12

TWELFTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(2003-2004)

(THIRTEENTH LOK SABHA)

HINDUSTAN PETROLEUM CORPORATION LTD. –

INFRUCTUOUS EXPENDITURE ON CREATION OF A PIPELINE.

MINISTRY OF PETROLEUM & NATURAL GAS

Presented to Lok Sabha on 19th December, 2003
Laid in Rajya Sabha on 19th December, 2003

LOK SABHA SECRETARIAT
NEW DELHI

December, 2003 / Agrahayana 1925(S)

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(2003 – 2004)

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this 12th Report on Hindustan Petroleum Corporation Ltd. – Infructuous Expenditure on creation of a Pipeline.

2. This subject was dealt with by the Sub-Committee-II of the Committee on Public Undertakings. The examination of the subject was based on Audit Paragraph 17.4.1 contained in the Report on Union Government (Commercial) of the Comptroller & Auditor General (No. 3 of 2003) of India.

3. The Sub-Committee-II took evidence of the representatives of Hindustan Petroleum Corporation Ltd. and the Ministry of Petroleum and Natural Gas on 26th August, 2003.

4. The Committee wish to express their thanks to Ministry of Petroleum and Natural Gas and Hindustan Petroleum Corporation Ltd. for placing before them the material and information they wanted in connection with the examination of the subject. They also wish to thank in particular the representatives of Ministry of Petroleum and Natural Gas and Hindustan Petroleum Corporation Ltd. who appeared for evidence and assisted the Committee by placing their considered views before them.

5. The Committee on Public Undertakings considered and adopted the Report at their sitting held on 17th December, 2003. The Committee place on record their appreciation of work done by the Sub-Committee-II of the Committee.

6. The Committee also place on record their appreciation for the assistance rendered by the Comptroller & Auditor General of India.

7. They would also like to place on record their sense of deep appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

New Delhi;
December 17, 2003
Agrahayana 26, 1925(S)

PROF. VIJAY KUMAR MALHOTRA
CHAIRMAN
COMMITTEE ON PUBLIC UNDERTAKINGS

PART – A

REPORT

I. BACKGROUND

The Audit Report of the Comptroller & Auditor General of India – Union Government (Commercial) – No. 3 of 2003 in Para No. 17.4.1 contained an audit observation highlighting the failure of the Hindustan Petroleum Corporation Ltd. (HPCL) to utilise their newly constructed oil pipeline from Mumbai Terminal of the Refinery to Vashi for carrying Furnace Oil (FO)/Light Diesel Oil (LDO). This has resulted in the expenditure of Rs. 42.30 crore incurred on the construction of the pipeline becoming infructuous.

2. The main features of the observation made by Audit in the Para are as follows:-

(i). The Ministry of Environment & Forests while giving environmental clearance in May 1989 to HPCL for setting up their Lube Augmentation Facilities Project at Mumbai Refinery laid down a pre-condition that "all bulk quantities of refinery requirements / products should be transported through well designed pipeline to avoid road congestion and hazards through road transportation. Similarly, the Oil Coordination Committee (OCC) while approving the project in May 1995 directed the Company that no black oil truck / wagon would be loaded at Hindustan Petroleum / Bharat Petroleum refinery terminals.

(ii) The Detailed Feasibility Report (DFR) for the project was prepared in February, 1995 which envisaged laying of a 22 km long pipeline from Mumbai Refinery of HPCL to Vashi with a design capacity of 1500 Thousand Metric Tonnes (TMT) per annum. The pipeline project was commissioned in April, 1998 at a total cost of Rs. 42.30 crore. The HPCL also incurred an operating expenditure of Rs. 80.13 lakh for maintenance and repairs, security, salaries, electricity, etc. on the said pipeline during the period from 1998-99 to 2000 -2001.

(iii) The pipeline laid down for transporting FO/LDO from black oil terminal, however, remained grossly under – utilised as more than 80 per cent of FO/LDO produced at the Mumbai Refinery of HPCL continued to be transported by rail/road tankers and the maximum utilization of the pipeline during the period from 1998-99 to 2000-2001 was only 18 percent.

(iv) The reasons attributed by the Management of HPCL for under-utilization of the pipeline include dismantling of the Administered Price Mechanism (APM) for FO by the Government in April, 1998 and hence consumers making their own arrangements for imports; the expected volume of lifting of FO/LDO by the Indian Oil Corporation Limited (IOCL) initially envisaged to be fed from the Vashi Terminal shifted to Indian Oil Tanking Limited (IOTL), a joint venture of IOCL, which was commissioned in 1997; non-transportation of FO/LDO to costal terminals and rail-fed locations as these facilities were not available at Vashi, etc.

(v) The Audit did not find the above mentioned reasons for under-utilization of the pipeline tenable while noting that the HPCL had not taken into consideration the effects of future deregulation in the oil industry and the consequent increased competition despite such knowledge being in public domain since 1995; the adverse impact of the newly set up IOTL facility for storing & distributing FO was not surprisingly considered by the Ministry of Petroleum & Natural Gas although both IOCL & HPCL function under the same Ministry; the dismal performance of the project never being discussed by the Board of Directors; the project did not envisage upliftment by rail/road at all except for local requirement of Mumbai, etc.

(vi) The under-utilization of the pipeline being used only to the extent of about 18 percent of its capacity and the continued supply of FO/LDO by rail/road tankers from the Mumbai Refinery has defeated the very objective of the construction of the pipeline and resulted in infructous expenditure of Rs. 42.30 crore besides operating expenditure of Rs. 80.13 lakh till March 2001.

3. A copy of the Audit Para as contained in the C&AG's Report is given at Appendix – I.The various acts of omission and commission revealed by the Audit have been discussed in the succeeding paragraphs.

II. OBJECTIVE OF THE MUMBAI-VASHI PIPELINE PROJECT

4. According to Audit, the 22 km long pipeline project from the Mumbai Refinery Terminal of HPCL to Vashi was executed by the HPCL to meet the pre-condition set forth by the Ministry of Environment & Forests while granting environmental clearance to the HPCL's Lube Base Oil Augmentation Project at its Mumbai Refinery. In this regard, the Committee desired to know about the basic objective sought to be achieved by commissioning the Lube Base Oil Augmentation Project at Mumbai. The HPCL in a written reply to the Committee informed that :-

"In view of high growth in demand for High Viscosity Index(HVI)based finished lube oils and drop in sales of Low Viscosity Index (LVI) based lube oils, it was felt necessary to maximize the production of HVI based lube stocks from existing refineries in the country, at the prevailing level of imported crude oil thruput. With this objective Lube Refinery Expansion –II (LRE-II) was envisaged."

"While according environmental clearance for Lube Base Oil Augmentation Project as above, MOEF stipulated certain conditions. Important among them were

All bulk quantities of liquid/liquefied gas whether raw material or products coming in or going out of the refinery should be transported by pipeline to eliminate congestion. While it is not possible to transport raw materials or products through pipeline they should be transported through rail and road. Transportation should be used only as a last resort.

Similarly, Government of Maharashtra, while according environmental clearance for the said project stipulated similar pre conditions-

For all practical purposes Chembur is a residential area and should be treated as such.

Hence the objective of laying 22 KL pipeline for transportation of Black oil from Mumbai Refinery to Vashi was to decongest Chembur area as stipulated in the above conditions."

5. Detailing genesis of the project, the CMD, HPCL, during evidence before the Committee submitted that :

"………Since this project was of less than Rs. 50 crore approval was given by the Board in 1995. The project was executed and commissioned in April, 1998, that is three years later. The genesis of the project was on account of the major project for lube-base stock augmentation. As you are all aware, the HPCL's Mumbai refinery is one of the three refineries in the country which is a lube-based stock manufacturing refinery from which the finished lubricating oil stocks is made. The expansion of the lube-base stock was taken as one project in the refinery because the growth of lube-base stock was envisaged……..."

6. On being queried by the Committee regarding fulfilment of the condition laid down by the Ministry of Environment & Forests, the representative of the HPCL during evidence stated :

"Sir, about the conditions which were set by the Ministry of Environment and Forests, ever since the Lube-base Augmentation Facilities Project was completed, and even during the construction period, every six months a report has been going to them. Till today, it has been going. Our last report was sent to the Ministry in July 2003. It is a requirement that in every six months a report has to go to the Ministry of Environment and Forests, including information about all the conditions that were read out by you.

Now, about 90 % of all the products from the refinery are being transported through pipelines. So, every six months this report has been going to the Ministry of Environment and Forests, in Delhi."

7. On being asked by the Committee as to whether the total quantity of FO/LDO is now being transported by pipeline only, the HPCL in a written reply informed the Committee that:-

"The condition stipulated by the Ministry of Environment & Forests required us to transport products by pipeline to eliminate congestion and wherever not possible to transport by rail. Road transportation was to be used as the last resort for the movements of products. HPCL has put up this pipeline to minimize road transportation. HPCL road transportation ex-Mahul Terminal, Chembur is reduced.

It may be noted that total quantity of FO/LDO has not shifted to Vashi as other oil companies have facilities within Mumbai and customers and their transporters find it convenient to meet the demand at a short notice as there are more than one supplier (BPC/IOC) available within Mumbai whereas at Vashi only HPCL is available. Therefore, transporter can optimally utilise his trucks to meet his customers' requirement based on priority. The customers are shared customers of Oil companies."

In this regard, the CMD, HPCL during evidence submitted that :-

"From the refinery terminals, HPCL is not doing any black oil truck loading except in the case of those companies, who are our neighbours or located in the adjoining areas. For example, RCF is just adjoining the HPCL. So, just for adjoining plant, neighbouring plant, which is just across the road or just by the side of it, we do not want to take it to Vashi and bring it inside. Other than that, HPCL is not doing that. BPCL is still doing a little bit from the refinery, but HPCL has definitely reduced and, last year, only 44TMT was from the HPCL refinery terminals. That condition largely has been satisfied except in the case of those companies which are within the local area."

8. On the question of decongestion of the Chembur area which was the main objective of laying the pipeline, the HPCL in their written reply stated :

"The objective of setting up lube base stock augmentation is achieved and to comply with condition to reduce traffic congestion black oil pipeline is laid. It has helped in reduction of traffic congestion. Therefore, it justifies expenditure of Rs. 42.30 crore."

9. When enquired about the agency which was engaged to ensure compliance with the directions of Ministry of Environment and Forests regarding control in environmental pollution, the Company in a written reply stated as follows:-

> "We had engaged the service of the reputed agency in the field of environmental study M/s. NEERI, Nagpur to prepare the environmental impact assessment report for LRE-II Project. The compliance to environmental pollution is an ongoing activity to monitor various parameters and is done in house."

10. The Audit has pointed out that the pipeline laid down for transporting Furnace Oil(FO) and Light Diesel Oil (LDO) from black oil terminal, remained grossly under-utilised, as more than 80 per cent of FO/LDO produced at Mumbai Refinery continued to be transported by rail and road tankers resulting in the maximum utilization of black oil pipeline only upto 18 per cent. On being asked by the Committee about the reasons for continuing with transportation of FO/LDO produced at Mumbai Refinery by rail/road tankers after commissioning of the pipeline, the HPCL in a written reply to the Committee informed :

> "There is no advantage of sending the products FO/LDO to upcountry locations/customers ex-Vashi by Rail as against shipment from ex-Mahul.
> As regards roads we are encouraging customers to uplift products from Vashi. Road movement ex-Mahul Terminal has considerably reduced as can be seen from the data hereunder :-

<u>Movement Ex-Mahul only road movement by trucks</u>

YEAR	**TOTAL BLACK OIL**		
	Fig in TMT	Fig in TKL	Truck mov per annum (Nos.)
1998-99	202	223	18553
1999-00	118	129	10781
2000-01	87	96	7967
2001-02	76	84	7002
2002-03	44	48	4021

All figs in TMT

Distribution of FO/LDO Ex-HPC Mumbai Refinery for 2002-03

	FO/LDO
PRODUCTION-HPC MR	**1329**

EX-MAHUL BY ROAD	44
EX- MAHUL BY RAIL	109
EX-SEWRI BY ROAD	344
EX-VASHI BY ROAD	282
COASTAL PULL OUT FOR HPC REQUIREMENT AT OTHER LOCATIONS	266
TO IOC/BPC SEWRI BY PIPELINE	284
TOTAL DISTRIBUTION	**1329**
HPC SALES FOR MUMBAI CITY	66

From the above tables it can be seen that road movement Ex-Mahul terminal, Chembur, has reduced considerably.

………The reduced road movement has helped us in decongestion of the roads and resultant reduction in pollution; therefore we are of the firm view that the environment concern, the objective of pipeline is not defeated.”

11. In response to the query of the Committee as to whether the Company has prepared any scheme jointly with RCF, TEC and BPCL to minimize transportation by road and rail before undertaking construction of the pipeline, the HPCL in their written reply stated that :-

“As per approval from the Environment Deptt, Government of Maharastra, it was stipulated that HPCL, BPCL, RCF and TEC should prepare a scheme to minimize transport pressure on road and rail. In this context, laying of Mumbai – Manmad pipeline (by BPCL) has contributed significantly to the reduction in road and rail traffic as required by the Environment Department. HPCL also contributed in a major way by laying a 17 kms Lube Base Oil Pipeline from Lube Refinery to Marketing Installation thus eliminating total road movement of Lube Base oils.”

12. In this regard, the CMD, HPCL while deposing before the Committee, submitted that :-

“………When the approval for the lube-base stock augmentation facilities was being given by the Environment Ministry, one of the conditions they had given was regarding minimizing lorry movement and giving maximum through pipeline. In view of the excessive traffic conditions in Chembur area, especially where there are two refineries located and apart from the two refineries there are other industries like Oswal, the Tata Power and Atomic Energy which all have one access road , actually which is the corridor road and hence a lot of lorry movement used to be there from the two refineries which is to do a lot of congestion on the Chembur area. Many times it used to be difficult to even approach the refinery.

There was a thinking that in case of a major event or a major disaster or something like this, especially the two refinery areas may become very difficult to handle in a major catastrophe and even to evacuate people, to get help will be a difficult thing. So, quite rightfully, I think the Ministry of Environment and the State authorities both had given as one of the conditions while granting environmental approval that the lorry movement from this area should be minimised; in that they had also mentioned that other agencies like BPCL and RCF and Tata Electric should also jointly try to work out a scheme to minimise the pressure on the road network in this area. A lot of product already was moving by pipeline from the refinery area. One product which was not having a direct pipeline connection other than to Sewri area was the black oil pipeline and in those days what was felt was that if this black oil can be moved outside the Mumbai municipal limits, that would ease the traffic in not only Chembur but also the traffic emanating from Mumbai. With that objective the pipeline was conceived to take it to Vashi which is outside the Mumbai limits. That was completed in 1998.

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One of the major objectives of this pipeline was to get the Chembur refinery approach area decongested. In that respect, I think, this project has fulfilled its requirements to a major extent, and we brought down our total transportation from the Chembur area to a significant degree. We have got the figures in the audit note, which is saying that 80 per cent of the product is still transported by road, but in this business of furnace oil, we do not deliver the product to the customers' doorstep. We deliver it to a terminal from where it is taken by road. So, even if it is taken to Vashi, it is taken by road from there. If it is even to Sewri, it is taken by road from there.

We are also sending some product to our long distance customers in Mathura etc. by rail"

13. Regarding the role which could be played /would have been played by the Ministry of Petroleum & Natural Gas towards decongestion of the Chembur area, the Secretary of the Ministry during evidence before the Committee submitted:-

"……But broadly, as a Ministry, we are going to insist to BPCL that they must not, till the decision is made, move products from Chembur area by road. Whatever happens, they should move over from there. They should either go through Vashi or they should go by ocean tankers. But by roads, such movements should be avoided so that the area which is a residential area becomes clean. That is one of the things we were planning to do. In the process we had hoped that the utilisation of the pipeline would improve"

III. UNDER-UTILIZATION OF THE PIPELINE

14. As per the Audit Report, the Management has admitted in January 2002 that the projected thruput of FO ex-Vashi Terminal could not be achieved and attributed the following reasons for low utilization of the pipeline:

(i) Dismantling of Administered Price Mechanism (APM) for FO by Government in April 1998 and hence consumers made their own arrangement by imports;

(ii) The expected volume of lifting by Indian Oil Corporation Limited to be fed from Vashi terminal shifted to Indian Oil Tanking Limited (IOTL), a joint venture of IOCL, which came up with a large terminal in 1997;

(iii) FO/LDO could not be transported to coastal terminals and rail-fed locations as these facilities were not available at Vashi and therefore, supplies by ocean tankers and rail were made ex-Mahul only; and

(iv) Sale of FO/LDO during the period 1998-2001 contributed a gross margin of Rs. 50 crore to the Company."

15. Elaborating further, the HPCL, in their written reply to the Committee, informed that:-

"The actual thruput of the pipeline from 1998-99 to 2001-2002 vis-à-vis the estimated thruput during the year 1998-99 (as per project report) are given below :-

Year	1998-99	1999-00	2000-01	2001-02	2002-03
Actual thruput	98.21	156.71	225.21	228.94	282.80
% of estimated thruput	9.82	15.67	22.52	22.90	28.28

It may be noted that the percentage utilisation of the pipeline should be computed with reference to the estimated thruput of 1 MMT, and not with reference to the designed capacity of 1.5 MMT, since the actual thruput has to be compared with the estimated thruput. The actual thruput during the said period was only for HPCL products.

It may also be noted that dismantling of APM for black oils in April 1998 has also resulted in the reduced thruput at the upcountry locations, which were earlier fed by tank lorries, since the customers started uplifting the products from the loading base, which is most convenient for them. This also has contributed for not achieving the estimated thruput of the pipeline.

In addition, with the dismantling of APM in 1998 for FO/LDO/Naphtha/LSHS, etc. has also brought in free imports by consumers and traders. This has resulted in a substantial loss of volume, which also contributed for reduction of thruput of the black oil pipeline.

In view of basic changes that took place in marketing of non-APM products, each oil company is sourcing its sales to the extent possible from its own/affiliated refineries, which is for maximizing the utilisation of its respective infrastructure and profits. This necessitated movement of FO/LDO from refineries based in Mumbai to other coastal locations of the respective companies, which also contributed for not achieving the projected thruput of the pipeline.

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The impact of dismantling of APM was immediately felt in sourcing and pricing of the products. Each oil company started giving preference for moving of non APM products from their own/affiliated refineries. All the members of oil industry are supplying the non APM products from their own installation for optimizing the infrastructure. Therefore, other members of the industry namely IOC, BPC and IBP have been dispatching their products from their existing installations in Mumbai and have not participated in moving the products to Vashi through the blackoil pipeline as was contemplated in the project report.

Thus under utilisation of pipeline has been mainly on account of non-participation of other industry members, dismantling of APM and certain consumers/traders have started procuring products through imports and such external factors are beyond our control."

Commenting on the issue, the Ministry of Petroleum & Natural Gas has stated:

"Upto March 1998, the oil industry was under Administered Pricing Mechanism and the Oil Coordination Committee coordinated industry logistics and product movements. Effective 1st April 1998, all products except petrol, diesel, LPG Kerosene and ATF were decontrolled. Thus, effective 1st April 1998, the logistic planning for furnace oil and LDO was done by the oil companies themselves. The oil companies were expected to take individual decisions on product supply and movement depending on the decisions on product supply and movement depending on the companies' market conditions, demand-supply scenario, optimal utilization of their own infrastructure including refining and marketing facilities, smooth supply to their customers etc. It may be noticed that when a sector moves from a regulated era to a free market scenario, changes in market dynamics and conflict in business interests of different companies may result in under-utilization of infrastructure planned in the regulated era.

In the above backdrop, the under-utilization of this pipeline of HPCL is essentially on account of the following factors:

(i) Indian Oil Tanking Limited (IOTL), a joint venture of IOC, commissioned their product storage tankages in Mumbai in October 1998. These tankages provided for storage of furnace oil and LDO amongst other products. IOC moved furnace oil from its Koyali refinery to these tankages to address the containment problem of this product at their refinery and also moved coastally furnace oil from MRPL to these tankages so as to improve their capacity utilization. Thus, the furnace oil was fed from these tankages to some of the customers in Vashi area who were originally supposed to be fed HPCL product through their Mumbai-Vashi pipeline.

(ii) For moving products outside the Greater Mumbai area, the customers preferred supply of furnace oil and LDO ex-Sewri instead of ex-Vashi.

(iii) The demand profile of black oils in Maharashtra also underwent a change. For the period 1997-98 to 2001-02, the demand generally fell as shown below:

Figures in TMT

Maharashtra	97-98	98-99	1999-2000	2000-01	2001-02	2002-03
Furnace Oil	1457	1346	1284	1160	1263	1193
LDO	319	298	337	329	258	283
Total	1776	1644	1621	1489	1521	1476

It may be noted that the DFR of the pipeline was prepared by HPCL on the basis of the demand during 1992-93. As per this, 0.86 MMT of furnace oil and LDO were available for moving out of Greater Mumbai area during 1992-93 through the proposed pipeline. Considering this and projected growth in future, it was decided to lay a pipeline of 1.5 MMT capacity, with utilization of 1.0 MMT during 1998-99. The following table illustrates the fact that had the pipeline been designed for a lower capacity, there would not have been much savings.

Pipeline Size	**12” (1.5 MMTPA)**	**10” (0.75 MMTPA)**	**8” (0.5 MMTPA)**
Pipeline Cost 1994 Prices) (Rs. in Crore)	42.3	40.93	39.83
% of Cost of 1.5 MMTPA (12”) Pipeline	100%	97%	94%

Further, keeping in view high viscosity of furnace oil, it is not technically desirable to have a small size pipeline.”

16. On being asked by the Committee as to whether the Company had not taken into account the effects of future deregulation in the Oil Industry and the consequent increased competition despite such knowledge being in the public domain since 1995, the HPCL in their written reply, submitted that :

“The project was envisaged, approved and executed when Administered Pricing Mechanism for petroleum products was in place. Though Government of India contemplated restructuring of oil industry around 1995, the actual details of the phased dismantling of the APM were announced by the Government only in November 1997. Till the resolution was notified in the gazette, the details of the dismantling process were not known and hence could not be taken into account for reviewing the economics of the project. It may also please be noted that the black oil pipeline was in the advanced stage of execution by the time the details of dismantling of APM were known."

17. The Committee desired the HPCL to elaborate the statement "The Consumers have made their own arrangement by imports" as contained in the Audit para. The HPCL stated in a written reply that :

"A consumer is free to import FO and HPCL has no control over it. When a consumer imports FO its upliftment from HPCL gets reduced to that extent and hence pipeline utilisation also gets reduced. Whenever the consumers have made their own imports, the transportation arrangements have also been arranged by them and HPCL have never made any product movement arrangement for such imports."

18. On being asked by the Committee as to why the consumers were not advised to lift oil at Vashi instead of lifting it from Mumbai Terminal, the HPCL stated that :-

"While consumers are encouraged to uplift the product ex-Vashi, however with dismantling of APM, consumers were free to uplift product from any supplier/source and hence based on consumer convenience in logistics, availability of transporters, etc. the consumer is free to decide the supply point."

19. On the question as to whether there was any mutual agreement between HPCL and IOCL regarding feeding from the Vashi Terminal of the pipeline, the HPCL in a written reply to the Committee stated :-

"With the announcement of dismantling of APM, in November 1977, for Black Oil, effective 1st April 1998, the market of black oil became highly competitive and oil companies took decisions based on market competitiveness hence there was no mutual agreement therefore no resultant compensation."

In this connection, the CMD , HPCL, during evidence stated:

"When it was conceived this industry was under APM regime, i.e. administered price mechanism regime. In those days all the facilities were normally considered as Industry facilities. So, it was envisaged that it would be used for the products of BPCL and HPCL refineries and it will carry black oil; that means furnace oil and LDO to Vashi from these two refineries predominantly and deliver to the customers from there except for the local demand of Mumbai which will be taken from Sewri itself.

………The other major change which took place was that APM was being dismantled. I think in late 1997 the Government informed of its intention to first deregulate the refining sector, take it out of the APM regime and then gradually do it in the marketing. So, the refineries were taken out of APM regime and except for five products which were called controlled products – which were LPG, kerosene, motor spirit, diesel and ATF, the other products become of de-controlled products.

Now, the difference between controlled products and decontrolled products was that in the controlled products, the allocation of customers, how much is to move, from which refinery, the pricing, in fact more or less every decision was taken on a centralised basis; whereas in a decontrolled product the decision about pricing, the decision about where to move the product or which customer should get that, all was left to the company. Once it is left to the company, then each company has to fend for itself to find a customer for these products. The alternative is that in case you are not able to find a customer for your products, the refinery could either consider reducing its production or it could consider exporting the product or reducing the production of that particular product if it can reduce that the number of options were not very large and normally if you reduce the refinery thruput, you will not only reduce the production of the product which is under question like furnace oil, you would also end up most likely to reduce the other products also."

So, the normal requirement for refineries was to maximise their capacity utilisation of the refinery and, therefore, it became necessary for oil companies to find a product for their customers on their own and the working changed from a centralised planning to product disposal for decontrolled product from the Company. But each company was looking after its own requirements making sure that the product continuously moves. In case the product does not move, the storage in the refineries is limited to a few days, may be 10 to 15 days and beyond that you cannot store the product. So, you have to reduce the crude thruput . This is not a desirable thing for the refinery.

With this objective each company felt that they should have their own facility of their own control for the distribution of its products instead of depending on somebody else's facility and asking your customer to go to somebody else's terminal or facility to take the product. Each company's endeavour was to have its own control where a customer can come to its own plants and there is a better liaison with the customer and the customer gets protected from the competition. Otherwise there was a likelihood that the competitor may take away the customer."

20. Regarding the impact of dismantling of the APM regime resulting in the BPCL not joining the pipeline project as was initially envisaged, the CMD, HPCL during evidence stated that :-

……..Mumbai-Vashi pipeline was designed during APM regime considering that products from both HPCL and BPCL Refineries will be transported through this pipeline. However, because of the deregulated scenario BPCL did not participate in the pipeline as, they wanted to have their own facility. If they were to join in the

APM regime, the reimbursement would have been from the pool account. But if they were to join now, they would have to pay transportation charges to HPCL in the pipeline, terminal charges and all that. So, the economics of the whole thing has changed from just using a pipeline to using it as a facility for facilitating the refinery's utilisation and overall corporate economics.

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We do not blame BPCL for not coming into it because we are not going to pay them for coming into it. Neither are they going to incur additional expenditure because the market is very competitive and they cannot have a higher expenditure and then, give the same price to the customer. So, they are continuing with Sewri facility at the moment and we are continuing with our Vashi and Sewri facilities. I think, we have got an advantage and we do need to have this pipeline because otherwise, our production of furnace oil, which is the highest in the Mumbai area, would find only one outlet which is in Sewri.

21. On this issue, the Secretary, Ministry of Petroleum & Natural Gas during the evidence stated :-

"At that time, when they had constructed the pipeline, it was the administered pricing regime, and we had hoped that the BPCL, HPCL and others would join. Broadly, the demand in Maharashtra at that time was somewhere around 1.3, 1.4 million tonnes for these two products. Within Mumbai area, it was somewhere 0.45, 0.50 million tonnes. It was around 0.8, 0.9 million tonnes outside Mumbai area, I mean, in the Greater Mumbai. It was hoped that the rest of the demand then would be taken from the Vashi terminal where the pipeline was going.

Subsequently, the oil companies, after the dismantling of the administered pricing regime, looked much more to the economics of their operations. It required the evacuation of the furnace oil and light diesel oil quickly, because in case, they did not do that, then the refinery could not run because they did not have that much capacity in the tankages to keep this. Therefore, for them, the most important thing was to evacuate all these products in the fastest possible manner.

Secondly, we had hoped that in the rest of Maharashtra, preferably supplies would take place from Vashi terminal. BPCL did not find it profitable because of the customers. Customers found Sewri as a good point because there, they had the IOC terminals, they had the BPCL terminals and they had the HPCL terminals. Therefore, they preferred to take from there. With the result, from HPCL refinery, Chembur area, there was certainly decline in the road movement. A lot of road movement started taking place from Sewri. Product movement from Refinery to Sewri is through 7.5 Km long pipeline. From these movement takes place to Gujarat and Northern Maharashtra.

In addition, the Indian Oil Corporation formed a company Indian Oil Tanking Limited. It has the business of setting up of tanks. It set up around 235 thousand Kilo Liters KL of tanks. They set up a large number of tanks. Now, of that, a couple of tanks were used for furnace oil and diesel oil. With capacity around 35 TKL.

Thus, around 14 per cent capacity was used for this purpose. Rest of the capacity was used for other liquid items. Some was used by ONGC for storing their oil products. Some was used by other companies for their products.

** ** **

Secondly, the customers preferred the Sewri terminal for the simple reason that Vashi terminal was outside Greater Mumbai area. So, they felt that in case they take it from Sewri area, then they would not have to pay any octroi. If for some reasons, some product is taken from Vashi terminal, and they feel that it needs to go to Greater Mumbai, they would have to pay octroi. So, they said that it is safe if Sewri has all the facilities, all the tankages. Therefore, they preferred over there."

22. On the issue of IOTL project of the IOCL which was also slated to have contributed towards the under-utilization of the HPCL pipeline, the Committee desired to know as to when the IOTL project was cleared and whether the IOCL had informed or gave any advance notice to HPCL before shifting to IOTL in 1997 or whether the Ministry of Petroleum & Natural Gas was aware of the IOTL project.

On this issue, the HPCL in a written reply stated that :

"IOTL was a joint venture of IOC and IBP and Oil Tanking, Gmbh. It is an independent commercial project executed by a separate company hence we were not aware of the project details.

Replying to the issue, the Ministry of Petroleum & Natural Gas has stated as under:-

" Indian Oil Tanking Ltd. (IOTL) is a Joint Venture between Oil Tanking Gmbh, Germany and Indian Oil Corporation Ltd. Secretary of Industrial Assistance gave Foreign Investment Promotion Board clearance on 16-09-95 and Ministry of Petroleum & Natural Gas cleared the formation of joint venture on 07-05-96. Construction of IOTL terminal commenced in October 1997 and the terminal was commissioned in October 1998. IOTL has set up petroleum storage and handling terminal at Navgarh with the objective to receive, store and dispatch petroleum products through different modes for any oil company on commercial terms. The total project cost of the terminal was Rs. 260 crores. Total tankage capacity of 235 TKL has been leased by IOTL to ONGC, IOC and private companies for storage of various products like naphtha, diesel kerosene, furnace oil, etc. Out of the capacity of 235 TKL, tankage leased to IOC for furnace oil is 35 TKL.

The Ministry was aware of the IOTL project."

During evidence, to the query of the Committee as to why the Ministry of Petroleum & Natural Gas did not take notice of the HPCL pipeline project while granting approval to the IOTL project of IOCL, the Secretary, Ministry of Petroleum & Natural Gas submitted that :-

> "As far as IOTL is concerned, it was very much in the knowledge of the Ministry. It is because the Ministry approved it. But it was a joint venture. In this joint venture, as you will see, they had a large number of tanks. Tanks leased to IOC for Furnace Oil are not even fifteen per cent of the total tanks, which are being used for this purpose. That was the major project, which they did with the German Company for setting up oil tankages over there so that they could be used for any liquid cargo. If it were a liquid cargo, they would utilise that opportunity. One could not really see the coordination and the competition in that sector, which had an overall impact on all liquid fuels."

23 Elaborating the impact of the IOTL project on the utilization of the pipeline project of HPCL, the CMD, HPCL, during evidence before the Committee stated that:-

> "The other major thing which has happened is that a joint sector tanking facility, IOTL, got set up in Uran area. They set up a tankage facility which not only had furnace oil but also other products. They were also importing on behalf of other private parties. They were importing for IOC also. This is incidently a joint venture between IOC and a Germany party and they have got a tankage project for handling this product. They import their product and many of the customers from that side of Maharashtra, which is towards Vashi and outside the municipal limits, take products either from us or from IOTL. Our experience also has been that when for a day or two we have had some difficulty in dispatching product from our facility, the customers have not gone to Sewri, but they have gone to IOTL to take the product. This means that they prefer to stay on this side of Mumbai and not enter into Mumbai because entering might also require spending more time coming into the crowded area and going out from the crowded area. So, there are people who prefer to be in Vashi area and we are getting a good business from that side."

24 On being asked by the Committee as to why no modification was undertaken by the HPCL in their pipeline project after it became aware of the IOTL project, the CMD, HPCL responded that:-

> "Sir, the IOTL project, though it was started in 1997, yet it got completed in 1998. It was really outside HPCL's own area. I mean, there was no connection with HPCL with regard to that project at that stage. Secondly, our pipeline was in an advanced stage. I think, with dismantling of APM, imports of Black Oil were made free and people were free to put up their own facilities and market their products. We also have a refinery, but we cannot really keep on objecting on people putting up any plant or facility just because we have a facility. They are also free to put up a plant or facility. Sir, in this age of competition, we feel that we will be able to meet the competition, only it we have adequate facility available to us"

IV. COMMERCIAL VIABILITY OF THE PIPELINE PROJECT.

25. As per the Audit Report, the management of HPCL has attributed the sale of FO/LDO during the period 1998-2001 which contributed a gross margin of Rs. 50.00 crore to the company as one of the reasons for low utilization of the pipeline. In this regard, the Audit has pointed out that the reported gross earning of Rs. 50.00 crore for FO & LDO was not due to better utilization of the pipeline but due to higher gross margin subsequent to decontrol of these products effective April,1998.

26. In this regard, the HPCL was asked to justify the expenditure of Rs. 42.30 crore incurred on the project besides operating expenses of Rs. 80.13 lakh till March, 2001, which according to Audit has become infrauctuous on account of under-utilization of the pipeline. The HPCL in their written reply, submitted that :-

> "We have complied with the condition of environmental clearance given for Lube Base Oil Augmentation Project, achieving reduced road transportation/decongestion of traffic.
>
> On the basis of the gross margin available on FO/LDO, the approx. realisation from the sale of FO/LDO during the period 1998-2001 has approx. Rs. 50 crore against an investment of Rs. 42.30 crore on this pipeline. This is in addition to the notional benefit accrued due to fuel conservation as well as protection from environmental pollution.
>
> We firmly believe this expenditure of Rs. 42.30 crore is not infructuous and this pipeline is an advantage to us in deregulated scenario."

27. On the same issue, the Ministry of Petroleum & Natural Gas in a written reply to the Committee stated :--

> "It may be noted that, post APM, having a black oil terminal outside Mumbai Municipal limits connected via pipeline from its refinery gives HPCL additional advantage in the prevailing competitive environment. Through this pipeline, HPCL is in a position to make its product available at its Vashi terminal, outside the congested Mumbai municipal area, which is likely to get further congested in future, thereby facilitating easier upliftment

of products by consumers from this location. It may be seen that due to the accruing advantages the thruput of the pipeline, which comprises of only HPCL's own sales, has increased from 98 TMT in 1998-99 to 283 TMT in 2002-03, making HPCL earn a gross margin of Rs. 50 crore during the period 1998-2001."

28. Elaborating this issue further, the CMD, HPCL during evidence before the Committee stated that:

"With that in the background, since HPCL had also commissioned its Vashi plant, we did get an advantage from Vashi plant, but not in terms of utilisation of the pipeline. Since we had a facility in the Vashi area, we got those customers, who otherwise would have left with no option but to come into Mumbai to take it from Sewri plant causing inconvenience for them. They preferred to take it from Vashi area and we tried to convince customers to come into this area. That is why, you may notice that the figure of total sales from Vashi area has been increasing year after year though it is still fairly low compared to the originally envisaged figure of one million tonne. We would have achieved it had the oil industry jointly shifted its facilities to Vashi. Due to change from regulated to deregulated regime, each company has been fending for its own self and each company has its own facility. Therefore, Vashi facility cater only to the HPCL customers and it is still doing that.

One of the things that it has given to us is a kind of advantage in terms of having another facility for dispatch. This can also be seen in the fact that over the past two years, that is, 2001-02 and 2002-03, our figures of growth are the highest in Maharashtra area compared to other two major suppliers in this area. So, that is one of the reasons that we are continuing that."

CMD, HPCL further added :-

"We feel that if Indian Oil Tanking Limited (IOTL) alone is to function there, and if we did not have a Vashi facility, then perhaps IOTL would have been able to get more business and we would lose business. So, to that extent, we feel -- even if we assume -- that if we have 50 per cent additional business of what we were doing, then we have got a fairly reasonable return in this pipeline project.

There is no denying the fact that 0.28 million or 0.3 million is the figure of utilisation, against that of 1 million targeted. But, overall, with regard to that project we feel that we made good contribution in reducing road traffic between Mumbai Refinery and Vashi, which was one of the objectives of this pipeline.

29 On being asked by the Committee as to what would have been the impact on the sale of FO/LDO by HPCL had it not been for the pipeline, the CMD, HPCL during evidence submitted that:-

> "It is difficult for me to say with exactness because that is only saying that if it is not there, what would have happened. But I can make a guess that if we are selling 0.28 million tonnes from this terminal today, we can assume we may not have sold half of it. We would not have found a market for that product, which means I would not have been able to sell 0.14 million tonnes."

30. During the deposition before the Committee, the Secretary, Ministry of Petroleum & Natural Gas while discussing this issue, submitted that:-

> It is really not a loss at all in the sense that these are pipelines. Now, the customer has to take it from somewhere to an extent the HPCL had to protect their market share. In fact, initially when I had discussions with the Chairman of HPCL, he mentioned to me that this was the thing, which he would like to protect. When I talked to other Chairmen, all of them had mentioned that they would like to protect their shares. It is because otherwise, others will be able to compete, and will sell their products with them. All of them like to protect their shares. That is one of the things. If you take overall things, which we have mentioned in our detailed reply, submitted to the Committee, you will find that on a gross basis, or even on a net market basis, the oil company has made profits. Of course even if the pipelines were not there, it can be argued that they might have sold this product even otherwise. But it is difficult to say as to whether they could have saved this share. It is because this is an additional facility to the Vashi area. From the Vashi area, sales have certainly gone up."

31. While justifying the investment of Rs. 42.30 crore by the HPCL on their pipeline project, the Secretary, Ministry of Petroleum & Natural Gas during evidence before the Committee stated that:

> "We have checked up with them about the exact break-even point up to which they would be able to make profits. I think up to 50 per cent figure of capacity utilization of pipeline which I have got, they are OK. As of now, they have said that they would be able to get their entire money back in three years. But if you take their net margin - if you deduct all the depreciation and all other money – that means in three years at 50 per cent capacity they will earn Rs. 17 crore. So, in four or five years, they would be able to recover the cost of this pipeline. Pipeline is a highly profitable proposition today."

32. With regard to the operative cost of Rs. 80.13 lakh incurred by the HPCL till March, 2001 towards operating the pipeline project, the Secretary, Ministry of Petroleum & Natural Gas during evidence stated:

> "Rupees eighty lakh in three years means, in one year the cost is around Rs. 27 lakh. So, the cost of transportation by pipeline is very low, and after some time it gets

depreciated. So, the cost is practically zero for the company. Therefore, people prefer to have pipelines in the hope that ultimately this would be utilised. After some time you will find that this has become the most profitable pipeline for the simple reason that the depreciation value will be zero. They will have to spend only Rs. 27 lakh on the transportation, and they will make a lot of money on this."

33. When asked whether the performance of the project since commissioning in April, 1998 was ever evaluated by the Board or Directors of the Company, the Company in a written reply stated :-

Performance of the project was evaluated on periodical basis. However, due to external factors beyond our control, it has not been possible to increase the thruput of the pipeline. However, after deregulation of FO/LDO etc. this pipeline plays a vital strategic role for retaining sales volume/market share of HPCL, view preference of consumers to uplift product from Vashi Terminal."

V. REMEDIAL MEASURES FOR IMPROVING UNDER-UTILIZATION OF THE PIPELINE PROJECT.

34. The Committee also desired to know about the remedial steps which could be taken in the matter to ensure proper utilization of the pipeline. The HPCL in their written reply to the Committee, submitted that :-

"The basic objective of the pipeline to decongest Chembur area of Mumbai City and reduction of pollution due to traffic movements have been achieved to a large extent.

We are making all efforts to enhance the capacity utilisation of the Black Oil Pipeline and since inception volumes have shown an increase as shown in the table produced below:

Year	**1998-99**	**1999-00**	**2000-01**	**2001-02**	**2002-03**
Actual thruput (TMT)	98.21	156.71	225.21	228.94	282.80

If the Government of Maharashtra makes it mandatory through a statutory order, in public interest for reduction in pollution level and decongestion of city traffic, that no FO/LDO loading will be allowed within the municipal limits of Mumbai for consumers located outside the municipal limits of Mumbai, by any supplier including IOC, HPC, BPC and private companies/traders than the utilisation of the black oil pipeline will improve."

35. The Ministry of Petroleum & Natural Gas in their written reply on this issue, submitted that :-

> "In a deregulated scenario, the market forces would ensure that the investment made by the oil companies in pipeline infrastructure is on commercial considerations.
>
> The Government has notified guidelines on 20th November 2002 for laying petroleum product pipelines post APM. The guidelines facilitate laying of optimal size pipelines by proposer company taking into account the interest of other interested companies. As per these guidelines, the proposal for laying common usage pipeline would be publicized seeking expression of interest from any company interested in taking any capacity in the proposed pipeline by entering into "take or pay" or any other mutually agreeable contract with the proposer company. The proposer company would finalize the pipeline size and design after taking into the considerations all such requests. These guidelines will remain in force till the proposed Petroleum Regulatory Board is constituted. After the constitution of this Board, the right of users in land for laying petroleum product pipelines will be granted by the Ministry subject to fulfilment of requirements under the Petroleum Regulatory Law.
>
> In the instant case of HPCL's Mumbai-Vashi Pipeline for black products, while, the project was conceptualized and construction commenced during the period when furnace oil and LDO were under Administered Pricing Mechanism (APM), the commissioning of project took place after 01-04-1998 when these products had been taken out of APM. Thus, the usage of this pipeline by BPCL and IOC, which was envisaged at conceptualization stage, could not materialize because of deregulation. "

36. During evidence before the Committee, the CMD, HPCL, informed the Committee that all efforts were being made to get as many customers as possible transferred to the Vashi area. Supplementing this, the Executive Director (Direct Sales) of HPCL submitted that :-

> "In today's competitive environment, we have faced certain difficulties. Initially the customers were reluctant to go to any of the installations there. So, we had done a lot of activities here over the last two-three years. To start with, we tried to bring the customers to Vashi. We had customers meet there. We tried to educate them about the benefits that they could get out of the Vashi facility. Because of that, we have got some major customers reaching that place today. In fact, we have been debating these issues earlier also. Now we want to talk to our Sewri customers and also to the industry-members like BPCL. We will put it forward to them as to why cannot they shift to this place because this results in national savings. We have already started taking these efforts. We are hopeful that within one or two years, we will definitely be able to touch at least 0.5 to 0.6 million tonnes. In fact, I discussed this with my

C&MD also and he said that we should write official letters to our partners in the oil industry and try to convince them that they should also participate here so that it does not lead to wastage for the nation. Definitely, we would like to take all these actions and see that we increase the utility of this."

The CMD, HPCL added that:-

"I would like to add that initially when deregulation took place, there was a kind of situation with every company going into their own very closed shell style of marketing. I think, over a period of time, people did realise that there is merit in trying to have a give-and-take policy so that it can be a win-win situation for all companies. I personally am very keen to discuss this issue with BPCL, and perhaps with IOC, to try and develop a plan which can be a win-win plan for both of us. In this connection, I have asked our Executive Director to try and work out internally first whether a plan can be developed which will be a win-win plan. Then, we would write formally to BPCL to invite them to participate in this discussion and see if we can remove some of the fears, which may be imaginary or otherwise, of not getting material or not getting customers. I would like to work with the other companies and try and develop a plan so that we can make full utilisation. If we can gain and they can gain, I am sure it can be worked out that way. If we want to gain only at their expense, of course, there would be a problem. When we talked to BPCL saying that they could send their product through this pipeline and they could use my terminal, the immediate answer was that they would use it if we give it to them free-of-cost. But, if I give it to him free-of-cost, I am incurring a cost on it. That issue is still there."

37. In this connection, the Secretary, Ministry of Petroleum & Natural Gas during evidence submitted that :-

"I had talked to the Chairman, HPCL about its utilization. He has assured me that they would have a dialogue with BPCL. It is because, we noticed that BPCL is still making movement of products by road from their own refinery. So, they are going to have a dialogue with them and work out how much products they can move from this pipeline."

PART - B

CONCLUSIONS / RECOMMENDATIONS OF THE COMMITTEE

I. FULFILMENT OF PRE-CONDITION LAID DOWN BY THE MINISTRY OF EVIRONMENT AND FORESTS

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

2. While considering this issue as to whether the purpose of laying the pipeline has been achieved, the Committee note that after laying of the pipeline in April, 1998, there has been some gradual reduction in the volume of black oil

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

3. The Committee desire that the Ministry of Environment & Forests should keep a strict vigil by conducting surprise on-the-spot visits to check compliance of their directions on decongestion and also the verification of the compliance reports being sent to them by the HPCL. The Ministry of Environment & Forests

should also issue appropriate directions to the other industries operating in the Chembur residential area to take appropriate steps to minimize the road traffic in the Chembur residential area and constantly monitor the action taken in this regard.

II. DECONGESTION OF CHEMBUR AREA – SUPPLY OF FO/LDO WITHIN THE MUNICIPAL LIMITS OF MUMBAI.

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

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

evacuation of any oil by road transport from any of the refineries located in the Chembur area for supply to customers who are located outside Mumbai municipal limits.

6. Towards this end, the Committee desire that for achieving reduction in pollution level and decongestion of city traffic, the Central Government may issue appropriate directions to the Ministry of Environment and Forests / State Government of Maharashtra to make it mandatory through a statutory order issued in public interest to the effect that no FO/LDO loading will be allowed within the Municipal limits of Mumbai for consumers located outside the Municipal limits of Mumbai, by any supplier including IOCL, HPCL, BPCL and private companies / traders.

III. UNDER-UTILIZATION OF THE PIPELINE PROJECT

7. As regards the commercial viability of the pipeline project, the Committee observe that there has been the under-utilization of the pipeline. The Committee note that the pipeline project commissioned at a cost of Rs. 42.30 crore has a designed capacity of 1.5 Million Metric Tonnes (MMT) with the estimated thruput of 1 MMT. As per the data furnished by the HPCL regarding percentage utilization of the pipeline capacity in terms of its estimate thruput of 1 MMT, the Committee note that it was 9.82% in 1998-99 and has gradually increased to 28.28% in the year 2002-2003. It is, therefore, evident to the Committee that after commissioning of the pipeline project in April, 1998, the pipeline has remained grossly under-utilised. The various reasons which have come to the notice of the Committee for under utilization of the pipeline mainly include the following:-

(i) Dismantling of Administered Price Mechanism(APM)

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

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

(ii) IOTL project of IOCL

10. Another factor, which the Committee note as responsible for under-utilization of the pipeline is the commissioning of Indian Oil Tanking Ltd. (IOTL) project at Mumbai in 1998. The storage tankages built under the project at Mumbai provide for storage of FO/LDO amongst other products. As a result of this IOTL project, the FO/LDO is being fed from these tankages to some of the customers in Vashi area who were originally supposed to be fed through the HPCL pipeline terminal. In this regard, the Committee feel that the Ministry of Petroleum and Natural Gas while clearing the IOTL project in 1996 did not take any cognizance of the HPCL pipeline project which was already under

construction since 1995. As a result of simultaneous commissioning of the IOTL project with the pipeline project in 1998, the utilization of the HPCL pipeline project has been adversely affected. The Committee cannot help observing that the adverse impact of new facility of IOTL was not surprisingly considered by the Ministry of Petroleum and Natural Gas while giving clearance to the IOTL project although both HPCL and IOCL function under the same Ministry. The Committee, therefore, recommend that whenever the Government give clearance for a fresh project, it should also give due consideration to the impact of such projects on the projects already under construction so as to ensure their optimal utilization.

IV. <u>POLICIES OF THE GOVERNMENT ON OIL INDUSTRY</u>

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

12. The Committee desire that before taking such major policy decisions in the future, the Government should also take into consideration their likely impact of those policies on on-going projects of the PSUs and make all possible efforts to minimize any adverse affect on the performance of such projects by virtue of such

decisions. The instant case reflects a total lack of such far-sighted consideration on the part of the Government.

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

New Delhi **PROF. VIJAY KUMAR MALHOTRA**
17 December , 2003 ***CHAIRMAN***
26 Agrahayana,1925(S) **COMMITTEE ON PUBLIC UNDERTAKINGS**

ANNEXURE-I

17 Infructuous expenditure on creation of a pipeline

Failure of the Company to utilise newly constructed oil pipeline from Mumbai Refinery to Vashi resulted in Infructuous expenditure of Rs.42.30 crore

Ministry of Environment and Forests, Government of India, while giving (May 1989) environmental clearance to Lube Augmentation Facilities Project at Mumbai refinery of Hindustan Petroleum Corporation Limited (Company), directed that `all bulk quantities of refinery requirements / products should be transported through well designed pipeline to avoid road congestion and hazards through road transportation'. The Detailed Feasibility Report (February 1995) envisaged laying of 22 km long pipeline from Mumbai Refinery to Vashi with a design capacity of 1500 TMT per annum. Oil Co-ordination Committee (OCC) while approving the proposal for the project directed the Company (May 1995) that after commissioning of the pipeline, no black oil truck / wagon would be loaded at Hindustan Petroleum / Bharat Petroleum refinery terminals. The project was commissioned in April 1998 at a total cost of Rs.42.30 crore.

The pipelines laid down for transporting FO and LDO from black oil terminal, however, remained grossly under utilized as more than 80 per cent of LDO / FO produced at Mumbai Refinery continued to be transported by rail, road and tankers whereas the maximum utilization of black oil pipeline was only 18 per cent so far as can be seen from the details given below.

(In thousand MTs)

Year	Refinery Production of FO/LDO	Upliftment Through Rail/road etc.	Through black oil pipeline	Percentage of upliftment of FO / LDO	
				Through Rail / road etc	Through Black Oil Pipeline
1998-99	1217.20	1118.99	98.21	92	8
1999-2000	1466.10	1309.39	156.71	89	11
2000-2001	1226.60	1001.39	225.21	82	18

The Company also, incurred an operating expenditure of Rs.80.13 lakh for maintenance and repairs, security, salaries, electricity etc. on the said pipeline during the above period.

Management admitted (January 2002) that the projected throughput of FO ex-Vashi Terminal could not be achieved and attributed following reasons for low utilization of the pipeline :

(i) Dismantling of administered price mechanism (APM) for FO by Government in April 1998 and hence consumers made their own arrangement by imports;

(ii) The expected volume of lifting by Indian Oil Corporation Limited to be fed from Vashi terminal shifted to Indian Oil Tanking Limited (IOTL), a joint venture of IOCL, which came up with a large terminal in 1997;

(iii) FO/LDO could not be transported to coastal terminals and rail-fed locations as these facilities were not available at Vashi and therefore, supplies by ocean tankers and rail were made ex-Mahul only; and

(iv) Sale of FO/LDO during the period 1998-2001 contributed a gross margin of Rs.50 crore to the Company

The reply of Management is not tenable because :

(i) The adverse impact of new facility of IOTL for importing storing and distributing FO was not surprisingly considered by Ministry of Petroleum and Natural Gas/OCC although both HPCL and IOCL function under the same Ministry;

(ii) The dismal performance of the project since commissioning of pipeline in April 1998 was never discussed / reviewed by the Board of Directors of the Company;

(iii) The project did not envisage upliftment by rail / road at all except for local requirement for Mumbai, which was to be met from other installations; and

(iv) The reported gross earning of Rs.50 crore (approx) for FO and LDO was not due to better utilization of black oil pipeline but due to higher gross margin subsequent to decontrol of these products effective April 1998.

Thus, a major volume (82 percent) of FO and LDO produced at HP refinery continued to be supplied by truck / wagon loading which defeated the basic objectives of the construction of pipeline and resulted in Infructuous expenditure of Rs.42.30 crore besides operating expenditure of Rs.80.13 lakh till March 2001. The Company had not taken into account the effects of future deregulation in the oil industry and the consequent increased competition despite such knowledge being in public domain since 1995.

The matter was referred to Ministry in April 2002; their reply was awaited (September 2002).

APPENDIX-II

MINUTES OF THE 1st SITTING OF THE SUB-COMMITTEE-II OF COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 26th AUGUST, 2003

The Sub-Committee sat from 1600 hrs to 1745 hrs.

CONVENOR

Shri Suresh Kalmadi

MEMBERS

LOK SABHA

2. Shri A. K. S. Vijayan
3. Shri Dinesh Chand Yadav

RAJYA SABHA

4. Shri Lalitbhai Mehta
5. Shri Kalraj Mishra

SECRETARIAT

1.	Shri S. Bal Shekar,	Director
2.	Shri C. S. Joon,	Deputy Secretary
3.	Shri Raj Kumar,	Under Secretary

OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

1.	Shri Sunil Chander	Secretary Audit Board
2.	Ms. J. D. Kulkarni	Officer on Special Duty

REPRESENTATIVES OF HINDUSTAN PETROLEUM CORP. LTD.

1.	Shri M. B. Lal,	Chairman & Managing Director
2.	Shri D. S. Mathur,	Director (Refineries)
3.	Shri S. Roychoudhry,	Executive Director (DS)
4.	Shri A. K. Bhide,	GM (Internal Audit)
5.	Shri G. A. Shirwaikar	GM (Co-ordination)

REPRESENTATIVES OF THE MINISTRY OF PETROLEUM & NATURAL GAS

1.	Shri B. K. Chaturvedi,	Secretary
2.	Shri M. S. Srinivasan,	Addl. Secretary
3.	Shri B. K. Das,	Addl. Secretary & Financial Adviser
4.	Shri Prabh Das,	Joint Secretary (Refineries)
5.	Shri Ajay Tyagi,	Director

2. At the outset, the officers from the office of Comptroller & Auditor General of India briefed the Sub-Committee on the Audit Para pertaining to Hindustan Petroleum Corporation Ltd. – `Infructuous expenditure on creation of a pipeline'.

3. The Sub-Committee then took the evidence of the representatives of Hindustan Petroleum Corporation Ltd. in connection with the Audit Para pertaining to `Infructuous expenditure on creation of a pipeline'.

(OFFICIALS OF HINDUSTAN PETROLEUM CORP. THEN WITHDREW)

4. The Sub-Committee, thereafter, took the evidence of the representatives of Ministry of Petroleum & Natural Gas in connection with issues relating to the above Audit Para.

5. A copy of the verbatim proceedings has been kept on record separately.

The Committee then adjourned.

MINUTES OF THE 5th SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 17TH DECEMBER, 2003

The Committee sat from 1600 hrs to 1700 hrs.

CHAIRMAN

Prof. Vijay Kumar Malhotra

MEMBERS LOK SABHA

6. Smt. Sangeeta Kumari Singh Deo
7. Shri C. K. Jaffer Sharief
8. Shri Shriniwas Patil
9. Shri Tarit Baran Topdar
10. Prof. Rita Verma
11. Shri A. K. S. Vijayan

MEMBERS RAJYA SABHA

12. Shri Suresh Kalmadi
13. Shri Lalitbhai Mehta
14. Shri Satish Pradhan
15. Shri Jibon Roy

SECRETARIAT

1.	Shri S. Bal Shekar,	Director
2.	Shri C. S. Joon,	Deputy Secretary
3.	Shri Raj Kumar,	Under Secretary
4.	Shri P.V.L.N. Murthy	Under Secretary
5.	Shri Ajay Kumar	Assistant Director

2. XXXX XXXX XXXX

3. The Committee, thereafter, took up for consideration the draft Reports on Air India Ltd.-Reconstitution of Board of Directors and Hindustan Petroleum Corporation Ltd. – Infructuous Expenditure on creation of a pipeline and adopted the same without any modifications.

4. The Committee authorised the Chairman of the Committee to finalise the aforesaid Reports on the basis of factual verification by the Ministries / Undertakings concerned and to present the same to the Parliament.

5. XXXXX XXXXX XXXXXXX

6. XXXXX XXXXX XXXXX

The Committee then, adjourned.