STUDY TOUR REPORT NO. 34

COMMITTEE ON PUBLIC UNDERTAKINGS

(2001 – 2002)

(THIRTEENTH LOK SABHA)

STUDY TOUR REPORT

ON

GAS AUTHORITY OF INDIA LIMITED

Laid in the Lok Sabha on 29 April, 2002

Laid in the Rajya Sabha on 29 April, 2002

LOK SABHA SECRETARIAT

NEW DELHI

April, 2002 / Vaisakha, 1924 (S)

CONTENTS

ANNEXURES

COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS (2001-2002)

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Prof Vijay Kumar Malhotra

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LOK SABHA

2. Shri Prasanna Acharya
3. Shri Mani Shankar Aiyar
4. Prof S.P.Singh Baghel
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RAJYA SABHA

16. Shri Suresh Kalmadi
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18. Shri Jibon Roy
19. Shri B.P Singhal
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**22. Shri Ranjan Prasad Yadav

SECRETARIAT

1.	Shri John Joseph,	Additional Secretary
2.	Shri S. Bal Shekar,	Director
3.	Shri T.G.Chandrasekhar	Assistant Director

* Elected w.e.f 29th November, 2001 vice Shri Rajiv Pratap Rudy ceased to be Member of the Committee consequent upon his appointment as Minister w.e.f. 01.9.2001.

** Retired w.e.f. 9.4.2002.

INTRODUCTION

In pursuance of the procedure adopted under Rule 281 of the Rules of Procedure and Conduct of Business for laying the Study Tour Reports on the Tables of both the Houses of Parliament, I, Chairman, Committee on Public Undertakings have been authorised by the Committee to lay the Study Tour Report on their behalf, lay the Study Tour Report of the Committee on their discussions with the officials of Gas Authority of India Ltd.

2. The Committee held discussions with the officials at Jaipur on 4.10.2001. A copy of the tour programme is annexed (Annexure-I).

3. The Committee considered and approved the Report at their sitting held on 24th April, 2002.

4. The Committee wish to express their thanks to Gas Authority of India Ltd for providing facilities during the visit of the Committee and for supplying necessary material and information required in connection with the Study Tour.

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

New Delhi **PROF. VIJAY KUMAR MALHOTRA**
24 APRIL, 2001 ***CHAIRMAN***
04 VAISAKHA,1924(S) **COMMITTEE ON PUBLIC UNDERTAKINGS**

<u>STUDY TOUR NOTES OF THE COMMITTEE ON PUBLICUNDERTAKINGS</u>

<u>DISCUSSION WITH THE REPRESENTATIVES OF GAS AUTHORITY OF INDIA LTD. AT JAIPUR ON 4.10.2001</u>

A. <u>INTRODUCTORY</u>

At the outset, the Hon'ble Chairman, Committee on Public Undertakings (COPU) made opening remarks and requested the Chairman & Managing Director, Gas Authority of India Ltd. (GAIL) to introduce himself and his colleagues to the Committee. The Chairman, COPU also requested him to give a brief resume on the working of the company.

2. Following the introduction of officials of the company, the CMD, GAIL briefed the Committee on the performance and business activities of GAIL. Briefing the Committee on the functioning of the Company, the CMD, GAIL <u>inter-alia</u> informed that the `Gas Authority of India Limited was established by the Government of India in August, 1984 for handling post exploration activities related to natural gas with the objective of accelerating and optimizing the effective and economic use of natural gas and its fractions to the benefit of national economy' and that the Company had fully met the mandate given to it, whose essentials broadly comprised of :

(i) Development of gas pipeline infrastructure in all the states in the country, where gas has been discovered / delivered ;

(ii) Development of the gas market in different parts of the country to maximize the economic use of natural gas; and

(iii) Setting up projects / facilities for recovery of value added fractions from gas for further economic benefit.

1.2 The CMD, GAIL also briefed the Committee on the achievements made by the Company in building the gas pipeline infrastructure in the country; setting up of gas processing plants for producing LPG and a petrochemical complex; building of LPG pipelines; and the steps being taken to transform GAIL into an integrated gas company mainly in the light of changing business environment where the Government had awarded rights to companies to undertake exploration and production of oil, gas and coal bed methane and to market gas directly.

1.3 On the gas pipeline infrastructure built and operated by the Company, the CMD informed that as on date, GAIL owns 4400 km of gas pipeline and that the related infrastructure has operated very efficiently and to the satisfaction of large, medium and small consumers. `The pipeline infrastructure is capable of handling larger quantities of gas and it can be further expanded economically to cater to new gas markets in the country. As of now, more than 50% of urea production in the country is based on gas and about 9800 MW of power is generated using gas. Two very important sectors of our economy viz. Power and fertilizers, consume more than 3/4th of the total gas sold in the country as of now.'

1.4 In regard to setting up of gas processing plants for production of LPG, the CMD informed the Committee that GAIL had set up seven gas processing plants, which produce about 1.17 MMT of LPG per annum and corresponds to 8.2 crore domestic LPG cylinders per annum. `The LPG produced by GAIL is sold in bulk to IOC, BPCL and HPCL for subsequent marketing to domestic and other consumers'. Further, with a view of derive benefits from economic utilisation of the gas fractions, `GAIL had also set up a world scale gas based petrochemical complex at Auraiya in U.P. which produces Polymers – Linear Low Density Polyethylene (LLDPE) and High Density Polyethylene (HDPE)'.

1.5 In order to facilitate economic, safe and reliable transportation of LPG in the country, GAIL had commissioned the world's longest LPG pipeline from Jamnagar in Gujarat to Loni in U.P. last year, which has an initial capacity for transportation of 1.7 MMTPA of LPG. Inspired by the successful implementation of the Jamnagar-Loni pipeline, GAIL had now started implementation of Vishakhapatnam-Vijawada-Hyderabad-Secunderabad LPG pipeline and feasibility studies for laying similar pipelines in other parts of the country were also being undertaken.

1.6 On the measures being taken to transform GAIL into an integrated gas company in the light of emerging business climate where the Indian gas market would be witnessing multiple supply sources as well as multiple companies involved in gas marketing, transmission and distribution, the CMD, GAIL informed the Committee that the process of transforming the Company was initiated a few years back. `On the gas supply side, a number of initiatives have been taken, which include (I) participation in exploration & production (E&P) activities under the New Exploration Licensing Policy (NELP) bidding rounds; (ii) development of LNG import facilities; and (iii) pursuing pipeline gas import opportunities from countries in the west and east of India. Securing competitive supplies for the growing gas market would be one of the key areas for GAIL in the coming years. Ownership of gas reserves through successful exploration efforts would equip GAIL for a greater and effective role in the Indian gas market'.

1.7 Further, in view of the converging trend between the gas and power generating companies and the opportunities available in the Indian Power Sector, GAIL had initiated its entry into gas based power generation. Also, as a part of the effort aiming at synergetic diversification, the Company had started expanding its Optical Fibre Cable (OFC) infrastructure for leasing of bandwidth to telecom companies.

Mainly, in view of the endeavor to transform GAIL into a broad based and diversified group in related sectors, the company had adopted a new corporate vision, which is as follows:

> "Be the Dominant Natural Gas Company with significant global presence and integrated in energy and Petrochemicals."

B. **ORGANIZATIONAL MATTERS**

i) **Structure**

GAIL was accorded the 'Navratna' dispensation on 11.11.1997, following which the Board of Directors of the Company was reconstituted by inducting independent professionals. Presently, the companies was functioning with five full time Directors including the CMD, three Navratna Directors and two Government nominees on the Board.

2.1 When asked as to whether the organisational structure of the Company, with the existing reporting structure of each Directorate was satisfactory in ensuring the smooth functioning of the Company, the Committee were, inter-alia informed that `though the present organisational set up caters to the existing requirements of the Company, a need has been felt to strengthen the structure to effectively deal with the emerging challenges, to meet fierce competition to be generated on account of dismantling of administered pricing mechanism and to provide better customer services'.

The Company had, therefore, taken initiatives to `redefine the roles and reinforce the strategy by way of redeployment of existing manpower in consonance with their qualifications, skills and expertise'.

2.2 When asked further to specify whether any review has been carried out to suggest changes in the present organisational structure and in the decision making process, particularly in the light of the changing market scenario, it was informed that review of the present organisational structure was part of the work awarded to a Management Consultant engaged to draw up the complete strategic plan and its implementation modalities. The deliverables related to organisational restructuring were as follows :-

- Mapped current organisation structure, processes and systems;
- Identified improvement opportunities;
- Outlined key design principles for the new organisation;
- Developed framework for design of new processes and systems; and
- Designed new structure, processes and systems.

ii) NAVRATNA DISPENSATION

2.3 When asked to specify the benefits that may have accrued to the Company following the enhanced delegation of authority under the `Navratna dispensation', the Committee were informed that some of the major decisions taken in the exercise of powers under the Navratna scheme included the following :-

(i) Laying of an LPG pipeline from Vizag to Secunderabad at an estimated cost of Rs.490.65 crore ;

(ii) Laying gas pipeline from Tatipaka to Kondapally for supply of gas to M/s Lanco Kondapally Power Ltd. involving capital cost of Rs.299.5 crores ;

(iii) Making payment of Rs.20 crores as advance against equity to M/s Petronet LNG Ltd., a joint venture company of ONGC, IOC, GAIL and BPCL ; and

(iv) Equity participation to the extent of 12%, i.e., Rs.21 crores in Gujarat State Energy Generation (GSEG) power project.

2.4 It was also informed that the Board, under the `Navratna Scheme', had also accorded various other approvals including conducting studies for laying cross country pipeline (Phase-I), granting in principle approval to participate in LNG project abroad etc. The Committee were further informed that the new dispensation had facilitated in taking faster investment decisions without any ceiling subject to observance of the guidelines specified by the Government. It was also pointed out to the Committee that `in line with the powers delegated to the Board of Navratna companies for approval of projects, full powers need to be granted for investment in joint venture companies'.

C. <u>PERFORMANCE</u>

(i) <u>PHYSICAL</u>

As regards the specifics of the physical performance of the Company in regard to sale of Gas; LPG production, Propane / Pentane / SBP and polymer production in the years 1998-99 to 2000-01, the following figures were furnished to the Committee :

	Unit	1998-99	1999-2000	2000-01
Sale of Gas	BCM	20.129	20.521	20.946
LPG Prodn. (including blended)	MTs	6,76,674	7,56,140	7,84,591
Propane/Pentane/SBP Prodn.	MTs	99,843	1,10,169	1,20,740
Polymer Production	MTs	1,884	1,18,807	1,94,587

3.1 Asked as to how the production figures for the years compare to the targets set for the years, the Committee were informed that `sale of gas was not considered as a direct parameter as GAIL was dependent on receipt of gas from ONGCL. Besides, the parameter envisaged in the MoU's in regard to liquid hydrocarbon production was `LPG/Propane/SBP/Pentane production wherein separate targets for LPG and other liquid hydrocarbons were not envisaged.' However, a comparative account of actual production performance vis-à-vis the revised estimates for the years 1998-99 to 2000-01 was furnished to the Committee, which is shown in the table below :-

		1998-99		1999-2000		2000-01		2001-02		
PARTICULARS	UNIT	RE	ACTUALS	RE	ACTUALS	RE	ACTUALS	RE	ACTUALS	% ACHIEVEMENT
Sale of Gas	BCM	21.40	20.13	21.65	21.94	22.24	20.95	22.22	9.35	42%
LPG Prodn (including blended)	MT	558,641	676,674	617,195	756,140	750,164	784,591	875,029	383,022	44%
Propane/Pentane/ SBP Prodn	MT	99,113	99,843	109,813	110,169	128,835	120,740	191,699	44,227	23%
Polymer Production	MT	127,000	1,884	155,543	118,807	190,000	194,587	210,000	103,481	49%

(ii) **FINANCIAL**

3.2 As regards the financial performance of the Company in achieving sales / turnover and profit during 1998-99 to 2000-01 the following figures were furnished to the Committee :-

(Rs. in crore)

PARTICULARS	1998-99	1999-2000	2000-01
SALES / TURNOVER	6644	8415	9197
NET PROFIT	1060	861	1126

3.3 Further, the following figures were furnished to the Committee in regard to targets fixed for Sales / Turnover and profit earning for the year 2001-02 :-

PARTICULARS	UNIT	2001 – 2002		
		B.E	Actuals upto Aug'01	%age Achievement
Sales Turnover	Rs. Crore	12,059	3,995	33%
Net Profit	Rs. Crore	837	542	65%

3.4 Asked to detail the reasons for decline in profit during 1999-2000 despite the higher sales / turnover registered during the year, it was informed that the decline in profit during the year was owing to `payment of higher salaries and wages due to commissioning of UPPC and charging of arrears in 1999-2000; contribution of Rs.15 crore to the National Defence Fund and Rs.5 crore to Orissa Cyclone Relief Fund which was considered as part of operating expenses; higher operating expenses, depreciation and interest cost due to commissioning of UPPC and full year operations of LPG Plants at Usar and Lakwa; and impact of accounting standard which resulted in increase in depreciation by Rs.20 crore during the year'.

3.5 Further, the Committee were also informed that `as a major thrust towards keeping up the profitability, GAIL had undertaken bench marking for energy and power for compressor stations along the HBJ pipeline system for optimization of operational costs. The Company was also continuously endeavouring to enter into new business opportunities so as to sustain the profitability trend. The telecom business project undertaken and participation in new exploration blocks under NELP-I & II were likely to fetch substantial revenues to the Company thereby enhancing the profitablity.'

D. BUSINESS ACTIVITIES

(i) Augmentation of Gas Supplies :

4.0 Asked to detail the measures being taken to organise and augment gas supplies to meet the requirements of the growing Indian gas market, the Committee were inter-alia informed that the Company had initiated the following steps for augmenting gas supplies :-

(i) Participation in LNG import terminal project;

(ii) Exploration and production programmes under NELP-I & II; and

(iii) Import of gas through pipelines

4.1 As regards participation in LNG import terminal projects, it was informed that GAIL was one of the partners of Petronet LNG Ltd. which has been formed for the purpose of building a 5 MMTPA LNG import terminal at Dahej in Gujarat and 2.5 MMTPA LNG terminal at Kochi in Kerala and that the former was expected to be commissioned in the first quarter of 2004.

4.2 In regard to exploration and production programmes being undertaken it was informed that the Government had awarded two exploration blocks - Nos.24 & 26 - to GAIL's consortia under NELP – I as per the details given in the following table :-

Block No.	Area (Sq Km)	Partner	Participating interest
MN-OSN-97/1	5420	ONGC	GAIL-15% ONGC-85%
NEC-OSN-97/1	10425	Gazprom	GAIL-50% Gazprom-50%

4.3 While the Joint Operating Agreement with ONGC for Block 24 was executed on 23rd April, 2001 the agreement with Gazprom for Block No.26 was executed on 7th June, 2001. Further, it was also informed that GAIL and its partners have been notified award of the following 6 exploration blocks under NELP-II and production sharing contracts for the blocks were signed on 17th July, 2001 :-

Block No.	Consortium Partners	Operator
MB-DWN-2000/2	(ONGC-IOC-GAIL-OIL-GSPC)	ONGC
MN-OSN-2000/2	(ONGC-IOC-GAIL-OIL)	ONGC
GS-DWN-2000/2	(ONGC-GAIL)	ONGC
KK-DWN-2000/2	(ONGC-GAIL)	ONGC
CB-ONN-2000/1	(GSPC-GAIL-JTI)	GSPC
MN-ONN-2000/1	(ONGC-IOC-GAIL)	OIL

4.4 On the issue of import of gas to meet long term requirements of the Indian market, it was informed that the Company has been pursuing the issue of feasibility of importing gas from Bangladesh. `As a step in this direction, GAIL entered into a "Principle of co-operation" in July 2000 with Shell International Gas & Power, in which provisions for co-operation with Bangladesh were envisaged. Subsequently, in Feb' 2001, GAIL signed a "Co-operation agreement" with Unocal Corporation of USA which also covered provisions regarding supply of gas to the Indian market'. Further, it was informed that `GAIL would be ready to undertake pipeline gas imports from Bangladesh either on its own or in association with other oil sector PSUs, if and when a political decision for export of gas is taken by the Bangladesh Government.' Also, it was informed that `under a bilateral Government to Government initiative, an Indo-Iran Joint Committee was examining the options of LNG imports, deep water offshore gas pipeline and online gas pipeline for the developing gas sector co-operation between the two countries.'

ii) GLOBALISATION OF BUSINESS ACTIVITIES

4.5 Asked to furnish details of measures being taken to globalise the business activities of GAIL / augment gas supplies through import, the Committee were inter-alia informed that `as the first priority, GAIL was focusing on the gas rich countries from where gas / LNG can be brought to India. The Company had earlier participated in various potential opportunities in Kazakhistan, Iran and Oman. However, none of these opportunities could materialise. GAIL was now seriously pursuing pipeline gas imports from Iran to India as well as participation in LNG project in Iran. Similarly, the Company has been watching developments in Bangladesh in the context of possible cross border gas trade opportunity between the two countries as well as emergence of certain business opportunities in the gas sector of Bangladesh. The Company had recently decided to participate in an offshore block in Myanmar with the potential of very large gas discoveries. In case exploration effort was successful and large volumes of gas was discovered, there was a possibility of bringing this gas to the east coast of India. GAIL, together with IOC, IIP and British Petroleum was also pursuing the feasibility of setting up "Gas to Liquids" project overseas and to bring the commodity to India.'

4.6 Asked about the specific details and the present status of the co-operation agreement signed with the National Iranian Oil Company (NIOC) for undertaking a feasibility study for building a deep water gas pipeline from Iran to India, the Committee were, inter-alia informed as under :-

"The contract for pre-feasibility and feasibility study for deep water gas pipeline from Iran to India was awarded by National Iranian Oil Company to a joint venture of M/s Snamprogetti and Saipem of Italy in May, 2001. The study is expected to be completed by Sep / Oct 2002. The study is progressing satisfactorily and the consultant has completed the pre-feasibility study. The next major activity is marine surveys in offshore Iran, Oman, outside the continental shelf of Pakistan and India which would be instrumental in determining a feasible and safe gas pipeline route. Following the marine survey, the consultant would undertake the feasibility study of the pipeline project. Preparations are underway to engage a reputed international company for undertaking the required marine surveys for the pipeline. Data acquisition, processing and interpretation is expected to be completed by April 2002, following which the feasibility study would be commissioned. The gas sector co-operation between India and Iran is being pursued bilaterally, at Government level, and GAIL will share 50% of the cost of deep water pipeline feasibility study. GAIL is involved in the study and is being made a co-client".

iii) **PRIVATE COMPETITION IN THE GAS MARKET**

4.7 Asked to specify the likely impact to be felt on the Company's business with the Government policy of permitting international companies to provide Liquified National Gas (LNG) and pipeline gas inputs under Open General Licence (OGL) besides allowing the Companies freedom to enter the field of gas, oil and cal bed mthane exploration, the Committee were, inter-alia informed that though GAIL's business would be impacted qualitatively but, `in view of the protected growth of gas sector the Company would be in a position to maintain a healthy growth profile'.

4.8 The Committee were further informed that GAIL was adopting a multipronged strategy to meet the competition from international companies, whose components comprise of :-

a) Gas sourcing thrust

b) Demand assessment

c) Development of infrastructure

4.9 On the issue of gas sourcing, it was informed that GAIL was developing a portfolio of supply through participation in exploration and production, association in LNG project, association in transmissional gas pipeline projects, outsourcing gas from new discoveries made in the country, which would equip the Company to effectively compete in the gas market and effectively retain its dominant position. On the gas demand side, GAIL had started state-wise studies by signing gas co-operation agreements with State Governments. Similarly, a nationwide gas grid has been conceptualized on which work had commenced.

4.10 When the Committee desired to know the likely impact, the policy of dismantling of Administered Pricing Mechanism (APM) would have on the

Company's business, the following information was furnished in regard to the main sectors of operation viz., Natural Gas, Liquified Petroleum Gas and Polymers and Liquid hydrocarbons.

(A) NATURAL GAS

Natural Gas prices were presently linked to 75% of fuel oil prices in the international market with a ceiling of Rs.2850 / 1000 m3. These prices were likely to move upward in the near future and it is expected that 100% fuel oil price parity levels, with considerably higher price ceilings, would be achieved by the time the Administered Pricing Mechanism was dismantled. This would increase the price of natural gas to the end consumers. However, as GAIL derives its margins from transmission of gas and presently there was no marketing margin available to GAIL, it was likely that there would be a marginal impact on GAIL's transmission margins due to increase in fuel and own generation power costs, which constitute a significant portion of operating costs of gas operations. GAIL had already signed long term contracts with its anchor consumers for sale of natural gas in the coming 5-10 years in order to secure its market. Therefore, the free market economy would not have any appreciable impact on the sale of natural gas by GAIL.

(B) LIQUID PETROLEUM GAS

The key impact of dismantling of the administered pricing mechanism in the oil sector would be in the LPG business of GAIL. At present, OCC was fixing, on a monthly basis, the price realised per tonne of LPG produced by GAIL at its seven LPG plants at Vijaipur (2), Vaghodia, Lakwa, Uar, Auraiya and Gandhar. The price offered by the OCC to GAIL was at present considerably lower than the import parity price for LPG due to surcharge computed on price differential of natural gas prices and 100% FO price, being deducted. Thus, as and when the LPG prices were deregulated, if the existing method of computation of surcharge was discontinued, there was likelihood of better price realisation for its LPG produced at the seven plants. However, the margins could be under pressure since cost of raw materials and fuel (natural gas), being a major component of operating costs, was also expected to increase with natural gas prices. GAIL was pursuing with MOP&NG for allowing it to market 10% of its LPG to the bulk consumers. This would help in mitigating any impact of dismantling of APM in LPG sector in the free market economy situation.

(C) POLYMERS & LIQUID HYDROCARBONS

The other products marketed by GAIL viz. Propane, Pentane and Solvents and Polymers were decontrolled products and were out of the APM scenario. Their prices depend on market related forces from time to time. The dismantling of APM would not have any impact on these products and their prices would continue to be governed by market requirements.

v) **RE-ORIENTATION OF BUSINESS ACTIVITIES**

4.11 When questioned about the current status of efforts to revamp the business orientation of the Company in connection with which a global management consultant was engaged, the Committee were inter-alia informed that the work of "Implementation of strategic Initiatives to realise GAIL's vision" was awarded to M/s A T Kearney and the implementation exercise of the recommendations of the consultant involved the following three modules :

- Sectoral Strategies : Through this module, GAIL shall explore business prospects by evolving strategies in the various sectors of `Natural Gas and Gas Use'. In this module, the consultant has submitted draft reports for discussion on the LNG and E&P sectors and similar reports on Petrochemical and LPG sectors shall be submitted by next week. This module is expected to be complete by end of January, 2002.

- Benchmarking : This modules shall consolidate current operations through benchmarking with those of global companies. In this module, the submitted draft reports for discussion on the natural gas business along the HBJ pipeline. Similar reports on the LPG and petrochemical business shall be submitted very shortly this module is expected to be completed by the end of April, 2002.
- Business Process Re-engineering and Organisational Design: Work on this module involves mapping of the as-is business processes, identifying issues related to each process, incorporating inputs from the benchmarking and strategy modules and designing to-be business processes and the organisation structure. Currently, the consultant has submitted draft reports of the as-is process maps of natural gas and LPG business and similar reports on the support functions shall be submitted soon. The module is expected to be complete by July, 2002. The new processes shall be piloted at two locations of GAIL.

VI) LPG PRODUCTION

4.12 GAIL has established 7 LPG plants with a combined production capacity of 11,68,844 MMTPA in various parts of the country as a part of the Company's endeavour to extract value added fractions from natural gas and to ensure their optimum utilisation, details relating to which are indicated in the following Table :

PLANT	COMMISSIONED ON	LPG PRODUCTION CAPACITY (MMTPA)
Vijaipur Phase I	11.02.1991	2,03,000
Vijaipur Phase II	11.02.1992	2,03,000
Vaghodia	27.01.1993	73,000
Usar	16.08.1998	1,39,500
Lakwa	16.10.1998	85,000
Auraiya	05.11.1999	2,58,250
Gandhar	31.03.2001	2,07,094
TOTAL		11,68,844

4.13 The Committee were informed that presently GAIL has the capacity to produce around 11.7 lakh tonnes of LPG per year and meets about 11% of the total LPG demand of the country.

4.14 When asked to furnish details of the capacity utilisation of LPG plants established by GAIL in the last five years, the following information was furnished to the Committee :-

Units : in MMTPA

NAME OF PLANT	ACTUAL PRODUCTION AND CAPACITY UTILISATION				
	2000-01	1999-00	1998-99	1997-98	1996-97
VIJAIPUR	475104	525617	498868	510945	496229
	(115%)	(128%)	(121%)	(124%)	(120%)
VAGHODIA	75982	72548	66419	56042	53211
	(104%)	(99.4%)	(91%)	(77%)	(73%)
USAR	35212	72250	39184	NIL	NIL
	(25%)	(52%)	(28%)		
LAKWA	29243	24561	4427	NIL	NIL
	(34%)	(29%)	(5%)		
AURAIYA	168909	19853	NIL	NIL	NIL
	(65%)	(8%)			
GANDHAR	NIL	NIL	NIL	NIL	NIL
Figures in brackets indicate capacity utilisation					

4.15 GAIL has also built the world's longest exclusive LPG pipeline at a cost of Rs.1250 crore from Jamnagar in Gujarat to Loni in Uttar Pradesh, which covers a distance of 1240 kms and has a capacity of 1.7 Million Tonnes per annum.

As regards LPG pipeline projects under execution / being conceptualised, the Committee were informed that a 600 km long LPG pipeline project from Vizag to Secunderabad was approved by the Board of Directors on 27.2.2001 with an approved capital cost of Rs.490.65 crore and completion schedule of 30.8.2003. The project had achieved an overall progress of 4.5%. Also, a LPG pipeline project linking Mangalore-Bangalore-Coimbatore LPG was in the conceptualization stage. Detailed feasibility report for the project has been prepared by M/s Engineers India Limited and the same was presently under consideration. The estimated cost of the project was Rs.600 crore with an execution time of 36 months from the date of approval.

4.16 The Committee were also informed that a project to increase the handling capacity of the 2700 km long HBJ pipeline system which runs from Hazira (Gujarat) upto Delhi from 33.4 MMSCMD to about 60 MMSCMD for transportation of natural gas as well as regasified LNG to the be made available from the LNG import terminal being built at Dahej was in the conceptualization stage.

(E) JOINT VENTURE COMPANIES

4.17 GAIL had formed three Joint Venture Companies viz., Mahanagar Gas Limited (MGL), Indraprastha Gas Limited (IGL) and Petronet LNG Limited (PLL). The salient features of these joint ventures as furnished to the Committee are given in the following table :-

ITEM	MGL	IGL	PLL
Equity	Gail – 50% British Gas – 50%	GAIL – 22.5% BPCL – 22.5% Government of NCT Delhli-5% Financial Institutions / Others-50%	GAIL – 12.5% ONGC – 12.5% IOC – 12.5% BPCL – 12.5% Gazde France – 10% (Balance being tied up)
Authorised Capital	Rs.130 crore	Rs.220 crore	Rs.1200 crore
Date of incorporation	May 1995	December 1998	April, 1998
Project details	Execution of city gas distrbution project and CNG retail outlets in Mumbai	Execution of city gas distribution project and CNG retail outlets in Delhi	Setting up of LNG import terminals at Dahej (5 MMTPA) and Cochin (2.5 MMTPA)
Cost (Rs. crore)	Over Rs.1200	Phase-I : Rs.320 crore. (Entire Project –Rs.1228 crore)	Dahej –Rs.3000 crore Cochin Rs.1750 crore
Completion schedule	10-12 Years w.e.f. May, 1995	6 years (Phase-I) and 20 years (entire Project) w.e.f. Dec., 1998	Dahej – 2003 Cochin – 2005

4.18 When asked to specify the steps being taken by Indraprastha Gas Limited (IGL) to augment the supply of CNG in Delhi, the following information was furnished to the Committee :-

"IGL plans to increase its compression capacity to 11.27 lakh kg per day by March, 2002 to meet the expected demand of 9 lakh kg per day by about 95000 CNG vehicles. The number of CNG stations planned by March, 02 was 120 by procuring 58 compressors, 65 bus dispensers, 75 car dispensers and 200 cascades. IGL has surveyed 148 outlets of Oil Marketing Companies and identified 48 sites for setting up CNG stations.

Work on laying 12” pipeline from Dhaula Kuan to GT Karnal Road was expected to start in October and completed by March, 02. This will facilitate setting up online stations en-route.

All daughter stations will be progressively upgraded to daughter booster stations to improve capacity utilisation.

F. SUNDRY DEBTS

5. The position of Sundry Debts owed to the Company in the last three years, as furnished to the Committee is shown in the Table below :-

(Rs. in crore)

YEAR	AMOUNT
1998-99	337.07
1999-00	544.86
2000-01	664.56

5.1 When asked to specify the present position of dues owed to the Company and the names of the major defaulters, the Committee were informed that the total amount of overdues as on 31.8.2001 on account of supply of gas was around Rs.520 crore. The major defaulters and the amounts due from them were as shown in the Table below :-

(Rs. in crore)

S.No.	ORGANISATION	AMOUNT DUE
1.	Essar Steel Limited	125.00
2.	Assam State Electricity Board	88.00
3.	Hindustan Fertilizers Corpn. Ltd.	51.00
4.	Deptt of Power, Government of Tripura	24.00
5.	North Eastern Electric Power Corporation	70.00
	TOTAL	358.00

5.1 As regards efforts being made to recover the outstandings, the Committee were inter-alia informed that the total dues from the four Government companies located in the North Eastern States amounts to Rs.233 crore, recovery of which could not materialise despite taking up the matter with the authorities concerned time and again. Also, Essar Steels Ltd. from whom an amount of Rs.125 crore was due had disputed the amount and the matter was in court.

(G) SPECIFIC PROBLEMS

6.0 When asked to specify the problems the Company was presently facing in its functioning, the Committee were informed that recovering the outstanding amounts from the organisations in the North Eastern States of Assam and Tripura was a matter of concern to the Company.

6.1 The Committee were further informed that the revenue collection authorities had, in the past, raised certain aggressive and unreasonable demands on the Company which include, `demand of Rs.1951 crore from Sales Tax Department of Gujarat', `additional demand of interest against non-payment of Central Sales Tax', and Income Tax Demand of Rs.243.81 crore (approx), Rs.239 crore, and Rs.68.41 crore for the financial years 1995-96, 1996-97 and 1997-98 respectively'.

6.2 As regards the demand for payment of Rs.1951 crore made by the Sales Tax Department of Gujarat, the Committee were informed that GAIL's contention in the matter was that the same goods cannot be subject to tax under the Central Sales Tax as well as State Sales Tax Acts and that the issue was presently sub-judice. As for the issue of additional demand of interest of Rs.815 crore made by the Sales Tax Office (STO), Ahmedabad, on account of an amendment in the Central Sales Tax Act, it was informed that GAIL's view in the matter was that the demand was not as per law as the Company was paying the tax at applicable rates. It was also informed that the Ministry of Petroleum & Natural Gas was requested to take up the matter with the Gujarat Government. As regards the Income Tax Demand of Rs.243.21 crore, Rs.239 crore and Rs.63.41 crore for the financial years, 1995-96, 1996-97 and 1997-98 respectively, it was informed that the demand was made owing to the perception that the activities of GAIL do not come under the purview of an Industrial Undertaking and that the Ministry of Petroleum & Natural Gas had taken up this issue with the Ministry of Finance for clarifications. Besides, the Committee were also informed that the excise authorities at Vadodara and Indore had issued show cause notices demanding payment of duty on NGL spiked back into the pipeline in respect of LPG Plants at Vijaipur and Vaghodia, which was exempted from payment of duty as per the earlier notifications and that the issue was taken up with the Central Board of Excise and Customs (CBEC).

RECOMMENDATIONS / OBSERVATIONS OF THE COMMITTEE

RECOMMENDATION NO. 1

REVIEW OF ORGANISATIONAL SET-UP

The Committee note that while the prevailing organisational set-up of the Company with the reporting structure of each of the Directorates has proved to be conducive to meeting the current business requirements, a number of steps have been initiated to strengthen the `set-up' mainly with a view to meeting the challenges posed by the fast changing business environment in an effective manner. The steps taken in this direction include, redefining the roles and re-deploying the manpower in consonance with their qualifications, skills and expertise. The Committee also understand that as a part of the overall endeavour to bring forth a strategic transformation in the functioning of the Company, the work relating to reviewing and making recommendations / suggesting changes in the organisational set-up has been awarded to an International Management Consultant. The Committee wish to be kept apprised of the findings / recommendations of the Management Consultant on re-vamping the organisational set-up, the initiatives taken in implementing such suggestions including formation of Strategic Business Units and the effectiveness of the measures taken in this direction in meeting the changing business requirements.

The Committee also note that the increased delegation of powers under the `Navratna' dispensation has benefited the company in taking quick decisions in according approvals to projects such as the LPG pipeline from Vizag to Secunderabad and gas pipeline from Tatipaka to Kondapally. However, the Committee feel that there is a need to extend full powers to the Board of Directors of the Company in taking investment decisions in joint venture companies and also for making investments abroad, keeping in view the demands posed by the emerging trends in the oil and natural gas business.

REOMMENDATION NO. 2

PRODUCTION PERFORMANCE AND PROFITABILITY

The Committee observe that though GAIL's performance in achieving the targets envisaged for sale of gas and production of LPG and other hydrocarbons during the years 1998-99 to 2000-01 is commendable, there has been a significant shortfall in achieving the targets for production of polymers during 1998-99 and 1999-2000. The Committee also note that the net profit earned by GAIL dropped significantly from Rs.1060 crore earned in 1998-99 to Rs.861 crore in 1999-2000. Further, the projected profit for the year 2001-02, has been pegged at an even lower level of Rs.837 crore. The Committee are not fully convinced of the explanation given by the Company in attributing the decline in profit earned during 1999-2000 on factors such as payment of higher salaries and wages due to commissioning of the petro-chemical complex in Uttar Pradesh and contributions made to the National Defence Fund and Orissa Cyclone Relief Fund. The Committee expect the Company to present a detailed and reasoned account of the reasons for the decline in the profit earned in 1999-2000 and also the reasons for projecting the profit earning for the year 2001-02 at an even lower level of Rs.831 crore. The Committee also wish to be kept apprised of the measures taken for bringing about economy in operational costs and making use of new business opportunities for keeping up the profitability of the Company.

RECOMMENDATION NO. 3

AUGMENTATION OF GAS SUPPLIES

The Committee note that with a view to augmenting supplies of gas to meet the growing demands, GAIL has initiated a number of steps, which include, participation in LNG import terminal projects through the joint venture concern, LNG Petronet Ltd., undertaking exploration and production programmes under the New Exploration Licensing Policy (NELP), and importing gas. The Committee have been informed that two LNG import terminal projects are presently being executed by LNG Petronet at Dahej and Kochy at an estimated cost of Rs.3000 crore and Rs.1750 crore with the completion schedule of the projects being the years, 2003 and 2005 respectively. In regard to exploration and production programmes, the Committee note that as many as eight exploratory blocks have been awarded to GAIL's consortia. The Committee expect the Company to undertake these projects in right earnest so as to enable augmenting the supplies of gas to meet the requirements of the economy. The Committee also wish to be kept apprised of the progress of execution of LNG import terminal projects and achievements made in exploratory ventures for oil and natural gas.

On the initiatives taken for importing LNG / natural gas, the Committee observe that several potential opportunities in which GAIL participated could not materialise and the Company was now seriously pursuing the possibility of cross border gas trade with Bangladesh and pipeline gas imports from Iran. The Committee express the hope that these bilateral ventures would be pursued with utmost seriousness by GAIL. The Committee also wish to be kept apprised of the progress made in the materialisation of the bilateral co-operative ventures and in particular, the Indo-Iran deep water gas pipeline.

RECOMMENDATION NO. 4

ESTABLISHMENT OF A NATIONAL GAS GRID

The Committee note that the Twenty-first Century will be the Century of Gas, while the previous two centuries were the centuries of Coal and Oil. GAIL has introduced the concept of transportation of gas all over the country through pipes, which is the most economical mode for transporting gas over long distances to reach every nook and corner of the country. At present the pipeline network covers the north-western part of the country, while there are other projects under implementation which will cover extensively the remaining parts of the country. The Committee are aware that the use of pipelines to transport gas will help reduce dependence on road transportation which in turn will cut down diesel consumption and time taken for transport as well as vehicular pollution due to emissions and would further result in huge savings worth several hundred crores of rupees. The Committee feel that there is an urgent need to establish a National Gas Grid very early in this country to maximise national gains. The Committee, therefore, recommend that the Government should allocate the necessary financial resources to help establish the National Gas Grid within the Tenth Five Year Plan itself. In view of its technical, environmental and economic importance, the work on this grid should be taken up on a war-footing with a definite time frame for each stage.

RECOMMENDATION NO. 5

IMPACT OF DISMANTLING OF APM ON GAIL

The Committee note that the key impact of dismantling of Administered Pricing Mechanism (APM) in the oil sector with effect from 1st April, 2002 will be in the LPG business of GAIL. Before 1st April, 2002 the price of LPG produced by GAIL was fixed by OCC and the price so offered was considerably lower than the import parity price for LPG due to surcharge computed on price differential of natural gas prices and 100% FO price, being deducted. The Committee have been informed that when LPG prices are deregulated and the existing method of computation of surcharge is discontinued, there is likelihood of better price realisation for the LPG produced by GAIL. However, the margins could be under pressure since the cost of raw materials and fuel (natural gas - which is the major component of the operating costs) is also expected to increase with the natural gas prices. The Committee, therefore, recommend that the Government should allow GAIL to market at least 10% of its LPG to the bulk consumers to help mitigate the impact of dismantling of APM in LPG sector in a free market scenario.

RECOMMENDATION NO. 6

JOINT VENTURE CONCERNS

The Committee observe that GAIL has promoted three joint venture companies, namely, Mahangar Gas Limited (MGL), Indraprastha Gas Limited (IGL) and Petronet LNG, in collaboration with other Indian and international companies operating in the oil and gas sector. While the first two concerns are engaged in executing gas distribution projects and setting up Compressed Natural Gas (CNG) retail outlets in the cities of Mumbai and Delhi respectively, Petronet LNG is endowed with the specific task of setting up LNG import terminals at Dahej and Kochy.

The Committee note with appreciation the fact that the joint venture concerns promoted have provided GAIL's personnel with rich and varied experience and would hold the Company in good stead for its future business. However, the Committee feel that in regard to meeting the demand for CNG in Delhi per se, a lot needs to be done by the joint venture, IGL. Mainly by taking into consideration the commonly known fact about the huge gap between the demand and supply of CNG in Delhi, the Committee recommend that GAIL, as one of the main promoters of IGL, should ensure that the projects relating to increasing the compression capacity of CNG stations, laying of additional pipelines, upgrading `daughter' CNG stations to booster stations and setting up additional CNG stations are executed in right earnest. The Committee, in particular, observe that there has been an inordinate delay in laying the CNG pipeline beyond Daulakuan in Delhi and they desire that this work should be completed within the next six months on an emergent basis so that sufficient number of CNG stations with the capacity to dispense gas at high pressure are established in order to reduce the long queues and unproductive waiting by the vehicles at CNG stations.

RECOMMENDATION NO. 7

OVERDUES

The Committee note with concern that the total overdues of the Company has been rising year after year. The outstanding amounts, which totalled to Rs.337.07 crore in 1998-99 rose to Rs.544.86 in 1999-2000 and to Rs.664.56 crore in 2000-01. Of the total dues, the present outstandings on account of supply of gas amounted to Rs.520 crore, with the major defaulters being Essar Steel Ltd., a private concern, and organisations / units located in the North-Eastern States of Assam and Tripura. While the private concern, Essar Steel Ltd., from whom an amount of Rs.125 crore was due has disputed the payments and the matter was presently sub-judice, the Committee understand that efforts made to settle / recover the dues from Assam State Electricity Board, North-Eastern Electric Power Corporation and the Department of Power, Government of Tripura include, issuing letters as well as intervention by the Ministry of Petroleum & Natural Gas. The Committee feel that the question of stopping further supply of gas to private companies with high outstandings should be considered by the Government, as litigations take a long time to get resolved and there is a need to discourage the private companies from rushing to courts. The Committee are of the considered view that the mounting overdues do not auger well to the financial health of

GAIL and more so in the emerging market scenario where multiple players are operating in the business of supply of oil and natural gas. The Committee, therefore, expect that the Company - with the active assistance of the Ministry of Petroleum & Natural Gas - would spare no effort in recovering / settling the overdues and in ensuring timely payments for gas supplies in future. The Committee also recommend that for the purpose of recovering the outstanding amounts, the scheme of securatisation and issue of tax free bonds by the State Governments concerned - which was formulated and agreed upon by the high level empowered group of Chief Ministers recently – needs to be made use of effectively. The Committee also feel that similar measures could be formulated for recovering the outstandings from other non-State Government utilities / concerns. The Committee also desire that a separate factual note may be submitted to them on the steps taken for recovering / settling the dues and results achieved within three months of the date of presentation of this report.

RECOMMENDATION NO. 8

DIVERSIFICATION INTO TELECOM BUSINESS

The Committee note that GAIL owns and operates a network of over 4400 kms of gas pipeline along the length and the breadth of the country and this network is closely monitored with the help of a sophisticated communication network which has the surplus potential for commercial utilisation in the telecom sector. GAIL is planning to lay high capacity Optical Fibre Cable (OFC) alongside the LPG pipeline networks so that the spare capacity in the existing and upcoming telecom infrastructure along the pipelines could be used advantageously by appropriate methods such as leasing of band-width etc. to raise revenue. The Committee desire that GAIL should undertake this diversification programme and complete it expeditiously in order to ensure the financial health of the Company with additional revenue from the telecom business.

RECOMMENDATION NO. 9

PROBLEMS RELATING TO DEMANDS RAISED BY REVENUE AUTHORITIES

The Committee understand that GAIL has been facing certain problems / disputes relating to revenue levies from the Sales Tax, Income Tax and Central Excise Departments. These tax demands have been termed by the Company as `aggressive' and `unreasonable'. As regards levies relating to Sales Tax, the Committee have been informed that although the Company has been paying the tax applicable under the State Sales Tax Act on the gas transferred from the State of Gujarat through the HBJ pipeline, amounts totalling to hundreds of crores of rupees have been levied on account of payment of Central Sales Tax for the period 1994-95 to 1999-2000 and accrual of interest amount thereon. The matter is now sub-judice. The Committee can, therefore, only hope that the Ministry of Petroleum & Natural Gas render every possible assistance to GAIL in ensuring an early settlement of the dispute.

As regards the demand for payment of income tax amounting to Rs.243.81 crore, Rs.239 crore and Rs.63.41 crore for the financial years 1995-96, 1996-97 and 1997-98 respectively, from the information furnished, the Committee understand that the demand for tax payment has been made by considering GAIL's activities as not that of an `industrial undertaking' and that the matter has been taken up with the Ministry of Finance for clarifications. The Committee also understand that the authorities concerned had demanded payment of excise duty on NGL spiked back into the main LPG pipeline at GAIL's plants in Vijaipur and Vadodara, since the fact relating to exemption from payment of excise duty on NGL spiked back into the pipelines was missed out from the related notification on rationalisation of exercise duty structure. The Committee expect the Ministry of Petroleum & Natural Gas and the Ministry of Finance to resolve these contentious issues relating to Income Tax and Central Excise Duty payments at an early date so as to not put GAIL into a disadvantageous position. The Committee also wish to be informed in detail of the action taken in resolving the disputes.

ANNEXURE - I

TOUR PROGRAMME OF THE COMMITTEE ON PUBLIC UNDERTAKINGS TO JAIPUR, JODHPUR, UDAIPUR AND MUMBAI FROM 4TH TO 9TH OCTOBER, 2001 AS ACTUALLY PERFORMED

(MEMBERS ASSEMBLED AT JAIPUR)

DATE & DAY	TIME	VISIT & DISCUSSION
4.10.2001 (Thursday)	1200 hrs	Discussion with the Officers of Gas Authority of India Ltd.
	1600 hrs	Discussion with the Officers of Hindustan Salts Ltd.
	1730 hrs	Discussion with the Officers of Instrumentation Ltd.
		(NIGHT HALT AT JAIPUR)
5.10.2001 (Friday)	0530 hrs	Departure for Jodhpur by CD-7471
	0800 hrs	Arrival Jodhpur
	1100 hrs	Discussion with the Officers of National Mineral Dev. Corp.
		(NIGHT HALT AT JODHPUR)
6.10.2001 (Saturday)	0700 hrs	Departure for Udaipur by CD-7471
	0920 hrs	Arrival Udaipur
	1600 hrs	Discussion with the Officers of Hindustan Zinc Ltd.
		(NIGHT HALT AT UDAIPUR)
7.10.2001 (Sunday)	0900 hrs	Visit to Zawar Mines / Smelter Units of Hindustan Zinc Ltd.
		(NIGHT HALT AT UDAIPUR)
8.10.2001 (Monday)	0800 hrs	Departure for Mumbai by CD-7471
	1050 hrs	Arrival Mumbai
	1500 hrs	Discussion with the Officers of Videsh Sanchar Nigam Ltd.
	1630 hrs	Discussion with the Officers of General Insurance Company Ltd.
		(NIGHT HALT AT MUMBAI)
9.10.2001 (Tuesday)	0900 hrs	Discussion with the Officers of Indian Petro Chemicals Ltd.

D I S P E R S A L

ANNEXURE – II

COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS WHICH VISITED JAIPUR, JODHPUR, UDAIPUR AND MUMBAI FROM 4TH TO 9TH OCTOBER, 2001

MEMBERS, LOK SABHA

1. Prof Vijay Kumar Malhotra, Chairman
2. Shri Prasanna Acharya
3. Prof. S. P. Singh Baghel
4. Shri Sudip Bandyopadhyay
5. Shri Ram Tahal Chaudhary
6. Shri K. E. Krishnamurthy
7. Shri Vilas Muttemwar
8. Shri Tarit Baran Topdar

MEMBERS, RAJYA SABHA

9. Shri K. Kalavenkata Rao
10. Shri Jibon Roy
11. Shri B P Singhal
12. Smt Ambika Soni
13. Shri C. P. Thirunavukkarasu
14. Shri Ranjan Prasad Yadav

SECRETARIAT

1. Shri S Bal Shekar, Director
2. Shri T G Chandrasekhar, Assistant Director
3. Shri P N Mishra, Pvt. Secretary
4. Shri Tirthankar Das, Sr Executive Asstt

ANNEXURE – III

LIST OF OFFICIALS OF GAS AUTHORITY OF INDIA LIMITED WHO WERE PRESENT DURING DISCUSSION WITH THE COMMITTEE ON PUBLIC UNDERTAKINGS AT JAIPUR ON 4.10.2001

1.	Shri P. Banerjee	Chairman –cum –Managing Director
2.	Shri S. Niyogi	Director (HR)
3.	Shri J.K. Jain	Director (Fin)
4.	Shri S.P. Rao	Director (Project).
5.	Shri H.P.Chandna	Director (Plng.)
6.	Shri C.N. Trivedi	Executive Director (ET & T).
7.	Shri I.N. Jha	Executive Director (M&P)
8.	Shri R. Khanna	General Manager (BD)