FIFTIETH REPORT

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2003)

(THIRTEENTH LOK SABHA)

DEMANDS FOR GRANTS (2003-2004)

MINISTRY OF PETROLEUM AND NATURAL GAS

[Action Taken by the Government on the Recommendations contained in the Thirty-Ninth Report (Thirteenth Lok Sabha) of the Standing Committee on Petroleum & Chemicals (2003) on 'Demands for Grants (2003-2004) of Ministry of Petroleum & Natural Gas']

Presented to Lok Sabha on 22.8.2003

Laid in Rajya Sabha on 22.8.2003

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

August, 2003/*Sravana,* 1925 *(Saka)*

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COMPOSITION OF THE STANDING COMMITTEE ON PETROLEUM AND CHEMICALS (2003)

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*Nominated *w.e.f.* 21st February, 2003.

**Nominated *w.e.f.* 26th February, 2003.

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2. Shri P.K. Grover — *Director*
3. Shri J.N. Oberoi — *Officer on Special Duty*
4. Dr. Ram Raj Rai — *Assistant Director*

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum & Chemicals (2003) having been authorised by the Committee to submit the Report on their behalf present this Fiftieth Report on Action taken by Government on the recommendations contained in Thirty-Ninth Report (Thirteenth Lok Sabha) of the Standing Committee on Petroleum & Chemicals (2003) on 'Demands for Grants (2003-2004) of Ministry of Petroleum & Natural Gas'.

2. The Thirty-Ninth Report of the Committee was presented to Lok Sabha on 8th April, 2003. The Replies of Government to all the recommendations contained in the Thirty-Ninth Report were received on 28th July, 2003. The Standing Committee on Petroleum & Chemicals (2003) considered the Action Taken Replies received from the Government and adopted the Report at their sitting held on 19th August, 2003.

3. An analysis of the Action Taken by Government on the recommendations contained in the Thirty-Ninth Report (Thirteenth Lok Sabha) of the Committee is given in Appendix-II.

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

5. The Committee place on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

NEW DELHI;
August 19, 2003
Sravana 28, 1925 *(Saka)*

MULAYAM SINGH YADAV,
Chairman,
Standing Committee on
Petroleum & Chemicals.

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by the Government on the recommendations contained in the Thirty-Ninth Report (Thirteenth Lok Sabha) of the Standing Committee on Petroleum & Chemicals (2003) on 'Demands for Grants of Ministry of Petroleum & Natural Gas for the year 2003-2004' which was presented to Lok Sabha on 8th April, 2003'.

2. Action taken notes have been received from the Government in respect of all the 36 recommendations/conclusions contained in the Report. These have been categorised as follows:—

(i) Recommendations/conclusions that have been accepted by the Government:—

Sl. Nos. 1, 4, 13, 14, 16, 17, 20, 22, 27, 34 and 35

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

Sl. Nos. 5, 10 and 18

(iii) Recommendations/conclusions in respect of which replies of the Government have not been accepted by the Committee.

Sl. No. 9

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

Sl. Nos. 2, 3, 6, 7, 8, 11, 12, 15, 19, 21, 23, 24, 25, 26, 28, 29, 30, 31, 32, 33 and 36

3. The Committee desire that the final replies in respect of the recommendations for which only interim replies have been furnished by the Government and the recommendations which have been commented upon by the Committee in Chapter-I should be furnished expeditiously.

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

A. EXPLORATION AND PRODUCTION OF OIL AND GAS

Recommendation No. 2, (Para No. 2.2)

5. The Committee had observed that as against the target of 180.82 MMT of production during Ninth Plan, the oil production was short by 10 per cent and gas production by 2 per cent. They had noticed that the share of private sector companies in the total oil production in the country had increased from 7.4% to 12.9% during the Ninth Plan period. Similarly, the share of private sector companies in the total natural gas production had increased from 6.4% to 13.6%. The Committee were not convinced with the justification given by the Ministry for such poor performance of National Oil Companies during 9th Plan particularly when the targets already fixed were very low. The Committee were astonished to note that during 9th Plan period no new major field development projects were taken up by the National Oil Companies for contribution to oil production. Moreover, most of the Improved Oil Recovery Schemes/Enhanced Oil Recovery Schemes were initiated in the later part of 9th Plan including Redevelopment of Mumbai High. The Committee had desired that National Oil Companies should intensify their exploration and production efforts aggressively in the existing as well as new projects obtained under New Exploration Licencing Policy. The Committee had also asked ONGC to start the work on fast track development of new fields like D-1 and Vasai East in Mumbai offshore and G-1 in Krishna-Godavari offshore without any further delay. Moreover, they had also asked ONGC to pursue the work relating to the examination of marginal fields for finding out the feasibility of their development vigorously. The Committee had also cautioned that oil companies should not repeat the mistakes like rescheduling of additional development Plan, non-commensurate drilling results and delay in inputs mobilisation which were responsible for their failures in achieving the targets during 9th Five Year Plan.

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

"ONGC has drawn up a time bound-action plan for IOR/EOR in all the 15 major fields. The activities in the above fields have been 'projectised' into 19 projects. Three of the projects are already completed and the remaining projects including redevelopment of

Mumbai High field are under various stages of implementation. All these projects are anticipated to be commissioned as per schedule within the 10th Plan period. In addition to the major fields, ONGC is making efforts to bring in more fields in IOR plans during the 10th Plan. Currently, 10 EOR 'pilots' are also under implementation. Out of these, 2 pilots are already completed and are under trial testing. Feasibility of application of EOR in several other fields is being studied in the laboratory.

ONGC has also taken up D-1 and Vasai East fields in Mumbai offshore for fast track development. Development schemes along with investment plans have already been finalized and production of oil and gas will commence in middle of 10th Plan. Integrated development of G-1 and GS-15 fields in KG offshore has also been taken up and the feasibility report is under approval. As a part of its corporate strategy of monetization and development of small and marginal fields, ONGC has identified and has made priority grouping of its existing non-producing fields for taking up development activity in a phased manner.

Similarly, OIL is implementing IOR/EOR measures in 5 of its major fields in Assam through various schemes. By the end of 10th Plan, at least 35 reservoirs in the above fields will be covered by IOR/EOR process. Regarding marginal fields. OIL has initiated action since 2002-03 to bring such fields into production.

As regards the work progress in the blocks awarded to the NOCs/consortium through NELP route, seismic data acquisition, processing and interpretation (API) is progressing as per committed work programme in the blocks and drilling would start subsequently."

7. The Committee are happy to note that ONGC and Oil India Limited have drawn up a time bound action plan for Improved Oil Recovery Schemes (IOR) and Enhanced Oil Recovery Schemes (EOR) in all of their major fields. These projects are at various stages of implementation. These projects are anticipated to be commissioned during the 10th Plan. Moreover, as suggested by the Committee, ONGC has taken up D-1 and Vasai-East fields in Mumbai offshore for fast track development. The Committee however, desire that the projects relating to integrated development of G-1 and GS-15 should also be expedited on similar lines after approval of the feasibility

Report. The Committee have higher expectations from the blocks awarded to the NOCs/consortium through NELP route. They, therefore, desire that the work in this regard should be undertaken with due vigour and sincerity and without any delay.

B. DEMAND AND SUPPLY OF NATURAL GAS

Recommendation Nos. 6 and 7 (Para Nos. 2.6 and 2.7)

8. The Committee had taken note of the media reports that the price of imported LNG would be quite high and beyond the reach of consumers. They had also noted that even the bulk consumers like Fertilisers & Power Industries were showing their reluctance to buy imported LNG in place of present feed stock as the economic viability of their business activities could be hit adversely. The Committee had, therefore, recommended that economic viability of imported LNG should be assured industry-wise and efforts should be made to explore alternate sources of import of LNG so that the delivery price of LNG could be cheaper and economically viable. The Committee had further observed that the country has made some world class discoveries under NELP and ONGC has announced its aggressive exploration plan for deep water exploration which would further add to domestic hydrocarbon resources, but in the short run there would remain gap between demand and supply of natural gas. The Committee had expressed their firm opinion that the Government should continue to explore the other options to increase the supply capacity of natural gas including building facilities to handle imports of Liquefied Natural Gas and setting up of pipelines from major gas sources. The Committee specifically observed that LNG was a new fuel and was in initial stages of development in the country and that required an integrated policy for proper development of that new sector. The Committee had, therefore, recommended that the Government should take all initiatives to prepare and announce an integrated Natural Gas policy covering the regulatory mechanism for the country in the shortest possible time. This would provide level playing field for attracting investments and developments of domestic resources as well as LNG imports.

9. In the same context, the Committee had observed that in order to bridge the large gap between demand and supply of natural gas, one of the options was to import natural gas through pipelines. The Committee had observed that the progress with regard to import of natural gas from Iran, Bangladesh and Myanmar was negligible. The

Committee had, therefore, desire that the feasibility studies for laying pipeline from Iran to India should be completed in the shortest possible time. They had also desired that all out efforts be made for an early finalisation of Myanmar-India gas pipeline and Bangladesh-India gas pipeline projects if there was sufficient availability of natural gas in these countries.

10. In respect of pricing and supply position of LNG and status of LNG policy, the Government have clarified the position in their reply as under:—

"The demand of natural gas in India is much more than the availability at present. To fulfill the shortfall Government have taken various initiatives like encouraging investment in E&P in the country through NELP, exploring the possibilities of gas imports through transnational pipelines from Iran, Bangladesh, Myanmar and also LNG imports. Because of LNG chain activities of upstream production, liquification, transportation in special cryogenic vessels and regasification which require large capital investments, LNG will be costlier than the domestic gas. However, in the initial stage LNG will replace much costlier fuels/feed stocks which are being used by power and fertilizer sectors e.g. Naphtha, LSHS, FO, LPG etc. In fact by replacing these fuels/feed stocks by LNG there would be savings on that account.

To further bring down the cost of LNG to the consumers, the Government is considering 'An LNG Policy'. The Ministry of Petroleum and Natural Gas is presently consulting the Ministry of Finance, Ministry of Power and Ministry of Chemicals & Fertilisers on the LNG policy matter. So far as regulatory mechanism is concerned the Petroleum Regulatory Board Bill, 2002 is already before the Parliament. Further action will now be taken as the recommendation of Standing Committee on Petroleum and Chemicals are now available with Government."

11. On the issue of the import of natural gas through pipeline, the Ministry submitted the following reply:—

"With regard to finalizing the gas import from Iran, Myanmar and Bangladesh it may be mentioned that the Government of India has taken appropriate initiative to expedite the natural gas from these countries. However, in trans-national gas pipeline projects, apart from commercial, consideration, geo-political and techno-economic issues are involved which take considerable time to resolve. Further such initiative depend on the decisions of the respective foreign Governments."

12. The Committee are not satisfied with the pace with which the Government is exploring the possibilities of gas imports through transnational pipelines from Iran, Bangladesh, Myanmaar and also LNG imports. The Committee have also noted that although LNG import is likely to start from next year but the Government have yet to prepare/announce and Natural Gas Policy including import of LNG and Natural Gas through pipeline. Under these circumstances, there are apprehensions in the mind of bulk consumers like Fertiliser and Power industries about the price of imported LNG. Moreover, they are not able to plan their future requirements without knowing the Government policy on this issue. The Committee, therefore, urge the Government that they should take all initiatives for an early preparation and announcement of Natural Gas Policy for the country. They also desire that the Government should keep in mind the interests of bulk consumers in the process of finalisation of this policy so that they may be able to replace their present fuels/feed stocks by LNG without affecting the economic viability of their business. The Committee also hope that Government would be able to resolve the trans-national, techno-economic and geo-political considerations in the matter of import of natural gas from Iran, Bangladesh and Myanmar in the light of country's natural gas requirements and expected indigenous availability of natural gas in coming years.

C. UTILISATION OF PLAN OUTLAY BY PSUs

Recommendation No. 9 (Para No. 2.9)

13. The Committee had noted that the Public Sector Undertakings under the Ministry of Petroleum & Natural Gas were maintaining a healthy trend by not taking any Budgetary support from the Government and they were funding their projects through internal resources. Monitoring of those projects were being done by the Government. The Committee had noted that in the original 9th Plan (1997-2002), the Plan outlay for petroleum sector was Rs. 81382.987 crores which was revised to Rs. 78401 crores. Out of this only an amount of Rs. 50920.80 crores was spent during those five years. Thus, the utilisation of Planned outlay was about 65 per cent only. They had

noted a major shortfall in downstream sector because a large number of projects were kept under review. The Committee had noted that the public sector outlay for Tenth Plan was fixed at Rs. 103656 crores and the Government had tried to project more realistic approach in making allocation for PSUs. The Committee had, therefore, desired that the Government should improve their monitoring process so that no more time was exhausted in deciding the fate of pending projects of 9th Plan and there could be proper utilisation of funds during 10th Plan. They had asked the Government to ensure that there was proper utilisation of funds allocated to each Public Sector Undertaking on yearly basis.

14. In their reply, the Government have stated the following system of monitoring of projects:—

> "The Government in July, 1997 had delegated enhanced decision making authority to the Board of PSEs which have been granted Navratna status. ONGC, IOC, BPC, HPC and GAIL fall in that category. As per enhanced delegation of power, the Boards of these PSEs have been empowered to approved 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. The Navratna companies under enhanced delegation of power are approving projects with the approval of their Boards. The progress of implementation of the sanctioned projects are reviewed and monitored by the PSEs and their respective Boards. The Ministry of Statistics & Programme Implementation is also reviewing and monitoring projects costing over Rs. 100 crores. They have devised formats to seek information from their PSEs on a monthly basis. These are reviewed periodically by Secretary (Coordination), Cabinet Secretariat.
>
> In so far as MOP&NG is concerned, all ongoing projects costing over Rs. 100 crores and above are being monitored on a regular basis through the Ministry Monitoring Cell (MMC) which is managed by EIL on behalf of this Ministry. MMC was formed in the year 1981 for the purpose of project monitoring. The MMC comprises engineers who are professionally qualified to follow the technical intricacies of various projects and has direct link with the project implementing authorities i.e. the various public sector undertakings under MOP&NG.

Each project at the time of its commencement is divided into 10 to 12 major activities or group of activities and milestones for each activities are worked out by the MMC in consultation with project implementing authorities. The entire project is then charted with reference to the milestones that were established right at the beginning of the project. MMC, EIL obtains information directly from the project implementing authorities on fixed formats for reporting the progress and also deputes its officers/engineers to go to the site and make their own assessment of the project progress every month. Based on this interaction and the information received, monthly reports are generated and put up to the Ministry. The monthly report forms the basis of all review which takes place at periodic intervals at different levels within the Ministry.

Meetings are being held at regular intervals at the level of Secretary/Additional Secretary and the Joint Secretaries to follow-up the progress of the projects under implementation. Apart from the periodic meetings held to monitor progress of projects, project progress is also reviewed in quarterly performance reviews of each PSU and instructions are given for taking action to complete the projects without cost and time over-runs. Quarterly progress review meeting is attended by the representatives of Planning Commission also."

15. The Committee had observed that in the existing system of monitoring, a large number of projects were kept for review during 9th Plan period by the Public Sector Undertakings and Plan Outlay was not properly utilized by them. Due to major shortfall in expenditure during Ninth Plan period, cost and time over-runs were experienced in several major projects and several projects could not see the light of the day. In the Committee's view, there are flaws in planning or monitoring process of the projects. The Committee, therefore, reiterate that the Government should develop a mechanism to monitor the expenditure of all PSUs including PSUs with Navratna status so that they may be persuaded to follow a practical approach in approval and implementation of projects and proper utilisation of funds allocated to them thereby prevent major shortfalls in utilisation of Plan Outlays during Tenth Five Year Plan period.

D. EXPLORATION AND PRODUCTION ACTIVITIES IN NAGALAND

Recommendation No. 11 (Para No. 2.11)

16. The Committee had noted that exploration and production activities of ONGC had been discontinued in the State of Nagaland since April-May, 1994 due to environmental problems. Initially no attention was paid by the ONGC/Govt. to resolve the issue but since June, 1999 several meetings have been held with senior level officers of Nagaland to discuss the outstanding issues but without any conclusive results. The Committee had expressed their concern for not taking up this issue in right earnest. The Committee had noted the new scheme of payment of royalty of crude oil which envisaged a special grant of 2% over and above the rate of royalty in respect of Nagaland and had expressed their hope that after that important decision, the Government would take up this issue with a new dimension and manage to tackle the situation in consultation with all the concerned political and a political parties and pave the way for resolution of problems in the way of exploration and production activities in the State of Nagaland.

17. The Ministry of Petroleum and Natural Gas have explained the position in their reply as under:—

> "ONGC's all activities in Nagaland including production of oil and gas had been discontinued since April-May 1994 due to environmental problems. However, for improving the situation and resumption of petroleum operations in the State, Government have announced that special grant @ 2% over and above the applicable rate of royalty will be paid to the State of Nagaland on the crude oil production from the State in view of Article 371-A of the Constitution of India. Government is also offering one block for exploration of hydrocarbon under the NELP-IV round, launched recently, in addition one block under NELP-III. The situation is under watch and it is felt that these positive developments would go a long way in accelerating exploration and production activities in the State of Nagaland in midst of complications prevalent therein."

18. The Committee find that there is no further progress in the direction of starting the exploration and production activities in Nagaland even after an announcement of special grant of 2% over

and above the rate of royalty for the State. It is a welcome step to offer blocks for exploration of hydrocarbon under NELP rounds in this area. The Committee, however, feel that under the present doubtful situations no new agency may participate in exploration and production activities in this area. They therefore, once again urge the Government to make positive efforts in consultation with Nagaland Government and other concerned parties for an amicable solution of all the related issues so that ONGC can start their exploration and production activities in Nagaland.

E. PROBLEMS OF NORTH-EASTERN REFINERIES

Recommendation No. 19 (Para No. 2.19)

19. The Committee had observed the four refineries (Digboi, Guwahati, Numaligarh and Bongaigaon) in the North-Eastern region were of economic size compared to present day minimum/threshold size of 9 MMTPA. There was no scope for increasing their size due to low consumption of petroleum products in the region and non-availability of crude oil from the North East. As against the total capacity of 7 MMT of these refineries only 5 MMT of crude was available. The Committee had felt that in addition to ongoing efforts to enhance crude oil production in Assam fields, there was a need to take other initiatives. The Committee had, therefore, strongly recommended that the Government should approve the pending proposal to pump in additional crude oil from outside the region into the North-East without any delay. The Committee had also recommended that the Ministry should take all initiatives to restore the excise duty exemption of NRL and also provide similar exemptions to other three refineries of North-East so that the North East refineries are able to maintain their viability in Post-APM era.

20. The Ministry of Petroleum and Natural Gas has submitted the following reply to explain the status of the issue:—

"With a view to increase the capacity utilisation ot North-East Refineries, Ministry of Petroleum and Natural Gas has allocated 1.5 MMTPA of Ravva PSC crude oil to BRPL effective 1.4.2003. Thus for the year 2003-04, the total crude oil available for processing by the four North-East refineries would be about 6.5 MMT (5.0 MMT of Assam Crude Oil and 1.5 MMT of Ravva crude oil). This would increase the capacity utilisation of North-East Refineries to 93%. Ravva crude oil has started flowing to BRPL.

As regards the issue of excise duty exemption, all the four North-East refineries have 50% excise duty exemption effective 1.3.2002. The issue of restoration of 100% excise duty exemption to NRL has been taken up with Ministry of Finance."

21. The Committee are happy to note that the Government have allocated 1.5 MMTPA of Ravva crude oil to BRPL and this allocation would increase the capacity utilisation of North-East Refineries to 93%. In Committee's view, this decision will play a pivotal role in ensuring the viability of these small refineries in deregulated scenario. But the Committee strongly recommend that the Ministry should take all initiatives to have the 100% excise duty exemption restored to Numaligarh Refinery Limited and also provide similar exemptions to other three refineries of North-East to enable them to maintain their viability in Post-APM period.

F. RATIONALISATION OF DUTY STRUCTURE ON PETROLEUM PRODUCTS

Recommendation No. 24 (Para No. 2.24)

22. The Committee had noted that in response to the Government's decision of November, 1997 the Government had effected dismantling of Administered Pricing Mechanism w.e.f. 1st April, 2002 without rationalising the duty structure to the specified level. After dismantling of APM, the prices of petroleum products had become market determined. Under those circumstances, the people were facing two types of burdens. On one side, they were still bearing the burden of higher rate of Excise Duty and on the other side, they were paying the higher prices decided by the oil companies which had been revised frequently during the period of one year. The Committee had, therefore, recommended that the Government should rationalise the duty structure as per the earlier decision of 1997 so that the adverse implications of dismantling of Administered Pricing Mechanism might be avoided and customer may get some relief. The Committee had also noted that during the last one year i.e. during the Post-APM era, the prices of petrol and diesel had been revised several times. The Committee had recommended that some mechanism be evolved to stop frequent revision of prices to give relief to the customers.

23. The Government have submitted the following reply explaining the position in this regard:—

> "Rationalization of duty structure is a continuous process. Every year, before the preparation of the budget, Ministry of Petroleum and Natural Gas makes appropriate recommendations in this regard to Ministry of Finance.
>
> As regards the issue of frequent changes in the prices of petrol and diesel, it may be stated that with the dismantling of APM, the fluctuations in the international oil prices are bond to get reflected in the domestic consumer prices of petrol and diesel. As the oil marketing companies are paying to the domestic refineries the prices of petrol and diesel on import parity basis revised fortnightly, consumer prices of these products also vary on fortnightly basis."

24. The Committee feel that the Government have not understood the spirit of their recommendation. The Committee have continuously been asking the Government in their earlier reports to rationalize the duty structure as per the Cabinet decision taken in 1997 before dismantling of Administered Pricing Mechanism but the Government have shifted to deregulation without rationalizing the duty structure. This has increased the financial burden on consumers. The Committee, therefore, once again desire that the Government should rationalize the duty structure as per the earlier decision of 1997. Moreover, due to fortnightly revision of prices the consumer is facing a lot of difficulty. The Committee, therefore, desire that the Government should also develop some practical mechanism to stop frequent revision of prices.

G. PRICING OF PETROL AND DIESEL

Recommendation No. 25 (Para No. 2.25)

25. From an analysis of the mechanism being followed by the Oil Companies in deciding the selling prices of petrol and diesel in post-APM period, the Committee had observed that the Excise Duty and Sales Tax formed a substantial part against the basic prices of diesel and petrol that resulted in fixing higher selling prices of these products. To illustrate, the Committee had noted that in Delhi, Excise Duty and Sales Tax components worked out 117% on petrol and 40% on diesel of the basic prices of these products at refineries on import parity basis. They had further observed that as against Delhi prices, the selling

prices were higher in some of the States due to higher slabs of local taxations, etc. Viewing the price structure in totality, the Committee had noted that entire structure of Excise Duty and Sales Tax was at much higher level and needed review especially in view of the experience gained during the last one year in post-APM era when the prices of petrol and diesel had gone up considerably. The Committee had, therefore, recommended that the Ministry of Petroleum & Natural Gas should take up Ministry of Finance and also with State Governments the necessity of reducing Excise and Sales Tax structure respectively. Further, the Committee had noted that there was a wide difference in selling prices of petrol and diesel which was a contributory factor of adulterating diesel in petrol. The Committee had, therefore, recommended that Excise duty on petrol should be reduced substantially to minimise difference in selling prices of these items.

26. The Ministry of Petroleum and Natural Gas have submitted the following details about the steps being taken by them in this direction:—

"Ministry of Petroleum and Natural Gas has been taking up the issue with Ministry of Finance of reducing the excise duties on petrol and diesel in case of high international oil prices. The issue of replacing the existing *ad valorem* excise duty structure with specific excise duties on petrol and diesel has also been taken up with Ministry of Finance with a view to contain the impact of excessive volatility in the international oil market on the domestic consumer prices. The issue of reduction in excise on petrol and diesel as also the need for reducing the excise duty on petrol substantially, as recommended by the Committee, has once again been taken up with Ministry of Finance. As regards the issue of reducing the sales tax rates on these products, Ministry of Petroleum and Natural Gas has taken up this issue with various State Governments."

27. The Committee note that the Government have realised the significance of the observations made by the Committee about the effect of Excise Duty and Sales Tax component on final selling price of petrol and diesel and have taken up the matter with the Central as well as State Governments. The Committee again emphasise that they do not approve of the present system of pricing of petrol and

diesel and strongly reiterate their earlier recommendation that the present system should be reviewed with an object to reduce the tax components in deciding the price of diesel and petrol particularly through reduction in Excise Duty on Petrol. Ministry of Petroleum and Natural Gas should take all initiatives to persuade and convince the Ministry of Finance and the State Governments to bring down the Excise Duty and Sales Tax being charged by them on diesel and petrol to a justified level so that a consumer-friendly system is developed in this regard.

H. MARKETING GUIDELINES FOR PUBLIC SECTOR OIL PSUs

Recommendation No. 26 (Para No. 2.26)

28. The Committee had observed that after the publication of guidelines for granting authorisation to market transportation fuels namely MS, HSD and ATF to the new entrants including private sector, the Government had granted authorisation to market transportation fuels in favour of Oil & Natural Gas Corporation Ltd. (ONGC), Numaligarh Refinery Limited (NRL) and some private companies. These Companies had proposed to set up a total number of 8659 new Retail Outlets including 923 in remote and low service areas of the country. The Committee had expressed their anxiety to note that after the dissolution of Dealer Selection Boards in May, 2002, the guidelines for allotment of ROs/LPG agencies by oil sector PSUs had not bee finalised. Moreover, the private sector companies permitted to enter the marketing sector had started their work for selection of sites and completion of other formalities vigourously. The Committee had, therefore, strongly condemned the lackadaisical approach of the Government and desired that the Government should finalise the guidelines for allotment of ROs and LPG agencies without any delay to enable the marketing companies to finalise their further marketing plans immediately. They had hoped that there would be uniformity of guidelines for all marketing companies both in Public and Private Sector. In their view uniformity of guidelines was pre-necessity for creating level playing field for Public and Private Sector marketing companies. The Committee had also desired that the Government should endeavour to make such guidelines applicable retrospectively *w.e.f.* May, 2002 when the DSBs were disbanded. Besides, a provision for setting up of ROs and LPG gas agencies in remote and low service areas should properly be incorporated in all the marketing plans both of PSUs as well as of private sector companies.

29. The Government have submitted the following reply:—

"Consequent on the dismantling of the Administered Pricing Mechanism (APM) in the petroleum sector with effect from 1.4.2002 the selection of dealers for retail outlets/LPG distributorships/SKO-LDO dealerships will now be made by the Oil Marketing Companies (OMCs) themselves as per the guidelines to be adopted by them. Preliminary action like selection of suitable sites for setting up retail outlets dealerships, etc., has been initiated by them and the guidelines are in the process of finalisation.

The need for a common set of guidelines will be examined in the context of each company having to develop a competitive edge in the emerging free market scenario. Efforts will be made to ensure that the guidelines are transparent and do not run contrary to any laid down policy or directive of the Government.

The Private Sector oil companies which have been given authorization to market transportation fuels will be free to set up retail outlet dealership subject to non-encroachment of the existing retail outlets. They will be free to have their own policy for selection of their dealers. The Government cannot impose its policy on the private oil companies in commercial decisions."

30. The Committee have seen the Press Reports indicating that the Government have now finalised the guidelines and have empowered the Oil Companies to constitute their Boards for selection of allottees for Retail Outlets and LPG Distributorships. From the Press Reports it has been observed that the private oil companies have been exempted from making reservations for various categories of the society. The Public Sector Oil Companies have been requesting the Government to provide them level playing field to enable them to compete with private sector effectively. The Committee's initial impression from the Press Report is that Government have abdicated their responsibility of implementing the social objectives by exempting the private oil companies to make provision of reservation for various categories of society. The Committee may like to examine these guidelines later but at this time would like to comment that the guidelines should ensure objectivity and transparency.

I. WORKING OF DGH AND ESTABLISHMENT OF NATIONAL DATA BASE AND ARCHIVE SYSTEM

Recommendation Nos. 28 & 29 (Para Nos. 2.28 and 2.29)

31. The Committee had observed that Directorate General of Hydrocarbons had been entrusted with responsibilities concerning the Production Sharing Contracts for discovered fields and exploration blocks and monitoring of E&P activities including review of reservoir performances of major fields. DGH was also engaged in acquisition of data in new/unexplored areas with a view to prepare data packages and offer such areas under bidding rounds. At that time DGH as a representative of the Government in the management Committee was monitoring the Production Sharing Contracts of 93 exploration blocks. The Committee had recommended that office of Directorate General of Hydrocarbon should be strengthened so as to enable it to perform its functions effectively.

32. While going into the details of working of DGH the Committee had noted that the proposal for establishment of National Data Base and Archive system was pending since 1997. DGH had hired two foreign consultants under the grants received from Asian Development Bank and USTDA for the proposal to set up National E&P Data Base and Archive. The Government had recently approved the proposal of DGH to implement Phase-I of that Project. While nothing the Statement of the Ministry that there were no hurdles in the implementation of the project of setting up of National Exploration and Production Data Base and Archive system, the Committee had desired that DGH/ Government should now start the work on this project in a time bound manner.

33. About the steps being taken to strengthen DGH, the Government have submitted the following reply:—

> "DGH had proposed its manpower requirement of 95 for phase-I that has been approved by the Ministry sometime back. Thus, DGH at present has a sanctioned staff strength of 95 (85 executives and 10 non-executives), out of which 68 executives and 10 non-executives are in position at present. As the officers in DGH are taken on deputation basis, mostly from oil PSUs, their repatriation to the parent cadres and replacements is an on-going process. The Ministry assists DGH in replacements by taking up the matter with CMDs of oil PSUs.

DGH has projected additional staff requirement for phase-II. The office of DGH has been advised to re-examine the requirements in the light of the scope to induct information technology to economize on requirement of manpower and its cost, in view of the standing instructions of the Government to economize expenditure on manpower deployment."

34. Ministry of Petroleum and Natural Gas have submitted the following details in regard to establishment of National data base and Archive system:—

"DGH had taken the project for the creation of national E&P data base and archive system for India. Feasibility study was conducted by DGH through International Consultant. On the basis of study, a detailed implementation plan was finalized by DGH and presented to administrative council of DGH under Chairmanship of Secretary, Petroleum and Natural Gas on 4th June, 2002. The presentation was reviewed by the then Special Secretary (MOP&NG). The phase-I proposal for creating National E&P data base and archive system was approved in principle for implementation. Implementation action has already been taken up by DGH. Tender documents are under preparation. Pre-bid conference has been held on 2nd May, 2003. Tender will be finalized and Notice Inviting Tender (NIT) is likely to be issued by end of May, 2003."

35. The Committee observe that ever since its creation ten years ago under the aegis of the Ministry of Petroleum and Natural Gas, the Directorate General of Hydrocarbons (DGH) has played a multi-faceted role in the upstream sector of oil industry. During the last few years, the oil industry has achieved the highest growth in 15 years. The credit for this unique achievement goes to Indian Oil Industry in general and to the DGH in particular for being the first organisation to visualize the hydrocarbon potential of the deep waters of East Coast of India, systematically mapping the entire area by various geo-physical surveys and for preparing new data packages to offer blocks under NELP. The Committee observe that as against the proposed requirement of staff of 95 for Phase-I, 219 for Phase-II and 414 for Phase-III, the Ministry have approved only Phase-I and DGH is functioning with only 78 staff. The Committee strongly criticize this lackadaisical approach of the Ministry in providing staff to this organisation. They, therefore, strongly recommend that the Ministry should immediately approve all the three phases of their requirements so that this organisation may be able to contribute effectively to attain the goals enshrined in the Policy document 'Hydrocarbon Vision—2025'.

36. The Committee are surprised to note the casual approach of the Government towards the long pending proposal for establishment of National Data Base and Archive System. DGH had submitted the detailed implementation plan after conducting the feasibility study by International consultants. The matter is under consideration of Ministry since 1997. The Committee are surprised to note that despite submissions made before the Committee that there were no hurdles in the implementation of the projects, only Phase-I of the project and not the whole project has been cleared that too in principle after such a long time. The Committee note that in the Ministry's reply received on 28th July, 2003 it has been stated that the tender will be finalized and Notice Inviting Tender is likely to be issued by the end of May, 2003. They observe that the Ministry before submitting the reply has not cared to update it. The Committee take serious note of it and condemn such casual handling of the reply sent to a Parliamentary Committee. They strongly recommend that Government should now implement the whole project relating to establishment of National Data Base and Archive System urgently in a time-bound manner.

J. SUPPLY OF CNG IN DELHI

Recommendation No. 32 (Para No. 2.32)

37. The Committee had observed that as per the directions of Supreme Court, the Indraprastha Gas Limited had submitted an affidavit that they would augment their compression capacity to 16.11 lakh kg. per day by June, 2003. But the Committee had found that by that time they had achieved the compression capacity upto 7.71 lakh kg. per day only. The Committee had, therefore, desired that the IGL should take all the necessary initiatives to augment their compression capacity to 16.11 lakh kg. per day by the target date of 30th June, 2003 since GAIL (India) Limited has already committed the availability of the required quantity of gas. For this purpose, the IGL should also augment the CNG infrastructure as per the requirements. Simultaneously they should also ensure balanced zone-wise distribution of CNG stations in National Capital region of Delhi because currently maximum CNG stations were situated in South and West Zones only.

38. The Ministry of Petroleum and Natural Gas have submitted the status of CNG supply in Delhi as under:—

"IGL submitted an affidavit to the Supreme court that it would augment its compression capacity to 16.11 lakh kg. per day by

June, 2003 Compression capacity as on 30th April, 2003 is 12.95 lakh kg. per day Details are as follows:—

Month	Compression	
	Planned	Achieved
October, 2002	8.99	9.31
November, 2002	9.51	9.66
December, 2002	10.38	10.38
January, 2003	11.59	11.59
February, 2003	12.64	11.77
March, 2003	13.51	11.94
April, 2003	14.37	12.95
May, 2003	15.24	—
June, 2003	16.11	—

Non-availability of land at Patparganj for CNG Mega Station and CNG station at LSR College has created gap between planned and achieved compression capacity from February 2003. IGL is making its efforts to make up the shortfall in compression capacity by June, 2003.

To ensure balanced zone-wise distribution of CNG stations in National Capital Region of Delhi, IGL has laid 23 Km. 12" dia pipeline from Dhaula Kuan to GT Karnal Road turning point along with spur lines of 8", 6" and " dia, enabling supply of CNG to Northern and Western parts of Delhi.

CNG Stations—Zone-wise
(As on 30th April, 2003)

Station	East	West	North	South	Central	Total
1	2	3	4	5	6	7
Mother-IGL	1	9	5	12	3	30
Mother-DTC	2	7	3	5	1	18

1	2	3	4	5	6	7
Online	2	1	1	10	6	20
Daughter	1	1	0	5	4	11
Daughter Booster	8	4	5	8	4	29
Total	14	22	14	40	18	108

IGL is approaching land owning agencies for allotment of additional lands in East, Central and West Delhi for putting up more stations. IGL is also taking action for putting up CNG dispensing facilities at the Retail Outlets of Oil Marketing Companies in these areas to augment the CNG distribution system."

39. The Committee deprecate the non-serious attitude shown by the Ministry in submission of reply (sent on 28.7.2003) before the Committee where they have given the status of compression capacity of CNG in Delhi as on April, 30, 2003 and have asserted that IGL is making its efforts to make up the shortfall in compression capacity by June, 2003. This shows the casual approach of the Ministry and lack of coordination between the Ministry and Indraprastha Gas Limited. The Committee, therefore, once again desire that Ministry should direct the IGL to take all initiatives to augment its comprehension capacity as per the promise made before Hon'ble Supreme Court. It should also improve the CNG infrastructure for a balanced zonal distribution of CNG in Delhi.

K. SUPPLY OF ETHANOL-BLENDED PETROL

Recommendation No. 33 (Para No. 2.33)

40. the Committee had observed that Government had mandated supply of 5% ethanol-blended petrol in the 9 sugarcane producing States of Andhra Pradesh, Goa, Gujarat, Haryana, Karnataka, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh and the 4 Union Territories of Chandigarh, Dadra Nagar Haveli, Daman Diu and Pondicherry in a phased manner from 1.1.2003 with complete coverage to be achieved by 30.6.2003. In view of encouraging results of blending of ethanol in petrol, diesel, the Committee had desired that the

Government should prepare a time bound programme for introduction of that type of petrol/diesel in all the States. At the same time the Committee had recommended that the Government should immediately assess the possibility of reduction in prices of ethanol-blended petrol/ diesel being supplied in the market so that the benefits reach the common man.

41. On both the issues, the Government have submitted the following reply:—

"The preparation of time bound programme for introduction of 5% ethanol blended petrol is dependent on the adequate availability of the product. Even in the States where sale of the blended product has been mandated by the 30th June, 2003, so far, only Uttar Pradesh has been covered in full. Maharashtra and Goa would be fully covered by June, 2003. In Gujarat, partial coverage has commenced. The position in respect of Punjab, Haryana, Chandigarh, Andhra Pradesh, Karnataka, Tamil Nadu and Pondicherry would be known for certain only by June end. The implementation of the programme has been delayed due to non-availability of the required quantities of ethanol *vis-a-vis* requirements and various State levies.

The programme for introduction of 10% ethanol blended petrol can only be thought of after establishing the technical feasibility of using the blend in Indian vehicles through controlled trials, adequate capacity build-up of ethanol by broadening of feedstock base, using improved technology and modification of the existing petrol specifications. As regards introduction of ethanol blended diesel, the R&D studies have yet to be completed, but the basic problem is the adequate availability of ethanol.

Therefore, it is too early to formulate any time-bound programme.

As regards the possibility of reducing the prices of the blended fuel to benefit the common man, the international oil market is highly volatile. The prices of petrol have declined after the Iraq war, resulting in a marked difference between the landed costs of petrol and ethanol. A further fall in the petrol prices would result in under-recoveries to the oil marketing companies if the price of the blended petrol is reduced. Such a possibility can be considered only if the landed cost of ethanol is lower than that of petrol and assured supplies of ethanol are available."

42. The Committee find that reply of the Ministry sent on 28.7.2003 does not give the current status in regard to the blended product and simply states that in several States the sale of the blended product has been mandated by 30th June, 2003. The Committee have a clear a view that if all the major States were already supposed to be covered by June, 2003, there should not have been any problem in preparation of a time-bound programme for introduction of ethanol-blended petrol in the remaining States. They are also unhappy over the fact that the Government have not considered it necessary to assess the possibility of reducing price of ethanol-blended petrol in the market so that the benefits of these experiments may reach the common man. The Committee once again urge the Government to make these experiments people-friendly by exploring the possibility of reduction in price of petrol if ethanol is blended in it and ensure its availability in all parts of the country in the shortest time possible.

CHAPTER II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation Sl. No. 1 (Para No. 2.1)

The Committee note that the Ninth Five Year Plan (1997-2002) envisaged acceleration of exploration efforts especially in deep offshore areas and frontier area, acquisition of acreage abroad for equity oil and gas, deregulation/rationalization of the Administered Pricing Mechanism (APM). Import of natural gas in the form of LNG, creation of adequate refining capacity and setting up of regulatory mechanism etc. as the prime thrust areas for the petroleum sector. The Committee note that there was a major shortfall in achieving the targets and objectives set for the Ninth Plan. The Committee are surprised to note that even after a strong caution issued by the Planning Commission in the mid-term review of 9th Plan, the Government did not modify their policies with a view to achieve better targets in the areas of crude oil and natural gas production and accretion to Hydrocarbon reserves during the remaining years of the Plan. These targets cannot be said to be achieved only by offering some new blocks in frontier and deep water areas under NELP. The Committee treat it as a decimal progress since the exploration activities were focussed mainly in explored basins and some deepwater and frontier basins. During the 10th Plan also, they are concentrating mainly in frontier basins and deep-water areas. The Committee, therefore, strongly reiterate their earlier recommendation that the Government should take concrete steps to expand their exploration efforts into all the existing and unexplored basins in the specified time frame as spelt out in the document Hydrocarbon Vision-2025 and take all initiatives to cover 35% of the basins by the end of 10th Plan.

Reply of the Government

100% exploration of all the 26 Indian sedimentary basins by 2025 was an ambitious target set by the India Hydrocarbon Vision-2025 document finalized in 2000. The intermediate targets set in the above document *i.e.* 25% by 2005, 50% by 2010 and 75% by 2015 were derived in a more or less linear fashion keeping in view the overall target of 100% by 2025. The current pace of exploration is progressing at a fast pace due to various steps taken by the Government. With the award of blocks up to 3rd round of NELP and activities by NOCs in blocks awarded under nomination, more than 30% of the sedimentary area of the country has already come under active exploration. The opening up of Offshore areas including Deep-water areas for exploration has already reached more than 40% of the total offshore area.

During the 10th Plan, Government has plans to award further blocks in both onshore and offshore through NELP route. Recently, offer of 24 blocks under NELP-IV has already been announced. The offered blocks include one in Shallow water, 11 in Onland and 12 in Deep water. This offer along with upgradation of geological information through various surveys/studies by DGH and extensive exploration programme by NOCs covering 16 basins and in unexplored/under-explored basins/areas during the 10th Plan will hasten the process of appraisal of the country's sedimentary thereby achieving more than 35% by the end of 10th Plan period.

Furthermore during the Mid Term Review (MTR) of the Xth Plan, Government will review the progress and will take appropriate action/ course correction if needed.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 4 (Para No. 2.4)

In view of stagnating domestic production of crude and the widening gap between demand and supply of gas, there is a need to diversify oil supply sources and acquire equity oil and gas abroad. In Committee's view this should be an important component of the strategy to achieve oil security. The Committee have noticed that during the 9th Plan period ONGC Videsh Limited had tried to venture abroad to have access to exploration blocks and oil producing properties for equity oil either on its own or through strategic alliances/Joint Ventures. During the 10th Plan, ONGC envisages 5.2 MT of oil and 4.94 BCM of gas production from Russia (Sakhalin-I) and Vietnam. ONGC and OIL have also been pursuing some other opportunities in countries like Iran, Iraq, Russia, Venezuela and Algeria to acquire exploration acreage and oil producing properties in these countries. The Committee also observe that an amount of Rs. 13,500 crores has been kept for such ventures of ONGC Videsh Limited during 10th Five Year Plan. The Committee are happy to note that GAIL (India) Limited has also started pursuing the exploration and production opportunities in natural gas overseas in coordination with ONGC Videsh Limited. The Committee therefore, strongly recommend that the Government should extend all necessary assistance through diplomatic channels and other sources to encourage oil PSUs/private sector companies to tap opportunities available abroad for aquiring exploration acreages either on their own or through strategic alliances.

Reply of the Government

The Government has taken both medium and long term initiatives to ensure sustain long term supplies through securing acreages in identified countries. In order to accelerate the decision making process Government has empowered ONGC Videsh to obtain time bound approval of projects for international E&P ventures abroad through an Empowered Committee. Also, for a focused approach, Iraq, Iran, Russia, Libya, Venezuela and Vietnam have been identified for building long term relationships and to obtain acreages to source oil supplies. Progress has been made in all those countries. With full support of the Government ONGC Videsh, has recently acquired 25% stake in the Greater Nile Oil Project in Sudan and Sakhalin-I project in Russia. OIL will be joining OVL in selected ventures to pursue the NOCs efforts for obtaining equity oil and gas with Government encouragement and support. To this effect, a Memorandum of Understanding (MoU) has been recently signed by the two NOCs.

The long term initiatives involve continuously building political and commercial relationships in the focused countries and also in other oil rich countries. The Joint Commissions and Working Group on petroleum are the instruments which would assist in building long term relationships and implementation of such strategies. India's buying power would also be leveraged to obtain such E&P projects as a part of long term strategy. Total de-regulation, as per the recommendations of the Hydrocarbon Vision 2025 would also be a long term initiative.

Government have been extended necessary assistance and encouraging Oil PSUs for acquiring exploration acreages. In this connection it may be mentioned that GAIL has been checking gas prone exploration blocks nearby countries with the aim of bringing such gas for utilization in the Indian markets.

GAIL is a partner in a consortium of three Oil Public Sector Undertakings, namely, Indian Oil Corporation Limited, GAIL an Oil & Natural Gas Corporation Limited to import natural gas from Bangladesh. Further, GAIL has taken an assignment in Block A-1 in Myanmar Offshore alongwith ONGC Videsh Limited (OVL) from Daewoo International Corporation, Korea.

GAIL alongwith OVL is exploring the possibilities for undertaking joint due diligence for farm-in of Block 22 in Bangladesh.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 13 (Para No. 2.13)

The Committee observe that the revised expenditure of ONGC for 9th Plan was Rs. 20198.75 crores whereas for 10th Plan its outlay has been kept at Rs. 46968.95 crores. The major areas where increased outlay has been projected are development drilling, capital projects and R&D for domestic activities. For overseas exploration and production activities also, a significant allocation of Rs. 13550 crores has been provided. On the other hand, the Committee observe that during the first year of 10th Plan, the estimates for ONGC were revised to Rs. 14644.94 crores against the budget estimates of Rs. 8973.31 crores. Against this, an expenditure of Rs. 3269.34 crores only has been made during April to December, 2002. This lower utilisation of planned budget for ONGC's own activities during 2002-03 was due to delay in major acquisition of seismic units, logging units and work over rigs and deployment of contractual seismic vessels non-deployment of off-shore charter hire rigs and phasing of major expenditure of planned schemes in the 4th quarter. In the last quarter of the year, the tempo of domestic investment has picked up. The Committee do not appreciate this type of expenditure at the fag end of the year and desire that ONGC should opt a more pragmatic approach in the remaining years of the 10th Five Year Plan.

Reply of the Government

During 9th Plan, ONGC has almost fully utilized the plan outlay as planned. It can be emphasized that utilization of plan outlay varies in short term and is characterized by both under-utilization and over utilization on a year to year basis. This is due to various factors including probabilistic planning, time overrun of major procurement due to purchase rules and procedure, deliberate phasing of project and purchases etc. However, in the long term, the utilization is more or less matched as has been the case during the 9th plan period.

As recommended by the committee, ONGC have already initiated measures and would like to take more pragmatic approach for proper utilization of budget for the remaining period of 10th Five Year Plan. The major initiatives for proper utilization of budget are as under:

- Transformation from Business Group Structure of the organization to Asset Based Structure with multi-disciplinary approach for faster implementation of decisions.
- Empowering the key executives with higher delegation of powers for faster decisions on procurement/hiring of services.
- Long term planning for Capital Schemes.
- Simplifications for procurement process leading to reduction in procurement time.
- Activity based Budget.
- Continuous monitoring/review of budget utilization by key executives.
- Constitution of high level committees for monitoring of mega/high value projects.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 14 (Para No. 2.14)

The Committee note that gas transmission and distribution forms the bulk of GAIL business today followed by gas processing for LPG production and production of chemicals. They have entered into telecom sectors and in the field of exploration and production of oil and gas also. The Committee find that GAIL was set up by Government of India to undertake all activities post-exploration and production and for transmission, distribution, marketing and processing of natural gas and GAIL has successfully played this role since inception. They have developed infrastructure and facilities in different parts of the country where gas is produced to ensure the best utilization of indigenously produced gas. The Committee also find that in its globalization efforts GAIL are focusing on gas supply sources from where gas can be supplied to Indian markets in cost effective and secure manner. GAIL is facing competition from multiple players in developing pipeline infrastructure and marketing gas. Similarly, there is no long term gas supply contract between ONGC and GAIL. The Committee welcome the initiatives taken by GAIL for synergetic diversification which would support GAIL to grow in its areas of core competence as well as build further expertise thereon. However, they desire that such diversification should be undertaken without making any investment in other private companies. The Committee hope that GAIL has assessed the Human Resources and other requirements needed in this regard through an expert study and would take all necessary steps to fill up these at the right time. The Committee would like to be assured about this.

Reply of the Government

GAIL has mainly undertaken synergetic diversification into E&P sector and telecom sectors. The aim of synergetic diversification is to support consolidation and growth in GAIL's area of the core competence as well as to maximize the value creation from the assets already created. For sustainable long growth, GAIL needs to source increasing quantities of gas for the Indian market and expand the pipeline infrastructure also. Towards gas sourcing GAIL is pursuing cautious diversification into E&P activities, pursuing development of LNG import projects as well as pipelines gas import projects. Such sourcing of additional volumes would enable GAIL to grow in its traditional market, undertake low cost expansion of its existing infrastructure and develop new pipelines infrastructure to expand gas use in other parts of the country. In case of the telecom sector, the main objective is to leverage the existing optical fibre system along GAIL's major gas and LPG pipelines to provide bandwidth to the telecom companies. This is also as per the recommendations of the National Telecom Policy-1999. This area of synergetic diversification was evolved after carrying out an in-depth study of the business scenario through reputed consultants *viz.* Tata Consultant Services—Ovum and KPMG.

For successful implementation of the projects in the telecom sector, GAIL has utilized its own communication engineers, who are over 100 in number and are experts in maintaining the long distance communication system, which became an inherent strength for GAIL's entry into the telecom sector. There is only a marginal extra requirement of human resources to support the additional communication networks that are being created to link commercial hubs, and the same is being met through hiring experienced personnel from market.

GAIL's diversification efforts, so far, has been with the Government of India and State Government Enterprises and reputed international companies. As regards investment in private companies, the Committee's views have been noted. So far, no investment has been made in any of the private companies. All investments in the E&P ventures have been made towards unincorporated joint ventures of exploration blocks which are operated by the respective operators designated as per the Production Sharing Contracts.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 16 (Para No. 2.16)

The present installed capacity of seven IOCL refineries is 38.150 MMTPA. Out of these, Guwahati Refinery with a capacity of 1 MMTPA and Barauni Refinery with a capacity of 4.2 MMTPA have been showing poor capacity utilisation since last several years. The Committee understand that this situation is due to non-availability of crude oil to these refineries. The Committee do not find any justification for recently completed Barauni Refinery Expansion Project particularly in a situation when Barauni Refinery was not able to utilise its capacity due to non-availability of crude. The Committee, therefore, recommend that IOCL/Government should now take all the initiatives to provide crude oil to Guwahati and Barauni Refinery so that these may be able to improve their capacity utilisation in the coming years.

Reply of the Government

The Government have decided to allocate 1.5 million metric tonnes (MMT) of Ravva crude oil to Bongaingaon Refinery and Petrochemicals Limited (BRPL) for the year 2003-04. Consequent upon this allocation, the total crude oil availability for the North East refineries for the year 2003-04 would be 1.5 MMT over and above the production of crude in the North East. It has been further decided that the overall availability of crude in the North East refineries including 1.5 MMT of

Ravva crude, would be apportion among the four North East refineries in proportion to their installed capacities. The increased availability of crude has improved the capacity utilization and viability of North East refineries. The capacity utilization of Guwahati refinery has improved from 72% to 93.4% following allocation of 1.5 MMTPA ravva crude to the North East refineries.

As regard Barauni refinery, in view of non-availability of Assam crude at Barauni, a 4.2 MMTPA crude oil pipeline has been laid from Haldia to Barauni, by IOC, so that Barauni refinery could receive imported crude.

The profitability of Barauni refinery is being monitored closely and the refinery has shown a profit (before tax) of Rs. 236 crore during the year 2002-03. Efforts are being made to improve the profitability of Barauni further through implementation of crude selection and product pattern optimization of software and Advance Process Control, besides maximization of MS yield.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 17 (Para No. 2.17)

The Committee note that Central India Refinery Project at Bina was being implemented by Bharat Oman Refineries Limited—a joint venture company between BPCL and Oman Oil Company. The proposal to permit BPCL to enhance its equity contribution in Bharat Oman Refineries Limited (BORL) from earlier approved level of Rs. 549 crores up to Rs. 1271 crores which is equal to 50% of revised equity requirement of BORL considering debt equity ratio of 1.5:1, for executing the 6 MMTPA project alongwith related crude import facility and cross country crude control pipeline is under consideration of the Government. The Committee regret to note that the Government have not taken any final decision about this proposal. Moreover in the changed situation where Bharat Petroleum Corporation Limited is proposed to be disinvested the Government are note sure whether the implementation of Refinery Project at Bina be left to the new management of BPCL or the Government may take up its implementation through an agency. The Committee find this situation as confusing one when the entire land for the refinery and township blocks at Bina and crude oil terminal at Vadinar has been acquired.

Acquisition of right of user/right of way along the entire 935 kms. length of cross country crude pipeline including land required for intermediate pump stations has been almost completed. Engineers India Limited have completed front and design for the project and an expenditure of Rs. 150.39 crores has been incurred. The Committee, therefore, strongly recommend that the Government should take a final decision regarding implementation of Bina Refinery Project before the actual disinvestment process is initiated.

Reply of the Government

On 7.5.2003 Government's approval has been issued to permit Bharat Petroleum Corporation Limited (BPCL) to enhance its equity contribution in Bharat Oman Refineries Limited (BORL) from the earlier approved level of Rs. 549 crore to upto Rs. 1271 crore, which is equal to 50% of revised equity requirement of BORL considering debt equity ratio of 1.5:1, for executing 6 MMTPA Central India Refinery Project at Bina (Madhya Pradesh) along with related crude oil import facility and cross-country crude transport pipeline, subject to the direction that substantial financial commitments be made in the project only after a critical evaluation of the viability of the project.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 20 (Para No. 2.20)

The Committee note that as the oil sector PSUs are self sustaining 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. The demands for the year 2003-04 have been placed at Rs. 8128.28 crores under the Revenue Section. There is no provision under Capital Section. The demand includes Rs. 8.28 crores for Secretariat-Economics services and Rs. 8120 crores for additional budgetary provisions to meet the subsidy requirements in Post-APM era starting from 1.4.2002. Previously, they were being paid from the Consolidated Fund of India. The additional provision includes an allocation of Rs. 6300 crores for subsidy on domestic LPG and kerosene for PDS, Rs. 246 crores for freight subsidy on retail products for far-flung areas, Rs. 1570 crores for compensation to refineries on account of irrecoverable sales taxes and Rs. 2 crores each for Petroleum

Regulatory Board and Anti-Adulteration Cell. Since the Demands of the Ministry seem to be justified, the Committee endorse the same in view of justification given by the Ministry in this regard.

The Committee, however, desire that the Ministry should try to keep expenditure within the sanctioned Budget of the Ministry and they should follow all the instructions of the Ministry of Finance to effect economy particularly in non-Plan expenditure.

Reply of the Government

All efforts will be made to contain the expenditure within the sanctioned budget under Major Head 3451-Secretariat-Economic Services—Ministry of Petroleum & Natural Gas for the year 2003-2004. The allocation of an amount of Rs. 6300 crores for subsidy on domestic LPG and PDS Kerosene would not be adequate for the year 2002-04 as the shortfall in allocation during 2002-03 of Rs. 2198 crore would also need to be met from this amount. MoF would be approached at appropriate time to provide for supplementary allocation in this regard.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 22 (Para No. 2.22)

The Committee observe that the Government have constituted a separate Cell to tackle the problem of adulteration of petroleum products. This Cell is known as 'Anti-Adulteration Cell'. At present the strength of Anti-Adulteration Cell is 34. Out of this, there are only 17 investigating officers in the regional offices against the sanctioned strength of 28. In Committee's view this small number of investigating officers is not sufficient to handle the growing magnitude of problem of adulteration in all parts of the country. There is huge financial loss to the national exchequer as well as to the oil companies due to problem of adulteration. This small Cell is not able to handle the problem effectively particularly in the Post-APM era when there is no direct control of the Government on the marketing companies. The Committee, therefore, desire that the Government should fill all the 11 vacancies of investigating officers in the Anti-Adulteration Cell without any delay.

Reply of the Government

Out of the sanctioned posts of 28 Investigating Officers, 19 Officers were in position as on 30.4.2003. Offer of appointment, on deputation basis, has also been issued to fill up 3 posts of Investigating officer and action to fill up the remaining 6 posts is in process. These are expected to be filled up shortly.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 27 (Para No. 2.27)

The Committee observe that under the New Exploration Licensing Policy (NELP) the Government have signed the Production Sharing Contracts (PSCs) for 70 blocks. This include 16 blocks onland, 30 blocks in shallow water and 24 blocks in deep water areas. During three phases of NELP, PSCs relating to 50 blocks could not be signed due to lack of interest of bidders. These blocks mainly pertain to onland and shallow water areas. In Committee's view, the Government could not attract the bids due to poor quality of available data relating to those blocks. The Committee, therefore, recommend that the Government/DGH should reprocess/upgrade their data relating to the blocks for which bids were not offered during the NELP rounds. In Committee's view through this approach only the Government can attract the companies for such areas.

Reply of the Government

It may be pertinent to mention that under the three rounds of NELP held so far, a total of 100 exploration blocks were offered, out of which contracts for 70 blocks have been signed. 30 blocks could not be awarded for various reasons. It may also be mentioned here that geoscientific information in respect of all the offered blocks was upgraded either through fresh acquisition of data or re-processing & reinterpretation of the old data wherever required. The updated information was incorporated in data packages & information dockets. The quality of data provided was excellent and at par with global standards. The Data Packages and Information Dockets were and are being provided in soft copies in digital format and in standard media like Exabite, CDs and Floppies. Actions are in nand by DGH to further acquire fresh data, reprocess and reinterpret earlier data in order to upgrade the geoscientific knowledge base in respect of such left over blocks for which bids were not received or could not be awarded in earlier pre-NELP or NELP rounds. Based on integrated data and its interpretation, new time structures maps *i.e.* Two Way Time (TWT) maps are being prepared & new geological models are evolved. New plays are being identified for carving out blocks.

DGH has, so far reprocessed and reinterpreted data of 60 blocks (24 onland blocks, 16 Shallow offshore and 20 Deep water) covering an area of 0.70 million sq. km. constituting 22% of total sedimentary basinal area. Out of these, 46 blocks have been offered under NELP-II & III rounds and 13 blocks (along with 11 new blocks) are on offer under NELP-IV round.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 34 (Para No. 2.34)

The Committee note that the reconnaissance surveys carried out by DGH in East Coast and Andaman deep water areas in 1997 had deciphered the most promising areas of gas hydrates deposits. No significant progress has been made so far since that discovery. The Committee are surprised to note that no road map has been prepared for National Gas Hydrate Programme so far. During 10th Plan all the activities connected with the NGHP are planned to be taken up concurrently and pilot studies for the production of gas hydrates, if found feasible are planned by the end of 10th Plan. Since the first year of the 10th Plan is already over, the Committee strongly recommended that the Government should now finalise the road map for National Gas Hydrate Programme. The Committee also hope that as promised by the Government there would be no constraints of funds for national Gas Hydrate Programme.

Reply of the Government

Since, the reconnaissance surveys carried out by DGH in east coast and Andaman deepwater areas in 1997 and deciphering the most promising areas of gas hydrate deposits, substantial progress has been made under National Gas Hydrate Programme (NGHP). A well structured road map has been prepared for NGHP, by the NGHP constituents *i.e.* DGH, ONGC and GAIL jointly which has already been approved by NGHP Steering Committee with details as under:

(a) Resource estimation by December 2003.

(b) Laboratory studies to understand thermodynamics/kinetics of gas hydrates and core well drilling by December 2004.

(c) Pilot studies for production of gas from gas hydrate are expected to start by 2006-07. Commencement of pilot studies will depend upon successful results of resource estimation and drilling of deepwater core wells and proving the presence of gas hydrates.

The road map is already under implementation and all the activities of NGHP are being carried out as per the road map. New geoscientific data in the form of specialized surveys has been acquired along the east and west coasts of India, in two model field laboratory areas in the Krishna-Godavari basin in east coast and Goa offshore in the west coast. Presently, the data is being analyzed and interpreted by NGHP scientists. Based on these integrated geoscientific studies under NGHP, it is planned to drill few core wells for ground information and acquiring gas hydrate samples by 2004, for further analysis and resource estimation of gas hydrates in the area of study. It will be followed by pilot studies for the production of gas from gas hydrates, if success is achieved in locating commercial quantities of gas hydrates through ongoing geoscientific studies and subsequent drilling of core wells in the year 2004. The NGHP is also collaborating with western countries for acquiring state of the art technology and latest technology know how for fast track implementation of NGHP road map. All funds are being provided by OIDB to all the ongoing projects under NGHP.

[Ministry of Petroleum & Natural Gas, O.M. No. G-25015/1/2003-Fin. I, dated 25.7.2003]

Recommendation Sl. No. 35 (Para No. 2.35)

The Committee look at the oil conserved through efficient utilisation as a quicker, efficient and economic source of energy. Any reduction in oil demand due to efficient utilisation would allow the diversion of this scarce resource to other areas of pressing needs and new economic activities. Various activities are being conducted through Petroleum Conservation Research Association (PCRA) and Public Sector Oil companies. PCRA have been trying to cover a large spectrum of socio-economic activities leading to increase in awareness on oil conservation. The Committee, however, desire that PCRA should prepare an intensive time-bound programme to educate each and every home in each part of the country though personal contacts or media so that each consumer can realise the importance of fuel conservation. They should do, more energy audits and try to develop fuel efficient pumpsets in the agricultural sector and fuel efficient domestic appliances.

Reply of the Government

PCRA works through creation of public awareness on conservation of oil products through efficient utilisation of oil and curb on wasteful practices and employing mass communication facilities. Intensive campaigns are mounted through radio programmes, newspaper advertisements, display messages, distribution of printed literatures and news letters, participation at melas/scientific fairs, setting up demonstration centres and every other way of disseminating information.

In association with the Bureau of Energy Efficiency set up by the Ministry of Power under the Energy Conservation Act, 2001, more energy audits would be carried out and by the work on developing fuel efficient equipment and appliances would be intensified.

[Ministry of Petroleum & Natural Gas, O.M. No. G-25015/1/2003-Fin. I, dated 25.7.2003]

CHAPTER III

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

Recommendation Sl. No. 5 (Para No. 2.5)

The Committee observe that current availability of natural gas in the country is around 65 MMSCMD. As against this, the total firm commitment in terms of gas allocations to various consumers is around 120 MMSCMD. The demand of natural gas is estimated to be 231 million standard cubic meters per day in 2006-07. The Committee also observes that initially the gas reserves had developed largely for use as petrochemicals feedstock and in the production of fertilizers, but gas is now increasingly being used for power generation, industrial application and more recently in the transport sector. The Hydrocarbon Vision-2025 of the Government identifies natural gas as the preferred fuel for the future. The Committee are happy to note that the major gas discovery by a consortium of companies in a block in Krishna-Godavari offshore basin on the East Coast. This block is expected to produce 25-35 MMSCMD of gas as per the estimates of the consortium. Similarly, the other discoveries of natural gas near Surat and in Rajasthan also indicate positive signs, although the development plan and schedules of commercial production in respect of these discoveries have not been firmed up by these companies. The Committee, therefore, desire that the Government should persuade the oil sector PSUs and private sector companies working in NELP blocks to firm up these discoveries and prepare development plans and schedules without any delay so that the wide gap between demand and supply of natural gas is minimized.

Reply of the Government

The exploration work in NELP Blocks awarded so far to the NOCs are in the first exploration phase (survey) for identifying drillable prospect which will be followed by exploratory drilling in subsequent phases wherever feasible for possible oil and gas discovery.

However, ONGC has made 20 gas finds during IX Plan and two gas finds during the first year of X Plan. Of these, six have already been put on production and contributed about 161 MMm3 during 2002-03 and the remaining are under assessment to examine their production potential and techno-economic viability.

OIL has made 5 gas finds during IX Plan and two gas finds during the first year of X Plan. All these discoveries are under assessment for examining their production potential and developmental viability.

Commercial discoveries made by pvt./JVs contractors in pre-NELP as well as NELP blocks and development areas are being appraised and developed within the time schedule prescribed under the respective production sharing contracts. DGH on behalf of MOP&NG monitors the appraisal and development programmes of commercial discoveries on a regular basis and also in the management Committee meetings. It may be pertinent to mention here that all efforts are made by DGH to reduce the time between discovery and production, DGH reviews and evaluates the appraisal & development programmes of new discoveries within the minimum possible time which in many cases is less than the prescribed time under PSCs. It also facilitates various clearances required by the operator(s) in order to ensure the commencement of production within the shortest possible time after the discovery is made. DGH evaluates all the technical, financial, safety & environmental aspects of all the appraisal & development programmes after the plans are submitted by the operators. Approvals are thus communicated within the prescribed time frame under the PSCs. DGH has so far approved development programmes of the blocks/fields like Panna-Mukta. Tapti, Ravva, Hazira, Ravva Satellite, Lakshmi (Gas) Gauri and Bhima and other small sized fields.

[Ministry of Petroleum & Natural Gas, O.M. No. G-25015/1/2003-Fin. I, dated 25.7.2003]

Recommendation Sl. No. 10 (Para No. 2.10)

The Committee observe that under the New Exploration Licensing Policy, ONGC has been awarded a total of 37 exploratory blocks of which 19 are in their own name and 18 are in consortium with other PSUs. The Committee observe that ONGC has better fleet of onland drilling rigs whereas they have only two drill ships for deep water drilling with maximum depth drilling upto 900 meters only. For operation beyond 900 m water depth charter hiring of rigs is envisaged by ONGC. In Committee's view this type of approach of ONGC is more expensive and time consuming. ONGC have already experienced the delays due to delay in availability of rigs. The Committee observe that several blocks obtained by ONGC under NELP are deep water blocks and they have two very important Mumbai High Development Plans in progress. The Committee, therefore, reiterate their earlier recommendation that ONGC should not depend on charter hire of rig and they should rather enhance their deep water drilling capability so that the most important projects may be completed within time and with lesser financial involvement.

Reply of the Government

For undertaking technology intensive drilling activities in deeper water, E&P Company normally follow an optimal mix of portfolio of strategic alliancing, Charter/Service contract and owning deep water rig. ONGC has adopted the same approach and strategy for the long term. For self reliance, ONGC has already upgraded its own rig Sagar Vijay for drilling in areas with water depth up to 900 m. As ONGC has planned to drill 37 deep/ultra deep-water wells (400 m & above water depth) in X Five Year Plan, ONGC has plans of acquiring deep water drilling rig capable of drilling to water depths above 2000m in the long run which might have long lead-time. In the short term, hiring of deep-water rigs is a necessity to meet the planned target set for exploration in Deep Water acreages in both east and west coast of India. Currently, actions have been initiated for charter hiring of two deep water drilling rigs through ICB route. In future, based on the leads/discoveries in Deep Water, the augmentation of deep water rigs both through charter hiring and owning will be reviewed for optimization of drilling input.

[Ministry of Petroleum & Natural Gas, O.M. No. G-25015/1/2003-Fin. I, dated 25.7.2003]

Recommendation Sl. No. 18 (Para No. 2.18)

The Committee observe that in the 10th Five Year Plan it is envisaged that the oil sector will continue to play a major role in the economic development of the country. Enhanced domestic production and oil security have been identified as two major areas of emphasis. To ensure the oil security, ONGC and OIL have set specific targets for seismic surveys, acquisition and drilling. Similarly, ONGC have drawn up an aggressive time bound action plan for Enhanced Oil Recovery

Schemes and Improved Oil Recovery Schemes in about 80% of their fields. OIL propose to implement IOR/EOR measures in 75% of their fields. 10th Plan envisages a total contribution of 5.2 million tonnes of oil from the overseas acquisition. Several areas have been taken up for bench marking of Hydrocarbon sector with international standards and the Government also propose to build 15 day's strategic storage of crude oil during the 10th Plan. The Committee welcome these proposals but they desire that an annual analysis of targets and achievements should be made by the Ministry during each year of the Plan so that the targets are not defeated and oil security of the country is appropriately strengthened.

Reply of the Government

The Ministry already have in place a mechanism to monitor the progress achieved by oil company *vis-a-vis* the targets envisaged in the plan document. The progress is also monitored through periodic report as well as in the Quarterly Progress Review Meetings (QPRs) etc.

[Ministry of Petroleum & Natural Gas, O.M. No. G-25015/1/2003-Fin. I, dated 25.7.2003]

CHAPTER IV

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

Recommendation Sl. No. 9 (Para No. 2.9)

The Committee note that the Public Sector Undertakings under the Ministry of Petroleum & Natural Gas are maintaining a healthy trend by not taking any Budgetary support from the Government and they are funding their projects through internal resources. Monitoring of these projects is being done by the Government. The Committee are surprised to note that in the original 9th Plan (1997-2002), the Plan outlay for petroleum sector was Rs. 81382.98 crores which was revised to Rs. 78401 crores. Out of this, only an amount of Rs. 50920.80 crores was spent during those five years. Thus the utilisation of Planned outlay was about 65 per cent only. The Committee also observed that there was a marginal shortfall in utilisation of outlay by upstream sector companies (ONGC and OIL). The major short fall in downstream sector was due to slowdown of demand for petroleum products, high and volatile international prices causing lower refining margin, withdrawal of Joint Venture partners in refinery projects of IOC, HPCL, and BPCL, Pending Court cases relating Court cases relating to the Bina Refinery Project of BPCL, delay in finalisation of contract for LNG project of Petronet LNG Ltd. Basically, a large number of projects were kept under review. The Committee note that the public sector outlay for Tenth Plan has been fixed at Rs. 103656 crores and the Government have tried to project more realistic approach in making allocation for PSUs. The Committee, therefore, desire that the Government should improve their monitoring process so that no more time is exhausted in deciding the fate of pending projects of 9th Plan and there is proper utilisation of funds during 10th Plan. They should ensure that there is proper utilisation of funds allocated to each Public Sector Undertaking on yearly basis.

Reply of the Government

"The Government in July, 1997 had delegated enhanced decision making authority to the Board of PSEs which have been granted Navratna status. ONGC, IOC, BPC, HPC and GAIL fall in that category.

As per enhanced delegation of power, the Boards of these PSEs have been empowered 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. The Navratna companies under enhanced delegation of power are approving projects with the approval of their Boards. The progress of implementation of the sanctioned projects are reviewed and monitored by the PSEs and their respective Boards. The Ministry of Statistics & Programme Implementation is also reviewing and monitoring projects costing over Rs. 100 crores. They have devised formats to seek information from their PSEs on a monthly basis. These are reviewed periodically by Secretariat (Coordination), Cabinet Secretariat.

In so far as MOP&NG is concerned, all ongoing projects costing over Rs. 100 crores and above are being monitored on a regular basis through the Ministry Monitoring Cell (MMC) which is managed by EIL on behalf of this Ministry. MMC was formed in the year 1981 for the purpose of project monitoring. The MMC comprises engineers who are professionally qualified to follow the technical intricacies of various projects and has direct link with the project implementing authorities i.e. the various public sector undertakings under MOP&NG.

Each project at the time of its commencement is divided into 10 to 12 major activities or group of activities and milestones for each activities are worked out by the MMC in consultation with project implementing authorities. The entire project is then charted with reference to the milestones that were established right at the beginning of the project. MMC, EIL obtains information directly from the project implementing authorities on fixed formats for reporting the progress and also deputes its officers/engineers to go to the site and make their own assessment of the project progress every month. Based on this interaction and the information received, monthly reports are generated and put up to the Ministry. The monthly report forms the basis of all review which takes places at periodic intervals at different levels within the Ministry.

Meetings are being held at regular intervals at the level of Secretary/Additional Secretary and the Joint Secretaries to follow-up the progress of the projects under implementation. Apart from the periodic meetings held to monitor progress of projects, project progress is also reviewed in quarterly performance reviews of each PSU and instructions are given for taking action to complete the projects without cost and time over-runs. Quarterly progress review meeting is attended by the representatives of Planning Commission also."

[Ministry of Petroleum & Natural Gas, O.M. No. G-25015/1/2003-Fin. I, dated 25.7.2003]

Comments of the Committee

(Please *see* Para No. 15 of Chapter I of the Report)

CHAPTER V

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

Recommendation Sl. No. 2 (Para No. 2.2)

The Committee observe that at the terminal year of 8th Plan (1996-97) the crude oil and natural gas production of the country was 32.89 MMT and 23.30 BCM respectively whereas at the terminal year of 9th Plan (2001-02) the crude oil and natural gas production of the country was 32.03 MMT and 29.71 BCM respectively. As against the target of 180.82 MMT of production during Ninth Plan, the oil production was short by 10 per cent and gas production by 2 per cent. The Committee also notice that the share of private sector companies in the total oil production in the country increased from 7.4% to 12.9% during the Ninth Plan period. Similarly, the share of private sector companies in the total natural gas production increased from 6.4% to 13.6%. The Committee are not convinced with the justification given by the Ministry for such type of performance of National Oil Companies during 9th Plan particularly when the targets fixed were already very low. The Committee are astonished to note that during 9th Plan period no new major field development projects were taken up by the National Oil Companies for contribution to oil production. Moreover, most of the Improved Oil Recovery Schemes/Enhanced Oil Recovery Schemes were initiated in the later part of 9th Plan including Redevelopment of Mumbai High. The Committee hope that there will be significant rise in oil and gas production due to IOR/EOR schemes started during later part of 9th Plan. The Committee, however, desire that National Oil Companies should intensify their exploration and production efforts aggressively in the existing as well as new projects obtained under New Exploration Licensing Policy. The Committee also desire that ONGC should start the work on fast track development of new fields like D-1 and Vasai East in Mumbai offshore and G-1 in Krishna-Godavari offshore without any further delay. Simultaneously they should vigorously pursue the work relating to the examination of marginal fields for finding out the feasibility of their development. The Committee would also like to caution that oil companies should not repeat the mistakes like rescheduling of additional development

Plan, non-commensurate drilling results and delay in inputs mobilisation which were responsible for their failures in achieving the targets during 9th Five Year Plan.

Reply of the Government

ONGC has drawn up a time bound-action plan for IOR/EOR in all the 15 major fields. The activities in the above fields have been "projectised" into 19 projects. Three of the projects are already completed and the remaining projects including Redevelopment of Mumbai High field are under various stages of implementation. All these projects are anticipated to be commissioned as per schedule within the 10th Plan period. In addition to the major fields, ONGC is making efforts to bring in more fields in IOR plans during the 10th Plan. Currently, 10 EOR "pilots" are also under implementation. Out of these, 2 pilots are already completed and are under trial testing. Feasibility of application of EOR in several other fields is being studied in the laboratory.

ONGC has also taken up D-1 and Vasai East fields in Mumbai offshore for fast track development. Development schemes along with investment plans have already been finalized and production of oil and gas will commence in middle of 10th Plan. Integrated development of G-1 and GS-15 fields in KG offshore has also been taken up and the feasibility report is under approval. As a part of its corporate strategy of monetization and development of small and marginal fields, ONGC has identified and has made priority grouping of its existing non-producing fields for taking up development activity in a phased manner.

Similarly, OIL is implementing IOR/EOR measures in 5 of its major fields in Assam through various schemes. By the end of 10th plan, at least 35 reservoirs in the above fields will be covered by IOR/EOR process. Regarding marginal fields. OIL has initiated action since 2002-03 to bring such fields into production.

As regards the work progress in the blocks awarded to the NOCs/consortium through NELP route, seismic data acquisition, processing and interpretation (API) is progressing as per committed work programme in the blocks and drilling would start subsequently.

[Ministry of Petroleum & Natural Gas, O.M. No. G-25015/1/2003-Fin. I, dated 25.7.2003]

Comments of the Committee

(Please *see* Para No. 7 of Chapter I of the Report)

Recommendation Sl. No. 3 (Para No. 2.3)

From the growth trend in consumption of petroleum products the Committee find that the demand of petroleum products has registered very poor growth of about 4.9% during 9th Five Year Plan as against the target of 5.77 per cent. They are surprised to see the alarmingly low growth of 0.4 per cent between 2000-01 and 2001-02. The Committee are not convinced with the reasons given by the Government that the low growth of demand of petroleum products is mainly due to industrial slow down coupled with increasing share of service sector in the Gross Domestic Product (GDP) and increased use of I.T. by various sectors. In Committee's view, this trend is attributable to frequent and high price hike of petroleum products during recent years. Due to frequent & high price rise, people have curtailed their consumption of kerosene, diesel and petrol also. The Committee expect the similar results during the current Five Year Plan also. The Committee, therefore, recommend that the Government should undertake an independent study to analyse the various reasons including impact of price rise on consumption pattern of petroleum products during the recent years and modify their policies accordingly to make them friendly to common/poor population of the country.

Reply of the Government

As recommended by the Committee, MoP&NG has decided to get a study conducted through an independent institution of repute to analyse the various reasons, including impact of price rise, on consumption pattern of petroleum products during the recent period so that further action could be taken accordingly. PPAC has been advised accordingly.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 6 (Para No. 2.6)

It is reported that the price of imported LNG shall be quite high and beyond the reach of consumers even the bulk consumers like Fertilizers & Power Industries have shown their reluctance to buy imported LNG as the economic viability of their business activities can be hit if they have to pay for higher price for imported LNG than the present price they are paying for their feedstock. The Committee, therefore, recommend that economic viability of imported LNG be assured industry-wise and efforts should be made to explore alternate sources of import of LNG so that the delivery price of LNG is cheaper and economically viable. The Committee observe that despite the additional gas supply from new blocks, there will remain a large gap between demand and supply of natural gas. Under these circumstances, the Committee have a firm opinion that the Government should continue to explore the other options to increase the supply capacity of natural gas including building facilities to handle imports of Liquefied Natural Gas and setting up of pipelines from major gas producing countries with more vigour and sincerity. The Committee note that due to lackadaisical approach of the Government both the initiatives have not progressed in a planned way. The Committee observe that LNG is a new fuel and is in initial stages of development in the country and it requires an integrated policy for proper development of this new sector. The Committee, therefore, recommend that the Government should take all initiatives to prepare and announce an integrated LNG policy covering the regulatory mechanism for the country in the shortest possible time.

Reply of the Government

The demand of natural gas in India is much more than the availability at present. To fulfil the shortfall Government have taken various initiatives like encouraging investment in E&P in the country through NELP, exploring the possibilities of gas imports through transnational pipelines from Iran, Bangladesh, Myanmar and also LNG imports. Because of LNG chain activities of upstream production, liquification, transportation in special cryogenic vessels and regasification which require large capital investments, LNG will be costlier than the domestic gas. However, in the initial stage LNG will replace much costlier fuels/feed stocks which are being used by power and fertilizer sectors e.g. Naptha, LSHS, FO, LPG etc. In fact by replacing these fuels/feed stocks by LNG there would be savings on that account.

To further bring down the cost of LNG to the consumers, the Government is considering 'An LNG Policy'. The MOP&NG is presently consulting the Ministry of Finance Ministry of Power and Ministry of Chemicals & Fertilizers on the LNG policy matter. So far as regulatory mechanism is concerned the Petroleum Regulatory Board Bill, 2002 is already before the Parliament. Further action will now be taken as the recommendations of Standing Committee on Petroleum are now available with Government.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I, dated 25.7.2003]

Comments of the Committee

(Please *see* Para No. 12 of Chapter I of the Report)

Recommendation Sl. No. 7 (Para No. 2.7)

The Committee observe that in order to bridge the large gap between demand and supply of natural gas, one of the options is to import natural gas through pipelines. The Government are examining the issue of import of natural gas from Iran, Bangladesh and Myanmar since long time. The Committee do agree that there are several trans-national, techno-economic and geo-political considerations which have direct bearing on security of supply of gas, but the fact remains that there has been negligible progress so far in the direction of gas import through pipelines during these years. The Committee desire that feasibility studies for laying pipeline from Iran to India should be completed in the shortest possible time. They also desire that all out efforts be made for an early finalization of Myanmar-India gas pipeline and Bangladesh-India gas pipeline projects if there is sufficient availability of natural gas in these countries.

Reply of the Government

With regard to finalizing the gas import from Iran, Myanmar and Bangladesh it may be mentioned that the Govt. of India has taken appropriate initiatives to expedite the import of natural gas from these countries. However, in trans-national gas pipeline projects, apart from commercial consideration, geo-political and techno-economic issues are involved which take considerable time to resolve. Further such initiatives depend on the decisions of the respective foreign Governments.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I, dated 25.7.2003]

Comments of the Committee

(Please *see* Para No. 12 of Chapter I of the Report)

Recommendation Sl. No. 8 (Para No. 2.8)

The Committee are astonished to note that the Government have not taken up the statutory regulatory framework for upstream sector even after a lapse of one year of dismantling of Administered Pricing Mechanism. On one side, Narad Committee Report on this issue is pending since, 2001. Now the Government have taken a view that the proposal for setting up of upstream Hydrocarbon Regulatory Board may be examined in the light of progress and development on dismantling of APM and on formation mechanism for the downstream Hydrocarbon sector so that a proper interface could be built between the two regulatory bodies. The Committee are not happy with the uncertain and impractical approach of the Government in taking any final decision on such an important issue. The Committee, therefore, recommend that the Government should take final decision in the matter as early as possible.

Reply of the Government

ORD Act & P&NG Rules and various other relevant statutory provisions provide for a mechanism for regulation of upstream sector. The Government through the Ministry of Petroleum and Natural Gas continues to regulate the upstream sector as provided therein, till an alternate mechanism for upstream sector is put in place. The responsibility of regulation of the sector by the Government is not hampered on account of any delay in formation of the alternate regulatory framework for the upstream sector. However, the proposals for formation of both upstream and downstream Regulatory Bodies are being processed separately and these are at different levels of consideration. Many activities of the two sectors are inter-related. It is necessary to ensure that a proper interface is built between the upstream and the downstream Regulatory mechanisms leaving no scope for any missing link or gap in the discharge of regulatory responsibility. A view has, therefore, been taken that the proposal for setting up of a Regulatory Body for upstream sector may be examined and finalized after the formation of the mechanism for the downstream hydrocarbon sector.

In the meantime the recommendations an Inter-Ministerial Group set up under the chairmanship of Shri Naresh Narad, are being examined in the light of recommendations of the Rajya Sabha Committee on Subordinate Legislation.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 11 (Para No. 2.11)

The Committee note that exploration and production activities of ONGC have been discontinued in the State of Nagaland since April-May 1994 due to environmental problems. Initially no attention was paid by the ONGC/Government to resolve the issue but since June, 1999 several meetings have been held with senior level officers of Nagaland to discuss the outstanding issues without any conclusive results. The Committee express their concern for not taking up this issue in right earnest. The Government have recently announced a new scheme of royalty of crude oil which envisages a special grant of 2% over and above the rate of royalty in respect of Nagaland. After this important decision, the Committee desire that the Government should take up this issue with a new dimension and manage to tackle the situation in consultation with all the concerned political and a political parties and pave the way for resolution of problems in the way of exploration and production activities in the State of Nagaland.

Reply of the Government

ONGC's all activities in Nagaland including production of oil and gas had been discontinued since April-May 1994 due to environmental problems. However, for improving the situation and resumption of petroleum operations in the State, Government have announced that special grant @ 2% over the above the applicable rate of royalty will be paid to the State of Nagaland on the crude oil production from the State in view of Article 371-A of the Constitution of India. Government is also offering one block for exploration of hydrocarbon under the NELP-IV round, launched recently, in addition one block under NELP-III. The situation is under watch and it is felt that these positive developments would go a long way in accelerating exploration and production activities in the State of Nagaland in midst of complications prevalent therein.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Comments of the Committee

(Please *see* Para No. 18 of Chapter I of the Report)

Recommendation Sl. No. 12 (Para No. 2.12)

The Committee observe that in the post-APM era ONGC has been selling oil international rates. Simultaneously, they are paying an enhanced cess of Rs. 1800 per tonne. During this period ONGC's estimated profit after taxes have increased from Rs. 4552.66 crores for the period April to December, 2001 (APM period) to Rs. 6850.85 crores during the period April to December, 2002 (post-APM period). As a result all the requirement of crude by refining company is being purchased as per the international price variations including indigenous crude being produced by national companies. The Committee also observe that in the recent past there has been a continuous rise in international crude price and due to this reason the refineries have spent more and more amount on purchase of crude. Earlier they had been getting atleast 30% of crude produced indigenously at lower price and could bear variations in international prices of crude to some extent. Now, they have no way out and they are transferring each and every increase ultimately to the customer. Under this type of arrangement during deregulated scenario, the ultimate sufferer is the customer, because neither the oil producing companies nor the refining companies are bearing any extra burden due to crude oil price rise. The Committee, therefore strongly recommend that the Government should analyse the impact of this type of arrangement for purchase of crude on consumers and develop a practical formula which is suitable not only for oil producing companies and refineries but also for the consumers. The Committee also recommend that enhancement of cess from Rs. 900 to Rs. 1800 per tonne imposed on National Oil Companies be withdrawn completely.

Reply of the Government

With the dismantling of APM effective 1st April 2002, the pricing of indigenous crude oil of ONGC and OIL has been decontrolled and these companies are now selling crude oil to the domestic refineries on commercial considerations. However, it may be stated that the PSU refineries have been paying for the crude oil of ONGC and OIL on import parity basis since 1st April 1998 when refineries were taken out of APM. The difference, however, was that for the period

01-04-1998 to 31-03-2002, ONGC and OIL were receiving less than the full import parity price, with the balance amount going to the oil pool account which was used to support the product price positively. In a deregulated scenario, the fluctuations in the international crude oil prices would impact the indigenous crude oil prices. Any scheme under which lower crude prices are paid would amount to a subsidy albeit indirectly by ONGC/OIL. This is not the intention of APM dismantling scheme. For withdrawal of enhancement of cess on crude oil of National Oil Companies from Rs. 1800/ tonnes to Rs. 900/ tonnes, the matter has been taken up with the Ministry of Finance. The existing arrangements for sale-purchase of crude oil and petroleum products are based on the Government decision on dismantling of APM whereby the administered prices have been replaced by marketing driven prices. Further, cess is in nature of a duty of excise and is levied taking into account a holistic view of the national resources and requirements. However, to protect the interest of the consumers in the deregulated scenario, the subsidies on kerosene and LPG etc. are being met through Government budget. Hence, the entire burden is not being passed on to the consumers.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 15 (Para No. 2.15)

The Committee note that as against the approved outlay of Rs. 25488.23 crores during 9th Plan, the expenditure of Indian Oil Corporation Limited was Rs. 12886.39 crores only. During every year of the 9th Plan there was huge shortfall. This reached upto Rs. 3290 crores during 2001-02. During the Ninth Plan period five major projects relating the Paradeep Refinery, Panipat Refinery and Gujarat Refinery were kept under review due to lower than expected demand growth and re-scheduling of completion of quality improvement projects. The 10th Plan outlay for IOCL is Rs. 24399 crores which Constitutes mainly continuing schemes *i.e.* spillover projects of the 9th Plan period. The new schemes in 10th Plan Constitute only 7% of the overall outlay. The Committee find that as per the original Government approval, the Paradeep Refinery project was scheduled to be completed within 48 months from 14.7.1998. The major problems due to which the original schedule could not be adhered to was the withdrawal of tax incentives by the Orissa Government. Due to continuous efforts of the Government/IOCL, the State Government of Orissa have partly restored the sales tax incentives which amount 32% of the incentives approved earlier. The project is presently under review by the Board of Directors of IOCL for finalization of its implementation schedule and methodology and they have informed that keeping in view the demand supply projections of petroleum products in the country and devised project cost, completion of the project is likely to spill over beyond 10th Plan. The basic design for process units and acquisition of approximately 3347 acres land has been completed. The progress of this Project is very slow and the reluctant approach of the State Government may cause more delay in the implementation of the project. The Committee, therefore, once again reiterate that the Government/IOCL should take up with the Orissa Government the matter relating to full restoration of State sales tax incentives granted earlier for which they had agreed before the Committee during their Study Tour in Bhubaneswar. The Committee also desire that IOCL/ Government should take a final decision regarding implementation schedule and methodology for the completion of the project in the shortest possible time.

Reply of the Government

IOC is committed to implement the grassroot refinery project at Paradeep, Orissa. While investment of Rs. 624 crore against a commitment of Rs. 1050 crores has been made by 15.5.2003, the implementation of the project is now being re-examined by IOCL for re-phasing/re-positioning the project in line with supply/demand scenario and refining capacity requirement in the country. Presently IOC is considering setting up a crude handling facility at Paradeep for Barauni and Haldia refineries.

IOC and Government of India have taken up with Orissa Government the matter relating to full restoration of State Sales Tax Incentives granted earlier. Regular follow-up is also being done in this regard.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 19 (Para No. 2.19)

The Committee observe that in the deregulated era, the refineries have to improve their efficiency to meet challenges of the competitive scenario. The four refineries (Digboi, Guwahati, Numaligarh and

Bongaingaon) in the North Eastern region are of economic size compared to present day minimum/threshold size of 9 MMTPA. There is no scope for increasing their size due to low consumption of petroleum products in the region and non-availability of crude oil from the North East. As against the total capacity of 7 MMT of these refineries only 5 MMT of crude is available. The Committee feel that in addition to ongoing efforts to enhance crude oil production in Assam fields, there is a need to take other initiatives. The Committee, therefore, strongly recommend that the Government should approve the pending proposal to pump in additional crude oil from outside the region into the North-East without any delay. The Committee also recommend that the Ministry should take all initiatives to restore the excise duty exemption of NRL and also provide similar exemptions to other three refineries of North East so that the North East refineries may be able to maintain their viability in Post-APM era.

Reply of the Government

With a view to increase the capacity utilisation of North-East Refineries, MoP&NG has allocated 1.5 MMTPA of Ravva PSC crude oil to BRPL effective 1/4/03. Thus for the year 2003-04, the total crude oil available for processing by the four North-East refineries would be about 6.5 MMT (5.0 MMT of Assam crude oil and 1.5 MMT of Ravva crude oil). This would increase the capacity utilisation of North-East Refineries to 93%, Ravva crude oil has started flowing to BRPL.

As regards the issue of excise duty exemption, all the four North-East refineries have 50% excise duty exemption effective 1/3/2003. The issue of restoration of 100% excise duty exemption to NRL has been taken up with MoF.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Comments of the Committee

(Please *see* Para No. 21 of Chapter I of the Report)

Recommendation Sl. No. 21 (Para No. 2.21)

The Committee note that presently domestic refineries are compensated for irrecoverable taxes through mechanism of the State Surcharge Scheme. Under this scheme, compensation is provide for irrecoverable tax levied on the entry of crude oil in the local area including octroi, net of set off available if any, and tax levied on inter-company sale transaction for moving petroleum products of domestic refineries inter state namely Central Sales Tax (CST) and Purchase Tax. The Ministry have agreed that the compensation under the irrecoverable taxes compensation scheme 2002' would not be required once an appropriate VAT system having provisions for providing set off on account of irrecoverable taxes being compensated under the scheme is put in place for the oil sector. The Ministry have informed that they have taken up introduction of VAT system in the oil sector with the Ministry of Finance. Moreover, the matter has been taken up with the State Governments to rationalise the tax structure by withdrawing irrecoverable taxes. The Government have decided to implement VAT system in the States soon. The Committee, therefore, desire that the Government should pursue the proposal for introduction of VAT system in oil sector. They should also try to reduce this expenditure in the States where VAT is being implemented during the current Financial Year 2003-04.

Reply of the Government

As and when VAT System is introduce in the States and the oil sector is also covered under this system, the compensation to the oil companies under "the Irrecoverable Taxes Compensation Scheme" would be reviewed.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 23 (Para No. 2.23)

The Committee observe that the Oil Pool Account has been dismantled *w.e.f.* 1.4.2002 and outstanding balances are supposed to be liquidated by issue of oil bonds to the concerned companies. The outstandings of the oil companies against the Oil Pool Account by 31st March, 2003 were Rs. 13500 crores. The special bonds totalling Rs. 9000 crores were issued to the oil companies on 31st March, 2002 in the proportion of their outstandings against their Oil Pool Account. The Ministry have informed that the Government bonds for the remaining outstandings for the oil companies against Oil Pool Account would be issued after C&AG's audit likely to be completed during 2003-04. The Committee, therefore, recommend that the Ministry should ensure completion of the work relating to issue of bonds of remaining outstandings immediately after the availability of C&AG's Report.

Reply of the Government

With the dismantling of Administered Pricing Mechanism (APM) in the hydrocarbon sector, the Oil Pool Accounts maintained by the Oil Coordination Committee stand discontinued w.e.f. 01.04.2002. At the time of dismantling of APM, the Government had decided that cumulative outstandings of Oil Companies against the Pool Account would be liquidated in the following manner:—

(a) Government bonds would be issued to the extent of 80% of the provisional amount of the pool deficit based on the settled claims upto 31st March, 2002.

(b) C&AG will be requested to do a special audit of the Oil Pool Account once all the due claims, except those which may subsequently arise on crystallization of contingent liabilities later, from the pool account are finalized.

(c) The balance amount due to the Oil companies will be liquidated by issuing Bonds after obtaining the audited accounts.

2. The outstandings of oil companies consequent to the deficit in the Oil Pool account as on 31st March, 2002 were provisionally estimated to be around Rs. 13500 crores. In pursuance of the aforesaid decision at the time of APM dismantling, the Government has already issued Special Government Bonds amounting to Rs. 9000 cores in March 2002 towards part liquidation of the outstandings of Oil Companies. The balance amount due to the Oil Companies is to be liquidated by issuing Bonds for the remaining amount after the completion of audit by C&AG.

Efforts are being made to finalize the oil pool accounts. Most of the claims of the oil companies have been settled and only some claims, particularly relating to updation of margins for 2001-02, remain to be decided. After finalization of oil pool accounts, the same would be audited by C&AG. The company-wise audited figures of balance outstandings against the oil pool account would thereafter be taken up with the Ministry of Finance for issuing Special Government Bonds to the companies to liquidated these outstandings.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 24 (Para No. 2.24)

The dismantling of Administered Pricing Mechanism in the petroleum sector has been announced with effect from 1st April, 2002. This has been done in response to the Government's decision of November, 1997. The Committee have found that the Government have effected dismantling of Administered pricing Mechanism without rationalising the duty structure to the specified level. After dismantling of APM, the prices of petroleum products have become market determined. Under these circumstances, the people are facing two types of burdens. On one side, they are still bearing the burden of higher rate of excise duty and on the other side, they are paying the higher prices decided by the oil companies which have been revised frequently during the period of one year. The Committee, therefore, recommend that the Government should rationalise the duty structure as per the earlier decision of 1997 so that the adverse implications of dismantling of Administered Pricing Mechanism may be avoided and customers may get some relief. The Committee also note that during the last one year *i.e.* during the Post-APM era, the prices of petrol and diesel have been revised several times. The Committee recommend that some mechanism be evolved to stop frequent revision of prices to give relief to the customers.

Reply of the Government

Rationalization of duty structure is a continuous process. Every year, before the preparation of the budget, MoP&NG makes appropriate recommendations in this regard to MoF.

As regards the issue of frequent changes in the prices of petrol and diesel, it may be stated that with the dismantling of APM, the fluctuations in the international oil prices are bound to get reflected in the domestic consumer prices of petrol and diesel. As the oil marketing companies are paying to the domestic refineries, the prices of petrol and diesel on import parity basis, revised fortnightly, consumer prices of these products also vary on fortnightly basis.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Comments of the Committee

(Please *see* Para No. 24 of Chapter I of the Report)

Recommendation Sl. No. 25 (Para No. 2.25)

From an analysis of the mechanism being followed by the Oil Companies in deciding the selling prices of petrol and diesel in post-APM period, the Committee noted that the Excise Duty and Sales Tax formed a substantial part against the basic prices of diesel and petrol. This resulted in fixing higher selling prices of these products. To illustrate, the Committee note that in Delhi, Excise Duty and Sales Tax components worked out 117% on petrol and 40% on diesel of the basic prices of these products at refineries on import parity basis. The Committee further note that the basic price of diesel at refineries is higher than the petrol price but Excise Duty and Sales Tax on this product has been kept lower than petrol. Obviously, this has been done to keep the selling price of diesel at affordable level. The Committee appreciate this logic since diesel is common man's transportation fuel. As against Delhi prices, the selling prices are higher in some of the States due to higher slabs of local taxations, etc. Viewing the price structure in totality, the Committee note that entire structure of Excise Duty and Sales Tax is at much higher level and needs review especially in view of the experience gained during the last one year in post APM era when with the prices of petrol and diesel had gone up considerably. The Committee, therefore, recommended that the Ministry of Petroleum & Natural Gas should take up with Ministry of Finance and also with State Governments the necessity of reducing Excise and Sales Tax structure. Further, the Committee note that there is a wide difference in selling prices of petrol and diesel which is a contributory factor of adulterating diesel in petrol. The Committee, therefore, recommended that Excise duty on petrol be reduced substantially so that there is not much difference in selling prices of these items.

Reply of the Government

MoP&NG has been taking up the issue with MoF of reducing the excise duties on petrol and diesel in case of high international oil prices. The issue of replacing the existing *ad valorem* excise duty structure with specific excise duties on petrol and diesel has also been taken up with MoF with a view to contain the impact of excessive volatility in the international oil market on the domestic consumer prices. The issue of reduction in excise on petrol and diesel as also the need for reducing the excise duty on petrol substantially, as recommended by the Committee, has once again been taken up with

MoF. As regards the issue of reducing the sales tax rates on these products, MoP&NG has taken up this issue with various State Governments.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Comments of the Committee

(Please *see* Para No. 27 of Chapter I of the Report)

Recommendation Sl. No. 26 (Para No. 2.26)

The Committee observe that the Government have issued detailed guidelines for granting authorisation to market transportation fuels namely MS, HSD and ATF to the new entrants including private sector. After the publication of these guidelines, the Government have granted authorisation to market transportation fuels in favour of Oil & Natural Gas Corporation Limited (ONGC), Numaligarh Refinery Limited (NRL) and some private companies. These Companies have proposed to set up a total number of 8659 new Retail Outlets including 923 in remote and low service areas of the country. The Committee had express their anxiety to note that after the dissolution of Dealer Selection Boards in May, 2002, the public sector oil companies have not taken any initiative to set up new Retail Outlets and Gas agencies in any part of the country. The guidelines for allotment of ROs/LPG agencies by oil sector PSUs have also not been finalised as yet. It is reported that the private sector companies permitted to enter the marketing sector have started their work for selection of sites and completion of other formalities vigorously. The Committee, therefore, strongly condemned the lackadaisical approach of the Government and desired that the Government should finalise the guidelines for allotment of ROs and LPG agencies without any delay to enable the marketing companies to finalise their further marketing plans immediately. They hoped that there would be uniformity of guidelines for all marketing companies both in Public and Private Sector. Uniformity of guidelines is pre-necessity for creating level playing field for Public and Private Sector marketing companies. The Committee would also like that the Government should endeavour to make such guidelines applicable retrospectively w.e.f. May, 2002 when the DSBs were disbanded. Besides, a provision for setting up of ROs and LPG gas agencies in remote and low service areas should properly be incorporated in all the marketing plans both of PSUs as well as of private sector companies.

Reply of the Government

Consequent on the dismantling of the Administered Pricing Mechanism (APM) in the petroleum sector with effect from 1.4.2002 the selection of dealers for retail outlets/LPG distributorships/SKO-LDO dealerships will now be made by the Oil Marketing Companies (OMCs) themselves as per the guidelines to be adopted by them. Preliminary action like selection of suitable sites for setting up retail outlets dealerships, etc., has been initiated by them and the guidelines are in the process of finalisation.

The need for a common set of guidelines will be examined in the context of each company having to develop a competitive edge in the emerging free market scenario. Efforts will be made to ensure that the guidelines are transparent and do not run contrary to any laid down policy of directive of the Government.

The Private Sector oil companies which have been given authorization to market transportation fuels will be free to set up retail outlet dealership subject to non-encroachment of the existing retail outlets. They will be free to have their own policy for selection of their dealers. They Government cannot impose its policy on the private oil companies in commercial decisions.

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Comments of the Committee

(Please *see* Para No. 30 of Chapter I of the Report)

Recommendation Sl. No. 28 (Para No. 2.28)

The Committee observe that Directorate General of Hydrocarbons has been entrusted with responsibilities concerning the Production Sharing Contracts for discovered fields and exploration blocks and monitoring of E&P activities including review of reservoir performances of major fields. DGH is also engaged in acquisition of data in new/unexplored areas with a view to prepare data packages and offer such areas under bidding rounds. At present DGH as a representative of the Government in the Management Committee is monitoring the Production Sharing Contracts of 93 exploration blocks. The Committee recommend that office of Directorate General of Hydrocarbon should be strengthened so as to enable it to perform its functions effectively.

Reply of the Government

DGH had proposed its manpower requirement of 95 for phase-I that has been approved by the Ministry sometime back. Thus, DGH at present has a sanctioned staff strength of 95 (85 executives and 10 non-executives), out of which 68 executives and 10 non-executives are in position at present. As the officers in DGH are taken on deputation basis, mostly from oil PSUs, their repatriation to the parent cadres and replacements is an on going process. The Ministry assists DGH in replacements by taking up the matter with CMDs of oil PSUs.

DGH has projected additional Staff requirement for phase-II. The office of DGH has been advised to re-examine the requirements in the light of the scope to induct information technology to economize on requirement of manpower and its cost, in view of the standing instructions of the Government to economize expenditure on manpower deployment.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Comments of the Committee

(Please *see* Para No. 35 of Chapter I of the Report)

Recommendation Sl. No. 29 (Para No. 2.29)

The Committee note that the proposal for establishment of National Data base and Archive system is pending since 1997. DGH had hired two foreign consultants under the grants received from Asian Development Bank and USTDA for the proposal to set up national E&P Data Base and Archive. The Government have recently approved the proposal of DGH to implement Phase-I of this project. In response to specific query of the Committee, the Ministry have categorically stated that there are no hurdles in the implementation of the project setting up of National Exploration and production Data Base and Archive system. The Committee, therefore, desire that DGH/ Government should now start the work on this project in a time bound manner.

Reply of the Government

DGH had taken the project for the creation of national E&P data base and archive system for India. Feasibility study was conducted by

DGH through International Consultant. On the basis of study, a detailed implementation plan was finalized by DGH and presented to administrative council of DGH under Chairmanship of Secretary, P&NG on 4th June, 2002. The presentation was reviewed by the then Special Secretary (MOP&NG). The phase-I proposal for creating National E&P data base and archive system was approved in principle for implementation. Implementation action has already been taken up by DGH. Tender documents are under preparation. Pre-bid conference has been held on 2nd May, 2003. Tender will be finalized and Notice Inviting Tender (NIT) is likely to be issued by end of May 2003.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Comments of the Committee

(Please *see* Para No. 36 of Chapter I of the Report)

Recommendation Sl. No. 30 (Para No. 2.30)

The Committee observe the Oil Companies have implemented major programmes for the upgradation of auto-fuel quality during the 9th Plan. Lead has been removed from petrol in phases and from 1st April, 2000 only unleaded petrol is supplied in the entire country. Petrol octane number has been increased and sulphur content reduced from 0.20% max to 0.10% max. in the entire country from 1st April, 2000. In addition, the 4 metro towns and the National Capital Region are being supplied petrol containing 0.05% max sulphur content. The sulphur content in diesel has been reduced from 1% max to 0.25% max in the entire country. The Committee observe that in order to enable Bharat Stage-II vehicular emission standards throughout the country and Euro-II/equivalent emission norms in 7 mega cities from April, 2005, the quality of petrol and diesel would needed to be further improved. For this purpose measures such as further reduction of sulphur content need to be taken in a time bound manner. The Committee, therefore, strongly recommend that the Government should ensure that Indian Refineries including private sector refineries make the required investment in secondary and tertiary processing facilities to ensure that quality of products conforms to the relevant specifications.

Reply of the Government

The Expert Committee on Auto Fuel Policy has submitted its final report on 25.9.2002 which is under consideration of the Government.

Once the recommendations of the Committee are accepted by the Government, all the domestic refineries in the country including those in the private sector, would need to produce petrol and diesel of the required specifications. For ensuring this, the refineries would need to play their investments accordingly.

With a view to facilitate the requisite investments by the refineries to upgrade the fuel quality, the Committee has recommended, *inter-alia*, the following duty and tax concessions to the oil and auto industry:

(a) Lower custom duty on imported capital goods and machinery needed for improvement of fuel quality.

(b) Lower excise duty on indigenously manufactured goods, equipment and machinery needed for improvement of fuel quality and automobile technology.

(c) 100% depreciation on plant and machinery put up for upgradation of product quality and automobile technology.

It is expected that the above concessions would facilitate requisite investments.

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Recommendation Sl. No. 31 (Para No. 2.31)

As far as development of eco-friendly fuel is concerned, the Committee find Di-Methyl Ether as very important. GAIL, IOC, IIP and BP had signed a joint collaboration agreement in July, 1998 to carry out feasibility study for putting up a Di-Methyl Ether project for application in power sector, in the domestic sector to substitute LPG and in the transport sector to substitute diesel. The results of R&D in this field were very encouraging. In between, one partner BP has withdrawn from the project on 3.10.2001. The Indian consortium is striving to have other international partner of BP's stature to take up BP's equity. The Committee also observe that Indian Consortium does not propose to continue with the project without the presence of strategic partner such as a multinational/global major, as the project needs assured supply of gas and is to be built at the source of gas. The Government have informed that the efforts are on to identify strategic partner for collaboration in the project and discussions have been initiated with Marubeni, NKK of Japan and Chevron of USA. The Committee, therefore, desire that the Government should provide all types of diplomatic and commercial/financial help to the Indian Consortium in searching the strategic partner for collaboration in such an important project and the project should be started in the right earnest.

Reply of the Government

The Government would extend help to the Indian consortium on DME to begin the project, but the consortium has first to put out the necessary feelers to likely strategic oil majors and identify parties interested to collaborate with it in the project. Thereafter, any assistance required can be provided.

As per feedback received, discussions were held with a Japanese consortium consisting of Marubeni, NKK Corporation and TOTAL-FINA-ELF, which is developing a DME project in Japan. The possibilities of a tie-up with the Japanese consortium as a strategic partner in replacement of BP and alternatively, of Indian Oil's collaboration with that consortium were discussed. However, in view of the Japanese consortium's progress in setting up the DME project, they appeared reluctant to collaborate with the India DME consortium. As for Indian Oil joining the Japanese consortium, presently the induction of any other partner is not envisaged.

The collaboration of Chevron, USA was also discussed during a recent US visit by the Chairman, IOC. Relevant information was furnished to the company by IOC, and Chevron's feedback is awaited.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Recommendation Sl. No. 32 (Para No. 2.32)

The Committee observe that as per the directions of Supreme Court, the Indraprastha Gas Limited has submitted an affidavit that they would augment their compression capacity to 16.11 lakh kg per day by June, 2003. But the Committee find at present they have achieved the compression capacity upto 7.71 lakh kg per day only. The Committee, therefore, desired that the IGL should take all the necessary initiatives to augment their compression capacity to 16.11 lakh kg.

per day by the target date of 30th June, 2003 since GAIL (India) Limited has already committed the availability of the required quantity of gas. For this purpose, the IGL should also augment the CNG infrastructure as per the requirements. Simultaneously they should also ensure balanced zone-wise distribution of CNG stations in National Capital Region of Delhi because at present maximum CNG stations were situated in South and West Zones only.

Reply of the Government

IGL submitted an affidavit to the Supreme Court that it would augment its compression capacity to 16.11 lakh kg. per day by June, 2003. Compression capacity as on 30th April, 2003 is 12.95 lakh kg. per day.

Details are as follows:—

Month	Compression capacity	
	Planned	Achieved
October, 2002	8.99	9.31
November, 2002	9.51	9.66
December, 2002	10.38	10.38
January, 2003	11.59	11.59
February, 2003	12.64	11.77
March, 2003	13.51	11.94
April, 2003	14.37	12.95
May, 2003	15.24	—
June, 2003	16.11	—

Non-availability of land at Patparganj for CNG Mega Station and CNG Station at LSR College has created gap between planned and achieved compression capacity from February, 2003. IGL is making its efforts to make up the shortfall in compression capacity by June, 2003.

The ensure balanced zone-wise distribution of CNG stations in National Capital Region of Delhi, IGL has laid 23 Km 12" dia pipeline from Dhaula Kuan to GT Karnal Road turning point alongwith spur lines of 8", 6" and " dia, enabling supply of CNG to Northern and Western parts of Delhi.

CNG Stations—Zone-wise
(As on 30th April, 2003)

Station	East	West	North	South	Central	Total
Mother-IGL	1	9	5	12	3	30
Mother-DTC	2	7	3	5	1	18
Online	2	1	1	10	6	20
Daughter	1	1	0	5	4	11
Daughter Booster	8	4	5	8	4	29
Total	14	22	14	40	18	108

IGL is approaching land owning agencies for allotment of additional lands in East, Central and West Delhi for putting up more stations. IGL is also taking action for putting up CNG dispensing facilities at the Retail Outlets of Oil Marketing Companies in these areas to augment the CNG distribution system.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Comments of the Committee

(Please *see* Para No. 39 of Chapter I of the Report)

Recommendation Sl. No. 33 (Para No. 2.33)

The Committee observe that Government had mandated supply of 5% ethanol-blended petrol in the 9 sugarcane producing States of Andhra Pradesh, Goa, Gujarat, Haryana, Karnataka, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh and the 4 Union Territories of Chandigarh, Dadra Nagar Haveli, Daman Diu and Pondicherry in a phased manner from 1.1.2003 with complete coverage to be achieved by 30.6.2003. It is proposed to cover the entire country with 5% ethanol-blended petrol during the year 2003-04. The Committee are surprised to note that no time bound programme has been prepared for introduction of ethanol-blended petrol, diesel in the States initially with 5% blending and later on with 10% blending. The Committee also observe that R&D experiments have indicated that upto 10% blending of ethanol in petrol is possible under Indian conditions. In view of encouraging results of blending of ethanol in petrol, diesel, the Committee desire that the Government should prepare a time-bound programme for introduction of this type of petrol/diesel in all the States. At the same time the Committee would recommend that the Government should immediately assess the possibility of reduction in prices of ethanol-blended petrol/diesel being supplied in the market so that the benefits reach the common man.

Reply of the Government

The preparation of time-bound programme for introduction of 5% ethanol blended petrol is dependent on the adequate availability of the product. Even in the States where sale of the blended product has been mandated by the 30th June, 2003, so far, only Uttar Pradesh has been covered in full. Maharashtra and Goa would be fully covered by June, 2003. In Gujarat, partial coverage has commenced. The position in respect of Punjab, Haryana, Chandigarh, Andhra Pradesh, Karnataka, Tamil Nadu and Pondicherry would be known for certain only by June end. The implementation of the programme has been delayed due to non-availability of the required quantities of ethanol *vis-a-vis* requirements and various State levies.

The programme for introduction of 10% ethanol blended petrol can only be thought of after establishing the technical feasibility of using the blend in Indian vehicles through controlled trials, adequate capacity build-up of ethanol by broadening of feedstock base, using improved technology and modification of the existing petrol specifications. As regards introduction of ethanol blended diesel, the R&D studies have yet to be completed, but the basic problem is the adequate availability of ethanol.

Therefore, it is too early to formulate any time-bound programme.

As regards the possibility of reducing the prices of the blended fuel to benefit the common man, the international oil market is highly volatile. The prices of petrol have declined after the Iraq war, resulting in a marked difference between the landed costs of petrol and ethanol. A further fall in the petrol prices would result in under-recoveries to the oil marketing companies if the price of the blended is reduced. Such a possibility can be considered only if the landed cost of ethanol is lower than that of petrol and assured supplies of ethanol are available.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

Comments of the Committee

(Please *see* Para No. 42 of Chapter I of the Report)

Recommendation Sl. No. 36 (Para No. 2.36)

The Committee note that the domestic crude oil production account for about 30% of domestic demand and remaining 70% is met by imports. During 10th Plan efforts are being made to enhance indigenous production and equity oil abroad to improve self-sufficiency in oil. However, there is an urgent need for creating strategic storages in meeting the crude oil requirements. Under the APM, the storage of crude oil and petroleum products and strategic requirement were being taken care by oil PSUs. The Ministry claim that the present stocks of crude oil and petroleum products with the oil companies are sufficient to meet the requirements of petroleum products for about two months. In deregulated scenario, the oil companies will optimize their inventories to meet their margins. However, it is surprising that no strategic storage has separately been developed. The Government have recently announced to develop such storage for 15 days with an investment of Rs. 4350 crores. The Committee are not satisfied with the progress made in this important area and recommend that the Government should develop a perfect mechanism for creating strategic storage in the shortest possible time.

Reply of the Government

While, it is true that in a deregulated scenario, the oil companies will optimize their inventories on commercial considerations, it may be stated that under "The Petroleum Regulatory Board Bill, 2002", the Government has the powers to direct stockholding by the oil companies through the proposed Regulatory Board. Thus, the existing storage with the oil companies could be utilised for providing the necessary cover in case of exigency. Of course, in a deregulated scenario, the cost of holding additional stock would need to be allowed to be recovered through the price mechanism.

In addition to the crude oil and product tankages maintained by the oil companies for their normal business operations, the Government proposes to build strategic storages of crude oil to provide for 45 days cover in phases. To begin with, detailed feasibility reports for constructing under-ground strategic storage to provide for 15 days cover of crude oil requirement have been prepared. A draft note for the consideration of the Committee of Secretaries has been prepared on the subject and circulated to the concerned Ministries/Department for their comments. The note *inter alia* seeks approval on the mode of financing and operating the proposed strategic crude oil storage.

[Ministry of Petroleum & Natural Gas O.M. No. G-25015/1/2003-Fin. I dated 25.7.2003]

NEW DELHI;
August 19, 2003
Sravana 28, 1925 *(Saka)*

MULAYAM SINGH YADAV,
Chairman,
Standing Committee on
Petroleum & Chemicals.

APPENDIX I

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2003)

Seventh Sitting
(19.08.2003)

The Committee sat from 1000 hrs. to 1030 hrs.

PRESENT

Shri Mulayam Singh Yadav—Chairman

MEMBERS

Lok Sabha

2. Dr. (Smt.) Suguna Kumari Chellamella
3. Shri Khagen Das
4. Shri Harpal Singh Sathi
5. Shri Paban Singh Ghatowar
6. Shri Bijoy Handique
7. Shri Shriprakash Jaiswal
8. Shri Punnulal Mohale
9. Shri P. Mohan
10. Shri Ashok N. Mohol
11. Dr. Debendra Pradhan
12. Shri Ram Sajivan
13. Dr. (Smt.) V. Saroja
14. Dr. Ramesh Chand Tomar
15. Shri Prabhunath Singh
16. Dr. Ram Lakhan Singh
17. Shri A.K.S. Vijayan

Rajya Sabha

18. Shri Balkavi Bairagi
19. Shri Ram Nath Kovind
20. Shri Anil Kumar
21. Shri Kripal Parmar
22. Shri V.V. Raghavan
23. Ms. Mabel Rebello
24. Shri Thanga Tamilselvan

SECRETARIAT

1. Shri P.K. Grover	—	*Director*
2. Shri J.N. Oberoi	—	*Officer on Special Duty*
3. Dr. Ram Raj Rai	—	*Assistant Director*

2. At the outset, Hon'ble Chairman welcomed the Members to the sitting and explained the purpose of the day's meeting.

3. Thereafter, he invited the Members to give their suggestions, if any, on the following draft Reports being considered for adoption:—

(i) ** ** ** **

(ii) ** ** ** **

(iii) ** ** ** **

(iv) ** ** ** **

(v) ** ** ** **

(vi) Fiftieth Report on action taken by Government on the recommendations contained in the Thirty-Ninth Report (13th Lok Sabha) of the Standing Committee on Petroleum & Chemicals (2003) on 'Demands for Grants of Ministry of Petroleum & Natural Gas for the year 2003-2004' and

(vii) ** ** ** **

4. After some consideration, the Committee adopted the Reports subject to minor modifications.

5. The Committee, thereafter, authorised the Chairman to finalise the Reports after factual verification from the concerned Ministries/ Departments and present them to the Parliament.

6. The Committee placed on record their appreciation of the work done by all the Sub-Committees of the Standing Committee on Petroleum & Chemicals.

7. The Committee also placed on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

8. ** ** ** **

The Committee then adjourned.

**Matters not related to this Report.

APPENDIX II

(*Vide* Para 3 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE THIRTY-NINTH REPORT (THIRTEENTH LOK SABHA) OF THE STANDING COMMITTEE ON PETROLEUM & CHEMICALS (2003) ON 'DEMANDS FOR GRANTS OF MINISTRY OF PETROLEUM & NATURAL GAS FOR THE YEAR 2003-2004'.

I.	Total No. of Recommendations	36
II.	Recommendations which have been accepted by the Government (*Vide* Recommendation at Sl. Nos. 1, 4, 13, 14, 16, 17, 20, 22, 27, 34 and 35)	11
	Percentage of Total	30.56%
III.	Recommendations which the Committee do not desire to pursue in view of Government Reply (*Vide* Recommendation at Sl. Nos. 5, 10 and 18)	
	Percentage of Total	8.33%
IV.	Recommendations in respect of which replies of the Government have not been accepted by the Committee. (*Vide* Recommendation at Sl. No. 9)	1
	Percentage of Total	2.78%
V.	Recommendations in respect of which final replies of the Government are still awaited (*Vide* Recommendation at Sl. Nos. 2, 3, 6, 7, 8, 11, 12, 15, 19, 21, 23, 24, 25, 26, 28, 29, 30, 31, 32, 33 and 36)	21
	Percentage of Total	58.33%