these projects so as to ensure their implementation in a time-bound manner. Special care should be taken to ensure that these important projects do not result in time overruns owing to lack of funds.

Reply of the Government

Supply of CNG in any city requires the following facilities:

- Source of natural gas supply – usually through trunk pipeline;
- A natural gas distribution network in the city;
- CNG dispensing station comprising of basic facilities – access to the gas distribution network, CNG compressors, cascades and dispensers.

There is no natural gas pipeline in the Eastern States of West Bengal, Bihar, Orissa and Jharkhand. The nearest source of gas supply is GAIL's Jagdishpur terminal which is nearly 800 Kms. from Kolkata. CNG projects in these cities will only be taken up when source of gas is identified and it is found feasible to lay pipelines to supply gas for CNG projects. Funds are no constraint. The observations of the Committee have been noted for guidance.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

CHAPTER – IV

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

Recommendation No. 2 (Para No. 2.2)

The demand of petroleum products in the terminal year of the 10^{th} Plan i.e. 2006-07 has been projected as 134.6 MMT. This demand target for 2006-07 may get reduced to 120.4 MMT in view of the low demand of petroleum products in the last two years of the 9^{th} Plan and also the increasing share of the service sector in GDP. The Committee note that the projected annual rate of growth in consumption of petroleum products during the 10^{th} Plan is 3.7 per cent and the actual growth rate during the first two years has been same as the projected growth rate i.e. 3.7 per cent. The Committee have further been informed that during the first quarter of the year 2004-05, the consumption of petroleum products has grown by over 10 per cent. As against the projected demand of 134.6 MMT, the projected crude oil production in 2006-07 is 33.97 MMT only. In order to reduce the widening gap between the demand and production, the Committee recommend that the ONGC and OIL should vigorously pursue the accretion process. The Committee are aware that a number of oil/gas discoveries have been made recently from the blocks offered under the New Exploration Licensing Policy. In view of the encouraging results obtained from the NELP, the Committee recommend that the frequency of bids under this policy should be enhanced.

Reply of the Government

To accelerate the exploration programme, the Government of India announced the New Exploration Licensing Policy (NELP) on 8^{th} January 1999. Since then, four rounds of NELP have been held so far and Production Sharing Contracts (PSCs) for 90 exploration blocks have been signed.

The technical data available in the identified blocks are required to be collected from the respective agencies namely, ONGC, OIL and different operating Pvt./JV companies. This data is digitized, key seismic lines are reprocessed for value addition and entire data is re-interpreted. New time-structure maps are prepared, new play types are identified and new geological models are prepared so that more E&P companies come forward and participate in the bidding process. The entire process i.e. collection of data, reprocessing, re-interpretation and preparation of updated Basin Information Dockets and digital block-wise Data Packages usually takes about 8-9 months. Before offering of the blocks under NELP rounds, inter-Ministerial clearances for the blocks have to be obtained from Ministry of Defence, Ministry of Environment & Forest, Ministry of External Affairs and Ministry of Home Affairs.

It can be seen from the above, that offering of blocks under NELP rounds involves multiple activities, which usually take about one year and any obstacle in any activity may affect the process further thereby affecting the offering of blocks.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

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

Recommendation No. 10 (Para No. 2.10)

Under the scheme of subsidy on domestic LPG and PDS kerosene, the Government is providing subsidy on these items. During the Administered Pricing Mechanism (APM) period i.e. upto 31.3.2002, domestic LPG and PDS kerosene were being cross-subsidised through the Oil Pool Account. After the dismantling of the APM i.e. w.e.f. 1.4.2002, the Government subsidy is being decided on flat rate basis. Apart from the Government, the Oil Sector PSUs have also been sharing the burden of subsidising PDS kerosene and domestic LPG. The

Committee have been informed that at the time of APM dismantling, the Government had decided that the subsidy on these items would be phased out over a period of 3 to 5 years from 1.4.2002. However, the Ministry of Finance subsequently expressed the view that subsidy should be phased out in 3 years and made Budgetary allocations accordingly. The Committee have further been informed that the Ministry of Petroleum & Natural Gas has requested the Ministry of Finance to make Budgetary provisions in line with 5 years phase-out period. The Committee feel that the phase out of the subsidy on LPG and PDS kerosene would adversely affect the common man. After dismantling of APM, the prices of petroleum products have become market determined. Under the circumstances, people are facing two types of burdens. On one side, they are bearing the burden of increased import duty, excise duty and sales tax as the fuel prices increase globally and on the other side, they are paying higher prices decided by the Oil Companies because of increased refining margin. The Committee feel that there should be minimum increase on fuel and non-fuel cost so as to lessen the burden of the common man. This could be achieved by continuing subsidy on domestic LPG and PDS kerosene.

Reply of the Government

Government have already decided to extend the subsidy for a period of five years effective 1.4.2002 on domestic LPG and PDS Kerosene, i.e. uptil 31.3.2007. With a view to containing the pressure of increase in international prices of these products on the domestic consumer prices, the following fiscal measures have been taken:

(i) The excise duty on domestic LPG has been reduced from 16% to 8% effective 16.6.2004.

(ii) The customs duty on domestic LPG and PDS Kerosene has been reduced from 10% to 5% effective 19.8.2004. In addition, excise duty on Kerosene has been reduced from 16% to 12% effective 19.8.2004.

In addition to the above, it may be noted that despite increase in international prices, the domestic consumer prices of domestic LPG and PDS Kerosene have not been increased after 1.3.2002 except for an increase by Rs. 20/cylinder in the Retail Selling Price (RSP) of domestic LPG effective 16.6.2004.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

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

Recommendation No. 12 (Para No. 2.12)

The Oil Industry Development Board (OIDB) was set up in the year 1975 under the Oil Industry (Development) Act, 1974 to provide financial assistance for the development of the Oil Industry. Funds are made available to the OIDB by the Central Government from the proceeds of cess levied and collected on indigenous crude oil so as to enable the organisation to carry out various developmental activities. The current rate of cess on crude oil produced in the country is Rs. 1800 per tonne since March, 2002. The Committee regret to note that no amount generated out of cess levied on crude oil has been allocated to the organisation since 1992-93. As admitted by the Secretary, the annual average of such cess comes to about Rs. 5000.00 crore which over a period of 12 years would amount to about Rs. 100000.00 crore including interest. This amount has not been made available to the OIDB or the Ministry of Petroleum and Natural Gas. In the Committee's view, there is no justification in levying the cess if the amount generated from it is not being utilised for the development of the oil sector. The Committee recommend that a Price Stabilisation Fund should be created to bring in stabilisation in the prices of petroleum products by using the money collected from cess on crude oil. This fund should be utilised to absorb fluctuations in the international price of crude oil. Funds may be credited or debited in this fund depending upon the fall or rise in international prices. This amount can also be used as a cushion in case of reduction in the import duty/excise duty on LPG, kerosene, petrol and diesel and to provide subsidy on kerosene and LPG. The Committee would like to be apprised of the action taken by the Government in this regard within three months from the date of presentation of this Report.

Reply of the Government

The Oil Industry (Development) Act, 1974 provides for collection of cess as a duty of excise on indigenous crude oil and natural gas. The proceeds of this duty are credited to the Consolidated Fund of India and sums of moneys as Central Government thinks fit are made available to the Oil Industry Development Board (OIDB) after appropriation by Parliament. Since inception and upto 31.3.2004, the Central Government has collected a sum of about Rs 51007.6 crore cess. Out of this, OIDB has received an amount of Rs. 902.40 crore till March, 2004.

The rate of cess currently is Rs. 1800/- per tonne on crude oil produced in the country as compared to Rs. 900 per tonne till 28.2.2002. Cess has been abolished under the New Exploration Licensing Policy (NELP) in order to encourage Exploration & Production activities in India. All investors venturing in E&P activities in India under NELP including National Oil Companies both Public & Private and Multinational Companies are provided level playing field and no cess is payable on production from areas licensed/leased under NELP. Under PSC regime applicable discovered fields, cess has been frozen at Rs. 900 per MT. No cess has been levied on Natural Gas Production in the country.

As on 31.3.2004, the OIDB has given Rs. 16,861 crore financial assistance to the oil industry of which Rs. 16,182 crore was loan and Rs. 679 crore was in the form of grant given to oil companies since 1975.

The price band mechanism for petrol and diesel has an inbuilt mechanism to allow variations in product prices in tandem with import parity prices. As such, no price stabilisation fund is required for petrol and diesel. As regard, PDS kerosene and domestic LPG, as per the existing practice, in addition to the Government subsidy, the oil PSUs are sharing the burden of subsidizing these products. As per the existing mechanism, the under recoveries of oil marketing companies (OMCs) on account of PDS kerosene and domestic LPG, after accounting for the Government subsidy, are shared by ONGC/GAIL/OIL by giving appropriate discounts on supplies of crude oil, LPG and SKO to IOC/HPC/BPC/IBP. This mechanism is working since 2003-04 onwards and obviates and need for creating any physical price stabilizing fund. Vide their recommendation no. 11, the Committee has recommended that this policy may be continued in future.

While, the aforesaid mechanism of sharing the under recoveries of OMCs on account of PDS kerosene and domestic LPG amongst the oil PSUs has been put in place effective 2003-04, ideally, the Government subsidies should be transparent and met directly from the Government's budget. Also, the present sharing mechanism considerably reduces the investible surplus with oil PSUs to meet their future investment requirements. Therefore, MOP&NG is in agreement with the recommendation of the Committee that the cess collected under the Oil Industry (Development) Act, 1974 should be used to meet the subsidy on PDS kerosene and domestic LPG. MOP&NG is of the view that the balance requirement of subsidy, after taking into account the budgeted subsidy, and presently being borne by the oil PSUs, should be met from the cess amount collected under the Oil Industry (Development) Act, 1974. Accordingly, a proposal is being forwarded to MOF by MOP&NG.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

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

Recommendation No. 14 (Para No. 2.14)

The Petroleum Regulatory Board Bill which seeks to provide for the establishment of the Petroleum & Natural Gas Regulatory Board, was introduced in the Lok Sabha in May, 2002 and subsequently referred to this Committee for examination and Report. This Committee submitted their Report on the subject in May, 2003. On the basis of the recommendations of this Committee, the Government prepared the official amendments to the Bill and moved the amended Bill in the Lok Sabha in December, 2003. However, the said Bill could not be considered by the House owing to lack of time. The Committee have been informed that the Government is contemplating to introduce a fresh Bill in the House after obtaining the approval from the Cabinet, for which a note is being prepared as per the new inputs received from the Petroleum & Natural Gas Minister. The Ministry has also informed the Committee that the said Bill would be ready for introduction in the Lok Sabha in the coming Winter Session of Parliament. The Committee feel that there has been delay in the introduction of the amended Bill which should have been introduced in the current Session itself. Considering the fact that the setting up of the Regulatory Board would go a long way in protecting the interests of the consumers and fostering healthy competition in the oil and gas sectors, the Committee recommend that the Government should attach utmost importance to the issue and move the amended Bill as soon as possible.

Reply of the Government

Draft Bill prepared earlier by Ministry has been reviewed by new Minister (P&NG) and it has been desired that proposed Bill need to have provisions for:-

(a) Setting up of a technical body namely Oil & Gas Authority on the lines of Central Electricity Authority to advise on technical matters;
(b) Setting up of an Appellate Authority to sort out contentious, legal and technical issues among entities expeditiously;
(c) Salary and other terms & conditions of service of the officers and staff of the Board to be decided by the Board with the approval of Government.

Accordingly, a revised Bill is being prepared in consultation with Law Ministry. After consulting the other Ministries on issue as per procedural requirement, Cabinet approval would be sought for introduction of Bill in Lok Sabha. It is expected that this exercise would be completed before the Winter Session.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Comments of the Committee

(Please see para 22 of Chapter I of the Report)

Recommendation No. 15 (Para No. 2.15)

The Anti-Adulteration Cell was set up primarily to strengthen the vigilance machinery to check adulteration of Motor Spirit and High Speed Diesel at the Retail Outlets. The Committee have been informed that this Cell has conducted 1375 inspections/surprise checks since its inception till December, 2003. Besides, 653 cases of complaints relating to Dealer Selection Boards have also been enquired into by the Cell. As a result of these initiatives by the AAC, a number of cases of irregularities/malpractices by LPG Distributorships, Naphtha processing units, Retail Outlets and subsidised kerosene selling units have been detected and action as per relevant laws taken. The Committee are surprised to observe that the Government have wound up this Cell in July, 2004 on the basis of the recommendations of a Committee which was set up to make a comprehensive review of its functioning. The Government has averred that Retail Outlet dealerships are subject to various checks/inspections by multiple agencies such as the State Government Authorities, concerned Oil Marketing Company, Police, etc. and as such the existence of another agency like the AAC merely to inspect the Retail Outlets is superfluous. Interestingly, the Committee were informed by the Government during the examination of Demands for Grants (2003-04) that various environmental bodies had expressed concern over the use of sub-standard fuels in automobiles and that in order to ensure proper fuel quality and to prevent various kinds of malpractices in petroleum trade, it was necessary to have an independent agency with substantial powers exclusively dedicated for this purpose. Moreover, the machinery of the Oil Marketing Companies, Police, etc. were already in vogue when the Anti-Adulteration Cell was set up. Therefore, the Committee are at a loss to understand the sudden volte face of the Government in the matter. In the Committee's view, an organisation does not become superfluous or meaningless by a few acts of impropriety on the part of a couple of officials. The situation can be remedied by posting officials of proven track record in the organisation. Considering the magnitude of the problem of adulteration of petroleum products and the huge financial loss to the national exchequer and the Oil Companies as a result of the problem of adulteration, the Committee recommend that the Anti-Adulteration Cell be made functional forthwith.

Reply of the Government

The jurisdiction of powers for action in case of adulteration/malpractices lies with multiple agencies, like the concerned Civil Supplies Department of State Governments/UT Administration and the Oil Marketing Companies (OMCs), and frequently overlap. It was observed that the Anti-Adulteration Cell (AAC) staff was inadequate to detect malpractices in about 23,000 ROs in the country. There had been reports of inconsistency in AAC inspections, and it was felt that the Cell had not made the desired impact.

Two senior officers of AAC were arrested by CBI on charges of corruption and the AAC get mired in controversy. Therefore, a one member committee of Shri M.S. Srinivasan, Additional Secretary was constituted to review its functioning. The report of the committee recommended that AAC with its existing structure and functions cannot play a meaningful role in the efforts to curb the menace of adulteration.

Since the powers of search and seizure are already vested in State Government machinery/OMCs, it was felt that continuing the Cell, functioning of which involved huge expenditure was not feasible.

Government decided to wind up the AAC of the Ministry with effect from 31.7.2004. This Ministry has requested all the State Governments/UT Administrations to strengthen their inspection machinery/system so as to ensure that checks/inspections are carried out and stringent action taken against the errant dealers. With a view to further strengthening the Anti-Adulteration activities, it has been advised to Oil Marketing Companies to consider creation of a separate wing to be headed by an Executive Director to report to a Director other than Director (Marketing). The wing will oversee and monitor all activities and operations to curb adulteration and specify norms and guidelines in this regard. The penal provisions listed in Marketing Discipline Guidelines are also being made more stringent, and also to fix accountability of product quality on Oil Companies and their officers.

This Ministry has also taken up this matter with all the State Governments/Union Territory Administrations at the Chief Secretary/Administrator level to step up inspections/surprise checks to ensure that adulteration related activities are eliminated and exercise vigil/conduct inspections at various private firms, factories, processing units etc., under their jurisdictions so as to identify the perpetrators of adulteration and take stringent action against them within the available legal framework. Chief Ministers of all the State Governments/Union Territories have also been requested for their cooperation in activating their enforcement agencies in detecting and prosecuting cases of adulteration and also involving the elected local bodies and consumer organizations in this endeavour. [Copies of letter No. P-21027/15/2004-Dist. dated 12.08.2004 & 29.10.2004 written to the Chief Secretaries and the Chief Ministers respectively are enclosed.]

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Comments of the Committee
(Please see para 25 of Chapter I of the Report)

Minister
Petroleum & Natural Gas and
Panchayati Raj
Government of India
New Delhi-110001

D.O. No. P-21027/15/2004-Dist. **29 October, 2004**

Dear Chief Minister,

Adulteration of petrol and diesel is a matter of serious concern for all of us. While efforts are continuously made by the Central Government and all the State Governments/Union Territory (UT) Administrations to prevent/avoid occurrence of adulteration of auto fuels across the country, the menace still looms large. Further, the Central Government has been receiving complaints regarding the supply of various adulterants by private firms, factories, processing units, etc., ultimately leading to a poor quality of auto fuels at Retail Outlets (ROs) of the Oil Marketing Companies (OMCs). Despite efforts by all concerned, loopholes/lacunae persist, and there is an urgent need for greater thrust and emphasis in this direction to eliminate adulteration.

2. We are following Euro norms emission control orders and with the introduction of next generation automobiles in the country, the supply/sale of adulterated fuel can cause severe and irreparable damage.

3. This Ministry has issued several control under the Essential Commodities Act, 1955 to prevent adulteration of petroleum products. The power of search and seizure under these orders has been delegated to the State Government/UT Administrations.

4. In view of the above, I seek your co-operation in activating the enforcement agencies of your State/UT in detecting and prosecuting cases of adulteration. Involvement of elected local bodies and consumer organizations in this endeavour would provide greater impetus to this drive. This could be done by directing the State authorities to act promptly on complaints, holding weekly awareness meetings at Tehsil/Block level, involving them in media campaigns to be organized by OMCs etc.

5. My Ministry has already written to all the Chief Secretaries/Administrators of all States/UT Administration in this regard vide letter of even number dated 12.8.2004 (copy enclosed).

6. I request you to please issue suitable instructions to all concerned.

Yours sincerely,
Sd/-

Shri Mulayam Singh Yadav,
Chief Minister of Uttar Pradesh,
Lucknow.

Encls. : **a/a**

No. P-21027/15/2004-Dist.
Government of India
Ministry of Petroleum & Natural Gas
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Shashtri Bhawan, New Delhi
Dated the 12th August, 2004

To,

The Chief Secretary/Administrator
All State Governments/Union Territory Administrations

Subject: Issues related to adulteration – reg.
*****

Sir,

The Ministry has been receiving complaints regarding supply of adulterants by unscrupulous elements (private firms, factories, processing units, etc.) ultimately leading to adulteration of auto fuels at Retail Outlets (ROs) of Oil Marketing Companies (OMCs). The State Governments/UT Administrations have been putting in a lot of efforts towards curbing adulteration yet the menace still persists. For curbing adulteration the Government has taken various steps like stopping SKO imports imports directly by private parties. In spite of such efforts, it is felt that some loopholes/lacunae still exist with the result the unscrupulous elements still manage to carry on with activities related to adulteration.

2. It has been decided to wind up the Anti Adulteration Cell (AAC) set up under this Ministry. The OMCs have been separately instructed to further strengthen their inspection machinery/system so as to ensure that checks/inspection are carried out and stringent action taken against the errant dealers. However, the role of OMCs is very limited and is restricted to the ROs/SKO [(Superior Kerosene Oil)-LDO (Light Diesel Oil)] dealerships only. That adulterants are mainly sourced by private firms, factories, processing units, etc., who are outside the purview of the OMCs.

3. This Ministry has issued following control orders under the Essential Commodities Act, 1955 to prevent adulteration of petroleum products by the ROs by delegating the power of search and seizure to the State Governments/UT Administrations. These Control Orders are:

(i) Kerosene (Restriction on Use and Fixation of Ceiling Price) Order, 1993.
(ii) Motor Spirit & High Speed Diesel (Regulation of Supply and Distribution and Prevention of Malpractices) Order, 1998.
(iii) Naphtha (Acquisition, Sale, Storage and Prevention of Use in Automobiles) Order, 2000.
(iv) Solvent, Raffinate and Slop (Acquisition, Sale, Storage and Prevention of Use in Automobiles) Order, 2000.

4. In view of above, it is requested that the State Governments/UT Administrations may step up inspections/surprise checks to ensure that adulteration related activities are eliminated. The concerned Departments of the State Governments/UT Administration may conduct vigil/inspections at various private firms, factories, processing units, etc., under their jurisdiction so as to identify the perpetrators of adulteration and stringent action may be taken against them under the available legal framework.

Yours faithfully,

Sd/-
(Tarun Shridhar)
Director
Tel. 011-23387404

Recommendation No. 18 (Para No. 2.18)

The Ministry of Petroleum & Natural Gas has introduced a programme of supplying petrol blended with 5 per cent ethanol in the sugarcane producing states since 2003. So far, the programme has been fully implemented only in 8 States and 3 Union Territories viz. Uttar Pradesh, Punjab, Haryana, Maharashtra, Gujarat, Goa, Karnataka, Uttaranchal, Chandigarh, Dadra & Nagar Haveli and Daman & Diu. Besides, 21 districts in Andhra Pradesh and 9 districts in Tamil Nadu have also been covered. During the examination of Demands for Grants (2003-04), this Committee had been informed that there was a proposal to cover the entire country with 5 per cent ethanol-blended petrol during the year 2003-04. However, they regret to observe that less than one third of States and less than half of Union Territories have been covered so far. The slow progress on the scheme has been attributed to shortage of ethanol in some States, increase in the cost of production/ prices of ethanol, delays in the issue of transport permits, etc. The Committee recommend that the Government should vigorously pursue the issues of shortage of ethanol and delay in grant of transport permits with the concerned State Governments and resolve the same at the earliest. The Committee further recommend that the Government should work out some alternatives urgently and take appropriate steps so as to cover the entire country with 5 per cent ethanol blended petrol by the end of 2004-05.

Reply of the Government

The programme of supplying ethanol-blended petrol was taken up with the objectives of promotion of alternative renewable fuels, giving a boost to agriculture and reduction of pollution. Thus, one of the objectives of implementing the scheme of blending ethanol with petrol was to benefit agricultural sector, specifically sugarcane growing farmers in the country. Owing to acute drought conditions, there has been shortage in availability of molasses, which is the raw material for production of alcohol in the country. Therefore, the scheme of blending ethanol with petrol got affected due to non-availability of ethanol.

Discussions were held with the State Governments of Andhra Pradesh, Karnataka and Maharashtra on the availability of ethanol for blending with petrol. These State Governments have confirmed shortage due to drought and further informed that the shortage would continue in the coming sugarcane crushing season as well. Also discussions have been held with the Ministry of Agriculture, Food and Consumer Affairs in presence of major ethanol manufacturers and the oil manufacturing companies. In the light of the discussions, various options including linking of supply of ethanol-blended petrol to prevalent indigenous market conditions have been considered by the Ministry. Under the circumstances, when ethanol is not available even for continuing the scheme uninterruptedly in the 10 States and 3 Union Territories, covering of the entire country with 5% ethanol-blended petrol by end of 2004-05 would not be feasible.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Comments of the Committee
(Please see para 28 of Chapter I of the Report)

Recommendation No. 19 (Para No. 2.19)

As regards the bio-diesel blended diesel programme, the Committee have been informed that the Ministry has launched a pilot project at Rewari, Haryana on use of 5 per cent bio-diesel and diesel blend on vehicles to examine the operational, environmental, financial and other aspects of such blending in Indian conditions. The Indian Oil Corporation has been monitoring the project. A similar project is also being run/ monitored by the HPCL in Mumbai in association with the Brihan Mumbai Electric Supply and Transport Undertaking (BEST). The field trials have been in progress in Rewari and Mumbai since April, 2004 and February, 2004 respectively. The Committee find that 4 to 6 months have already been consumed in conduction of trials and the trials are still in progress. They recommend that the process should be completed without any further delay and the outcome of the trials be conveyed to them at the earliest. The Committee further recommend that subject to the satisfactory outcome of the trials, the programme should be launched in various parts of the country on a large scale.

Reply of the Government

Trials at Rewari have indicated that use of bio-diesel has not caused any operational problem in the buses. Further, considerable (around 15%) reduction in smoke has been observed. No appreciable change in mileage has been noticed.

In Mumbai, the trial buses are currently running on B5 and B10 fuels. B20 fuel trials will start at the end of October, 2004.

The trials are continuing based on bio-diesel obtained through tender, which are priced at three to four times the price of petroleum diesel. Therefore, even if the trials yield satisfactory outcome, till the price of bio-diesel becomes economical, and availability of bio-diesel improves through large scale oil seeds plantation, launching bio-diesel programme in various parts of India on a large scale would not be feasible.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Comments of the Committee

(Please see para 31 of Chapter I of the Report)

CHAPTER – V

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

Recommendation No. 4 (Para No. 2.4)

The Committee are unhappy to note that the in-place hydrocarbon accretion target in respect of the Oil and Natural Gas Corporation Ltd. (ONGC) for the 9th Plan was projected to be in the range of 523-722 MMT against which the organisation could accrete only 481.8 MMT of in-place hydrocarbons. Similarly, in the first two years of the 10th Plan, ONGC accreted 232.88 MMT of in-place hydrocarbons as against the target of 256.25 MMT. In case of the Oil India Ltd. (OIL) also, the targets of in-place of hydrocarbon reserves have not been met by the organisation in any of the 5 years of the 9th Plan. However, the Committee are pleased to note that OIL has exceeded such target in the first two years of the 10th Plan. As regards the Private/ Joint Venture Companies, the Committee find that though no targets for accretion of in-place hydrocarbon reserves were fixed during the 9th Plan, these companies have made substantial contribution to in-place hydrocarbon reserves accretion in 3 out of 5 years of the 9th Plan. The Committee further note that the total hydrocarbon reserve accretion by these companies (Private/ Joint Venture) for the 10th Plan has been envisaged to be in the range of 114-214 MMT, whereas the actual accretion by these companies during the first two years of the Plan i.e. 2002-03 and 2003-04 has been 176.65 MMTOE and 224.99 MMTOE respectively, which has surpassed the estimates for the entire Plan. The Committee desire that the Public Sector Oil Companies should put in concerted efforts to improve their performance in future.

Reply of the Government

The exercise to carry out exploration activities in an exploration cycle concept has led to identification of key activity areas and exploration is undertaken on a fast track basis. Based on the results obtained during the first two years of the 10^{th} Plan period, ONGC and OIL are in the process of **mid-term review** of their X-plan exploration programme which will further focus the thrust areas for the remaining period of X-plan. With this, NOCs will be able to put concerted efforts to improve their performance in the remaining period of 10^{th} Plan.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Recommendation No. 9 (Para No. 2.9)

An allocation of Rs. 103656.00 crore has been made for the Public Sector Undertakings in the Oil Sector in the 10^{th} Five Year Plan. The Committee note that expenditure incurred by the Oil Sector PSUs in the first two years of the Plan i.e. 2002-03 and 2003-04 has been to the tune of Rs. 33849.72 crore which corresponds to about 33 per cent. Thus, the balance amount of Rs. 69806.28 crore remains to be spent during the remaining three years of the Plan. The shortfalls in many cases have been attributed to delays in procurement of equipment and obtaining various clearances for the projects. The Committee recommend that the Oil Sector PSUs should invariably place their orders for equipments with reputed vendors and in case of default in delivery, they should invoke the Liquidated Damages Clause of the terms and conditions. Though the Government have exuded confidence that the PSUs will be able to fully utilise the allocated amount and achieve the physical targets, the Committee doubt the same considering the results of the 9^{th} Plan and the trend of utilisation of funds in the first two years of the 10^{th} Plan. The Committee have been informed that the Planning Commission has initiated Mid-Term Appraisal of the 10^{th} Plan. The Committee hope that the Oil Sector PSUs would take mid-course corrective measures based on the suggestions of the Planning Commission and not repeat the mistakes which they committed in the 9th Plan.

Reply of the Government

ONGC

The Plan expenditure during first two years of 10th Plan was Rs 12,915.37 crore which works out to 39% of 10th Plan allocation of Rs 33418.95 crore. Considering the trend of utilization during the first two years, Plan allocation for ONGC during 10th Plan is likely to be fully utilized. Rigs for Deep water drilling campaign under Sagar Samridhi and exploratory and development drilling in shallow water offshore, are in place to achieve the physical target in the 10th Plan. As regards the major schemes envisaged, Improved Oil Recovery projects are already under execution. As such the funds earmarked in the 10th Plan are likely to be fully utilised.

As regards the placement of orders for equipment with reputed vendors and in case of default in delivery, invocation of Liquidated Damages Clause of the terms and conditions, the recommendations of the Standing Committee are already being implemented in ONGC.

OIL

OIL places purchase orders for equipment and other items on proven and reputed vendors. For most of the vital equipment and items required for E&P activities, OIL has a specialized list of vendors. Such vendors are shortlisted on the basis of their expertise, reputation, track record etc, by an in-house multi disciplinary committee. For procurement of Items, this specialized list is strictly followed for inclusion of reputed and proven vendors, the list of which is updated regularly. As per advice of Hon'ble Parliamentary standing committee, it is now being planned to incorporate suitable Liquidated Damage Clause in the foreign order also in case of default in delivery.

As per approved plan outlay of Rs.5000 Crores for OIL, it has actually spent an amount of Rs.1184.75 Crores during the first two years of the 10^{th} Plan (2002-03, 2003-04). Though there has been a short fall of Rs.706.25 Crores as against the outlay indicated in the first two years of 10^{th} Plan, OIL expects that it would be in a position to achieve the planned expenditure of Rs.5000 Crores by the end of the 10^{th} Plan. In this regard OIL has already taken the following corrective measures to ensure such achievement:

- Accelerated exploration by way of increased seismic survey and exploratory & development drilling in the balance three years of 10^{th} Plan. It has already achieved drilling of 41000 Metres during the first quarter of the year 2004-05 which is the highest ever by OIL in any quarter. This trend is expected to continue.
- In addition to the land seismic survey, OIL is also taking up seismic survey in the Brahmaputra River Bed, the cost of which is expected to be Rs.130 Crores.
- OIL is laying a product pipeline from Numaligarh in Assam to Siliguri in West Bengal, the estimated cost of which is Rs.463.74 Crores. The project has been put up for PIB approval.
- OIL has planned for laying gas pipeline in order to transport the gas from its new finds to areas in and around Guwahati and beyond. The pipeline would be laid from Numaligarh to Guwahati during the first phase and would be subsequently extended to Bongaigaon. This would involve an estimated expenditure of Rs.400 Crores.

ONGC and OIL are in the process of mid-term review of its X-plan programme, based on the results obtained during the first two years of the plan period. Further, as regards corrective actions based on suggestions of the Planning Commission in their mid-term appraisal of the 10th Five-Year Plan, the same shall be considered and appropriately adhered after the suggestions are made/received.

Major on-going projects are included in the Memorandum of Understanding signed by the Corporation with the Government. The progress of the projects is constantly monitored by the Government through Monthly Progress Reports, Quarterly Performance Reports. Besides, the Board of Directors of the PSUs monitor the progress of the projects every month through a detailed Board agenda. The above reviews help the corporation to take stock of progress achieved and take corrective measures keeping in view the dynamic market conditions.

It is expected that the Oil PSUs will be able to spend the outlay, based on the trends available.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Recommendation No. 13 (Para No. 2.13)

The Committee in their earlier Report on Demands for Grants (2003-04) had recommended for rationalisation of duty structure as per the earlier Government decision of 1997 to reduce the subsidy and give some relief to consumers as well as to check the cascading effect of inflation caused by the hike in the prices of petroleum products. The Committee recommend that in order to control the domestic selling price of kerosene and LPG, the customs duty levied on these products should be brought to nil. This would involve no financial burden on Oil Companies which are already supplying subsidised products. The Government would not lose any money on kerosene as it is not imported. Though some loss would be incurred by the Government on the LPG, the same can be made up by the cess collected on crude oil. Besides, the Committee feel that charging excise duty on subsidised products is an anomaly. The Committee also feel that ad valorem duty structure amplifies the rise in international prices on the domestic economy. Therefore, the Committee recommend that a fixed/specific duty should be levied on crude oil and petroleum products instead of ad valorem duty. They further desire that efforts should also be made to make the sales tax levied by States on these products specific instead of ad valorem.

Reply of the Government

The issue of rationalization of taxes and duties in the petroleum sector has been taken up by MOP&NG with MOF time and again. The Government has already reduced the customs duty on PDS Kerosene and Domestic LPG from 10% to 5% effective 19.8.2004. The recommendations of the Committee would once again be brought to the notice of MOF for necessary action.

As regards the issue of sales tax levied by the States, we have taken up with the State Governments to reduce/maintain the sales tax rates on petrol and diesel at the earlier agreed levels i.e., 12% on diesel and 20% on petrol. So far as asking State Governments to replace ad valorem sales tax rates with the specific rates is concerned, it is submitted that we may take this issue with the State Governments once the Government of India agrees to levy excise duties on specific basis in place of ad valorem basis on petroleum products.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Comments of the Committee
(Please see para 19 of Chapter I of the Report)

Recommendation No. 17 (Para No. 2.17)

The Committee note that the Government has a proposal to build a strategic storage of crude oil for storing 5 million metric tonnes of crude oil. The Government has informed the Committee that the project is at its initial stage and that the proposed storage is likely to come up in the next four years. The Committee in their 39th Report (13th Lok Sabha) on Demands for Grants (2003-04) had recommended that the Government should develop a perfect mechanism for creating a strategic storage in the shortest possible time. However, they are unhappy to note that not much progress has been made in this direction. Considering the fact that the project would provide emergency response mechanism to oil supply disruptions, the Committee recommend that the Government should attach utmost importance to this project. Though the Oil Companies have a holding capacity of about 5900 TMT of crude oil and about 16400 TMT of petroleum products, the same may not be sufficient to meet war-like situations. Moreover, in the post APM era, the Oil Companies would like to hold their inventories on commercial considerations. Besides, the Committee also note that a number of countries have already developed the capacity to hold stocks of crude oil and petroleum products for 90 days or more. Thus, it would be in the fitness of things that the Government expedites the work on this project. The Government should also finalise the other related issues such as mode of financing, maintenance of the inventory, fiscal concessions for the project, etc. as soon as possible.

Reply of the Government

The recommendations of the Committee have been noted and necessary action is being taken to finalise the mode of financing.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Recommendation No. 20 (Para No. 2.20)

It has been reported that the GAIL (India) Ltd. is having a collaboration with Shell for Coal Gassification Process. The Government has also informed that GAIL has undertaken feasibility studies for coal gassification projects. The Committee recommend that this should be encouraged as a part of alternative energy development and pursued in consultation with the Planning Commission, Ministry of Power and Department of Fertilisers.

Reply of the Government

In order to meet the gap between the demand and supply of natural gas in the country, GAIL has been evaluating various options for supplementing the availability of natural gas in the country through measures including exploration and production, import from neighbouring countries, etc. As one of the measures

GAIL has also been examining the issue of exploiting synthesis gas (Syngas) recoverable from coal especially in the eastern sector which has been persistently devoid of any natural gas sources.

Syngas is a mixture of Carbon Monoxide (CO) and Hydrogen (H2), which can be commercially used for power generation, fertilizer, hydrogen and methanol production. Keeping this aspect in view, and to meet the deficiency of availability of natural gas in the eastern sector of India, GAIL has been holding discussions with Shell, who are one of the pioneers in the field of coal gassification, for acquiring a suitable technology.

Shell Coal Gassification Process has an inherent property of handling high ash content which is suitable for Indian coal. Preliminary study report from M/s Shell which was based on Coal sourced from Eastern Fields, Mahanadi Coal Fields and Central Coal Fields, has suggested positive results. Based on this, a Detailed Feasibility Report (DFR) is being prepared.

The DFR will look into various possible end-uses of the synthesis gas, availability, proximity of source and quality of coal.

For finalization of location of the plant and coal availability, in addition to the DFR, an MOU between GAIL and Coal India Limited (CIL) has also been initiated. Draft MOU initiated by GAIL for availability of coal with CIL awaits CIL Board's approval. The proposal is at a preliminary stage. Further action including consultation with Ministry of Power, Department of Fertilizers and Department of Chemicals & Petrochemicals will be taken depending upon the DFR.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Comments of the Committee

(Please see para 34 of Chapter I of the Report)

Recommendation No. 23 (Para No. 2.23)

The Committee are unhappy to note the uneven installation of CNG stations in various zones of Delhi. While 44 such stations have been set up in South Delhi, East Delhi has only 14. The Central, North and West zones possess 18, 20 and 26 stations respectively. It is very surprising that East Delhi, which is one of the most populous zones in Delhi, is having the least number of CNG stations. The Committee have been informed that IGL is making efforts to set up more CNG stations for which it has requested the land owning agencies to allot suitable sites. Besides, IGL has also requested the Oil Marketing Companies to offer more outlets to it for setting up CNG facilities. The Committee recommend that a small but separate section be created in the IGL which may be exclusively assigned the job of pursuing/liaisoning with land owning agencies and OMCs for obtaining sites for CNG facilities. The Committee have been informed that a few sites are expected to be allotted to IGL by the land owing agencies shortly. The Committee would like to be apprised of the factual position in this regard within three months from the date of presentation of this Report.

Reply of the Government

IGL has five types of CNG stations : Daughter, Daughter Booster, Online, Mother and Mega CNG stations. The Mega CNG station has the maximum compression/dispensing capacity and also is spread over a bigger area than other station types.

Though the number of stations that IGL has in the East Zone is 14, it has a Mega CNG station in Patparganj which is called Patparganj Mega CNG station. This particular station is not only the largest/highest selling CNG station in Delhi but also in the entire country. The said station has the facility to simultaneously refuel 6 buses and 10 non-bus category vehicles which is unparalleled across any of the zones and is catering to the following on a round-the-clock basis:

- Buses : 600
- Other Vehicles : 2000

The other stations in the area (including Mother and Daughter Booster stations) are geographically spread in such a manner that they are able to maintain queue-less operations.

In addition to the above, IGL is in talks with the Oil Marketing Companies (OMCs), for additional Retail Outlets where CNG facilities can be installed. Three such sites have been already identified for putting the CNG facility for which the feasibility study is at an advanced stage. The said facilities are expected to be operational by the end of March/April, 2005.

Moreover, IGL is also planning to take its steel pipeline network further in East Delhi area thus targeting to upgrade the existing 6 Daughter Booster stations to Mother/Online stations including one new DTC station thereby improving the situation further.

Over and above this, a dedicated team of personnel from IGL's planning department is in constant touch with the Land owing agencies, DDA, so as to get some more plots in East Delhi Area. Two such sites at IFC Pocket in Ghazipur (Mayur Vihar Phase III) have already been identified and are expected to be in the possession of IGL in the near future.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Comments of the Committee

(Please see para 37 of Chapter I of the Report)

Recommendation No. 27 (Para No. 2.27)

The PCRA is implementing some promotional soft loan schemes in the industrial, transport and agriculture sectors to promote efficient use of energy and its conservation. The rate of interest charged on these loans was reduced from 8 per cent to 7 per cent per annum on reducing principal in November, 2001. The Committee note that the loan amounts sanctioned and disbursed under these schemes have been showing a downward trend since 2001-02. While the loan amount sanctioned in 2001-02 was Rs. 89.80 lakhs, the said amounts in 2002-03 and 2003-04 were Rs. 26.90 lakhs and Rs. 9.30 lakhs respectively. Similarly, the disbursal amount which was Rs. 16.30 lakhs in 2001-02, got reduced to Rs. 12.75 lakhs in 2002-03 and further reduced to Rs. 8.40 lakhs in 2003-04. The Committee desire that the organisation should make an analysis of the declining trend of the sanctioned loan and disbursal amounts and take remedial measures in this regard. If necessary, the rate of interest charged on such loans may be reduced so as to encourage more consumers to go in for procurement/ installation of energy saving instruments which would lead to further energy conservation.

Reply of the Government

For arresting the downward trend in the Soft Loan sanctioned and disbursed, PCRA has reported that the following strategies are under implementation:-

1. The Regional offices and Sub-Regional offices are being sensitized to spread the awareness about the Soft Loan Promotional Schemes to prospective beneficiaries.

2. An agenda for consideration in the next Executive Meeting proposing a lower rate of interest and other modifications in the existing scheme for Soft Loan shall be put up.

[M/o Petroleum & Natural Gas O.M. No.
G-25015/3/2004-Fin.I dated 3.12.2004]

Comments of the Committee
(Please see para 40 of Chapter I of the Report)

NEW DELHI,
<u>January 27, 2005</u>
Magha 7, 1926 (Saka)

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

APPENDIX-I

MINUTES

STANDING COMMITTEE ON PETROLEUM & NATURAL GAS
(2004-05)

TENTH SITTING
(27.01.2005)

The Committee sat from 1100 hrs. to 1145 hrs.

PRESENT

Shri N. Janardhana Reddy - Chairman

MEMBERS
LOK SABHA

2. Shri Kirip Chaliha
3. Shri R. Dhanuskodi Athithan
4. Shri Santosh Kumar Gangwar
5. Shri Ch. V.H. Rama Jogaiah
6. Dr. Prasanna Kumar Patasani
7. Shri Ramji Lal Suman
8. Shri Vanlalzawma

RAJYA SABHA

9. Shri Moolchand Meena
10. Shri Kripal Parmar
11. Shri M. Rajasekara Murthy
12. Shri Dipankar Mukherjee
13. Shri C. Perumal

SECRETARIAT

1. Shri P.K. Grover - Director
2. Shri B.D. Swan - Under Secretary
3. Shri P.C. Tripathy - Assistant Director

2. The Committee took up for consideration the draft Fourth Report on Action Taken by the Government on the recommendations contained in the First Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas (2004-05) on 'Demands for Grants (2004-05) of the Ministry of Petroleum & Natural Gas'.

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

4. The Committee, thereafter, authorised the Chairman to make consequential changes, if any, arising out of the factual verification of the Report by the Ministry and present the same to Hon'ble Speaker/both Houses of Parliament.

The Committee then adjourned.

APPENDIX– II

(Vide Para 4 of the Introduction)

Analysis of Action Taken by the Government on the recommendations contained in the First Report (14th Lok Sabha) of the Standing Committee on Petroleum & Natural Gas (2004-05) on 'Demands for Grants (2004-05) of the Ministry of Petroleum & Natural Gas'.

I	Total No. of Recommendations	28
II	Recommendations which have been accepted by the Government (Vide Recommendations at Sl. Nos. 1, 3, 5, 6, 7, 8, 11, 16, 21, 24, 25, 26 and 28)	13
	Percentage to Total	46.4%
III	Recommendations which the Committee do not desire to pursue in view of Government's Reply (Vide Recommendation at Sl. No. 22)	1
	Percentage of Total	3.6%
IV	Recommendations in respect of which replies of the Government have not been accepted by the Committee (Vide Recommendations at Sl. Nos.2, 10, 12, 14, 15, 18 and 19)	7
	Percentage of Total	25%
V	Recommendations in respect of which final replies of the Government are still awaited (Vide Recommendations at Sl. Nos. 4, 9, 13, 17, 20, 23 and 27)	7
	Percentage of Total	25%