9

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

FOURTEENTH LOK SABHA

MINISTRY OF PETROLEUM & NATURAL GAS

DEMANDS FOR GRANTS (2006-07)

NINTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

May, 2006/Vaisakha, 1928 (Saka)

NINTH REPORT

<u>CP&NG No. 14</u>

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

(FOURTEENTH LOK SABHA)

MINISTRY OF PETROLEUM & NATURAL GAS

DEMANDS FOR GRANTS (2006-07)

Presented to Lok Sabha on 15.5.2006

Laid in Rajya Sabha on 15.5.2006

LOK SABHA SECRETARIAT
NEW DELHI

May, 2006 /Vaisakha, 1928 (Saka)

CONTENTS

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

Shri N. Janardhana Reddy - Chairman

Members

Lok Sabha

2 Shri Anandrao Vithoba Adsul
3 Dr. Rattan Singh Ajnala
4 Shri R. Dhanuskodi Athithan
5 Shri Ramesh Bais
6 Shri Kirip Chaliha
7 Shri Lal Muni Choubey
8 Dr. Tushar A. Chaudhary
9 Shri Santosh Gangwar
10 Shri Jai Prakash
11 Shri Hari Rama Jogaiah
12 Adv. Suresh Kurup
13 Shri Lakshman Singh
14 Shri Sukdeo Paswan
15 Dr. Prasanna Kumar Patasani
16 Shri Rajiv Ranjan ‘Lalan’ Singh
17 Shri Ramjilal Suman
18 Shri Vanlalzawma
19 Shri Ratilal Kalidas Varma
20 Shri Rajesh Verma
21 Shri A.K.S. Vijayan

Rajya Sabha

22	Shri C. Perumal
23	Shri Subash Prasad Yadav
24	Shri Satish Chandra Misra
*25	Vacant
*26	Vacant
*27	Vacant
*28	Vacant
*29	Vacant
*30	Vacant
*31	Vacant

Secretariat

1	Shri S.K.Sharma	-	Additional Secretary
2	Shri R.C.Kakkar	-	Deputy Secretary
3	Shri P.C.Tripathy	-	Under Secretary
4	Smt. Reena Gopalakrishnan	-	Committee Officer

* These vacancies have occurred because of retirement from the membership of Rajya Sabha of Shri Ahmed Patel w.e.f. 18.8.2005 (subsequently re-elected to R.S.) Dr. Alladi P. Rajkumar, Shri Kripal Parmar, Shri. Rajeev Shukla (subsequently re-elected to R.S.) and Shri Dipankar Mukherjee w.e.f. 02.04.2006, Shri Moolchand Meena w.e.f. 03.04.2006 and resignation from the membership of Rajya Sabha by Shri M. Rajasekara Murthy w.e.f. 10.11.2005 (subsequently re-elected to R.S.).

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 Ninth Report on 'Demands for Grants (2006-07) of the Ministry of Petroleum & Natural Gas'.

2. The Committee examined the Demands for Grants (2006-07) pertaining to the Ministry of Petroleum & Natural Gas which were laid on the Table of the House on 9th March, 2006.

3. The Committee took evidence of the representatives of the Ministry of Petroleum & Natural Gas at their sitting held on 7th April, 2006.

4. The Committee considered and adopted the Report at their sitting held on 5th May, 2006.

5. The Committee wish to express their thanks to the representatives of the Ministry of Petroleum & Natural Gas for furnishing the material and information which they desired in connection with the examination of Demands for Grants (2006-07) of the Ministry and for giving evidence before the Committee.

6. The Committee also 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;

5 May, 2006
15 Vaisakha, 1928 (Saka)

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

REPORT

PART - I

(A) INTRODUCTORY

The Ministry of Petroleum & Natural Gas is concerned with exploration & production of oil & natural gas (including import of Liquefied Natural Gas), refining, distribution & marketing, import, export and conservation of petroleum products. The activities of the Ministry are carried out through the following 9 public sector undertakings, 11 subsidiaries and other companies and 6 other organisations.

Oil Companies in which Government of India has a shareholding

1	Oil & Natural Gas Corporation Limited (ONGC)	74.14%
2	Indian Oil Corporation Limited (IOCL)	82.03%
3	Hindustan Petroleum Corporation Limited (HPCL)	51.01%
4	Bharat Petroleum Corporation Limited (BPCL)	66.20%
5	GAIL (India) Limited	57.35%
6	Engineers India Limited (EIL)	90.40%
7	Oil India Limited (OIL)	98.13%
8	Balmer Lawrie & Co. Limited	61.80%
9	Biecco Lawrie & Co. Limited	57.00%

Subsidiaries and other companies

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

Other organisations

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

(B) APPRAISAL OF PERFORMANCE OF PETROLEUM SECTOR PSUs DURING 10TH PLAN

(i) Utilisation of Plan outlay by PSUs during the 10th Five Year Plan

1.2 Oil PSUs do not receive any Plan allocations from the Government Budget. All their Plan expenditures are met from their internal resources.

1.3 The following table contains data about the 10th Plan Outlay for the Oil Sector PSUs, expenditure incurred during the first three years of the Plan (2002-05), RE for the year 2005-06 and BE for the year 2006-07:-

(Rs. in crore)

Total Outlay 2002-07	2002-03 Actual	2003-04 Actual	2004-05 Actual	2005-06 R.E.	2006-07 *B.E*	*Total*
103656.00	16279.51	17590.96	22631.34	29403.08	36003.33	121908.22

1.4 It may be seen from the above data that in the 10th Five Year Plan, an outlay of Rs. 103656.00 crore has been made for the Oil Public Sector Undertakings. Out of this, the actual expenditure in the first three years has been to the extent of Rs. 56501.81 crore. While the R.E. for 2005-06 is Rs. 29403.08 crore, the B.E. for the terminal year, i.e. 2006-07 is Rs 36003.33 crore. It may also be observed that the total (Actuals for 2002-03 to 2004-05 plus R.E. 2005-06 plus B.E. 2006-07) is exceeding the original 10th Plan outlay by Rs. 18252.22 crore. This is mainly because of OVL, ONGC, BRPL and NRL exceeding their approved Plan outlays owing to various projects and activities not envisaged while formulating the 10th Plan.

1.5 The following table shows the PSU-wise break-up of the 10th Plan outlay, expenditure during the first three years of the Plan, percentage expenditure to the Plan outlay and the balance amount left for the last 2 years of the Plan period:-

(Rs. in crore)

PSU	10th Plan Outlay (2002 – 2007)	Expenditure during the first 3 years of the plan (2002 –03 to 2004-05)	Percentage expenditure to the Plan Outlay	Balance left for the last 2 years of the Plan
ONGC – OVL	13550.00	11574.94	85.42%	1975.06
ONGC	33418.95	23367.25	69.92%	10051.70
OIL	5000.00	1981.53	39.63%	3018.47
GAIL	8413.52	3516.08	41.79%	4897.44
HPCL	7500.00	667.67	8.90%	6832.33
BPCL	4000.00	2010.57	50.26%	1989.43

CPCL	2400.00	2103.95	87.66%	296.05
KRL	2500.00	210.26	8.41%	2289.74
BRPL	231.00	33.69	14.58%	197.31
IOC	24399.53	10175.57	41.70%	14223.96
IBP	1783.00	585.86	32.85%	1197.14
NRL	310.00	130.64	42.14%	179.36
MRPL	-	121.07	-	-
BALMER LAWRIE	120.00	22.73	18.94%	97.27
BIECCO LAWRIE	30.00	0.00	0%	30.00
GRAND TOTAL	103656.00	56501.81		47154.19

1.6 While considering the trend of utilisation of Plan outlays by the Oil Sector PSUs, the Committee specifically wanted to know whether Oil Sector PSUs would be able to fully utilise the allocated R.E amount of Rs. 29403.08 crore during the year 2005-06. The Ministry of Petroleum and Natural Gas, inter-alia, stated in its written reply as under:-

> " Against the Revised Estimate (R.E) of 2005-06 of Rs. 29403.08 crore, the actual expenditure upto February 2006 has been to the tune of Rs. 19946.47 crore. Details in regard to the allocations and expenditure during the last two years and the current year are as under:-
>
> (Rs. in crore)
>
> | Year | RE | Expenditure upto Feb. | Total expenditure for the financial year |
> |---|---|---|---|
> | 2003-04 | 24393.22 | 14956.86 (61.3) | 17590.96 (72.1) |
> | 2004-05 | 24615.12 | 18282.38(74.3) | 22631.34(91.9) |
> | 2005-06 | 29403.08 | 19946.47(67.8) | |
>
> * The figures in the bracket indicate percentage expenditure with respect to the RE of that year."

1.7 The Committee have been informed that against the total approved 10th Plan allocation of Rs. 103656.00 crore for Oil PSUs, an amount of Rs. 76448.28 crore (73.7% of total allocation) has already been spent till February 2006.

(ii) Seismic survey & drilling activities of OIL

1.8 The Oil India Ltd (OIL) is a public sector undertaking engaged in the business of exploration, production and transportation of crude oil and natural gas. The

Company has domestic operational areas in Assam, Arunachal Pradesh, Rajasthan, and Ganga Valley in Uttar Pradesh and Uttaranchal. However, OIL's major thrust for exploration continues to be in the North-East.

1.9 As seismic surveys (2D and 3D) and exploratory drilling are extremely important activities in the exploration of oil/gas, the Committee desired to know the targets and achievements in respect of seismic survey and drilling in case of OIL during the last three years. The Ministry furnished the following data in this regard:-

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

		2003-04		2004-05		2005-06	
		Target (BE)	Actual	Target (BE)	Actual	Target (BE)	Anticipated Achiev.
1	Seismic Survey						
	2D GLKM	2,585	2,088.22	1,600	1,978.59	1,500	1,111
	3D SQKM	750	352.02	750	889.44	600	783.50
2	Drilling ('000Mtr)						
	Exploratory	66	49.283	54.70	37.89	81.005	53.11
	Development	70	59.34	85.10	115.673	83.095	79.92
	Total(Drilling)	136	108.623	139.80	153.563	164.10	133.03"

1.10 When asked about the problems being faced by OIL in carrying out seismic surveys and drilling, the Committee were informed as under:-

"The problems faced by Oil India Limited in carrying out seismic surveys and drilling activities in its operational areas are as under :

Seismic Survey:

1. Non - receipt of security clearance in time from Ministry of Defence for 500 GLKM of 2D survey planned in NELP-II block in Rajasthan which was scheduled in the year 2003-04. The clearance was subsequently accorded and 2D seismic survey was carried out in the year 2004-05.

2. Non - receipt of clearance from Ministry of Defence, in time for 400 SQKM of 3D survey in NELP-I Cauvery offshore block planned in the year 2003-04. OIL had since exited from the block w.e.f. 01.03.2004.

3. OIL plans to carry out 1,700 GLKM of 2D seismic survey in Brahmaputra River Bed from the year 2005-06 onwards in the next 3 to 4 years. However, the necessary contract cannot be finalised due to the absence of security clearance from Ministry of Home Affairs. As a result, 500 GLKM of 2D seismic survey planned during the year 2005-06 in Brahmaputra River Bed stands deferred.

Drilling:

4. Delay in acquisition of land for drilling locations in Assam as result of reluctance of the land owners to part with their land in spite of proper compensation.

5. OIL planned for deployment of 2 nos. charter hired drilling rigs by October, 2004 to supplement its in-house drilling capabilities. However, due to legal problems arising out of rivalry between tenderers, 1 no. charter hired drilling rig could not be mobilised.

6. Prolonged blockade against OIL operations by local people in Barekuri area in Upper Assam from August, 2005 to October, 2005. Although the blockade was lifted on 19.10.2005, sporadic incidents of blockade are still continuing in the area.

7. Other environmental problems such as frequent *bandhs*, local obstructions, flood etc. Early onset of monsoon also hampered / delayed site preparation works in a number of drilling locations."

1.11 As regards the strategy chalked out by OIL to overcome the above problems, the Ministry has furnished the following data in a written reply:-

"Oil India Limited has undertaken the following initiatives to overcome the problems being faced in carrying out seismic survey and drilling activities in its operational areas.

1. Significant enhancement in the value of land acquired for drilling locations to suitably compensate the land owners.

2. To further supplement the drilling capabilities, OIL had recently procured 1 no. 1000 HP mobile drilling rig, which is being currently deployed in Rajasthan. In addition, actions are in hand for charter hire/purchase of 1 no. mobile drilling rig for drilling in shallow depth. 2 nos. additional charter hired drilling rigs are planned for the deployment from the year 2006-07 onwards."

(iii) City Gas Projects of GAIL

1.12 The Indian gas market has entered in a new era with Natural Gas gradually becoming the most important component of primary energy mix in the country. The total demand of Natural Gas in the country is expected to grow to over 300 MMSCMD by 2010-11 as against the current demand of about 150 MMSCMD. Currently natural gas contributes to the extent of 8% to the primary energy basket and the share is expected to increase to 14% by 2011-12.

1.13 GAIL is a major player in the Natural Gas industry in India owning and operating a network of over 5340 km of Natural Gas high pressure trunk pipeline with a capacity to carry 118 MMSCMD of natural gas across the country. It supplies nearly 72 million cubic metres of natural gas per day as fuel to power plants, as feedstock for gas based fertilizer plants and to over 500 other small, medium and large industrial units to meet their energy and process requirements. GAIL's share of gas transmission business is 88% and the company holds 85% market share in gas marketing in India. In addition to its gas marketing through its trunk and regional transmission systems, GAIL has also formed joint venture companies for supplies to households, commercial users and for the transport sector.

1.14 Mahanagar Gas Ltd. (MGL), GAIL's joint venture with British Gas and the Government of Maharashtra has been catering to Mumbai and Thane, Indraprastha Gas Ltd. (IGL), a joint venture with BPCL and Govt. of Delhi to National Capital Territory (NCT) of Delhi and Bhagya Nagar Gas Ltd. (BGL), a joint venture with HPCL to Andhra Pradesh.

1.15 As regards the status of the 'Blue Sky' Project of GAIL, the Committee have been informed through a written reply as follows:-

> "GAIL's Board in its 183rd meeting held on 25.10.2002 accorded the approval for implementation of CNG and City Gas Projects (Phase-1) in the cities of Lucknow, Kanpur, Agra, Faridabad and Pune under 'Project Blue Sky'. It was decided that these projects shall be implemented through joint venture route.
>
> Central UP Gas Limited (CUGL):
>
> CUGL, a JV of GAIL and Bharat Petroleum Corporation Limited (BPCL) was incorporated on 25.02.2005 for implementation of City Gas Project in

Kanpur. CUGL has taken up the project implementation activities for supply of CNG to automobiles and Piped Natural Gas (PNG) to domestic, commercial and industrial consumers. It is expected to commence CNG supply by end of April, 2006, subject to gas supply being tied up.

Green Gas Limited (GGL):

GGL, a JV of GAIL and Indian Oil Corporation Limited (IOCL) was incorporated on 07.10.2005 for implementation of City Gas Project in Agra and Lucknow. GGL has taken up the project implementation activities for supply of CNG to automobiles and PNG to domestic, commercial and industrial consumers. It is expected to commence the CNG supply by end of April, 2006, subject to gas supply being tied up..

Maharashtra Natural Gas Limited (MNGL):

MNGL, a JV of GAIL and BPCL was incorporated on 13.01.2006 for implementation of City Gas Project in Pune. MNGL is taking up initial activities such as appointment of Engineering Project Management Consultant (EPMC) for implementation of the City Gas Project in Pune. The gas supply to Pune city shall be supplied through Dahej- Uran Pipeline, which is expected to be commissioned by June 2007. Accordingly, the City Gas Project activities are being synchronised to commence the CNG supply by June 2007, subject to gas supply being tied up.”

1.16 When asked about the time and cost overruns in the 'Blue Sky' Project of GAIL, the Ministry of Petroleum & Natural Gas, in a post-evidence reply informed the Committee as under:-

DETAILS OF TIME & COST OVERRUN FOR IMPLEMENTATION OF CITY GAS PROJECTS UNDER PROJECT BLUE SKY

S. No	City	Name of JVC	Date of incorporation of JVC	Present Project cost approved by respective JVC for Phase- 1 (Rs. in Crores)	Date of Completion of Phase-1 of the Project from date of formation of JVC	Present status/ Progress	Time & Cost Overrun	Remarks
1	Kanpur	Central UP Gas Limited	25.02.2005	140.38	25.02.2009	One CNG Station has been commission-ed on 07.04.2006	Not Applicable at this stage	Implemen-tation is in progress. It is planned to install 12 CNG Stations, create infrastructure for supply of gas to 18,000 Domestic, 13 Commercial and 55 Industries in Phase-1
2	Lucknow	Green Gas Limited	07.10.2005	68.06	07.10.2007	One CNG Station has been commission-ed on 01.04.2006	Not Applicable at this stage	Implemen-tation is in progress. It is planned to install 9 CNG Stations, create infrastructure for supply of gas to 1,000 Domestic, 30 Commercial and 01 Industry in Phase-1
3	Agra	Green Gas Limited	07.10.2005	51.78	07.10.2007	One CNG Station has been commission-ed on 10.04.2006	Not Applicable at this stage	Implemen-tation is in progress. It is planned to install 9 CNG Stations, create infrastructure for supply of gas to 1,000 Domestic and 20 Commercial in Phase-1
4	Pune	Maha-rashtra Natural Gas Limited	13.01.2006	159.91*	13.01.2009	Project Manage-ment Consultant is being appointed	Not Applicable at this stage	
5	Faridabad	-	-	-	-			-

* As per DFR prepared in 2002

1.17 The Committee desired to know the progress made in sourcing of gas for this project. The Ministry, in a post-evidence reply, stated as under:-

> "Ministry of Petroleum & Natural Gas had allocated natural gas for supply as CNG/PNG under phase-1 of these projects as per the break-up given below:-
>
> | | | |
> |---|---|---|
> | Lucknow | : | 0.1 MMSCMD |
> | Kanpur | : | 0.1 MMSCMD |
> | Pune | : | 0.4 MMSCMD |
> | Faridabad | : | 0.7 MMSCMD (including Noida & Gurgaon) |
>
> However it may be noted that against the total allocation of 117 MMSCMD of APM gas, the actual availability is only about 55 MMSCMD. Also, Gas Linkage Committee has been disbanded and no new gas allocation is being made. Further, all APM gas is committed to power, fertilizer and court mandated and small scale consumers having allocation upto 0.05 MMSCMD. The APM gas is on decline and all city gas projects would need to identify potential gas suppliers. It may be mentioned that since these projects are yet to takeoff, they are yet to draw any gas allocated to them."

1.18 The Committee have also been informed that GAIL has also signed a Memorandum of Understanding (MoU) with Bharat Petroleum Corporation Limited (BPCL) on 22.12.2005 for implementation of City Gas Projects in the States of Kerala and Karnataka for the supply of Piped Natural Gas (PNG) to domestic, commercial and industrial consumers and Compressed Natural Gas (CNG) and Auto Liquefied Petroleum Gas (LPG) to automobiles and Bhagyanagar Gas Limited (BGL) has been formed on 22.08.2003 along with Hindustan Petroleum Corporation Limited (HPCL) for implementation of City Gas Projects in the State of Andhra Pradesh. BGL is already supplying CNG in Vijayawada city and also Auto LPG in the cities of Tirupathi and Hyderabad-Secunderabad. Commencement of the projects, however, depends on availability of Natural Gas.

Piped Natural Gas Supply in Delhi

1.19 As has been mentioned before, Indraprastha Gas Ltd. (IGL) is supplying piped natural gas (PNG) in many areas of NCT of Delhi. More areas of Delhi are proposed to be covered in phases spread over next few years with the expansion of PNG network depending on demand/response from prospective customers and technical feasibility.

1.20 Regarding the progress made in the supply of Piped Natural Gas (PNG) in Delhi, the Ministry of Petroleum & Natural Gas has, inter-alia, submitted in a written reply, as follows:-

> "IGL has 44465 domestic customers, 194 small commercial consumers & 40 large commercial consumers connected as on March 1, 2006 in the following areas -
>
> Golf Link, Sujan Singh Park, Sunder Nagar, Kaka Nagar, Bapa Nagar, Pandara Park, Pandara Road, Lodhi Complex, Lodhi Colony, Sarojini Nagar, Naoroji Nagar, Pragati Vihar, Mohammadpur, Bharat Nagar, Friends Colony, New Friends Colony, Ishwar Nagar, Kalindi Colony, Khan Market, Maharani Bagh, Jor Bagh, Asiad Village, Sukhdev Vihar, Sarita Vihar, Zakir Bagh, Pant Nagar, Nizamuddin East & West, Jangpura Extn.Jangpura, Diplomatic Enclave, Indraprastha Estate, Neeti Bagh, Gulmohar Park, Mayur Vihar Phase I,Rohini Sectors 9,13 & 14.,R.K.Puram Sectors 1 to 5 &7,Som Vihar in R.K.Puram,Vasant Kunj Pocket C – 3,6/7,8 & 9, Patparganj I.P. Extn.
>
> Work is nearing completion in CPWD colonies of Kidwai Nagar, Andrews Ganj, Laxmi Bai Nagar, Netaji Nagar, R.K.Puram (8, 12 & 13 Sectors), Chanakya Puri, Asiad Village, HUDCO, Kali Bari/BKS Marg & Lodhi Colony. In case of private colonies of Vasudhara Enclave, Mayur Vihar Phase II, Rohini (Sector 15), parts of Pitam Pura, Mayfair Garden, Vasant Kunj Pocket C-1/C-2 and Anand Lok work is in progress and registered customers are expected to be connected in next three months.
>
> The expansion of PNG network in the areas of NCT of Delhi in next financial year 2006-07 will be finalised depending on availability of permissions for laying of pipelines, response of customers in various areas, availability of natural gas and available capital expenditure budget. The CPWD colonies are covered as per advice and the advance payment received from them in the beginning of every year. As of now the following colonies are under active consideration of IGL for provision of PNG supply:-
>
> Private Colonies –
>
> Pashchim Vihar, Vikas Puri, Dwarka, Naseerpur, Rohini (Sec.-18), Hauz Khas SFS, Munirka, Safdarjung Development Area, Vasant Enclave.
>
> CPWD Colonies –
>
> R.K.Puram (Sector 12 partly, Sector –9), Laxmibai Nagar (Part), Netaji Nagar (Part), Sadiq Nagar, Sriniwaspuri, Moti Bagh (NW & SW)."

(iv) IBP – IOC Merger

1.21 Indian Oil Company Ltd. was incorporated in 1959. It became Indian Oil Corporation Limited in September 1964 when Indian Refineries Limited (established in 1958) was merged with the Indian Oil Company Ltd. The company acquired the refining and distribution operations of the Assam Oil Company Ltd. in October 1981.

1.22 IBP Co. Limited became a Government Company when Indian Oil Corporation Ltd. (IOC) purchased the majority ordinary shares of IBP from Steel Brothers and Co. Ltd. in January 1970. Subsequently, in September 1972, the Government of India acquired IOC's share holding in IBP.

1.23 When asked as to whether final approval has been accorded to IBP-IOC merger, the Ministry of Petroleum & Natural Gas furnished the following reply:-

> "The Cabinet, in its meeting held on 20.10.2005, approved the proposal of the Ministry of Petroleum & Natural Gas for merger of IBP Co. Limited (IBP), a subsidiary company of Indian Oil Corporation Limited (IOC) with IOC, with the direction that the swap ratio of the shares of the two companies be finalised by a Committee of Secretaries (COS) after taking into account all relevant factors. COS considered the matter on 14.12.2005. After receipt of the approval of the Cabinet along with the recommendations of the COS, the Boards of Directors of IOC and IBP have recommended the revised swap ratio of 110:100, i.e. 110 equity shares of Rs.10/- each of IOC fully paid up for every 100 equity shares of Rs.10/- each fully paid up of IBP.
>
> In accordance with the requirement of the Listing Agreement executed with the Stock Exchanges, both IOC and IBP had applied to their respective Stock Exchanges seeking necessary clearance for the merger. The Stock Exchanges have since accorded approval to the merger. Thereafter, a petition has been filed on 8.3.2006, with the Ministry of Company Affairs (the competent authority to approve merger in all Government companies), for fixing a date of hearing to order convening of the meeting of the shareholders of both the companies to approve the amalgamation.
>
> The detailed terms and conditions are contained in the Scheme of Amalgamation, prepared by the Legal Advisers of IOC & IBP, to the proposed merger.
>
> Both IOC and IBP are engaged in identical business of storage, distribution and marketing of petroleum products. The amalgamation of the companies will result in consolidation of the business of marketing of petroleum products in one entity and in strengthening the position of the merged entity, viz., IOC, by enabling it to harness and optimize the synergies of the two companies. The proposed amalgamation of IBP with IOC is in line with the global trends to achieve size, scale, integration and greater financial strength and flexibility, in the interests of maximizing shareholder value."

(v) Engineers India Ltd. (EIL)

1.24 Engineers India Ltd. (EIL) is a design engineering and consultancy organisation serving the petroleum, petrochemicals and other process industries including the metallurgical industry since the mid-sixties. EIL provides a comprehensive range of project engineering services in these fields including process design, detailed engineering, procurement, construction and project management and supervisory assistance for commissioning and plant start-up. It continues to play a significant role in the hydrocarbon and process industries, both in India and abroad.

1.25 The Committee have been informed that EIL's vision is to be a world class globally competitive Engineering Projects Consultancy (EPC) and total solutions consultancy organisation. Apart from ISO 9001-2000 accreditation, EIL has been continuously endeavouring to achieve high (international) standards of excellence in its services in process design, engineering, procurement, construction and overall project management in the hydrocarbon sector.

1.26 On being asked about the value of business secured and profit/surplus generated by EIL during the last three years, the Ministry of Petroleum & Natural Gas has furnished as under:-

> "The value of business secured and the profit generated by EIL during the last three years is given below:

Rs. Crores

YEAR	Value of Business Secured	Gross Profit (Profit Before Tax)
2003-2004	1525.85	129.99
2004-2005	624.66	166.66
2005-2006 (April to December)	502.77	153.44"

1.27 Regarding the steps proposed by EIL to expand its business in the emerging competitive environment, the Committee have been informed through a written reply as under: -

> "EIL has taken steps for expansion of its business in the potential overseas markets and established its Engineering Offices in Australia, Qatar, Abu Dhabi and Kuwait. All these overseas offices are executing orders of the local clients in Oil & Gas industries. Steps have also been taken to establish the business of Engineering & Consultancy services in new markets in Saudi Arabia and Libya.
>
> Having developed its expertise for carrying out business in Engineering and Project Management and other technical services, EIL has diversified into other allied areas. Besides crude oil/gas strategic storage, it is well placed to take up work for LNG facilities and Refinery Residue based Power Plants and in several other infrastructure-related projects, such as Power Plants, Highways and Bridges, Airports, Ports & Terminals, Non-

Conventional/Renewable Energy Sources, Intelligent Buildings, Urban Development, Water Projects, City Gas Distribution etc. EIL has also developed expertise for execution of hi-tech projects on turnkey contract basis.

In order to be more competitive, EIL has taken action for increasing productivity and reduction of costs through improvements of systems and process, computerized networking and cost management. More thrust is being given for development and upgradation of technology through inhouse R&D. Outsourcing of low technology action is being encouraged so that EIL can focus on areas of core competence.

In the recent past, EIL undertook a Customer Satisfaction Survey in the domestic market to assess customer/client satisfaction. The study was undertaken by an external organization. The recommendations of this study are implemented both through changes in business processes and through awareness and training programmes. A similar initiative is envisaged by EIL for overseas customers/clients which is targeted for commencement in 2006-2007."

(C) ANALYSIS OF DEMANDS FOR GRANTS (2006-07)

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

1.29 The budgetary allocations made in respect of the Ministry are as under:-

(Rs. in lakhs)

	Plan	Non-Plan	Total
Revenue Section	--	Secretariat Economic Services - 1162.00 Petroleum - 309500.00	310662.00
Capital Section	--	--	--

HEAD-WISE ANALYSIS OF DEMANDS FOR GRANTS (2006-07)

(i) MAJOR HEAD '2802'

Petroleum

1.30 The following statement shows the details of expenditure made for various items during 2004-05, 2005-06 and 2006-07 under this Head:-

(Rs. in Lakhs)

Item	BE 2004-05	RE 2004-05	Actuals 2004-05	BE 2005-06	RE 2005-06	BE 2006-07
Subsidy on domestic LPG and PDS kerosene	350000.00	350000.00	293031.72	360000.00	290000.00	290000.00
Freight subsidy on retail products for far flung areas	5900.00	5300.00	2606.74	4400.00	3000.00	3000.00
Petroleum Regulatory Board	200.00	126.00	00.00	1497.00	200.00	1500.00
Anti Adulteration Cell	200.00	86.00	75.88	0.00	137.00	0.00
Loan for implementation of VRS to M/s. Biecco Lawrie	0.00	0.00	200.00	0.00	0.00	0.00
Payment of oil companies in settlement of their claims under APM	0.00	0.00	0.00	0.00	576285.00	0.00
Compensation to oil companies for under recoveries on account of sale of sensitive petroleum products.	0.00	0.00	0.00	0.00	1150000.00	0.00
Less deposits by oil companies	0.00	0.00	0.00	0.00	-1726285.00	0.00
Subsidy to oil companies for supply of natural gas to North Eastern Region.	0.00	0.00	0.00	0.00	0.00	15000.00

1.31 It may be seen from the above data that in B.E of 2006-07, subsidy on domestic LPG and PDS kerosene has been fixed at Rs. 2900.00 crore. As regards Freight subsidies on retail products for far flung areas, the B.E. 2006-07 has been pegged at Rs. 30.00 crore. A provision for subsidy to oil companies for supply of natural gas to North Eastern region amounting to Rs. 150.00 crore is also included in B.E. 2006-07. Besides, a provision for Rs. 15.00 crore has been made in respect of the Regulatory Board in B.E 2006-07.

(ii) MAJOR HEAD '3451'

Secretariat – Economic Services

1.32 The following table shows the details of actual expenditure made during 2004-2005, B.E and R.E for 2005-06 and B.E in 2006-07 under the Secretariat-Economic Services Head:-

(Rs. in lakhs)

Items	Actuals 2004-05	BE 2005-06	RE 2005-06	BE 2006-07
Salaries	465.08	516.81	575.57	621.61
Wages	00.00	0.80	0.73	0.82
Overtime Allowance	8.17	8.80	8.80	8.80
Domestic Travel	12.92	20.00	15.82	15.00
Foreign Travel	24.29	26.00	58.60	75.00
Office Expenses	134.82	119.19	150.00	150.00
Professional Services	145.83	234.00	339.80	223.32
Publication	2.26	3.00	2.60	2.60
Other Admn. Expenses	11.23	16.00	15.68	18.00
Medical Treatment	10.84	12.00	18.00	14.75
Information Technology	52.92	46.40	43.40	32.10
Total	868.36	1003.00	1229.00	1162.00

1.33 It may be seen from the above data that a provision for Rs. 10.03 crore was made in B.E 2005-06 under the Major Head `3451'. The R.E for 2005-06 under this Head was Rs. 12.29 crore. The actual expenditure during 2004-05 was Rs. 8.68 crore. The B.E for 2006-07 has been kept at Rs. 11.62 crore.

(D) <u>MISCELLANEOUS</u>

a) Oil Refineries

1.34 The domestic refining capacity as on 1.4.2005 was 127.37 Million Metric Tonnes Per Annum (MMTPA). At present, there are 18 refineries operating in the country (17 in Public Sector and 1 in Private Sector). Mangalore Refinery and Petrochemicals Limited (MRPL), which was a joint Sector Company, became a PSU subsequent on acquisition of its majority shares by ONGC. Out of the 17 Public Sector refineries, 7 are owned by M/s Indian Oil Corporation Limited, two each by Chennai Petroleum Corporation Limited (a subsidiary of IOCL), Hindustan Petroleum Corporation Limited, and Oil and Natural Gas Corporation one each by Bharat Petroleum Corporation Limited, Kochi Refineries Limited (a subsidiary of BPCL), Numaligarh Refinery Limited (a subsidiary of Bharat Petroleum Corporation), and Bongaigaon Refineries and Petrochemicals (a subsidiary of IOCL). The private sector refinery belongs to Reliance Industries Limited.

1.35 Giving a brief account of the growth of the refining sector in the country, Secretary, Ministry of Petroleum & Natural Gas deposed before the Committee during oral evidence as under:-

> "The refining capacity which is a measure of the country's ability to add value to the crude which it imports stood at about 115 million tonnes at the end of March 2002, and today it stands at an impressive about 133 million tonnes. This is bound to further go up to 150 million tonnes by the end of the next year. I think, this is an impressive growth by any standards and because of this we had been able to emerge as a net exporter of refined petroleum products which was not the position in 2002. This year, our estimated exports amount to about 21.3 million tonnes of petroleum products earning a very valuable foreign exchange of nearly 10.4 billion dollars, making us the second largest foreign exchange earner for the country, next only to gems and jewellery. In 2002 we were nowhere. Today we have already emerged as the second largest foreign exchange earner for the country. Over the next four or five years, with new refineries in Batinda, Panipat and Bina taking shape, we will emerge as a major regional export hub. We will be able to take care of the needs of the region in terms of petroleum products requirement. This is enabled by a fairly satisfactory growth rate in the gross refinery margins for the time being. We have made an investment of over Rs. 25,000 crore over the past five years to comply with the ambitious provisions of the National Auto Fuel Policy. In terms of Bharat stage-II and Euro-III, we are already in full compliance and the court has expressed satisfaction at our performance. We are on our way to achieving Euro-IV as per the prescribed date in the National Auto Fuel Policy.
>
> Now, we are on to another major initiative in our refineries. One remarkable feature is, as of now our distillate yield in our refineries in only 68 to 69 per cent. One factor which could help us to comply with the environmental requirements, which are becoming more and more stringent, and also to recover more margins from the refineries, which are available when you are able to process more sour crude and more heavier crude, is to increase the complexity in the refineries by improving or by adding further refining facilities. We are in the process of doing this and over the next two years when we have completed the same, our distillate yield is expected to go up from the present 69 per cent to over 80 per cent. It will help us to improve

the environment and also the profits of the refineries by over Rs. 4,000 crore a year. We have already launched this major initiative."

1.36 While replying to a query regarding Bhatinda refinery,the Secretary, Petroleum & Natural Gas replied during oral evidence as under:-

"A lot of money has been sunk and a lot of investment has already been made. There was some delay on the part of the Punjab State Government in signing of the MOU. Finally, after protracted negotiations MOU was concluded. Six months ago Hindustan Petroleum signed a MOU with British Petroleum that was not in respect of Bhatinda. That was to explore joint investment opportunities including marketing, refining and so on. The possibility of British Petroleum picking up an equity stake in Bhatinda refinery was under discussion over the past three or four months. British Petroleum engineers and their financial people came and made a detailed visit. They examined in detail the Bhatinda refinery's number. After a very detailed scrutiny they decided that they were not going to pick up an equity stake. After this I had a detailed discussion with the Chairman and the Director (Finance) of HPCL. They are going to start work very shortly on the refinery and within the next 42 months, refinery is going to be completed as per the configuration it stands now at present, that is, 6 million tonnes. So, the absence of British Petroleum or any other foreign equity stakeholder is not going to deter work on this refinery."

1.37 As regards the mega projects taken up by IOC at Panipat Refinery, the Ministry of Petroleum & Natural Gas furnished the following reply:-

"The details of the mega projects at Panipat Refinery are as under:

1. INTEGRATED PARAXYLENE (PX) / PURIFIED TEREPHTHALIC ACID (PTA) PROJECT, PANIPAT

Approved cost (Rs. in crore.)	Original completion schedule	Revised completion schedule	Anticipated completion schedule
5104	March, 2003	August. 2005	April 2006

The project was under review during 2001-02. After completion of review, revised completion schedule was drawn up.

Time overrun is due to:

High quote by L-1 bidder resulting in cancellation of tender and resultant delay in award of work.

In the course of execution, there was an unprecedented price increase of raw materials viz., steel, copper from mid-2003 to mid-2004, which had resulted in delayed delivery of equipment, pipes & fittings by LSTK contractor as well as suppliers for conventional works.

Delay in engineering by Project Management Consultant which also led to time overrun in ordering of equipments / piping.

Project is expected to be completed within the approved cost.

2. PANIPAT REFINERY EXPANSION PROJECT (PREP)

Approved cost (Rs. in Cr.)	Original completion schedule	Revised completion schedule	Anticipated completion schedule
4165	May, 2002	December 2004	July, 2006

The project was under review during 2001-02. After completion of review, revised completion schedule was drawn up.

Parts of the project, viz., Diesel Hydrotreater, Hydrogen Generation Unit and Hydrocracker Unit have been commissioned in November, 2005/December, 2005.

Balance units, viz., Crude/Vacuum Distillation Unit, Sulphur Recovery Block and Delayed Coker Unit are expected to be commissioned progressively by July, 2006.

Time overrun is due to: -

- Delay in engineering by PMC & consequential delay in ordering & tendering, delay in delivery of equipments, pipes & fittings by various suppliers/contractors in view of unprecedented price rise of raw materials like steel & copper from mid-2003 to mid-2004.
- Refusal of orders by some vendors due to steep rise in price of steel & copper. Some equipment, pipes, fittings, etc., had to be reordered resulting in delayed delivery.
- Slow construction progress by contractors having supply component of structural steel has affected the project schedule.

Cost increase till now is within 5% of the approved cost."

1.38 The Committee have been informed in a post-evidence reply that the initial approved cost of the Integrated Paraxylene/Purified Terephthalic Acid Project was Rs. 4228 crore which was later revised to Rs. 5104 crore. Similarly, in case of the Panipat Refinery Expansion Project, the initial approved cost was Rs. 3365 crore which was subsequently revised to Rs. 4165 crore.

1.39 When asked about the Project Management Consultants of the mega projects at the Panipat Refinery and the action taken against them for the delay, the Ministry of Petroleum & Natural Gas submitted the following data in a post-evidence reply:-

"The details about the Project Management Consultant, penalty clause and action taken against the consultant for delay at PX/PTA and PREP of IOCL is given below:

Sl	Name of Project	Name of Project Management Consultants	Whether penalty clause has been included in terms & conditions	Action against the Consultants for the delay
1.	**PX/PTA**			
	(i) Para-Xylene (PX) Mode of Execution: Lumpsum Turnkey (LSTK)	TOYO Engineering India Ltd.	Yes. <u>Price Reduction Clause.</u> If there is any delay in mechanical completion of the project beyond the last date of mechanical completion and is due to reasons attributable to the consultant, owner shall be entitled by way of price adjustment to a discount in the price of services calculated at the rate of 1.0% of the total lumpsum amount receivable by the consultant under the contract for each week, or part thereof, beyond the scheduled date of mechanical completion, subject to a maximum of 10% of the total Lumpsum amount receivable by the consultant under the contract	Penalty clause for price reduction has been applied as per contract.
	ii) Purified Terephthalic Acid (PTA) Mode of Execution: Lumpsum Turnkey (LSTK)	Engineers India Ltd.	--do--	---do---
2.	**PREP**			
	(i) DHDT/HGU & HCU Mode of Execution: Lumpsum Turnkey (LSTK)	Engineers India Ltd.	-- do--	---do---
	(ii) CDU/VDU, DCU, SRB, CPP, Offsite & Utilities Mode of Execution: Conventional	Engineers India Ltd.	Yes. <u>Price Reduction Clause.</u> If there is any delay in completion of the project beyond the date of final completion and is attributable to the consultant, owner shall be entitled by way of price adjustment to a discount in the price of services calculated at the rate of 0.5% of the amount receivable by the consultant for each week, or part thereof, beyond the scheduled date of final completion, subject to a maximum of 5% of the total amount receivable by the consultant under the contract.	---do---

b) Retailing of Petroleum Products

1.40 All Petroleum products except kerosene meant for public distribution system (PDS) are supplied as per market demand across the country. To make available other petroleum products to the customers the PSU Oil Marketing Companies *viz.* IOC, BPC, HPC and IBP have set up countrywide network of retail sales points either operated by the company or through dealers.

1.41 IOC operates the largest and widest network of retail outlets (petrol/diesel stations) in the country. BPCL and HPCL too have all India presence through their extensive marketing network. Indian Oil's countrywide network of 24,000 sales points is backed for supplier by 158 bulk depots and terminals. Its subsidiary, IBP Co. Ltd., is a stand-alone marketing company with a nationwide network of nearly 3,500 retail sales points. During the period 2004-05, HPCL commissioned 1165 retail outlets and 160 LPG distributorship and during 2005-06, 501 new retail outlets are expected to be commissioned BPCL commissioned 896 new retail outlets in 2004-05 and expects to commission another 800 outlets in 2005-06.

1.42 The Committee have been informed that the Oil Marketing Companies have set up 832, 1718 and 2455 retail outlets in 2002-03, 2003-04 and 2004-05 respectively in urban, rural and remote areas of the country. The company-wise, year-wise and area-wise data are given below:-

	No.of retail outlets opened in urban areas.				No. of retail outlets opened in rural areas.				No. of retail outlets opened in remote areas.				Total
	IOC	IBP	BPC	HPC	IOC	IBP	BPC	HPC	IOC	IBP	BPC	HPC	
2002-03	70	495	15	46	78	25	33	58	2	4	3	3	832
2003-04	153	649	59	148	253	37	159	207	4	7	18	24	1718
2004-05	166	465	175	314	335	42	230	617	1	27	28	55	2455
Total	389	1609	249	508	666	104	422	882	7	38	49	82	5005
Grand Total	2755				2074				176			=	5005

1.43 When asked about the proposals of the oil companies for setting up such outlets in 2006-07 and 2007-08, the Ministry of Petroleum & Natural Gas, inter-alia, gave the following details:-

> "The OMCs have now commercial freedom to choose locations for setting up of retail outlets subject to viability. Since the exercise of setting up retail outlets involves various steps like advertisement, scrutiny of applications and documents, conduct of interviews of eligible candidates for selection of dealers/distributors, release of merit panels, field investigation in respect of selected candidates, etc., it is not possible at this stage to state how many retail outlets will be set up by the OMCs during the years 2006-07 and 2007-08. However, very tentatively, these OMCs plan to set up following number of retail outlets in urban, rural and remote areas during the years 2006-07 and 2007-08 :-

	Urban areas	Rural areas	Remote areas
2006-07	1069	1445	310
2007-08	895	1160	148

> ONGC so far has opened only one retail outlet at Mangalore in the year 2005. ONGC is examining the possibility of supply logistics and related issued for opening up more number of retail outlets in coming years."

1.44 Responding to the concerns shown by the Committee about the indiscriminate expansion and low sale of retail outlets of Oil Marketing Companies, the Secretary, Ministry of Petroleum & Natural Gas stated during evidence as under:-

> "Five years ago, when there was no private sector and the total number of retail outlet was standing at around 18,500 or so throughput per retail outlet was standing at between 250 to 275 kilo litres per month. Today the total number of retail outlets stand at about 31,000, as I mentioned including about 1700 of private sector retail outlets. When you take the public sector retail outlets, per retail throughput has already come down to 140-145 kilo litres per month; in the case of Reliance as per the figures furnished by them, it stands at an impressive figure of around 400 kl per month. Now, one or two reasons, I think, they may not be really out of place to mention here. When you take the public sector retail outlets, they are dotting the landscape of the entire country- the urban areas, the semi-urban areas, the rural areas, non-highways etc. The private sector being a later entrant has the luxury of picking and choosing sites. In fact, tomorrow, the time will only prove us right. When they reach their full number of 5,5,00 retail outlets, we have to really take a reasonable call on that and find out what their per retail outlet throughput is. It may not stand at today's 420 but with the few number, you get a high volume but when you increase the number, I think, throughput is bound to come down. But this does not take away the merit in the argument that public sector has been

indiscriminate in its expansion of facilities. As mentioned by the hon. Chairman, three-four companies like IOC, HPC, BPC etc, all of their retail outlets are standing one after another. I think, this is unhealthy. They are eating to their own volume. This fact is I think not disputed by us. We have advised oil companies to go slow, not to go in for any more retail outlets in already crowded localities but instead go to the rural areas and serve those areas with rural outlets. Now, the oil companies have started doing that so that the captive clientele available there is captured then and there and wasteful use of fuel is avoided. I think, these companies are now in the process of doing. We want to avoid un-unhealthy competition between the oil companies and we want them to go into the real rural areas where there are clientele waiting to be served. I think this is the area now which requires attention".

1.45 When the Committee wanted to know about the details of the growth in volume of sale of petrol and diesel by each oil company in the last three years, the Ministry of Petroleum & Natural Gas furnished the following details in this regard:-

"The details of Oil Company-wise sales and growth in the volume of sale of Motor Sprit (Petrol) and High Speed Diesel (HSD) during the years 2002-03, 2003-04 and 2004-05 are given below: -

BPCL

Year	Motor Sprit (Petrol)		High Speed Diesel (HSD)	
	Sales (TMT)	Growth(%)	Sales (TMT)	Growth(%)
2002-03	2030	(-)7.4	8853	1.3
2003-04	2329	14.7	9023	1.9
2004-05	2593	11.3	9112	1.0

IOC

Year	Motor Sprit (Petrol)		High Speed Diesel (HSD)	
	Sales (TMT)	Growth(%)	Sales (TMT)	Growth(%)
2002-03	2744	6.8	17528	-0.9
2003-04	2828	3.1	17366	-0.9
2004-05	2956	4.5	18033	3.8

HPCL

Year	Motor Sprit (Petrol)		High Speed Diesel (HSD)	
	Sales (TMT)	Growth(%)	Sales (TMT)	Growth(%)
2002-03	1865	7.73	6766	1.06
2003-04	1941	4.05	6673	(-)1.37
2004-05	1721	4.52	5467	4.45

IBP

Year	Motor Sprit (Petrol)		High Speed Diesel (HSD)	
	Sales (TMT)	Growth(%)	Sales (TMT)	Growth(%)
2002-03	554	6.6	2651	(0.3)
2003-04	641	15.7	2949	11.2
2004-05	721	12.3	3305	12.1"

c) Adulteration Of Petroleum Products

1.46 Adulteration of petroleum products has been a major issue posing serious concerns over the years. The Motor spirit and High Speed Diesel Control order, 1998 defines adulteration as the introduction of any foreign substance into motor spirit/high speed diesel illegally or unauthorisedly with the result that the product does not conform to the requirement and specification of the product. Malpractices include adulteration, pilferage, stock variation, unauthorised exchange, unauthorised purchase, unauthorised sale, unauthorised possession, over-charging, sale of off-specification product, etc. in respect of motor spirit and high speed diesel.

1.47 The Committee have been informed that the following are some of the measures taken by the Government/Oil Marketing Companies to contain the menace of adulteration in petrol/diesel:-

"(i) Under the Control Orders issued by the Government to prevent fuel adulteration, under the Essential Commodities Act, 1955, State Governments are empowered to take action against those indulging in adulteration.

(ii) Instructions to State Governments have been issued at Minister's level to step up inspections/surprise checks to ensure that adulteration related activities are eliminated. The concerned departments of the State Governments/UT Administrations have been requested to conduct vigil/inspections at various private firms, factories, processing units etc., under their jurisdiction so as to identify the perpetrators of adulteration and to take stringent action against them under the available legal framework. OMCs have also been instructed to strengthen their inspection machinery/system so as to ensure that checks/inspections are carried out and stringent action is taken against errant dealers.

(iii) Keeping in view the misuse/diversion of SKO for adulteration, the import of SKO by private parties has been canalised through OMCs. OMCs have also taken up technological solutions to contain adulteration activities. These include (i) monitoring movement of tank trucks through Global Positioning System (GPS), (ii) monitoring level of fuel tanks in Retail Outlets through retail automation, (iii) introduction of marker in adulterants and (iv) strengthening surprise inspections as well as routine inspections.

(iv) Oil Marketing Companies (OMCs) have created a separate wing to report to a Director other than Director(Marketing), which will oversee and monitor all activities and operations to curb adulteration and specify norms and guidelines in this regard.

(v) Effective 2nd October 2005, Government launched the Jan Kerosene Pariyojana as a pilot project in 413 blocks covering 23 States and one Union Territory for a period of six months with a view to strengthen and streamline the infrastructure for kerosene distribution and to involve the Gram Sabhas and Gram Panchayats and State Panchayati Raj Institutions in the supervision of PDS kerosene distribution, so as to ensure that entitled beneficiaries actually receive their entitlement and diversion to adulteration and black-marketing is capped, reversed and eventually eliminated."

1.48 When asked as to whether guidelines have been issued to the oil companies to adopt stringent measures to curb adulteration, the Ministry of Petroleum & Natural Gas gave the following details in a written reply:-

"Government has issued revised MDG, 2005 effective from 01.08.2005 which is more stringent as compared to MDG, 2001. Termination has been prescribed in the first instance in the case of irregularities such as adulteration, short delivery (where Weights & Measures (W&M) seals have been tampered), totaliser seals found tampered, additional & unauthorized fittings found in the dispensing units, unauthorised storage facilities within the licensed premises of the RO, unauthorised purchases/sales/exchange of MS/HSD, selling of normal MS/HSD as branded fuels, tank lorry carrying unauthorised products found under decantation at RO, etc.

A number of new irregularities (which were not in MDG, 2001) such as additional/unauthorized fittings/gears found in the dispensing units, unauthorised storage facility within the licensed premises of the RO, selling of normal MS/HSD as branded fuels, refusal by dealer to allow drawal of sample and/or carrying out of inspection, non display of authorized retail selling price of MS/HSD, poor housekeeping, non-provision of/or inadequate facilities, etc., have also been incorporated in the revised MDG, 2005.

Under MDG, 2005 OMCs are also accountable, besides the dealers, for indulging in adulteration and other irregularities at ROs. At the same time, OMC officials/field staff are also liable for disciplinary action where any malpractice/irregularity is detected in their area of operation".

1.49 Stressing on the measures to curb adulteration, the Secretary, deposed before the Committee during oral evidence as under :-

"Till now the steps taken by the oil companies to apply technology with a view to ensuring quality have been half-hearted. I think this will not do.

What we want is from end to end- from refinery or terminal end to the customer end, along the various segments, the terminal, the depot, the retail outlet, the customer. At every end we have to go in for more non-human technology applications. When you depend upon human error, I think definitely the errors tend to multiply. Reduce the human interface and go in for more technological applications. This is one decision which has been taken. I think we are really in the process of fixing very ambitious targets. One of the pleas which the oil companies come out with, which I am not accepting, is that enough number of vendors are not available to supply this. This I said, we will import them. Today everything is available on free import and the cost is the same. Import and fit but over the next 12 to 18 months we must shape up so that technology is fully in evidence here.

The second thing is, service to customer must improve i.e. value added services. Instead of just thrusting items which are not wanted by them, I think we must identify what are their felt needs and we must try and cater to their needs in cost effective fashion.

The third thing is our willingness and determination to initiate disciplinary action against the defaulting dealers as well as your staff. I think this is very very badly needed because taking one-sided action will not just meet the requirement. Dealers have a very justified cause saying that you are making rules more stringent against us but how about your own staff. Some of the members very validly, very correctly, very relevantly observed that without the connivance of the lower level sales staff these things cannot go on a sustained basis for too long in the field. I think this fact is known to the oil companies. I think we are now advising them, on the point of losing their market, on the verge of losing their market, to really shape up and take strict disciplinary action against their own erring staff also."

1.50 When the Committee desired to know the innovative technological applications made by the oil companies to check adulteration, the Ministry of Petroleum & Natural Gas furnished the following data in a post-evidence reply:-

"The Oil Marketing PSUs undertake quality check of petroleum products at refinery and depot level. With a view to curb adulteration during transportation through TTs and at ROs, OMCs have undertaken the following technological solutions:-

(a) <u>Tank Truck Locking System</u> A system of sealing of Tank Trucks through a new locking system has been introduced. In this system, the trucks, which supply product to the retail outlets, are locked with unique/RO specific locks for which keys are available with the RO dealer only and a master key is available at the dispatch location. These locks are tamper-proof and duplicate keys can not be made easily. By introduction of this new locking system, en-route pilferage and en-route adulteration is expected to be eliminated.

(b) <u>Global Positioning System.</u> To check adulteration during transportation and in order to monitor the movement of Tank Trucks transporting Motor Sprit, diesel and kerosene, the Government has advised the OMCs for installing Global Positioning System (GPS) based vehicle tracking system on the Tank Trucks carrying these products. The essential features of the system is that the vehicle carrying these products is fitted with a device and can be tracked on real time basis from the time it leaves the supply location and till it reaches the destination.

(c) Automation of Retail Outlets. In a meeting taken by Minister (P&NG) held on 19.03.2006 at Mumbai to discuss measures towards curbing of adulteration in petroleum products, it has been decided that for effective monitoring, OMCs need to develop an aggressive road map for making use of technology/automation, as the private sector oil companies have been doing for their retail outlets (ROs). Technology up-gradation involves monitoring of stocks, sales and inventory controls at retail outlets by capturing, collating and analysing all transactions electronically. To begin with, OMCs could take up automation of ROs with relatively higher throughput, say more than 200 KL per month, on priority basis.

Since almost 50% of the ROs of OMCs contribute to about 75% of the total retail sales volumes, it was decided that OMCs should carry out automation/technology up-gradation at these ROs on a priority basis.

(d) Marker System. Oil industry has conducted trials for introducing a marker in the main fuels viz. petrol/diesel in Mumbai and Delhi. As per the trials conducted, products namely MS and HSD are doped with a marker at a pre-determined level. Adulteration, if any, can be found out by measuring the concentration of the marker present in the fuel dispensed at the Retail Outlets. However, due to high tolerance limit and not being cost effective, this system has not been found to be feasible.

OMCs have been therefore asked to introduce marking of adulterants instead of the main fuels. It is expected that the new system of marking of adulterants would take off by July 2006.

(e) Third party certification of Retail Outlets. In a meeting taken by Secretary (P&NG) on 12.04.2006, OMCs have been asked to complete third party certification of all the retail outlets selling more than 100 KL per month within 1 year.”

d) Cess on crude oil

1.51 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 31.3.2005, the Central Government has collected a sum of about Rs. 55900 crore as cess. Out of this, OIDB has received an amount of about Rs. 902 crore.

1.52 The rate of cess being collected since 2002 till March 2006 was Rs. 1800/- per tonne on crude oil produced in the country. Now, through the Budget (2006-07), this has been increased to Rs. 2500 per MT.

1.53 When asked about the impact of the cess increase on the bottomlines of ONGC/OIL, the utilisation of the enhanced cess amount and the amount paid by ONGC/OIL as cess during the last three years, the Ministry of Petroleum & Natural Gas, inter-alia, furnished the following details in a written reply:-

"Consequent upon increase in cess from Rs. 1800 per MT to Rs. 2500 per MT as announced in the Budget, ONGC will have to pay additional cess of Rs. 1914 crore based on the crude oil production target of 27.35 MMT in 2006-07. The impact on Oil India Limited (OIL) with regards to increase in cess will be about Rs. 245 crore in 2006-07 based on the crude oil production target of 3.5 MMT in 2006-07. Accordingly, profitability of ONGC and OIL will be impacted on this account.

Cess amount paid by ONGC and OIL in last three years is as under:

(Figures in Rs. crore)

	2004-05	2003-04	2002-03
ONGC	4054.43	4015.77	4035.36
OIL	583.64	534.96	502.86

Proceeds of cess are credited to the consolidated funds of India. The cess proceeds are meant for "Oil Industries" development includes 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, down-stream of an oil refinery and the production of fertilizers and petro-chemicals and all activities directly or indirectly."

1.54 As regards availability of cess money to the Oil Industry Development Board (OIDB), the Secretary, Petroleum & Natural Gas stated during evidence as under:-

"In fact, a lot of money is taken away in the form of crude cess by the Consolidated Fund but not even a fraction of that comes back to the Ministry for the development of the industry. This Rs. 700 increase, which has been introduced in this year's Budget, will give the exchequer roughly Rs. 2200 crore (700 x 31 million tonnes). They will get it as extra. But nothing has been indicated with regard to how much out of this extra amount is going to be made available to the OIDB."

e) LNG Terminals on the East Coast

1.55 In order to meet the increasing demand of gas in India, import of gas as Liquefied Natural Gas (LNG) is being explored from gas rich countries abroad. The policies of the Government also encourage import of LNG. At present, there are two LNG terminals in the country. M/s. Petronet LNG Limited (PLL) have commissioned a 5 MMTPA (million metric tonne per annum) LNG terminal at Dahej, Gujarat in April, 2004. M/s. Shell have commissioned a 2.5 MMTPA LNG terminal at Hazira, Gujarat in April, 2005. Ratnagiri LNG terminal in Maharashtra is likely to be commissioned in 2006. PLL have also initiated action for setting up an LNG terminal at Kochi, Kerala, which is likely to be commissioned in the last quarter of 2009.

1.56 Replying to a question on the suitable location for LNG terminal on the East Coast, the Ministry of Petroleum & Natural Gas furnished the following details in a post-evidence reply:-

> "1. Indian Oil Corporation (IOC) initially proposed to develop an LNG import terminal at the Kakinada Deep Water Port in Andhra Pradesh. However, subsequent large indigenous gas discoveries in the Krishna-Godavari Basin, one projected to change the picture of gas availability in the region. The price of imported LNG, which has several cost elements, such as liquefaction, shipping and regasification, is not likely to be competitive vis-à-vis indigenous gas. This has also been proved in the case of NTPC's tender for sourcing gas for their power plants at Kawas and Gandhar in Gujarat. The offer of M/s. Reliance for supply of gas from Krishna-Godavari Basin had outbid the offers from the international bidders for supply of LNG to these plants.
>
> 2. In view of the above, IOC decided to explore the possibility of developing the LNG project at an alternative site away from Kakinada. Initially, technical feasibility and gas demand studies were conducted for an LNG terminal at Krishnapatanam. During the process of tying up customers, it was observed that most of the potential gas customers, including IOC's subsidiary Chennai refinery (of Chennai Petroleum Corporation Limited) are located in Tamilnadu. IOC, therefore, undertook the study through a consultant to identify the most suitable port for supply of gas to various potential customers. The study included Krishnapatanam and Ennore sites among the four potential suitable port sites.
>
> 3. It may be mentioned that the demand from IFFCO's proposed grassroots fertilizer plant at Nellore was taken into account for the port selection study. Further, based on interaction with several potential power plant developers, it was considered that a power plant of about 1000 MW capacity could be set up at any of the four potential sites for the LNG terminals, which was also factored into the port selection study. Based on this

and potential demand at other centres in Tamilnadu and Karnataka, the study established that Ennore is the most suitable port for setting up the LNG import terminal. The key factors favouring Ennore were its proximity to the demand centres and its developed port facilities. Nevertheless, any demand for gas arising at Krishnapatanam / Nellore would also be met from the proposed project at Ennore.

4. It may also be mentioned in this context that the global LNG scenario has of late been changing very rapidly. Gas importers are finding it very difficult to access LNG from exporting countries because of very high demand from countries like the USA which are concluding LNG import contracts at high rates. At this rate, there is no possibility of imported LNG competing with locally produced gas in the near future."

1.57 Amplifying these aspects, Secretary, Ministry of Petroleum & Natural Gas informed the Committee during evidence as under:-

"After the discovery of more and more gas in Eastern offshore, I think, the whole economics of gas is changing. What appeared to be economical yesterday does not appear economical any more on the Eastern Coast. There are two or three factors involved. First is the discovery of so much of gas and expected production over the next two or three years. In fact, by 2009 we expect production from Krishna-Godawari basin to cross what is available today. About 90 million cubic meters of gas is going to be additionally produced over the next three years from the Eastern offshore. Secondly, today with more and more LNG becoming globally available, LNG economics is changing. What was available for 2.5 to 3 dollars per million BTU five years ago today is already at 6 dollars per million BTU. And by 2010, it is going to grow to 10 dollars per million BTU whereas locally available gas will never cross 5 dollars per million BTU to 5.5 dollars per million BTU. In fact we are expecting about 3.5 dollars per million BTU. You may recall that the NTPC contract is 2.9 dollars per million BTU and Reliance has agreed to supply from the Eastern offshore production. The relative economics would very clearly dictate that the LNG terminals along the Eastern Coast will not have any future whether it is Kakinada or Ennore or Krishnapatnam or Paradeep or Haldia. The thing is that they will not have any future. In Andhra Pradesh, when so much of gas is available, local gas will just kill any LNG terminal even in Tamil Nadu or in Andhra Pradesh or in Orissa. It is because once the gas grid comes into being, transportation of gas will be so economical and LNG cannot compete with it. The hard fact of the matter today is that there cannot be any LNG terminal on the East Coast anywhere from Haldia to Kanyakumari over the next ten years because of the sheer economics."

PART-II

STATUS OF IMPLEMENTATION OF RECOMMENDATIONS CONTAINED IN THE FIRST & FIFTH REPORTS OF THE COMMITTEE ON DEMANDS FOR GRANTS (2004-05) & (2005-06) RESPECTIVELY OF MINISTRY OF PETROLEUM & NATURAL GAS

A. First Report of the Standing Committee on Petroleum & Natural Gas

The First Report of the Standing Committee on Petroleum & Natural Gas on 'Demands for Grants (2004-05) of the Ministry of Petroleum & Natural Gas' was presented to Lok Sabha on 20.8.2004.

2.2 In all, there were 28 recommendations in this Report. These recommendations were on thrust areas during 10th Plan, frequency of New Exploration Licensing Policy (NELP) bids, ONGC's performance in natural gas production, in-place hydrocarbon accretion, collection and interpretation of pre-drill seismic data, dissemination of data relating to NELP blocks, volume of export of petroleum products, implementation of new refinery projects, placing of orders by PSUs with reputed vendors, fuel and non-fuel cost, involvement of PSUs in subsidy sharing, Price Stabilisation Fund, replacement of *ad-valorem* duty structure, Regulatory Board Bill, revival of Anti-Adulteration Cell, austerity in Non-Plan spending, strategic storage facility, ethanol-blended petrol programme, bio-diesel blended diesel programme, coal gasification projects, premium brand petrol, extension of CNG system in the Eastern region, creation of a separate cell in Indraprastha Gas Limited for extending CNG facilities, Coal Bed Methane bids, National Gas Hydrate Programme, field activities of Petroleum Conservation Research Association (PCRA), soft loan schemes of PCRA and curbing of pilferage of crude oil.

2.3 The statement of the then Hon'ble Minister for Petroleum & Natural Gas and Panchayati Raj regarding implementation of recommendations contained in the First Report was laid in Lok Sabha on 25.8.2005 under Direction 73A of the Directions by the Speaker, Lok Sabha.

2.4 The Ministry of Petroleum & Natural Gas was requested to indicate the latest status of implementation of recommendations contained in this Report. The various steps taken by the Ministry to implement these recommendations have been furnished to the Committee (column 4 of Annexure-I).

2.5 An analysis of the data furnished by the Government reveals that fifteen of the recommendations contained in this Report have been fully/substantially implemented by the Government. These recommendations include dissemination of data relating to NELP blocks, increasing the volume of export of petroleum products, involvement of PSUs in subsidy sharing, Regulatory Board Bill, creation of a separate cell in IGL for extending CNG facilities, soft loan schemes of PCRA, etc. Eleven other recommendations of the Committee which are in the process of being implemented include in-place hydrocarbon accretion, setting up of strategic storage facility, coal gasification projects, etc. The two recommendations of the Committee that have not been implemented by the Government relate to setting up of Price Stabilisation Fund and revival of Anti-Adulteration Cell.

2.6 A statement containing the gist of operational portion of the recommendations contained in this Report, position indicated in Minister's Statement and the latest status of implementation of the recommendations is given in Annexure- I.

B. Fifth Report of the Standing Committee on Petroleum & Natural Gas

2.7 The Fifth Report of the Standing Committee on Petroleum & Natural Gas on 'Demands for Grants (2005-06) of the Ministry of Petroleum & Natural Gas' was presented to Lok Sabha on 20.4.2005.

2.8 In all, there were 26 recommendations in this Report. These recommendations related to Integrated Energy Policy, fixing of ONGC's production targets, Enhanced Oil Recovery/Improved Oil Recovery schemes, need to enhance efforts to acquire assets abroad, setting up of strategic storage facility, coal gasification projects, Dahej-Uran Pipeline Project, development of National Gas Grid, implementation of new refinery projects, need to observe austerity in Non-Plan expenditure, Price Stabilisation Fund, restructuring of excise duty on petroleum products, revenues from petroleum sector, Regulatory Board Bill, revival of Anti-Adulteration Cell, transnational gas pipelines, LNG policy, setting up of LNG terminals, Euro-III and the revised Euro-II fuel deadlines, CNG conversion kits, hydrogen fuel cell technology, promoting bio-diesel & Jatropha plantation, ethanol-blended petrol programme, development of alternative sources of hydrocarbons like CBM & Gas Hydrates, coal liquefaction programme by OIL and grant of excise duty concession to BRPL.

2.9 Statement of the then Hon'ble Minister for Petroleum & Natural Gas and Panchayati Raj regarding implementation of recommendations contained in this Report was laid in Lok Sabha on 22.12.2005 under Direction 73A of the Directions by the Speaker, Lok Sabha.

2.10 The Ministry of Petroleum & Natural Gas was requested to indicate the latest status of implementation of recommendations contained in this Report. The various steps taken by the Ministry to implement these recommendations have been furnished to the Committee (column 4 of Annexure-II).

2.11 An analysis of the data furnished by the Government reveals that eight of the recommendations contained in this Report have been fully/substantially implemented. The major recommendations that have been implemented include fixing of ONGC's production targets, acquisition of assets abroad, Euro-III & revised Euro-II fuel deadlines, etc. Sixteen recommendations contained in this Report are in the process of being implemented. These recommendations relate to Integrated Energy Policy, setting up of strategic crude storage facility, development of National Gas Grid, restructuring of excise duty on petroleum products, transnational gas pipelines, Hydrogen fuel cell technology, etc. Setting up of Price Stabilisation Fund and revival of Anti-Adulteration Cell are the two recommendations of the Committee that have not been implemented by the Government.

2.12 A Statement containing the gist of operational portion of the recommendations, position indicated in Minister's Statement and the latest status of implementation of the recommendations is given in Annexure- II.

PART III

Recommendations/Observations of the Committee

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

3.2 The Committee regret to find that the Oil India Limited (OIL) has not been able to meet the seismic surveys and drilling targets in 2003-04 in respect of four items viz. 2D seismic survey, 3D seismic survey, exploratory drilling and developmental drilling. Similarly, in the year 2005-06, the anticipated achievements in respect of these items, except 3D seismic survey, fell short of the targets fixed in this regard. However, the Company has performed better in 2004-05, with shortfall being registered in case of exploratory drilling only. The Committee have been apprised that the non-receipt of security clearance, inability to finalise contracts, delay in acquisition of land for drilling locations, problems with chartered drillings rigs, blockade by local people, environment

issues, etc. have hampered the surveys/drilling activities of OIL. They have further been informed that as a part of the strategy chalked out to overcome these problems, OIL has significantly enhanced the value of land acquired for drilling and procured a mobile drilling rig to supplement the drilling capabilities. The Committee, while appreciating the initiatives taken by OIL in tackling the problems, are of the view that the company should have initiated these measures earlier which could have significantly improved its drilling activities. They desire the company to strive hard to achieve its targets in future with regard to seismic survey and drilling activities taking cues from the lessons learnt in the past .

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

3.4 The Indraprastha Gas Limited (IGL) has been supplying Piped Natural Gas (PNG) in Delhi. As on March 1, 2006, 44465 domestic customers, 194 small

commercial consumers and 40 large commercial consumers in Delhi have been connected to PNG. The Committee find that the supply of PNG in Delhi has been confined mostly to areas in and around South Delhi, while the areas in North, East and West Delhi have not been given due weightage, with only a few pockets in these areas being touched. The Committee would like to be apprised of the reasons for the uneven supply of PNG in the Capital. Keeping in view its numerous advantages viz. uninterrupted supply, convenience, safety, lower maintenance cost, tamper-proof supply, etc., the Committee recommend that a comprehensive road map should be prepared to cover the entire Capital with PNG within a period of five years.

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

3.6 The Committee find that the Engineers India Limited (EIL) has been serving the petroleum, petrochemicals and other process industries including metallurgical industry since the mid-sixties providing a comprehensive range of project engineering services. The organisation has been continuously endeavouring to achieve high standards of excellence in its services in

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

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

that the Ministry should contain the expenditure during the year within the Budget sanctioned for it and observe austerity in Non-Plan expenditure.

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

3.9 The Committee are unhappy that there has been delay in completion of the two mega projects at the Panipat Refinery of the Indian Oil Corporation Limited (IOCL). The first mega project viz. Integrated Paraxylene/Purified Terephthalic Acid Project was originally scheduled to be completed in March, 2003. The completion schedule of this project was first revised to August, 2005 and subsequently to April, 2006. Similarly, in case of the second mega project viz. Panipat Refinery Expansion Project, the completion schedule was extended to December, 2004 from the original completion schedule of May, 2002. Subsequently, it was further extended to July, 2006. The Committee take note of the fact that the initial approved cost of the first project was Rs. 4228 crore which was later revised to Rs. 5104 crore. Similarly, in case of the second project, the initial approved cost of Rs. 3365 crore was subsequently revised to Rs. 4165 crore. Besides, till now, there has been a further cost increase in case of the second project which has been stated to be within 5 per

cent of the revised approved cost. The time overrun on these projects has been, inter-alia, attributed to delay in engineering by Project Management Consultant, delay in delivery of equipments by some vendors/suppliers/contractors, etc. The Committee desire that the responsibility for the time and cost overruns should be fixed and suitable action be taken against those held responsible. They have been informed that the penalty clause for price reduction has been applied as per contract against the Project Management Consultants for delay on their parts. The Committee further desire that the details of action taken against other erring agencies/persons and progress made on the projects be conveyed to them.

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

or rehabilitate the outlets consistently yielding very low throughput, improper monitoring of the situation by the Ministry, etc. The Committee are of the strong view that unless suitable and timely measures are taken, the situation may further deteriorate. They, therefore, recommend that the Government should constitute an expert team, independent of the Ministry and oil PSUs, to look into the above issues and suggest corrective measures to improve the situation. The report of the expert team should be furnished to this Committee within a period of two months from the presentation of this Report. The Committee would like to be apprised of the action taken in this regard.

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

incentive scheme should be introduced for oil company officials displaying extra-ordinary performance in the direction of checking the menace.

3.12 The Oil Industry Development Board (OIDB) was set up in January 1975 under the Oil Industry (Development) Act, 1974 to provide financial assistance for the development of the oil industry and funds are supposed to be made available to OIDB by the Central Government from the proceeds of cess levied and collected on indigenous crude to enable the organisation to carry out various developmental activities. However, the Committee are unhappy to note that adequate amount from the proceeds of cess is not being made available to OIDB or the Ministry of Petroleum & Natural Gas. They have been informed that up to 31.3.2005, the Central Government has collected a sum of about Rs. 55900 crore as cess out of which OIDB has received a paltry sum of about Rs. 902 crore only. The Committee have been expressing their concern over this disturbing trend through their Reports every now and then. In spite of their recommendations reiterated in the earlier Reports of the Committee, the situation has not been remedied which the Committee strongly disapprove of. They would like to be apprised of the amount collected as cess on crude by the Government during each of the last 5 years, the amount made available to OIDB during this period, various activities on which cess amount was utilised and the extent to which the Oil Industry benefited from such utilisation. The Committee further observe that cess on crude per metric tonne has been enhanced to Rs. 2500/- from Rs. 1800/- through the Budget (2006-07). They would like to know the manner in which and the specific purposes for which the additional amount thus collected would be utilised by the Government.

3.13 The Committee have been informed that IOC has undertaken a study through a consultant to identify the most suitable port for supply of gas to various potential customers and that the said study established Ennore as the most suitable port for setting up the LNG terminal on the Eastern Coast. The key factors which favoured Ennore have been stated to be its proximity to the demand centres and its developed port facilities. However, the Committee would like to remind the Government that in their 8th Report (14th Lok Sabha), they had advised the Government not to take the outcome of this study as final

and conclusive in view of the fact that Krishnapatnam was considered favourably for LNG terminal purpose by a study conducted by another agency a few years ago. Meanwhile, the Secretary, Ministry of Petroleum & Natural Gas has informed the Committee during evidence on Demands for Grants (2006-07) of the Ministry that LNG terminals along the Eastern Coast would not have any future as imported LNG cannot compete with indigenous gas. This implies that the Government does not have any intention of setting up LNG terminals on the Eastern Coast in the near future. The Committee would like to know the actual plan of action envisaged by the Government in the matter. They further desire that, as and when a decision is taken about setting up of LNG terminals on the Eastern Coast, the merits of Krishnapatnam should not be overlooked by the Government.

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

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

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

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

accepted relate to setting up of a Price Stabilisation Fund and revival of Anti-Adulteration Cell.

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

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

New Delhi;

5 May, 2006
15 Vaisakha, 1928 (Saka)

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

ANNEXURE - I

Statement containing the gist of operational portion of the recommendations, position indicated in Minister's Statement and the latest status of implementation of recommendations contained in the First Report of the Committee on Demands for Grants (2004-05) of Ministry of Petroleum & Natural Gas.

Sl. No.	Gist of operational portion of the recommendation	Position as indicated in Minister's Statement	Latest status of implementation of the Recommendation
1	2	3	4
1.	The Committee had recommended that the Government should evaluate its programmes relating to thrust areas identified for special attention during the 10th Plan such as acceleration of exploration efforts, strategic storage of crude oil, Regulatory mechanism to oversee consumer interests, etc. so that the objectives of identifying the thrust areas can be achieved.	Accepted in respect of the recommendation regarding setting up of a strategic storage of crude oil and setting up of Petroleum Regulatory Board. The exploration efforts of exploration companies have resulted in 19 hydrocarbon discoveries under NELP regime so far. In exploration and production business long lead time is required from knowledge building to exploration activities, to accretion of reserves and putting them on production. Investments made in 9th and 10th Plan cannot be treated as wasteful because they have resulted in knowledge building, addition of reserves as well as in arresting the decline in production from major producing fields. Recommendations of	Strategic storage of crude oil Government has approved setting up a 5 MMT strategic reserve, being the core critical sovereign reserve, estimated to cost about 11,267 crores. The capital cost of the three storages is estimated to be around Rs.2,397 crore i.e. Mangalore : Rs.732 crores, Vizag: Rs.672 crore and location near Mangalore: Rs.993 crore. The cost of filling up crude is estimated to be Rs.8,870 crore assuming $ 55 per bbl average cost of Indian basket and exchange rate of 1 US$=Rs.44. The funding will be through utilization of existing legal and fiscal measures. The capital cost which will be required during the first 5 years would be met from the existing funds available with OIDB. The filling of crude oil would commence after completion of the strategic crude oil storages in about 6 years time from now and will continue over three years.

		the Committee on strategic storage of crude oil have been noted and action is being taken to finalise the details in this regard. A revised Petroleum Regulatory Board Bill incorporating provisions for setting up of a technical body, appellate authority, the terms and conditions of service of the officers and staff of the Board etc. is being finalised.	The cost of filling up the storage would be made available from the existing OIDB cess collection from the existing OIDB cess collection. The Special Purpose Vehicle, namely, Indian Strategic Petroleum Reserve Limited (ISPRL) which is presently a subsidiary of Indian Oil Corporation Limited (IOCL), will be made a subsidiary of Oil Industry Development Board for implementation and management of strategic crude oil storages by way of transfer of the ISPRL equity held by IOC to OIDB. The Cabinet in its meting held on 15.12.2005 considered the proposal of this Ministry to set up a Petroleum & Natural Gas Regulatory Board and decided to introduce the Bill namely the Petroleum & Natural Gas Regulatory Board Bill, 2005 in the Parliament. The Bill has been considered and passed in Rajya Sabha on 2.3.2006 and in Lok Sabha on 21.3.2006. To supplement the exploration efforts of National Oil Companies and Private/ Joint Venture Companies, DGH has initiated Aeromagnetic, Geochemical and Long Offset 2D seismic survey in Deepwater areas. In the

			East Coast, total sedimentary area upto Exclusive Economic Zone (EEZ) has been offered under NELP-VI for exploration. In NELP-V round, total 20 blocks with an area of 1,15,180 sq. km were offered whereas in NELP-VI round, 55 blocks with an area of 3,52,191 sq. km. have been offered by Government of India.
2.	The Committee had desired that the frequency of bids under the New Exploration Licensing Policy (NELP) rounds should be enhanced.	Accepted, subject to the time required for completion of various activities for bidding under NELP rounds. Offering of NELP rounds involve multiple activities which usually take about one year.	The activities related to carving out the blocks from poorly explored areas after carrying out speculative survey and from relinquished areas after getting the data from National Oil Companies and Private Operators take about 5-6 months. Preparation of Information Dockets and Data Packages of the blocks followed by printing of hard copies, making soft copies etc. also requires about 4-5 months. The offered blocks require clearance from MOEF and MOD, which also require about 3-4 months. Moreover, finalization of NELP round, preparation of promotional material and material for website etc also require about 1-2 months. In view of above, it is concluded that NELP round can only be held once in a year.
3.	The Committee had advised ONGC to	Accepted subject to the constraints mentioned	ONGC is making efforts for development of natural gas

	make concerted efforts and improve its performance in natural gas production in future. The Ministry was also asked to take adequate steps for development of natural gas market in Assam, A.P. and Rajasthan.	below: Steps taken by ONGC to increase production of natural gas, inter-alia, include IOR/EOR plan for major fields and deployment of new initiatives, technology and equipment for production enhancement. Adequate pipeline infrastructure has been developed in Assam, AP and Rajasthan but development of gas market is supply driven.	market in Assam by creating infrastructure such as laying of pipelines and gas compressors. In Rajasthan and Andhra Pradesh also, similar actions are being considered for development of natural gas market. ONGC has been empowered for direct marketing of gas upto 1.0 LCMD from each of such fields provided GAIL is not able to identify consumers in these areas within six months time. ONGC has already identified 27 consumers in Gujarat, 6 consumers in Andhra Pradesh and 1 consumer in Tamilnadu for supply of gas upto 1 LCMD under direct marketing. The gas supply to these consumers has already started and average gas supply is about 3.83 lakhs m3/day.
4.	The Committee had desired the Public sector oil companies to put in concerted efforts to improve their performance in the area of in-place hydrocarbon accretion in future.	Accepted. As a result of the mid term review of their 10th Plan programmes, the PSUs will be able to put in the concerted efforts to improve their performance in the remaining period of the 10th Plan.	In-place oil and gas reserve accretion by ONGC and OIL in first 3 years of X Plan were about 370 MMTOE and 62 MMTOE respectively. Oil PSUs are likely to achieve in-place hydrocarbon reserve accretion during X Plan period.
5.	The Committee had recommended that adequate precaution be taken in collection and interpretation of predrill seismic data to ensure drilling exercise	Accepted. The following precautions are being taken in collection and interpretation of pre-drill seismic data:	ONGC is taking due care in collection of pre drill seismic data and seeking opinion of best international reputed consultants as and when it is required.

	does not turn out to be futile in the end.	- Use of pre-drill 3D acquisition, processing and interpretation. - Process validation through best international reputed consultants. - Test probing of large structural prospects. - Mid course correction through post drill analysis.	
6.	The Committee had desired that next round of NELP bidding to be completed expeditiously and proper dissemination of relevant data be ensured to attract prospective clients.	Accepted Fifth round of NELP is on the anvil. Exclusive web portal highlighting salient geo-technical aspects has been launched. Data viewing rooms were opened in Delhi, Houston and London for viewing of data by companies.	Bid closing date for 5th round of NELP was 31st May, 2005. A total of 69 bids were received for 20 blocks. The PSCs were signed all the 20 blocks (18 blocks in September, 2005 and 2 blocks in December, 2005). NELP-VI round was launched on 23rd February, 2006 by offering 55 exploration blocks. Bid closing date for these blocks is 15th September, 2006. Government of India has plan to award these blocks by November, 2006.
7.	The Committee had recommended that initiatives should be taken to further increase the volume of exports and that vigorous implementation of energy conservation measures, aggressive exploration activities,	Accepted PCRA is entrusted with the task of conservation of petroleum products and to speed synergetic linkages between oil conservation, economic development and environmental	The value and quantity of petroleum products exports during the 10th Five Year Plan are as under: **Value (Rs Crore)** / **Quantity (TMT)** 2002-03 10868 10289 2003-04 16781 14620 2004-05 29928 18211 2005-06 (Apr-Dec) Prov. 32326 14838

	tapping of alternate sources of energy be made.	protection. Methods adopted include fields activities, education campaigns, R&D activities and HRD activities. Following steps have been taken to increase E&P activities: - Improvement of recovery factor from existing major fields by implementing EOR/ IOR. - Increase exploration efforts through NELP - Explore new areas especially in deep water and difficult frontier areas. - To develop faster newly discovered fields. - To acquire acreages abroad. - To develop alternate energy sources such as CBM and gas hydrates. MOPNG is trying to implement the programme for ethanol-blended petrol. Work on bio-diesel and hydrogen as alternate fuels for future is also in progress.	55 exploration blocks have been offered on 23rd February, 2006 comprising of 24 deepwater blocks, 6 shallow water blocks and 25 onland blocks under sixth round of NELP. To tap alternate sources of energy, 10 CBM blocks were also offered on 23rd February, 2006 under third round of CBM Policy. Ministry of Petroleum & Natural Gas has notified vide Gazette Notification dated 27.10.2004, that 5% ethanol-blended petrol as per BIS specifications, shall be sold in 10 notified States and 3 Union Territories. In terms of this notification, oil marketing companies (OMCs) have floated purchase tenders for Ethanol to be supplied in the notified areas and the progress of implementation is being constantly monitored in the Ministry. Ministry of Petroleum & Natural Gas has also announced Bio-diesel Purchase Policy in October, 2005 for the purchase of bio-diesel meeting Bureau of Indian Standards specifications by Oil Marketing Companies (OMCs) at uniform price of Rs. 25/litre from 1.1.2006. The activities of PCRA are directed towards energy conservation and energy

			efficiency improvement in large/medium/small scale industries, Transport, Agricultural, Domestic sector, Commercial sector and selective urban energy management.
8.	The Committee had recommended that due attention should be given to timely completion of four new refinery projects to avoid cost overruns.	Accepted The progress of major ongoing projects is constantly monitored through monthly progress reports, quarterly performance reports, Board meetings, etc. and corrective measures are taken keeping in view the dynamic market conditions.	Paradip Refinery Project of IOCL: 3347 acres of land has been acquired for the project. Land development by dredging and reclamation, construction of bridges over Santa Creek, and construction of an approach road for the refinery connecting NH-5A to the refinery site, have been completed. The first phase of the project, namely the installation of a Single Point Mooring (SPM) system and Crude Oil Terminal along with Paradip-Haldia Crude Pipeline are under implementation and is scheduled to be completed by March, 2006. The integrated Refinery-cum-Petrochemical complex is being scheduled for completion by end 2009-10. Bathinda Refinery of HPCL: Government of Punjab have signed a Deed of Assurance with Guru

			Gobind Singh Refineries Limited in August, 2005. About 1,996 acres of land has been acquired. Major activities completed within the refinery premises include (i) site grading of 1,600 acres of refinery land (ii) area lighting system (iii) drinking water system (iv) power receiving and distribution system (v) office building (vi) 31 kms. of drain. Raw water channel of 12 kms. to the refinery site has also been completed. Road network (internal and external) has been completed. Right of user through the entire length of crude oil pipeline of more than 1,000 kms. has been obtained. The company has acquired 310 acres of land at Mundra, Gujarat for crude oil terminal, and has also secured a tie-up with port authorities. The project is likely to be completed in the financial year 2010-2011. Bina Refinery in Sagar (M.P.) of BPCL: Land for the refinery block at Bina and for the crude oil terminal at Vadinar has been acquired. Acquisition of right of user/rights of way along the route of the crude oil pipeline has been completed. All major statutory and environmental approvals for the projects has been received. The implementation of

			Lohagara refinery will be taken up after the completion of Bina Refinery.
9.	The Committee had desired that Oil PSUs should place their orders for equipments with reputed vendors and in case of default in delivery, Liquidated Damages Clause should be invoked. Oil PSUs should take mid course corrective measures based on recommendations of Planning Commission to improve the trend of utilization of funds.	Accepted. Oil PSUs place purchase order for equipment and other items on proven and reputed vendors. In case of default in delivery Liquidated Damages Clause is invoked by oil PSUs. Oil PSUs have taken corrective action based on the mid-term appraisal of 10th Five Year Plan.	Oil PSUs place purchase order for equipment and other items on proven and reputed vendors. In case of default in delivery Liquidated Damages Clause is invoked by oil PSUs. The orders for equipments / items are placed with reputed vendors in accordance with the stipulated tender procedures. In case of default in supply, appropriate liquidated damages are claimed from the vendors as stipulated in the conditions of Purchases / Contracts.

10.	The Committee had reasoned that there should be minimum increase in fuel and non-fuel cost to lessen the burden on common man. The subsidy on domestic LPG and PDS kerosene should continue.	Accepted. The following measures have been taken to lessen the burden of price rise on common man – - Excise duty on domestic LPG has been reduced from 16% to 8% w.e.f. 16.6.04. - Customs duty on domestic LPG and PDS kerosene has been reduced from 10% to 5% w.e.f. 19.8.2004. - Excise duty on kerosene has been reduced from 16% to 12% w.e.f. 19.8.04. Consumer price of domestic LPG and PDS kerosene have not been increased after 1.3.02 despite increase in international prices, except for Rs. 20/ cylinder increase in retail selling price of domestic LPG w.e.f. 16.6.04.	**Para 10-13 :** In order to formulate a long term pricing policy for petroleum products, the Government have constituted an Inter-Ministerial Committee under the Chairmanship of Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister. The Committee is mandated to look into various aspects of pricing and taxation of petroleum products with a view to stabilizing/rationalizing their prices, keeping in view the financial position of the oil companies, the investment needed in the sector, the need to conserve petroleum products, and establishing a transparent mechanism for the autonomous adjustment of prices by the oil companies. Taking into consideration the interests of all stakeholders concerned, the Committee will suggest a comprehensive mechanism for pricing and taxation of sensitive petroleum products. The Committee has submitted its report on 17.2.2006 which is being examined by the Government.
11.	The Committee had desired for the continuation of the policy of involving oil sector PSUs in sharing the subsidy burden.	Accepted The under recoveries of Oil Marketing Companies on account of gap between cost price and selling price of PDS kerosene and domestic LPG is being shared among oil PSUs. The Committee's recommendation to continue the present arrangement has been noted.	

12	The Committee had recommended that a Price Stabilisation Fund should be created to bring in stabilisation in prices of petroleum products by using money collected from cess on crude oil. This fund should be utilised as a cushion in case of reduction in import duty/ excise duty on LPG, kerosene, petrol and diesel and to provide subsidy on LPG and kerosene.	Not accepted, in respect of Price Stabilization Fund. Accepted the recommendation regarding utilisation of cess towards subsidy burden. The price band mechanism for petrol and diesel has an inbuilt mechanism to allow variations in product prices in tandem with import parity. As such, no Price Stabilisation Fund is considered necessary for petrol and diesel. This Ministry is in agreement with recommendation of the Committee that cess collected under OIDB Act should be used to meet balance subsidy requirement after taking into account the budgeted subsidy which is presently being borne by Oil PSUs.	

13.	The Committee had recommended that a fixed/ specific duty should be levied on each petroleum product instead of ad valorem duty. Sales tax levied by States should also be specific instead of valorem.	Accepted. The Government has reduced customs duty on PDS kerosene and domestic LPG from 10% to 5% w.e.f. 19.8.2004. MOPNG has requested State Governments to reduce/ maintain sales tax rates on petrol and diesel at earlier agreed levels i.e. 12% on diesel and 20% on petrol. MOPNG has taken up the issue to replace ad valorem sales tax rates with specific rates.	
14.	The Committee had desired that amended Petroleum Regulatory Board Bill should be moved as soon as possible.	Accepted. Revised Bill is being prepared in consultation with Law Ministry and is expected to be moved as early as possible.	The Cabinet in its meting held on 15.12.2005 considered the proposal of this Ministry to set up a Petroleum & Natural Gas Regulatory Board and decided to introduce the Bill namely the Petroleum & Natural Gas Regulatory Board Bill, 2005 in the Parliament. The Bill has been considered and passed in Rajya Sabha on 2.3.2006 and in Lok Sabha on 21.3.2006.
15.	The Committee had desired that the Anti-Adulteration Cell, which was wound up on 31.7.2004, be made functional forthwith to check the menace of adulteration of petroleum products.	Not accepted because of the following reasons: The AAC was wound up w.e.f. 31.7.2004 as functioning of the cell had not made the desired impact on curbing adulteration of petroleum products.	The action taken by the Government/Public Sector Oil Marketing Companies (OMCs) in containing the menace of adulteration in petrol/diesel include the following:- (i) Under the Control Orders issued by the Government to prevent fuel

		This Ministry has requested State Govt./ UT. Administrations to strengthen their inspection mechanisms to ensure that checks are carried out and stringent action taken against errant dealers. Chief Ministers of all States/ UTs have also been requested to activate their enforcement agencies in detecting and prosecuting cases of adulteration and also involving elected local bodies and consumer organizations in this endeavour. Oil companies have been advised to consider creation of a separate wing headed by ED to report to Director other than Director (Marketing) to oversee monitoring of all activities and operations to curb adulteration of petroleum products.	adulteration, under the Essential Commodities Act, 1955, State Governments are empowered to take action against those indulging in adulteration. (ii) Instructions to State Governments have been issued at Minister's level to step up inspections/surprise checks to ensure that adulteration related activities are eliminated. The concerned departments of the State Governments/UT Administration have been requested to conduct vigil/inspections at various private firms, factories, processing units etc., under their jurisdiction so as to identify the perpetrators of adulteration and to take stringent action against them under the available legal framework. OMCs have also been instructed to strengthen their inspection machinery/system so as to ensure that checks/inspections are carried out and stringent action is taken against errant dealers. (iii) Keeping in view the misuse/diversion of SKO for adulteration, the import of SKO by private parties has been canalized through OMCs. OMCs have also taken up technological solutions to contain adulteration activities. These include (i) monitoring movement of

			tank trucks through Global Positioning System (GPS), (ii) monitoring level of fuel tanks in Retail Outlets through retail automation, (iii) introduction of marker in adulterants and (iv) strengthening surprise inspections as well as routine inspections. (iv) Oil Marketing Companies (OMCs) have created a separate wing to report to a Director other than Director(Marketing), which will oversee and monitor all activities and operations to curb adulteration and specify norms and guidelines in this regard. (v) Effective 2nd October 2005, Government launched the Jan Kerosene Pariyojana as a pilot project in 413 blocks covering 23 States and one Union Territory for a period of six months with a view to strengthen and streamline the infrastructure for kerosene distribution and to involve the Gram Sabhas and Gram Panchayats and State Panchayati Raj Institutions in the supervision of PDS kerosene distribution, so as to ensure that entitled beneficiaries actually receive their entitlement and diversion to adulteration and black-marketing is capped, reversed and eventually eliminated. (vi) More stringent

			penalty of termination of RO dealership on the first established offence of adulteration and short delivery (with Weights and Measures seals tampered) has been provided in the revised Marketing Discipline Guidelines (MDG), 2005 with effect from 01.08.2005. MDG 2005 provides for greater accountability and responsibility of OMCs to minimize the instances of adulteration and pilferage by ROs/transporters. In view of the above, and the operational problems faced by the erstwhile Anti-Adulteration Cell, it is not considered appropriate to recreate such a Cell.
16.	The Committee had desired that the Ministry should contain the expenditure for the year within the sanctioned budget of Ministry and follow instructions of MOF to observe austerity in non-plan expenditure.	Accepted The actual expenditure during 2001-02, 2002-03 and 2003-04 was well within the budget estimates for these years. The expenditure during 2004-05 has also been kept within the sanctioned budget.	It has always been the endeavor of this Ministry to contain the administrative expenditure within the sanctioned budget grant by following the guidelines on expenditure management and austerity. The actual expenditures during 2004-05 and 2005-06 (upto February 2006) were Rs. 880.60 lakhs against the Budget Estimates 2004-05 of Rs. 1042.00 lakh and Rs. 940.79 lakh against the sanctioned budget of Rs. 1162.00 lakh. Sincere efforts will be sustained to keep the expenditure within the sanctioned budget for the year 2005-06.
17.	The Committee had recommended that the Government should expedite the work on	Accepted. The recommendation of the Committee has	**Strategic storage of crude oil** Government has approved setting up a 5 MMT

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

			crude oil storages by way of transfer of the ISPRL equity held by IOC to OIDB.
18	The Committee had wanted the Government to vigorously pursue the issues of shortage of ethanol for blending with petrol, delay in grant of transport permits with State Government and to take urgent steps to cover the entire country with 5% ethanol blended petrol by end of 2004-05.	Covering of entire country with 5% ethanol blended petrol by the end of 2004-05 does not appear to be feasible due to reasons given below: Shortage of molasses which is raw material for production of ethanol has affected the scheme of blending ethanol with petrol. The shortage is expected to continue in the coming sugarcane crushing season also. Due to non-availability of sufficient ethanol, covering the entire country with 5% ethanol blended petrol by the end of 2004-05 does not appear to be feasible.	Government implemented the 5% ethanol-blended petrol programme (EBP) in notified sugar producing states and adjoining union territories w.e.f. 1.1.2003. But despite the mandatory requirement, the programme could be implemented only in a staggered manner due to the inconsistence supply of ethanol as also the price issue. Therefore, a fresh Gazette Notification, No. GSR705 (E) was issued on 27.10.2004 as per which 5% ethanol-blended petrol shall be sold in notified States and Union Territories, subject to comparable price and availability. In terms of the said notification dated October 27, 2004, the oil marketing companies (OMCs) have invited tenders for purchase of ethanol and have finalized the contract for one year's requirement of ethanol for the States of Uttar Pradesh, Punjab, Tamil Nadu (in 9 districts), Karnataka & eight industry locations in Andhra Pradesh. Ministry of Petroleum & Natural Gas has already taken up with the State Government of Tamil Nadu for covering the entire State under the

			programme. Secretary (P&NG) has also requested Chief Secretaries of Karnataka & Maharashtra for granting export permission to facilitate inter-state transportation of ethanol. Until the supplies of 5% ethanol-blended petrol in notified areas stabilizes, it would be premature to give any time-frame by when the entire country will be covered under this programme. While the Government would to expand EBP coverage throughout the country, availability of ethanol in a severe constraint.
19	The Committee had recommended that the Government should urgently complete the trials of bio-diesel blended diesel programme and launch the same in various parts of country on large scale subject to satisfactory outcome of trials.	Launching of country wide bio-diesel programme not considered feasible at this stage because of the following reasons: The price of bio-diesel obtained through tender is 3-4 times more than price of petroleum diesel. Although trials have resulted in reduction of smoke and have not caused any operational problem in buses, till the price of bio-diesel becomes competitive, launching of bio-diesel programme in various parts of India on large scale would not be feasible.	Oil marketing companies (OMCs) have undertaken trials of 5% bio-diesel blended with Diesel. Based on the positive results, Government has announced a Bio-diesel Purchase Policy, in October, 2005, effective from 1.1.2006. Further studies on establishing performance of 10 and 20% bio-diesel are in progress with TATA motors and Indian Railways.

20	The Committee had wanted the Government to encourage the coal gasification process as alternative energy development and pursue the project in consultation with Planning Commission and Ministry of Power and Deptt. of Fertilizer.	Accepted In order to meet the gap between demand and supply of natural gas, GAIL, as one of the measures, has been examining the issue of exploiting synthesis gas (Syngas) recoverable from coal especially in eastern sector. Syngas is a mixture of carbon monoxide and hydrogen which can be commercially used for power generation, fertilizer, hydrogen and methanol production. Based on preliminary discussions with M/s. Shell who are one of the pioneer in field of coal gasification, a Detailed Feasibility Report (DFR) is being prepared. For finalisation of location of plant and coal availability, an MOU between GAIL and Coal India Ltd. has been initiated and CIL is awaiting its Board's approval. Further action including consultation with Ministry of Power, Deptt. of Fertilizers and Deptt. of Chemicals and Petrochemicals would be taken up depending upon the DFR.	GAIL plans to set up underground lignite gasification projects in Barmer district in Rajasthan and Mannargudi in Tamilnadu. ONGC has entered into an agreement with Skotchinsky Institute of Mining, Russia for implementation of UCG programme in India. The UCG project will comprise of six phases covering site selection, detailed evaluation of geological and hydro- geological data preparation of technical report, project design, construction of enterprise UCG and its implementation. GAIL has signed an MOU with M/s. Ergo Exergy Technologies Inc., Canada, for jointly developing underground lignite gasification projects. ONGC has entered into an agreement with Skotchinsky Institute of Mining, Russia for implementation of UCG programme in India. ONGC has also signed an MOU with Coal India Limited for cooperation in area of UCG.
21.	The Committee had recommended that the oil marketing companies should obtain feedback from	Accepted Regular inter-action with customers at retail outlets as well as	The Committee has accepted the reply of the Government. There is no change in the status. The Oil Marketing Companies

	vehicle owners about using such premium brand petrol like XTRAPREMIUM and POWER which will enable them to bring in further improvement in the product.	surveys/ tests have revealed that vehicle owners have experienced one or more of following benefits after using premium grade petrol:- - Extra mileage - Extra power & greater acceleration - Easy starting - Smoother running - Knock free drive - Reduced emissions. Oil companies have taken steps to expand the coverage of premium brand of petrol by launching them in new markets and in additional retail outlets in existing markets.	continue to take the action as indicated therein.
22.	The Committee had wanted that the CNG system should be extended to cities in the eastern region of the country such as Kolkata, Patna, Bhubaneswar and Ranchi. There should be no time overrun in implementing these projects owing to lack of funds.	Accepted in principle, subject to availability of natural gas. Supply of CNG in cities requires the following facilities – - source of natural gas supply usually through trunk pipeline - natural gas distribution network in city - CNG dispensing station comprising basic facilities, access to gas distribution network, CNG compressors, cascades and dispensers.	Supply of CNG in cities requires the following facilities:- - source of natural gas supply usually through trunk pipeline - natural gas distribution network in city. - CNG dispensing station comprising basic facilities, access to gas distribution network, CNG compressors, cascades and dispensers. There is no natural gas pipeline in the eastern states of WB, Bihar, Orissa and Jharkhand. The nearest source of gas supply is GAIL's

		There is no natural gas pipeline in the eastern states of WB, Bihar, Orissa and Jharkhand. The nearest source of gas supply is GAIL's Jagdishpur terminal which is about 800 km. from Kolkata. CNG projects in these cities will only be taken up when source of gas supply is identified and it is found feasible to lay pipelines to supply gas for CNG projects. Funds are no constraints.	Jagdishpur terminal which is about 800 km. from Kolkata. CNG projects in these cities will only be taken up when source of gas supply is identified and it is found feasible to lay pipelines to supply gas for CNG projects. Funds are no constraints. In addition to above, GAIL is in discussions with IOCL to form a JVC for West Bengal state for implementation of city gas projects in the state.
23.	The Committee had recommended that a small but separate Cell be created in the Indraprastha Gas Limited (IGL) to exclusively pursue the job of liaisoning with land owning agencies and OMCs for obtaining sites for CNG facilities especially in East Delhi.	Accepted. A dedicated team of IGL personnel from its Planning Department is constantly in touch with the land owing agencies to get some more plots in East Delhi. Two sites have already been identified in IFC pocket in Gazipur, Mayur Vihar Phase III and are likely to be in possession of IGL in the near future.	IGL has already obtained allotment for two sites in Integrated Freight Complex (IFC), Pocket C, Gazipur and possession of these have been taken over.
24.	The Committee had recommended that frequency of exploration bids for CBM blocks should be increased.	Accepted. Two rounds of bidding of CBM blocks have been completed. 16 contracts have been signed for exploration and production of CBM. 7 blocks in different coal fields have been identified for offer under 3rd round of CBM.	Two rounds of bidding of CBM blocks have been completed. 16 contracts have been signed for exploration and production of CBM. Under the third round of CBM bidding launched on 23rd February, 2006, Government of India has invited bids for total 10 blocks located in different coal/lignite fields of the country for exploration and production of CBM. The bid closing date is 30th June, 2006.

25.	The activities for National Gas Hydrate Programme (NGHP) should be followed as per road-map. More emphasis should be given to R&D activities, scientists possessing adequate expertise should be appointed and extra financial benefits besides commendation certificates should be given to them on achieving significant breakthroughs.	Accepted At present, all activities under NGHP and its projects are being implemented as per NGHP road-map. Scientists engaged in NGHP are highly experienced, possess adequate expertise in oil and gas exploration/ production and have good exposure to gas hydrate related scientific activities. As recommended by the Committee, MOP&NG would consider reward in terms of financial benefits for scientists achieving significant breakthrough.	At preset all activities under NGHP and its project are being implemented as per NGHP roadmap. Till date, since its inception, a larger number of seismic data covering entire offshore areas of the country has been studied including special processing of larger data for identification of gas hydrate signatures. Based on these studies, three areas in KG Basin, Andaman sea and west coast were identified for further scientific investigations. A road map was also prepared for NGHP. As per the road map, detailed geo-scientific investigations were carried out in the Krishna-Godavari (KG) Basin and Kerala-Konkan (KK) basin by NGHP through National Institute of Oceanography (NIO). Based on the results of seismic data studies and geo-scientific investigations, ten sites in Mahanadi, KG & KK basins and Andaman sea have been identified for drilling/ coring of gas hydrates in the deepwaters. The drilling/ coring for gas hydrates is a very specialized activity and India will be only third country in the world to do so, after USA and Japan. The services for such specialized activity are not available commercially in the world. With sustained efforts by DGH, with

			Integrated Ocean Drilling Programme (IODP) & USA, the drillship along with all the scientific equipment and scientists onboard is likely to come to Indian offshore in April 2006, under an agreement between DGH and a "US Consortium" of companies. After obtaining the gas hydrate cores several scientific studies will be carried out onboard the ship and also in several laboratories in India, USA and Canada for which separate agreements are being signed by DGH and corresponding agencies. A specialized core repository is also being constructed in Panvel, Mumbai for storing all the valuable gas hydrate cores for future studies.
26.	The declining trend in field activities of the Petroleum Conservation Research Association (PCRA) should be arrested. PCRA should put in more efforts and step up field activities in future.	Accepted. PCRA would make all efforts to step up its field activities in future.	PCRA has concentrated its efforts in large enterprises like Refineries, Power, Steel, Textiles etc., which are energy intensive sectors, where the potential for energy conservation is high. As these large audits consume more time, there is a decline in total number of activities in comparison to earlier years. However, there has been an improvement in the quality of services being provided by PCRA.
27.	PCRA should make an analysis of the	Accepted	The rate of interest has been lowered from 7% to

	declining trend in implementation of promotional soft loan schemes in industrial, transport and agricultural sectors to promote efficient use of energy and its conservation. If necessary, the rate of interests charged for such loans may be reduced to encourage more customers to go in for procurement of energy saving instruments which would lead to further energy conservation.	PCRA has taken the following measures to arrest the downward trend in soft loan disbursement schemes: (i) Regional and Sub-Regional Offices are being sensitised to spread the awareness about the Soft Loan Promotional Schemes. (ii) A proposal for lowering the rate of interests, along with other modifications in the existing schemes for soft loan is under consideration.	6% which would help in improving the disbursement of soft loan for procurement of energy saving instruments.
28.	The Committee had desired that MOP&NG should take immediate and stringent steps to curb pilferage of crude oil.	Accepted. Various preventive measures have been taken by ONGC in last two years to curb incidence of pilferage of crude oil. These include:- - Mobile patrolling of oilfields. - Bringing of vulnerable and high yielding self-flow wells/ sucker road-pumps under Sarpanch security system / Gram Rakshak Dal.	A detailed Survey of Trunk Pipeline was conducted and based on history / data/ number of incidents and modality of puncturing, vulnerable areas were identified, and Line-Walker System instituted to cover the vulnerable area and to report and detect any tampering / unusual activities. In addition, a Trunk Pipeline (TPL) Patrolling System was constituted for TPL Patrolling at Asset level. Vulnerable areas and roads have been identified in consultation with the jurisdictional police authorities for conducting mobile nakabandi by joint team of local police and

		- Sensitise local populations about the serious environmental system and fire hazards involved in theft of crude oil - Quarterly onland security coordination Committee meetings under chairmanship of DG, Police - Distribution of rewards to police officers who detect/ bust gangs involved in oil theft/ pilferage, etc. - Possibility of putting in place a Pipeline Monitoring System to detect any third party intervention on the pipeline in real-time to enable security to response immediately.	ONGC security personnel to check unauthorized movement of crude oil tankers. Similarly, with the help of civil administration, movements of tankers from dusk-to-dawn in the oil field areas were banned in few highly affected districts. Very effective liaison and coordination is maintained with District and State-level police authorities to ensure prompt reporting / investigation and follow-up on all reported / detected cases of pilferage and theft. Onshore Security Coordination Committee meetings held every quarter under the chairmanship of DsGP concerned are attended by representatives from civil administration / jurisdictional police authorities to review the prospective plan and activities of ONGC and for exchange of information required for prevention of crime, ensuring security, and maintaining effective coordination with the police. In order to motivate the Security personnel and jurisdictional police to ensure prevention and detection of theft / attempted theft / pilferage and illegal transportation of crude, rewards are sanctioned for the Police Officers who make outstanding contributions in this field.

			Since the available Contractual Security, CISF and ONGC Security were found inadequate to meet all the security needs and concerns particularly oil theft and pilferage, an MoU had been singed with Govt of Tripura for dedicated deployment of Tripura State Rifles in the operational areas of ONGC. ONGC is also on the lookout for a Pipeline Monitoring System which can detect any third party intervention on the Pipeline in real-time so that security can respond immediately for preventing theft / apprehending criminals. Already, Advisor (Security), ONGC, is examining the various systems in use in other countries which can be utilized in Gujarat and Assam where maximum Pipeline Puncturing / Pilferage of Crude is reported. Two systems have been short-listed and their applicability in Indian circumstances is under examination. All cases of attempted theft / theft / pilferage of crude oil are promptly reported to the jurisdictional police. ONGC Security is also monitoring investigation of such cases through regular liaison.

ANNEXURE - II

Statement containing the gist of operational portion of the recommendations, position indicated in Minister's Statement and the latest status of implementation of recommendations contained in the Fifth Report of the Committee on Demands for Grants (2005-06) of Ministry of Petroleum & Natural Gas.

Sl. No.	Gist of operational portion of the recommendation	Position as indicated in Minister's Statement	Latest status of implementation of the Recommendation
1	2	3	4
1.	The Committee had desired that the Government should formulate an Integrated Energy Policy at the earliest.	Accepted Energy security is a holistic concept, with both supply side and demand side management. Government has recently constituted an Energy Coordination Committee (ECC) to enable a systematic approach to policy Formulation, promote coordination in inter-Departmental action and function as a key mechanism for providing institutional support to decision making in the area of energy planning and security. The Committee will be Serviced by the Prime Minister's Office and the Energy Division of the Planning Commission will facilitate any policy analysis required by the Committee.	The Energy Coordination Committee under Chairmanship of Prime Minister has held five meetings so far and have inter-alia discussed issues relating to power sector, coal sector and petroleum & natural gas sector. The sixth meeting of the Committee is scheduled to be held on 23.3.2006. Separately, an Expert Committee under Chairmanship of Dr. Kirit Parikh, Member, Planning Commission had been constituted to work on an integrated energy policy. Planning Commission has informed that a draft report has been placed on the website of Planning Commission for public discussion on the subject.
2.	While disapproving the tendency of fixing low targets by ONGC year	Accepted Ministry of Petroleum	ONGC is setting production targets, after giving particular emphasis, to all

	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.	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.	major factors, such as investments in exploration and production activities, IOR/EOR measures etc., as recommended by the Standing Committee. The targets for oil production have increased, year-on-year basis, as follows: **Year** **Target (MMT)** 2000-01 24.374 2001-02 25.001 2002-03 25.897 2003-04 26.387 2004-05 26.174 2005-06 26.614 MOU between MOPNG & ONGC was signed for year 2005-06 on 29.12.2005.
3.	The Committee had recommended that Government should attach utmost importance to the EOR/ IOR schemes of ONGC and OIL. Periodic assessment of actual incremental oil gained as a result of IOR/EOR measures should also be made and appropriate remedial measures taken.	Accepted The progress of IOR/EOR projects which are of more than Rs. 100 crore investment are reviewed monthly by Ministry Monitoring Cell of MOP&NG. In addition, their progress is reviewed in Quarterly Performance Review meetings. The projects in respect of individual Oil PSUs	The estimated cost of 17 schemes is about 11,541 crore and expected oil gain 120 MMT by 2030. Two schemes, namely, North Kadi Phase-II and Lanwa are yet to be approved by ONGC. 7 schemes namely in-situ Comb. Balol, in-situ Comb. Santhal, Extended Polymer Sanand, Add. Development Heera Pt-I, Santhal Infill, Gandhar and Neelam have been implemented by ONGC. ONGC has drilled 486 wells as against the target of 509 wells till March, 2005. The incremental oil gain was of

		are reviewed every month at the Board level also.	the order of 16.587 MMT. ONGC has made investment of Rs. 8459 crore upto March, 2005. In 2005-06, ONGC has drilled 17 development wells against the plan of 45 wells by end of September, 2005.
4.	The Committee had recommended 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.	Accepted Keeping in view the objectives of the Energy Security as mentioned in the National Common Minimum Programme, ONGC Videsh Ltd. (OVL), and other national oil companies like IOC, OIL and GAIL have been pursuing the acquisition of equity 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, Egypt etc. Government has constituted an Advisory Committee on Oil Diplomacy for Energy Security for guiding the Indian Oil Companies in their efforts to acquire equity oil abroad.	During 2005-06, OVL has successfully negotiated for acquisition of participating interest in a number of oil and gas assets i.e. Blocks 25, 26, 27, 28, 29, 36 and 34 & 35 (Cuba), Block 81-1 (Libya), Block-2 (Nigeria Sao Tome Principe), Block 127 & 128 (Vietnam), Block A-3 (Myanmar) and Al Furat Producing Blocks (Syria). The host Government approval for Blocks 25, 26, 27, 28, 29, 36 and 34 & 35 in Cuba and A-3 in Myanmar is awaited. For Block 127 & 128 in Vietnam, the production sharing contract is expected to be signed in April, 06. In addition OIL – IOC joint venture was able to get 2 exploration blocks in Libya.
5.	The Committee had recommended that the Government should expedite the process of preparation of bid documents, tendering, awarding of contracts	Accepted Government has taken a decision to build Strategic Crude Oil Reserve of 5 MMT at 3 locations	**Strategic storage of crude oil** Government has approved setting up a 5 MMT strategic reserve, being the core critical sovereign reserve,

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

6.	The Committee had recommended that efforts in harnessing the vast unexplored coal reserves and converting the same to a combustible gas should be intensified . They had also desired that a road map be prepared for completion of each activity relating to the ONGC's pilot project on Underground Coal Gasification. The Committee had also desired to be apprised of the progress made on GAIL's Coal Gasification Project.	Accepted ONGC has entered in an MOU with Skochinsky Institute of Mining (SIM) –Russia for execution of the pilot project on underground Coal gasification project which is expected to be completed in 60 months time. GAIL is also keen on setting up a Coal Gasification project in eastern India with the help of M/S Shell. A detailed feasibility report is in the process of being prepared.	ONGC was on the lookout for Institutes having expertise in the field implementation of UCG technology. One such Institute, NMRC-Skochinsky Institute of Mining (SIM), Russia having expertise in the field of UCG was approached. The Russian experts visited ONGC for one week during June 2004. Following elaborate discussions of the Russian experts, it was concluded that initially the process of UCG might be applied to shallow coals in India. For establishing UCG stations in shallow levels, areas where Coal India Limited (CIL) is operating need to be accessed. With this in view deliberations are on with CIL for taking up UCG project in shallow coal. A meeting was convened at New Delhi on 4-8-2004 to discuss the prospects related to UCG. Secretary, Ministry of Coal and C&MD, ONGC had discussed the status of this technology in various countries. The relevance of UCG in the Indian context with particular reference to shallow coal reserves in CIL areas was also discussed for consideration. On 25th November, 2004 ONGC entered into yet another phase of business of Underground Coal Gasification (UCG) with signing of a Memorandun of Understanding between ONGC and renowned Russian institute Skochinsky Institute of Mining.

7.	The Committee had desired that a high level fact finding team should be appointed by the Ministry to look into the matter pertaining to the Dahej Uran Pipeline Project and its report be submitted to the Committee within a fortnight from the presentation of this Report. The Committee had also desired the Ministry to apprise them of the number of tenders invited/ finalised by GAIL, specifying only LSAW pipes, after the findings of the CHT came to the knowledge of the Government and the financial loss caused as a result thereof. They had also desired that GAIL should expedite the decision in the matter and issue fresh tenders facilitating wider participation of bidders.	Accepted No tender has been invited by GAIL, specifying only LSAW pipes, after the findings of the CHT GAIL has been advised to ensure wider participation of bidders in their tenders. GAIL has been asked to finalise the revised schedule of project taking into consideration the source tie-up and the actual date of award of job.	On the recommendations of the Standing Committee a high Level Fact Finding Committee was formed to look into the matter. The issue of using LSAW or HSAW type of pipes has been finally settled with the issuance of Presidential Directive dated 28.10.2004 which stipulates that no technological restrictions of pipe manufacturing should be included in the pipeline procurement tenders and that task specifications should be prescribed. This communication was also sent to all other oil sector PSUs for taking necessary action. This decision of the Government has been fully corroborated by the Expert Committee in its report. A copy of the report has been sent to GAIL and EIL for future guidance. As regards, DUPL project, GAIL has already implemented the Presidential Directive and invited bids for both type of pipes and is in the process of implementing the project. GAIL has already awarded the project for implementation of 474 Kms to M/s PSL Holdings and M/s Man Industries. GAIL has reported that the project is likely to be completed by end February 2007. It may also be stated that since sourcing of gas could not be tied up, early implementation of the project could not have made any savings. Thus no loss is attributed on this project.

8.	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**.**	Accepted India is in the initial stage of the development of gas markets. With the increase in availability of gas from various sources, various pipeline projects have been planned for implementation in due course synchronising with the availability of gas.Government is finalizing a Natural Gas Pipeline Policy which envisages progressive development of a nation-wide gas grid in a competitive environment, involving both the public sector and the private sector, under the overview of a Regulator.	The Government is formulating a Pipeline Policy which envisages the progressive development of a nation-wide gas grid in a competitive environment, involving both the public sector and the private sector. The implementation of different pipeline segments will, inter-alia, depend upon achieving appropriate tie-ups for sourcing of supply and marketing of gas. Natural gas pipelines are highly capital-intensive projects. They are considered as natural monopolies and, therefore, Government propose to regulate them. Based on the feedback received from various stakeholders, the proposed draft Pipeline Policy under consideration envisages the development of a nation-wide gas grid in a competitive environment, involving both the public sector and private sector, under the overview of a Regulator. The Pipeline Policy aims to encourage competition, efficiency and greater investment in this sector, all of which will ultimately benefit the consumers, and the economy in general.

9.	The Committee had expressed their displeasure over the delay caused in implementation of refineries at Paradip in Orissa by IOC, at Bhatinda in Punjab by HPCL and at Bina in Madhya Pradesh by BPCL.Early completion of these Projects was desired by them.	Accepted A Memorandum of Understanding (MoU) has been signed between Government of Orissa & Indian Oil Corporation Limited on 16.2.2004 regarding package of tax incentives for Paradip Refinery Project and it is scheduled to be completed by end 2009. HPCL has now been able to sign a Deed of Assurance (DOA) with Government of Punjab on grant of various incentives for setting up refinery at Bhatinda. Delay in the receipt of the DOA has adversely affected implementation of the project.The refinery is expected to be commissioned in 2009. Memorandum of Understanding between Government of Madhya Pradesh and Bharat Oman Refineries Limited (BORL) was signed on 6.5.2005, for grant of certain concessions for the project. This Ministry has asked BORL to take up implementation of the project immediately.	**Paradip Refinery Project of IOC:** 3347 acres of land has been acquired for the project. Land development by dredging and reclamation, construction of bridges over Santa Creek, and construction of an approach road for the refinery connecting NH-5A to the refinery site, have been completed. The first phase of the project, namely the installation of a Single Point Mooring (SPM) system and Crude Oil Terminal along with Paradip-Haldia Crude Pipeline are under implementation and is scheduled to be completed by March, 2006. The integrated Refinery-cum-Petrochemical complex is being scheduled for completion by end 2009-10. Bathinda Refinery of HPCL: Government of Punjab have signed a Deed of Assurance with Guru Gobind Singh Refineries Limited in August, 2005. About 1,996 acres of land has been acquired. Major activities completed within the refinery premises include (i) site grading of 1,600 acres of refinery land (ii) area lighting system (iii) drinking water system (iv) power receiving and distribution system (v) office building (vi) 31 kms. of drain. Raw water channel of 12 kms. to the

			refinery site has also been completed. Road network (internal and external) has been completed. Right of user through the entire length of crude oil pipeline of more than 1,000 kms. has been obtained. The company has acquired 310 acres of land at Mundra, Gujarat for crude oil terminal, and has also secured a tie-up with port authorities. The project is likely to be completed in the financial year 2010-2011. Bina Refinery in Sagar (M.P.) of BPCL: Land for the refinery block at Bina and for the crude oil terminal at Vadinar has been acquired. Acquisition of right of user/rights of way along the route of the crude oil pipeline has been completed. All major statutory and environmental approvals for the projects has been received.
10.	The Committee had recommended 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.	Accepted During 2002-03, 2003-04 and 2004-05 the actual expenditure was within the sanctioned budget. Efforts will be made to keep the expenditure within sanctioned budget for 2005-06 also.	It has always been the endeavor of this Ministry to contain the administrative expenditure within the sanctioned budget grant by following the guidelines on expenditure management and austerity. Sincere efforts will be sustained to keep the expenditure within the sanctioned budget for the year 2005-06.

11.	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 31.3.2007. They had also 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.	Not accepted because of the following reasons:- 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.	In order to formulate a long term pricing policy for petroleum products, the Government have constituted an Inter-Ministerial Committee under the Chairmanship of Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister. The Committee is mandated to look into various aspects of pricing and taxation of petroleum products with a view to stabilizing/rationalizing their prices, keeping in view the financial position of the oil companies, the investment needed in the sector, the need to conserve petroleum products, and establishing a transparent mechanism for the autonomous adjustment of prices by the oil companies. Taking into consideration the interests of all stakeholders concerned, the Committee will suggest a comprehensive mechanism for pricing and taxation of sensitive petroleum products. The Committee has submitted its report on 17.2.2006 which is being examined by the Government.
12.	The Committee had recommended that excise duties on petroleum products should be so structured that the additional revenue of Rs. 3000 crore is neutralised so that the Budget Statement of revenue neutrality is adhered to in letter and spirit.	Accepted Ministry of Finance have been requested to examine the issue of restructuring/ rationalising of duty structure.	
13.	The Committee had urged the Government to exercise restraint and apply the policy of prudence in taking revenues from a strategic sector like hydrocarbons.	Accepted The recommendation of the Committee has been taken up with the Ministry of Finance.	No further Comments.

14.	The Committee had desired that the amended Bill relating to setting up of Petroleum Regulatory Board should be introduced in the Parliament soon.	Accepted The Group of Ministers (GOM) in its meeting held on 4th November, 2005 deliberated on various issues linked to the establishment of Petroleum & Natural Gas Regulatory Board (PNGRB). The Cabinet note is under finalisation.	The Cabinet in its meting held on 15.12.2005 considered the proposal of this Ministry to set up a Petroleum & Natural Gas Regulatory Board and decided to introduce the Bill namely the Petroleum & Natural Gas Regulatory Board Bill, 2005 in the Parliament. The Bill has been considered and passed in Rajya Sabha on 2.3.2006 and in Lok Sabha on 21.3.2006.
15.	The Committee had desired Anti-Adulteration Cell should be revived. The Committee had also desired 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 further desired the Government to apprise them of the expenditure incurred by the oil companies on anti-adulteration activities during the last three years.	Not accepted because of the following reasons:- The Anti-Adulteration Cell with its existing structure and functions could not play a meaningful role in the Ministry's efforts to curb the menace of adulteration. Hence, 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. IOC, HPCL,BPCL & IBP have spent approximately Rs. 123 crore during 2002-03, 2003-04, & 2004-05 on anti-adulteration activities.	The action taken by the Government/Public Sector Oil Marketing Companies (OMCs) in containing the menace of adulteration in petrol/diesel include the following:- (i) Under the Control Orders issued by the Government to prevent fuel adulteration, under the Essential Commodities Act, 1955, State Governments are empowered to take action against those indulging in adulteration. (ii) Instructions to State Governments have been issued at Minister's level to step up inspections/surprise checks to ensure that adulteration related activities are eliminated. The concerned departments of the State Governments/UT Administration have been requested to conduct vigil/inspections at various private firms, factories, processing units etc., under their jurisdiction so as to identify the perpetrators of

			adulteration and to take stringent action against them under the available legal framework. OMCs have also been instructed to strengthen their inspection machinery/system so as to ensure that checks/inspections are carried out and stringent action is taken against errant dealers. (iii) Keeping in view the misuse/diversion of SKO for adulteration, the import of SKO by private parties has been canalized through OMCs. OMCs have also taken up technological solutions to contain adulteration activities. These include (i) monitoring movement of tank trucks through Global Positioning System (GPS), (ii) monitoring level of fuel tanks in Retail Outlets through retail automation, (iii) introduction of marker in adulterants and (iv) strengthening surprise inspections as well as routine inspections. (iv) Oil Marketing Companies (OMCs) have created a separate wing to report to a Director other than Director(Marketing), which will oversee and monitor all activities and operations to curb adulteration and specify norms and guidelines in this regard. (v) Effective 2nd October 2005, Government launched the Jan Kerosene

			Pariyojana as a pilot project in 413 blocks covering 23 States and one Union Territory for a period of six months with a view to strengthen and streamline the infrastructure for kerosene distribution and to involve the Gram Sabhas and Gram Panchayats and State Panchayati Raj Institutions in the supervision of PDS kerosene distribution, so as to ensure that entitled beneficiaries actually receive their entitlement and diversion to adulteration and black-marketing is capped, reversed and eventually eliminated. (vi) More stringent penalty of termination of RO dealership on the first established offence of adulteration and short delivery (with Weights and Measures seals tampered) has been provided in the revised Marketing Discipline Guidelines (MDG), 2005 with effect from 01.08.2005. MDG 2005 provides for greater accountability and responsibility of OMCs to minimize the instances of adulteration and pilferage by ROs/transporters. The Anti-Adulteration Cell with its existing structure and functions could not play a meaningful role in the Ministry's efforts to curb the menace of adulteration. Hence, the Cell 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 there by compute the loss to the national exchequer. IOC, BPCL, HPCL and IBP have spent approximately Rs 123 Crore during 2002-03, 2003-04 and 2004-05 on anti-adulteration activities.
16.	The Committee had desired to be apprised of the progress made in setting up of the following transnational pipelines for import of natural gas:- 1. Iran-India gas pipeline 2. Myanmar-Bangladesh India Gas pipeline 3. Turkmenistan Afghanistan Pakistan pipeline. The Committee had emphasised that the security concern about gas pipelines across the borders have to be carefully considered in our energy strategy and desired that adequate precautions through sophisticated monitoring and state of the art maintenance system have to be taken to ward off any supply disruption.	Accepted The present status in respect of three pipelines to import natural gas is as under: <u>Iran-India gas pipeline</u> This is an onland gas pipeline from Iran to India passing through Pakistan. A high level delegation led by Minister (P&NG) visited Pakistan during 4-8 June, 2005 to discuss the project with Pakistan. For purpose of security, stability of supplies it is proposed to have a separate back-to-back agreements between Iran and India for delivery of gas by pipeline to our agreed point on India-Pakistan border. There would be strict `supply or pay' and `take or pay' clause in the agreement Appropriate steps would be taken to meet the eventuality of temporary disruption of supplies .	**<u>Iran-Pakistan-India (IPI) Pipeline Project</u>** India has been pursuing the import of natural gas from Iran through the Iran-Pakistan-India transnational gas pipeline. For this purpose, two sets of separate Secretary-level bilateral Joint Working Groups (JWGs) have been set up with Pakistan and Iran. So far, three meetings each of these JWGs have been held, in which various technical, commercial, financial, legal and other project related issues have been discussed. The discussions are continuing. Ministerial level bi-lateral meeting between India and Pakistan was held at New Delhi on 17th Feb 2006. First tripartite JWG meeting between Iran, Pakistan and India was held on 14th &15th March 2006, to address the main points, viz., project structure, gas pricing and framework agreement. These issues are being further discussed for resolution.

		Myanmar-Bangladesh-India Gas pipeline The project is being pursued trilaterally among Government of Bangladesh, Myanmar and India. A trilateral meeting was held on 12.1.2005. After meeting the three sides agreed to transport natural gas from Myanmar to India by pipeline, the route of which is to be decided among three Governments with mutual consent. However, there are certain bilateral issues which Bangladesh wants a mention in the Trilateral MOU proposed to be signed. Bangladesh is yet to respond in the matter. India is exploring the alternative option of import of natural gas from Myanmar other than a pipeline through Bangladesh. These include an onland pipeline through North Eastern states of India. The matter is being pursued vigorously. Turkmenistan – Afghanistan-Pakistan Pipeline (TAP) Daulatabad area of Turkmenistan has reported sufficient gas reserves. Governments of Turkmenistan-Afghanistan-Pakistan proposed the transnational gas	**Myanmar-Bangladesh-India Gas Pipeline Project.** To pursue the matter at the Government level, for bilateral and trilateral discussions with Myanmar and Bangladesh, the then Minister (P&NG) visited Yangon during 11-13th January 2005. A trilateral meeting between the Petroleum Ministers of India, Myanmar and Bangladesh was held on 12.1.2005. 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 TCWC has finalized draft MoU proposed to be signed by the three oil Ministers. However, it has not been possible to sign this MoU till now as the Bangladesh side insisted on inclusion of certain India-Bangladesh bilateral issues in the MoU which was not found acceptable by the Indian side. Simultaneously, India is also exploring the other

		pipeline to exploit the available gas reserves. They have designated ADB as lead development partner. ADB has approached India for participating in project. TAP pipeline project is being explored vigorously for India's energy security.	option of import of natural gas from Myanmar. GAIL is conducting feasibility study of the onland pipeline route from Myanmar to India through North-Eastern region, bypassing Bangladesh territory. The matter is being pursued with the Myanmar side. **<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. An Indian delegation led by the Minister of State for Petroleum & Natural Gas, participated in the 9th Steering Committee meeting of the Turkmenistan-Afghanistan-Pakistan (TAP) gas pipeline project held in Ashgabat, Turkmenistan, on 14-15 February, 2006, as an Observer. The Steering Committee has invited India to become an official member of the project. We will shortly take a decision.
17.	The Committee had recommended that added thrust should be given to LNG imports.	Accepted To meet the large gap between the demand	No change.

	The Committee had also desired 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.	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:- -Import of LNG is under Open General License (OGL) list; -LNG projects qualify for 100% FDI; -LNG attracts a base rate of custom duty of 5%; -Import of capital goods for LNG projects are eligible for concessional custom duty @ 5%; -LNG importers have freedom to market regassified LNG at market price. The above policy is a growth-oriented policy.	
18	The Committee had recommended that the feasibility study for setting up an LNG terminal at Krishnapatnam, Andhra Pradesh by IOC and GAIL should be completed expeditiously and the outcome thereof be conveyed to them. The Committee had also recommended that the Government should carry out similar studies to assess the feasibility of setting up of LNG terminals at Gopalpur, Orissa and Haldia, West Bengal.	Accepted As a result of the study carried out by IOC, Ennore has been proposed as most suitable location for setting up LNG terminal instead of Krishnapatanam in AP. GAIL's feasibility study on setting up of LNG terminal at Gopalpur/ Haldia would be completed shortly.	GAIL has completed the Port Selection Study to assess the feasibility of setting up LNG terminals at Gopalpur, Orissa and Haldia, West Bengal. Gopalpur port has been found to be better option for setting-up the LNG terminal compared to Haldia as the additional cost towards port construction at Gopalpur port is half compared to Haldia port. However, Detailed Feasibility Report (DFR) for setting up LNG terminal at Gopalpur has not been carried out due to major gas finds announced on the East Coast and uncertainty over LNG sourcing.

19	The Committee had recommended that the Government should instruct the oil sector PSUs/ refineries 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. The Committee had desired that the Government should look into the cases of some oil companies mixing manganese based Octane enhancer in fuel to attain desired Octane rating for meeting Euro III norms.	Accepted MOPNG has directed all public sector oil PSUs to ensure that revised schedule for implementation of Auto Fuel Policy is adhered to strictly. As regards mixing of maganese based ocatane enhancer in fuel to attain desired Octane rating for meeting Euro III norms, it is mentioned that only NRL is using Methylcyclopentadienyl Manganese Tricarbonyl (MMT) as trimming agent for marginal increase in Octane number of motor spirit. Numaligarh Refinery Limited(NRL) will discontinue the use of MMT by March 2006 by when new facilities being set up by them for producing motor spirit would be commissioned.	Revised schedule for implementation of Auto Fuel Policy was adhered to As regards mixing of manganese based octane enhancer in fuel to attain desired Octane rating for meeting Euro III norms by NRL, it is submitted that the occasional use of nominal quantity of Methylcyclopentadienyl Manganese Tricarbonyl (MMT)as a trimming agent for marginal boost of MS octane would be totally discontinued by end March, 2006.
20	The Committee had recommended 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. The Committee had also recommended that the Public Sector Oil	Accepted At present Compressed Natural Gas (CNG) is being supplied by Indraprastha Gas Limited (IGL) in Delhi and by Mahanagar Gas Ltd. (MGL) in Mumbai. IGL and MGL have been entrusted with the task of improving the availability of CNG conversion kits and to prevent sale of spurious CNG kits. As on 1.4.2005 oil marketing	At present Compressed Natural Gas (CNG) is being supplied mainly by Indraprastha Gas Limited (IGL) in Delhi, by Mahanagar Gas Ltd. (MGL) in Mumbai As on 15.03.2006, BGL has commissioned 04 Auto LPG Dispensing Stations in Tirupathi and Hyderabad-Secundrabad. This is in addition to a ALDS set up by OMCs in different states.

	Companies should be persuaded to set up adequate Auto-LPG Dispensing stations in identified locations.	companies have commissioned 105 Auto LPG dispensing stations (ALDS) in various cities of the country. Setting up of new ALDS requires heavy investment in the range of Rs. 50-75 lakhs per station. Inspite of huge investment involved another 47 ALDS are at different stages of commissioning. Setting up ALDS depends upon several factors including availability of land/ sites in existing retail outlets, market demand of product and other statutory approvals from State Govt.	
21.	The Committee had recommended that the research projects for developing hydrogen fuel cell technology should be supported with all financial assistance so as to ensure that these projects are completed in a time bound manner.	Accepted IOC has framed a proposal to take up demonstration projects using hydrogen blended compressed natural gas CNG in vehicles. Further IOC, R&D is in preliminary dialogue with few vehicle manufacturers who have electric vehicles in their product range for converting them into fuel cell powered vehicles by integrating fuel cells.	The Ministry of Petroleum and Natural Gas has set up a Hydrogen Corpus Fund with a corpus of Rs. 100 crores with contribution of Oil and Gas companies and Oil Industries Development Board (OIDB) for supporting research and development in various aspects of hydrogen. IOC (R&D) is the nodal agency for undertaking research on hydrogen energy on behalf of Oil and Gas sector. They have set up an electrolyser for production of 5 Nm^3/hr. (Normal cubic metre per hour) hydrogen and dispensing station for dispensing hydrogen and hydrogen – CNG blend into three wheelers, passenger cars and Light Commercial Vehicles (LCVs). The studies are under progress using 5 – 30% hydrogen-CNG blend on the fleet of

			vehicles. IOC(R&D) will also set up another dispensing station along with hydrogen production unit of 50 Nm3 per hour in Delhi for conducting field trials at a larger scale on three wheelers, LCVs, buses, etc. with funding from Government. It has also initiated two project proposals for developing fuel cell vehicles jointly with REVA and Mahindra & Mahindra.
22.	The Committee had recommended that the Government should explore all options to ensure availability of bio-diesel in large quantities before long. They had appreciated the initiative taken by the Indian Oil Corporation (IOC) to plant Jatropha saplings and had recommended that other PSUs/ organisations under the administrative control of the Ministry should take a cue from IOC and endeavour to contribute to Jatropha plantation.	Accepted Ministry of Rural Development has been made the nodal Ministry for a National mission on Bio-diesel which envisages large scale plantation of Jatropha in a phased manner. Detailed feasibility report prepared for the purpose is with Planning Commission for further scrutiny and approval. The role of oil companies and MOPNG has been recognised as one of extending blending and marketing support for lifting bio-diesel when it becomes available through Jatropha plantation. Ministry of Petroleum and Natural Gas has announced a bio-diesel purchase policy which would come into effect from 1s[t] January, 2006.	As already stated, the role of Ministry of Petroleum & Natural Gas and other PSUs/organizations under its administrative control is one of extending blending, when it becomes available through Jatropha plantation. The activity of raising/plantation of Jatropha is not in this Ministry's natural domain. However, with a view to encouraging production of bio-diesel the Ministry of Petroleum & Natural Gas had taken a proactive role and announced Bio-Diesel Purchase Policy on October 9, 2005, effective from 1.1.2006. The Petroleum Conservation Research Association (PCRA), an organization under the Ministry of Petroleum & Natural Gas, has opened a National Bio-fuel Centre, which disseminates information regarding different activities on bio-diesel. The Ministry of Rural Development is the nodal

			Ministry for the proposed National Mission on Bio-Diesel and that Ministry has submitted a Detailed Project Report (DPR) to the Planning Commission, which, inter alia, envisages a demonstration project involving plantation of Jatropha in 4 lakh hectares of degraded forest and non – forest lands for manufacturing bio-diesel. The Planning Commission has given 'in principle' approval to the DPR for demonstration phase estimated to cost Rs. 1286 crores over a period of 5 years.
23.	The Committee had recommended that the Government should direct the Oil Companies to cover the entire country with 5% ethanol blended petrol in a fixed time frame and sort out all related issues such as supply, procurement, pricing etc. among the stake holders. They had also desired that all pending ethanol tenders should be processed in a time bound manner.	Accepted The Govt. is committed to implementing the programme if ethanol is made available by sugar industry at reasonable prices and in adequate quantities on sustained basis. To ensure sustained supply of adequate ethanol and as a confidence building measure, a MOU was signed on 4th August, 2005 between Indian Sugar Mills Association (ISMA) and IOC in the capacity of industry coordinator for oil companies. The oil companies have invited tenders and, at present, tender negotiations are continuing in most parts of the country. Tender negotiations have been completed in U.P., Punjab, Tamil Nadu and 8 locations of Andhra	Ethanol is being procured through tenders in terms of the Gazette Notification dated 27.10.2004 by the oil marketing companies. So far, the ethanol-blended petrol (EBP) programme has been implemented in the States of Uttar Pradesh, Punjab, Tamil Nadu (only 9 districts), 8 Industry locations in Andhra Pradesh (except 2 districts) and Karnataka. The Court case filed by six parties before the Hon'ble High Court of Mumbai against the tenders for the States of Gujarat, Maharashtra, Goa, Daman & Diu and Dadra & Nagar Haveli has since been dismissed by Hon'ble Court on 21.2.2006 and the two-week interim stay granted by the Court has also expired on 14.3.2006. Accordingly, the OMCs are in the process of finalizing the tender for these States. Similarly, for two locations in

		Pradesh. When Ethanol suppliers are in a position to supply Ethanol of requisite quantity at reasonable economic prices for covering the entire country with 5% ehtanol blended petrol, Govt. will have no difficulty in directing the oil companies to cover the entire country in a time bound manner.	Andhra Pradesh supply of ethanol has not taken off due to non-granting of Export Permit from State Excise Department, Government of Maharashtra to the L1 party, M/s. XL Telecom Ltd. As regards Haryana, the EBP programme has been withdrawn due to imposition of additional tax in the form of Import fee of Rs. 2000/KL plus permit fee of Rs. 3000/KL on ethanol by the State Excise Department, Haryana.
24.	The Committee had desired that in the backdrop of ever increasing dependence on oil imports, the development of alternative sources of hydrocarbons should be given due importance it deserves. A time bound aggressive strategy should be adopted for the exploration and development of alternative sources of hydrocarbons, especially CBM and Gas Hydrate. The Committee had also desired that the commercial production in some of the CBM blocks would start and the pilot studies for production of gas from Gas Hydrate would be completed by 2006-07 as targeted.	Accepted In Coal Bed Methane (CBM) contracts duration of exploration phase (Phase-I) and pilot assessment, market assessment and commitment phase (Phase IIA and IIB) varies from 2-3 and 3-4 years respectively in different blocks, after which development phase starts and commercial production begins. Phase-I activities are in progress in most of 16 blocks. 3 blocks have entered into Phase-II. Keeping in view the aggressive strategy adopted by oil companies the development phase/ commercial production in some of CBM blocks is likely to start by 2007 as envisaged. The pilot studies for production of gas from gas hydrates were tentatively planned	In Coal Bed Methane (CBM) contracts duration of exploration phase (Phase-I) and pilot assessment, market survey and commitment phase (Phase IIA and IIB) varies from 2-3 and 3-4 years respectively in different blocks, after which development phase starts and commercial production begins. Phase-I activities are in progress in most of the 16 awarded blocks. Meanwhile, 5 blocks have entered into phase-II. Keeping in view the time frame and the work programme given in respective contract of these blocks, commercial production in some of CBM blocks is likely to start by 2007 as envisaged. As per the NGHP road map, drilling/coring/ logging for gas hydrates sediments which was originally planned for December 2004 got delayed due to not availability of suitable

		to be carried out during 2006-07 as per National Gas Hydrate Programme (NGHP) road map. However, it would entirely depend upon the presence of commercial quantities of gas hydrates in Indian deepwater as well as break through in development of a commercially viable production technology in India or anywhere else in world.	services. It is now likely to be completed by October 2006. The Resource Estimation for gas hydrates in the drilled / cored areas which was likely to be completed by Mid 2008 depending on successful completion of drilling/coring, is now likely to be completed by Mid 2007. Pilot test production which was planned to be carried out during 2006-07, got delayed, as drilling/coring could not be completed. It is now likely to be carried in 2008-09. It may be noted that above activities are dependent on the successful completion of the previous activity.
25.	Considering the vast coal reserves especially in the North-East Region and the growing need to develop alternative sources of energy, the Committee had desired that the Liquefaction feasibility study be expedited so as to enable OIL to finalise the most appropriate technology in converting coal to oil. The Committee had also desired to know the latest status of the initiative taken by OIL with the Coal India Limited (CIL) and Government of Meghalaya for assessment /availability of coal in	Accepted In order to develop alternate sources of Energy an R&D project on conversion of low grade high sulphur coal and refinery vaccum residum of North East region to hydrocarbon was undertaken by OIL. It was found that coal conversion was 95% and liquid yield was 75%. However, due to constraints in getting refinery residuum with changed refinery process configuration OIL took up another study for Coal-Only-Processing in same plant with certain modifications. Test run was completed successfully and results	In order to develop alternate source of energy, a R&D project on conversion of low grade high sulphur coal and refinery vacuum residuum of North East region to hydrocarbon was undertaken by Oil India Limited (OIL). In the year 1999, a Pilot plant was setup at OIL's R&D Centre at Duliajan, Assam under technical assistant from M/s. Axens, USA based on Coal-Oil Co-processing Technology of M/s. Hydrocarbon Research Inc. (HRI), USA. In this Pilot plant, studies on co-processing of coal and refinery residuum were successfully carried out. It was found that the coal conversion was 95% and liquid yield was 75%.

	K&J hill area.	were found encouraging. Presently OIL has initiated action to carry out another feasibility study on coal liquefaction processing using technology of M/s Hydrocarbon Technologies Inc. (HTO) of USA. Regarding availability of coal from K&J hills, it has been decided to form a Joint Task Force between OIL and CIL to study long-term availability of coal. OIL has also initiated discussions with State Govt. of Meghalaya as well as Coal Traders and Exporters to explore various avenues for availability of coal in Meghalaya.	Considering the constraint in getting refinery residuum with changed refinery process configuration, OIL took up another study for Coal-Only-Processing in the same plant with certain modifications to adopt CTSL (Catalytic Two Stage Liquefaction) technology with the help of M/s. Axens, NA, USA. Test run was successfully completed and result found to be very encouraging – coal conversion is 99% and liquid yield is 78%. Feasibility study report on such Coal-Only-Processing is also received from M/s. Axens. To study the long term availability of coal, a Joint Task Force between Coal India Ltd. and Oil India ltd. has been formed. The Joint Task force is currently reviewing the availability of coal from North Eastern coalfields (NEC) of Coal India Ltd. (CIL) and Meghalaya.
26.	The Committee had desired that the decision on grant of excise duty concessions to BRPL as per North-East Industrial Policy and setting up of a DHDT Project at BRPL site be taken expeditiously.	Accepted MOPNG has repeatedly recommended to MOF for grant of full excise duty benefit to BRPL's petrochemicals & PSF products as has been given to fibre industries located in North East. Response of MOF is awaited.	No further progress.

ANNEXURE-III

MINUTES

STANDING COMMITTEE ON PETROLEUM & NATURAL GAS

(2005-06)

SEVENTH SITTING

(7.4.2006)

The Committee sat on Friday, the 7th April, 2006 from 1100 hrs. to 1330 hrs. in Committee Room No. 62, Parliament House, New Delhi.

PRESENT

Shri N. Janardhana Reddy - Chairman

MEMBERS

LOK SABHA

2. Shri Anandrao Vithoba Adsul
3. Dr. Rattan Singh Ajnala
4. Shri Ramesh Bais
5. Shri Lal Muni Choubey
6. Shri Santosh Gangwar
7. Shri Jai Prakash
8. Shri Hari Rama Jogaiah
9. Adv. Suresh Kurup
10. Shri Sukdeo Paswan
11. Dr. Prasanna Kumar Patasani
12. Shri Rajiv Ranjan 'Lalan' Singh
13. Shri Ratilal Kalidas Varma
14. Shri Rajesh Verma

SECRETARIAT

1. Shri R.C.Kakkar - Deputy Secretary
2. Shri P.C.Tripathy - Under Secretary

Representatives of the Ministry of Petroleum & Natural Gas

1.	Shri M.S.Srinivasan	-	Secretary
2.	Shri Talmiz Ahmed	-	Additional Secretary
3.	Shri Anil Razdan	-	Additional Secretary
4.	Shri P.K.Sinha	-	Joint Secretary & Financial Adviser
5.	Shri Ajay Tyagi	-	Joint Secretary
6.	Ms. Aditi S. Ray	-	Economic Adviser

Representatives of Public Sector Undertakings and other organisations

1.	Shri S. Behuria	-	CMD, IOC Ltd.
2.	Shri M.R. Pasricha	-	CMD, OIL
3.	Shri Ashok Sinha	-	CMD, BPCL
4.	Shri Proshanto Banerjee	-	CMD, GAIL
5.	Shri R.S.Butola	-	MD, OVL
6.	Shri B.K.Das	-	MD, NRL
7.	Shri A.K.Sarma	-	MD, BRPL
8.	Shri B.K.Menon	-	MD, Kochi Refinery Ltd.
9.	Shri K.K.Acharya	-	MD, Chennai Pet. Corp. Ltd.
10.	Shri D. Basu	-	MD, Biecco Lawrie Ltd.
11.	Shri I.J.Sinha	-	Deputy General Manager, DGH
12.	Shri R.S.Sharma	-	Director (Finance), ONGC
13.	Shri D.K.Pandey	-	Director (Exploration) ONGC
14.	Shri T.S.Balasubramaniyam	-	Finance Advisor, OIDB
15.	Shri P.Mukerjee	-	Director (Proj.), EIL
16.	Shri Ram Singh	-	Director, PPAC
17.	Shri Arun Balakrishnan	-	Director (HR), HPCL
18.	Shri C. Ramulu	-	Director (Finance), HPCL

2. At the outset, Hon'ble Chairman welcomed the Secretary of the Ministry of Petroleum and Natural Gas and accompanying officials to the sitting of the Committee and invited their attention to the provisions contained in Direction 55 (1) of the Directions by the Speaker.

3. Then, the Secretary, Ministry of Petroleum and Natural Gas made a presentation before the Committee highlighting the various activities and achievements of the Ministry and the companies under its purview.

4. The Committee then took oral evidence of the representatives of the Ministry of Petroleum and Natural Gas in connection with the examination of Demands for Grants of the Ministry for the year 2006-07 and other related matters.

5. During the course of evidence, the main issues which came up for discussion, inter-alia, included entry of private players in the marketing of petroleum products and

resultant competition, adulteration of petroleum products, need to ensure quality and quantity of petroleum products supplied to customers, issues relating to Dealer Selection Boards, utilization of Cess collected on crude, NELP biddings, exploration of oil and gas, transnational pipeline projects, growth in refinery sector, etc.

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

The Committee then adjourned.

ANNEXURE - IV

EXTRACTS OF MINUTES

STANDING COMMITTEE ON PETROLEUM & NATURAL GAS

(2005-06)

EIGHTH SITTING

(5.5.2006)

The Committee sat on Friday, the 5th May, 2006 from 1100 hrs. to 1130 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Shri N. Janardhana Reddy - Chairman

MEMBERS

LOK SABHA

2. Dr. Rattan Singh Ajnala
3. Shri Kirip Chaliha
4. Shri Lal Muni Choubey
5. Dr. Tushar A. Chaudhary
6. Shri Santosh Gangwar
7. Shri Hari Rama Jogaiah
8. Adv. Suresh Kurup
9. Shri Rajiv Ranjan 'Lalan' Singh
10. Shri Vanlalzawma
11. Shri Rajesh Verma

RAJYA SABHA

12. Shri Subash Prasad Yadav

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, Hon'ble Chairman welcomed the Members to the sitting of the Committee.

3. The Committee then took up for consideration the draft Report on Demands for Grants (2006-07) of the Ministry of Petroleum and Natural Gas.

4. After some discussions, the draft Report was adopted by the Committee without any change.

5. The Committee authorised the Chairman to finalise the Report in the light of modifications as also to make verbal and other consequential changes arising out of the factual verification by the Ministry and present the same to both the Houses of Parliament during the current Budget Session.

6. xx xx xx xx xx xx

xx xx xx xx xx xx

The Committee then adjourned.

---

xx Matter not related to this Report.