

FIFTH REPORT

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

(FOURTEENTH LOK SABHA)

MINISTRY OF PETROLEUM & NATURAL GAS

**DEMANDS FOR GRANTS
(2005-06)**

Presented to Lok Sabha on 20.04.2005

Laid in Rajya Sabha on 20.04.2005



**LOK SABHA SECRETARIAT
NEW DELHI**

April, 2005/ Chaitra, 1927 (Saka)

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

SHRI N. JANARDHANA REDDY - CHAIRMAN

***MEMBERS
LOK SABHA***

2. Shri Anandarao Vithoba Adsul
3. Dr. Rattan Singh Ajnala
4. Shri Ramesh Bais
5. Shri Kirip Chaliha
6. Shri Lal Muni Choubey
7. Shri Tushar A. Choudhary
8. Shri R. Dhanuskodi Athithan
9. Shri Santosh Kumar Gangwar
10. Shri Jai Prakash
11. Shri Ch. V.H. Rama Jogaiah
12. Shri Suresh Kurup
13. Shri Sukhdeo Paswan
14. Dr. Prasanna Kumar Patasani
15. Shri Laxman Singh
16. Shri Rajiv Ranjan Singh
17. Shri Ramji Lal Suman
18. Shri Vanlalzawma
19. Shri Ratilal Kalidas Varma
20. Shri Rajesh Verma
21. Shri A.K.S. Vijayan

RAJYA SABHA

22. Shri Ahmed Patel
23. Shri Moolchand Meena
24. Shri Rajeev Shukla
25. Shri Kripal Parmar
26. Shri M. Rajasekara Murthy
27. Shri Dipankar Mukherjee
28. Shri C. Perumal
29. Dr. Alladi P. Rajkumar
30. Shri Subash Prasad Yadav
31. Shri Satish Chandra Misra

SECRETARIAT

1. Shri P.D.T. Achary - Secretary
2. Shri S.K. Sharma - Additional Secretary
3. Shri P.K. Grover - Director
4. Shri P.C. Tripathy - Under Secretary
5. Smt. Reena M. Jacob - Committee Officer

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 Fifth Report on 'Demands for Grants (2005-06) of the Ministry of Petroleum & Natural Gas'.

2. The Committee examined the Demands for Grants (2005-06) pertaining to the Ministry of Petroleum & Natural Gas which were laid on the Table of the House on 17th March, 2005.

3. The Committee took evidence of the representatives of the Ministry of Petroleum & Natural Gas at their sitting held on 29th March, 2005.

4. The Committee considered and adopted the Report at their sitting held on 15th April, 2005.

5. The Committee wish to express their thanks to the representatives of the Ministry of Petroleum & Natural Gas for furnishing the material and information which they desired in connection with the examination of Demands for Grants (2005-06) of the Ministry and for giving evidence before the Committee.

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;
April 19, 2005
Chaitra 29, 1927 (Saka)

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

REPORT

PART- I

A. INTRODUCTORY

The Ministry of Petroleum and Natural Gas (MOP & NG) is entrusted with the responsibility of exploration and production of oil and natural gas (including import of Liquefied Natural Gas), their refining, distribution and marketing. Import and export as well as conservation of petroleum products also fall within the purview of this Ministry. The activities of the Ministry are carried through following 8 public sector undertakings, 12 subsidiaries and other companies and 6 other organisations.

Oil Companies in which Government of India has a shareholding

(As on 31.3.2005)

1	Oil & Natural Gas Corporation Ltd. (ONGC)	74.15%
2	Indian Oil Corporation Limited (IOCL)	82.03%
3	Hindustan Petroleum Corporation Limited (HPCL)	51.01%
4	Bharat Petroleum Corporation Limited (BPCL)	66.20%
5	GAIL (India) Ltd.	57.35%
6	Engineers India Limited (EIL)	90.39%
7	Oil India Limited (OIL)	98.13%
8	Biecco Lawrie & Co. Limited	57.00%

Subsidiaries and other companies

1	ONGC Videsh Limited (OVL)	Wholly owned by ONGC
2	Mangalore Refinery & Petrochemicals Ltd. (MRPL)	Subsidiary of ONGC
3	Indian Oil Blending Limited	Wholly owned by IOCL
4	Bongaigaon Refinery & Petrochemicals Ltd. (BRPL)	Subsidiary of IOCL
5	IBP Co. Limited	Subsidiary of IOCL
6	Chennai Petroleum Corporation Limited (CPCL)	Subsidiary of IOCL
7	Indian Oil Mauritius Limited	Subsidiary of IOCL
8	Numaligarh Refineries Limited (NRL)	Subsidiary of BPCL
9	Kochi Refineries Limited (KRL)	Subsidiary of BPCL
10	Certification Engineers International Limited	Wholly owned by EIL
11	EIL Asia Pacific Sdn BHD	Wholly owned by EIL
12	Balmer Lawrie & Co. Limited	

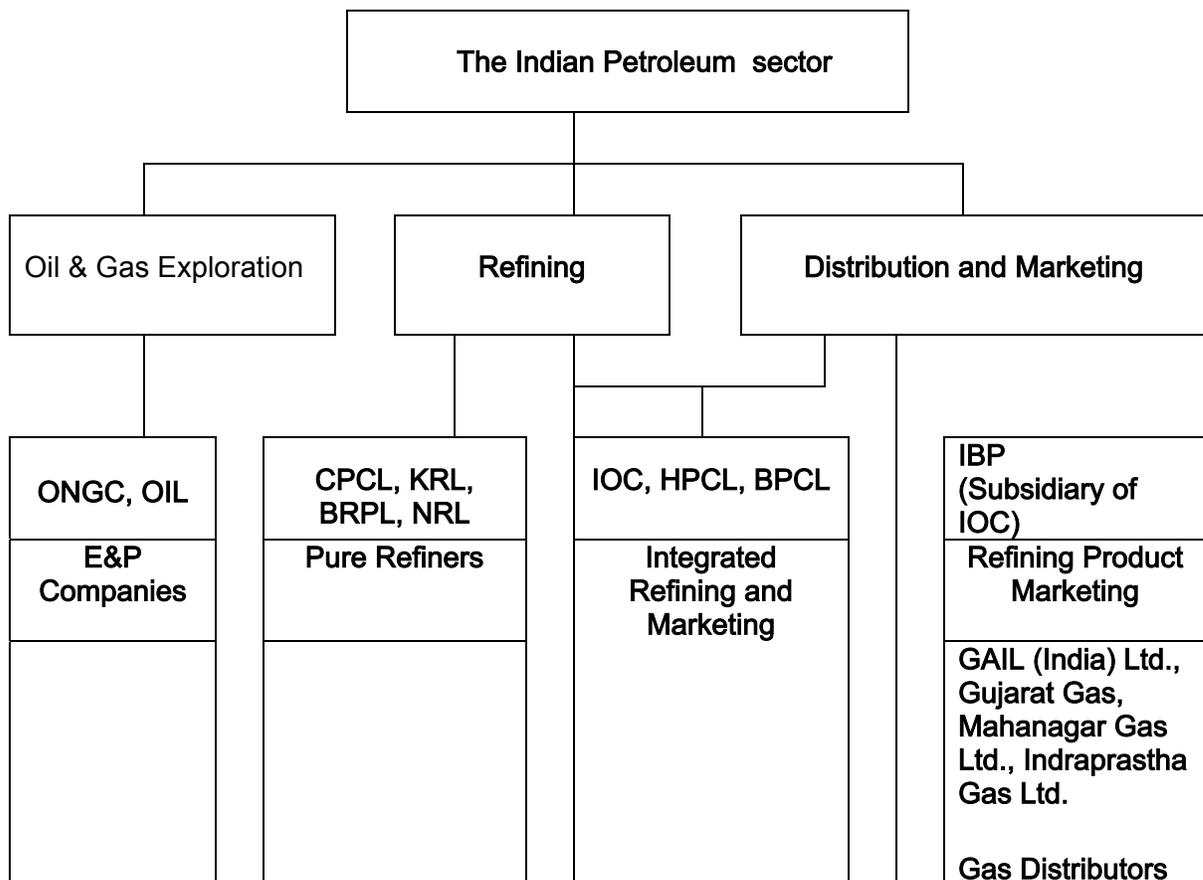
Other organisations

1. Oil Industry Development Board (OIDB)
2. Petroleum Conservation Research Association (PCRA)
3. Oil Industry safety Directorate (OISD)
4. Centre for High Technology (CHT)
5. Petroleum India International (PII)
6. Directorate General of Hydrocarbons (DGH)

1.2 The Indian Oil Sector can be divided into three sub-sectors:-

- (i) Oil and Gas Exploration & Production;
- (ii) Oil Refining ; and
- (iii) Marketing (Gas and Refined Products)

The various players in each of these sub-sectors are listed below:-



B. Mid-term Appraisal of Performance of Petroleum Sector during Tenth Plan

(I) Thrust areas during 10th Plan

1.3 In view of the increasing demand of petroleum products and stagnant indigenous production of crude oil, several thrust areas have been identified in Oil and Natural Gas Sector for special attention during the 10th Five Year Plan. Some of them are as follows:-

- (i) Acceleration of exploration efforts especially, in deep offshore areas as also in frontier areas;
- (ii) Improved Oil Recovery (IOR)/Enhanced Oil recovery (EOR)
- (iii) Equity oil and gas abroad;
- (iv) Strategic storage of crude oil;
- (v) Refining capacity;
- (vi) Regulatory mechanism to oversee consumer interests;
- (vii) Benchmarking of the hydrocarbon sector with international standards;
- (viii) Demand side management;
- (ix) Dismantling of APM; and
- (x) Restructuring / disinvestment

1.4 An analysis of performance of petroleum sector in some of these areas during the first half of the 10th Plan is being done in the succeeding paragraphs.

a) Survey, Exploration and Production of Crude Oil and Natural Gas

1.5 'India Hydrocarbon vision- 2025', a document which encapsulates Government's long term policy on exploration, refining, marketing and other related matters in the hydrocarbon sector, envisages appraisal of 35% of Indian sedimentary basins by the end of 10th Five Year Plan. To achieve this target, seismic surveys are intensified, exploration activities are enhanced and Improved Oil Recovery (IOR) /Enhanced Oil Recovery (EOR) programmes for producing fields are given added thrust. Oil and Natural Gas Corporation Ltd.(ONGC) and Oil India Limited (OIL), the two national oil companies apart from private and joint venture companies are engaged in exploration and production of oil and natural gas in the country.

1.6 In order to give boost to exploration activities, the Government of India has formulated a New Exploration Licencing Policy (NELP) and operationalised it in 1999. In the first four rounds of NELP, the government signed 90 Production Sharing Contracts (PSCs) from 2000-2004, covering an area of about 0.9 million Sq. Km. The New Exploration Licencing Policy comprises about 73% of the total exploration area under exploration licences including exploration areas given to ONGC and OIL on nomination basis. Out of the total NELP area under exploration, 57% area comprises deep water.

1.7 The Committee have been informed that through Improved Oil Recovery (IOR)/ Enhanced Oil Recovery (EOR) programmes for augmenting crude oil recovery from the existing fields, ONGC envisages an incremental 106MMT Oil by 2020 for an increase in recovery factor by an average of 4%, with the base year for the profiles as 2000-2001. It has also been informed that the Mumbai High Field production was declining at an average rate of 7% per annum in the five years preceding 2000-2001 and the gain through IOR/EOR activities is equivalent to 4.92 MMT/annum. For Neelam-Heera basins the average decline rate was 15.5%. The IOR/EOR programme has reversed the declining trend and stabilized production rate at the level of April 2000. The effective gain is equivalent to nearly 2.02 MMT/annum.

1.8 Oil India Limited (OIL) has been undertaking IOR/EOR initiatives in the form of water injection, gas injection, polymer flooding, etc. in its different oil fields of Assam from very early production phase. A polymer flood project which was concluded successfully has resulted in an increased recovery of about 5% of reserves apart from resulting in significant reductions in water formation during production of oil. This has led to significant economic benefits in artificial lifting and water handling facilities.

1.9 The Committee wanted to know the percentage growth in production of crude oil and gas in the first three years of the 10th plan when

compared to the 9th plan and the prognosticated growth by the end of the plan. The Ministry of Petroleum and Natural Gas furnished the following reply:-

“Oil & Gas Production
9th Five-Year Plan

Actual Oil Production in MMT
Actual Gas Production in BCM

		1997-98	1998-99	1999-00	2000-01	2001-02	Total
Crude oil production (MMT)	ONGC	28.25	26.39	24.65	25.06	24.71	129.06
	OIL	3.09	3.28	3.26	3.29	3.18	16.1
	Pvt./JV	2.51	3.04	4.02	4.08	4.14	17.79
	Total	33.85	32.71	31.93	32.43	32.03	162.95
Natural Gas Production (BCM)	ONGC	23.05	22.84	23.25	24.02	24.04	117.2
	OIL	1.67	1.71	1.73	1.86	1.68	8.65
	Pvt./JV	1.68	2.87	3.46	3.60	4.05	15.66
	Total	26.4	27.42	28.44	29.48	29.77	141.51

10th Five-Year Plan

Actual Production in MMT
Actual Gas Production in BCM

		2002-03	2003-04	2004-05 Estimate	2005-06 B.E	2006-07 PC target	Total
Crude oil production (MMT)	ONGC	26.01	26.05	26.38	26.19	25.56	130.19
	OIL	2.95	3.00	3.20	3.30	4.00	16.45
	Pvt./JV	4.09	4.31	4.26	4.54	4.41	21.61
	Total	33.05	33.36	33.84	34.03	33.97	168.25
Natural Gas Production (BCM)	ONGC	24.24	23.58	22.71	21.48	20.82	112.83
	OIL	1.74	1.89	2.00	2.08	2.85	10.56
	Pvt./JV	5.41	6.49	6.70	7.40	9.36	35.36
	Total	31.39	31.96	31.41	30.96	33.03	158.75

From the above, it may be seen that in the first three years of the 10th Plan (estimate for the year 2004-05 based on the actual production till February plus estimates for March, 2005), oil production in the country has been 100.25 MMT as compared to the first three years of the 9th Plan production at 98.49 MMT. This shows an increase of 1.8 %. Similarly, with respect to natural gas production, in the first three years of the 10th Plan, the gas production is 94.73 BCM as compared to the first three years of 9th Plan gas production at 82.26 BCM. This shows a significant increase of 15.2 % in the gas production in the country.”

1.10 During the course of oral evidence, the Committee wanted to know as to why the targets for ONGC both in natural gas and crude oil production for 2005-06 were less than the estimated production of 2004-05. Responding to the question, a representative of ONGC submitted as follows:-

“The target which we have fixed internally is 26.70 MMT. These are the targets which were prepared in 1999, when the Tenth Plan was formulated. As on date, we have hundred per cent achievement vis-à-vis the target that we have fixed for the first 10 months’

1.11 The Committee wanted to be apprised of the targets fixed by the organisation for itself (not the ones fixed by the Planning Commission).

1.12 Considering the oil/gas demand Scenario vis-à-vis domestic production level, Government is also persuading oil sector PSUs to venture abroad to access exploration blocks and oil producing properties for equity oil/gas either on their own or through strategic alliance /Joint Ventures. In this context, responding to a query on the target of equity oil and gas from abroad for the 10th Plan period and the quantity of oil and gas received from the overseas blocks so far by the Indian companies, the Ministry furnished the following data regarding the year-wise break-up of target of production of oil and gas abroad during 10th Plan:-

	2002-03	2003-04	2004-05	2005-06	2006-07	2002-07
Oil (MMT)	-	-	-	1.2	4.0	5.2
Gas (in MMSCMD*)	0.63	1.64	2.22	3.45	5.60	13.54
Gas (in BCM**)	0.23	0.60	0.81	1.26	2.04	4.94

*Million Standard Cubic Metres per day

** Billion Cubic Metres per Annum

1.13 During the first three years of the Plan period, ONGC Videsh Ltd. (OVL) had the following production of oil and gas from the overseas fields vis-à-vis targets fixed:

	2002-03		2003-04		2004-05	
	Plan	Actual	Plan	Actual	Plan	Actual*
OIL (MMT) (Including Condensate)	-	0.183	-	3.345	-	3.70
GAS (BCM)	0.23	0.07	0.60	0.523	0.81	1.325
TOTAL (O+OEG)	0.23	0.253	0.60	3.868	0.81	5.025

* Production anticipated during 2004-05 (based on actual during April, 2004 to February, 2005 and anticipated for March, 2005)

1.14 The Committee were informed that the actual gas production from Block 06.1, Vietnam during 2002-03 was 0.07 BCM as compared to the plan target of 0.23 BCM. The actual production was lower as the commercial production of gas started from January, 2003 as against planned in November, 2002 as the buyer PetroVietnam was not ready with the downstream facilities. Moreover, the initial nomination of gas quantity by the buyer was less than planned quantity.

1.15 Further, the difference in production of gas during 2003-04 i.e. 0.523 BCM as against plan of 0.60 BCM was lower due to lower nomination of gas quantity by the buyer

1.16 Gas production anticipated during 2004-05 (based on actual during April, 2004 to February, 2005) was expected to be 1.325 BCM which was higher than the planned production of 0.81 BCM.

b) Demand and Production of Petroleum Products

1.17 Consumption of petroleum products is estimated to reach 120.4 MMT by the terminal year of the 10th Plan i.e. 2006-07. The trend of consumption so far since 1997-98 has been as under:

1997-98	84.29 MMT
1998-99	90.56 MMT
1999-00	97.09 MMT
2000-01	100.07 MMT
2001-02	100.43 MMT
2002-03	104.1 MMT
2003-04	107.8 MMT

2004-05 (RE) 111.9 MMT

1.18 Based on the trend so far in consumption of petroleum products, projected consumption of 120.4 MMT was likely to be realized in the terminal year of the 10th Plan i.e. 2006-07.

1.19 As against this demand, the production of petroleum products in terms of refinery through put was as follows:-

2002-03 112.559 MMT
 2003-04 121.841 MMT
 2004-05(Target) 121.941 MMT
 (Achievement till February 2005) 116.220 MMT

1.20 Taking cues from the current production trends the Ministry stated that the targets of production for 2004-05 was expected to be achieved.

1.21 As regards the percentage growth in demand for petroleum products year-wise for the 9th and 10th Plan period, the Ministry of Petroleum and Natural Gas, in a visual presentation made before the Committee during the course of evidence of the representatives of the Ministry, provided the figures as under:-

Year-wise Demand & Growth for 9th & 10th Plan Period:

Plan	Year	Demand	% Growth
9 th	1997-98	84.290	6.5
	1998-99	90.562	7.4
	1999-2000	97.086	7.2
	2000-01	100.075	3.1
	2001-02	100.432	0.4
10 th	2002-03	104.126	3.7
	2003-04	107.751	3.5
	2004-05(RE)	111.866	3.8

1.22 The Committee were also informed that the anticipated percentage growth by the end of the 10th Plan period i.e. in the year 2006-07 was likely to be around 3%. When asked about the sudden drop in consumption towards the end of 9th Plan, the Secretary, Ministry of Petroleum and Natural Gas deposed before the Committee as under:-

“.....in the first three years of the 9th Plan, there was a big jump in the demand of petroleum products. But thereafter, in the last two years, the industrial activity had come into some kind of a relative recession. The petroleum product consumption is very much dependent on that. Therefore, during the last two years of the 9th Plan, the consumption had come down. But now, it has picked up and is steady.”

c) Strategic storage of crude and petroleum products

1.23 Oil security is of particular concern for countries like India with high oil import dependency. This is especially so from the oil supply security perspective. Taking this into account, the Government have decided to set up 5 million metric tonnes (MMT) of strategic storage capacity in addition to the existing storage of crude oil and petroleum products as an emergency mechanism in case of short-term supply disruptions.

1.24 In this context, the Committee wanted to know the present storage capacity of the public sector oil companies in the country and the progress made so far in regard to setting up of strategic storage facility for crude oil and petroleum products. The Ministry in a written reply submitted as under:-

“ Storage capacity of public sector oil companies in the country as on 1.4.2004 is :

Crude oil	6297.5 TKLs
Products (excluding LPG)	20623.9 TKLs
LPG (including JVs)	501.1 TMT

A Special Purpose Vehicle (SPV) by the name of “Indian Strategic Petroleum Reserves Limited”, (ISRPL) a wholly owned subsidiary company of IOCL, has been incorporated on 16.6.2004. The Company is expected to develop strategic storage reserves at three locations. The land have been identified at Mangalore and Visakhapattanam for creation of storage facilities of 1.5 and 1.0 MMT of capacity respectively. The estimated cost is about Rs 1360 crore for these two locations. The state Governments have been approached to initiate proceedings of land acquisition. As regard the third storage site, also near Mangalore, the Detailed Feasibility Report is currently under preparation, and is expected to be finalized by August, 2005.

IOCL has engaged EIL as project management consultant for carrying out preparation of bid documents, tendering and recommending award of work, detailed engineering and for construction supervision. The expected date of completion of project is 48 months from the date of award of contract.”

1.25 When asked about the position prevailing in other countries relating to strategic storage, the Ministry submitted as under:-

“International Energy Agency (IEA) has a programme known as International Energy Programme (IEP) for its 26 member countries. The member countries are Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, Luxembourg, The Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States.

As per the programme the countries have to maintain emergency oil reserves to at least 90 days of net oil imports. The calculation excludes marine bunkers and naphtha and makes a 10% deduction for unavailable stocks. Stocks are held in pipelines, tankers at sea, service stations, retail stores, consumers and military stocks. The stocks are to be reported to IEA on monthly basis.

The various systems by which these stocks are held are

- Company Stocks
- Government Stocks (Financed with central government budget)
- Agency Stocks (Held by public or private bodies)
- Combination of the above three

Only company stocks are used in Australia, Austria, Belgium, Greece, Italy, Luxembourg, New Zealand, Portugal, Sweden, Switzerland and Turkey.

Company and Government stocks are used in Czech Republic, Japan, Korea and United States

Company and Agency Stocks are used in Finland, France, Germany, Hungary, The Netherlands and Spain.

Company, Agency and Government Stocks are used in Ireland.”

(II) Utilisation of Plan Outlay by PSUs during the 10th Five Year Plan

1.26 The total 10th Plan (2002-07) allocation for Oil PSUs is Rs. 103656.00 crores. Against this, an amount of Rs. 52152.85 crores has been spent until February, 2005. The balance remains to be utilized during the rest of the 10th Plan period. The details of outlay are as below:-

(Rs. in crore)

Total Outlay 2002-07	2002-03			2003-04			2004-05			2005-06 BE	2006-07 proj- ected
	B.E.	R.E.	Actual	B.E.	R.E.	Actuals	B.E.	R.E.	Actuals*		
103656.00	17988.49	21100.44	16279.51	22731.47	24393.22	17590.96	25000.00	24615.12	14171.36	29623.48	36828.43

*(April- December 2004)

1.27 The Committee wanted to know as to why substantial amount had been kept pending for utilisation during the last two years of the Plan, the reasons for not utilizing the allocations uniformly and the corrective steps taken to plug the loopholes in the spending pattern. In its reply, the Ministry submitted :-

“Based on the economic, industrial and commercial factors governing the Oil Sector and the market projections for future business growth available at the time of formulation of the Plan, Oil Sector PSUs have finalized the physical and financial targets for the entire 10th Five Year Plan. However, as changes in the above factors occur in each year of the Plan, PSUs revise the targets and reschedule/ reprioritize the projects with a view to optimizing returns on capital employed by the companies. Adjustment in outlays and prioritization of project becomes an integral part of the planning process and funds utilization is dependent on the project implementation schedule and, therefore, cannot be spread uniformly over the five year plan period. Progress in achieving physical and financial targets by the Oil Sector PSUs is regularly monitored at various levels of the Government to minimize deviations from the Plan targets, apart from the review by the Boards of Directors of the respective PSUs.”

1.28 During 2004-05 out of the BE amount of Rs. 25000.00 crore, an amount of only Rs. 14,171.36 crore was spent in the first nine months. In view of this trend, the Committee wanted to know whether the Government was confident that Oil Sector PSUs will be able to spend the remaining allocation within the last three months of the current fiscal. Responding to this, the Ministry has informed that by February, 2005 the actual expenditure has reached Rs. 18,282.38 crore

and thus the percentage utilization of Plan funds during April- February (2004-05) has gone upto 74.27% as against only 57.57% during April – December, 2004. Keeping in view the trend of expenditure in the last quarter, the Government has advised the oil PSUs to achieve the physical targets and utilize the outlays proposed for the year 2004-05.

1.29 The Committee were also informed that the Plan funds were raised by the Oil PSUs themselves through their own internal and extra budgetary resources with no Government funds involved. Therefore, the oil companies themselves were pushing for early implementation of projects where the market was ready and similarly the oil companies went slow on projects where commercial factors and market situations demanded so. In some cases, delays took place due to arduous procurement procedure.

a) Underground Coal Gasification Project by ONGC

1.30 Underground Coal Gasification (UCG) is a process by which coal is converted into combustible gas that can be used as a fuel or chemical feedstock. Knowledge of the process of gasification of coal has existed for many years. UCG involves injecting steam and air or oxygen (O₂) into coal seams through wells. The injected gas react with coal to form a combustible gas (product gas) which is brought to the surface through production wells cleaned and used as a fuel or chemical feedstock.

1.31 When the Committee wanted to know the details about the pilot project of ONGC to start commercial production of gas through underground coal gasification in West Bengal, the Ministry of Petroleum and Natural Gas submitted as under:-

“ONGC has signed an MOU (Agreement of Collaboration – AOC) with Skonchisky Institute of Mining (SIM), Russia for Underground Coal Gasification (UCG). This AOC is intended for cooperation in the development and application of expertise, technical know how and technologies related to UCG in the context of India’s vast unmineable coal reserves which are otherwise not suitable or not economical to the conventional mining methods. The AOC is also intended to establish the feasibility of the technology for different Geological, Hydrological and

Environmental conditions through UCG pilots in the field. Under the agreement UCG process will be established through a pilot and envisaged to be culminated into a UCG station through six major steps which is expected to be completed in 60 months.

A contract for first phase has also been signed with SIM, Russia, for selection of site for implementation of UCG pilot. The first phase is of seven months duration starting from February, 2005.

ONGC is having dialogues with Coal India Limited, Neyveli Lignite Corporation Limited and various State agencies for identifying unmineable coal/ lignite deposits in different parts of the country. Suitable site for UCG pilot will be decided after examining various unmineable coal/ lignite deposits in India, under the supervision and guidance of the consultants from SIM, Russia and CIL.

The present effort of UCG is an R&D pilot taken up by ONGC for the first time in India for establishing the commercial feasibility of the UCG process in Indian context.

In view of the above, no UCG project in West Bengal has been firmed up and possibility of such a project in West Bengal will be examined after the success of UCG pilot.”

b) Dahej-Uran Pipeline Project of GAIL

1.32 GAIL owns and operates a network of over 5,340 kms of Natural Gas high pressure trunk pipeline with a capacity to carry 118 MMSCMD of natural gas across the country. It supplies nearly 63 million cubic meters of natural gas per day. GAIL's share of gas transmission business is 88% and the company holds 81% market share in gas marketing in India.

1.33 Major projects of GAIL commissioned during 2004-05 were Dahej Vijaypur Pipeline (DVPL) and Vizag Secunderabad LPG Pipeline (VSPL). Major projects of GAIL were under implementation were Dahej- Hazira Uran Pipeline (DUPL), Thulendi Phulpur Pipeline, Vijapur, Kota Pipeline, and Pata Expansion Project.

1.34 Dahej-Hazira Uran Pipeline Project was approved on 27.12.2002, with an original capital cost of Rs. 1,416.00 crore (Rs. 1830.77 crore revised) scheduled for commission on 28.2.2005 (Revised commissioning date is 4.8.06). The throughput capacity at present would be 12 MMSCMD.

1.35 GAIL attributed the shortfall of actual expenditure during the first three quarters of 2004-05, inter-alia, to delay in Dahej Uran Pipeline project (DUPL). The Committee, therefore, desired to know the technical problems that had come up in the way of DUPL pipeline project and remedial measures contemplated by the Government.

1.36 In its reply, the Ministry of Petroleum and Natural Gas stated as under:-

“During the implementation of Dahej-Vijaipur Pipeline (DVPL) there were reports in the media and the issue was also highlighted in the Parliament, regarding the selection of technology for the line pipes being used by GAIL for their gas transmission pipeline. It was alleged that GAIL was stipulating only Longitudinally Submerged Arc Welded (LSAW) pipes for its pipelines which are more expensive than Helically Submerged Arc Welded (HSAW) pipes even though from the performance point of view HSAW pipes are as good as LSAW pipes. Accordingly, by specifying only LSAW pipes in the tender for DVPL pipeline, the price bids received by GAIL were much higher as compared to the prices received for other contemporary pipelines bids. It was alleged that prescribing LSAW pipes alone in the tender restricts competition thereby increasing the prices. Considering the technical nature of the issues involved this Ministry referred the matter to the Centre for High Technology (CHT) for examining the matter and for its recommendations regarding the choice of the technology for use in gas transmission applications. After detailed study, CHT observed that “the international codes and standards do not differentiate between LSAW and HSAW pipes. Based on published information, it has been found that nationally and internationally, both LSAW and HSAW type pipes are used for gas transportation.” In conclusion, CHT recommended that HSAW pipes should also be included along with the other type of pipes, viz. LSAW in the tender documents for competitive bidding for high gas pressure gas transmission projects. This would enable better quality and price advantage to the gas pipelines operators / clients.

Subsequently, in consultation with Department of Public Enterprises (DPE), this Ministry issued a Presidential Directive to GAIL to cancel their tender for DUPL, which had specified only LSAW pipelines and issue a

fresh tender incorporating specifications under internationally accepted codes such as API-5L and not to put restrictions in the tender on any specific type of pipeline. Simultaneously GAIL was also asked to firm up sources of supply of gas and consumer tie-up for the DUPL pipelines, which is critical for any pipeline project so that the facility does not incur a loss. The spirit of the Presidential Directive was to widen the participation of the bidders with a view to increasing competition in the bids of GAIL so that the most competitive prices could be secured in the public interest. GAIL will take a final decision in this regard after considering all the issues in totality.”

c) National Gas Grid Project

1.37 Responding to a query on the present status of National Gas Grid Project, the Ministry of Petroleum and Natural Gas informed the Committee as under:-

“Conceptually, a National Gas Grid is a network of inter-connected natural gas transmission pipelines providing linkage to the various supply sources with the markets in different parts of the country. Such a network of transmission pipelines evolves with the development of gas markets. Most of the European countries and USA which have developed gas markets have such a network crisscrossing the nation. A National Gas Grid is a concept plan and not a single project.

India is in the initial stage of the development of gas markets. Apart from HBJ which is an inter-State high-pressure transmission pipeline, there are some regional pipeline networks by different companies. The existing high to medium pressure pipeline networks of different companies are as follows:-

Name of the Company	Existing pipeline network (in KM)
GAIL (India) Limited	5370
Gujarat State Petronet Limited (GSPL)	500
Assam Gas Company Limited	300
Gujarat Gas Company Limited	400

Recently, a number of gas discoveries have been reported on the Western Coast and the Eastern Coast offshore and onland in Gujarat and Rajasthan. PLL’s Dahej LNG terminal of 5 MMTPA (18 MMSCMD) capacity was commissioned in March 2004, whereas, Shell’s Hazira LNG terminal of about 2.5 MMTPA (9 MMSCMD) is expected to be commissioned by the 2nd quarter of the current year. With increasing availability of gas from various sources, there is need for the development of natural gas pipeline infrastructure to link up various supply sources to the

existing and potential markets. In due course the various pipelines will get inter-connected and a nationwide gas grid will develop.

The Government is finalizing a Natural Gas Pipeline Policy which envisages progressive development of a nation-wide gas grid in a competitive environment, involving both the public sector and the private sector, under the overview of a Regulator. Implementation of different pipeline segments will, inter-alia, depend upon achieving appropriate sources of supply and marketing tie-ups.

Recently, GAIL has completed 610 KM Dahej- Vijaipur pipeline (DVPL) to evacuate RLNG from Dahej LNG terminal linking it to HBJ pipeline. GAIL is also implementing Dahej-Uran Pipeline (DUPL) project. Depending upon the source of supply, GAIL has further plans to lay transmission pipelines. GTICL a company promoted by Reliance Industries Ltd. (RIL) has plans to lay gas pipelines Kakinada-Uran- Ahmedabad, Hyderabad – Goa and Jamnagar to Bhopal to evacuate gas from their E&P blocks and RLNG.”

1.38 During the course of evidence, when the Committee expressed their displeasure over the reply which described the National Gas Grid as a concept plan and not a single project, Secretary Ministry of Petroleum and Natural gas sought to clarify the position as under:-

“....I think, it has not been happily worded. When we talk of National Gas Grid, it seems that a large project will be taken up whether we are able to implement it quickly or whether we have the resources or not and all those things. There is a plan for National Gas Grid where different projects will fit in.”

d) Paradeep Refinery Project of IOC

1.39 A Memorandum of understanding (MOU) was signed with the Government of Orissa on 16.2.04 for setting up a refinery at Paradip, Orissa, with a package of fiscal incentives for the project. The package offered by the Orissa Government included deferment of Sales Tax on products of the refinery for 11 years from the commencement of commercial production and exemption of Entry Tax on crude oil & construction materials. IOC was to initiate necessary steps to complete construction of the refinery in the year 2009-10.

1.40 As per the original Government approval, this refinery project was scheduled to be completed by July, 2002.

1.41 Explaining the present status of the project the Ministry of Petroleum and Natural Gas stated in a written reply as under:-

“Board of Directors in its meeting held on 24.9.04 approved the proposal for preparation of Detailed Feasibility Report (DFR) and sanctioned an amount of Rs. 13.5 crore for incurring expenditure towards:

Market Survey / analysis and Price Forecast
Configuration Study & preparation of DFR
EIA / RA Studies

- The work for preparation of DFR has been awarded to M/s Engineers India Limited on 16.11.04 for Market Analysis, Configuration study (including integration with petrochemicals) and DFR preparation on nomination basis at a cost of Rs. 9.75 crore. For the study, EIL is supported by the back-up consultant M/s Shell Global Solutions International (Shell GSI), Netherlands, particularly for integration strategy for petrochemicals.
- DFR is progressing as per schedule. Market study has been completed. Various configurations for refinery portion have been short listed. The configuration study including integration is scheduled to be completed by May 2005 and the final DFR expected to be completed by Aug'05.
- Acquisition of 3347 acres of land has been completed by IOC.
- Land development by dredging & reclamation, construction of bridges over Santra Creek, construction of approach road connecting NH-5A to refinery site and sand stabilization of reclaimed land have been completed.
- Balance infrastructure works like railway over-bridge, boundary wall, roads & drains, buildings like site office, canteen and gate complex are in various stages of completion.
- As on date, total commitment and expenditure on the refinery project are Rs. 1049.84 crore and Rs. 596.12 crore respectively.

With the restoration of Sales Tax incentives by Orissa Government and ongoing work of preparation of Detailed Feasibility Report to integrate the refinery with petrochemical (in view of the surplus position of petroleum products in the country), all the outstanding issues relating to the project have been resolved. The project is scheduled for Mechanical Completion by Sept'09 and commissioning by end' 09/early'10.”

e) Bhatinda Refinery Project of HPCL

1.42 Bhatinda Refinery Project was previously slated for completion during 2004-05. During the course of evidence, when the Committee wanted to know the present status of the Bhatinda Refinery proposed to be set up by HPCL and for which the State Government of Punjab has given clearance, a representative of HPCL submitted before the Committee as under:-

“----- We are taking it up with the Government of Punjab and the deed of Assurance is under finalisation. The moment that is done, we will be doing it. We understand that the Chief Secretary is wanting to call a meeting shortly. We hope, it will be settled soon and if this covers the fiscal incentives, then the project will be over.”

1.43 The Committee wanted to know the terms and conditions proposed by the State Government while giving clearance to the said refinery. The Ministry in a written reply, submitted as under:-

“ Government of Punjab (GOP) has proposed interest free loan corresponding to local sales tax collected by the refinery upto a limit of Rs. 250 crore per annum for a period of five years to be repaid in 10 semi-annual instalments beginning from 6th year onward. In addition, GOP has also granted deferment of central sales tax for 15 years, exemption from octroi, electricity duty, free water during construction and assistance in development of infrastructure.

GOP has agreed to grant a Deed of Assurance for the fiscal benefits. The Deed is expected to be concluded shortly and thereafter the project activities will resume. As per the current assessment, the refinery is likely to be completed in 2009.”

f) Central India Refinery Project in Bina by BPCL

1.44 The Central India Refinery Project at Bina (BORL) was originally scheduled for completion in December, 1999.

1.45 The Committee desired to know the present status of the Central India Refinery Project in Bina by BPCL and the proposed date of completion of the project. The Ministry of Petroleum and Natural Gas furnished the details in one of their written replies as under:-

“The refinery project at Bina has three components (i) six million metric tonnes per annum refinery at Bina (ii) crude oil import facilities at Vadinar (Gujarat) and (iii) cross country crude oil pipeline from Vadinar to Bina. Land for the refinery block at Bina and for the crude oil terminal at Vadinar has been acquired. Acquisition of right of user/ right of way along the route of the crude oil pipeline has been completed. All environmental clearances for the project have also been obtained. An expenditure of Rs. 164 crore (approx.) has so far been incurred on the project. Physical progress of the project is 5.3%.

In view of the decision of Oman Oil Company to limit its investment in the project, the Government had in May, 2003 permitted BPCL to enhance its equity contribution in Bharat Oman Refineries Limited (BORL) from the earlier approved level of Rs. 549 crore to upto Rs. 1271 crore (equal to 50% of revised equity requirement of BORL) for executing the project, with the direction that substantial final commitments be made only after a critical evaluation of the viability of the project. In view of this stipulation as well as various changes in quality and quantity of product requirement of BPCL, a review has been undertaken to re-confirm/ revise the product slate of the refinery project.

Engineers India Limited has submitted its price bids for the study for reconfiguration of the process scheme of the refinery project to suit the revised/ combined demand and conformance to the Euro-IV specifications of petroleum products. Revised Cost Estimates of the project of Rs. 6354 crore at September, 2001 prices were approved in July, 2002.

Government of Madhya Pradesh on 22.2.2005 has granted the facility of commercial tax deferment to BORL.

The project is expected to be completed within 42 months from the date of commencement of project execution.”

C. ANALYSIS OF DEMANDS FOR GRANTS (2005-2006)

1.46 As the oil sector PSUs are self-sustained and in fact some of them are Navratnas, generally no budgetary support in terms of investment, Plan and Non-Plan loans is made available to them.

1.47 The Demands for Grants of the Ministry of Petroleum and Natural Gas were laid on the Table of Lok Sabha on 17th March, 2005. Demand No. 71 of

the Ministry contains the following figures of Revenue as well as Capital Expenditure for the year 2005-2006:-

(Rs. in lakhs)

	Plan	Non-Plan	Total
Revenue Section	--	Secretariat Economic Services - 1003.00 Petroleum - 365897.00	366900.00
Capital Section	--	--	--

HEAD-WISE DEMANDS FOR GRANTS (2005-06)

(I) MAJOR HEAD '2802'

Petroleum

1.48 The following statement shows the details of Budgetary allocation/expenditure made for some major items during 2003-04, 2004-05 and 2005-06 under this Head:-

(Rs. in Lakhs)

Item	Budget Estimates 2003-04	Revised Estimates 2003-04	Actuals 2003-04	Budget Estimates 2004-05	Revised Estimates 2004-05	Budget Estimates 2005-06
(i) Subsidy on domestic LPG and Kerosene for PDS	630000.00	629244.00	629244.00	350000.00	350000.00	360000.00
(ii) Freight subsidy on retail products for far flung areas	24600.00	7932.00	5873.80	5900.00	5300.00	4400.00
(iii) Petroleum Regulatory Board	200.00	100.00	0.00	200.00	126.00	1497.00
(iv) Anti Adulteration Cell	200.00	200.00	44.45	200.00	86.00	0.00

a) **Subsidy on Domestic LPG and PDS Kerosene**

1.49 In the BE of 2003-04, subsidy on domestic LPG and PDS kerosene was set at Rs. 6300.00 crore. As against this, both the RE and actuals for the year 2003-04 were Rs. 6292.44 crore. In the year 2004-05, the BE and RE amount has been fixed at Rs. 3500.00 crore. The BE for 2005-06 is Rs. 3600.00 crore.

1.50 In addition to the normal subsidy scheme for PDS kerosene and domestic LPG, there is also a freight subsidy scheme for these products with a view to mitigating the impact of high transportation cost in the selling price of these products in far-flung areas.

1.51 The budgetary allocations for 2004-05 under the above two subsidy schemes and the expenditure incurred thereon from April- December, 2004 are as follows:-

(Rs. in crores)

Name of the Scheme	B.E. 2004-05	Expenditure (April- December, 2004)
PDS kerosene and domestic LPG subsidy scheme, 2002	3500	2500.16
Freight subsidy (for far flung areas) scheme, 2002	59	22.34

1.52 As per the Government decision on dismantling of APM, the subsidy on PDS kerosene and domestic LPG was to be phased out in three to five years effective 1.4.2002. The Government subsidy was on flat rate basis. The flat rate of Government subsidy for the year 2002-03 (first year post APM) was computed as the difference between the cost price and selling price as on 1.4.2002. The average subsidy for 2002-03 worked out as Rs. 67.75 /cylinder on domestic LPG and Rs. 2.45 / litre on PDS kerosene. The Government subsidy was released to the public sector oil marketing companies on monthly basis after verifying their claims. In addition to the Government subsidy, the oil PSUs have been partly sharing the burden of subsidizing PDS kerosene and domestic LPG.

1.53 Asked about the present subsidy per cylinder of LPG and per litre of PDS kerosene, the share of oil companies as under recoveries per LPG cylinder and per litre of PDS kerosene and the total under recoveries of oil PSUs during 2004-05, the Ministry of Petroleum and Natural Gas provided the following details for the period April-December, 2004:-

Item	PDS Kerosene (Rs./ litre)	Domestic LPG (Rs./ cylinder)
Subsidy from fiscal budget	0.82	22.58
Under recoveries to oil companies	8.14	129.18
Total subsidy to consumer	8.96	151.76

1.54 The details of the total under recoveries sustained by the oil marketing companies on supplies of PDS kerosene and domestic LPG during 2004-05 as furnished by the Ministry are given below:-

Product	April-Dec.04	Jan.-Mar.05 (Estimates)	Total
PDS kerosene	7154	2161	9315
Domestic LPG	6404	2001	8405
Total	13558	4162	17720"

1.55 When the Committee specifically desired to know about the Government's proposals to continue this subsidy beyond 31.3.2007, the Ministry in a written reply informed that as per the existing decision of the Government, budget subsidy on PDS kerosene and domestic LPG would continue to be provided till 31.3.2007 at 1/3rd of the level applicable during 2002-03.

b) Petroleum Regulatory Board

1.56 A provision of Rs. 2.00 crore was made for the Petroleum Regulatory Board in the B.E. of 2004-05. This was reduced to Rs. 1.26 crore at R.E. stage. During the current year a provision of Rs. 14.97 crore has been kept for Petroleum Regulatory Board.

1.57 In view of the importance of the regulatory body, the Committee asked the Ministry about the present position in regard to the amended Petroleum Regulatory Board Bill and the time by which it was likely to be introduced in Parliament. The Ministry in its written reply, submitted the following details:-

“After the new Government took over, it reviewed the provisions of the draft Bill which was prepared during the previous Government’s regime. It was inter-alia suggested that the proposed Board should have powers of laying down the technical standards to be observed by entities, especially in matters relating to common carriers. Further it was also desired that an Appellate Authority on lines of the Electricity Act, 2003 and TRAI Act, 1997 may be considered to sort out the contentious legal and technical issues among various entities expeditiously instead of appeals going to the High Courts. Accordingly, a revised draft Bill - The Petroleum and Natural Gas Regulatory Board Bill, 2004 was prepared.

The Cabinet considered the draft Bill in its meeting on 24.11.2004 and directed that the matter may be examined by a Group of Ministers in the first instance.

The Group of Ministers (GOM) discussed the matter in its meeting held on 25th January, 2005 and the following issues, inter-alia, arose in the meeting:-

- (i) Whether there should be a common appellate tribunal for the electricity and petroleum natural gas sectors.
- (ii) Whether it is right to bar the jurisdiction of CCI (Competition Commission of India) in the proposed legislation.
- (iii) Whether the upstream sector should also be included in the purview of the proposed PNGRB.
- (iv) Whether PNGRB should be empowered to regulate prices of petroleum and natural gas.

The Chairman of the GOM suggested that a Committee of Secretaries of the concerned Departments/ Ministries may examine these issues and then bring its recommendations before the GOM. The COS has examined these issues in its meeting of 15.3.2005 and would be forwarding its recommendations to GOM.”

c) Anti-Adulteration Cell

1.58 The Anti-Adulteration Cell was originally set up in March, 2001 to strengthen the vigilance machinery to check adulteration of Motorspirit and High Speed Diesel at Retail Outlets. It had the mandate to prevent adulteration and

other malpractices, enquire into benami operations, coordinate with state Governments/ Dealer Selection Boards.

1.59 A provision of Rs. 2.00 crore was made for the Anti-Adulteration Cell in B.E. 2004-05 . In the revised estimates for the year, it was brought down to Rs. 86 lakhs. For 2005-06, no provision has been made for this purpose as the Government has wound up Anti-Adulteration Cell on 31.7.2004.

1.60 Referring to the winding up of the Cell the Committee desired to know whether the Government proposed to revive the Cell as per recommendations made in their First and Fourth Reports. The Ministry replied as under:-

“The jurisdiction of powers for action in case of adulteration/ malpractices lies at present with multiple agencies, like the concerned Civil Supplies Department of State Governments/ UT Administration and the Oil Marketing Companies (OMCs) and the powers frequently overlap. It was observed that the Anti Adulteration Cell (AAC) staff was inadequate to detect malpractices in about 23,000 ROs (now over 25,000 in number) 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 got mired in controversy. Therefore, a one member committee of Shri M.S. Srinivasan , Additonal Secretary, MOP&NG 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 without commensurate benefit was not necessary.

Government decided to wind up the AAC of this Ministry with effect from 31.7.2004. The 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, Government has also been advised OMCs to create 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. All OMCs have created this wing.

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 minimized and eventually 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 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.

There is no proposal under the consideration of the Government to revive AAC.”

(II) MAJOR HEAD '3451'

Secretariat – Economic Services

1.61 The following table shows the details of actual expenditure made during 2002-03, BE, RE and actual expenditure for 2003-04, BE and RE for 2004-05 and BE for 2005-06 under the Secretariat-Economic Services Head:-

(Rs. in lakhs)

Items	Actuals 2002-03	BE 2003-04	RE 2003-04	Actuals 2003-04	BE 2004-05	RE 2004-05	BE 2005-06
Salaries	429.31	432.85	463.00	450.76	498.00	495.14	516.81
Wages	0.00	1.12	0.50	0.00	1.00	0.30	0.80
Overtime Allowance	11.28	11.87	10.50	8.86	11.00	10.42	8.80
Domestic Travel	13.81	24.90	28.00	23.71	28.00	17.00	20.00
Foreign Travel	8.41	12.00	30.00	22.82	26.00	26.00	26.00
Office expenses	192.27	224.30	179.78	152.21	162.07	154.84	119.19
Professional services	26.27	103.94	70.93	58.44	195.93	187.19	234.00
Publication	1.28	3.16	3.00	2.56	3.00	3.36	3.00
Other Admn. Expenses	11.73	13.86	14.29	12.36	15.00	14.69	16.00
Medical Treatment	0.00	0.00	0.00	0.00	12.00	12.00	12.00
Information Technology	0.00	0.00	0.00	0.00	90.00	67.06	46.40
Total	694.36	828.00	800.00	731.72	1042.00	988.00	1003.00

1.62 It may be seen from the above data that a provision for Rs. 10.42 crore was made in B.E. 2004-05 under the Major Head '3451'. The BE and RE for 2003-04 under this Head were Rs. 8.28 crore and Rs. 8.00 crore respectively. The actual expenditure during 2003-04 was Rs. 7.32 crore. The BE of 2005-06 has been pegged at Rs 10.03 crore .

1.63 It is pertinent to note that the actual Professional Services expenditure during 2002-03 and 2003-04 was Rs. 26.27 lakhs and Rs. 58.44 lakhs respectively. The RE of 2003-04 and 2004-05 has been less than the BE of the respective years. While the BE was Rs. 103.94 lakhs during 2003-04, the RE was Rs. 70.93 lakhs only. Similarly, in 2004-05 the RE was Rs. 187.19 lakhs as against the B.E. of Rs. 195.93 lakhs. In spite of the reductions at RE stage in both the years, a huge provision of Rs. 234.00 lakhs has been made in B.E. 2005-06.

1.64 The Committee desired to know the reasons for steep increase in the allocations for Professional Services during 2004-05 and 2005-06 and the actual expenditure incurred during 2004-05 so far under this head. In a written reply the Ministry submitted as under:-

“The enhanced provision in the object head Professional Services during 2004-05 and 2005-06 is on account of payment to International Energy Forum Secretariat, Saudi Arabia as India's Membership Fee and Grant-in-aid to Fuel Testing Laboratory, NOIDA as per details given below:-

(Figures in Rs. lakhs)

		BE 2002-03	BE 2003-04	BE 2004-05	BE 2005-06	Actual expenditure during 2004-05 as on 21.3.2005.
i)	Payment to International Energy Forum Secretariat Saudi Arabia as India's Membership Fee	25.92	100.00	37.80	28.67	---
ii)	Grant-in-aid to Fuel Testing Laboratory, NOIDA	Nil	Nil	150.00	200.00	100.00
iii)	Payment to Counsels Fee, etc.	3.71	3.94	8.13	5.33	3.00
	Total	29.63	103.94	195.93	234.00	103.00.

D. MISCELLANEOUS

a) Pricing of Petroleum Products

1.65 The Committee desired to know the efforts made by Government to maintain the domestic prices of petroleum products. The Ministry informed that the year 2004-05 witnessed an unprecedented high oil prices in the international markets. As compared to the average Indian basket crude price of US \$ 27.98/ barrel during 2003-04, the average price during 2004-05 (April 2004 - January 2005) was US \$ 37.87/ barrel. During February and first fortnight of March, 2005, there prices were stated to be US\$ 42.67/ barrel and US\$ 48.98/ barrel respectively. With a view to containing the impact of increase in international prices of petroleum products on domestic prices, the Government reduced excise duty on petrol from 30% to 26% and on diesel from 14% to 11% effective 16.6.2004. The duty was further reduced on petrol from 26% to 23% and on diesel from 11% to 8% with effect from 19.8.2004. The Government has also reduced customs duty on petrol and diesel from 20% to 15% with effect from 19.8.2004. In addition to these fiscal measures, with a view to modulating the impact of high international prices on the domestic consumer prices of petrol and diesel and bringing about transparency in pricing by allowing autonomous adjustments by OMCs in retail selling prices (RSPs) of these products within a reasonable price band, the CCEA in its meeting on 26.7.2004, took inter-alia the following decisions regarding pricing of petrol and diesel:

- a) OMCs would themselves decide the RSPs of petrol and diesel based on the previous fortnight's average international price, provided that the exchange rate adjusted C&F (Cost and Freight) product price was within the band of + 10% around the mean of (a) last three months' rolling average prices; and (b) last one year's rolling average prices.
- b) In case the C&F prices breached the ceiling due to high volatility, OMCs would keep the prices in the band and approach the Government. The Government may then consider modulating excise duty rates of petrol and diesel as appropriate, in the interest of consumers.

- c) Prices in far-flung areas would not exceed prices at the nearest supply points as at present.

The OMCs continued to fix the selling prices of Petrol and Diesel during 2004-05 in consultation with Ministry of Petroleum and Natural Gas.

1.66 As per the duty restructuring proposed by Finance Minister in the Budget (2005-06) further changes in customs and excise tariffs of various petroleum products have been effected from March 1, 2005. The details of such changes are as under:-

Item	Pre-revised (as on 28.2.2005)	Revised (as on 1.3.2005)
Customs tariffs		
Crude Oil	10%	5%
Petrol	15%	10%
Diesel	15%	10%
Kerosene	5%	NIL
LPG	5%	NIL
Others	20%	10%
Excise Tariffs		
Petrol	23%+Rs.7.50/ Ltr.	8%+Rs.13/Ltr.
Diesel	8%+Rs.1.50/ Ltr.	8%+ Rs.3.25/Ltr
PDS Kerosene	12%	NIL
Domestic LPG	8%	NIL

1.67 During oral evidence, the Committee wanted to know whether the tariff changes effected were revenue neutral as stated by the Finance Minister in his Budget speech. The Secretary, Petroleum and Natural Gas deposed as under:-

“...What the Finance Ministry has done is this. Whatever it has given from one hand, it has taken away from the other hand more than what it gave. In fact, the proposal of the Finance Ministry is revenue

positive. Therefore, whatever they have lost by reducing the customs and excise duties on LPG and kerosene, more than that, they have increased the duties on petrol and diesel. This is a serious problem that we are facing right now. At this stage, the international prices are very high and the tariffs on petrol and diesel have become very high.”

1.68 The impact of tariff changes in the Budget 2005-06 as furnished by the Ministry of Petroleum and Natural Gas is given below:-

Item	Unit	Rs./ unit
Incremental revenue	Rs./crore per annum	3,000
Reduction in excise duty on PDS kerosene and domestic LPG	Rs./litre	Kero-0.88
	Rs./cylinder	LPG 17.75
Increase in excise duty on Petrol and Diesel	Rs./ litre	Petrol-2.52
		Diesel-1.65

1.69 In this backdrop the Committee desired to know the exact share of hydrocarbon sector in the total revenue of the Government in the last three fiscals. The Ministry of Petroleum and Natural Gas provided the following figures as per details provided to it by the Ministry of Finance (Tax Research Unit):-

Customs duty

(Rs. in crore)

Items	2001-02	2002-03	2003-04
Crude oil	4818.32	6819.50	7490.77
Others	1948.49	2346.41	3091.44
Total POL	6766.81	9165.91	10582.21
Total Non-POL	33330.19	35746.09	38030.79
Gross revenue (POL+Non-POL)	40097.00	44912.00	48613.00
% of POL to Gross revenue	16.88	20.41	21.77

Excise duty		(Rs. in crore)	
Items	2001-02	2002-03	2003-04
Total POL	29337.90	35961.23	40150.58
Total Non-POL	43081.10	46292.77	50756.42
Gross revenue (POL+Non-POL)	72419.00	82254.00	90907.00
% of POL to Gross revenue	40.51	43.72	44.17

1.70 The details of the total revenues from customs and excise duty for POL along with the details of subsidy provision from the fiscal budget for the last three years had also been furnished by the Ministry of Petroleum and Natural Gas as per the details given below:-

Rs. in crores			
Items	2001-02	2002-03	2003-04
Customs duty (POL)	6,766.81	9,165.91	10,582.21
Excise duties (POL)	29,337.90	35,961.23	40,150.58
Total Customs & Excise duties (POL)	36,104.71	45,127.14	50,732.79
Subsidy provision in the fiscal budget on PDS kerosene and domestic LPG	NIL	4,495.80	6,292.44
% of subsidy provision to total customs/ excise duties from POL	NIL	9.96%	12.40%

b) Transnational Gas Pipelines

1.71 Transnational pipelines are an integral part of the international gas business. In view of the rising energy needs, India too has to explore such an option. Moreover, India is strategically located to meet its natural gas requirements through transnational pipelines as it is flanked by large gas reserves to its East, North-West and West. These sources include the world's leading supply sources in terms of proven gas reserves in Central Asia, West Asia including Iran and Myanmar and Bangladesh on Eastern side. Considering the definite advantage of transnational pipelines, the Government was stated to have decided to pursue import of gas through transnational pipelines from the gas rich countries. At present, India has before it three specific pipelines proposals, the Myanmar-Bangladesh-India pipeline, the Iran-Pakistan-India pipeline and the Turkmenistan-Afghanistan-Pakistan-India pipeline.

1.72 When the Committee desired to be apprised of the present status of these proposals, the Ministry of Petroleum and Natural Gas furnished the following details:-

"1. Myanmar-Bangladesh-India pipeline

To pursue the matter and have trilateral discussions with Myanmar and Bangladesh, Minister (P&NG) visited Yangon in January, 2005. The trilateral meeting between the Petroleum Ministers of India, Myanmar and Bangladesh was held on 12.1.2005. After the meeting a Joint Press Statement was issued by the three Ministers. The three sides agreed to transport of natural gas from Myanmar to India by pipeline transiting through Bangladesh. The route of the pipeline will be determined by mutual agreement of the three Governments. It was also decided to establish a Techno-Commercial Working Committee (TCWC) comprising duly designated representatives of the three Governments to prepare a draft MOU prescribing the framework of cooperation among the three Governments, including the Myanmar-Bangladesh-India gas pipeline project. The MOU would be signed at Dhaka at the earliest mutually convenient date. The 1st TCWC meeting was held in Myanmar on 24-25 February, 2005. During the meeting a draft MOU was agreed by the representatives of the three sides which would be signed at Dhaka by the Petroleum/ Oil Ministers of the three countries after obtaining approval from their respective Governments.

The approval of the Cabinet to sign the proposed MOU has been sought.

2. Iran-Pakistan-India natural gas pipeline project

The gas sector cooperation with Iran is being pursued bilaterally between Government of India and the Government of Iran to examine all options of gas imports from Iran. As regards piped gas supply, National Iranian Gas Export Company (NIGEC) and GAIL had earlier commissioned a deep water gas pipeline feasibility study, outside the EEZ of Pakistan. The study has been delayed for more than two years due to sinking of marine survey vessel. It is now expected that based on the available data, this feasibility study will be completed by the end of the current year. However, the most feasible option appears to be import of natural gas from Iran through a natural gas transmission pipeline transiting through Pakistan. This will also be a very significant step in meeting our quest for energy security. Pursuant to the Cabinet decision of 9.2.2005 allowing MOP&NG to pursue initiatives of import of gas through transnational gas pipelines from Iran, Turkmenistan and Myanmar, the matter is being discussed with the Iranian side about the possible terms and conditions for piped gas supply through Iran-Pakistan-India pipeline.

3. Turkmenistan –Afghanistan-Pakistan (TAP) pipeline

Daulatabad area of Turkmenistan has reported to have sufficient gas reserves. The Governments of Turkmenistan-Afghanistan-Pakistan proposed the transnational gas pipeline to exploit the available gas reserves in Turkmenistan. They designated ADB as the lead development partner. ADB has carried out the study and approached India for participating in the project. The matter is under examination of the Government.”

1.73 The Ministry also informed the Committee that the Techno-Economic feasibility studies of Myanmar-Bangladesh-India and Iran-Pakistan-India projects were yet to be carried out. As regards Turkmenistan-Afghanistan-Pakistan pipeline, India was not yet a participating country in the proposed project.

1.74 Replying to a query as to what extent gas pipelines across the borders are viable from the security point of view, the Ministry stated in a note:-

“In such projects, the project developers have to cover the risks by securing adequate financial and sovereign guarantees as well as necessary insurance cover. As a recipient country, we need to negotiate appropriate terms and conditions to ensure security and stability of supplies. For instance, there could be “supply or pay” clause in the contract. Further, to provide additional security, gas storage facilities may be developed in India and there may be arrangements for short term LNG supplies in case of temporary disruptions.”

c) Liquefied Natural Gas (LNG) Import Initiatives

1.75 Import of Liquefied Natural Gas (LNG) is one of the feasible options to bridge the gap between the demand and supply in short to medium term. At present, as against an allocation of 119 MMSCMD of natural gas, the supply is only 67 MMSCMD. In a presentation made before the Committee the Ministry provided details about the natural gas demand scenario and the pattern of gas use as under:-

NATURAL GAS DEMAND SCENARIO

(Figures in MMSCMD)

Years	HV 2025*
2006-07	231
2011-12	313
2024-25	391

* Basis: India Hydrocarbon Vision – 2025

Share of natural gas in the energy basket is projected to grow From 8% to about 20% by the year 2025

PATTERN OF GAS USE

Power	42%
Fertiliser	32%
Sponge Iron	4%
Others (CNG, glass ceramics)	14%
Shrinkage (LPG & Petrochemicals)	8%

1.76 Keeping in view the huge demand of gas and the shortage in domestic supply, import of LNG has assumed increasing significance. Giving the details of progress made in the direction of import of LNG, the Ministry of Petroleum and Natural Gas stated as under:-

“India’s first LNG terminal of 5 MMTA capacity at Dahej, Gujarat was commissioned by Petronet LNG Limited (PLL) in March, 2004. PLL has since decided to increase the capacity of Dahej terminal from 5 MMTA to 10 MMTA. PLL has also decided to set up a 2.5 MMTA

capacity LNG terminal at Kochi. The expansion project at Dahej as well as the Kochi terminal are expected to be completed by the year 2008-09.

Shell's 2.5 MTPA capacity Hazira LNG terminal at Gujarat is expected to be commissioned during the year 2005-06. The Dabhol LNG terminal may also be commissioned in about 2 years subject to the resolution of various legal and other disputes. LNG terminals at Mangalore, Karnataka by ONGC and Ennore, Tamil Nadu by IOC are at planning stages."

1.77 On being asked as to whether the Government has decided to treat Dabhol, a private sector asset, as a part of the steps taken by the Government to increase gas availability, the Secretary, Ministry of Petroleum and Natural Gas replied:-

".....there is a Cabinet Committee to look into the question of revival of Dabhol Project. In this Ministry, we are only being asked to extend support and help for the setting up of LNG terminal a technical body..."

1.78 Regarding the prospects of setting up an LNG terminal at Krishnapatnam in Andhra Pradesh, CMD GAIL stated during the course of oral evidence as follows:-

".....on the east-coast, at different points of time, feasibility studies have been conducted for putting up an LNG terminal at Kakinada, Krishnapatnam and Ennore. Both IOC and GAIL were involved in this. The issue has always been of a trade off between domestic availability in the K.G. Basin and the import of LNG into the same market itself. At one time there was no discovery of natural gas in K.G. Basin. Then, a private company made an announcement about the availability of natural gas in that sector. In recent times, even the PSUs like ONGC have been talking about the availability of gas in that area. So, LNG terminal in the same market has to be very carefully balanced against the availability of domestic gas.... IOC and GAIL have jointly started the work. Earlier, we had done some work. We have to update this work. It will take about three months' time to come out with a feasibility for an LNG Terminal at Krishnapatanam."

1.79 When the Committee wanted to know about the relative advantages and disadvantages of LNG vis-à-vis gas through pipelines, the Ministry replied as under:-

- “(i) The technology of LNG liquefaction is with a limited number of companies, whereas proven transnational gas pipeline technology is easily available.
- (ii) LNG projects are comparatively more capital-intensive than pipeline projects. LNG chain involves upstream production of gas plus liquefaction plant plus shipping through cryogenic vessels plus regasification plant.
- (iii) Much larger volumes can be transported through gas pipelines vis-à-vis LNG route.
- (iv) The delivered price of gas transported through pipelines is comparatively cheaper,
- (v) Transnational pipeline projects are more complicated which require resolution of geopolitical as well as security of supply issues whereas, LNG projects are comparatively easier to maintain.”

d) Fuel Quality Improvement Programmes

1.80 In line with the roadmap laid down in the Auto Fuel Policy, the oil public sector undertakings were implementing quality upgradation projects to supply Euro-III equivalent fuel in metros/ identified cities by April, 2005 and in the rest of the country by April, 2010. Euro-III equivalent norms were proposed to be introduced in the entire country from 1.4.2010, but was subject to review in the year 2006 after the introduction of Bharat Stage-II norms in the entire country and Euro-III equivalent norms in identified cities with effect from 1.4.2005. But due to constraints of production at refineries, non availability of required grade of products for import and inland logistics, industry has proposed the following revised schedule, location wise for implementation of Bharat Stage II High Speed Diesel in the country.

w.e.f.	Area covered
1 st June, 2005	In the state of Rajasthan
1 st July, 2005	In the states of west U.P. and Uttaranchal
1 st Sept., 2005	In the state of Madhya Pradesh
1 st Oct., 2005	In the states of Punjab, H.P. and J&K

1.81 As regards Euro-III petrol, Euro-III HSD, Bharat Stage II petrol, the Ministry has informed that the schedule prescribed in the Auto Fuel policy will be complied with, fully. It has also been stated that to meet the shortfall arising from the reduced domestic supplies, the industry has explored the option of making up the requirement through a combination of imports and additives to the extent required and available.

1.82 The Ministry of Petroleum and Natural Gas has also furnished the sulphur content difference between Euro-I, II and III fuels as shown below:-

Sulphur Content of Fuels (Petrol & Diesel)

Fuel	Unit, Max	Euro-I	Euro-II	Euro-III	Difference between Euro-I and II	Difference between Euro-II and III
Petrol	PPM (wt %)	500 (0.05)	500 (0.05)	150 (0.015)	Nil	350 (70% reduction)
Diesel	PPM (wt %)	2000 (0.20)	500 (0.05)	350 (0.035)	1500 (75% reduction)	150 (30% reduction)

1.83 While replying to a specific query as to how long it would take refineries to achieve the production of fuels with new emission levels, the Ministry furnished the following details regarding the refinery-wise status of on-going projects related to upgradation of qualities of MS and HSD and anticipated schedule of completion :-

Refinery	Project	Schedule	Anticipated
Mathura	Diesel hydro treater	Dec. '04	Mar. '05
Panipat	Diesel hydro treater (*)	Jan. '05	Jun. '05
Mathura	Ms quality upgradation	Jan. '05	Apr. '05
Haldia	Ms quality upgradation	Jul. '05	Jul. '05
Gujarat	Ms quality upgradation	Jun. '06	Jun.'06
BPC-Mumbai	Hydro cracker unit	Oct. '04	Jun.'05
HPC-Mumbai	Green fuels & emissioncontrol	Apr. '05	Jun. 06
HPC-Visakh	Clean fuel project	Oct. '05	Aug.'06
MRPL	Light naphtha isomerisation project	Jul. '06	May'06

(*) Quality improvement facility as part of total project on refinery expansion."

1.84 The Ministry of Petroleum and Natural Gas further informed the Committee that the Ministry of Road Transport and Highways had addressed the Ministry for a review of the Auto Fuel Policy road map immediately to advance implementation of Bharat Stage-IV norms. This request was made on the basis of some representations from NGOs and also from Environment Pollution Control Authority.

1.85 In this regard, the Ministry further informed the Committee as follows:-

“For the existing refineries to be able to produce auto fuel corresponding to the Euro-III emission norms as per the roadmap prescribed in Auto Fuel Policy, it is estimated that an investment of the order of Rs. 34,000 crores would be required. It is also estimated that a further additional investment of over Rs. 10,000 crores may be needed in refineries to reach Euro-IV equivalent level. The Expert Committee on Auto Fuel Policy had recommended Euro-IV equivalent norms to be implemented in 11 cities from the year 2010. A review of these norms would require sufficient air quality data subsequent to the implementation of the norms proposed for 2005. Therefore, it has been decided to hold a review in the year 2006 for determining the target date for the implementation of Euro-IV equivalent norms.

India is ahead of most of the developing countries in the area of fuel quality. China's progress is no more than comparable. European Union which introduced Euro III norms in 2000 has scheduled for 2005 for the introduction of Euro IV. Indeed, only a few developed countries are ahead of India in fuel quality. Considering that stringent environment norms can only be attained with substantial investment, the fact that India is front- ranking among developing countries and even several developed countries, notwithstanding our low per capita income and the large proportion of our population living in poverty, is commendable.”

e) LPG and CNG as Auto Fuels

1.86 The Committee have noted that the Government has permitted the use of Liquefied Petroleum Gas (LPG) and Compressed Natural Gas (CNG) as clear and environment friendly auto fuels. Hon'ble Supreme Court has mandated conversion of old vehicles to LPG/ CNG in cities which are equally or more polluted than Delhi. Public Sector Oil Companies have identified locations for

setting up of Auto LPG Dispensing Stations in various Metros and some other major cities and as on 1st January, 2005, commissioned 99 ALDS out of about 159 planned in 16 cities.

1.87 With regard to the demand availability position of CNG in the country the Ministry of Petroleum and Natural Gas, in a written reply, stated as under:-

“At present, full CNG requirement of the cities of Delhi and Mumbai is being met. In Delhi, 130 CNG retail outlets have been set up which are catering to fuel requirement of more than 92,000 vehicles. In Mumbai, MGL has set up about 100 CNG stations and are meeting fuel requirement of more than 1,40,000 vehicles. CNG is also being supplied in a limited way in Gandhi Nagar, Vadodara, Surat and Ankleshwar in Gujarat. Further, it is proposed to expand CNG network in other cities such as Lucknow, Kanpur, Agra, Noida, Ghaziabad and Bareilly in U.P.; Gurgaon and Faridabad in Haryana; Pune, Navi Mumbai and Thane in Maharashtra and Vijayawada in Andhra Pradesh in a phased manner.”

1.88 With regard to efforts made to encourage the use of CNG in private cars and two wheelers, the Committee has been informed as below:-

“M/s. Indraprastha Gas Ltd. (IGL) in Delhi and Mahanagar Gas Limited (MGL) in Mumbai, as Joint Ventures of the Oil PSUs and few other private organizations are engaged in the business of supplying Compressed Natural Gas (CNG) to automobiles. However, these companies are not directly engaged in the business of CNG conversion kits that are required to be fitted in the vehicles. The type approval of the conversion kits for different makes of vehicles is at present provided in the country by two authorized agencies viz. M/s. Automotive Research Association of India (ARAI), Pune, Maharashtra and Vehicle Research and Development Establishment (VRDE) Ahmednagar, Maharashtra.

IGL has launched a communication plan in January, 2005 to spread the awareness among the potential private car users and to inform them about the availability of CNG and the increased infrastructure in the NCT of Delhi. The communication plan also focuses on safety, environmental and economic benefits of using CNG compared to other conventional fuels. Other companies also launch similar awareness programme from time to time.”

1.89 Regarding the conversion facilities for LPG, the Committee have noted that at present about 13 manufacturers of conversion kits for four wheeler vehicles and about 11 manufacturers of conversion kits for 3 wheeler vehicles have been approved by various Testing Agencies like ARAI Pune, VRDE Ahmednagar and IIP, Dehradun.

f) Hydrogen as an Auto Fuel

1.90 Use of Hydrogen(H₂) as an auto fuel has generated global interest. To reduce dependence on traditional fuels, developed countries like U.S.A. and European Union are committing billions of dollars for research for developing clean hydrogen powered automobiles.

1.91 In the wake of interest across the world on the use of hydrogen as an auto fuel, the Government of India was stated to have decided that the Indian Oil Industry should also work synergistically to make headway in this frontier area.

1.92 While replying to a specific query regarding the progress made in drawing up an action plan to operationalise the use of hydrocarbon as autofuel, the Ministry of P&NG submitted as follows:-

“Hydrogen (H₂) does not occur naturally in the free state in large quantities and the economics of hydrogen fuel cell technology is a major hurdle to its commercialization. The Ministry of Non-conventional Energy Sources has the nodal responsibility for promoting R&D in Hydrogen.

In June, 2003, Ministry of Petroleum and Natural Gas had decided that the Research and Development Division of the Indian Oil Corporation (IOC R&D) would prepare a road map for production, storage and distribution of hydrogen. IOC R&D prepared a tentative road map indicating activities covering production and dispensing of hydrogen, storage of hydrogen, hydrogen application, setting up a laboratory at IOC (R&D) for hydrogen and international linkages (including membership of accredited hydrogen associations and seminars/ workshops). It was accordingly decided that for facilitating research and demonstration activities in hydrogen, a Hydrogen Corpus Fund (HCF) of Rs. 100 crores would be created with contribution of OIDB and individual public sector enterprises of the Ministry.

Ministry of Petroleum and Natural Gas constituted a Hydrogen Group (H2 group) to look into various aspects of development of Hydrogen as a fuel and for sponsoring R&D projects for funding from the Hydrogen Corpus Fund. IOC R&D has prepared a Draft Feasibility Report for Hydrogen Research Activities in Oil and Gas sector. This also contains a project worth Rs. 25 crores (approx.) on the use of hydrogen – CNG (10-30%) mixture in automotive vehicles.”

g) Bio-fuels and Non-Conventional Fuel Additives

1.93 In order to bring down the magnitude of dependence on fossil fuels, Government has been promoting a policy of part-substitution of fossil fuels by bio-fuels like bio-diesel and non-conventional fuel additives like ethanol. Bio- deisel is chemically treated vegetable oil/ animal fat which can be mixed with conventional diesel to be used as transport fuel. Both edible oils as well as non/edible oils can be used as bio-fuels.

1.94 It was understood that while in other countries , rape seeds oil, soya oil etc. were used as bio-fuel, in India, bio-fuel was extracted from the seeds of trees like Mahua, Kanja, Kusum, Rubber seed, Mango Kernel, Jatropha etc. many of which can be grown in waste and degraded lands.

1.95 Regarding the steps being taken to encourage the production of Bio-diesel, the Ministry in a written reply stated as under:-

“Under instructions from the Ministry of Petroleum and Natural Gas to the Oil Marketing Companies in the public sector, field trials using bio-diesel and diesel blend in buses are in progress in collaboration with Haryana Roadways and Brihanmumbai Electric Supply and Transport Undertaking (BEST) Mumbai,. Field trials and engine tests on locomotives are also in progress. At present however, there is no ready domestic market for bio-diesel in India because of its scarce availability and also since bio-diesel based on readily available feed-stocks costs much more than diesel. It is considered that if larger availability of bio-diesel can be ensured, commercially viable use of bio-diesel blended diesel can be a possibility in future. A commercial beginning has been made in Gujarat in using bio-diesel in the buses of the Gujarat State Road Transport Corporation.

M/s. Indian Oil Corporation Limited have also signed a Memorandum of Understanding with Indian Railways to plant Jatropha saplings on land to be provided by Indian Railways. Accordingly, Indian Railways have provided 70 hectares of land to Indian Oil Corporation Limited in Surendra Nagar district of Gujarat. Out of this land, Indian Oil Corporation have utilized an area of 48 hectares and planted 1,10,000 saplings. This pilot project is aimed at generating base-line scientific data on growth of plants, seeding, yield of the oil seeds, yield of oil from seeds etc.

The Planning Commission had set up a Committee on Development of Bio-fuel which recommended the launching of a National Mission on Bio-diesel with special focus on the plantation of Jatropha Curcas. The Ministry of Rural Development is the nodal Ministry for the National Mission on Bio-diesel and that Ministry has recently got a Detailed Project Report (DPR) prepared by The Energy and Research Institute (TERI). The DPR inter alia envisages plantation of Jatropha Curcas over 4 lakhs hectares in different States. Ministry of Petroleum and Natural Gas is not directly involved in planting of Jatropha in large scale under the National Mission, but the Ministry has instructed Petroleum Conservation Research Association (PCRA) to provide information on bio-fuels to various target groups, i.e., farmers entrepreneurs and concerned Government agencies, spread awareness about bio-fuels among masses and helping information sharing with other institutions working in the field of bio-fuels.”

1.96 With effect from 1.1.2003 the Ministry of Petroleum and Natural Gas had notified the scheme of supplying 5% ethanol-blended petrol in 9 states and 4 union territories. However, procurement of ethanol remained a problem due to complex tax structure and its limited availability. As such, the original Notification had to be modified from time to time to allow more lead time to Oil Manufacturing companies for such coverage.

1.97 During the course of the evidence the Secretary, Ministry of Petroleum and Natural Gas stated that the Ministry was trying to encourage bio-diesel and ethanol blending with petrol. He deposed before the Committee as under:-

“..... we are, in a small way, trying to encourage ethanol blending with petrol and bio-diesel. Earlier, there were some problems with ethanol blending with petrol. We have said that if the price of ethanol is comparable

to the price that they are offering to other industries, and is comparable to other imported landed price, then we will take. We require large quantities of ethanol for blending with bio-diesel. We have encouraged people to cultivate plants like Jatropha, and other similar types of plants where there is no edible oil, as it is very difficult to collect the edible oil. The non-edible oil can be collected easily and it can be extracted and delivered at the price comparable to diesel price. So, we have a large requirement of that. These two operations are in pilot stage. Of course, the use of bio-diesel has been quite good in Haryana, Gujarat, Maharashtra and some other places. As far as the use of bio-diesel is concerned, it is all right but we have to see the production and availability of it also. Similarly, ethanol blending with petrol up to five percent is all right. But countries like Brazil goes up to the extent of 20 percent. So availability on sustained basis at a regular price is the problem here.”

1.98 Amplifying further, in a post evidence reply, the Ministry of Petroleum and Natural Gas stated as under:-

“The Government have introduced Ethanol-Blended Petrol (EBP) programme with a view to giving support to the agriculture sector and reducing environmental pollution. In terms of the Gazette Notification issued in 2002, the programme envisaged that to begin with 5% EBP would be supplied by the oil marketing companies in notified areas. However, due to problems related to excise duty and jurisdiction, transport permits, etc. related State level matters, along with inconsistent availability of ethanol, the EBP programme could be introduced only in stages.

During 2003-04 as against an indicated requirement of 3,63,000 KL, the total quantity of ethanol that could be purchased was only 1,95,996 KL. The supply of ethanol was seriously affected since April, 2004 particularly in the States of Maharashtra, Gujarat, Goa, Andhra Pradesh and Karnataka. The oil companies therefore requested suspension of the programme and review of the position in late 2004. This was not accepted by the Government and the Ministry of Petroleum and Natural Gas decided to continue the programme as one of the main objectives of the programme is to support the rural economy.

In consideration of the issues related to availability of ethanol at reasonable prices, the Government vide notification No. GSR 705(E) dated 27.10.2004 notified that 5% EBP as per Bureau of Indian Standards specifications shall be sold, if the price of sourcing indigenous ethanol for supply of EBP is comparable to the price of indigenous ethanol for alternative uses and if the delivery price of ethanol at the location is comparable to the import parity price of petrol at that location and the indigenous ethanol industry is able to maintain the availability of the same

for EBP programme at such prices in the notified States and Union Territories. After the Gazette notification was issued, the oil companies invited tenders for procurement of ethanol for the programme. Tender evaluation is in progress and is expected to be completed by mid April, 2005. This is being constantly reviewed at the Minister's level."

h) Development of Alternative Sources of Hydrocarbons

1.99 With the increasing dependence on petroleum imports owing to relatively stagnant domestic production and growth in demand, the development of alternative sources of Hydrocarbons has assumed increasing significance. In this connection, Coal Bed Methane and gas hydrates have the potential to prove to be important alternatives.

1.100 On being asked about the initiatives taken to develop alternative sources of hydrocarbons the Ministry informed that the Government has taken steps to explore and exploit Coal Bed Methane in the country. Steps were also being undertaken for R&D in the area of Gas Hydrates to enable the country to produce gas from gas hydrates.

1.101 To give impetus to the exploration and production of CBM, an environment friendly clean fuel similar to conventional natural gas, the Government has formulated a CBM policy. Contracts with PSUs / private companies for 13 blocks under two rounds of CBM policy and for 3 blocks on nomination basis have been signed for exploration and production of CBM. The estimated investment in these blocks was about Rs. 560 crore and estimated CBM resource was to the tune of 850 billion cubic meters (BCM). Based on the exploration plans, the commercial production in some of CBM blocks may start by 2006-07.

1.102 Giving an overall picture of the National Gas Hydrates Programme (NGHP), the Ministry, in a written reply, inter-alia, submitted as under:-

"In order to keep up with technological development, with an ultimate objective to harness methane gas from gas hydrates at commercial scale, National Gas Hydrate Programme was constituted in 1997 and subsequently on the recommendations of DGH it was decided by the

Government to reconstitute the implementing mechanism to give greater thrust for harnessing this large unconventional resource of energy. As a result Steering and Technical Committees of NGHP were reconstituted in October 2000. Based upon the review of seismic data by the Technical Committee, two areas in Indian deep waters, one along East Coast & another on West Coast were identified as “ Model Laboratory Areas” for further R&D work. Road Map has been prepared for the two areas. DG (H) heads technical Committee of NGHP and all the technical activities of all the scientific projects under National Gas Hydrate Programme (NGHP) are coordinated by DGH. Six working sub-Groups on Geosciences, Drilling, Production, Transportation/ Pipeline, Environment and Technology Development have been formed to carry out simultaneous activities related to gas hydrates in these fields.

Meetings of the NGHP Technical Committee are held every quarter and Agenda Notes for Steering Committee are submitted to the Ministry. The NGHP is functioning as per the Road Map prepared by DGH and approved by the Steering Committee headed by Secretary (P&NG). “

1.103 Giving details of the activities being undertaken in the field of exploration and development of gas hydrates, the Ministry added as under:-

“Deepwater drilling/coring logging of gas hydrate bearing sediments in the identified three areas in the country i.e. in K.G. Basin in east coast, Andaman area and Kerala-Konkan basins in the west coast in offshore Goa is planned to be carried out in the first quarter of 2005. This will enable the resource estimation in above three areas with a high confidence level. Tendering process for hiring a ship for coring the gas hydrate locations is in progress and is likely to be completed based on the availability of a suitable drill ship for carrying out this specialized activity for which there are only two suitable drill-ships available at present in the world.”

1.104 The Committee have also been informed that the pilot studies for production of gas from gas hydrates in one of the best areas from above three areas were expected by 2006-07, depending on the results of drilling/coring .

1.105 In the same context, when the Committee specifically wanted to know whether the Government had conducted a study on the efficacy of coal to oil project some years ago, the Ministry of Petroleum and Natural Gas submitted the following reply:-

“In order to develop alternate source of energy, a R&D project on conversion of low grade high sulphur coal and refinery vacuum residuum of North East region to hydrocarbon was undertaken by OIL. A 25 kg/day Pilot plant was

set up in the year 1999 at the R&D Centre at Duliajan, Assam under technical assistance from M/s. AXENS, USA based on Coal-Oil Coprocessing Technology of M/s. Hydrocarbon Research Inc. (HRI), USA (presently IFPNA, USA) at an approx. cost of Rs. 15 crores. In this Pilot plant, studies on coprocessing of coal and refinery residuum were successfully carried out. It was found that the coal conversion was 95% and liquid yield was 75%.

Considering the constraint in getting refinery residuum with changed refinery process configuration, OIL took up another study for Coal-Only-Processing in the same plant with certain modifications to adopt CTSL (Catalytic Two Stage Liquefaction) technology with the help of M/s. AXENS, NA, USA. Test run was successfully completed and result found to be very encouraging – coal conversion is 99% and liquid yield is 78%. Feasibility study report on such Coal-Only-Processing is also received from M/s. AXENS.

Presently, OIL has initiated actions to carry out another feasibility study on Coal Liquefaction Process using the technology of M/s. Hydrocarbon Technologies Inc. (HTI) of USA. After completion of this study, OIL will be in a position to evaluate the most suitable technology using the coal available in the North East Region.

OIL has taken up with M/s. Coal India Limited regarding availability of feed stock i.e. coal. OIL has also taken up with the State Govt. of Meghalaya for assessment of coal of K&J Hill area.”

(i) Merger of BRPL with IOCL

1.106 The Bongaigaon Refinery and Petrochemicals Limited (BRPL) became a subsidiary company of IOCL since March, 2001 when Government of India transferred its equity share of 74.46% to the Indian Oil Corporation Ltd. BRPL has been doing very well and the company achieved record profit after tax of Rs. 304 crores in 2003-04.

1.107 Responding to a query on the merger of BRPL with IOCL, the Ministry of Petroleum & Natural Gas informed the Committee that the said merger is not under consideration. But during the course of the evidence, when the Members of the Committee raised the issues of this merger, 100% Excise Duty benefits to PSF, Petrochemicals and Calcined Petroleum Coke (CPC) in line with North-East Industrial Policy and a DHDT Project at BRPL site, the CMD IOCL sought to clarify the position as under :-

“-----we are taking up the issue of BRPL merger. As regards excise duty benefits, BRPL has also to get 15% and this is one of the reasons why the profits are going down. As far as coke is concerned, we will have to take it up separately.”

PART – II**RECOMMENDATIONS/ OBSERVATIONS OF THE COMMITTEE**

The Committee note that the country's hydrocarbon sector has been going through a tough time. On the one hand, the production of indigenous crude has become stagnant with no major discoveries having been made in the recent past and on the other, demand has gone up manifold. On top of it is the spiralling international oil prices. Though certain thrust areas have been identified for the oil sector Plan after Plan, the Committee find that no major headway has been made in areas like acceleration in exploration in deep offshore and frontier areas, strategic storage of crude/ petroleum products, regulatory mechanism to oversee consumer interests, etc. The challenge lies in rectifying the errors of the past and the opportunity lies in shaping the future by chalking out an effective and result-oriented strategy. The Committee, therefore, recommend that the emphasis should be laid on strengthening the existing programmes and getting better results by more allocations as well as effective monitoring of their implementation. In the Committee's view, a comprehensive energy policy encompassing a wide gamut of issues relating to the areas like energy conservation, development of alternative fuels, technology upgradation, etc. is the need of the hour. The Committee, therefore, recommend that the Government should formulate an Integrated Energy Policy at the earliest.

2.2 It is seen that the crude and natural gas production in the country in the first three years of the 10th Plan till February 2005 has been 100.25 MMT and 94.73 BCM respectively as against 98.49 MMT and 82.26 BCM respectively during the first three years of 9th Plan. This shows an increase of 1.8% in crude production and a 15.2% increase in gas production. This is no doubt a positive sign. However, the Committee are unhappy to note that the crude and natural gas production targets of ONGC for 2005-06 and 2006-07 are less than the

estimated production of 2004-05. The Committee do not approve of this tendency of fixing of low targets year after year. The Committee would, therefore, like to emphasise that all major factors such as huge investments made in exploration activity, likely discoveries from the NELP blocks, dividends from IOR/ EOR measures, etc. should be weighed prior to fixing the targets.

2.3 As a measure to augment crude oil recovery from the existing producing fields, Improved Oil Recovery (IOR) and Enhanced Oil Recovery (EOR) programmes have been put in place by ONGC and OIL, the two national oil companies. The Committee have been informed that the IOR/ EOR activities of ONGC have resulted in the reversal of the declining trend of oil production from Mumbai High and Neelam –Heera Basins. ONGC is envisaging an incremental 106 MMT oil by 2020 as a result of implementation of IOR/EOR measures. Similarly, in case of OIL, the increased recovery as a result of IOR/EOR initiatives is about 5% of reserves, apart from significant reductions in water formation during production of oil. The Committee feel that IOR/EOR measures assume added significance in view of the fact that our existing fields are on the decline and that no major oil discoveries have been made by oil PSUs in the recent past. The Committee, therefore, recommend that the Government should attach utmost importance to the EOR/ IOR schemes of ONGC and OIL. Government should also make periodic assessment of actual incremental oil gained as a result of IOR/EOR measures and take appropriate remedial measures.

2.4 The Committee appreciate the steps taken by the Government in encouraging the PSUs to venture abroad for acquiring exploration acreages either on their own or through strategic alliances/ joint ventures in view of the adverse indigenous supply position vis-à-vis demand in respect of oil /gas. The Committee have been informed that the targeted production of oil and gas from abroad during the 10th Plan is 5.2 Million Metric Tonnes (MMT) of oil and 4.94 Billion Cubic Metres (BCM) of gas. Since the future conflicts among the nations of the world would be over the scarce natural resources, such as oil and gas, the

Committee recommend that concerted diplomatic and strategic moves should be made in grabbing opportunities abroad with a view to ensuring adequate, assured, stable and cost-effective hydrocarbon energy to the country in the long run.

2.5 The latest developments in the international scenario, the dampened scope of assured oil/ gas supplies and the rising price of crude enhance the relevance and urgency of setting up strategic storage facilities in the country. In this regard, the Committee have in their 39th Report (13th Lok Sabha) and 1st Report (14th Lok Sabha) attached utmost importance to the setting up of strategic reserve as it can provide emergency response mechanism to oil supply disruptions. The Committee have now been informed that a Special Purpose Vehicle (SPV) by the name of "Indian Strategic Petroleum Reserves Ltd" (ISRL) has been incorporated on 16.6.2004 and sites at Mangalore and Visakhapatnam have been identified for setting up storage reserves of 1.5 MMT and 1.0 MMT respectively. The project may take 48 months for completion from the date of award of contract. The Committee recommend that the Government should expedite the process of preparation of bid documents, tendering, awarding of contracts for detailed engineering and construction of the reserves in the stipulated time. The Government should exhibit a strong will not to let any roadblocks - be it the locations, the capacity, the funding or the nature of reserves - come in the way of setting up the proposed strategic storage facilities. The Committee may also be apprised of the progress made in this regard.

2.6 The Committee find that ONGC has taken up a Research and Development pilot project for establishing the commercial feasibility of Underground Coal Gasification process, the first of its kind in India. Underground Coal Gasification is the process by which underground coal is converted into a combustible gas that can be used as a fuel or chemical feedstock. The Committee understand that the knowledge of the process of gasification of coal has been there for many years. Underground Coal Gasification is being used successfully

in certain countries. However, in India, ONGC has recently entered into an agreement of collaboration with the Russian firm 'Skonchisky Institute of Mining' to develop Underground Coal Gasification technology which can be used for our country's unmineable coal reserves which are not suitable or economical for conventional mining. The pilot study would culminate in a UCG station through six stages which takes 5 years for completion. However, the Committee find that even the site for the pilot project has not yet been finalised. Considering the vast unexplored coal reserves in the country where conventional mining methods are not feasible, the Committee recommend that efforts in harnessing this source of energy should be intensified. A road map should be prepared for completion of each activity relating to the project and the Committee apprised thereof.

In reply to a recommendation of the Committee in their First Report (14th Lok Sabha) on Demands for Grants (2004-05), it has been informed that an MoU between GAIL and Coal India Limited (CIL) has been initiated for Coal Gasification which is awaiting CIL Board's approval. It seems that no serious efforts have been made by the Government to push the programme. The Committee desire that a comprehensive report giving the details of the progress made on the project may be furnished at the earliest. The committee would also like to emphasise that in order to reduce the over dependence on oil, such projects should be attached utmost importance.

2.7 The Committee note that the Dahej Uran Pipeline Project (DUPL) of GAIL, scheduled for commissioning in February, 2005 has been delayed due to technical problems. The problem lies in the stipulation of Longitudinally Submerged Arc Welded (LSAW) pipes by GAIL in its tenders for gas transmission pipelines, which are more expensive than Helically submerged Arc Welded (HSAW) pipes, even though both are equally good for gas transportation. The Committee have been informed that considering the technical nature of the issues involved, the Government had referred the matter to the Centre for High Technology for examination. The CHT recommended that both LSAW and

HSAW type pipes are used for gas transportation internationally and both should therefore, be included in the tender documents. Subsequently, the Ministry, in consultation with the Department of Public Enterprises (DPE), issued a Presidential Directive to GAIL to cancel its tender for DUPL and issue fresh tenders. In these circumstances, the Committee desire that a high level fact finding team should be appointed by the Ministry to look into the matter and its report be submitted to the Committee within a fortnight from the presentation of this Report. The Committee are also surprised to note that GAIL did not *suo moto* cancel the tender for DUPL, which had specified only LSAW pipes, even after the findings of CHT came to its notice. More surprising is the fact that even after receiving the Presidential Directive, GAIL has not yet taken a final decision in this regard. The Committee also desire the Ministry to apprise them of the number of tenders invited/ finalised by GAIL, specifying only LSAW pipes, after the findings of the CHT came to the knowledge of the Government and the financial loss caused as a result thereof. The Committee would like GAIL to expedite the decision in the matter and issue fresh tenders facilitating wider participation of bidders thereby securing the most competitive prices for the pipeline project. GAIL should also ensure that the project is completed by the revised schedule of August, 2006.

2.8 As regards National Gas Grid Project, the Committee find that the Government has not yet finalised a policy to facilitate the progressive development of a nation-wide network of inter-connected natural gas transmission pipelines. The Committee have been informed that such a gas grid providing linkage to the various supply sources with the markets in different parts of the country evolves with the development of gas markets. Since our country is in the initial stage of development of gas markets with only one inter-State high-pressure transmission pipeline (HBJ pipeline) apart from some regional pipeline networks by different companies, a National Gas Grid is yet a concept plan and not a single project. The Committee express their displeasure over the fact that even after two decades of conception of the plan of a nation-wide gas pipeline network, the

Government is still considering it as a concept. In view of the increasing gas availability from various sources, including LNG, the Committee recommend that the Government should develop a National Gas Grid on the lines of Power Grid, under Government control, to ensure regional balance keeping in view the uneven availability of gas in various regions of the country.

2.9 The Committee understand that in addition to major capacity addition projects undertaken by our oil PSUs in their refineries, three grass-root refineries are also planned by them. These are the 9 MMTPA refinery at Paradeep, Orissa by IOCL, 9 MMTPA refinery at Bhatinda, Punjab by HPCL and 6 MMTPA refinery at Bina, Madhya Pradesh by BPCL. The Bina, Paradeep and Bhatinda Refinery Projects were previously scheduled to be completed by December 1999, July 2002 and 2004-05 respectively. The Committee have now been informed that while the Paradeep and Bhatinda Refinery Projects are scheduled for completion by 2009, the Bina Refinery Project is expected to be completed within 42 months from the date of commencement of project execution. The Committee express their displeasure over the delay caused in these projects and desire that IOCL, HPCL and BPCL should strive for completion of these projects well within the latest stipulated time period.

2.10 The Committee note that since oil sector PSUs are self-sufficient and have Navaratna status, no budgetary support is offered to them and as such their financial requirements are not reflected in the Demands for Grants of the Ministry. They are funding their projects through internal and external resource mobilisation. The Demands for the year 2005-06 in respect of the Ministry of Petroleum and Natural Gas have been Rs. 3669.00 crore under the Revenue section. No provision has been made under the Capital Section. Out of the total Demand of Rs. 3669.00 crore, an amount of Rs. 3600.00 crore has been earmarked for subsidy on domestic LPG and PDS kerosene, a sum of Rs. 44.00 crore has been allocated for freight subsidy on retail products for far flung areas

and Rs. 14.97 crore for the Petroleum Regulatory Board. Besides these, an allocation of Rs. 10.03 crore has also been made for Secretariat –Economic Services. The B.E. of 2005-06 under this Head (Rs. 10.03 crore) has been pegged at a reduced level than the B.E. of 2004-05 (Rs. 10.42 crore). Since the Demands of the Ministry appear to be justified, the Committee endorse the same. However, the Committee 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.

2.11 The Committee note that the Government Budget subsidy on PDS kerosene and domestic LPG, which is now given on flat rate, would continue to be provided only till March, 2007. The Committee further note that the major share of the total subsidy given to the consumer is stated to be shouldered by oil companies as under-recoveries. The Committee have been informed that during April-December, 2004 about 91% of the subsidy amount on PDS kerosene has been borne by oil PSUs and only 9% from the Government Budget. Similarly, in case of domestic LPG, about 85% of the subsidy has been borne by oil PSUs and 15% from the Government Budget. Moreover, the Committee also find that the total subsidy of Rs. 6292.44 crore given by the Government during 2003-04 on petroleum products forms only a meagre 12.4% share of Rs. 50733 crore which the POL sector has contributed to the Government's coffers as customs and excise duties alone. The Committee, therefore, fail to understand the enthusiasm shown by the Government to phase out subsidy given on PDS kerosene and domestic LPG, thereby leaving the customer at the mercy of market determined prices, duty structure etc. Keeping the interests of the common man in mind, the Committee recommend that the subsidy on PDS kerosene and domestic LPG be continued beyond 31.3.2007. A part of this subsidy can be borne by the Oil Companies and the rest from the cess collected on indigenous crude.

In reply to a recommendation made in their Report on Demands for Grants (2004-05), the Committee have been informed that up to 31.3.2004, the Central Government has collected a sum of about Rs.51007.60 crore as cess. Out of this, Oil Industry Development Board(OIDB) has received only Rs 902.40 crore till March, 2004. The Committee in their First and Fourth Reports (14th Lok Sabha) had recommended that a separate Price Stabilisation Fund be created using the money collected from cess on indigenous crude to bring in stability in the prices of petroleum products. However, the Committee regret to note that such a fund has not yet been created. The Committee once again reiterate that such a Price Stabilisation Fund be created using a part of the cess without any further delay.

2.12 Certain changes have been effected in the tax levies on crude oil and petroleum products from March 1, 2005 by the General Budget proposals (2005-06). The Committee find that the customs duty on crude has been reduced from 10% to 5%, on domestic LPG and PDS kerosene from 5% to nil, on petrol and diesel from 15% to 10% and on other petroleum products from 20% to 10%. Similarly, the excise duty on PDS kerosene and domestic LPG has been brought to nil from 12% and 8% respectively. For petrol and diesel, the excise tariffs comprise a mix of *ad valorem* and specific component. Before March 1, 2005, it was 23% + Rs.7.50/ litre for petrol and 8%+ Rs.1.50/ litre for diesel. But in the revised scenario i.e. w.e.f. March 1, 2005, it is 8% + Rs.13/ litre and 8% + Rs.3.25/ litre respectively. Though these changes were projected to be revenue neutral by the Ministry of Finance, the Committee are astonished to see that it adds an incremental revenue of Rs. 3000 crore per annum to central coffers. The Committee further find that this has resulted in an excise duty increase of Rs. 2.52/ litre on petrol and Rs. 1.65/ litre on diesel, though there is a reduction of Rs. 17.75 per cylinder of LPG and Rs. 0.88/ litre of kerosene. Thus, whatever has been given by one hand has been taken away by the other. To be more precise, the effect of customs duty cut has not only been neutralised but also supplemented by the changes made in excise levies. The Committee apprehend that the added burden on excise front would also be passed on to customer in the

name of exorbitant rise in international prices of these products. The Committee express their serious concern about the excise duty hike on the most commonly used petroleum products, especially at a time when the international prices of these products have gone all-time high. Any price reform in the oil sector should keep the interests of the customer in mind and attempt at rationalising the duty structure/ adjusting the duty in such a way that the cascading effect of the international petroleum prices does not weigh down the customer. The Committee, therefore, recommend that excise duties on petroleum products should be so structured that the additional revenue of Rs. 3000 crore is neutralised so that the Budget Statement of revenue neutrality is adhered to in letter and spirit.

2.13 The Committee note that the oil sector contributes a giant share of the total revenue of the Government through customs duty, excise duty, sales tax, cess, royalty, dividends from oil PSUs, etc. During 2003-04, an amount of Rs. 50732.79 crore, which included Rs. 10582.21 crore as customs duty and Rs. 40150.58 crore as excise duty, had been the share of the hydrocarbon sector. As per the tax research unit of Ministry of Finance, the percentage share of customs duty from the oil sector in the gross revenue of the Government is 21.77% and that of excise duty is 44.17% . The Committee feel that this sector is banked on rather too heavily by the Government to mobilise its revenues. Though no government can ignore the revenues from the oil sector, the practice of squeezing the maximum out of the sector without concern for the common man at large is something which needs to be changed. Hence, the Committee urge upon the Government to exercise restraint and apply the policy of prudence in taking revenues from a strategic sector like hydrocarbons.

2.14 The Committee regret to note that the amended Petroleum and Natural Gas Regulatory Board Bill, 2004 which was promised to be introduced in the Winter Session of 2004, is yet to be introduced in Lok Sabha. The Committee have now been informed that the draft amended Bill has been considered by the

Cabinet in their meeting held on 24.11.2004 and as per Cabinet's direction, a Group of Ministers had discussed the matter in their meeting held on 25th January, 2005. The issues which arose in the meeting, viz. appellate tribunal, jurisdiction of Competition Commission of India, inclusion of upstream sector in the purview of the Bill, the power of the Petroleum and Natural Gas Regulatory Board to regulate prices of petroleum and natural gas have been referred to a Committee of Secretaries (COS) of the concerned Departments/ Ministries for making recommendations on these aspects. Since the COS has examined these issues in its meeting on 15.3.2005, the Committee desire that the recommendations of COS may be forwarded to the Group of Ministers without delay for finalisation of the contentious issues and onward transmission to the Cabinet for approval. Keeping in view the major allocations made in the Budget for the Regulatory Board, the Committee hope that the amended Bill will be introduced in the Parliament soon so that the concept of a regulatory mechanism for the oil and natural gas sector translates into a reality.

2.15 The Government has wound up the Anti-Adulteration Cell on 31.7.2004. In spite of recommendations of this Committee for revival of this cell, the Government has informed them that it has no proposal to revive the cell. The Government has averred that a battery of agencies like Civil Supplies Department of States/ Union Territories, Oil Marketing Companies, Police, etc. are endowed with the onus of detecting malpractices/ adulteration of Motor Spirit and High Speed Diesel at about 25,000 Retail Outlets in the country. However, it is pertinent to mention that when the Govt. had taken a conscious decision to form this Cell in March, 2001, these multiple agencies were in existence and endowed with the same responsibility. Moreover, the Committee feel that the multiplicity of enforcing agencies and their overlapping powers would defeat the purpose of control and vigilance. It would be difficult to fix responsibility and accountability, thereby breeding corruption. If, in the opinion of the Government, AAC had not played a meaningful role in curbing the menace of adulteration with its structure and functions, the Government could have attempted to modify the structure and

functions of the Cell. Instead of doing that, the Government simply decided to wind up the Cell which cannot be justified at a stage when instances of adulteration have been growing day by day. The Committee, therefore, reiterate their earlier recommendation for the revival of Anti-Adulteration Cell as an independent Central agency with substantial statutory powers, to tackle the menace. The Committee also want the Government to conduct an independent study to assess the approximate loss caused to the national exchequer due to adulteration since 9th Plan period and convey the outcome thereof to them at the earliest. The Committee would also like the Government to apprise them of the expenditure incurred by the oil companies on anti-adulteration activities during the last three years.

2.16 The Committee note that at present the Government has three transnational pipeline proposals in hand for import of natural gas from gas rich countries. These are Myanmar – Bangladesh- India pipeline, the Iran-Pakistan-India pipeline and the Turkmenistan- Afghanistan- Pakistan- India pipeline. Regarding the Myanmar – Bangladesh – India pipeline, the Committee have been informed that the countries have agreed to transport natural gas from Myanmar to India by a pipeline transiting through Bangladesh and the relevant Memorandum of Understanding (MOU) would be signed at the earliest. The gas sector cooperation with Iran is being pursued bilaterally between the Governments of India and Iran and the possible terms/ conditions for piped gas supply from Iran to India via Pakistan are under discussion. As regards Turkmenistan gas, the matter is under examination of the Government. While appreciating the initiatives of the Government in exploiting the transnational pipeline option in view of the rising energy needs and ever widening gap between demand and availability of natural gas, the Committee would like to emphasise that the security concerns about gas pipelines across the borders have to be carefully considered in our energy strategy. Adequate precautions through sophisticated monitoring and state of the art maintenance system have to be taken to ward off any supply disruptions. Besides, the Government should also negotiate for comprehensive

agreements on security, stability of supplies, risk coverage, sovereign guarantees and standby arrangements in case of any temporary disruption in pipeline gas supply. The Committee would like to be apprised of the progress made in regard to these projects. The Committee also desire that the Government should explore all options to secure gas from other countries where gas is available in plenty.

2.17 There is a wide gap of about 44% between the demand and supply of natural gas in the country. The Committee have been informed that the share of natural gas in the energy basket is projected to grow from the present level of 8% to about 20% by the year 2025. The Committee, therefore, desire that sensible strategies be developed and pursued so as to ensure the availability of this eco-friendly energy product to cater to the fuel requirements of the power, fertiliser, petrochemical, automobile and other sectors. In this context, the import of Liquefied Natural Gas (LNG) assumes significance which, besides meeting the needs of various sectors, can also bridge the gap between demand and supply to some extent. The advantage of LNG is that gas can reach by sea to locations on our coastline. The Committee, therefore, recommend that added thrust should be given to LNG imports. The Committee also desire that the Government should evolve a comprehensive LNG policy covering all aspects right from procurement, liquefaction, shipping through cryogenic vessels, regasification and supply. This policy should also incorporate appropriate regulatory and monitoring provisions.

2.18 Country's first LNG terminal has been set up at Dahej, Gujarat. The Committee have been informed that work on another LNG terminal at Hazira, also in Gujarat, is nearing completion. Petronet LNG Limited (PLL) has decided to set up a terminal at Kochi, Kerala which is likely to be completed by 2008-09. Besides, terminals at Mangalore, Karnataka and Ennore, Tamil Nadu are at planning stages. The Committee appreciate the efforts made in the direction of setting up of LNG terminals in the country. However, the Committee regret to note that other coastal States such as Andhra Pradesh, Orissa and West Bengal do

not find a place in the LNG map of the country. The Committee desire that regional balance should be maintained while deciding about the locations of LNG terminals. The Committee have been informed that the IOC and GAIL are jointly working on the feasibility study for setting up an LNG terminal at Krishnapatnam, Andhra Pradesh which is likely to be completed within three months. The Committee recommend that the said study should be completed expeditiously and the outcome thereof conveyed to them. The Committee also recommend that the Government should carry out similar studies to assess the feasibility of setting up of LNG terminals at Gopalpur, Orissa and Haldia, West Bengal.

2.19 The National Auto Fuel Policy envisages supply of Bharat stage II/ Euro II equivalent fuels all over the country and Euro III equivalent fuels in metros and identified cities from 1 April 2005. However, the Committee have been informed that the introduction of Bharat Stage II grade diesel in seven states will have to be deferred due to constraints of production at refineries, non-availability of products of the required grade from abroad and problems of inland logistics. As per the revised schedule, the Bharat Stage II compliant diesel will be introduced between 1st June and 1st October, 2005 in States of Rajasthan, west Uttar Pradesh, Uttaranchal, Madhya Pradesh, Punjab, Himachal Pradesh and Jammu & Kashmir. The Committee are unhappy that oil PSUs/ refineries have failed to meet the time schedule fixed in this regard. In the Committee's view, this is indicative of lack of sincerity in the efforts of oil PSUs/ refineries. Since there is a substantial difference in the sulphur content between Euro-I, Euro-II and Euro-III diesel versions and between Euro-II and Euro-III petrol versions, which has a direct bearing on the environmental pollution, the country cannot afford to lag in the production of improved grades of fuels. The Committee, therefore, recommend that the Government should now instruct the oil sector PSUs/ refineries to pull up their socks so as not to miss the deadline for Euro III fuels all over the country and the revised deadline for Euro II diesel in the remaining States. It has been reported in the press that some oil companies are mixing a manganese based octane enhancer in fuels to attain the desired octane rating for

meeting the Euro- III norms. Since this octane enhancer reportedly acts as a neurotoxin and clogs the vehicle emission system, the Committee would like the Government to inquire into the matter and take corrective measures under intimation to them.

2.20 The conversion of old vehicles to LPG or CNG has been mandated in cities which are equally or more polluted than Delhi. For LPG, Public Sector Oil Companies have so far set up limited dispensing infrastructure in various metros whereas CNG requirements of the cities of Delhi and Mumbai are fully met through 230 CNG retail outlets. The Committee also find that a communication plan has been launched by M/s Indraprastha Gas Ltd. (IGL) recently to spread awareness among the private car users of NCT, Delhi about the environmental and economic benefits of CNG *vis-a-vis* other conventional fuels. However, the Committee note with dismay that the companies engaged in the business of supplying CNG to automobiles are not concerned about ensuring the availability of CNG conversion kits for being fitted in vehicles. The Committee strongly feel that all efforts to popularise the CNG conversion programme among private vehicle users would prove to be futile if authorised CNG conversion kits for different makes of vehicles are not made available in the market. The Committee, therefore, recommend that the organisations engaged in the business of supplying CNG to automobiles, should arrange to make available approved conversion kits to lend more authenticity to the CNG conversion programme and to prevent the spread of spurious kits. With regard to LPG fuel conversion of vehicles, though adequate conversion kits approved by testing agencies are available, the number of dispensing stations is inadequate. The Committee, therefore, recommend that the Public Sector Oil Companies should be persuaded to set up adequate Auto-LPG Dispensing stations in identified locations.

2.21 The Committee have been informed that in the wake of interest across the world on the use of hydrogen as an auto fuel, the Government is endeavouring to make headway in this frontier area. A Hydrogen Corpus Fund

(HCF) has been set up with contribution from OIDB and PSU oil companies to facilitate research and demonstration activities in hydrogen. A hydrogen Group (H₂ group) has also been constituted to look into various aspects of development of hydrogen as an auto fuel. While noting that IOC has already prepared a draft feasibility report for hydrogen research activities in the oil and gas sector, the Committee recommend that the research projects for developing hydrogen fuel cell technology should be supported with all financial assistance so as to ensure that these projects are completed in a time bound manner.

2.22 Part-substitution of fossil fuels by bio-fuels like bio-diesel and non-conventional fuel additives like ethanol is being promoted by the Government for quite some time. Field trials using bio-diesel and diesel blend in buses are still going on in collaboration with state transport departments. The Committee are unhappy to note that in spite of their recommendation in the 1st Report (14th Lok Sabha) for completion of field trials without delay, the same have still been continuing. Bearing in mind the inevitable need to bring down the magnitude of dependence on fossil fuels, the Committee recommend that the Government should explore all options to ensure availability of bio-diesel in large quantities before long. The Committee also recommend that all out efforts should be made to encourage and ensure large scale plantation of Jatropha . The Committee appreciate the initiative taken by IOC to plant 1,10,000 Jatropha saplings on the land allotted by the Indian Railways in Gujarat. The Committee recommend that other PSUs/ organisations under the administrative control of the Ministry should take a cue from IOC and endeavour to contribute to Jatropha plantation.

2.23 The Government had notified the scheme of supplying 5% ethanol-blended petrol in 9 States and 4 Union territories w.e.f. 1.1.2003. However, the Committee are unhappy to note that the scheme has virtually remained in a comatose due to limited availability of ethanol and problems in procurement leading to modification of the original notification to allow more time to oil manufacturing companies for compliance. The Committee regret to observe that

instead of making concerted efforts towards covering the country with 5% ethanol-blended petrol, the oil firms have been dragging their feet on the issue. The Committee, therefore, reiterate their earlier recommendation made in the 1st Report (14th Lok Sabha) to vigorously pursue the programme so that oil companies kick-start the ethanol blends once again, after processing all pending ethanol tenders in a time bound manner. The Government should also sort out all related issues such as supply, procurement, pricing etc. among the stake holders and direct the Oil Companies to cover the entire country with 5% ethanol blended petrol in a fixed time frame which should be intimated to the Committee.

2.24 The Committee note that CBM blocks have been offered under two rounds of CBM policy for exploration and production. With regard to harnessing methane gas from Gas Hydrates on commercial scale, the Committee observe that the National Gas Hydrate programme of 1997 has been revived and deepwater drilling of gas hydrate bearing sediments in K.G. Basin, Andaman area and Kerala-Konkan basin is planned to be carried out in the first quarter of 2005. The Committee hope that the said exercise would have been completed by now. The Committee would like to be apprised of the outcome of the said drilling. The Committee recommend that in the backdrop of ever increasing dependence on imports, the development of alternative sources of hydrocarbons should be given the importance it deserves. A time bound aggressive strategy should be adopted for the exploration and development of alternative sources of hydrocarbons, especially CBM and Gas Hydrate. The Committee hope that the commercial production in some of the CBM blocks would start and the pilot studies for production of gas from Gas Hydrate would be completed by 2006-07 as targeted.

2.25 The Committee have learnt that the Oil India Limited (OIL) conducted a pilot study in 1999 on conversion of low grade high sulphur coal and refinery vacuum residuum of the North-East to hydrocarbon with technical assistance from M/s AXENS, USA. Though the pilot study was successful, due to constraints in getting refinery residuum with changed refinery process

configuration, OIL subsequently took up a Coal-Only-Processing feasibility study, the result of which was very encouraging. The Committee have now been informed that presently, OIL has initiated action to carry out another feasibility study on Coal Liquefaction Process and only after its completion OIL would be in a position to evaluate and ascertain the most suitable technology to utilise the coal available in the North-East Region. Considering the vast coal reserves especially in the North-East Region and the growing need to develop alternative sources of energy, the Committee desire that the Liquefaction feasibility study be expedited so as to enable OIL to finalise the most appropriate technology in converting coal to oil. The Committee have also been informed that OIL has taken up with the Coal India Limited (CIL) regarding availability of coal and also with the Government of Meghalaya for assessment of coal in the K&J Hill area. The Committee would like to be apprised of the response of the CIL and the Government of Meghalaya in this regard.

2.26 The Committee have been informed that the proposal for merger of the Bongaigaon Refinery and Petrochemicals Limited (BRPL) with IOCL is being taken up by the IOCL. The grant of excise duty concessions to BRPL as per North-East Industrial Policy and setting up of a DHDT Project at BRPL site are other issues which need to be addressed to by the Government. The Committee would like the Government to expedite its decision on these issues. The Committee further desire that while taking decisions on these issues, the Government should keep in mind the interests and the economic backwardness of the North-East region.

NEW DELHI;
April 19, 2005
Chaitra 29, 1927 (Saka)

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

APPENDIX – I**MINUTES****STANDING COMMITTEE ON PETROLEUM AND NATURAL GAS
(2004-05)****TWELFTH SITTING
(29.3.2005)**

The Committee sat on Tuesday, March 29, 2005 from 1100 hrs. to 1400 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Shri N. Janardhana Reddy - Chairman

MEMBERS***LOK SABHA***

2. Shri Anandrao Vithoba Adsul
3. Dr. Rattan Singh Ajnala
4. Shri Kirip Chaliha
5. Shri R. Dhanuskodi Athithan
6. Shri Santosh Kumar Gangwar
7. Shri Jai Prakash
8. Shri Suresh Kurup
9. Dr. Prasanna Kumar Patasani
10. Shri Rajiv Ranjan Singh
11. Shri Vanlalzawma
12. Shri Ratilal Kalidas Varma
13. Shri Rajesh Verma

RAJYA SABHA

14. Shri Rajeev Shukla
15. Shri Kripal Parmar
16. Shri Dipankar Mukherjee
17. Shri C. Perumal
18. Shri Subhash Prasad Yadav
19. Shri Satish Chandra Misra

SECRETARIAT

- | | | | |
|----|--------------------|---|----------------------|
| 1. | Shri S.K. Sharma | - | Additional Secretary |
| 2. | Shri P.K. Grover | - | Director |
| 3. | Shri P.C. Tripathy | - | Under Secretary |

Representatives of the Ministry of Petroleum and Natural Gas

- | | | | |
|----|--------------------|---|-------------------------------------|
| 1. | Shri S.C. Tripathi | - | Secretary |
| 2. | Shri P.K. Sinha | - | Joint Secretary & Financial Adviser |
| 3. | Shri Ajay Tyagi | - | Joint Secretary |
| 4. | Shri Sunjoy Joshi | - | Joint Secretary |

Representatives of Public Sector Undertakings & other Organisations

- | | | | |
|-----|--------------------------|---|---|
| 5. | Shri R.K. Dutta | - | CMD, Oil India Ltd. |
| 6. | Shri Proshanto Bannerjee | - | CMD, GAIL |
| 7. | Shri S. Behuria | - | CMD, IOCL . |
| 8. | Shri A. Sinha | - | Acting CMD, BPCL |
| 9. | Shri R.S. Sharma | - | Director, ONGC |
| 10. | Shri Y.B. Sinha | - | Director, ONGC |
| 11. | Shri C. Ramulu | - | Director, HPCL |
| 12. | Dr. N.G. Kannan | - | MD, IBP |
| 13. | Shri B.K. Das | - | MD, Numaligarh Refineries Ltd. |
| 14. | Shri A.K. Sharma | - | MD, Bongaigaon Refinery & Petrochemicals Ltd. |
| 15. | Shri B.K. Menon | - | MD, Kochi Refinery Ltd. |
| 16. | Shri S.V. Narasimhan | - | MD, Chennai Petroleum Corporation Ltd. |
| 17. | Shri S. Vijayaraghvan | - | Director, Petroleum Planning & Analysis Cell |
| 18. | Shri V.K. Sibal | - | DG, DGH |
| 19. | Shri B. Sam Bob | - | Secretary, OIDB |

2. At the outset, Hon'ble Chairman welcomed the Secretary of the Ministry of Petroleum and Natural Gas and accompanying officials to the sitting of the Committee.

3. Then, the Secretary, Ministry of Petroleum and Natural Gas made a visual presentation before the Committee highlighting the various issues pertaining to outlays for the petroleum and natural gas sector.

4. The Committee then took oral evidence of the representatives of the Ministry of Petroleum and Natural Gas in connection with the examination of Demands for Grants of the Ministry for the year 2005-06.

5. During the course of evidence, the main issues which came up for discussion included utilization of Plan Outlays by Oil Sector PSUs, demand for petroleum products, availability vis-a-vis demand of natural gas, location of LNG terminals in the country, Anti-Adulteration Cell, mid-term appraisal by the Planning Commission of the various activities of the Ministry/ PSUs, impact of tariff changes on crude and petroleum products, actual production and targets of crude and gas, hurdles in the implementation of Dahej Uran Pipeline Project, National Gas Grid, alternative fuels, etc.

6. A verbatim record of the proceedings of the sitting has been kept.

The Committee then adjourned.

APPENDIX-II**MINUTES****STANDING COMMITTEE ON PETROLEUM & NATURAL GAS
(2004-05)****THIRTEENTH SITTING****(15.04.2005)**

The Committee sat on Friday, April 15, 2005 from 1100 hrs. to 1200 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.

Present

Shri N. Janardhana Reddy - Chairman

Members
Lok Sabha

2. Shri Kirip Chaliha
3. Shri Lal Muni Choubey
4. Shri Tushar A. Choudhary
5. Shri R. Dhanuskodi Athithan
6. Shri Santosh Kumar Gangwar
7. Shri Jai Prakash
8. Shri Suresh Kurup
9. Shri Laxman Singh
10. Shri Ratilal Kalidas Varma

Rajya Sabha

11. Shri Moolchand Meena
12. Shri Kripal Parmar
13. Shri M. Rajasekara Murthy
14. Shri Dipankar Mukherjee
15. Shri C. Perumal
16. Dr. Alladi P. Rajkumar
17. Shri Subash Prasad Yadav

Secretariat

- | | | | |
|----|--------------------|---|-----------------------------|
| 1. | Shri P.D.T. Achary | - | <i>Secretary</i> |
| 2. | Shri S.K. Sharma | - | <i>Additional Secretary</i> |
| 3. | Shri P.K. Grover | - | <i>Director</i> |
| 4. | Shri P.C. Tripathy | - | <i>Under Secretary</i> |

2. At the outset, Hon'ble Chairman welcomed the Members to the sitting of the Committee.
3. The Committee then took up for consideration the draft Report on Demands for Grants (2005-06) of the Ministry of Petroleum & Natural Gas.
4. After some discussions, the draft Report was adopted by the Committee with some changes.
5. The Committee also authorised the Chairman to finalise the Report after factual verification by the concerned Ministry and present the same to both the Houses of Parliament in the current Session.

The Committee then adjourned.