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STANDING COMMITTEE ON PETROLEUM & NATURAL GAS (2005-06)

FOURTEENTH LOK SABHA

MINISTRY OF PETROLEUM & NATURAL GAS

DEMANDS FOR GRANTS (2005-06)

[Action Taken by the Government on the recommendations contained in the Fifth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum and Natural Gas (2004-05) on `Demands for Grants (2005-06) of the Ministry of Petroleum and Natural Gas']

EIGHTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI
March, 2006/Phalguna, 1927 (Saka)

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Presented to Lok Sabha on 21.03.2006

Laid in Rajya Sabha on *21.03.2006*

LOK SABHA SECRETARIAT
NEW DELHI
March, 2006/Phalguna, 1927 (Saka)

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1.	Shri John Joseph	-	Secretary
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3.	Shri R.C. Kakkar	-	Deputy Secretary
4.	Shri P.C.Tripathy	-	Under Secretary
5.	Smt. Reena Gopalakrishnan	-	Committee Officer

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* *Ceased to be a Member of the Committee w.e.f. 18.08.2005 consequent upon his retirement from the membership of Rajya Sabha.*

** *Ceased to be a Member of the Committee w.e.f. 10.11.2005 consequent upon his resignation from the membership of Rajya Sabha.*

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 Eighth Report on Action Taken by the Government on the recommendations contained in the Fifth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas on 'Demands for Grants (2005-06) of the Ministry of Petroleum & Natural Gas'.

2. The Fifth Report of the Standing Committee on Petroleum & Natural Gas was presented to Lok Sabha on 20th April, 2005. The Action Taken Replies of the Government to the recommendations contained in the Fifth Report were received on 30th June, 19th and 20th July, 2005.

3. The Committee took evidence of the representatives of the Ministry of Petroleum and Natural Gas and GAIL (India) Ltd. on certain issues relating to the Dahej-Uran Pipeline Project of GAIL (Recommendation Para No. 2.7 of the Fifth Report), at their sitting held on 12th September, 2005.

4. The Committee wish to express their thanks to the representatives of the Ministry of Petroleum and Natural Gas/GAIL for furnishing the material and information which they desired in connection with the examination of the issues relating to the Dahej-Uran Pipeline Project of GAIL and for giving evidence before the Committee.

5. The Standing Committee on Petroleum & Natural Gas (2005-06) considered and adopted the Report at their sitting held on 13th March, 2006.

6. An analysis of the action taken by the Government on the recommendations contained in the Fifth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas is given in Appendix-IV.

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

8. 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;
17 March, 2006
26 Phalguna, 1927 (Saka)

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

CHAPTER I

REPORT

This Report of the Standing Committee on Petroleum & Natural Gas deals with the action taken by the Government on the Recommendations contained in the Fifth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum & Natural Gas (2004-2005) on 'Demands for Grants (2005-06) of the Ministry of Petroleum & Natural Gas ' which was presented to Lok Sabha on 20.4.2005.

2. Action Taken Notes have been received from the Government in respect of all the 26 Recommendations/Observations contained in the Report. These have been categorised as follows:-

(i) Recommendations/Observations that have been accepted by the Government:-
2.3, 2.4, 2.6, 2.9, 2.10, 2.14, 2.16, 2.17 and 2.20

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

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:-
2.7, 2.11 and 2.15

(iv) Recommendations/Observations in respect of which final replies of the Government are still awaited:-
2.1, 2.2, 2.5, 2.8, 2.12, 2.13, 2.18, 2.19, 2.21, 2.22, 2.23, 2.24, 2.25 and 2.26

3. The Committee trust that utmost importance would be given to the implementation of the recommendations accepted by the Government. In cases where it is not possible for the Ministry to implement the recommendations in letter and spirit for any reason, the matter should be reported to the Committee with reasons for non-implementation. The Committee further desire that the Action Taken Notes on the

Recommendations/Observations contained in Chapter-I of this Report and Final Replies in respect of the recommendations for which interim replies have been furnished by the Government (included in Chapter-V), should be furnished expeditiously.

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

A. NEED FOR AN INTEGRATED ENERGY POLICY

Recommendation No. 1 (Para No. 2.1)

5. The Committee had observed that though certain thrust areas had been identified for the oil sector, Plan after Plan, no major headway had 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 Committee had, therefore, recommended that emphasis should be laid on strengthening the existing programmes and getting better results by more allocations as well as effective monitoring of their implementation. The Committee had felt that a comprehensive energy policy encompassing a wide gamut of issues relating to the areas like energy conservation, development of alternative fuels, technology upgradation, etc. was the need of the hour. In this regard, they had recommended that the Government should formulate an Integrated Energy Policy at the earliest.

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

> "Government has recently constituted an Energy Coordination Committee (ECC) to enable a systematic approach to policy formulation, promote coordination in inter-Departmental action and function as a key mechanism for providing institutional support to decision making in the area of energy planning and security.
>
> The Energy Coordination Committee will be chaired by the Prime Minister. The Committee will consist of the Union Ministers of Finance, Power

> Petroleum and Natural Gas, Coal and Non-Conventional Energy Sources; the deputy Chairman, Planning Commission; Member (Energy), Planning Commission; Chairman Economic Advisory Council to the Prime Minister, National Security Advisor; Chairman National Manufacturing Competitiveness Council and Principal Secretary to Prime Minister.
>
> The Committee will be serviced by the Prime Minister's Office and the Energy Division of the Planning Commission will facilitate any policy analysis required by the Committee. It will coordinate preparatory work on energy policy and security issues. The Committee may also commission specialised studies depending upon the requirements, which may arise from time to time.
>
> The Committee will, among other things, identify key areas requiring energy policy initiatives, so that the overall objectives of economic development, energy security and energy efficiency are met; monitor vulnerabilities that directly impinge on energy security aspects; outline the follow up action needed for implementing identified policy initiatives; identify institutional mechanisms for implementing policies; periodically monitor key policy decisions."

7. The Committee had observed that no major headway had 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. They had recommended that emphasis should be laid on strengthening the existing programmes and getting better results by more allocation as well as effective monitoring of their implementation. However, the reply of the Government is silent on this issue. The Committee would like to have details in this regard. The Committee had also recommended that the Government should formulate an Integrated Energy Policy at the earliest. The Ministry, in its reply, has, inter-alia, stated that the Government has recently constituted an Energy Coordination Committee(ECC) to enable a systematic approach to policy formulation, promote coordination in inter-departmental action and function as a key mechanism for providing institutional support to decision making in the area of energy planning and security and that the said Committee will, among other things, identify key areas requiring energy policy initiatives, so that the overall objectives of economic development, energy security and energy efficiency are met; monitor vulnerabilities that directly impinge on energy aspects; outline the follow up action needed for implementing identified policy initiatives; identify institutional mechanisms for implementing policies and

periodically monitor key policy decisions. The Committee appreciate the initiative taken by the Government. They would, however, like to know the progress made in the direction of framing the Integrated Energy Policy and the time by which the said policy will be put in place.

B. PRODUCTION TARGETS OF CRUDE AND NATURAL GAS

Recommendation No. 2 (Para No. 2.2)

8. The Committee were unhappy to note that the crude and natural gas production targets of ONGC for 2005-06 and 2006-07 were less than the estimated production of 2004-05. They had disapproved of this tendency of fixing of low targets year after year. The Committee had emphasised 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.

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

> "Based on the assessment made by ONGC for oil and gas production performance of the operated fields, the crude production projection for the period 2005-06 and 2006-07 has been revised upward. The actual production in first three years of Tenth Five Year Plan, BE targets for 2005-06 and projections for 2006-07 is as follows:

Crude Oil Production

S.No.	Year	X Plan (STP) Oil (MMT)	Actual / BE/ Projected Oil (MMT)
1	2002-03	25.897	26.005
2	2003-04	25.995	26.057
3	2004-05	26.382	26.487
4	2005-06	26.189	26.614 (BE)
5	2006-07	25.562	27.000 (Projected)

Natural Gas Production

S.No.	Year	X Plan STP Gas Prod. (MMSCMD)	X Plan STP Gas Prod. (MMSCM)	Actual/ BE/ Projected (MMSCM)
1	2002-03	65.498	23906.77	24244
2	2003-04	63.370	23193.42	23584

3	2004-05	62.222	22711.03	22958
4	2005-06	58.837	21475.49	21405 (BE)
5	2006-07	57.036	20818.50	20954 (Projected)

Ministry of Petroleum and Natural Gas (MOPNG) has requested ONGC to set challenging MoU targets for the year 2005-06, which were negotiated by the Task Force (TF) set up by Department of Public Enterprise (DPE). However, ONGC has shown its inability to increase oil and gas targets further upward. Consequently MOU is still under discussion with ONGC and has not been signed so far."

10. In their Report on Demands for Grants (2005-06), the Committee had disapproved of the tendency of fixing of low crude oil and natural gas production targets year after year and had emphasised 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. They have been informed through the Government's Action Taken Reply that based on the assessment made by ONGC for oil and gas production performance of the operated fields, the crude production projection for the period 2005-06 and 2006-07 has been revised upward. They have further been informed that the Ministry of Petroleum & Natural Gas has requested ONGC to set challenging MoU targets for the year 2005-06, which were negotiated by the Task Force (TF) set up by Department of Public Enterprises (DPE). However, ONGC has shown its inability to increase oil & gas targets further upward. The Committee would like to know the reasons cited by ONGC while declining the request of the Ministry to set challenging MoU targets. They would also like to be apprised of the views expressed by the Task Force of the Department of Public Enterprises in this regard. The steps taken to get the MoU signed with ONGC may also be conveyed to the Committee.

C. STRATEGIC STORAGE OF CRUDE OIL AND PETROLEUM PRODUCTS

Recommendation No.5 (Para 2.5)

11. The Committee had been informed that a Special Purpose Vehicle (SPV) by the name of "Indian Strategic Petroleum Reserves Ltd" (ISPRL) had been incorporated on 16.6.2004 and sites at Mangalore and Visakhapatnam had been identified for setting up storage reserves of 1.5 MMT and 1.0 MMT respectively. They had also been informed that the project might take 48 months for completion from the date of award of contract. The Committee had recommended 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.

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

> "The recommendation of the Committee has been noted and necessary action is being taken to finalise the mode of financing.
>
> The Government is considering various modes of funding the capital cost of building the strategic crude oil storage and storing crude oil. It is proposed to hold an Expenditure Finance Committee meeting shortly to discuss this issue further."

13. The Committee are not satisfied with the pace of progress on this vital project. They are unhappy to learn that the Government is still in the process of initiating action to finalise the mode of financing even after more than one and a half years of formation of Special Purpose Vehicle. With this sort of progress, the Committee seriously doubt whether the project would be completed within the stipulated time. The Committee have been informed that the Government proposes to hold an Expenditure Finance Committee meeting shortly to discuss the issue of mode of financing. They would like to be informed of the progress made on various issues relating to the project including the issue of mode of financing. In view of the volatility in the crude market, the international geopolitical concerns and the possibilities of natural calamities, the Committee urge the Government to set up this emergency support mechanism with a sense of urgency for meeting short-term supply disruptions.

D. COAL GASIFICATION PROJECTS

Recommendation No.6 (Para 2.6)

14. The Committee had noted that ONGC had entered into an agreement of collaboration with the Russian firm `Skonchisky Institute of Mining' to develop Underground Coal Gasification technology which could be used for our country's unmineable coal reserves which were not suitable or economical for conventional mining. They had been informed that the pilot study would culminate in a UCG station through six stages taking 5 years for completion. They had noted that even the site for the pilot project had not yet been finalised. Considering the vast unexplored coal reserves in the country where conventional mining methods were not feasible, the Committee had recommended that efforts in harnessing this source of energy be intensified. They had also desired that a road map should be prepared for completion of each activity relating to the project.

The Committee had also been informed that an MoU between GAIL and Coal India Limited (CIL) had been initiated for Coal Gasification which was awaiting CIL Board's approval. They had desired that a comprehensive report giving the details of the progress made on the project be furnished at the earliest.

15. The Ministry of Petroleum and Natural Gas has, inter-alia, explained the position in their reply as under:-

> "ONGC is planning to execute the pilot project on Underground Coal Gasification (UCG) as per the advice of their consultant viz. Skochinsky Institute of Mining (SIM), Russia. As stipulated in the MoU (Agreement of Collaboration – AOC), the first phase of the contract suggests examination of the data/ information of the coal deposits leading to site selection which is scheduled to be completed in 7 months time starting from mid February, 2005. As per the AOC, Russian experts have sent a list of data that shall be required about coal deposits for examining suitability of the site for carrying out UCG. The relevant coal data from eight different probable sites in India is being examined. The final site selection for carrying out UCG shall be completed with the help of Russian experts within the year 2005.
>
> Optimization of the time schedule will be given due priority with the consultant during the process.

As a part of the ambitious project of UCG, ONGC has been having dialogues with Coal India Limited and other Coal agencies for wider selection of sites . As per the intimation received, CIL Board has agreed in principle to enter into MoU with ONGC for UCG. Pending formal signing, both the agencies have started examining the data for site selection for UCG project, which will be discussed with the consultation for finalisation of site.

GAIL (India) Limited had an umbrella agreement with Shell, relating to various types of gas sector co-operation, non-conventional gas production and end use-sectors.

Both parties have now agreed to revive the umbrella agreement.
Shell have carried out a study for GAIL based on coal sample analysis from Eastern Coal Fields Ltd., Mahanadi Coal Fields Ltd. and Central Coal Fields.

A detailed feasibility report (DFR) is in the process of being prepared by M/s. Uhde, Mumbai in collaboration with their parent company M/s. Uhde, Germany based on coal data from Eastern Coal Fields Ltd., Mahanadi Coal Fields Ltd. and Central Coal Fields. The DFR is expected to be ready by the end of August, 2005."

16. The Committee had desired that efforts to harness the vast unmineable coal reserves in the country through the use of Underground Coal Gasification (UCG) technology should be intensified and that a road map should be prepared for the said purpose. They have been informed through the Government's Action Taken Reply that a road map has been prepared for the purpose. The Committee desire that the various activities on the project should be undertaken as per the road map. The Committee have also been informed that the final site selection for carrying out UCG would be completed within the year 2005. They hope that the said site would have been selected by now. The Committee would like to be apprised of the factual position in this regard.

As regards the GAIL Coal Gasification Project, the Committee have been informed that Shell has carried out a study for GAIL, based on coal sample analysis from the Eastern Coal Fields Ltd, Mahanadi Coal Fields Ltd. and Central Coal Fields Ltd. The Committee desire to know the outcome of the said study. They have further been informed that the Detailed Feasibility Report (DFR) was expected to be ready by the end of August, 2005. Hoping that the same has since been prepared, they would like to know the salient features thereof.

E. DAHEJ-URAN PIPELINE PROJECT

Recommendation No. 7 (Para No. 2.7)

17. The Committee had noted that the Dahej Uran Pipeline Project (DUPL) of GAIL, scheduled for commissioning in February, 2005 had been delayed due to technical problems. The problems lay in the stipulation of Longitudinally Submerged Arc Welded (LSAW) pipes by GAIL in its tenders for gas transmission pipelines, which were more expensive than Helically Submerged Arc Welded (HSAW) pipes, even though both were equally good for gas transportation. The Committee had 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 were being 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 those circumstances, the Committee desired 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 the Report. The Committee were 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 was the fact that even after receiving the Presidential Directive, GAIL had not taken a final decision in this regard. The Committee also desired the

Ministry to apprise them of the number of tenders invited/ finalised by GAIL, specifying only LSAW pipes, after the findings of the CHT came to the knowledge of the Government and the financial loss caused as a result thereof. The Committee desired that GAIL should 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. They had also desired that the project should be completed by the revised schedule of August, 2006.

18. In their Action Taken Reply, the Ministry of Petroleum & Natural Gas has submitted as under:-

The Recommendation broadly observes the following:-

i) "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"

ii) "Even after receiving the Presidential Directive, GAIL has not yet taken a final decision in this regard"

iii) "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"

iv) "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".

The issues raised in this recommendation were examined by a technical committee of GAIL Board. Based on inputs received and further examination of the same, the following broad position emerges:-

i) "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".

DUPL project was approved by Board on 27.11.2002 based on the Detailed Feasibility Report (DFR) prepared by EIL which recommended LSAW pipes for the project. Subsequently in July 2003 M/s Tractebel Engineering, Belgium who won the bid for Project Management Consultancy (PMC) services for the project, while finalizing the design parameters validated the choice of LSAW pipes for the project.

MOP & NG had asked Centre for High Technology (CHT) to conduct a study with regard to choice of technology for high pressure natural gas transmission pipelines. Summary of the CHT findings, which established that internationally there was no distinction between the two types of pipes as both the pipelines were designed according to international specification and codes was placed before the GAIL Board. Tractebel, Belgium, who were the consultant of GAIL had not recommended HSAW pipe for usage in DUPL. In view of the divergence of views between CHT on one hand and, EIL and Tractebel, consultants of GAIL on the other hand, GAIL Board felt that GAIL should go ahead with the implementation of the project. However, the Board decided that as the matter of selection of the pipes for the project was under consideration of the Government, GAIL may seek instructions from MOP&NG.

ii) "Even after receiving the Presidential Directive, GAIL has not yet taken a final decision in this regard"

Subsequently, based on recommendation of the CHT, Presidential Directive was issued to GAIL on 28.10.2004 directing GAIL to cancel the tender for DUPL 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 line pipe.

Subsequently, the matter was considered by GAIL Board and as per the decision of GAIL Board on 10.11.2004, GAIL issued a fresh tender on International Competitive Bidding basis incorporating revised technical specification. However, it was observed by MOP & NG that GAIL has not complied with the Presidential Directive in its true spirit. Consequently, in January, 2005 it was clarified by MOP & NG to GAIL that the Presidential Directive was specific on following two points:-

i) to ensure wider participation in the tender with a view to achieve greater competition in the bids so that most competitive bids could be received; and

ii) to firm up the upstream and the downstream tie-ups to ensure that the economic assets created do not remain idle.

Regarding upstream and downstream tie-ups no further progress seems to have been achieved, neither has this Ministry been informed of any developments in this matter. It is not out of the place to mention that the natural gas/LNG market is very hard at present and source tie-up is essential for any pipeline project. In fact the schedule of pipeline project implementation should synchronize with the throughput schedule tied up with the upstream source".

GAIL was accordingly advised that further action in the matter (was) may be taken on after the entire issue is reviewed by the GAIL Board. GAIL has not yet informed the Ministry about the final view taken by them in the matter.

iii) "The Committee also desire the Ministry to apprise them of the number of tenders invited/finalized 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".

No tender has been invited/finalized by GAIL, specifying only LSAW pipes, after the findings of the CHT came to the knowledge of the Government and all the tenders floated subsequently accept all manufacturing processes as per the International Standards, i.e. the American Petroleum Institute (API 5L) standards.

iv) "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".

GAIL has already been advised to ensure wider participation of bidders in their tenders for securing the most competitive prices. Regarding the time frame for completing the DUPL pipeline, GAIL Board has to approve the revised schedule taking into consideration the source tie-up and the actual date of award of job and has also been conveyed to GAIL. However, the recommendation of the Committee is noted for compliance."

19. The Committee, in their Report on Demands for Grants (2005-06) had recommended that a high level fact finding team should be appointed by the Ministry to look into the issues relating to DUPL Project and its Report be submitted to them within a fortnight. However, the Ministry did not constitute a high level fact finding team and instead, got the matter examined by a technical committee of the GAIL Board.

20. When asked to specify the reasons for taking such a course of action, the Ministry, in a written reply, inter-alia, furnished the following details:-

> "MOP&NG had formed a High Level Committee, as per the direction of the Standing Committee, of GAIL Board along with Executive Director, Centre for High Technology (CHT) because all the details in this respect were available with GAIL. This Committee consisted of Director (Projects) and Director (BD) of GAIL and one independent Director on the GAIL Board Shri B.C. Bora, and ED, CHT. MOP&NG wanted the GAIL Board to consider the matter first and then the report could be examined in consultation with CHT. After that as far as possible the views should be brought to a harmonious conclusion."

21. The Committee took oral evidence of the representatives of Ministry and GAIL on the DUPL Project at their sitting held on 12.9.2005. During this sitting, the Committee asked the Ministry to constitute a high level fact finding team, independent of Ministry and GAIL and to submit its report to them within a month. Subsequently, the Ministry set up a high level fact finding team under the Chairmanship of Shri J.L. Zutshi, Ex-Chairman, IOC, to examine the issue. This fact finding team also included Shri A.M. Uplenchwar, Director, Pipeline, IOC, Shri Y.R. Mehta, Ex-Director, EIL &

GAIL and Shri Yogendra Prasad, HOD, Gas Pipeline Division, PDIL, Noida. The report of the said team was submitted to this Committee on 09.01.2006.

22. It is seen from the above-mentioned report that the major recommendations made by the high level fact finding team are as under:-

i) That GAIL has followed the Presidential Directive issued by MOP&NG vide its letter dated 28.10.04, in its true spirit. GAIL has also complied with the instructions given by MOP&NG vide its letter dated 28.01.05, promptly.

ii) That there has been very strong reluctance on the part of GAIL in changing their stand of using only LSAW pipes, till the time the Presidential Directive was issued. The Committee opines, that given the present technology and inspection techniques, both HSAW and LSAW pipes could be used for high-pressure gas pipelines, with limitation of 20 mm on wall thickness for HSAW pipes. These limitations may undergo changes with further technological improvements. Specifying both HSAW and LSAW pipes as acceptable would lead to more competitive bids. This had not been availed of by GAIL till the time Presidential Directive was issued.

iii) That the recommendations of EIL, long time consultants to GAIL, have not been consistent in as much as they went along with M/s Tractebel's strong recommendation for usage of LSAW pipes, for DUPL project, inspite of their earlier recommendation for use of both HSAW and LSAW pipes, as indicated in their report of Sep'02.

It is observed that M/s Tractebel have been giving inconsistent recommendations regarding use of HSAW and LSAW pipes to different clients. Worldwide, they are recommending the use of both LSAW and HSAW pipes as per their General Technical Specifications. In case of GSPL also, they have specified both LSAW and HSAW pipes in their "particular technical specifications". However, in case of GAIL, they have strongly recommended use of LSAW pipes only. The Committee is of the opinion that the recommendations of M/s Tractebel are not uniform and consistent.

V) That there is no loss to GAIL due to delay in the completion of DUPL project even with the revised completion date of February, 2007, as in the opinion of the Committee, given the tight international gas availability and soaring prices, GAIL would not be able to fully utilize the pipeline for a considerable period of time."

23. When asked about the progress made by GAIL in working out the upstream and downstream tie-ups for the DUPL Project, the Ministry gave the following information in a written reply:-

> “ So far as the upstream source of supply for the pipeline is concerned, GAIL is yet to achieve any firm tie-ups with the suppliers of domestic gas or imported LNG. GAIL management had informed GAIL Board from time to time that some gas may be available from Dahej LNG terminal, Shell’s Hazira terminal and from PMT JV. It is expected that GAIL Board would consider this issue and ensure that adequate supplies are available to synchronize with project completion so that the economic assets do not remain idle.
>
> GAIL have indicated the following possible sources for the DUPL project:-
>
> (i) RLNG from additional handling capacity of PLL at Dahej.
> (ii) Flexibility available in supplies/demand management of RLNG supplies from Dahej.
> (iii) Third Tranche of Dahej, PLL
> (iv) LOI with ADGAS, Adu Dhabi for supply of 0.5-0.7 MMTPA of LNG
> (v) Pipeline capacity booking by Torrent Power and Tata Power to the extent of about 4.5 MMSCMD and 2.0 MMSCMD.
> (vi) Additional 1 MMTPA LNG from RasGas from July 2006 onwards.
> (vii) Additional gas from C-22/C-24 structures of ONGC.
>
> Regarding downstream tie-ups, GAIL seems to have signed term sheets with the consumers with a Condition Precedent (CP) that it is subject to approval by their respective Boards.”

24. As regards the technical differences between LSAW and HSAW pipes, the Ministry has submitted the following information in a written reply:-

> “The international codes including American Petroleum Institute (API) code do not distinguish between LSAW and HSAW modes on safety and other considerations. Both can be used for high pressure gas transmission applications.”

25. Regarding the cost difference between LSAW and HSAW pipes the Ministry has furnished the following information in a written reply:-

"As per CHT, HSAW pipes are some what cheaper as compared to LSAW pipes, since hot rolled strips, which are cheaper are used in the former than the plates which are used in the latter.

However, more than the above, in a competitive bid generally it is the opportunity cost which is quoted by the bidders. If the competition is open and wide, the party stand to quote the competitive prices."

26 When the Committee sought to know the criteria being taken into consideration while sanctioning pipeline projects, GAIL furnished the following details in a written note:-

"While sanctioning the pipeline projects, the following criteria were taken into consideration by the Navaratna Board:-

1. Detailed Feasibility Report (DFR): Proposal is put up to the Board giving the details about the project as described in DFR, which includes demand estimates, design details, completion schedule and necessary financial appraisal as carried by an independent financial consultant. DFR highlights the major risks and their mitigation measures in order to achieve the required investment returns, which is currently 12% IRR.

2. Based on DFR, the Board approves the project, subject to any major capital investment commitments to be made after environmental clearances for the project and necessary tie-ups to the extent of 50% with the up-stream supply and down-stream consumers, which could be in the following manner:

    (a) By tie-up for source of supply along with tie-up with downstream consumers and/or,
    (b) By tie-up for pipe line capacity utilization with a party, which makes its own arrangement for sourcing/down stream consumptions.

27. The Committee also desired to know the views of the Ministry of Petroleum & Natural Gas regarding announcement of pipeline projects by Navratna companies without adequate arrangements for sourcing of gas. In this connection, the Ministry, inter-alia, furnished the following comments in a note:-

"……………… the tendency to declare pipeline projects by Navratna companies without adequate upstream and downstream arrangements needs to be discouraged and guidelines to discourage such a tendency needs to be issued. As premature announcement of important pipeline projects generates false expectations among the potential consumers/investor community and erodes the credibility of the Government, MOP&NG would, therefore, review the matter and will issue

> appropriate directions in this respect so that this tendency of the companies to declare major projects, including pipeline projects without adequate upstream and downstream tie-ups is effectively curtailed."

28. In the Report on Demands for Grants (2005-06), the Committee had noted that the commissioning of the Dahej-Uran Pipeline Project was delayed following controversies regarding the stipulation of LSAW pipes by GAIL in its tenders for gas transmission pipelines, ignoring HSAW pipes, even though both were equally good for gas transportation. They had been informed of the recommendations of CHT which stated that both LSAW & HSAW pipes were being used for gas transportation internationally and both should therefore be included in the tender documents. The Committee had also noted the Presidential Directive issued by the Ministry to GAIL to cancel its tenders for DUPL and issue fresh tenders. In these circumstances, the Committee had desired that a high level fact finding team should be appointed by the Ministry to look into the matter and its report be submitted to them within a fortnight. However, they are unhappy to learn that the Ministry did not constitute a high level fact finding team, in the first instance, to look into the matter as recommended by them. Instead, the Ministry preferred to get the matter examined by a technical committee of GAIL Board on the ground that all the details pertaining to the matter were available with GAIL. The Committee are not convinced by the reasons cited by the Ministry for not appointing a high level fact finding team in the first instance. In their view, this is indicative of lack of seriousness on the part of the Ministry to vital issues, which the Committee do not approve of. They advise the Ministry to attach due importance to their recommendations.

The Committee find that after the issue of the Presidential Directive by the Ministry on 28.10.2004, GAIL cancelled the earlier tender for DUPL involving only LSAW pipes and issued fresh tenders on 10.11.2004 incorporating both LSAW and HSAW pipes. However, this fact of cancellation/re-issue of tenders by GAIL was not conveyed in the reply furnished by the Ministry to the Committee in March 2005.

The high level fact finding team set up by the Ministry subsequently on this Committee's insistence, has, inter-alia, observed that the recommendations of M/s Tractabel and EIL relating to the use of HSAW and

LSAW pipes have not been consistent and that there has been a strong reluctance on the part of GAIL in changing its stand of using only LSAW pipes, till the issue of Presidential Directive. The fact finding team has viewed that both LSAW and HSAW pipes could be used for high pressure gas pipelines with limitation of 20 mm on wall thickness for HSAW pipes. The Committee have also been informed by the Ministry through written replies that the international codes including American Petroleum Institute (API) code do not distinguish between LSAW and HSAW pipes on safety and other considerations and that HSAW pipes are somewhat cheaper as compared to LSAW pipes, since hot rolled strips which are cheaper are used in the former than the plates which are used in the latter. The Committee recommend that while issuing tenders for its future projects GAIL should take into account these facts as well as the views /observations of the fact finding team regarding LSAW vis-à-vis HSAW pipes. Further, the Committee would like to know the saving to the exchequer after change of specifications incorporated by GAIL in its DUPL tender documents pursuant to the Presidential Directive.

As per the latest schedule, the project is due to be completed in February, 2007. However, it appears that GAIL has not yet been able to make adequate upstream and downstream arrangements for this project. As regards the upstream source of supply for the project, the Committee have been informed through a written reply that GAIL is yet to achieve any firm tie-ups with the suppliers of domestic gas or imported LNG. Only a few possible sources have been indicated in the reply which include R-LNG from Dahej, additional gas from ONGC, supply of LNG from ADGAS, Abu Dhabi and RasGas, Quatar, etc. Regarding downstream tie-ups the Committee have been informed that GAIL seems to have signed term sheets with some consumers with a Condition Precedent (CP) which is subject to approval by their respective Boards. The Committee would like to know the details of progress made in upstream and downstream tie-ups so far and the likely position in this regard at the time of completion of the project. The Committee further desire to know the progress made on this project so far and whether, based on such progress, GAIL is confident of completing the same by February, 2007. The Committee also desire that the tendency of declaring major pipeline projects

by Navratna Companies without adequate/ firm upstream and downstream tie-ups should be avoided.

F. NATIONAL GAS GRID PROJECT

Recommendation No. 8 (Para No. 2.8)

29. The Committee had observed that the Government had not yet finalised a policy to facilitate the progressive development of a nation-wide network of inter-connected natural gas transmission pipelines. They had expressed their displeasure over the fact that even after two decades of conception of the plan of a nation-wide gas pipeline network, the Government was still considering it as a concept. In view of the increasing gas availability from various sources, including LNG, the Committee had recommended 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.

30. The Ministry of Petroleum and Natural Gas has, inter-alia, submitted the following reply in this regard:-

> "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 of different companies. The existing high to medium pressure pipeline networks of different companies are as follows:-
>
> | Name of the Company | Existing Pipeline Network (in Kms) |
> |---|---|
> | 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. Accordingly, various pipeline projects have been planned for implementation in due course, synchronising with availability of gas.

The Government is finalising 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 upstream (source of supply) and marketing tie-ups.

Recently, GAIL has completed 610 KM 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 more plans to lay transmission pipelines. GTICL, a company promoted by Reliance Industries Ltd. (RIL) has plans to lay gas pipelines in Kakinada-Uran-Ahmedabad, Hyderabad-Goa and Jamnagar to Bhopal to evacuate mainly gas from their E & P blocks.

In view of the above, it would be appreciated that the existing natural gas pipeline network is growing to link additional supplies of gas to the potential market. Various companies such as GAIL, GTICL etc have planned different pipelines to transport the projected available natural gas/LNG from various sources."

31. The Committee had recommended that in view of the increasing gas availability from various sources including LNG, 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. In response to this recommendation, the Government has, inter-alia, stated that it is finalising a Natural Gas Pipeline Policy which envisages progressive development of a nation-wide gas grid in a competitive environment, involving both the public and private sectors, under the overview of a Regulator. The Government has further informed that various companies have planned different pipelines to transport the projected available natural gas/LNG from various sources and that the implementation of different pipeline segments will, inter-alia, depend upon achieving appropriate upstream and marketing tie-ups. The Committee are unhappy to note that the development of the National Gas Grid to address the burning issue of ensuring regional balance (especially in Eastern and Southern Regions) has been delayed inordinately. They reiterate their earlier recommendation of having a National Gas Grid on the lines of Power Grid, under Government control in order to ensure regional balance. The Committee further desire that due attention should be paid to the

implementation of various pipeline segments after ensuring timely and adequate upstream and downstream arrangements.

G. SUBSIDY ON DOMESTIC LPG AND PDS KEROSENE

Recommendation No. 11(Para 2.11)

32. The Committee, had noted that the Government Budget subsidy on PDS kerosene and domestic LPG, given on flat rate, would continue to be provided only till March, 2007. The Committee had found that the total subsidy of Rs. 6292.44 crore given by the Government during 2003-04 on petroleum products formed only a meagre 12.4% share of Rs. 50,733 crore which the POL Sector had contributed to the Government's coffers as customs and excise duties alone. They had, therefore, failed 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 had recommended that the subsidy on PDS kerosene and domestic LPG be continued beyond that period. The Committee had suggested that a part of this subsidy be borne by the Oil Companies and the rest from the cess collected on indigenous crude.

The Committee had also noted that up to 31.3.2004, the Central Government had collected a sum of about Rs.51007.60 crore as cess. Out of this, Oil Industry Development Board (OIDB) had received only Rs 902.40 crore till March, 2004. Reiterating their earlier recommendation, the Committee had desired 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.

33. The Ministry of Petroleum and Natural Gas has, inter-alia, submitted the following reply in this regard:-

> "As per the current Government policy, the Government subsidy on PDS Kerosene and Domestic LPG is to be phased out over a period of five years

effective 1.4.2002, i.e. Government subsidy would be available upto 31.03.2007.

In the Budget 2005-06, the following changes have, inter-alia, been announced, effective from 1.03.2005:-

Customs Duty- Reduction in customs duty on domestic LPG and PDS kerosene from 5% to nil.

Excise Duty - Reduction in excise duty on domestic LPG from 8% to nil and on PDS Kerosene from 12% to nil.

In addition to the fiscal measures, the following administrative measures have been taken:-

i) PDS Kerosene and domestic LPG are subsidised products. In addition to Government subsidy, public sector oil marketing companies (OMCs) have been sharing the burden by not passing the full increase in the international prices to the domestic consumer prices of these products. Under-recoveries on this account are estimated around Rs.18,000 crore in the fiscal year, 2004-05.

ii) There has been no increase in the price of PDS kerosene since April 2002; LPG prices have been frozen since midnight of 4/5 November, 2004.

As pointed out by the Committee, presently subsidy is allowed on flat rate for Kerosene (PDS) at the rate of Re.0.82 per litre and for LPG (Domestic) at the rate of Rs.22.58 per cylinder. Considering subsidies at the rate specified and average international prices for the Financial Year 2004-05 the under-recovery in respect of Kerosene (PDS) is Rs.6.85 per litre and for the LPG (Domestic), is Rs.82.20 per cylinder.

The Oil Industry (Development) Act, 1974 provides for collection of cess as a duty of excise on indigenous crude oil and natural gas. The proceeds of this duty are credited to the Consolidated Fund of India and sums of moneys as Central Government thinks fit are made available to the Oil Industry Development Board (OIDB) after appropriation by Parliament. Since inception and upto 31.3.2004, the Central Government has collected a sum of about Rs.51,007.60 crore as cess. Out of this, OIDB has received an amount of Rs.902.40 crore till March, 2004.

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

As on 31.03.2004, the OIDB has given Rs.16,861 crore as financial assistance to the oil industry of which Rs.16,182 crore was loan and Rs.679 crore was in the form of grant given to oil companies since 1975.

The price band mechanism for petrol and diesel has an inbuilt mechanism to allow variations in product prices in tandem with import parity prices. As such, no price stabilisation fund is required for petrol and diesel. As regard, PDS Kerosene and domestic LPG, as per the existing practice, in addition to the Government subsidy, the oil PSUs are sharing the burden of subsidising these products. As per the existing mechanism, the under-recoveries of oil marketing companies (OMCs) on account of PDS Kerosene and domestic LPG, after accounting for the Government subsidy, are shared by ONGC/GAIL/OIL by giving appropriate discounts on supplies of crude oil, LPG and SKO to IOC/HPC/BPC/IBP. This mechanism is working since 2003-04 onwards.

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

The issues were raised with the Ministry of Finance (MoF) for consideration. Based on the views of the MoF, the comments are as under:-

a) Regarding levy and utilization of cess, MoF is of the view that the cess is meant for funding the "oil industry" under the Oil Industry Development Act, 1974 and Section 2(k) of the Act defines this term to include all activities by way of prospecting or exploring for or production of mineral oil, refining, processing, transportation, storage, handling and marketing of mineral oil, production and marketing of all products downstream of an oil refinery and the production of fertilizers and petro-chemicals and all activities directly or indirectly connected therewith. Thus, the term "oil industry" includes fertilizers and petro-chemicals also for the purpose of the Act. The expenditure on the "oil industry" is in excess of the cess collection. In fact the issue regarding levy and utilization of cess was raised earlier by the

Parliamentary Standing Committee in 1997 and Ministry of Finance had expressed a similar view.

b) Regarding creation of a Price Stabilisation Fund, MoF is in agreement with the views of the Ministry of Petroleum & Natural Gas that such a fund may not be essential in view of the existing arrangements".

34. The Committee, in their earlier Report, had expressed their concern over phasing out subsidy on domestic LPG and PDS kerosene, a decision, they strongly believe, would adversely affect the consumer. Keeping this in mind, the Committee had desired the continuance of the subsidy on these products beyond March, 2007. In its Action Taken Reply, the Government has, inter-alia, stated that as per the current Government policy, the Government subsidy on PDS kerosene and domestic LPG is to be phased out over a period of five years beginning with 1.4.2002 *i.e.* it would be available upto 31.3.2007. The Committee also learn from the reply of the Government that the Ministry of Petroleum and Natural Gas is in agreement with their recommendation that the cess collected on indigenous crude oil should be used to meet the subsidy on such products. However, the Ministry of Finance has stated that the expenditure on 'oil industry' is in excess of the cess collection and argued that the definition of 'oil industry' encompasses all activities directly or indirectly connected with exploration, production and marketing of mineral oil and production of fertilisers/petrochemicals. The Committee in their 6th Report (14th Lok Sabha) have already dismissed the argument of the Ministry of Finance as a far-fetched one. They desire the Ministry of Petroleum and Natural Gas to pursue the issue with the Ministry of Finance. Keeping the interests of the common man in mind, the Committee reiterate that the Government should continue subsidy on domestic LPG and PDS kerosene beyond March, 2007 by using a part of the cess collected on indigenous crude oil.

The Committee had also recommended that a separate Price Stabilisation Fund be created, using the money collected from cess on indigenous crude to bring in stabilisation in the prices of petroleum products. The Committee are unhappy with the stock reply given by the Ministry that the price band mechanism for petrol and diesel has an in-built mechanism to allow variations in product prices in tandem with import parity prices. The

Committee, in their 4th Report (14th Lok Sabha), have already pointed out that the in-built mechanism in the price band system is not enough to achieve the requisite price stabilisation. Moreover, the creation of a Price Stabilisation Fund can also insulate the consumers from volatility in the international oil market. The Committee, therefore, reiterate that a separate Price Stabilisation Fund be created by using the money collected from cess on crude oil to bring in stabilisation in the prices of petroleum products.

H. PRICING OF PETROLEUM PRODUCTS

Recommendations No. 12 (Para 2.12)

35. The Committee had noted that certain changes had 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 had also noted that the customs duty on crude had 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 had been brought to nil from 12% and 8% respectively. For petrol and diesel, the excise tariffs comprised a mix of *ad valorem* and specific component. Though these changes were projected to be revenue-neutral by the Ministry of Finance, the Committee were surprised to note that it added an incremental revenue of Rs. 3000 crore per annum to central coffers. It was also found that this had resulted in an excise duty increase of Rs. 2.52/ litre on petrol and Rs. 1.65/ litre on diesel. The Committee had apprehended that the added burden on excise front would be passed on to customer in the name of exorbitant rise in international prices of these products. They had viewed that any price reform in the oil sector should keep the interests of the customer in mind and attempt at rationalising the duty strucutre/adjusting the duty in such a way that the cascading effect of the international petroleum prices does not weigh down the customer. The Committee had, therefore, recommended that excise duties on petroleum

products should be so structured that the additional revenue of Rs. 3000 crore was neutralised.

36. The Ministry of Petroleum and Natural Gas has, inter-alia, submitted the following reply in this regard:-

> "The Financial Year 2003-04 witnessed unrelenting price escalations of the Crude Oil and Petroleum Products in the International Market. In order to insulate the end consumers from the severe price hike, the Government tried to distribute equitably the burden of price rise amongst all the stakeholders viz. Oil Marketing Companies (OMC's), Government and end-consumers. This, inter-alia, provided for a series of steps which included downward revisions in Excise & Customs duties, several times, coupled with occasional price hikes in respect of Petrol, Diesel and LPG (Domestic). It may be worth noting that Kerosene (PDS) which is considered to be used by economically vulnerable sections of the society has been spared from price increase altogether, whereas the price hike in respect of Petrol, Diesel and LPG (Domestic) has been kept below the Import Parity levels in most of the cases.
>
> Whereas the Union Budget (2005) proposals envisaged a series of downward revision in respect of Crude Oil and majority of petroleum products, there have been increase in Excise Duties in respect of Petrol and Diesel as pointed out by the Committee.
>
> The resultant effect of the changes discussed above, for the Financial Year 2004-05, have been that the Oil Marketing Companies have suffered an estimated under-recovery to the tune of Rs.2,303 crores in respect of Petrol and Diesel. So far kerosene (PDS) and LPG (Domestic) are concerned, the estimated under-recovery will be to the tune of Rs.11,895 crores (net) after one-third portion of the above loss i.e. Rs.5,947 crores have been shared by the Upstream Oil Companies in conformity with "Loss Sharing Mechanism" formulated by the Government.
>
> The Crude Oil and Petroleum Products prices continued to accelerate during the Current Financial Year 2005-06 and with no price revision since November, 2004, the estimated under-recovery in respect of Petrol and Diesel will be around Rs.3,795 crores during the period April to May, 2005. It may be pertinent to note that as pointed out by the Committee, the increase in excise duty rates, the effect of which could not be passed on in retail selling prices, has contributed to this huge under-recovery. Additionally, the Oil Marketing Companies have to

absorb the increased cost of marketing Euro-III grades of Petrol and Diesel without any price revision for the same.

In view of the above, the Ministry of Finance has been requested to examine the issue of restructuring/rationalisation of duty structure. "

37. On the basis of inputs received from the Ministry of Finance, further reply has been furnished by the Ministry of Petroleum and Natural Gas to this recommendation of the Committee. The said reply, inter-alia, gives the following details:-

"Regarding revenue neutrality of changes made in excise and customs duty structure of petroleum sector in this year's budget, the issue has been clarified in detail by the Hon'ble Finance Minister during the course of discussion at the consideration stage of Finance Bill, 2005 in both Houses of Parliament.

To reiterate, appreciating the need for a carefully structured tax policy for petroleum products, which would address the conflicting interests of various stakeholders, the Government had constituted an Advisory Group, headed by Dr. Ashok Lahiri, Chief Economic Advisor, to review the customs and central excise tariff structure on crude petroleum and petroleum products, and to suggest changes in duty structure keeping in view the fluctuations in international crude prices and the need for maintaining revenue buoyancy. On the basis of the recommendations of the Advisory Group, in this year's budget,customs and excise duty structures on crude petroleum and petroleum products were revised. These changes were, however, finalised after detailed discussions with the MoP&NG at various levels and it is on record that the changes are completely revenue neutral. Revenue neutrality of the duty changes is clearly referred to in paras 137 to 140 of the Budget Speech.

However, to mobilise additional resources of about Rs. 3000 crore, cess on petrol and diesel was increased by 50 paise per litre, which is exclusively earmarked for National Highways Development Project (NHDP-III). Para 135 of the Budget Speech specifically refer to this fact."

38. The Committee had viewed that 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. Accordingly, they had recommended that excise duties on petroleum products should be so structured that the additional revenue of Rs. 3000 crore was neutralised. In this regard, the Ministry of Petroleum and Natural Gas, based on inputs from the Ministry of Finance, has, inter-alia, stated that the customs and excise duty structures on crude and petroleum products were revised on the basis of the recommendations of the Advisory Group headed by Dr. Ashok Lahiri and these changes were finalised after detailed discussions with the Ministry of Petroleum and Natural Gas at various levels. The Government has viewed that these changes were completely revenue neutral. However, to mobilize additional resources of about Rs. 3000 crore, cess on petrol and diesel was increased by 50 paise per litre, which had been exclusively earmarked for National Highways Development Project (NHDP-III). The Committee would like to point out that the thrust of the recommendation was on rationalisation of the duty structure/reduction in excise duty rates. In this connection, they have been informed that the Ministry of Petroleum and Natural Gas has requested the Ministry of Finance to examine the issue of restructuring/rationalisation of duty structure. The Committee would, like to be apprised of the further details in this regard.

I. ANTI-ADULTERATION CELL

Recommendation No. 15(Para 2.15)

39. In their earlier Report, the Committee had regretted the winding up of the Anti-Adulteration Cell. The Committee felt that 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 had simply decided to wind up the Cell which the Committee felt could not be justified at

a stage when instances of adulteration had been growing day by day. The Committee had, therefore, reiterated their earlier recommendation for the revival of Anti-Adulteration Cell as an independent Central agency with substantial statutory powers, to tackle the menace.

40. The Ministry of Petroleum and Natural Gas has, inter-alia, given the following reply to explain the position:-

> "The Anti-Adulteration Cell (AAC), was set up in March 2001 under the Ministry of Petroleum & Natural Gas (MOP & NG). It was found to be ineffective in its functioning and some of its officers were booked by the CBI for undesirable activities. The cases are under investigation by the CBI. Therefore, a one-man committee under the chairmanship of the Additional Secretary, Ministry of Petroleum & Natural Gas was set up in April, 2004 to conduct an extensive review of the working of the AAC. The report showed that the AAC with its existing structure and functions, could not play a meaningful role in the Ministry's efforts to curb the menace of adulteration. Accordingly, the Cell was wound up in July, 2004.
>
> It is doubtful whether any study can accurately estimate the extent of adulteration in the petroleum products in the country and thereby compute the loss to the national exchequer. Moreover, a national level body can not police adulteration at 25,000 retail outlets (petrol pumps) across the country. The cooperation of the State level machinery is a must to check this menace".

41. The Committee had recommended that the Anti-Adulteration Cell (AAC) be revived as an independent Central Agency with substantial statutory powers. However, they are unhappy to learn that the Government has not implemented this recommendation. In the opinion of the Committee, the relevance of such a central authority to check adulteration with adequate statutory powers, has only increased in the wake of the brutal killing of an oil company official who was making sincere efforts to check this menace in his area of operation. Such incidents would tend to discourage other officials of oil companies to make concerted efforts towards this end which would lead to increasing cases of adulteration. In such a scenario, the presence of a central agency, with substantial statutory powers, would prove beneficial in checking the menace. The Committee, therefore, reiterate that the Anti-Adulteration Cell should be revived and vested with adequate statutory authority.

The Committee had also desired the Government to conduct a study to assess the approximate loss caused to the exchequer due to adulteration. In

response, the Government has raised doubts over such a study which can accurately estimate the extent of adulteration in the petroleum products in the country. The Committee do not appreciate the negative approach of the Government to such a vital issue. In the opinion of the Committee, a systematic study, if attempted by the Government, can yield the approximate figures, if not the exact ones. The Committee, therefore, desire the Government to attempt such a study.

J. SETTING UP OF LNG TERMINALS

Recommendation No.18 (Para 2.18)

42. Country's first LNG terminal had been set up at Dahej, Gujarat. The Committee had been informed that work on another LNG terminal at Hazira, also in Gujarat, was nearing completion. Petronet LNG Limited (PLL) had decided to set up a terminal at Kochi, Kerala which was likely to be completed by 2008-09. Besides, terminals at Mangalore, Karnataka and Ennore, Tamil Nadu were at planning stages. The Committee appreciated the efforts made in the direction of setting up of LNG terminals in the country. However, the Committee regretted to note that other coastal States such as Andhra Pradesh, Orissa and West Bengal did not find a place in the LNG map of the country. The Committee desired that regional balance should be maintained while deciding about the locations of LNG terminals. The Committee had been informed that the IOC and GAIL were jointly working on the feasibility study for setting up an LNG terminal at Krishnapatnam, Andhra Pradesh which was likely to be completed within three months. The Committee had recommended that the said study should be completed expeditiously and the outcome thereof conveyed to them. The Committee had also recommended 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.

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

> "Due to huge discovery of natural gas by Reliance in KG Basin, the LNG terminal which was earlier planned by IOC consortium at Kakinada has been abandoned by the company since the project may not be feasible now.

Krishnapatanam is an other location which was considered by IOC for LNG terminal. However, in the study conducted for selecting the best location for LNG terminal on the east coast, it has been concluded that Ennore is the most suitable location.

GAIL's feasibility report on the LNG terminal at Gopalpur/Haldia would be completed in 2-3 months. However, it may be noted that there are good possibilities of gas availability in eastern region from domestic exploration in the Bay of Bengal and Mahanadi basin as well as import of gas from Myanmar which can meet the Natural Gas requirement of Eastern States, and therefore, the feasibility of an LNG terminal at Gopalpur/Haldia is doubtful."

44. In their Report on Demands for Grants (2005-06), the Committee had regretted that coastal States like Andhra Pradesh, Orissa and West Bengal did not find a place in the LNG map of the country. They had desired that the feasibility study for setting up an LNG terminal at Krishnapatnam in Andhra Pradesh should be completed expeditiously and that similar studies for setting up LNG terminals at Gopalpur in Orissa and Haldia in West Bengal be carried out. The Committee have been informed through the Government's Action Taken Reply that in the study conducted for selecting the best location for LNG terminal on the East Coast, it has been concluded that Ennore is the most suitable location. The Committee would like to have a copy of the report within one month or so on the basis of which it was decided to have Ennore as the best location for setting up of LNG terminal. The Committee would like to advise the Government not to take the outcome of this study as final and conclusive in view of the fact that Krishnapatnam was considered favourably for LNG terminal purpose by a study conducted by another agency a few years ago. The Committee, therefore, desire that the Government should get another study conducted by a Public Sector Undertaking under the administrative control of the Ministry of Petroleum and Natural Gas so as to lend more authenticity to the exercise, prior to taking a final decision in selecting the location on the East Coast.

As regards LNG terminals at Gopalpur and Haldia, the Committee have been informed that GAIL's feasibility report on the LNG terminal at Gopalpur/Haldia would be completed in 2/3 months. They would like to be apprised of the outcome of the said study.

K. FUEL QUALITY IMPROVEMENT PROGRAMME

Recommendation No.19 (Para 2.19)

45. As per the National Auto Fuel Policy, the supply of Bharat stage II/ Euro II equivalent fuels all over the country and Euro III equivalent fuels in metros and identified cities was to commence from 1 April 2005. However, the Committee had been informed that the introduction of Bharat Stage II grade diesel in seven States would 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. The Committee were informed that as per the revised schedule, the Bharat Stage II compliant diesel would 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 were unhappy that oil PSUs/ refineries had failed to meet the time schedule fixed in this regard. The Committee had recommended that the Government should 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 had been reported in the press that some oil companies were 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 acted as a neurotoxin and clogged the vehicle emission system, the Committee had desired the Government to inquire into the matter and take corrective measures under intimation to them.

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

> "Supplies of Bharat Stage-II High Speed Diesel (HSD) has commenced in the State of Rajasthan with effect from 1.6.2005 as per the revised schedule of introduction of Auto Fuel Policy approved by the Government. The Ministry has also directed the Oil Companies to ensure that the revised schedule for implementation of the Auto Fuel Policy is adhered to strictly. Besides, the Oil companies have also been asked to fix responsibility for the slippage of the schedule.
>
> The quality upgradation projects are also being reviewed regularly to ensure that there is no delay in completion of the same. With these steps, it is

expected that there would be no further slippages in meeting the revised schedule of introduction of upgraded fuel.

As regards mixing a managanese based octane enhancer in fuels to attain the desired octane rating for meeting the Euro-III norms, it is mentioned that except for Numaligarh Refinery which uses marginal quantities of Methylcyclopentadienyl Manganese Tricarbonyl (MMT) as a trimming agent for a marginal increase in the octane number of Motor Spirit, other Public Sector Oil Refineries are not using MMT any more. Numaligarh Refinery Limited too will discontinue the use of MMT by March 2006, by when the new facilities being set up by them for producing Motor Spirit are expected to be commissioned."

47. The Committee had expressed their displeasure over the fact that the Oil PSUs/refineries had failed to meet the deadline of 1st April, 2005 fixed for supply of Bharat Stage II/Euro II equivalent fuels in seven States viz. Rajasthan, West Uttar Pradesh, Uttaranchal, Madhya Pradesh, Punjab, Himachal Pradesh and Jammu & Kashmir. They had been informed that as per the revised schedule, the Bharat Stage II compliant diesel would be introduced in these States between 1st June and 1st October, 2005. The Committee had recommended that the revised deadline for Euro II/Bharat Stage II diesel in these States should be adhered to. They have now been informed that the supply of Bharat Stage II diesel has commenced in Rajasthan w.e.f. 1st June, 2005 and that the Ministry has directed the Oil Companies to ensure that the revised schedule for implementation of the Auto Fuel Policy is adhered to strictly. The Committee would like to be informed as to whether the revised schedule for supply Bharat Stage II diesel in the remaining six States has been adhered to.

As regards the use of manganese based octane enhancer in fuels, the Committee have been informed that the Numaligarh Refinery is using marginal quantities of Methylcyclopentadienyl Magnanese Tricarbonyl (MMT) as a trimming agent for a marginal increase in the octane number of Motor Spirit and that the said Refinery will discontinue the use of MMT by March, 2006, by which time the new facilities for producing Motor Spirit are expected to be commissioned. In this connection, the Committee would like to know the outcome of studies, if any, conducted to find out as to whether the use of/exposure to MMT causes damages to the health of humans and vehicles. They also desire the Numaligarh Refinery to stop mixing MMT in fuels immediately, if not already done.

L. EFFORTS TO PROMOTE BIO-DIESEL

Recommendation No. 22 (Para No. 2.22)

48. Bearing in mind the inevitable need to bring down the magnitude of dependence on fossil fuels, the Committee had recommended that the Government should explore all options to ensure availability of bio-diesel in large quantities before long. They had also recommended that all out efforts should be made to encourage and ensure large scale plantation of Jatropha. The Committee had appreciated the initiative taken by IOC to plant 1,10,000 Jatropha saplings on the land allotted by the Indian Railways in Gujarat. They had recommended that other PSUs/ organisations under the administrative control of the Ministry should take a cue from IOC and endeavour to contribute to Jatropha plantation.

49. The Ministry of Petroleum and Natural Gas has, inter-alia, submitted the following reply in this regard:-

> "The recommendation of the Committee for making all out efforts for encouraging and ensuring large scale plantation of Jatropha is timely and appropriate. The Ministry of Rural Development has been made the nodal Ministry for a National Mission on Bio-diesel, which envisages large scale plantation of Jatropha curcus in a phased programme. The Detailed Project Report (DPR) prepared for the purpose is with Planning Commission for further scrutiny and approval. The DPR has envisages role for all stakeholders for making the mission a success. Inter-alia, the Ministry of Agriculture and Ministry of Environment and Forest have been assigned responsibility of large scale plantation of Jatropha curcus in revenue land and forest land respectively. The role of the oil companies and the Ministry of Petroleum and Natural Gas has been recognized as one of extending blending and marketing support for lifting bio-diesel when it becomes available through Jatropha curcus plantation efforts taken up under the Mission.
>
> With respect to the recommendation that all oil companies should emulate the Jatropha curcus plantation activities undertaken by IOC, it is submitted that plantation of Jatropha curcus mentioned by the Committee has been undertaken by IOC as part of its R&D activities, through a memorandum of understanding with the Railways for using Jatropha curcus oil there from for producing bio diesel on an experimental basis for further experimentation in the rail transportation sector. The Committee would appreciate that such activities cannot significantly affect availability of bio diesel at economic prices, for which a more focused approach is called for. As already mentioned, for ensuring large scale availability of bio-diesel, other Ministries

of the Government, including the Ministry of Rural Development, the Ministry of Agriculture, and the Ministry of Environment and Forests have been assigned the role of promoting plantation of Jatropha curcus on a large scale in the Mission mode."

50. The Committee had recommended that the Government should explore all options to ensure availability of bio-diesel in large quantities before long. In its Action Taken Reply, the Government has stated that the Ministry of Rural Development has been made the nodal Ministry for a National Mission on Bio-diesel, which envisages large scale plantation of 'Jatropha curcus' in a phased programme. The Committee have further been informed that the Detailed Project Report (DPR) prepared for the purpose is pending with the Planning Commission for further scrutiny and approval. They would like to be informed of the further progress made in the matter.

The Committee had appreciated the initiative taken by the Indian Oil Corporation Limited (IOCL) to plant 1,10,000 Jatropha saplings on the land allotted by the Indian Railways in Gujarat and recommended that other PSUs/organisations under the Ministry's administrative control should make similar efforts towards Jatropha Plantation. They are unhappy to learn that instead of asking/encouraging Oil PSUs/organisations to contribute to Jatropha Plantation, the Ministry has stated that such activities cannot significantly affect availability of bio-diesel at economic prices. The Committee would like to emphasise that large scale Jatropha Plantation is the need of the hour and any constructive effort by the Oil Companies towards this end would only be beneficial to the country. The Committee, therefore, desire that the Ministry should advise the Oil PSUs, particularly Oil Marketing Companies, to contribute to Jatropha Plantation.

M. ETHANOL-BLENDED PETROL PROGRAMME

Recommendation No.23 (Para 2.23)

51. The Committee had noted that the Government had notified the scheme of supplying 5% enthanol-blended petrol in 9 States and 4 Union

territories w.e.f. 1.1.2003. However, they were unhappy to note that the scheme had 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 had reiterated 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. It was also desired that the Government should 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.

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

> "The 5% ethanol-blended petrol (EBP) programme has been introduced with a view to giving support to the agriculture sector and reducing environmental pollution. The Government is committed to implementing the programme if ethanol is made available by the sugar industry at reasonable rates and in adequate quantities on a sustained basis. The oil marketing companies have invited tenders for procuring ethanol for the EBP and the bids received are being evaluated. To ensure sustained supply of adequate ethanol at reasonable prices to the Oil Marketing Companies, the Ministry of Petroleum and Natural Gas has proposed a draft MOU to the Indian Sugar Mills Association. The draft is under discussion. When ethanol suppliers are in a position to supply ethanol of requisite quantity at reasonable economic prices for covering the entire country with 5% ethanol-blended petrol, the Government sees no difficulty in direct the oil companies to cover the entire country in a fixed time frame."

53. The Committee had recommended that the Government should sort out the issues like supply, procurement, pricing, etc. of ethanol and direct the Oil Companies to cover the entire country with 5 per cent ethanol- blended petrol in a fixed time frame. The Government, in its Action Taken Reply, has informed that to ensure sustained supply of adequate ethanol at reasonable prices to the Oil Marketing Companies, the Ministry has proposed a draft MOU to the Indian Sugar Mills Association (ISMA) which is under discussion. The Committee would like to be apprised of the provisions made in the said MOU

as well as the progress made in the matter so far. The Committee have further been informed that the tenders invited by the Oil Companies for procuring ethanol are still being evaluated. They desire that the said process should be completed expeditiously. Considering the fact that large scale implementation of the ethanol-blended petrol programme would reduce environmental pollution besides supporting the agriculture sector, the Committee desire that the Government should attach utmost importance to the same.

N. MERGER OF BRPL WITH IOCL

Recommendation No. 26 (Para No. 2.26)

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

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

> "The Board of Indian Oil Corporation Limited (IOCL) at its meeting held on 30th June, 2005 had considered an agenda item on the proposed merger of Bongaigaon Refinery & Petrochemicals Limited (BRPL) (a subsidiary company of Indian Oil Corporation Limited) with IOCL and had accorded "In principle" approval of the same, subject to the approval of Government of India.
>
> 2. Ministry of Petroleum and Natural Gas has repeatedly recommended to the Ministry of Finance for grant of full excise duty benefit to BRPL's Petrochemicals and PSF products (at applicable tariff rate) by suitable amendment to Ministry of Finance, Department of Revenue,

Notification No. 32/99-CE dated 8.7.99 as has been given to similar fibre industries located in North East, viz. Prag Bosimi Synthetics Ltd., M/s APOL, etc. The response of Ministry of Finance is awaited.

3. The Board of Directors of BRPL, in its meeting held on 16th May, 2005 has approved the proposal for setting up of a Diesel Hydro-Treatment (DHDT) project to meet Euro III specification of Diesel. Accordingly, BRPL has awarded to job to M/s Engineers India Limited (EIL) for revision of Detailed Feasibility Report (DFR) and cost estimates including revision of the Pilot Plan. The project is expected to be completed by June, 2009."

56. In their Report on Demands for Grants, the Committee had desired the Government to expedite the decision on the matter regarding grant of excise duty concessions to the Bongaigaon Refinery and Petrochemicals Limited (BRPL) as per North-East Industrial Policy. They have been informed through the Action Taken Reply that the Ministry of Petroleum & Natural Gas has repeatedly recommended to the Ministry of Finance for grant of full excise duty benefit to BRPL's Petrochemicals and PSF products as has been given to similar fibre industries located in the North-East and that the response of the Ministry of Finance in this regard is awaited. The Committee desire the Ministry of Petroleum and Natural Gas to pursue the matter with the Ministry of Finance and ensure an early and positive decision in the matter.

The Committee also note that the Board of the Indian Oil Corporation Limited (IOCL) has considered the matter regarding the proposed merger of BRPL with IOCL and accorded 'in principle' approval to the same, subject to the approval of the Government of India. The Committee would like to be informed of the decision of the Government in the matter.

CHAPTER – II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation No. 3 (Para no. 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.

REPLY OF THE GOVERNMENT

Ministry Monitoring Cell of MOP&NG reviews the monthly progress of IOR/ EOR projects which are of more than Rs. 100 crore investment. In addition, progress of IOR/ EOR projects is being reviewed in Quarterly Performance Review (QPR) meetings, Annual Review of the projects as well as at Board level by the Government Nominee from time to time.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Recommendation No.4 (Para No. 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 10^{th} 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.

REPLY OF THE GOVERNMENT

Given the increasing gap between demand and domestic availability of crude oil, besides taking appropriate measures to accelerate exploratory activities for enhancing domestic oil and gas production, it has become essential for our energy security to step up efforts overseas in search of equity oil and supplementary sources of oil and gas.

Towards this end, and in keeping with the objectives of the Energy Security section of the National Common Minimum Programme, ONGC Videsh Ltd. (OVL), as well as other national oil companies such as IOC, OIL and GAIL have been pursuing the acquisition of equity oil abroad, as well as the acquisition abroad of oil and gas exploration acreages and producing properties. These companies have Participating Interests in oil and gas projects located in Vietnam, Sudan, Russia, Iraq, Iran, Myanmar, Libya, Syria, Australia, Ivory Coast, Qatar and Egypt.

OVL, in association with other oil sector PSUs, is aggressively scouting for E&P opportunities in countries such as Venezuela, Kazakhstan, Kuwait, Yemen, Chad, Niger, Nigeria, Angola, Cuba, Sierra Leone and Ecuador in addition to efforts to acquire more E&P assets in the countries where it is operating currently.

For extending guidance and advice to the Indian oil companies in their efforts to acquire equity oil abroad, Government have constituted an Advisory Committee on Oil Diplomacy for Energy Security comprising experts with specialized knowledge of the countries and regions with whom the oil companies are expected to interact. Discussions about possible areas of collaboration between India and Russia have been held at ministerial, official and commercial levels and the progress has been encouraging.

Besides, negotiations have been opened with Iran for the supply of natural gas by pipeline through Pakistan. A trilateral Ministerial meeting in Yangon in January, 2005 agreed in principle on the import of gas from Myanmar to India through Bangladesh.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Recommendation No.6 (Para No. 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 (14^{th} 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.

REPLY OF THE GOVERNMENT

ONGC is planning to execute the pilot project on Underground Coal Gasification (UCG) as per the advice of their consultant viz. Skochinsky Institute of Mining (SIM), Russia. As stipulated in the MOU (Agreement of Collaboration – AOC), the first phase of the contract suggests examination of the data/ information of the coal deposits leading to site selection which is scheduled to be completed in 7 months time starting from mid February, 2005. As per the AOC, Russian experts have sent a list of data that shall be required about coal deposits for examining suitability of the site for carrying out UCG. The relevant coal data from eight different probable sites in India is being examined. The final site selection for carrying out UCG shall be completed with the help of Russian experts within the year 2005.

Optimization of the time schedule will be given due priority with the consultant during the process.

ONGC has entered into a MOU (Agreement of Collaboration – AOC) with Skochinsky Institute of Mining (SIM) – NMRC, Russia. The road map has been prepared and various steps with the time frame are as under:

Sl.No	Steps	Duration

		(Months)
1.	Site selection	7
2.	Detailed evaluation of the Geological and Hydrological conditions of coal seams in the selected site of pilot project.	6
3.	Obtaining permission for use of land	6
4.	Project design (initial data for techno-economic feasibility, preparation of techno-economies, preparation of technical reports and project designing with working drawing)	17
5.	Construction of Enterprise UCG	24
6.	Start of Enterprise UCG, putting into operations, analysis of results and recommendations for operations.	Duration is to be defined separately.
	Total	60

MOU between ONGC and CIL

As a part of the ambitious project of UCG, ONGC has been having dialogues with Coal India Limited and other Coal agencies for wider selection of sites . As per the intimation received, CIL Board has agreed in principle to enter into MOU with ONGC for UCG. Pending formal signing, both the agencies have started examining the data for site selection for UCG project, which will be discussed with the consultation for finalisation of site.

STATUS OF GAIL'S UNDERGROUND COAL GASIFICATION (UCG)

GAIL (India) Limited (GAIL) had an Umbrella Agreement with Shell, relating to various types of gas sector co-operation, non-conventional gas production and end use-sectors.

Both parties have now agreed to revive the Umbrella agreement.

GAIL is keen to utilize the Shell Coal Gasification Process (SCGP) for setting up a Coal Gasification Project in eastern India.

Shell have indicated that SCGP is suitable for Indian coal which inherently has a high ash content.

Shell have carried out a study for GAIL based on coal sample analysis from Eastern Coal Fields Ltd., Mahanadi Coal Fields Ltd. And Central Coal Fields.

A detailed feasibility report (DFR) is in the process of being prepared by M/s. Uhde, Mumbai in collaboration with their parent company M/s. Uhde, Germany based on coal data from Eastern Coal Fields Ltd., Mahanadi Coal Fields Ltd. and Central Coal Fields. The DFR is expected to be ready by the end of August, 2005.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Comments of the Committee

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

Recommendation No. 9 (Para No. 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.

REPLY OF THE GOVERNMENT

A Memorandum of Understanding (MoU) was signed between Orissa Government & Indian Oil Corporation Limited on 16.2.2004 regarding the package of tax incentives for the Paradip Refinery Project and time frame for the completion of the Project. The Project is scheduled to be completed by end 2009 in terms of the agreed completion schedule as per MoU.

The refinery project at Bathinda (Punjab) was proposed to be set up by Hindustan Petroleum Corporation Limited (HPCL) keeping in view the incentives granted by Government of Punjab (GOP) to the project. In respect of these incentives, HPCL had sought a Deed of Assurance (DOA) from the State Government. The work on the project was kept on hold as the conclusion of DOA was awaited. GOP in February, 2005 conveyed approval to the grant the incentives. Accordingly, HPCL intend to take up the refinery project on formally concluding the DOA with GOP. Non-receipt of the DOA has adversely affected implementation of the project . The refinery is expected to be commissioned in 2009.

As regards Central India Refinery Project at Bina (Madhya Pradesh), a Memorandum of Understanding between Government of Madhya Pradesh and Bharat Oman Refineries Limited (BORL) was signed on 6.5.2005, as per which the State Government has agreed to grant certain concessions for the project. The refinery execution will be taken up after completion of the review that has been undertaken to reconfirm/ revise the product slate of the project. This would be followed by re-examination of process configuration, cost estimation and profitability evaluation. This Ministry has also requested Bharat Petroleum Corporation Limited/ BORL to take up implementation of the project immediately.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Recommendation No. 10 (Para No. 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.

REPLY OF THE GOVERNMENT

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

(Rs. In lakh)

Year	2002-03	2003-04	2004-05
Budget Estimates	943.00	828.00	1042.00
Actual	694.36	731.72	880.48

Sincere efforts will continue to keep the expenditure within the sanctioned budget for the year 2005-06 also.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Recommendation No. 14 (Para No. 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.

REPLY OF THE GOVERNMENT

Government is very keen to introduce the Petroleum and Natural Gas Regulatory Board Bill in the Parliament at the earliest opportunity. When the Ministry's draft was being sent to the GOM on the basis of COS recommendations, certain issues, largely relating to the gas sector were brought to our notice, post COS meeting, inter-alia by the gas industry. These need to be appropriately addressed in the draft Bill. After examining these issues, we consider that the draft Bill brought before the COS in the meeting held in March 2005, needs to be further modified. As the suggested modifications are technical in nature, this Ministry has suggested to the Cabinet Secretariat that the proposal be looked into by the COS in the first instance before approaching GOM.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Recommendation No. 16 (Para No. 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.

REPLY OF THE GOVERNMENT

Import of natural gas through trans-national gas pipelines

In order to bridge the large gap between demand and supply of natural gas, Govt. has taken various initiatives to import gas through transnational pipelines. The major initiatives in this regard are as follows:-

(a) Iran-India gas pipeline project

Under bilateral cooperation, Indo-Iran Joint Committee constituted a Joint Technical Sub Committee to assist it to explore offshore and onshore options to import natural gas from Iran. As regards the offshore option, the Joint Committee has decided to under take feasibility study for laying of pipeline from Iran to India. The feasibility Report is expected to be completed by middle of the year 2005. Since this pipeline would be the longest deep-water pipeline passing outside the Exclusive Economic Zone (EEZ) of Pakistan, it would have major technical issues such as pipeline laying, pigging issues, repair intervention issues and other operational issues, impacting the economic viability of the pipeline. Regarding on-land pipeline passing through Pakistan, the matter is being pursued with Iran and Pakistan. A process of discussions has commenced. The matter was discussed with the Pakistan Foreign Minister and Prime Minister who had visited India recently. A high level delegation led by Minister (P&NG) visited Pakistan during 4-8th June, 2005. The delegation would visit Iran to pursue the matter further. With regard to security, stability of supplies etc., it is proposed to have to separate back-to-back agreements: between Iran and India for the delivery of gas by pipeline to our agreed point on the India-Pakistan border and between Iran and Pakistan for transmission from Iran and transit through Pakistan. There would be strict ‘supply or pay’ and ‘take or pay’ clauses in the agreement. Appropriate steps will be taken to meet the eventuality of temporary disruption of supplies.

(b) **<u>Myanmar-Bangladesh-India Gas Pipeline Project</u>**

To pursue the matter at the Government level, for bilateral and trilateral discussions with Myanmar and Bangladesh, the Minister (P &NG) visited Yangon during 11-13th January, 2005. A Memorandum of Understanding (MOU) for cooperation in the petroleum sector between the two Governments was signed. The MOU provides for furthering cooperation in the hydrocarbon sector and for establishing a cooperative institutional relationship in the field of petroleum industry on the basis of equality and mutual advantage, taking into account the possibilities for cooperation available in each country. The two Governments will designate a body of experts comprising three representatives of each party to identify and implement the projects in the hydrocarbon sector.

A trilateral meeting between the Petroleum Ministers of India, Myanmar and Bangladesh held on 12.01.2005. 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 agreements 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 First Meeting of the TCWC was held on 24-25 February, 2005. The TCWC has finalised draft MOU proposed to be signed by the three oil Ministers. However, there are certain bilateral issues which Bangladesh wants to mention in the Trilateral MOU about which MEA has reservation. Bangladesh is yet to respond on this matter. Simultaneously, India is also exploring the alternative option of import of natural gas from Myanmar, other than a pipeline through Bangladesh. These include an onland pipeline through North-Eastern state of India as well as imports in the form of CNG or LNG. For this purpose, an official level delegation visited Myanmar in May, 2005. The matter is being pursued vigorously.

(c) **<u>Turkmenistan- Afghanistan-Pakistan (TAP) Pipeline</u>**

Daulatabad area of Turkmenistan has reported to have sufficient gas reserves. The Governments of Turkmenistan-Afghanistan-Pakistan (TAP) 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 issue was discussed with the Afghan delegation which recently visiting India. Minster (P &NG) would also discuss this matter with Pakistani side during his visit to Pakistan from 4th to 8th June 2005. TAP pipeline project is also being explored for India’s energy security.

Transnational pipelines by their very nature are long gestation projects, the progress of which depend on resolution of various issues including geopolitical issues.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Recommendation No. 17 (Para No. 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.

REPLY OF THE GOVERNMENT

To meet the large gap between the demand and supply of gas, Government, inter-alia has been encouraging imports of LNG. Under the existing policy, following concessions have been provided to encourage import of LNG:-

(i) Import of LNG is under Open General License (OGL) list;

(ii) LNG projects qualify for LNG 100% FDI;

(iii) LNG attracts a base rate of custom duty of 5%;

(iv) Import of capital goods for LNG projects are eligible for concessional custom duty @ 5%;

(v) LNG importers have freedom to market regassified LNG at market price.

The above policy is a growth-oriented policy.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Recommendation No. 20 (Para No. 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.

REPLY OF THE GOVERNMENT

At present, Compressed Natural Gas (CNG) is being supplied in a big way in Delhi and Mumbai. In Delhi, M/s. Indraprastha Gas Limited (IGL) and in Mumbai M/s. Mahanagar Gas Limited (MGL) are engaged in distribution of CNG. The details of the infrastructure and measures taken to streamline availability of CNG kits is are as under:-

<u>Indraprastha Gas Limited</u>

IGL has created an infrastructure consisting of well spread – out network of 133 CNG dispensing stations in the NCT of Delhi. The infrastructure is catering to about 94,000 vehicles primarily consisting of public transport vehicles, which include around 10400 buses. The current compression capacity is 64.94 lakhs Kg/ day vis-à-vis the average sale of about 8.15 lakhs Kg. of CNG per day. The infrastructure created by IGL ensures a comfortable fueling experience to all of its customers.

Indraprastha Gas Limited (IGL) has taken various steps to promote CNG conversion amongst private cars in NCT of Delhi including ensuring improved availability of CNG conversion kits for retrofitment in private vehicles. The steps taken are as follows:

1. IGL on its part has successfully rolled out its communication plan with a focus to create awareness amongst the potential private car customers about the availability of CNG infrastructure, supply of CNG, its economics and safety. In the course of carrying out this exercise, IGL organised kiosks/ camps at various prominent locations in Delhi where details of approved kit Importers/ Distributors/ Manufacturers and their addresses and the approved variants of the cars were distributed to the vehicle owners interested in converting to CNG mode of fuel.
2. Meetings have been held with the CNG kit approving agencies i.e. ARAI and VRDE; Pune to discuss for expediting the process of approval of variants once the base model is approved. Also, the need was highlighted to give priority to all approvals related to CNG vehicles, especially for the private cars. As per the information available, the variants approved till date by the Transport Department of Delhi are Maruti 800 (Carburetor), Maruti Zen (Carburetor & MPFI), Maruti 1000 (Carburetor), Maruti Esteem (Carburetor & MPFI), Maruti Omni (Carburetor), Premier Padmini (Carburetor), Hyundai Accent (MPFI), Tata Indica (MPFI), Cielo (Carburetor), HM- Mitsubishi Lancer (MPFI), Santro GLS (MPFI).
3. Two rounds of discussions have been held with the authorised kit Importers/ Distributors/ Manufacturers to discuss the following issues:
   (a) Approvals for as many variants of cars as possible apart from the popular variants.

(b) To establish as many authorized Workshops/ Retrofitters representing all areas/ zones of NCT of Delhi;
(c) To evaluate long-term plans instead of importing the CNG kits in batches.
(d) To provide CNG kits at reasonable prices and also look into the possibility of providing other facilities like finance schemes, service, repair, etc.
(e) Possibilities of banks agreeing to finance the CNG kits.

4. Discussions were also held with the Transport Department of Delhi to simplify the process of approvals for fitment of CNG kits and the process of endorsement on the Registration Certificate (RC) of the vehicles. The Transport Department, vide Order No. F PA/ JC (OPS)/2004/Tpt/ 12435-37 dated 8.12.2004 has stated that "there is no need to produce the base model of a new vehicle (diesel/ petrol/LPG/CNG) or the retrofitted one with LPG/CNG kit before the Board of Inspectors, Vehicles Inspection Unit, Burari for the inspection and furnishing the report before grant of `Type Approval' as the same does not serve any purpose."

IGL has also requested the Transport Department to provide, to begin with a separate CNG counter at one of the RTOs to facilitate easy registration. Also the Transport Department has been requested for a single window processing facility for endorsement of CNG as a fuel mode on the RC of the vehicle.

Mahanagar Gas Limited

Efforts put by MGL in improving the availability of approved CNG conversion kits and to prevent spurious CNG kits:

Mahanagar Gas Limited (MGL) a joint venture company of GAIL (India) Ltd., British Gas Plc, UK and Government of Maharashtra is engaged in the business of supplying Piped Natural Gas (PNG) to households, small Commercial and Industrial establishments and Compressed Natural Gas (CNG) to vehicles in the city of Mumbai and adjoining cities namely Thane and Mira Road. Currently over 1.5 lac CNG vehicles (taxies, autorickshaws, private cars, LCVs, HCVs such as trucks and buses) are plying and are refueled from a network of 107 CNG stations well spread out in the Mumbai city. The total installed compression capacity is 12,16,500 kg/ day with 516 dispensing points.

MGL in its efforts to popularize the use of CNG as an eco-friendly alternative fuel has been actively involved in promoting CNG conversions in both private and public vehicles. Following are some of the actions taken by MGL for promoting CNG in the private car segment:

(a) Regular information sharing on CNG infrastructure created and future plans to existing kit suppliers/ manufacturers/ retrofitters to enable them to plan for approvals of other models of vehicles. MGL has organised various meets with the concerned stakeholders in this regard. MGL has showcased various categories of CNG vehicles in the Mumbai auto show and brought wide coverage on the same through electronic and print media;

(b) Facilitated kit suppliers/ manufacturers/ retrofitters with data on vehicle population category wise based on the survey carried out on market potential to enable them to take up approvals for other model of vehicles;

(c) Explored more international vendors for CNG kits and cylinders and encouraged them to market their kits in the India market;

(d) Organised structured meetings with existing kit suppliers/ manufacturers/ retrofitters to understand their issues and difficulties faced by them in getting type approvals from testing authorities;

(e) Regular discussions with Office of the Transport Commissioner and Office of the Transport Authorities to provide the feedback on CNG conversion and pursued them to authorize more number of CNG workshops;

(f) Held series of meetings with vehicle OEMs such as Maruti Udyog, Tata Motors, Mahindra and Mahindra and others to promote OE fitted vehicles;

(g) Held series of meetings with existing dealers of OEMs such as Maruti Udyog, Tata Motors, Mahindra and Mahindra, Ashok Leyland, Bajaj Tempo, Bajaj Auto, Maruti Udyog Ltd., Hyundai Motors, Eicher Motors, Swaraj Mazda, Hindustan Motors to develop CNG conversion facilities with their workshop premises; and

(h) Organised meetings of Bankers with fleet owners and kit suppliers / convertor for speedy process of finalizations of lendings.

Presently there are seven suppliers of CNG conversion kits for LMVs and 3 wheelers and nine suppliers for Transport vehicles and are having valid approvals for various category of vehicles as follows:

(i) Suppliers of CNG Conversion kits for LMVs and 3 wheelers:

Name of the supplier	Country	Name of the supplier	country
M/s Omish Traders	India	M/s Sagas Autotech Pvt Ltd.	India
M/s Shrimankar Gas Car Service	India	M/s Eco Gas System India Pvt. Ltd.	India
M/s Benze Triana	India	M/s Eco India	India
M/s Minda Impco Technologies Ltd.	India		

(ii) Suppliers of CNG Conversion Kits for Transport Vehicles (LCVs and HCVs):

Name of the Supplier	Country	Name of the Supplier	Country
M/s Shrimankar Gas Car Service	India	M/s Nugas technologies (I) Pvt. Ltd.	India
M/s D.D. Industries Limited	India	M/s Agros Impex (I) Pvt. Ltd.	India
M/s Power Fuel (I) Pvt. Ltd.	India	M/s Cleanfuels Kits Pvt. Ltd.	India
M/s Altenergy (I) Ltd.	India	M/s Ikon Advance Fuel Technology Pvt. Ltd.	India
M/s Minda Impco Technologies Ltd.	India		

More models of vehicles are undergoing trials at testing authorities for certification of the kits. These kit suppliers have appointed over 70 workshops in Mumbai and 41 workshops in Thane/ Mira Road. As at present, based on the information available from the Office of the Transport Commissioner, GOM, the type approval for following vehicles are available:-

- LMVs – Maruti range of vehicles cabureted and MPFI such as Maruti Omni, Maruti Zen, Maruti Esteem, Maruti Baleno, Wagon R. etc. Premier Padmini, Tata Indica, Tata Indigo, Honda City, Hyundai Santro, Hyundai Accent, Fiat, Palio, Fiat Siena;
- 3 wheelers – Bajaj (Passenger and Delivery vans); and
- Transport vehicles;
  - LCVs- TATA 407; and

- HCVs – TATA 1210, TATA 1510 , TATA 1612 and Ashok Leyland

Auto LPG Dispensing Stations (ALDS)

As the country is still deficit in LPG, the requirement of Auto LPG would mainly be met from imports while domestic LPG production would continue to cater to the needs of household sector. Auto LPG pricing is market determined and there is no subsidy on Auto LPG, as against subsidised CNG. In view of this the demand of auto LPG vis-à-vis CNG is very limited. Further, setting up of ALDS also demands heavy investment in the range of Rs. 50-75 lakhs per Auto LPG Dispensing Stations (ALDS). Inspite of these factors, OMCs are planning to set up ALDS in various cities. In the first stage, they are concentrating mainly on the polluted cities as auto LPG is considered as an environment friendly fuel. As on 1.4.2005, OMCs have commissioned 105 ALDS in various cities of the country, as per annexe. Further, 47 ALDS are at different stages of commissioning. Setting up of ALDS depends upon several factors including availability of land/ sites in existing retail outlets, market demand of the product and other statutory approvals from State Governments.

AUTO LPG SALES DURING APR. 04 – MAR. 05 BY OMCs		
City-wise	Nos. of ADS (in Nos.)	Sales (in MT)
Delhi	16	450
Mumbai	21	7876
Chennai	14	1223
Kolkata	8	464
Bangalore	13	10618
Hyderabad	9	3108
Jaipur	2	481
Chandigarh	2	119
Lucknow	1	35
Ahmedabad	8	3253
Indore	1	224
Bhopal	1	96
Tirupati	1	23
Agra	1	14
Nasik	1	395
Pune	5	2756
Trivandrum	1	4
Total	105	31138

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CHAPTER III

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

NIL

CHAPTER IV

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

Recommendation No. 7 (Para No. 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.

REPLY OF THE GOVERNMENT

The Recommendation broadly observes the following:-

v) "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"

vi) "Even after receiving the Presidential Directive, GAIL has not yet taken a final decision in this regard"

vii) "The Committee also desire the Ministry to apprise them of the number of tenders invited/finalized 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"

viii) "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".

The issues raised in this recommendation were examined by a technical committee of GAIL Board. Based on inputs received and further examination of the same, the following broad position emerges:-

i) "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".

DUPL project was approved by Board on 27.11.2002 based on the Detailed Feasibility Report (DFR) prepared by EIL which recommended LSAW pipes for the project. Subsequently in July 2003 M/s Tractebel Engineering, Belgium who won the bid for Project Management Consultancy (PMC) services for the project, while finalizing the design parameters validated the choice of LSAW pipes for the project.

MOP & NG had asked Centre for High Technology (CHT) to conduct a study with regard to choice of technology for high pressure natural gas transmission pipelines. Summary of the CHT findings, which established that internationally there was no distinction between the two types of pipes as both the pipelines were designed according to international specification and codes was placed before the GAIL Board. Tractebel, Belgium, who were the consultant of GAIL had not recommended HSAW pipe for usage in DUPL. In view of the divergence of views between CHT on one hand and, EIL and Tractebel, consultants of GAIL on the other hand, GAIL Board felt that GAIL should go ahead with the implementation of the project. However, the Board decided that as the matter of selection of the pipes for the project was under consideration of the Government, GAIL may seek instructions from MOP&NG.

ii) "Even after receiving the Presidential Directive, GAIL has not yet taken a final decision in this regard"

Subsequently, based on recommendation of the CHT, Presidential Directive was issued to GAIL on 28.10.2004 directing GAIL to cancel the tender for DUPL 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 line pipe.

Subsequently, the matter was considered by GAIL Board and as per the decision of GAIL Board on 10.11.2004, GAIL issued a fresh tender on International Competitive Bidding basis incorporating revised technical specification. However, it was observed by MOP & NG that GAIL has not complied with the Presidential Directive in its true spirit. Consequently, in January, 2005 it was clarified by MOP & NG to GAIL that the Presidential Directive was specific on following two points:-

i) to ensure wider participation in the tender with a view to achieve greater competition in the bids so that most competitive bids could be received; and

ii) to firm up the upstream and the downstream tie-ups to ensure that the economic assets created do not remain idle.

Regarding upstream and downstream tie-ups no further progress seems to have been achieved, neither has this Ministry been informed of any developments in this matter. It is not out of the place to mention that the natural gas/LNG market is very hard at present and source tie-up is essential for any pipeline project. In fact the schedule of pipeline project implementation should synchronize with the throughput schedule tied up with the upstream source".

GAIL was accordingly advised that further action in the matter was may be taken on after the entire issue is reviewed by the GAIL Board. GAIL has not yet informed the Ministry about the final view taken by them in the matter.

iii) "The Committee also desire the Ministry to apprise them of the number of tenders invited/finalized 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".

No tender has been invited/finalized by GAIL, specifying only LSAW pipes, after the findings of the CHT came to the knowledge of the Government and all the tenders floated subsequently accept all manufacturing processes as per the International Standards, i.e. the American Petroleum Institute (API 5L) standards.

iv) "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".

GAIL has already been advised to ensure wider participation of bidders in their tenders for securing the most competitive prices. Regarding the timeframe for completing the DUPL pipeline, GAIL Board has to approve the revised schedule taking into consideration the source tie-up and the actual date of award of job and has also been conveyed to GAIL. However, the recommendation of the Committee is noted for compliance.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Comments of the Committee

(Please see Para 28 of Chapter I of the Report)

Recommendation No. 11 (Para No. 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 Stablisation Fund be created using a part of the cess without any further delay.

REPLY OF THE GOVERNMENT

As per the current Government policy, the Government subsidy on PDS Kerosene and Domestic LPG is to be phased out over a period of five years effective 1-4-2002, i.e. Government subsidy would be available upto 31-03-2007.

In the Budget 2005-06, the following changes have inter-alia, been announced effective 1.03.2005:-

Customs Duty- Reduction in customs duty on domestic LPG and PDS kerosene from 5% to nil.

Excise Duty- Reduction in excise duty on domestic LPG from 8% to nil and on PDS Kerosene from 12% to nil.

In addition to the fiscal measures, the following administrative measures have been taken:-

i) PDS Kerosene and domestic LPG are subsidised products. In addition to Government subsidy, public sector oil marketing companies (OMCs) have been sharing the burden by not passing the full increase in the international prices in the domestic consumer prices of these products. Under-recoveries on this account are estimated around Rs.18,000 core in the fiscal year, 2004-05.

ii) There has been no increase in the price of PDS kerosene since April 2002; LPG prices have been frozen since midnight of 4/5 November, 2004.

As pointed out by the Committee, presently subsidy is allowed on flat rate for Kerosene (PDS) at the rate of Re.0.82 per litre and for LPG (Domestic) at the rate of Rs.22.58 per cylinder. Considering subsidies at the rate specified and average international prices for the Financial Year 2004-05 the under-recovery in respect Kerosene (PDS) is Rs.6.85 per litre and for the LPG (Domestic), it is Rs.82.20 per cylinder.

The Oil Marketing Companies have reported the following under-recoveries for the Financial year 2004-05 on provisional basis.

(Rs/Crores)

LPG (DOMESTIC)	8,362
Kerosene (PDS)	9,480
Total	17,842
Less : One-third share of under-recoveries borne by Upstream Oil	5,947

Companies	
Under-recoveries borne by the Oil Marketing Companies	11,895

The Oil Industry (Development) Act, 1974 provides for collection of cess as a duty of excise on indigenous crude oil and natural gas. The proceeds of this duty are credited to the Consolidated Fund of India and sums of moneys as Central Government thinks fit are made available to the Oil Industry Development Board (OIDB) after appropriation by Parliament. Since inception and upto 31.3.2004, the Central Government has collected a sum of about Rs.51,007/6 crore as cess. Out of this, OIDB has received an amount of Rs.902.40 crore till March, 2004.

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

As per 31.03.2004, the OIDB has given Rs.16,861 crore as financial assistance to the oil industry of which Rs.16,182 crore was loan and Rs.679 crore was in the form of grant given to oil companies since 1975.

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

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

The issues were raised with the Ministry of Finance (MoF) for consideration. Based on the views of the MoF, the comments are as under:-

a) Regarding levy and utilization of cess, MoF is of the view that the cess is meant for funding the "oil industry" under the Oil Industry Development Act, 1974 and Section 2(k) of the Act defines this term to include all activities by way of prospecting or exploring for or production of mineral oil, refining, processing, transportation, storage, handling and marketing of mineral oil, production and marketing of all products downstream of an oil refinery and the production of fertilizers and petro-chemicals and all activities directly or indirectly connected therewith. Thus, the term "oil industry" includes fertilizers and petro-chemicals also for the purpose of the Act. The expenditure on the "oil industry" is in excess of the cess collection. In fact the issue regarding levy and utilization of cess was raised earlier by the Parliamentary Standing Committee in 1997 and Ministry of Finance had expressed a similar view.

b) Regarding creation of a Price Stabilization Fund, MoF is in agreement with the views of the Ministry of Petroleum & Natural Gas that such a fund may not be essential in view of the existing arrangements.

c) On the issue of reimbursing the oil PSUs the part of subsidy currently being borne by them, MoF is of the view that the present sharing mechanism does not considerably reduce the investible surplus with the oil PSUs as the oil PSUs are in a sound financial position.

Therefore, there is no need for such reimbursement particularly as the Government of India is committed to wiping out the subsidy by 2007.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Comments of the Committee

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

Recommendation No. 15 (Para No. 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.

REPLY OF THE GOVERNMENT

a) The Anti-Adulteration Cell (AAC), was set up in March 2001 under the Ministry of Petroleum & Natural Gas (MOP & NG). It was found to be ineffective in its functioning and some of its officers were booked by the CBI for undesirable activities. The cases are under investigation by the CBI. Therefore, a one-man committee under the chairmanship of the Additional Secretary, Ministry of Petroleum & Natural Gas was set up in April, 2004 to conduct an extensive review of the working of the AAC. The report showed that the AAC with its existing structure and functions, could not play a meaningful role in the Ministry's efforts to curb the menace of adulteration. Accordingly, the Cell was wound up in July, 2004.

b) it is doubtful whether any study can accurately estimate the extent of adulteration in the petroleum products in the country and thereby compute the loss to the national exchequer. Moreover, a national level body cannot police adulteration at 25,000 retail outlets (petrol pumps) across the country. The cooperation of the State level machinery is must to check this menace.

c) The various anti adulteration measures/activities by OMCs involve costs and investments. However, these costs are accounted under respective functions like Retail Operations, etc., along with the other expenditure. It is, therefore, difficult to segregate the various costs/investments and specify the money spent on Anti Adulteration activities. Data on expenditure incurred by the Oil Marketing Companies (OMCs) during the last 3 years relating to anti adulteration activities, taking into account various assumptions/approximation/estimation is given as under:

OMC	Year	Expenditure (Rs. In Crores)
Indian Oil Corporation Ltd. (IOCL)	2002-2003 2003-2004 2004-2005	11.10 13.60 17.20
Hindustan Petroleum Corporation Ltd. (HPCL)	2002-2003 2003-2004 2004-2005	3.19 5.27 15.50
Bharat Petoleum Corporation Ltd. (BPCL)	2002-2003 2003-2004 2004-2005	11.25 15.30 20.31

IBP Company Ltd. (IBP)	2002-2003 2003-2004 2004-2005	3.59 2.88 3.60

Note:- Based on the estimation, the above figures have been worked out taking into account the following considerations:-

i) Cost of marker and blue dye, Security locks for tank trucks.
ii) Estimated cost towards field officers/Quality Control Officers engaged for inspection of retail outlets.
iii) Estimated proportioned costs on maintaining mobile labs/static labs and sample containers
iv) Cost towards Third Party Certifications/automation of ROs.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Comments of the Committee

(Please see Para 41 of Chapter I of the Report)

CHAPTER V

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

Recommendation No. 1 (Para No. 2.1)

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 spiraling 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.

REPLY OF THE GOVERNMENT

The recommendation of the Committee for formulating an integrated energy policy encompassing a wide gamut of issues relating to areas like energy conservation, development of alternative fuels, technology upgradation, etc. is very timely and appropriate. Energy security is a holistic concept, with both supply side and demand side management.

Government has recently constituted an Energy Coordination Committee (ECC) to enable a systematic approach to policy formulation, promote coordination in inter-Departmental action and function as a key mechanism for providing institutional support to decision making in the area of energy planning and security.

The Energy Coordination Committee will be chaired by the Prime Minister. The Committee will consist of the Union Ministers of Finance, Power, Petroleum and Natural Gas, Coal and Non-Conventional Energy Sources; the Deputy Chairman, Planning Commission; Member (Energy), Planning Commission; Chairman Economic Advisory Council to the Prime Minister, National Security Advisor; Chairman National Manufacturing Competitiveness Council and Principal Secretary to Prime Minister.

The Committee will be serviced by the Prime Minister's Office and the Energy Division of the Planning Commission will facilitate any policy analysis required by the Committee. It will coordinate preparatory work on energy policy and security issues. The Committee may also commission specialized studies depending upon the requirements, which may arise from time to time.

The Committee will, among other things, identify key areas requiring energy policy initiatives, so that the overall objectives of economic development, energy security and energy efficiency are met; monitor vulnerabilities that directly impinge on energy security aspects; outline the follow up action needed for implementing identified policy initiatives; identify institutional mechanisms for implementing policies; periodically monitor key policy decisions.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Comments of the Committee

(Please see Para 7 of the Report)

Recommendation No. 2 (Para No. 2.2)

It is seen that the crude and natural gas production in the country in the first three years of the 10^{th} 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 9^{th} 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.

REPLY OF THE GOVERNMENT

Based on the assessment made by ONGC for oil and gas production performance of the operated fields, the crude production projection for the period 2005-06 and 2006-07 has been revised upward. The actual production in first three years of Tenth Five Year Plan, BE targets for 2005-06 and projections for 2006-07 is as follows:

Crude Oil Production

S.No.	Year	X Plan (STP)	Actual / BE/ Projected
		Oil (MMT)	Oil (MMT)
1	2002-03	25.897	26.005
2	2003-04	25.995	26.057
3	2004-05	26.382	26.487
4	2005-06	26.189	26.614 (BE)
5	2006-07	25.562	27.000 (Projected)

Natural Gas Production

S.No.	Year	X Plan STP Gas Prod. MMSCMD	X Plan STP Gas Prod. MMSCM	Actual/ BE/ Projected MMSCM
1	2002-03	65.498	23906.77	24244
2	2003-04	63.370	23193.42	23584
3	2004-05	62.222	22711.03	22958
4	2005-06	58.837	21475.49	21405 (BE)
5	2006-07	57.036	20818.50	20954 (Projected)

Ministry of Petroleum and Natural Gas (MOPNG) has requested ONGC to set challenging MOU targets for the year 2005-06, which were negotiated by the Task Force (TF) set up by Department of Public Enterprise (DPE). However, ONGC has shown its inability to increase oil and gas targets further upward. Consequently MOU is still under discussion with ONGC and has not been signed so far.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

<u>Comments of the Committee</u>

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

Recommendation No. 5 (Para No. 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.

REPLY OF THE GOVENRMENT

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

The Government is considering various modes of funding the capital cost of building the strategic crude oil storage and storing crude oil. It is proposed to hold an Expenditure Finance Committee meeting shortly to discuss this issue further.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Comments of the Committee

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

Recommendation No. 8 (Para No. 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.

REPLY OF THE GOVERNMENT

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. This is an open ended plan in which new projects will be included from time to time depending upon the availability and demand of natural gas.

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 of 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. Accordingly, various pipeline projects have been planned for implementation in due course, synchronizing with availability of gas.

The Government is finalising 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 upstream (source of supply) and marketing tie-ups.

Recently, GAIL has completed 610 KM 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 more 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 mainly gas from their E & P blocks.

In view of the above, it would be appreciated that the existing natural gas pipeline network is growing to link additional supplies of gas to the potential market. Various companies such as GAIL, GTICL etc have planned different pipeline to transport the projected available natural gas/LNG from various sources.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Comments of the Committee

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

Recommendation No. 12 (Para No. 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.

REPLY OF THE GOVERNMENT

The Financial Year 2003-04 witnessed unrelenting price escalations of the Crude Oil and Petroleum Products in the International Market. In order to insulate the end consumers from the severe price hike, the Government tried to distribute equitably the burden of price rise amongst all the stakeholders viz. Oil Marketing Companies (OMC's), Government and end-consumers. This, inter-alia, provided for a series of steps which included downward revisions in Excise & Customs duties several times coupled with occasional price hikes in respect of Petrol, Diesel and LPG (Domestic). It may be worth noting that Kerosene (PDS) which is considered to be used by economically vulnerable sections of the society has been spared from price increase altogether, whereas the price hike in respect of Petrol, Diesel and LPG (Domestic) has been kept below the Import Parity levels in most of the cases.

Whereas the Union Budget (2005) proposals envisaged a series of downward revision in respect of Crude Oil and majority of petroleum products, there have been increase in Excise Duties in respect of Petrol and Diesel as pointed out by the Committee.

The resultant effect of the changes discussed above, for the Financial Year 2004-05, have been that the Oil Marketing Companies have suffered an estimated under-recovery to the tune of Rs.2,303 crores in respect of Petrol and Diesel. So far kerosene (PDS) and LPG (Domestic) are concerned, the estimated under-recovery will be to the tune of Rs.11,895 crores (net) after one-third portion of the above loss i.e. Rs.5,947 crores have been shared by the Upstream Oil Companies in conformity with "Loss Sharing Mechanism" formulated by the Government.

The comparison of Profit After Tax of Oil Marketing Companies (OMCs) for 2003-04 vis-à-vis 2004-05 are tabulated below:

(Rs/Crores)

	2003-04	2004-05	Increase/ (Decrease)
IOCL	7005	4891	(2104)
HPCL	1904	1277	(627)

BPCL	1695	966	(729)
IBP CO LTD	215	59	(156)
TOTAL	10819	7193	(3636)

Thus it may be seen that whereas the Integrated Oil Companies have reported substantial downslide in Profit After Tax, albeit better refining margins realized, IBP which is only in the oil marketing sector, has taken severe hit in their bottom line.

The Crude Oil and Petroleum Products prices continued to accelerate during the Current Financial Year 2005-06 and with no price revision since November, 2004, the estimated under-recovery in respect of Petrol and Diesel will be around Rs.3,795 crores during the period April to May, 2005. It may be pertinent to note that as pointed out by the Committee, the increase in excise duty rates, the effect of which could not be passed on in retail selling prices, has contributed to this huge under-recovery. Additionally, the Oil Marketing Companies have to absorb the increased cost of marketing Euro-III grades of Petrol and Diesel without any price revision for the same.

In view of the above, the Ministry of Finance has been requested to examine the issue of restructuring/rationalisation of duty structure.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

FURTHER REPLY OF THE GOVERNMENT

(Reply based on inputs from Ministry of Finance)

Regarding revenue neutrality of changes made in excise and customs duty structure of petroleum sector in this year's budget, the issue has been clarified in detail by the Hon'ble Finance Minister during the course of discussion at the consideration stage of Finance Bill, 2005 in both Houses of Parliament. Hon'ble Finance Minister has already clarified the position to Shri N. Janardhana Reddy, Chairman, Standing Committee on Petroleum and Natural Gas vide his D.O. letter of even number dated 26th May, 2005 (A copy of the same is enclosed).

To reiterate, appreciating the need for a carefully structured tax policy for petroleum products, which would address the conflicting interests of various stakeholders, the Government had constituted an Advisory Group, headed by Dr. Ashok Lahiri, Chief Economic Advisor, to review the customs and central excise tariff structure on crude petroleum and petroleum products, and to suggest changes in duty structure keeping in view the fluctuations in international crude prices and the need for maintaining revenue buoyancy. On the basis of the recommendations of the Advisory Group, in this year's budget, customs and excise duty structures on crude petroleum and petroleum products were revised. These changes were, however, finalised after detailed discussions with the MoP&NG at various levels and it is on record that the changes are completely revenue neutral. Revenue neutrality of the duty changes is clearly referred to in paras 137 to 140 of the Budget Speech.

However, to mobilize resources of about Rs. 3000 crores, cess on petrol and diesel was increased by 50 paise per litre, which is exclusively earmarked for National Highways Development Project (NHDP-III). Para 135 of the Budget Speech specifically refer to this fact.

[M/o Petroleum & Natural Gas O.M No. P-38012/2/2005 PP, dated 19.07.2005]

Comments of the Committee

(Please Para 38 of Chapter I of the Report)

D.O.F.No.356/25/2005-TRU 1494

वित्त मंत्री
भारत
नई दिल्ली-110001
FINANCE MINISTER
INDIA
NEW DELHI - 110001

May 26, 2005

Dear Shri Janardhana Reddy garu,

Please refer to your letter of May 6 2005 seeking clarification about the revenue neutrality of budgetary changes in excise and customs duty structure on crude petroleum and petroleum products.

2. As you are aware, this issue was also raised during discussions at the consideration stage of Finance Bill, 2005 and I had clarified the same at length in both the Houses of Parliament.

3. It may be recalled, duty changes for the petroleum sector have been dealt with in the Budget speech in two separate parts. The first part (para 135) clearly mentions additional resource mobilization (ARM) by increase in cess on petrol and diesel by 50 paise per litre for the National Highways Development Project (NHDP-III). ARM on this account is approximately Rs.3000 crore, exclusively earmarked for this purpose. Consequently, suitable amendment has been made in the Central Road Fund Act, 2000 through this year's Finance Bill. Ministry of Petroleum & Natural Gas (MoP&NG) was aware of this increase and that this was an **additional** resource mobilization measure. The second part (paras 137 to 140) relates to the changes made in customs and excise duty structure for the petroleum sector. These changes were finalized in consultation with the Ministry of Petroleum & Natural Gas and are, in fact, **revenue neutral**.

4. I am afraid that the additional resource mobilization for NHDP-III through a cess of 50 paise may have been read out of context to infer that the budgetary changes in customs and excise duty structures for petroleum sector, discussed in paragraphs 137-140 of my budget speech, are not revenue neutral. I have noted that Secretary (Petroleum & Natural Gas) has not made the distinction nor has he explained to the Committee that it is the **additional** cess of 50 paise that contribute to additional resources of approx. Rs.3000 crore.

I hope this clarifies the matter.

With regards,

Yours sincerely,

(P.Chidambaram)

Shri N.Janardhana Reddy
Chairman
Standing Committee on Petroleum
and Natural Gas
113, Parliament House Annexe
New Delhi.

Recommendation No. 13 (Para No. 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.

REPLY OF THE GOVERNMENT

As has already been pointed out by the Committee, the contribution to exchequer from oil industry has been indeed substantial, especially towards Customs & Excise duties and cess levied on indigenous crude.

Based on figures furnished by the respective oil companies, ONGC, IOCL, HPCL, BPCL, NRL, CPCL, OIL, BRPL, IBP, MRPL, GAIL, KRL, EIL & Reliance, the contribution of oil sector towards customs and excise duties and cess levied on indigenous crude for the Financial Years 2003-04 and 2004-05 are tabulated below:

(Rs./ crore)

	2003-04	2004-05 (provisional)	%age increase
Customs Duty	9552.39	11485.20	20.23
Excise Duty	35363.97	38814.01	9.76
Cess on Indigenous Crude	4766.08	4884.75	2.49
Total	49682.44	55183.96	11.07

The recommendation of the Committee has been taken up with Ministry of Finance.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

FURTHER REPLY OF THE GOVERNMENT

(Reply based on inputs from Ministry of Finance)

The Committee has urged the Government to exercise restraint and apply the policy of prudence in taking revenue from a strategic sector like Petroleum. In this context, it may be mentioned that Government takes into consideration all relevant factors, including interest of various stakeholders, such as, the industry, consumer, government revenue, while formulating customs and excise duty structure for petroleum sector. So far as changes in this year's budget are concerned, with a view to strike a proper balance and to have a carefully structured tax policy for petroleum products, which addresses the conflicting interests of various stakeholders, as stated above, the Government had constituted an Advisory Group, headed by Dr. Ashok Lahiri, Chief Economic Advisor.

[M/o Petroleum & Natural Gas O.M No. P-38012/2/2005 PP, dated 19.07.2005]

Recommendation No. 18 (Para No. 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.

REPLY OF THE GOVERNMENT

Due to huge discovery of natural gas by Reliance in KG Basin, the LNG terminal which was earlier planned by IOC consortium at Kakinada has been abandoned by the company since the project may not be feasible now. Krishnapatanam is an other location which was considered by IOC for LNG terminal. However, in the study conducted for selecting the best location for LNG terminal on the east coast, it has been concluded that Ennore is the most suitable location.

GAIL's feasibility report on the LNG terminal at Gopalpur / Haldia would be completed in 2-3 months. However, it may be noted that there are good possibilities of gas availability in eastern region from domestic exploration in the bay of Bengal and Mahanadi basin as well as import of gas from Myanmar which can meet the Natural Gas requirement of Eastern States, and therefore, the feasibility of an LNG terminal at Gopalpur/Haldia is doubtful.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Comments of the Committee

(Please see Para 44 of Chapter I of the Report)

Recommendation No. 19 (Para No. 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.

REPLY OF THE GOVERNMENT

Supplies of Bharat Stage-II High Speed Diesel (HSD) has commenced in the State of Rajasthan with effect from 1.6.2005 as per the revised schedule of introduction of Auto Fuel Policy approved by the Government. The Ministry has also directed the Oil Companies to ensure that the revised schedule for implementation of the Auto Fuel Policy is adhered to strictly. Besides, the Oil companies have also been asked to fix responsibility for the slippage of the schedule.

The quality upgradation projects are also being reviewed regularly to ensure that there is no delay in completion of the same. With these steps, it is expected that there would be no further slippages in meeting the revised schedule of introduction of upgraded fuel.

As regards the mixing a maganese based octane enhancer in fuels to attain the desired octane rating for meeting the Euro-III norms, it is mentioned that except for Numaligarh Refinery which uses marginal quantities of Methylcyclopentadienyl Manganese Tricarbonyl (MMT) as a trimming agent for a marginal increase in the octane number of Motor Spirit, other Public Sector Oil Refineries are not using MMT any more. Numaligarh Refinery Limited too will discontinue the use of MMT by March 2006, by when the new facilities being set up by them for producing Motor Spirit are expected to be commissioned.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Comments of the Committee

(Please see Para 47 of Chapter I of the Report)

Recommendation No. 21 (Para No. 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.

REPLY OF THE GOVERNMENT

Under instructions of the Ministry of Petroleum and Natural Gas, Indian Oil Corporation (IOC) has framed a proposal to take up demonstration projects using hydrogen-blended Compressed Natural Gas CNG in vehicles. The demonstration projects in the pipeline include using 10% Hydrogen in (CNG) at the IOC Research and Development Centre at Faridabad (planned for July 2005), and a similar demonstration project later in Delhi. Further, IOC R&D is in preliminary dialogue with a few vehicles manufacturers, who have electric vehicles in their product range, for converting the electric vehicles into fuel cell-powered vehicles by integrating the fuel cells. The proposal however, has not been put up to the Government for financial assistance, as it is still in preliminary stage.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Recommendation No. 22 (Para No. 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.

REPLY OF THE GOVERNMENT

It is submitted that continuation of field trials using bio-diesel and diesel blend in the transportation sector does not indicate lack of seriousness on part of the Government in promoting use of alternative fuels. On the contrary, continuing with such field trials, which use bio-diesel without much consideration to the economics of using bio-diesel for such trials as these are intended to generate technical data base, prepare the ground for future use of bio-diesel on a commercial scale. The Committee would appreciate that unless availability of bio-diesel at economic prices and in adequate quantities becomes a reality, it would not be visible to promote use of bio-diesel blended diesel commercially.

The recommendation of the Committee for making all out efforts for encouraging and ensuring large scale plantation of Jatropha is timely and appropriate. The Ministry of Rural Development has been made the nodal Ministry for a National Mission on Bio-diesel, which envisages large scale plantation of

Jatropha curcus in a phased programme. The Detailed Project Report (EPR) prepared for the purpose is with Planning Commission for further scrutiny and approval. The DPR has envisages role for all stakeholders for making the mission a success. Inter-alia, the Ministry of Agriculture and Ministry of Environment and Forest and have been assigned responsibility of large scale plantation of Jatropha curcus in revenue land and forest land respectively. The role of the oil companies and the Ministry of Petroleum and Natural Gas has been recognized as one of extending blending and marketing support for lifting bio-diesel when it becomes available through jatropha curcus plantation efforts taken up under the Mission.

With respect to the recommendation that all oil companies should emulate the Jatropha curcus plantation activities undertaken by IOC, it is submitted that plantation of Jatropha curcus mentioned by the Committee has been undertaken by IOC as part of its R&D activities, through a memorandum of understanding with the Railways for using Jatropha curcus oil there from for producing bio diesel on an experimental basis for further experimentation in the rail transportation sector. The Committee would appreciate that such activities can not significantly affect availability of bio diesel at economic prices, for which a more focused approach is called for. As already mentioned, for ensuring large scale availability of bio-diesel, other Ministries of the Government, including the Ministry of Rural Development, the Ministry of Agriculture, and the Ministry of Environment and Forests have been assigned the role of promoting plantation of Jatropha curcus on a large scale in the Mission mode.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Comments of the Committee

(Please see Para 50 of Chapter I of the Report)

Recommendation No. 23 (Para No. 2.23)

The Government had notified the scheme of supplying 5% enthanol-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 8regret 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.

REPLY OF THE GOVERNMENT

The 5% ethanol-blended petrol (EBP) programme has been introduced with a view to giving support to the agriculture sector and reducing environmental pollution. The Government is committed to implementing the programme if ethanol is made available by the sugar industry at reasonables rates and in adequate quantities on a sustained basis. The oil marketing companies have invited tenders for procuring ethanol for the EBP and the bids received are being evaluated. To ensure sustained supply of adequate ethanol at reasonable prices to the Oil Marketing Companies, the Ministry of Petroleum and Natural Gas has proposed a draft MOU to the Indian Sugar Mills Association. The draft is under discussion. When ethanol suppliers are in a position to supply ethanol of requisite quantity at reasonable economic prices for covering the entire country with 5% ethanol-blended petrol, the Government sees no difficulty in direct the oil companies to cover the entire country in a fixed time frame.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Comments of the Committee

(Please see Para 53 of Chapter I of the Report)

Recommendation No. 24 (Para No. 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.

REPLY OF THE GOVERNMENT

National Gas Hydrate Programme (NGHP)

The National Gas Hydrate Programme (NGHP) was taken up 1997 by Ministry of Petroleum & Natural Gas (MOP&NG). A roadmap of NGHP was drawn up immediately thereafter and exploration for gas hydrates was started on a fast tract basis. As per the roadmap, the drilling/coring of gas hydrate bearing sediments in three best areas identified through scientific studies viz., K.G. Basin, Andaman sea and Kerala-Konkan basin, was planned to be carried out in the first quarter of 2005. However, due to non-availability of a suitable drillship it has been rescheduled to the end of year 2005, when it is expected that a suitable drillship may be available to NGHP.

Coring/drilling for gas hydrates in deep marine conditions is a very specialized activity and is being taken up in the country for the first time. India will be the third country in the world after USA and Japan to do so. All efforts are being made and utmost care is being taken by NGHP scientists for successful completion of this prestigious project, which is also being observed by the International community of scientists.

The drilling/coring of gas hydrates bearing sediments in the above referred three areas is planned for establishing the physical presence of gas hydrates in these areas, to estimate its volume and to characterize the gas hydrates for better understanding. This would also help in formulating a methodology for production of methane from gas hydrates.

The pilot studies for production of gas from gas hydrates were tentatively planned to be carried out during the year 2006-07, as per the NGHP roadmap. However, it would entirely depend upon the presence of commercial quantities of gas hydrates in Indian deepwater areas (to be proved through proposed drilling/coring programme of NGHP), as well as a break-through in developing a commercially viable production technology in India or anywhere else in the world. NGHP scientists are aggressively pursuing development of a suitable production technology in the country through indigenous efforts, as well as through international cooperation, to tap the enormous resource of methane gas in the form of gas hydrates.

Coal Bed Methane

Government of India has so far awarded 16 blocks (13under two rounds of CBM bidding and 3 on Nomination Basis), covering an area of 7809 sq. km in different coal fields of the country. The CBM resources in the above 16 awarded blocks are estimated at 820 BCM and the expected total production from these blocks is estimated at around 23 MMSCMD at peak production levels.

DGH has identified seven more blocks in different Coalfields of the country for offer under third round of bidding.

In the CBM contracts, the duration of Exploration Phase (Phase-I) and Pilot assessment, Market assessment and Commitment phase (Phase-II A & IIB) varies from 2-3 and 3-4 years respectively in different blocks, after which Development phase starts and commercial production begins. Phase-I exploration activities are in progress in most of the 16 blocks. In three of the blocks the phase-I exploration activities have already been completed and they have entered into phase-II. The results generated during the phase-I activities in these blocks are very encouraging. In the awarded CBM blocks, a total of 41 core holes have been drilled till 30.4.05. Eleven test wells and 3 pilot holes have also been drilled/completed and are under activation. Keeping in view the aggressive strategy adopted for exploration and development of CBM by the companies, the Development phase/commercial production in some of the CBM blocks is likely to start by the year 2007, as envisaged.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Recommendation No. 25 (Para No. 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.

REPLY OF THE GOVERNMENT

In order to develop alternate sources of energy, an 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.

In the year 1999, a Pilot was set up at the R&D Centre at Duliajan, Assam under technical assistance from M/s AXENS, USA based on Coal-Oil Co-processing Technology of M/s. Hydrocarbon Research Inc. (HRI(, USA (Presently IFPNA, USA). In this Pilot Plant, studies on co-processing of coal and refinery residuum were successfully carried out. It was found that the cola 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 results were 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 action to carry out another feasibility study on Coal Liquefication Process using the technology of M/s. Hydrocarbon Technologies Inc. (HTI) of USA.

OIL has taken up with M/s. Coal India Limited regarding availability of feed stock i.e. coal. It has been decided to form a Joint Task Force between Oil India Limited and Coal India Limited to study to long term availability of coal Dialogue with CIL is in progress in this regard.

Regarding assessment of coal in Meghalaya state, OIL initiated discussions with that State Government as well as Coal Traders and Exporters to explore the various avenues for availability of Meghalaya coal.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Recommendation No. 26 (Para No. 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.

REPLY OF THE GOVERNMENT

1. The Board of Indian Oil Corporation Limited (IOCL) at its meeting held on 30th June, 2005 had considered an agenda item on the proposed merger of Bongaigaon Refinery & Petrochemicals Limited (BRPL) (a subsidiary company of Indian Oil Corporation Limited) with IOCL and had accorded "In principle" approval of the same, subject to the approval of Government of India.

2. Ministry of Petroleum and Natural Gas has repeatedly recommended to the Ministry of Finance for grant of full excise duty benefit to BRPL's Petrochemicals and PSF products (at applicable tariff rate) by suitable amendment to Ministry of Finance, Department of Revenue, Notification No. 32/99-CE dated 8.7.99 as has been given to similar fibre industries located in North East, viz. Prag Bosimi Synthetics Ltd., M/s APOL, etc. The response of Ministry of Finance is awaited.

3. The Board of Directors of BRPL, in its meeting held on 16th May, 2005 has approved the proposal for setting up of a Diesel Hydro-Treatment (DHDT) project to meet Euro III specification of Diesel. Accordingly, BRPL has awarded the job to M/s Engineers India Limited (EIL) for revision of Detailed Feasibility Report (DFR) and cost estimates including revision of the Pilot Plan. The project is expected to be completed by June, 2009.

[M/o Petroleum & Natural Gas O.M No. G-25015/7/2004-Fin.I dated 20.07.2005]

Comments of the Committee

(Please see Para 56 of Chapter I of the Report)

New Delhi;

<u>17 March, 2006</u>
26 Phalguna, 1927 (Saka)

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

APPENDIX - I

EXTRACTS OF MINUTES

STANDING COMMITTEE ON PETROLEUM AND NATURAL GAS

(2004-05)

SIXTEENTH SITTING

(14.07.2005)

The Committee sat on Thursday, July 14, 2005 from 1100 hrs. to 1215 hrs. in Committee Room `C', 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 Lal Muni Choubey
6. Shri Tushar A. Choudhary
7. Shri Santosh Kumar Gangwar
8. Shri Jai Prakash
9. Shri Ch. V.H. Rama Jogaiah
10. Shri Sukhdeo Paswan
11. Dr. Prasanna Kumar Patasani
12. Shir Ramji Lal Suman
13. Shri Vanlalzawma
14. Shri Ratilal Kalidas Varma

Rajya Sabha

15. Shri Moolchand Meena
16. Shri Rajeev Shukla
17. Shri Kripal Parmar
18. Shri M. Rajasekara Murthy
19. Shri Dipankar Mukherjee
20. 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 Public Sector Undertakings

1. Shri M.B. Lal, C&MD, HPCL
2. Shri Ashok Sinha, C&MD, BPCL
3. Shri Arun Balakrishnan, Director (HR), HPCL
4. Shri S. Roy Choudhury, Director (Marketing), HPCL
5. Shri M.A. Tankiwala, Director (Refineries), HPCL
6. Shri S.A. Narayan, Director (HR), BPCL
7. Shri S. Radhakrishnan, Director (Marketing), BPCL
8. Shri Mukesh Rohatgi, Director (Refineries), BPCL

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 Government's reply to the recommendation of the Committee relating to Dahej-Uran Pipeline Project of GAIL (Para 2.7 of the Fifth Report of the Committee). After some discussion, the

Committee decided to call the representatives of the Ministry of Petroleum and Natural Gas and GAIL for tendering evidence before them at a future date to clarify certain points relating to the issue.

4.	xx	xx	xx	xx
	xx	xx	xx	xx
5.	xx	xx	xx	xx
	xx	xx	xx	xx
6.	xx	xx	xx	xx
	xx	xx	xx	xx

7. The verbatim record of the proceedings of the sitting has been kept.

The Committee then adjourned.

xx Matter not related to this Report.

APPENDIX - II

MINUTES

STANDING COMMITTEE ON PETROLEUM & NATURAL GAS

(2005-06)

SECOND SITTING

(12.9.2005)

The Committee sat on Monday, September 12, 2005 from 1100 hrs. to 1245 hrs. in Committee Room `C', Parliament House Annexe, New Delhi.

PRESENT

Shri N. Janardhana Reddy - Chairman

MEMBERS

Lok Sabha

2. Shri Anandrao Vithoba Adsul
3. Shri R. Dhanuskodi Athithan
4. Shri Kirip Chaliha
5. Shri Lal Muni Choubey
6. Shri Santosh Gangwar
7. Shri Suresh Kurup
8. Shri Sukdeo Paswan
9. Shri Ramji Lal Suman
10. Shri Vanlalzawma
11. Shri Ratilal Kalidas Varma
12. Shri Rajesh Verma
13. Shri A.K.S. Vijayan

Rajya Sabha

14. Shri Moolchand Meena
15. Shri M. Rajasekara Murthy
16. Shri Dipankar Mukherjee
17. Shri C. Perumal

Secretariat

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

Representatives of GAIL (India) Ltd.

1. Shri Proshanto Banerjee - C&MD, GAIL
2. Shri S.P. Rao - Director (Projects), GAIL
3. Shri S.K. Bajpai - Executive Director (Projects), GAIL

Representatives of Ministry of Petroleum and Natural Gas and Centre for High Technology

1. Shri S.C.Tripathi - Secretary
2. Shri Ajay Tyagi - Joint Secretay
3. Shri K.S. Balraman - Executive Director, Centre for High Technology (CHT)

2. At the outset, the Hon'ble Chairman welcomed CMD, GAIL (India) Ltd. and accompanying officials of the company to the sitting of the Committee and explained the purpose of the sitting viz. to seek clarifications on the Dahej-Uran Pipeline (DUPL) Project. He pointed out that the Committee in their 5th Report had recommended that a high level fact finding team should be constituted to look into the matter regarding the use of pipes in this project and its report be submitted to them. He also stated that the reply furnished by the Ministry of Petroleum and Natural Gas to this recommendation was considered by the Committee at their sitting held on 14.7.2005 and it was decided by the Committee to call the representatives of GAIL and Ministry of Petroleum and Natural Gas for oral evidence.

3. Thereafter, CMD of GAIL briefly explained the Dahej-Uran Pipeline (DUPL) Project indicating the chronological sequence of events of the project.

4. The Committee, then, took oral evidence of the representatives of GAIL on the Dahej-Uran Pipeline Project. During the course of evidence, important issues which came up for discussion included the present status of the project, floating of tenders for the project, capacity utilisation of GAIL pipelines, type of pipes used internationally for transportation of gas, cost escalation due to delay in the project, CHT report on the project, upstream and downstream tie-ups for the project, recommendations of the Engineers India Limited (EIL) on its choice of pipeline technology for the project, fixation of standards/ service conditions for laying pipelines, etc. The Committee asked the representatives of GAIL to furnish a note to them on the chronological sequence of events of DUPL project and the report of the Engineers India Limited (EIL) on its choice of pipeline technology for the project within 10 days .

5. The representatives of GAIL (India) Ltd., then, withdrew.

6. Thereafter, the representatives of the Ministry of Petroleum and Natural Gas and Centre for High Technology (CHT) were called in. The Chairman welcomed these representatives.

7. Secretary of the Ministry of Petroleum and Natural Gas, then, gave a brief background of DUPL project.

8. Thereafter, the Committee took oral evidence of the representatives of the Ministry on the same subject. The major issues relating to the project such as accountability for the delay in DUPL Project and consequential cost escalation, role of Engineers India Ltd. (EIL) as Project Consultant, divergence of views reflected in EIL and CHT reports on the project, issue of Presidential Directive to GAIL, report of the technical committee of GAIL Board, adequate upstream and downstream tie-ups prior to declaration of pipeline projects, etc. came up for discussion. The Committee asked the representatives of the Ministry to furnish a note to them regarding announcement of pipeline projects by Navratna companies without adequate arrangements for sourcing of gas and fixation of accountability for the delay in DUPL Project and consequential cost escalation. They also asked the Ministry to set up an Expert Committee, independent of the Ministry and GAIL, to

examine the issue of choice of linepipes for DUPL project and to submit its report to them within one month.

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

The Committee then adjourned.

APPENDIX - III

MINUTES

STANDING COMMITTEE ON PETROLEUM & NATURAL GAS

(2005-06)

SIXTH SITTING

(13.3.2006)

The Committee sat on Monday, the 13th March, 2006 from 1530 hrs. to 1615 hrs. in Committee Room `C', Parliament House Annexe, New Delhi.

PRESENT

Shri N. Janardhana Reddy - Chairman

MEMBERS

LOK SABHA

2. Dr. Tushar A. Chaudhary
3. Shri Santosh Gangwar
4. Shri Jai Prakash
5. Shri Hari Rama Jogaiah
6. Dr. Prasanna Kumar Patasani
7. Shri Rajiv Ranjan 'Lalan' Singh
8. Shri Vanlalzawma
9. Shri Ratilal Kalidas Varma
10. Shri A.K.S. Vijayan

RAJYA SABHA

11. Shri Satish Chandra Misra

SECRETARIAT

1. Shri S.K. Sharma - Additional Secretary
2. Shri R.C. Kakkar - Deputy Secretary
3. Shri P.C. Tripathy - Under Secretary

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

3. The Committee, then, took up for consideration the draft Eighth Report on Action Taken by the Government on the recommendations contained in the Fifth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum and Natural Gas (2004-05) on `Demands for Grants (2005-06) of the Ministry of Petroleum and Natural Gas.

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

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

***The Committee then adjourned*.**

APPENDIX –IV

(Vide Para 4 of the Introduction)

Analysis of the Action Taken by the Government on the recommendations contained in the Fifth Report (Fourteenth Lok Sabha) of the Standing Committee on Petroleum and Natural Gas (2004-05) on 'Demands for Grants (2005-06) of the Ministry of Petroleum & Natural Gas'.

I	**Total No. of Recommendations**	26
II	Recommendations which have been accepted by the Government (Vide Recommendation at Sl. Nos.3, 4, 6, 9, 10, 14, 16, 17 and 20)	9
	Percentage to Total	34.6%
III	Recommendations which the Committee do not desire to pursue in view of Government‟s Reply	**Nil**
	Percentage of Total	-
IV	Recommendations in respect of which replies of the Government have not been accepted by the Committee (Vide Recommendations at Sl. No.7,11 and 15)	3
	Percentage of Total	11.5%
V	Recommendations in respect of which final replies of the Government are still awaited (Vide Recommendations at Sl. Nos.1,2, 5, 8, 12, 13, 18, 19, 21, 22, 23,24, 25 and 26)	14
	Percentage of Total	53.9%