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C.P.U.No.891

FIFTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(2005-2006)

(FOURTEENTH LOK SABHA)

HPCL. – INFRUCTUOUS EXPENDITURE ON CREATION OF A PIPELINE

MINISTRY OF PETROLEUM AND NATURAL GAS

(Action Taken by the Government on the recommendations contained in the 12th Report of the Committee on Public Undertakings (13th Lok Sabha) on - HPCL. – Infructuous expenditure on creation of a pipeline)

Presented to Lok Sabha on 12-05-2005

Laid in Rajya Sabha on 12-05-2005

LOK SABHA SECRETARIAT

NEW DELHI

May 2005 / Vaisakha 1927 (S)

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COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS
(2005 – 2006)

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to submit the Report on their behalf, present this Fifth Report on Action Taken by the Government on the recommendations contained in the Twelfth Report of the Committee on Public Undertakings (Thirteenth Lok Sabha) on Hindustan Petroleum Corporation Limited (HPCL) – Infructuous expenditure on creation of a pipeline.

2. The Twelfth Report of the Committee on Public Undertakings (2003-2004) was presented to Lok Sabha on 19th December, 2003. Action Taken Replies of the Government to the recommendations contained in the Report were received on 4.4.2005. The Committee on Public Undertakings considered and adopted this Report at their sittings held on 10.5.2005. The Minutes of the sitting are given in Appendix – I.

3. An analysis of the action taken by the Government on the recommendations contained in the 12th Report (2003-04) of the Committee is given in Appendix -II

New Delhi:	Rupchand Pal
10 May, 2005	Chairman,
20 Vaisakh 1927(S)	Committee on Public Undertakings

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by the Government on the recommendations contained in the Twelfth Report (Thirteenth Lok Sabha) of the Committee on Public Undertakings (2003-2004) on "HPCL –Infructuous expenditure on creation of a pipeline" which was presented to Lok Sabha on 19th December, 2003

2. Action Taken notes have been received from Government in respect of all the recommendations contained in the Report. These have been categorized as follows :

(i) Recommendations/Observations that have been accepted by the Government : (Chapter II)

Sl. Nos. I, II and III (i) (Total 3)

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

Sl. Nos. III (ii) (Total 1)

(iii) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee : (Chapter IV)

Sl. No. IV (Total 1)

(iv) Recommendations/Observations in respect of which final replies of the Government are still awaited : (Chapter V)

Sl.No. NIL (NIL)

3. The Committee will now deal with the action taken by the Government on some of the recommendations in the succeeding paragraphs.

<u>Recommendation Sl. No. IV</u>
<u>Policies of the Government on oil industry</u>

The Committee in their Twelfth Report have recommended with regard to the policies of the Government on oil industry as follows:

"The Committee find that the deregulation of APM in respect of FO/LDO in 1998 is the main reason for under-utilisation of the Mumbai-Vashi pipeline. In this regard, the Committee further note that though Government of India contemplated restructuring of oil industry around 1995, the actual details of the phased dismantling of the APM were announced by the Government only in November, 1997 and hence could not be taken into account for reviewing the economics of the pipeline project which was already at an advanced stage of construction at that time.

The Committee desire that before taking such major policy decisions in the future, the Government should also take into consideration their likely impact of those policies on the on-going projects of the PSUs and make all possible efforts to minimise any adverse effect on the performance of such projects by virtue of such decisions. The instant case reflects a total lack of such far-sighted consideration on the part of the Government.

As regards the remedial steps to be taken in the matter to ensure that such happenings do not recur, the Committee note that the Government has notified guidelines on 20th November, 2002 for laying petroleum product pipelines post APM. The guidelines facilitate laying of optimal size pipelines by proposer company taking into account the interest of other interested companies. The Committee trust that these guidelines would ensure proper utilization of the pipelines in the future and desire that there should be periodical review of the guidelines to enable the Government to take timely corrective action keeping the economics of the venture in view."

The Government (Ministry of Petroleum & Natural Gas) in their action taken reply dated 4.4.2005 on the above recommendation have stated as follows:

"In a deregulated scenario, the market forces would ensure that the investment made by the oil companies in pipeline infrastructure is on commercial considerations.

Supplementary Guidelines for Laying Petroleum Product Pipelines have been notified on 26.10.2004. Guidelines for Laying Petroleum Product Pipelines and Supplementary Guidelines thereto will remain in force till the proposed Petroleum Regulatory Board is constituted. After the constitution of this Board, the right of user in land for laying petroleum product pipelines will be granted by this Ministry subject to fulfilment of requirements under the Petroleum Regulatory Law."

The remarks of Office of C&AG on the reply of the Government was as follows:-

1. The deregulated scenario has not resulted in what the government envisaged and this has been due to shift in Govt. policies, resulting in excess creation of infrastructure requiring heavy investment.

2. For instance, in 1998, Government formulated a common carrier policy where Oil Companies pool their resources and create pipelines across the country for movement of POL products. Accordingly, a Company, viz. Petronet India ltd., (PIL) was formed and PSU Oil marketing companies contributed Rs.50 crores as equity participation. PIL took up a few pipeline projects forming separate joint venture companies with the help of oil marketing companies. Many of these JVCs have stopped their operations and PIL is in red within a period of 6 years. This was mainly due to a shift in Govt. Policy in 2002, whereby oil companies can independently implement their own pipelines across the country subject to certain conditions.

3. Due to this,

- HPCL put up a pipeline project, Mundra-Delhi pipeline with an investment of Rs.1623.84 crores.
- BPCL extends their Mumbai-Manmad pipeline to Piyali, near Delhi.
- Recently, Govt. approved six pipeline projects of Reliance Industries Limited, one of which connects Panipat to RIL's refinery at Jamnagar.

If all these projects materialize Northern Region may have surplus products and therefore, the optimum utilization of the two ongoing pipelines of HPCL and BPCL would be effected.

4. Oil Companies go ahead with their own projects without considering similar projects of other companies and various associated issues in its totality. On implementation of these pipeline projects, there may be a scenario where IOC may transport their excess products at Northern Region by their own pipelines.

5. The comments of the Ministry on the above mentioned remarks of the C&AG is as follows:-

"The guidelines for laying petroleum product pipelines, issued on 20.11.2002 and supplementary guidelines thereto, issued on 26.11.2004, do not envisage non-duplication in pipelines but allow a free regime.

On 11.03.2002 IOC had issued notice to HPCL on their conversion of Kandla-Bathinda Pipeline (KBPL) to crude service w.e.f. August, 2004 and advised HPCL to plan their affairs. With the conversion of KBPL to crude service, the vital coastal pipeline link to large fuel market around national capital in north zone is missing. HPCL's proposed Mundra Delhi Pipeline will give product sourcing flexibility and economics of distribution cost to HPCL. Both are critical in current competitive scenario for retaining HPCL's market share and profitability. HPCL's existing market in north zone is almost fully dependant on product sourcing from others. Mundra Delhi Pipeline will lead to reduced dependence on competitors. Continuous upgradation of Auto fuel standards and absence / delay of production capability to meet the demand from inland refineries, highlights this necessity of coastal inputs at western ports and product movement through pipeline to northern market. In case of any exigency with any of the IOC refineries in west or north zone, large volumes will be required to be moved by conventional rail / road movements at a short notice after positioning at western port locations or from Jamnagar. Out of 5.8 MMTPA pipeline capacity of proposed Mundra-Delhi Pipeline project, 80% i.e. 4.64 MMTPA is considered based on HPCL's demand in 2016-17. Hence, any underutilization of the pipeline is not foreseen. Further, the rate of return for this project considering only HPCL volumes is very attractive and cannot be overlooked. This pipeline would give a possibility for linkage with Vadinar-Kandla Pipeline (VKPL) in future, if necessary, thereby preventing the investment in VKPL becoming infructuous after conversion of IOC's KBPL to crude service.

Thus, Mundra-Delhi Pipeline will not only be utilized in an optimum manner but will also give HPCL the required flexibility and support to position the product in north in the most competitive manner. The project will remove the Company's dependence on its competitors and will also serve as an alternate source of product to industry in case of problems in the inland refineries.

BPCL's existing pipeline from Mumbai to Manmad is fully utilized as envisaged. The same line is being extended to Piyala due to the following reasons :

(a) Product availability to BPCL in northern region from other sources is inadequate to meet own demand.

(b) BPCL's Mumbai Refinery is being expanded to 12 MMT. This line will facilitate proper evacuation of refinery in most efficient manner to meet the demand in northern region.

Out of six new proposed product pipelines, M/s Gas Transportation & Infrastructure Company Limited (GTICL), a special purpose vehicle promoted by M/s Reliance, intend executing the Jamnagar–Patiala pipeline as the first pipeline. The remaining pipelines will be taken up subsequently in stages."

6. Comments of the Committee

The Committee in their above recommendation had observed that deregulation of the Administered Price Mechanism(APM) by the Government in 1998 had resulted in under-utilisation of Mumbai – Vashi pipeline of HPCL. In view of this, the Committee had recommended that before taking such major policy decisions in future, the Government should take into consideration the likely impact of such decisions on the ongoing projects of the PSUs and make all possible efforts to minimize any adverse effect on them.

The Committee are, however, not satisfied with the vague action taken reply furnished by the Government stating that 'in a deregulated scenario, the market forces would ensure that the investment made by the oil companies in pipeline infrastructure is on commercial considerations.' The recommendation of the Committee pertains to policy decisions to be taken by the Government in future, which necessarily should take a critical look at the on-going projects from the point of view of the impact of the new proposed policies. But the reply of the Government does not speak about this requirement for taking a critical view. Instead it talks about the Post APM regime which is not relevant. The Committee note that the real spirit of the recommendation was to minimize the losses towards the investments made by the PSUs, whenever new policy decisions are taken. This aspect of the recommendation has not at all been commented upon by the Government in their action taken note. The Committee, therefore, find the reply of the Government vague and evasive.

In view of the above, the Committee while disapproving the reply of the Government, strongly reiterate their recommendation that before taking any major policy decisions of this nature in future, the Government should assess the likely impact of such decisions on the ongoing projects of the PSUs so as to minimize adverse effect, if any, on such projects.

CHAPTER –II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT .

RECOMMENDATION (SL. NO. I)FULFILLMENT OF PRE-CONDITION LAID DOWN BY THE MINISTRY OF ENVIRONMENT AND FORESTS

The Committee note that Hindustan Petroleum Corporation Limited (HPCL), with a view to maximizing the production of High Viscosity Index (HVI) based lube oils, sought clearance from the Ministry of Environment and Forests for setting up a Lube Based Oil Augmentation Project at its Mumbai refinery. While granting environmental clearance in May, 1989, the Ministry of Environment and Forests stipulated a pre-condition that " all bulk quantities of refinery requirements/products should be transported (Ex-Mahul Terminal, Chembur) through a well designed pipeline to avoid road congestion and hazards through road transportation". Simultaneously, the State Government of Maharashtra, while according environmental clearance for the said project stipulated a pre-condition that "for all practical purposes, Chembur is a residential area and should be treated as such". To fulfill the said pre-conditions to its Lube Augmentation Project, HPCL undertook the project of laying a 22 Km pipeline for transportation of Black Oil from Mumbai Refinery to Vashi. The Detailed Feasibility Report for the pipeline project was prepared in February,1995 and the project was commissioned in April,1998 at a cost of Rs.42.30 crore.

While considering this issue as to whether the purpose of laying the pipeline has been achieved, the Committee note that after laying of the pipeline in April,1998, there has been some gradual reduction in the volume of black oil being transported by road and it might have helped in decongestion of the roads and resultant reduction in air pollution. The Committee are, however, constrained to note that the pipeline project has failed to yield the desired results upto the expected extent. In this regard, the Committee note that the Ministry of Environment and Forests while laying down a pre-condition for evacuation of FO/LDO through a pipeline so as to decongest the Chembur area, failed to issue similar directions to the other industries namely BPCL, RCF, Tata Electrics etc. functioning in the Chembur area. If the real spirit of the Ministry of Environment and Forests was to decongest the Chembur area, some directions on restricting the use of road transport would also have been issued by them to other industries operating in that area. The Committee further note that HPCL has been sending compliance reports every six months to the Ministry of Environment and Forests regarding meeting the pre-condition for the project imposed by the Ministry. However, the documents which have been made available to the Committee do not reflect any effort of the part of the Ministry of Environment & Forests to suggest that the

Ministry has ever verified the compliance report or monitored the decongestion of the area after setting out the pre-condition.

The Committee desire that the Ministry of Environment & Forests should keep a strict vigil by conducting surprise on-the-spot visits to check compliance of their directions on decongestion and also the verification of the compliance reports being sent to them by the HPCL. The Ministry of Environment & Forests should also issue appropriate directions to the other industries operating in the Chembur residential area to take appropriate steps to minimize the road traffic in the Chembur residential area and constantly monitor the action taken in this regard.

Reply of the Government

The Ministry of Environment and Forests (MOE&F) while granting environmental clearance vide its letter dated 19.5.1989 to Hindustan Petroleum Corporation Ltd. (HPCL) for setting up a Lube Oil Base Augmentation Project at its Mumbai Refinery, stipulated a precondition that “All bulk quantities of refinery requirements/ products should be transferred through well designed pipeline to avoid road congestion and hazards through road transportation.”

Compliance of the stipulated condition is being regularly monitored by the Regional Office of MOE&F at Bhopal through site inspection and verification of the six monthly compliance reports submitted by HPCL. As per the Monitoring Report of the Regional Office of MOE&F dated 5.4.2002 about 90% of the product movement is through pipeline.

To verify the status of the compliance by HPCL for transportation of FO/LDO from the pipeline and its impact on decongestion of the area, MOE&F constituted a small group on 28.5.2004 comprising of members from the Central Pollution Control Board, Maharashtra Pollution Control Board and Regional Office, Bhopal of this Ministry.

The group has made the following observations:-

(i) The major industries operating in Chembur area are Hindustan Petroleum Corporation Limited (HPCL), Bharat Petroleum Corporation Limited (BPCL), Rashtriya Chemicals and Fertilizers Limited (RCF), Tata Power Company Limited (Tata Power), Aegis Logistics Limited (Aegis) and Pepsi Co. India Holding Pvt. Ltd.(Pepsi). Besides these, there are three marine container service facilities that have significant contribution to road traffic in the area.

(ii) There is only one corridor road (about 6.0 km in length stretching from Tata Power to Chembur Naka) for transportation of material of these industries. The traffic from Chembur Naka follows Eastern Express Highway, Western Express Highway or eastern side of

V.N. Purav Marg for going out side the Mumbai. The traffic from Chembur Naka follows western side of V.N. Purav Marg and various roads further down for movement of materials inside Mumbai region.

(iii) The segment of corridor road adjacent to industries is in bad condition and affects easy movement of traffic causing increased congestion.

(iv) The volume of traffic for transporting FO and LDO from HPCL refinery has reduced from about 216 vehicles/day during year 1997-1998 to 46 vehicles/day during the year 2000-2001. Similarly, traffic volume for transportation of Naphtha has been reduced from about 270 vehicles/day to 18 vehicles/day. After commissioning of LPG Bottling Plant at Usar, Alibag in April, 2000, traffic movement (120 vehicles/day) for transport of LPG has been completely eliminated. However, there is increase in traffic flow (from 78 to 120 vehicles/day) for transportation of lube oil/gas products.

(v) With regard to BPCL Refinery, total volume of traffic, is reduced from about 954 vehicles/day (1997-1998) to 834 vehicles/day in 2002-2003 and 778 vehicles/day in 2003-2004. The same in respect of transportation of LDO and FO has come down from 205 to 148 vehicles/day during the period and 82 vehicles/day in 2003-2004.

(vi) Still, both the refineries namely HPCL and BPCL are evacuating some quantity of LDO and FO through road.

(vii) RCF is mostly using railways as mode of transport for its materials. The volume of road traffic is about 160 vehicles/day. However, RCF, normally, does not use the corridor road. As per data provided by Pepsi and Tata Power, traffic flow due to Pepsi and Tata are about 42 and 8 vehicles/day respectively. Traffic volume, due to Aegis's operations is about 150 vehicles/day.

(viii) Three companies namely M/s Indo Marine Container yard, M/s Maritime Transportation Tech Services and M/s D.R containers exists in Chembur area covering an area of 37 acres, 75,000 sq feet and 35 acres respectively. Traffic movement due to three marine container facilities is substantial (about 350 vehicles/day). These facilities are essentially related to port activities and have nothing to do with other industrial operations in Chembur.

(ix) There are few more industries (e.g. Indian Oil Blending Unit, Indian Oil Treading Ltd. etc.) located in Chembur area, but their contribution to traffic in the area is minimum (41 truck /lorries /d).

(x) M/s Chemicals Terminal Trombay Limited transport their raw materials through trucks at the rate of 45 trucks/d. However, trucks are not parked on Municipal Road. These are parked on terminal private road just before loading and move out immediately after finishing loading operations.

(xi) Most of the vehicles coming to industries for lifting products are parked along the roadside, thereby, reducing effective utilization of road and in turn causing traffic congestion. Most of these vehicles, in the absence of organized parking place in the area or due to economic and other reasons, come much in advance prior to loading of the products and stay parked on the road unnecessarily for longer duration. This, further, results in traffic congestion and air pollution.

(xii) The congestion of traffic not only poses great risk by making emergency response operations more difficult if a major catastrophe takes place but also cause air pollution.

Based on the above observations the group has suggested certain measures for decongestion of traffic in Chembur. These include the following:-

(i) HPCL, BPCL, Indian Oil Corporation Limited (IOC) and other oil companies should work out an action plan within a month and submit it to the MOE&F to ensure that no quantity of FO and LDO are dispatched from refineries through road transport after 30.11.2004.

(ii) HPCL, BPCL, IOC and other oil companies would also work out within a month, feasibility to minimize dispatch of products other than FO and LDO through road and implement this by 30.11.2004.

(iii) Other industries viz. RCF, Aegis, Tata and Pepsi would also work out similar action plans, within a month, for minimizing movement of their product and raw materials through road.

(iv) Marine container facilities may be asked to shift outside the Chembur area. They have large traffic volume and these activities, being related to port , need not be continued in Chembur.

(v) The Mumbai Municipal Corporation, Traffic Police etc. may be requested to implement the following measures:-

- Parking of goods vehicles on the (a) Corridor road (b) from Chembur Naka to Chagan Mitha Petrol (western side); and (c) from Chembur Naka to RK Chowk (eastern side) may be banned with immediate effect, except for 200 meter stretch from gates of loading area/refinery in respect of both refineries to facilitate immediate availability of tankers for loading the products.

- An organized parking place needs to be developed.

- The condition of corridor road adjacent to the industries needs to be improved (possibly through construction of cemented road) so that it could sustain heavy traffic load. This would ease out traffic movement on road.

Based on the suggestions of the above group, MOE&F has written to the Maharashtra State Environment Department to issue directions under Section 5 of Environment (Protection) Act, 1986 to all the oil companies located in Chembur area viz., HPCL, BPCL, IOC and other oil companies to work out an action plan to ensure that no quantity of FO and LDO are dispatched through road transport from refineries. For other products and raw materials, the oil companies and other industries viz RCF, Aegis, TEC, Pepsi and Chemicals Terminal Trombay Limited to work out an action plan for minimising the material movement through road. Also to the marine container facilities to shift outside Chembur area to reduce large volume of traffic due to their activities.

The State Environment Department has also been requested to issue similar directions to the Mumbai Municipal Corporation and Traffic Police to take measures for decongestion of Chembur area by banning parking of goods vehicles on the Corridor road, from Chembur Naka to Chagan Mitha Petrol (Western side) and from Chembur Naka to RK Chowk except for 200 meter stretch from gates of loading area/refinery in respect of both refineries (HPCL and BPCL) and also to develop an organized parking place and improve the condition of the Corridor road adjacent to the industries.

(Ministry of Petroleum and Natural Gas
O.M. No.R-37012/6/2003-OR.II dated 24.1.2005)

Remarks of Audit

- HPCL implemented the project of laying a black oil pipeline to Vashi while setting up the lube base oil augmentation project in Mumbai Refinery.

- Monitoring Report of the Regional Office of MOE&F was related to product movement of HPCL Refinery only.

- As stated in the Study Group's observations, there has been reduction in the movement of black oil products by road. Though the commissioning of LPG bottling plant at Usar, Alibag has helped in reducing the movement of packed LPG in the

Chembur area, the shortage in the availability of bulk LPG from GAIL at Usar has forced the company to transport bulk LPG from Refinery by road.

- Considering the heavy expenditure in transporting bulk LPG from Refinery at Usar and bringing the packed LPG back to Mumbai market, HPCL Management is implementing an LPG Plant near Refinery. This may again cause traffic congestion and environmental problems in the Chembur belt in future.

- The details of black oil movement by road from Mahul Terminal are as follows :

Product	2003-04	2004-05 (Upto Jan.05)
LDO	7032 KL	24602 KL
FO	21896 KL	53955 KL
LSHS	71929 MT	57971 MT
CBFS	28625 MT	25285 MT

- There has been abnormal increase in black oil movement by road during the year 2004-05 compared to the previous years.

- HPCL & BPCL could not finalise an agreement regarding product sharing at HPCL's Vashi Terminal & Refinery/ Sewree Terminal so far.

Further reply of the Government

Due to shortage of bulk LPG with GAIL, Usar, requirement of Usar LPG Plant is being met from HPCL's Mumbai Refinery, transporting bulk LPG by road.

Even in case of availability of bulk LPG at GAIL, Usar there will be need of road transportation to evacuate LPG produced in HPCL's Mumbai Refinery @ 500 MT per day i.e. around 40 tank trucks per day.

On commissioning (expected by September, 2005) of the bottling plant near HPCL's Mumbai Refinery, LPG from refinery to the extent of 300 MT per day will be filled in cylinders and marketed in Mumbai city and 200 MT will be dispatched outside refinery by road from current level of 500 MT per day i.e. the bulk tanker movement from the plant will come down from current level of 40 tanker per day to 12 tankers per day. This will ease the traffic congestion in the area. There will be movement of around 70 packed LPG trucks during 16 hours of working in a day. Currently 40 tankers are moving out with bulk LPG in around 9 to 10 hours operation. Movement of around 80 trucks per day (bulk and packed put together) from the plant under construction will be evenly distributed in 16 hours duration. Thus distribution of traffic will remain the same during the day and there will not be any additional traffic due to commissioning of the bottling plant near the refinery.

Further, transportation of packed cylinders are safer than transportation of bulk LPG in tanker. Thus safety in transportation will improve with commissioning of the plant near refinery without addition of traffic on Mahul road

Moreover, around one acre of the land has been developed as truck parking area which will accommodate 30 trucks. This will help in reducing number of parked trucks on roadside and substantially reducing the congestion on Mahul road.

There has been increase in black oil movement by road during the year 2004-05 compared to the previous year due to change in excise rules w.e.f. 6.9.2004. As per the revised excise rules, the “warehousing facility for removal of petroleum products without payment of duty from refineries” has been withdrawn. The consumers find it economical to uplift from refinery/terminal adjacent to refineries. HPCL is examining pricing to assess the financial implication/outgo so that customers can be compensated and are requested to uplift from Vashi instead of Mahul to enable HPCL to meet objective of decongestion of Chembur area.

Black oil tank lorry movement in BPCL’s account (all products put together) has shown a reduction of 10% on daily movement in the current year as compared to 2003-04. However, there has been a marginal increase in FO lorry movement in the current year primarily due to change in excise rules. Customers can derive tax benefits only if it is taken from bonded locations i.e. only from refineries.

HPCL/BPCL have agreed in principle to exchange product. However, commercial terms (payment) for utilisation of pipeline and terminal facility have yet to be agreed to.

(Ministry of Petroleum and Natural Gas

O.M. No.R-37012/6/2003-OR.II dated 4.4.2005)

RECOMMENDATION SL. NO. II DECONGESTION OF CHEMBUR AREA- SUPPLY OF FO/LDO WITHIN THE MUNICIPAL LIMITS OF MUMBAI

The Committee note that in view of various industries operating in the Chembur residential area, there is a heavy traffic congestion in that area. As mentioned above, in addition to the two refineries of HPCL and BPCL, there are other industries also which are all located on a single corridor road. A lot of lorry movement is there from the two refineries and many a times, it is even difficult to approach the refineries. In this regard, the Committee note that as things stand today, in the case of a major disaster/catastrophe, it would be very difficult to evacuate people especially in the two refinery areas. This fact has been admitted by the CMD, HPCL during his evidence before the Committee.

The Committee feel that there should be consideration in the Ministry of Petroleum and Natural Gas as how to minimize the traffic congestion in the Chembur area. The Committee, therefore, recommend that the whole issue of decongestion should be considered by the Government in a broader perspective. The safeguard of the larger public interest which is being adversely affected by the hazardous effects of air pollution/road congestion, should take precedence over the commercial interests of few customers and oil companies. In this direction, the Committee desire that there should be a complete stoppage of evacuation of any oil by road transport from any of the refinery location in the Chembur area for supply to customers who are located outside Mumbai municipal limits.

Towards this end, the Committee desire that for achieving reduction in pollution level and decongestion of city traffic, the Central Government may issue appropriate directions to the Ministry of Environment and Forests /

State Government of Maharashtra to make it mandatory through a statutory order issued in public interest to the effect that no FO/LDO loading will be allowed within the Municipal limits of Mumbai for consumers located outside the Municipal limits of Mumbai, by any supplier including IOCL, HPCL, BPCL and private companies/traders.

Reply of the Government

Ministry of Petroleum and Natural Gas has requested Government of Maharashtra to consider initiating action for removal of traffic congestion along the roads approaching HPCL and BPCL refineries in Mumbai including other installations such as Tata Electric, IDBL, BARC etc., and regulating construction of residential colonies in the vicinity of the above facilities.

MOE&F in its letter addressed to the Government of Maharashtra as indicated in reply to recommendation Serial No.1 has requested the State Government to issue necessary directions in public interest in exercise of the powers vested in it under Section 5 of the Environment (Protection) Act, 1986 to every supplier banning loading of FO/LDO within municipal limits of Mumbai for consumers outside Mumbai from 1.12..2004 onwards.

(Ministry of Petroleum and Natural Gas
O.M. No.R-37012/6/2003-OR.II dated 24.1.2005)

Remarks of Audit

Nil

RECOMMENDATION SL. NO. III(i)

III(i) UNDER-UTILIZATION OF THE PIPELINE PROJECT

As regards the commercial viability of the pipeline project, the Committee observe that there has been the under-utilization of the pipeline. The Committee note that the pipeline project commissioned at a cost of Rs.42.30 crore has a designed capacity of 1.5 Million Metric Tonne (MMT) with the estimated thruput of 1 MMT. As per the data furnished by the HPCL regarding percentage utilization of the pipeline capacity in terms of its estimate thruput of 1 MMT, the Committee note that it was 9.82% in 1998-99 and has gradually increased to 28.28% in the year 2002-03. It is, therefore, evident to the Committee that after commissioning of the pipeline project in April, 1998, the pipeline has remained grossly under- utilized. The various reasons which have come to the notice of the Committee for under utilization of the pipeline mainly include the following:

(i) Dismantling of Administered Price Mechanism (APM)

The Committee note that upto March, 1998, the oil industry was under Administered Price Mechanism and the Oil Coordination Committee (OCC) coordinated industry logistics and product movements. Effective 1st April, 1998, all petroleum products except petrol, diesel, LPG, Kerosene and ATF were decontrolled. This dismantling of APM in April, 1998 coincided with the commissioning of the pipeline project of the HPCL. As a result of this, the manner and production of black oil products such as Furnace Oil (FO), LDO, Naphtha etc. which was earlier under the supervision of Oil Coordination Committee (OCC) got decontrolled. In the decontrolled scenario the Oil Companies got a free hand to make their own logistic planning on product supply and movement depending on the companies market conditions, demand supply scenario, optimum utilization of their own infrastructure and smooth supply to customers etc. According to HPCL, the dismantling of APM has resulted in non-participation of other industry members namely IOCL and BPCL which were initially stipulated to move their products to Vashi through the pipeline as well as catering to their customers from the Vashi Terminal of the pipeline. Instead, they are now dispatching their products from their existing installations in Mumbai for optimizing their infrastructure. As a result, the Vashi facility which was initially envisaged to cater the supplies to the customers of BPCL and IOCL besides HPCL got reduced to cater only to the HPCL customers. In addition, the dismantling of APM has also allowed the customers to procure products through the imports of the black oil.

In this regard, the Committee note that though there was no written agreement between HPCL and BPCL for use of the pipeline, a direction was, however, issued by the then Oil Coordination Committee (OCC) stating that both BPCL and HPCL would deliver their products to their customers from Vashi. The Committee, therefore, recommend that no one should take unfair advantage that there was no written agreement when pipeline project was envisaged. However, it should remain a solemn commitment and should be honoured for all times to come irrespective of deregulation or dismantling of APM. The Committee, further, recommend that the Government should arrange coordination between the HPCL, BPCL and the IOCL to work out a plan for moving the FO/LDO products through the pipeline and their feeding to the customers through the Vashi Terminal of the pipeline. This would result not only in the better utilisation of the pipeline but would also help towards reduction in the road congestion and the associated hazards.

<u>Reply of the Government</u>

IOC, BPCL and HPCL were requested to jointly work out a plan for moving FO/LDO thru Mumbai-Vashi pipeline of HPCL and their feeding to the customers through the Vashi terminal of the pipeline. HPCL and BPCL were also requested to take steps to reduce evacuation of petroleum products from their refinery at Mumbai by road transport.

IOC was willing to take 20 TMT of FO ex HPCL's Vashi Black Oil Terminal for feeding their customers outside Mumbai city. This was in addition to the volume, currently being uplifted by IOC from HPCL's Sewree installation. However, HPCL does not have surplus FO ex-Mumbai Refinery to meet this additional requirement of IOC. BPCL also confirmed non-availability of surplus FO at its Mumbai Refinery. Due to severe tankage constraints at its Refinery, HPCL is not in a position to receive coastal inputs into its Refinery tanks for onward pumping to Vashi, even if IOC was to bring FO coastally to meet its requirements. Hence it was decided that IOC would continue to receive coastal parcels at JNPT and meet its requirements of Vashi fed locations ex JNPT.

It was also decided that BPCL would uplift around 15 TMT of product from HPCL's Vashi Black Oil Terminal for feeding its customers outside Mumbai. An equivalent quantity of FO would be given to HPCL by BPCL, either at the Refinery or at Sewree Wadala Terminal, so that there would be no change in material balance for both BPCL and HPCL. Product specifications were compared and found acceptable by both the companies. Once this is implemented, the expected throughput of the pipeline would be in range of 0.5 to 0.6 MMTPA.

(Ministry of Petroleum and Natural Gas
O.M. No.R-37012/6/2003-OR.II dated 24.1.2005)

<u>Remarks of Audit</u>

- The Navratna status granted to the Oil Cos. by Govt. has resulted in more powers related to decision making and approval of capital expenditure in the PSUs.

- In their zeal to be self sufficient in infrastructural facilities, Oil Cos. have put up/are putting up many projects which may not be optimally utilized on their implementation.

- HPCL and BPCL could not finalise an agreement regarding product sharing at HPCL’s Vashi Terminal and Refinery/Sewree Terminal so far.

Comments of Ministry on the remarks of Office of C&AG

HPCL/BPCL have agreed in principle to exchange product. However,

commercial terms (payment) for utilisation of pipeline and terminal facility have yet to be agreed to.

(Ministry of Petroleum and Natural Gas
O.M. No.R-37012/6/2003-OR.II dated 4.4.2005)

CHAPTER III

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

RECOMMENDATION SL. NO. III(ii) IOTL project of IOCL

Another factor, which the Committee note as responsible for under-utilisation of the pipeline is the commissioning of Indian Oil Tanking Ltd. (IOTL) project at Mumbai in 1998. The storage tankages built under the project at Mumbai provide for storage of FO/LDO amongst other products. As a result of this IOTL project, the FO/LDO is being fed from these tankages to some of the customers in Vashi area who were originally supposed to be fed through the HPCL pipeline terminal. In this regard, the Committee feel that the Ministry of Petroleum and Natural Gas while clearing the IOTL project in 1996 did not take any cognizance of the HPCL pipeline project which was already under construction since 1995. As a result of simultaneous commissioning of the IOTL project with the pipeline project in 1998, the utilisation of the HPCL pipeline project has been adversely affected. The Committee cannot help observing that the adverse impact of new facility of IOTL was not surprisingly considered by the Ministry of Petroleum and Natural Gas while giving clearance to the IOTL project although both HPCL and IOCL function under the same Ministry. The Committee, therefore, recommend that whenever the Government give clearance for a fresh project, it should also give due consideration to the impact of such projects on the projects already under construction so as to ensure their optimal utilisation.

Reply of the Government

The Government in July, 1997 had delegated decision making authority to approve capital expenditure on purchase of new items or for replacement without any monetary ceiling, technology joint venture or strategic alliances, technology and know-how arrangements etc., to the Board of Public Sector Enterprises (PSEs) which have been granted Navratna status. ONGC, IOC, BPCL, HPCL and GAIL fall in this category. The Navratna companies, under enhanced delegation of power, are approving projects with the approval of their Boards.

Further, the PSEs, having Miniratna status, can incur capital expenditure on new projects etc. upto Rs.300 crore (PSEs in Category I) / Rs.150 crore (PSEs in Category II).

(Ministry of Petroleum and Natural Gas
O.M. No.R-37012/6/2003-OR.II dated 24.1.2005)

Remarks of Audit

Nil

CHAPTER IV

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

RECOMMENDATION SL No.. IV POLICIES OF THE GOVERNMENT ON OIL INDUSTRY

The Committee find that the deregulation of APM in respect of FO/LDO in 1998 is the main reason for under-utilisation of the Mumbai-Vashi pipeline. In this regard, the Committee further note that through Government of India contemplated restructuring of oil industry around 1995, the actual details of the phased dismantling of the APM were announced by the Government only in November, 1997 and hence could not be taken into account for reviewing the economics of the pipeline project which was already at an advanced stage of construction at that time.

The Committee desire that before taking such major policy decisions in the future, the Government should also take into consideration their likely impact of those policies on on-going projects of the PSUs and make all possible efforts to minimise any adverse affect on the performance of such projects by virtue of such decisions. The instant case reflects a total lack of such far-sighted consideration on the part of the Government.

As regard the remedial steps to be taken in the matter to ensure that such happenings do not recur, the Committee note that the Government has notified guidelines on 20th November, 2002 for laying petroleum product pipelines post APM. The guidelines facilitate laying of optimal size pipelines by proposer company taking into account the interest of other interested companies. The Committee trust that these guidelines would ensure proper utilization of the pipelines in the future and desired that there should be periodical review of the guidelines to enable the Government to take timely corrective action keeping the economics of the venture in view.

Reply of the Government

In a deregulated scenario, the market forces would ensure that the investment made by the oil companies in pipeline infrastructure is on commercial considerations.

Supplementary Guidelines for Laying Petroleum Product Pipelines have been notified on 26.10.2004. Guidelines for Laying Petroleum Product Pipelines and Supplementary Guidelines thereto will remain in force till the proposed Petroleum Regulatory Board is constituted. After the constitution of this Board, the right of user in land for laying petroleum product pipelines will be granted by this Ministry subject to fulfillment of requirements under the Petroleum Regulatory Law.

(Ministry of Petroleum and Natural Gas
O.M. No.R-37012/6/2003-OR.II dated 24.1.2005)

Remarks of Audit

4. The deregulated scenario has not resulted in what the government envisaged and this has been due to shift in Govt. policies, resulting in excess creation of infrastructure requiring heavy investment.

5. For instance, in 1998, Government formulated a common carrier policy where Oil Companies pool their resources and create pipelines across the country for movement of POL products. Accordingly, a Company, viz. Petronet India ltd., (PIL) was formed and PSU Oil marketing companies contributed Rs.50 crore as equity participation. PIL took up a few pipeline projects forming separate joint venture companies with the help of oil marketing companies. Many of these JVCs have stopped their operations and PIL is in red within a period of 6 years. This was mainly due to a shift in Govt. Policy in 2002, whereby oil companies can independently implement their own pipelines across the country subject to certain conditions.

6. Due to this,

- HPCL put up a pipeline project, Mundra-Delhi pipeline with an investment of Rs.1623.84 crore.
- BPCL extends their Mumbai-Manmad pipeline to Piyali, near Delhi.
- Recently, Govt. approved six pipeline projects of Reliance Industries Limited, one of which connects Panipat to RIL's refinery at Jamnagar.

If all these projects materialize Northern Region may have surplus products and therefore, the optimum utilization of the two ongoing pipelines of HPCL and BPCL would be effected.

4. Oil Companies go ahead with their own projects without considering similar projects of other companies and various associated issues in its totality. On implementation of these pipeline projects, there may be a scenario where IOC may transport their excess products at Northern Region by their own pipelines.

Further reply of the Government

The guidelines for laying petroleum product pipelines, issued on 20.11.2002 and supplementary guidelines thereto, issued on 26.11.2004, do not envisage non-duplication in pipelines but allow a free regime.

On 11.03.2002 IOC had issued notice to HPCL on their conversion of Kandla-Bathinda Pipeline (KBPL) to crude service w.e.f. August, 2004 and advised HPCL to plan their affairs. With the conversion of KBPL to crude service, the vital coastal pipeline link to large fuel market around national capital in north zone is missing. HPCL's proposed Mundra Delhi Pipeline will give product sourcing flexibility and economics of distribution cost to HPCL. Both are critical in current competitive scenario for retaining HPCL's market share and profitability. HPCL's existing market in north zone is almost fully dependant on product sourcing from others. Mundra Delhi Pipeline will lead to reduced dependence on competitors. Continuous upgradation of Auto fuel standards and absence / delay of production capability to meet the demand from inland refineries, highlights this necessity of coastal inputs at western ports and product movement through pipeline to northern market. In case of any exigency with any of the IOC refineries in west or north zone, large volumes will be required to be moved by conventional rail / road movements at a short notice after positioning at western port locations or from Jamnagar. Out of 5.8 MMTPA pipeline capacity of proposed Mundra-Delhi Pipeline project, 80% i.e. 4.64 MMTPA is considered based on HPCL's demand in 2016-17. Hence, any underutilization of the pipeline is not foreseen. Further, the rate of return for this project considering only HPCL volumes is very attractive and cannot be overlooked. This pipeline would give a possibility for linkage with Vadinar-Kandla Pipeline (VKPL) in future, if necessary, thereby preventing the investment in VKPL becoming infructuous after conversion of IOC's KBPL to crude service.

Thus, Mundra-Delhi Pipeline will not only be utilized in an optimum manner but will also give HPCL the required flexibility and support to position the product in north in the most competitive manner. The project will remove the Company's dependence on its competitors and will also serve as an alternate source of product to industry in case of problems in the inland refineries.

BPCL's existing pipeline from Mumbai to Manmad is fully utilized as envisaged. The same line is being extended to Piyala due to the following reasons :

(a) Product availability to BPCL in northern region from other sources is inadequate to meet own demand.

(b) BPCL's Mumbai Refinery is being expanded to 12 MMT. This line will facilitate proper evacuation of refinery in most efficient manner to meet the demand in northern region.

Out of six new proposed product pipelines, M/s Gas Transportation & Infrastructure Company Limited (GTICL), a special purpose vehicle promoted by M/s Reliance, intend executing the Jamnagar–Patiala pipeline as the first pipeline. The remaining pipelines will be taken up subsequently in stages.

(Ministry of Petroleum and Natural Gas
O.M. No.R-37012/6/2003-OR.II dated 4.4.2005)

<u>Comments of the Committee</u>

Please see paragraph 6 of Chapter I of the Report

CHAPTER V

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

\- NIL –

New Delhi	RUPCHAND PAL
10, May, 2005	CHAIRMAN
20, Vaisakha, 1927(S)	COMMITTEE ON PUBLIC UNDERTAKINGS

MINUTES OF THE 1st SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 10 MAY, 2005

The Committee sat from 1500 hours to 1545 hours.

PRESENT

CHAIRMAN

Shri Rupchand Pal

MEMBERS, LOK SABHA

2. Shri Manoranjan Bhakta
3. Shri Gurudas Dasgupta
4. Dr. Vallabhabhai Kathiria
5. Smt. Preneet Kaur
6. Shri Parasnath Yadav
7. Shri Ram Kripal Yadav

MEMBERS, RAJYA SABHA

8. Shri. Jibon Roy

SECRETARIAT

1.	Shri John Joseph	Additional Secretary
2.	Shri Bal Shekar, S	Joint Secretary
3.	Shri J. P. Sharma	Director
4.	Shri Ajay Kumar	Assistant Director

OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

1.	Shri T.G. Srinivasan,	Chairman, Audit Board
2.	Ms. Sandhya Shukla,	Asstt. Comptroller & Auditor General (Comml)

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3. The Committee then took up for consideration Memorandum No.2 regarding the Draft Action Taken Report on the recommendations contained in the 12th Report (13th Lok Sabha) on `Hindustan Petroleum Corporation Limited - Infructuous Expenditure on creation of a pipeline' and adopted the report. The Committee then authorised the Chairman to finalise the report for presentation.

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APPENDIX II

(Vide para 3 of the Introduction)

Analysis of the Action Taken by Government on the recommendations/observations contained in the Twelfth Report of the Committee on Public Undertakings (Thirteenth Lok Sabha) on "HPCL. –Infructuous Expenditure on creation of a pipeline"

I.	Total number of recommendations	5
II	Recommendations that have been accepted by the Government [vide recommendations at Sl. Nos I, II and III(i)]	3
	Percentage of total	60%
III	Recommendation which the Committee do not desire to pursue in view of Government's replies [vide recommendation at Sl. No III(ii)]	1
	Percentage of total	20%
IV	Recommendations in respect of which replies of the Government have not been accepted by the Committee…(vide recommendations at Sl. No IV)	1
	Percentage of total.	20%
V	Recommendations in respect of which final replies of Government are still awaited	NIL