EIGHTIETH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1983-84)

(SEVENTH LOK SABHA)

HINDUSTAN PETROLEUM CORPORATION LTD.

(MINISTRY OF ENERGY—DEPARTMENT OF PETROLEUM)

[Action Taken by Government on the Recommendations contained in the 72nd Report of the Committee on Public Undertakings (Seventh Lok Sabha)]

Presented to Lok Sabha on 23 MAR 1984

Laid in Rajya Sabha on 23 MAR 1984

LOK SABHA SECRETARIAT
NEW DELHI

February 1984/Phalguna 1905(S)

Price : Rs. 2.20

CORRIGENDA TO THE 80TH ACTION TAKEN REPORT OF CPU(1983-84) ON HINDUSTAN PETROLEUM CORPORATION LIMITED

Page	Para	Line	For	Read
Front Cover	-	Price	Rs.2.20	Rs.2.30
Contents	-	2	(v)	(iv)
"	-	3	(vii)	(v)
"	-	-	Appentices I	Appendices
"	-	5 from bottom	44	45
"	-	1 from bottom	47	48
(v)	-	1	1	I,
4	17	4	Part	Port
6	Omit line No.9 from bottom.			
7	Omit line No.17 from top.			
20	4	10 from bottom	per	for
31	3	7 from bottom	accounting	announcing
39	1	9	distributers	distributors
46	4	2	non-offica	non-official.

CONTENTS

COMMITTEE ON PUBLIC UNDERTAKINGS
(1983-84)

Chairman

Shri Madhusudan Vairale

MEMBERS

Lok Sabha

2. Shri Kamaluddin Ahmed
3. Shrimati Gurbrinder Kaur Brar
4. Shri Ramnath Dubey
5. Shri Harish Kumar Gangwar
6. Shri Krishna Chandra Halder
7. Shri Nihal Singh Jain
8. Shri Lakshman Mallick
9. Shri D.K. Naikar
10. Shri K.A. Rajan
11. Shri N. Kudanthai Ramalingam
12. Shri Pratap Bhanu Sharma
13. Shri B.D. Singh
14. Shri Krishan Pratap Singh
15. Shri Satyendra Narain Sinha

Rajya Sabha

16. Shri Hari Shankar Bhabhra
17. Shri Mahendra Mohan Mishra
18. Shri Narendra Singh
19. Shri Manubhai Patel
20. Shri M.S. Ramachandran
21. Shri Syed Sibtey Razi
22. Shri Abdul Rehman Sheikh

SECRETARIAT

1. Shri T.R. Krishnamachari—*Joint Secretary.*
2. Shri M.K. Mathur—*Chief Financial Committee Officer.*
3. Shri G.S. Bhasin—*Senior Financial Committee Officer,*

ACTION TAKEN SUB-COMMITTEE OF THE COMMITTEE ON PUBLIC UNDERTAKINGS
(1983-84)

1. Shri Madhusudan Vairale—*Chairman*
2. Shri Kamaluddin Ahmed—*Convener*
3. Shri Krishna Chandra Halder
4. Shri Lakshman Mallick
5. Shri D.K. Naikar
6. Shri Pratap Bhanu Sharma
7. Shri Satyendra Narain Sinha
8. Shri Hari Shankar Bhabhra
9. Shri Syed Sibtey Razi.

INTRODUCTION

1. the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 80th Report on Action Taken by Government on the recommendations contained in the 72nd Report of the Committee on Public Undertakings (Seventh Lok Sabha) on Hindustan Petroleum Corporation Ltd.

2. The 72nd Report of the Committee on Public Undertakings was presented to Lok Sabha on 27 April, 1983. Replies of Government to all the recommendations contained in the Report were received by 2 January, 1984. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 9 February, 1984. The Committee also considered and adopted this Report at their sitting held on 9 February, 1984.

3. An analysis of the action taken by Government on the recommendations contained in the 72nd Report (1982-83) of the Committee is given in Appendix III.

NEW DELHI;
February 28, 1984
Phalguna 9, 1905 (Saka)

MADHUSUDAN VAIRALE,
Chairman,
Committee on Public Undertakings.

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by Government on the recommendations contained in the Seventy-second Report (Seventh Lok Sabha) of the Committee on Public Undertakings on Hindustan Petroleum Corporation Ltd. which was presented to Lok Sabha on 27 April, 1983.

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

(i) *Recommendations/Observations that have been accepted by Government*:

S. Nos. 1 to 26 and 28 to 36.

(ii) *Recommendation/Observation which the Committee do not desire to pursue in view of Government's reply*:

S. No. 27.

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

A. *Corporate Plan*

Recommendation Serial No. 1 (Paragraph No. 1.17)

3. The Committee recommended that as the Department of Petroleum was accountable for the efficient functioning of the public undertakings under it and the clear definition of objectives was basic to the evaluation of efficiency, these and the Corporate Plans should be specifically approved by the Department.

4. Government have stated in their reply that statement of objectives along with the financial objectives of Hindustan Petroleum Corporation Limited have since been approved by the Government.

5. Government's reply is silent on the Committee's recommendation regarding the formulation of the Company's

Corporate Plan with the approval of Government. The Committee trust that necessary action for getting the Government's approval to the Corporate Plan has also been initiated.

B. *Working Results*

Recommendations Sl. No. 2 and 3 (Paragraph Nos. 1.18 and 1.19)

6. The Committee noted that the Company sold not only its own products but also those provided from other companies and its share of canalised imports and observed that marketing activities appeared more profitable. In order to bring out the results of the operations clearly and meaningfully, the Committee felt that petroleum enterprises should bring out separately the Production and Marketing Accounts by working out the profits/loss on each account, in future. They recommended that this may be examined for suitable action in consultation with the CAG of India. The Committee had also desired that the financial working results should be so analysed that they could be compared with the past performance and the budget anticipations. They recommended that the manner in which these should be depicted in the Annual Reports may be settled in consultation with the CAG of India.

7. Government have stated in their reply that the matter has been taken up with the Bureau of Public Enterprises and that it has been ascertained from the BPE that they have made a reference to the Comptroller and Auditor General of India. The matter is reportedly being pursued vigorously.

8. The Committee would urge that decisions on these matters should be taken early and the changes decided upon reported to them.

C. *Forecast of Demand for Equipment*

Recommendation Sl. No. 10 (Paragraph No. 2.31)

9. In the context of the difficulties in getting supplies of equipment from indigenous sources, the Company had suggested that a systematic forecast of demand of equipment might be made by the Director General of Technical Development which would invite many engineering fabricators in the field. The Committee had desired that the Department of Petroleum should pursue this suggestion with the DGTD.

10. Government have stated in their reply that this has been taken up with the Director General of Technical Development. The Working Group on Petroleum for the Seventh Plan is also reportedly seized of the matter.

11. The Committee feel that it would have been helpful if the action taken by the DGTD in the matter had been ascertained and conveyed to them. They would await the final action taken on the matter.

D. *Penalty/Liquidated Damages Clause*

Recommendation Serial No. 21 (Paragraph 3.76)

12. The Committee had urged that the Company should safeguard its financial interest fully by insisting on a penalty/liquidated damages clause in the contracts in future.

13. Government have stated in their reply that the purpose of the penalty/liquidated damages clause was to act as a deterrent for the timely supplies but since this clause is subject to force majeure, it has not been very effective. It has also been stated that in view of the practical difficulties, it may be useful if the manner in which the penalty/liquidated damages clause could be made effective in the contracts by Public Sector Enterprises is examined by BPE.

14. The Committee hope that the Ministry has taken up the matter with BPE for suitable action. They would be interested to know the results of examination which might be conducted by BPE.

E. *Security arrangements and replacement of defective Pipelines*

Recommendation Serial No. 28 (Paragraph 4.35)

15. The Committee had urged that the security arrangements in HPCL should be made effective and the question of deployment of Central Industrial Security Force in HPCL's refineries should be considered early. Further, the Committee noted that major losses had arisen due to defects in the pipelines owned and operated by Bombay Port Trust. They had recommended that the authorities concerned should be

impressed upon by the Ministry of Shipping and Transport to correct the defects in the pipelines and replace the overaged ones expeditiously.

16. Government have stated in their reply that to strengthen the security arrangements, HPCL/Government has decided to induct Central Industrial Security Force at its Bombay and Vizag Refineries. Details of the proposal have been worked out in consultation with CISF. These proposals are reportedly under consideration. The Vigilance and Security Department of HPCL is also stated to be further strengthened to cope up with the increased volume of work. It has been stated further that the Bombay Port Trust has carried out repairs of their pipelines which has minimised the losses and that the question of replacement of these pipelines is under their consideration.

17 The Committee hope that the proposals for induction of CISF at HPCL's Bombay and Vizag Refineries will be finalised soon. They desire that the Department should take up the matter with Bombay Part Trust for replacement of defective pipelines on priority basis.

F. Price revision on account of increase in interest on Working Capital

Recommendation Serial No. 31 Paragraph No. 5.45)

18. The Committee had, *inter alia*, desired that the question of reimbursing increased interest on working capital automatically whenever prices were revised, should be considered early.

19. Government have stated in their reply that whenever prices are increased, reimbursement of the increased cost in working capital is taken up. Government has also set up on 18.7.1983 a Cost Review Committee. One of its terms of reference relates to working out a formula to enable quick calculations of changes in cost factors. The recommendations of the Committee are awaited.

20. The Committee would await Cost Review Committee's recommendation in this regard and the Government's decision thereon.

G. Pricing of certain refinery products

(Recommendation Serial No. 22 Paragraph No. 5.35)

21. The Committee had, *inter alia*, suggested that there ought to be a price regulation over the final products of the process industries which used finished products of refineries as intermediates so that no unintended benefit accrued to them. They further recommended that if for some reasons the price regulation of the products to these process industries was considered not necessary or feasible, there was a case for placing the refinery products used by these industries, along with the product groups which were already outside the price control mechanism.

22. Government have stated in their reply that Government determines the prices of major finished petroleum products only and administers these prices with the help of the oil marketing companies which are all in the public sector. It has been stated that it will be outside the purview of this Department to determine and regulate the prices of the very large number of items where petroleum products are used as fuel or as raw material.

23. **Government's reply is silent on the question of placing the refinery products used by certain process industries outside the price control mechanism, so that no unintended benefit accrued to the manufactures who used finished products of refineries as intermediates. The Committee hope that Government would consider this question and take appropriate action under intimation to the Committee.**

———

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation Serial No. 1 (Paragraph No. 1.17)

Hindustan Petroleum Corporation was formed in 1974. The statement of objectives and obligations of the undertaking was, however, formulated only in December, 1980. This statement has not been specifically approved by Government. The explanation of the Department of Petroleum that their representatives in the Board of Directors of the Company see that these objectives are in line with the overall socio-economic objectives is not convincing. As the Department is accountable for the efficient functioning of the public undertakings under it and the clear definition of objectives is basic to the evaluation of efficiency, these and the Corporate Plans should be specifically approved by the Department. As regards financial objectives, the Ministry of Finance should also be consulted. The Committee hope that the Department would take action accordingly.

Reply of the Government

Statement of objectives along with the financial objectives of Hindustan Petroleum Corporation Limited have since been approved by the Government.

[Ministry of Energy Deptt. of Petroleum O.M. No. 13020/9/83-Gen. Dated 20.12.83]

(Please *see* Paragraph 5 of Chapter I of the Report)

Comments of the Committee

(Please *see* Paragraph 5 of Chapter I of the Report)

Recommendation Sl. No. 2 (Paragraph No. 1.18)

The Committee find that there have been wide variations between budget targets and actuals of HPCL in respect of production, profits and generation of internal resources during the period 1975-82. Although there was lower crude throughput during the period 1975-80 and in 1978-79 alone, the Company suffered a production loss of about one and a half crores of rupees, the overall profits were higher than the targets. In this connection, the Committee note that the company sells not only its products but also those provided from other companies and its share of canalised imports. Thus marketing activities seems more profitable. In order to bring out the results of the operations clearly and meaningfully, the Committee feel that Petroleum enterprises should bring out the Production and Marketing Accounts working out the profits/loss on each account, in future. This may be examined for suitable action in consultation with the CAG of India.

Reply of the Government

The matter has been taken up with the Bureau of Public Enterprises. It has been ascertained from the BPE that they have made a reference to the Comptroller and Auditor General of India. The matter is being pursued vigorously.

[Ministry of Energy Deptt. of Petroleum O.M. No. J-13020/9/83-Gen. Dated 16th Dec., 1983.]

(Please see paragraph 8 of Chapter I of the Report)

Comments of the Committee

(Please *see* Paragraph 8 of Chapter I of the Report)

Recomendation Sl. No. 3 (Paragraph No. 1.19)

Another factor which led to the actual profits and generation of internal resources being more than what were budgeted for, was the huge prior period adjustments made every year but not taken into account at the time of preparing budget estimates. The Committee desire that the financial working results should be so analysed that they could be compared with the past performance and the budget anticipations. The manner in which these should be depicted in the Annual Reports may therefore be settled in consultation with the CAG of India.

Reply of the Government

The matter has been taken up with the Bureau of Public Enterprises. It has been ascertained from the BPE that they have made a reference to the Comptroller and Auditor General of India. The matter is being pursued vigorously.

[Ministry of Energy Deptt. of Petroleum O M. No. J-13020/9/83-Gen. Dated 16th Dec., 1983.]

Comments of the Committee

(Please see paragraph 8 of Chapter I of the Report)

Recommendation Sl. No. 4 (Paragraph No. 1·20)

The Committee have been informed that no targets are set for value added. They desire that this should be done in future and the plan targets for capital investment, generation of internal resources, production and value added together with achievements and explanation for shortfalls, if any, brought out in the Annual Reports and performance Budgets of the Administrative Ministry and the oil companies.

Reply of the Government

This recommendation has been communicated to all the undertakings under the Department of Petroleum for compliance in respect of their Annual Reports. This recommendation will also be taken into account in preparing the performance budget of the Department.

2 The Annual Report of the Ministry gives an overall performance and achievements of the various undertakings of this Department in physical terms, and no special emphasis is given to detailed financial aspects except briefly mentioning the profitability of the concern whereas the performance budget of the Department and the Annual Reports of the oil companies give detailed information about the finances of the various undertakings. If the same thing is brought out in the Annual Report as well as in the performance budget of the Department, it would only be a duplication of effort.

[Ministry of Energy. (Department of Petroleum) O.M. No. J-13020/2/83-Gen. Dated. 7.11.83]

Recommendation Sl. Nos. 5 to 7 (Paragraph Nos. 2.26 to 2.28)

The Committee find that in the 4 projects completed by HPCL during the period 1974-81 there was delay of 13 to 15 months in each case. These projects were originally estimated to cost Rs. 15.06 crores but their cost of completion was Rs. 16.57 crores. In the case of one project namely ATF pipeline there was cost over-run of 82 per cent and delay in the completion of debottlenecking project had resulted in the loss of production amounting to over Rs. 1 crore. The reasons for delay have been largely attributed to delay in finalisation of orders and delivery of equipments by suppliers, changes in scope of projects and irregular supply of steel and cement.

Nine projects currently under execution by the Company involve an expenditure of Rs. 178.18 crores. Cost of these projects has, however, been revised and they alone are now expected to cost Rs. 203.54 crores. Delay in completion in some of these projects is anticipated which will inevitably push up the cost further. Revised feasibility reports in respect of three other projects are reportedly under preparation and costs are likely to be higher than those originally estimated.

The Committee note that the Visakh Refinery Expansion Project was approved by Government in December, 1980 at a cost of Rs. 65.85 crores on the basis of a feasibility report which was based on a study report prepared by Engineers India Limited. A revised feasibility report submitted to Govt. in December, 1981, however, envisages project cost of Rs. 150.36 crores, recording an increase of 128.3 per cent over the original estimates. Thus, project estimates have more than doubled.

Reply of the Government

The recommendations have been brought to the notice of all the public sector undertakings under the administrative control of this Department for strict compliance. The undertakings have been advised to organize strong project monitoring groups within the organisations to monitor project implementation closely and to avoid delays and cost escalations.

[Ministry of Energy (Department of Petroleum O.M.No. J-13020/3/83-Gen. dated. 7.11.1983]

Recommendation Sl. Nos. 8 and 9 (Paragraph Nos. 2.29 & 2.30)

The Committee are distressed to note the delay in the execution of projects and the unreliability of the project estimates requiring steep upward revision. The Committee feel that something seriously is wrong with the project formulation, implementation, monitoring and control. The Committee need hardly stress that all efforts should be made to see that the projects are formulated realistically and completed by the scheduled dates and within the estimated expenditure.

The Department of Petroleum and the Company have stated that they have been experiencing a great difficulty in building up the organisation of projects planning, implementation and costs control. The problem has been further aggravated with the exodus of experienced officers. The Committee have been informed that recommendations of the study Group appointed to examine this aspect were being processed. They hope that with the implementation of study Group's suggestion the Company will soon be able to organise fully its project formulation, implementation and monitoring cell which will ensure economical and timely completion of all projects currently under execution. The Committee would await the steps taken in this regard.

Reply of the Government

Hindustan Petroleum Corporation Ltd. has already taken the following steps in order to ensure that the projects are formulated realistically and completed by the scheduled dates and within estimated expenditures :

(*a*) To ensure that the projects are being implemented as per the feasibility study report, a two tier project monitoring organisation has been set up within the Corporation, one at the corporate level handled by the Corporate Planning and Projects Division and the other at the Project (site) Management level. The work on the Project Monitoring Cell is being reviewed constantly and keeping in view the experience gained, the Cell is being strengthened.

(*b*) One of the major reasons for the delay in completion of the project is the delay in supply of material and equipment by the vendors. For this purpose, the Corporation as well as the Consultants, have started sending inspectors on a regular basis to review the progress on the fabrication of equipment at manufacturer's shop and also provide necessary assistance for timely completion of the jobs.

(*c*) To ensure that the projects are formulated realistically various recommendations made by the Study Group appointed specifically for reviewing preparation of feasibility reports are kept in view. The advice of Consultants in preparation of technical data and cost estimates for the important projects is also invariably taken so as to have a realistic assessment.

(*d*) Under the present system, the cost estimates in the feasibility reports are required to be based on prevailing prices without taking into account future escalations. In respect of the projects with long construction schedule, the escalation in prices makes a major impact on the increase in cost.

(e) The use of Pert Charts and computers have been introduced for closer control and feedback during implementation. A Management Information System has been incorporated which identify the areas of weaknesses and which require early management action. We have also set up a Monitoring Cell for projects over Rs. 20 crores, which highlights the areas of delay and provides assistance for corrective action.

[Ministry of Energy (Deptt. of Petroleum) O.M.No. 13020/9/83-Gen. Dt. 30.11.83]

Recommendation Sl. No. 10 (Paragraph No. 2.31)

One of the reasons attributed to late completion of projects is difficulty in getting the services of experienced and reputed contractors to undertake various projects jobs at reasonable rates and in getting timely supplies of equipment from the indigenous sources. It has also been stated that it is not feasible to get many bids for fabricated equipment. The Deptt. of Petroleum has identified steps to deal with the situation but the Company has suggested that a systematic forecast of demand of equipment might be made by the Director General of Technical Development which would invite many engineering fabricators in the field. The Committee would like the Department of Petroleum to pursue this suggestion with the DGTD.

Reply of the Government

This has been taken up with the Director General of Technical Development. The Working Group on Petroleum for the Seventh Plan is also seized of the matter.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. J-13020/4/83-Gen. dated 30.12.1983]

Comments of the Committee

(Please see paragraph 11 of Chapter I of the Report)

Recommendation Serial No. 11 (Paragraph No. 2.32)

In regard to Visakh Refinery Expansion Project the Committee also note that Government had approved the project in December, 1980 but its detailed project report is expected to be completed only in mid 1983. The delay in the preparation of detailed project report is stated to be due to delayed receipt of process package and completion of detailed engineering. According to the procedure laid down by the Ministry of Finance if it is felt that DPR could not be prepared within a year after the sanction of the project, the time required for this purpose should be got settled when the proposals are first processed through Public Investment Board. This does not seem to have been done in the case of Visakh Refinery Expansion Project. The Committee regret that the Company has not cared to follow the procedure laid down by the Ministry of Finance and the Administrative Ministry has also overlooked the requirement. The Committee desire that there should be no avoidable delay in the preparation of DPRs.

Reply of the Government

The recommendation has been brought to the notice of all the public sector undertakings under the control of Deptt. of Petroleum for compliance and also to Ministry of Finance (DEA) and Bureau of Public Enterprises for circulation among all concerned.

[Ministry of Energy (Deptt. of Petroleum) O.M.No. J-13020/5/83-Gen. Dated 30.11.83]

Recommendation Sl. No. 12 (Paragraph No. 2.33)

The Committee noticed that in five cases Government took a year or more for approving the project. These are: (1) Visakh Refinery Expansion (2) LP—Phase I; (3) Bombay-Pune Project Line; (4) Mandatory Crude Tankage—I.B. (B) and (5) Mandatory Crude Tankage—IB (V). The Committee have been informed that with the tightening of system of preparing feasibility report the project clearance has been speeded up. The Committee are of the view that as laid down by the Ministry of Finance (Bureau of Public Enterprises) normally it should not take more than six months to clear a project proposal. They hope delays in project approval will be avoided in future.

Reply of the Government

The recommendation has been brought to the notice of all concerned in the Department of Petroleum and also all the public sector undertakings under its administrative control for compliance. A system of periodic reviews of pending cases has been introduced.

[Ministry of Energy (Department of Petroleum) O.M.
No. J-13020/6/83-Gen. Dated 7.11.1983]

Recommendation Serial No. 13 (Paragraph No. 3.68)

HPCL has reportedly been facing production constraints due to high salt water content in crude receipts, power dips/outages, crude availability problems, silting problems at Bombay Refinery and steam limitation in Visakh Refinery. The Committee have been informed of various projects which are either under execution or proposed to be undertaken to counter these problems. They hope that with these measures the production constraints would be overcome soon and the utilization of the present refining capacity maximised.

Reply of the Government

The current status on implementation of the various projects/proposals to overcome production constraints is as under :

(i) *Salt Water content in crude receipts*

HPCL have already commissioned the crude desalter at their Visakh refinery and the unit is operating satisfactorily. A similar unit is under installation at their Bombay refinery and is expected to be commissioned very shortly. With the installation of the above equipment, it is expected that to a large extent HPCL will be able to neutralise the effect of salt water carry over in crude receipts. Efforts are also being made to minimise crude receipts *via* lighterage operations and to the extent possible arrange for direct voyages, since this would also significantly assist in reducing degree of salt water contamination with crude oil.

(ii) *Crude availability problems*

Steps are being taken to suitably augment crude storage capacities at both the Bombay and Visakh Refineries. Under the Mandatory Crude Storage Programme, 2 new tanks of 76000 tonnes capacity at the Bombay refineries and 4 tanks of 55000 tonnes capacity at Visakh Refinery are under installation. With the commissioning of these tanks, HPCL would have adequate storage cover to effectively offset temporary disruptions in crude supply arrangements.

(iii) *Power dips/outages*

It has been decided to have captive power generation both at Bombay and Visakh refineries. The Feasibility Report for the Bombay

Captive Power Plant is under consideration. In respect of Visakh, the Feasibility Report is under preparation.

(iv) *Silting problems at Bombay Refinery*

In order to provide immediate relief and to sustain safe operations and production in the units, HPCL have been undertaking regular dredging of silt around the jetty in consultation with bodies like the Central Oceanographic Research Institute at Poona. As a long term solution, HPCL are increasing the circulating cooling water capacity at both Fuels/Lube refinery, Bombay, so as to minimise the requirements of cooling water from the sea. 2 new cooling towers were installed in the Fuels refinery in 1978 and 1982 respectively. Another cooling tower was commissioned in 1983 in the Lube refinery to meet the requirements of Lube Expansion. A new cooling tower is currently under installation at Lube refinery and this project is in the final stages of completion. A new cooling tower has also been approved for installation at the Fuels Refinery. With these 5 cooling towers in operation and other modifications for reuse of cooling water in coolers/condensers, the cooling water requirements for the Fuels/Lube refineries will be considerably reduced.

(v) *Steam limitations—Visakh Refinery*

Steps are being taken to progressively replace the existing 6 nos. of 35000 lb/hr. capacity boilers with 2 nos. modern high efficiency boilers of 110,000 lb/hr. capacity. The first new boiler is under installation and is expected to be commissioned by end 1983. Procurement action for the second unit is in hand.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. 13020/9/83-Gen. Dated 30.11.83]

Recommendation Serial No, 14 (Paragraph No. 3.69)

HPCL uses 100% imported crude for Bombay Refinery. It had an agreement with EXXON for supply of 100 million barrels of crude for a period of 7 years since March 1974 approx. 55,000 barrels per day (B/D) for the first three years and approx. 27243 B/D for the subsequent four years. This agreement came to an end in March, 1981. Since then EXXON has continued supplies of crude oil on an ad hoc basis. The Committee have been informed that keeping in view the prevailing international oil market situation, a decision has been taken to replace the supply arrangements with EXXON by obtaining supply through other sources including swapping arrangements for disposal of surplus Bombay High Crude Oil. It has been stated that there will not be any need for crude upliftment from EXXON sources from May, 1983 onwards. The Committee trust that while making alternative arrangements, it would be ensured that there is no interruption in supply of crude to the Bombay refinery. They would like to be informed to the steps taken to ensure regular crude supply to this refinery.

Reply of the Government

Advance arrangements are always made for regular supply of crude oil to the Refineries in general and to the Bombay Refinery, in particular especially in the context of the termination of supply from EXXON. The total requirements and types of crude oil to be imported are taken well before the commencement of the year and contracts concluded with National Oil Companies for an uninterrupted supply of crude. Arrangements are also made for spot purchases to meet the requirements of Refineries. The term contracts as well as spot purchases alongwith the maintenance of a suitable inventory ensure regular supply of crude oil to this Refinery.

Name of Supplier	*Type of crude*	*Loadport*	*Period*	*Contract Qty ,000 MTs*
Petromin	Arab Mix	Rastanura	Jan. 82/Dec. 83	2,006
Attock	Arab Light	—do—	Oct. 82/Sept. 83	495
Siteo	Arab Light	—do—	Mar. 83/Feb. 84	1,000
Somo	Arab Mix	—do—	Jan. 83/Dec. 83	3,156

The total requirement of HPC Refinery is 3.5 million tonnes annually. We feel no apprehension about any interruption in supply of

Arab or any other suitable crude through IOC. The total EXXON supplies were about 1.4 million barrels per year and the above contracts will replace the EXXON supplies.

[Min. of Energy (Deptt. of Petroleum) OM No. J-13020/9/83-Gen. Dated 29-12-1983]

Recommendation Serial No. 15 (Paragraph No. 3.70)

Reduced demand for Industrial Oils/RPO/Axle Oil has reportedly resulted in some under utilisation of installed capacity in Lube Refinery. Since 1975 there has been excess capacity in the country for production of Low Viscosity Index (LVT) Grade Oils *vis-a-vis* the prevailing demand levels. The Committee note that the shortfall in LVI capacity utilisation is made up by stepping up production of High Viscosity Index (HVI) Oil to the maximum extent within the equiptment design limit. The capacity utilisation in Lube Refinery was still low by 18,000 tonnes in 1981-82. The Committee recommend that in order to ensure full capacity utilisation suitable projects to debottleneck lubricating oil base stock facilities should be formulated and executed expeditiously. Such debottlenecking would reportedly enable an increase in the production of HVI oils which have a large demand.

Reply of the Government

With the commissioning of the Lube Refinery Expansion Project in April, 1983, there has been an increase in production capacity of High Viscosity Index (HVI) Oils of the order of 74,000 tonnes/annum. Therefore, it can be said that to a large extent capacity has been built-in for maximisation of HVI grade oil production which has a larger demand. In addition, techno-economic studies are proposed to establish feasibility of further increasing extraction capacity for maximisation of HVI oil production, so as to fully utilise the available production potential from the crude oil processed.

[Ministry of Energy (Deptt. of Petroleum) OM No. J-13020/9/83-Gen. Dated 30-11-83]

Recommendation Serial No. 16 (Paragraph No. 3.71)

Lubricating oils produced in our country are admittedly inefficient and far below international standards. Over the last few years, however, there has reportedly been a shift towards better lubricating oils. The Committee feel that efforts to upgrade the quality of lubricants and thus reduce the consumption are essential and should be made vigorously.

Reply of the Government

It is possible to reduce the consumption of lubricating oils through upgradation. The decline in demand for the LVI oils is also due to the steps taken by the Government to upgrade the quality of lubricating oils in the country.

Government has asked the oil companies to stop the production of Grade-I type of motor oils and replace them by Grade-III Type oils. These automotive engine oils constitute the largest volume of lubricating oils sold. This change from Grade-I to Grade-III itself is expected to double the drain interval.

IOC, Research and Development Centre was asked to expedite the work on the development of long drain oils to reduce the consumption of Engine oils further. IOC has already conducted performance evaluation of these long drain oils in State transport buses, etc. They have also conducted performance evaluation of long drain oils for use in tractors.

The oil companies have been advised to popularise multi-grade oils which in addition to giving other benefits will also reduce that oil consumption.

The oil companies were requested to give wide publicity to the introduction of these superior grades of oils so that all the users are benefited.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. J-13020/9/83-Gen. Dated 29-12-1983.]

Recommendation Sl. No. 17 (Paragraph No. 3.72)

There are difficulties in marketing marine lubricants as HPCL's lubricants do not carry the recommendations of marine engine manufacturers and ship builders. In order to overcome this difficulty an agreement for collaboration with Antar Marine, France, is expected to be finalised shortly for transfer of technology for blending the required grades of marine lubricants. The Committee expect HPCL to absorb the technology soon and get its lubricants certified by engine manufacturers and ship builders with the assistance of the collaborator. The Committee note the efforts of IOC Research Centre in developing the marine lubricating oils to the standard acceptable to Engine Manufacturers. They urge that this matter should receive more attention.

Reply of the Government

The Committee's observations have been noted.

HPCL have been permitted to enter into negotiations and discussions for collaboration with the foreign companies for blending marine lubricants with a view to acquiring the know-how for development of products and also improving market participation in international marine business.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. J-13020/9/83-Gen. dated 30.12.1983]

Recommendation Serial No. 18 (Paragraph No. 3.73)

Both Visakh and Bombay refineries of HPCL are over 25/28 years old and due to progressive ageing of plant and machinery substantial replacements/renewals are required to be carried out over the next three/five years. However, the machinery for planning and executing modernisation works is weak and needs to be strengthened. The Committee would stress that the project planning cell should be strengthened qualitatively and modernisation of the plant and machinery in the refineries taken up and completed at the earliest. It is heartening to note in this connection that finances do not constitute a constraint as the money was being provided in the Annual Plans for expenditing modernisation of the refineries.

Reply of the Government

During the last 3 years, the Technical Services Deptt. as well as the Project Planning in the refineries have been sufficiently augmented and they are being further strengthened, keeping in view their needs.

In the case of Visakh Refinery, a Working Group of Senior Engineers was appointed in May 1978 for carrying out assessment of the condition of plant and equipment and makes recommendations for replacement and improvements so as to obtain the optimum operating results. The Working Group had drawn a phased programme for the next 5 years commencing 1978, involving capital expenditure of the order of about Rs. 4 crores to modernise the existing refinery at Visakh.

In the case of Bombay Refinery also, equipments which need replacement and modernisation have been identified.

The Managements of both Refineries have formulated a phased programme for replacement and modernisation, involving a capital outlay of Rs. 18 crores over the next 5 years. Services of certain experts in metallurgy have also been obtained in formulating these proposals.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. J-13020/9/83 Gen. dated 30.11.83]

Recommendation Serial No. 19 (Paragraph No. 3.74)

The Committee regret to note that during the last 3 years there have been large number of boiler shutdown due to failure of boilers in Visakh Refinery. They feel that the boiler shut-down in Visakh could have been avoided if steps had been taken in time to replace over aged boilers soon after the takeover of the refinery. It has now been planned to replace these six boilers of 17 tonnes capacity by the two boilers of 50 tonnes capacity each. The Committee note that with the replacement of these 2 boilers, a saving of Rs. 75 lakhs per annum is expected to be achieved by virtue of better fuel efficiency. They desire that the replacement of boilers should be completed without any further loss of time.

Reply of the Government

The need for the replacement of the six existing 17 tonne capacity boilers by two new boilers of 50 tonnes capacity each at HPCL Visakh Refinery was established by the Corporation some time back and the order for one new large size boiler was placed in November, 1981. Boilers being long delivery items, the first boiler's delivery is expected in November, 1983.

The second unit has been referred to the World Bank for financing under energy conservation schemes, and global tenders are expected to be invited shortly.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. J-13020/9/83-Gen. Dated 30.11.83]

Recommendation Serial No. 20 (Paragraph No. 3.75)

Unscheduled shutdowns of some units in the refineries in Bombay have also resulted in appreciable loss in production. Even though such emergency shutdowns could not be directly attributed to weakness in the maintenance system, they nevertheless underscore the need for better preventive maintenance policies in the refineries. The Committee hope due attention will be paid to this aspect of the matter.

Reply of the Government

Unscheduled refinery shutdowns due to plant emergencies may to a large extent be attributed to the progressive ageing of plant and machinery. The Bombay Fuels Refinery was commissioned in 1954 with an installed capacity of 1.25 MTPA. Currently, with a series of debottlenecking measures, the refinery is operating at capacity of 3.5 MTPA and much of the critical hardware, which has been in service for 29 years and operated at maximum capacity is due for phased replacement.

HPCL management has formu lated a 5 year programme for carrying out major maintenance/replacements at both the Bombay and Visakh refineries. For effective implementation of this programme and also per strengthening the maintenance organisation, they have formulated separate Planning Cells, reporting to the Chief Maintenance Manager, at each location. To further assist the maintenance organisation, HPCL have retained the services of a specialised matellurgical consultant on a part time basis. It is also proposed to utilise the expertise of "Central Materials & Maintenance Services" of EIL for tackling any specific and unusual maintenance problems at the refineries. With the above steps, HPCL will be able to effectively strengthen the maintenance back-up and improve the capacity utilisation of both the refineries.

[Ministry of Energy (Deptt. of Petroleum) O.M.No. 13020/9/83-Gen. Dated 30.11.83]

Recommendation Serial No. 21 (Paragraph No. 3.76)

The Committee regret to note that in many contracts of HPCL for equipment supplies no penalty clause had been included even though the procedure did provide for such a clause. As a result HPCL could not make any claim for through put loss of 109,000 M.T. in Visakh Refinery where planned maintenance turnaround during 1979-80 had to be taken in stages due to delayed receipt of equipment/materials from vendors. The Committee cannot but deplore the lapse whatever be the reasons. They would urge that the Company should safeguard its financial interest fully by insisting on a penalty/liquidated damages clause in the contracts in future. The Committee would like to know whether claim has been enforced wherever liquidated damages provision existed in the contracts.

Reply of the Government

Ordinarily, it is a practice to incorporate penalty/liquidated damages clause for the works contracts. However, experience during the last few years has shown that it is not always possible to do so in view of the resistence for the incorporation of such a clause by the vendors/contractors.

The purpose of the penalty/liquidated damages clause was to act as a deterrent for the timely supplies but since this clause is subject to force majeure, it has not been very effective. In view of the practical difficulties, it may be useful if the manner in which the penalty/liquidated damages clause could be made effective in the contracts by Public Sector Enterprises is examined by BPE.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. 13020/9/83-Gen Dated 30.11.83]

Comments of the Committee

(Please see paragraph 14 of Chapter I of the Report)

Recommendation Sl. No. 22 (Paragraph No. 3.77)

The Committee are also of the view that the fact that this lapse did not come to the notice of the administrative Ministry when the planned maintenance was delayed resulting in a huge production loss, only indicates that performance review of HPCL by the Ministry had not been effective in identifying the causes for losses and issuing directions for timely correctives. On the general question of the desirability of having a penalty clause in the contracts for equipment supplies, the position has been clarified by the Secretary, Department of Petroleum. According to him the oil companies must insist on having a penalty clause in all equipment supply contracts and if need be a bonus clause for prompter delivery may be added. The Committee desire that suitable instructions on these lines may be issued to all the undertakings.

Reply of the Government

The recommendation has been brought to the notice of all the public sector undertakings under the administrative control of Department of Petroleum with the instruction that penalty/liquidated damages clauses along with bonus clause for prompt delivery, if necessary, must henceforth be incorporated in all contracts for equipment supplies etc.

[Ministry of Energy (Development of Petroleum) O.M.
No. J-13020/9/83-Gen. Dated. 7.11.83]

Recommendation Serial No. 23 (Paragraph No. 3.78)

Port limitations in receiving and handling large size tankers led to the introduction of lighterage operations in 1975. The Committee have been informed that the lighterage operations went on smoothly for the first four years but since May, 1979 these resulted in receiving crude in the form of emulsions (with high sea water content) which were not only detrimental to the refinery equipments but also caused loss of crude throughput. HPCL is stated to have lost about Rs. 8 or 9 crores by way of lower throughput. Hence it was decided in February 1980 to change the crude affreightment method back to direct voyages. The Committee note that lighterage operations still continue on the East Coast and to a small measure in Bombay also. The Committee are constrained to point out in this connection that the progress in the development of port facilities for direct receipt and handling of large size tankers appears to have been slow though it should have received the highest possible priority as recommended by the Oil Prices Committee in 1976. The Committee desire that the projects undertaken and those proposed for upgradation of the oil handling facilities in ports should be completed early and the lighterage operations eliminated in the interest of optimising tanker utilisation and reducing overall transportation costs as also guarding against pollution of coastal waters. Incidentally, although the Committee are not in favour of continuing lighterage operations they are not clear as to how the lighterage in Bombay which went on smoothly for a long period initially could create problems. They would await a clarification in this r gard. They feel that the high sea water content in crude receipt during May to August 1979 which was stated to be due to poor stripping performance, bad weather and poor supervision and the consequent crude throughput loss of 1.28 lakh tonnes could have been avoided to a large extent with better care and management.

Reply of the Government

The current position is that the additional facilities at the various ports are under various stages of implementation and it is expected that the facilities handling large capacity tankers would be installed at Bombay, Cochin, Madras and Visakh by 1985-86. Plans for providing additional facilities at Haldia are also under development. With the installation of these facilities, it is expected that the desired objective of eliminating the delivery of crude oil by offshore lighterage operations would be achieved.

It is also true that the lighterage operations were safe and did not cause any deterioration in the quality of crude oil. Such a loss in quantity and throughput consequently could be attributed only towards supervision and to turbulence caused by bad whether conditions which could cause formulation of emulsion. All refineries are being provided with speration facilities to minimise the problems of high sea water contents in crude oil including that caused by sea water emulsion with crude oil.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. J-13020/9/83/

Gen. dated 30-12-1983]

Recommendation Serial No. 24 (Paragraph 3.79)

Research and Development has been a neglected area of the refining sector. Admittedly required attention has not been paid to R and D in the oil industry. The Chairman and Managing Director of HPCL was of the view that the refining industry has not gone into basic research so far. According to the Secretary, Department of Petroleum the major missing areas in the R and D of refining sector are two. One is large-sized pilot plants or semi commercial plants for all the unit operations in refinery; the other is in the area of catalysts where the existing research facilities are totally inadequate. The Committee note that a beginning has been made in this direction by deciding to erect a large pilot plant research facility involving all the oil refining companies and a large catalyst research laboratory as a part of the research centre of Indian Petro-chemicals Corporation. They hope these would be set up early. There are two large R and D centres *viz.* Indian Institute of Petroleum, Dehradun and IOC (R and D) centre at Faridabad undertaking basic and applied research in petroleum field. The Committee desire that vigorous efforts should be made with the active involvement of all the oil companies to put R and D activities in the refining sector on a sound footing and to strengthen them to keep pace with the development abroad.

Reply of the Government

Government has recently decided to assign to the IOC (R and D) Centre the role of a central R and D organisation for the whole Industry in the country. To implement this decision, it is proposed to set-up an Advisory Committee from amongst the representatives of all the Public Sector Oil Companies. It is envisaged that the Faridabad Centre will be suitably augmented under their Phase II development programme to provide facilities for refinery processes development. Some of the other major areas to be covered would include development/testing of lubricants, fuel studies, additive development, pollution/corrosion studies, etc. In addition, it has also been recently decided to erect a large Pilot Plant Research facility involving all Oil Companies and a large Catalyst Research Laboratory as part of the research centre of Indian Petro-chemicals Corporation, Baroda.

The Indian Institute of Petroleum, Dehradun, is independently carrying out R and D work in the field of petroleum technology and its services are available to all the oil industry members. HPCL are currently proposing to avail of their facilities for conducting studies on manufacture of bitumen from BH short residue.

Apart from the above major institutions which are engaged in carrying out basic R and D and applied research work in the petroleum field, HPCL are proposing to take up studies of specific problems related to their own refinery operations through the agency of consultants such as Engineers India Limited. A high powered EIL team has recently visited the Bombay refinery and identified scope for carrying out R and D work in areas such as dearomatization of kerosene/ATF cuts, coking characteristics of different crudes, etc. Detailed proposals on the above projects are being developed by EIL after which a decision will be taken for implementation.

Further, in order to make an assessment of the research potential and review the achievements made till now and to advise the Department of Petroleum regarding the research needs in the various fields, including refining, it has recently been decided to set up a High Powered Review Committee with Director General, CSIR as Chairman and representatives from a number of oil companies as members. A copy of the communication containing the composition of the Committee and its terms of reference is enclosed. (Appendix II)

[Ministry of Energy (Department of Petroleum) O.M. No. 13020/9/83-Gen. dated 28-12-83]

Recommendation Serial No. 25 (Paragraph No. 4.32)

Hindustan Petroleum Corporation Limited (HPCL) has been maintaining its market share so far as sales of its products is concerned between 17 to 18%. The Company has also been able by and large to fulfil Sales Plan Entitlement obligations. However, in 1981-82 the Company lost nearly 0.5% of its market share which in absolute quantity came to 116,000 tonnes. The Company's sale growth (17.5%) was also higher than industry's growth (14.4%) during 1978-79 to 1981-82. The Committee hope that the company will not relax its effort and will constantly endeavour to improve its performance further.

Reply of the Government

Hindustan Petroleum Corporation Limited have since intensified their efforts to gain its market share and accordingly in 1982-83 their share increased to 17.73% from 17,59% in 1981-82.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. J-13020/9/83-Gen. Dated 30-11,83]

Recommendation Serial No. 26 (Paragraph No. 4.33)

HPCL's corporate plan envisaged its sales to increase from 5.6 MT in 1980-81 to 7.9 MT in 1984-85. Its market share was also anticipated to increase from 17.59% in 1981-82 to 20-21% by the year 1990. However, HPCL's sales in the second year of the corporate plan, in 1981-82 have been only 5.7 MT and the market share has come down from 18.11% in 1980-81 to 17.5% in 1981-82. These suggest that the corporate plan target and long term anticipations are far too ambitious. They nevertheless hope HPCL will formulate suitable strategy and plan of action to promote sales and increasing market share in the coming years to achieve the targets set for 1984-85 and 1990. The Committee find that the Company did not make much effort in the past to put up HSD retail outlets in rural areas. Its concentration was to develop service stations to capture gasoline potential which had high profit margin. As a result HPCL's average diesel throughout per retail outlet per month has been much lower than industry's average. Although diesel potential has shifted from urban to rural areas during the last 8 to 10 years, HPCL started its efforts to concentrate in rural markets only since 1978. The Committee note that the performance of 965 (30%) out of 3198 of its retail outlets in 1979-80 and 693 (21%) out of 3254 in 1981-82 was below satisfactory level of operation. The Committee hope that with the steps that are being taken, throughput rate comparable to industry's average, would be achieved early and performance of outlets will also be improved to reach a satisfactory level of operation.

Reply of the Government

Hindustan Petroleum Corporation Limited has made a concerted effort in setting up new retail outlets in 1982-83. As against a target of 80 retail outlets, the company have commissioned a total of 121 new retail outlets during 1982-83, of which 84 are in rural areas. The target for rural areas was 60.

HPCL's year-wise average diesel throughout and the Industry's average are as detailed below :

Year	*Throughput per outlet per month in KL*	
	HPCL	**Industry**
1980	58.00	60.00
1981-82	60.30	62.50
1982-83	65.50	68.50

The following steps are being taken by HPCL to improve the throughput of the retail outlets :

(i) Low volume HSD retail outlets which have lost trade due to shift of potential are being resited on highways/rural areas to get their rightful share of HSD market.

(ii) Facilities at existing outlets on Highways are being improved to attract additional HSD business. These facilities include Centeen for truckers, space and minor repairs for trucks, availability of spares and other TBA items for truckers' convenience, servicing, improved driveways, etc. and closer supervision of the retail outlets through sales officers and other regional office staff.

(iii) Some of the HSD retail outlets have suffered due to partnership disputes or lack of finances. This situation is being corrected by reconstitution of partnerships on a sound basis wherever feasible.

[Ministry of Energy (Deptt. of Petroleum) D.M. No. J-13020/9/83-Gen. Dated 30.11.83]

Recommendation Sl. No. 28 (Paragraph No. 4.35)

There were 7 major cases of shortages in stocks and 4 cases of pilferages and thefts involving over Rs. 15 lakhs investigated by the Corporation from 1977 onwards. The number of cases and the total amount involved could be higher if the other non-investigated cases are also taken into account. The Committee would urge that the security arrangements in HPCL should be made effective and the question of deployment of Central Industrial Security Force in HPCL's refineries should be considered early. According to HPCL, major losses have arised due to defects in the pipelines owned and operated by Bombay Port Trust. The replacement of the aged pipelines in a phased manner was stated to be under consideration of BPT. The Committee recommend that the authorities concerned should be impressed upon by the Ministry of Shipping & Transport to correct the defects in the pipelines and replace the overaged ones expeditiously.

Reply of the Government

To strengthen the security arrangements, HPCL/Govt. has decided to induct Central Industrial Security Force at its Bombay and Vizag Refineries. Details of the proposal have been worked out in consultation with CISF. These proposals are under consideration.

The Vigilance and Security Department of HPCL is being further strengthened to cope up with the increased volume of work.

The Bombay Port Trust has carried out repairs of their pipelines which has minimised the losses. The question of replacement of these pipelines is under their consideration.

[Ministry of Energy (Department of Petroleum) O.M. No. 13020/9/83-Gen. dated 30-11-83.]

Comments of the Committee

(Please *see* Paragraph 17 of Chapter 1 of the Report)

Recommendation Sl. No. 29 (Paragraph No. 4.36)

According to the information furnished by Deptt. of Petroleum the number of malpractices spotted by oil companies during 1980-82 was over 1500. Malpractices reportedly arise partly out of adulteration and partly of shortages. Disparity in prices is stated to be the major cause of adulteration especially in the case of HSD with kerosene. In regard to lubricating oils where checking of adulteration is becoming increasingly difficult, the Committee stress that Lube testing facilities should be augmented without delay to increase periodicity of checking. The marketing discipline guidelines evolved recently for uniform adoption by the entire oil industry should be vigorously implemented, as assured, so as to place a check on malpractices. Further the Committee recommend that the vigilance cells in the oil companies and in the Department of Petroleum should be strengthened and information system improved to take quick and effective action on malpractices.

Reply of the Government

Testing facilities of the Oil Companies are available at the following locations :—

(*i*) Bharat Petroleum Corporation Refinery, Bombay.

(*ii*) IOBL Blending Plants Bombay, Calcutta, Madras.

(*iii*) Gujarat Refinery, Koyali.

(*iv*) Hindustan Petroleum Corporation Refinery, Bombay.

(*v*) Mathura Refinery, Mathura.

(*vi*) Haldia Refinery, Haldia.

(*vii*) Hindustan Petroleum Refinery, Vishakhapatnam.

(*viii*) Madras Refinery Ltd., Madras.

(*ix*) Cochin Refinery Ltd., Cochin.

(*x*) Research & Development Centre, Faridabad.

(*xi*) Indian Oil Corporation Ltd., Faridabad.

Besides, testing facilities are also available at Indian Institute of Petroleum, Dehra Dun.

The recommendation of the Committee to augment the lube testing facilities and to increase its periodicity has been noted. It is proposed to utilise the facilities available at the Regional Research Laboratories also at Hyderabad, Kanpur and Chandigarh for this purpose.

The marketing companies have been instructed to implement the Market Discipline Guidelines evolved recently vigorously so as to check malpractices in the trade of petroleum products. They have also been advised to strengthen their vigilance Cells and improve information systems for dealing with such malpractices quickly and effectively.

[Ministry of Energy (Department of Petroleum) O.M. No. J-13020/ 9/83-Gen. Dated : 30-12-1983.]

Recommendation, Serial No. 30 (Paragraph No. 5.33)

The overall profit before interest and tax of HPCL came down from Rs. 52.24 crores in 1981-82 to Rs. 43.18 crores (estimate) in 1982-83. The profits of Marketing Division declined from Rs. 34.23 crores in 1980-81 to Rs. 29.19 crores in 1981-82. Considering the slow growth of the net profit after tax during 1977-82 from Rs. 6.43 crores in 1977-78 to Rs. 14.40 crores in 1981-82, HPCL should evolve suitable strategy to achieve the corporate plan profit target of Rs. 35.65 crores during the year 1984-85. For this purpose, expansionary projects undertaken for execution should be completed as per schedule. Measures to control costs and reduce expenses should also be taken on a continuing basis.

Reply of the Government

Lube Refinery expansion project has been already completed in February 1983 although it was scheduled to be completed in the middle of 1981. The Visakh Refinery expansion project and the Bombay Refinery expansion project are scheduled to be completed in 1984-85. Every effort is being made to complete the projects as per schedule. With the completion of expansion projects, the refineries' production will go up substantially.

Apart from the above, sales will also go up considerably in line with SPE targets and it is hoped to achieve the corporate plan profit target during the year 1984-85.

Measures are taken on a continuing basis for reducing cost of production. On the marketing line, the stock loss during 1982-83 has been brought down substantially and thus improving the profitability. As a result of continuous follow-up measures, HPCL have been able to improve the productivity and performance of its own tanktrucks used for delivery of products.

So far as control of cost and reduction in expenses in the case of Bombay and Visakh Refineries are concerned, it has to be appreciated in the context that both the fuel refineries are about 27 years old and it has become necessary to replace a number of equipment and the expenditure on the proper upkeep and maintenance of the refineries is increasing. However, in regard to the operating expenses such as energy consumption, chemical consumption etc., these are being closely monitored and expenses controlled. In fact during 1982-83, HPCL improved its net profit (after taxes) to Rs. 18.30 crores against Rs. 14.40 crores in 1981-82. Out of the profit (before taxes and interest) of Rs. 51.21 crores, the profit for the marketing Division amounted to Rs. 35.20 crores and the target for 1984-85 has been estimated at Rs. 41.77 crores.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. J-13020/9/83-Gen. dated 30-11-83.]

Recommendation, Serial No. 31 (Paragraph No. 5.34)

In the current pricing policy of retention margins there is stated to be always a time lag which sometimes extend to years between the increase in expenses of oil companies and announcement of relief by Government. To the extent there is lag in announcing relief, the oil companies lose the benefit of interest in the intervening period during which the profitability of the companies gets adversely affected. The Committee desire that the time lag in accounting relief to the oil companies should be minimised to the extent possible. For this purpose a system should be evolved whereby a certain percentage of claims of all companies can be approved quickly and the balance approved after thorough scrutiny. Further the Committee desire that the question of reimbursing increased interest on working capital automatically whenever prices are revised, should be considered early.

Reply of the Government

In the current pricing policy, increase in certain costs like the FOB cost of crude oil, transportation and other incidental costs relating to crude oil are reimbursed to the oil companies automatically. These together constitute more than 90% of the ex-refinery price. Any increase in operating cost has to be fully justified by the oil company before it can be reimbursed. This is necessary as it provides a check on waste and is an incentive for efficiency. Only if there is an all round increase in operating costs, then the retention margins of the refineries are revised. Pending detailed examination of the operating expenses, *ad hoc* reliefs have, however, been granted by Government from time to time. However, the Committee's recommendation of minimising the time lag in announcing relief has been noted and every effort will be made to reduce the time lag to the extent possible.

Whenever prices are increased, reimbursement of the increased cost in working capital is taken up. Government has also set up on 18.7.1983 a Cost Review Committee. One of its terms of reference relates to working out a formula to enable quick calculations of changes in cost factors. The Recommendation of the Committee is awaited.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. 13020/9/83-Gen. dated 30.11.83]

Comments of the Committee

(Please see paragraph 20 of Chapter I of the Report)

Recommendation Sl. No. 32 (Paragraph No. 5.35)

The Committee feel that the question of increasing the rate of return on fixed assets should be examined, keeping in view the interests of consumers and at the same time the need for creation of sufficient resources for future needs of oil companies. Further, the Committee feel that there ought to be a price regulation over the final products of the process industries which use finished products of refineries as intermediates so that no unintended benefit accrues to them. If for some reasons that price regulation of the products to these process industries is considered not necessary or feasible, there is a case for placing the refinery products used by these industries, along with the product groups which are already outside the price control mechanism.

Reply of the Government

The recommendation of the Committee that increasing the rate of return on fixed assets should be examined keeping in view the interest of the consumers and the need for generation of enough resources for development of the oil industry has been noted. This subject has also been included in the terms of reference of the Oil Cost Review Committee.

Government determines the prices of major finished petroleum products only and administers these prices with the help of the oil marketing companies which are all in the public sector. It will be outside the purview of this Department to determine and regulate the prices of the very large number of items where petroleum products are used as fuel or as raw material.

[Ministry of Energy (Department of Petroleum) O.M.No. 13020/9/83-Gen. dated 30.11.1983]

Comments of the Committee

(Please see paragraph 23 of Chapter I of the Report)

Recommendation Sl. No. 33 (Paragraph No. 5.36)

The Committee note the difficulty faced by HPCL in meeting RBI's norms regarding working capital requirements. They would await the result of Department of Petroleum's efforts in solving it.

Reply of the Government

To enable HPCL to meet the RBI norms in the matter of working capital, the Department of Petroleum has arranged a loan of Rs. 45 crores towards working capital from the OCC fund to the HPCL. No further action is necessary.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. J-13020/9/83-Gen. dated 16th Dec., 1983.]

Recommendation Sl. No. 34 (Paragraph No. 5.37)

The Committee are concerned to note that HPCL and other Oil Companies have been losing experienced officers and operators in large numbers. HPCL lost 405 officers during 1974—82 and IOC and BPC together lost 772 officers during this period. The Committee note the various steps taken by HPCL to arrest the exodus experienced officers. The Committee dealt with the question of flight of personnel in their 18th Report (1980-81) on Khetri Copper Complex of Hindustan Copper Ltd. The Committee were informed in reply (60th Report—1982-1983) to their recommendation that various measures were under consideration of Government to check the flight of technical and skilled personnel. The Committee desire that the measures under the consideration of Government should be decided early and decision taken reported to them.

Reply of the Government

Bureau of Public Enterprises have already advised the Public Enterprises to undertake measures to curtail the exodus of trained personnel such as :—

(i) With-holding of gratuity benefits in the event of resignation by the executive/employee, with the intention of joining private sector organisations.

(ii) Adoption of crash programmes for housing and schools for the children of the employees.

(iii) Reducing the governmental interference in the day-to-day working of the enterprises.

(iv) Streamlining the process of selection of appointments ensuring their rise to the level of Directors.

(v) Liberalising retirement benefits like raising the ceiling for gratuity payments, adoption of pension schemes.

(vi) Reviewing the salary structure of the incumbents of the top posts.

(vii) Removal of handicaps in the horizontal movement of persons from one enterprise to another.

(viii) Review of the scheme of delegation of powers from the Government to the public enterprises.

2. Regarding Item No. (i) BPE have in their letters of 9th December, 1982 and 19th January, 1983 already suggested that Government undertakings should modify terms and conditions of appointment of the executives holding Board levels as well as below Board level posts specifying the circumstances under which resignations would not be accepted.

Regarding Item No. (ii) BPE have already issued guidelines in January, 1974 in pursuance of the recommendations made by the Parliamentary Committee on Public undertakings in their 8th Report (Third Lok Sabha). These *inter alia* lays down percentage satisfaction of housing accommodation. Similarly, for the education of children of the employees, guidelines have been issued by the BPE in March, 1979 laying down the norms for educational facilities in townships of public enterprises.

Regarding items Nos. (iii) and (viii) BPE have issued guidelines in October, 1983 wherein Government's view on recommendations made by the Chief Executives at the conference held in April, 1983 have been spelt out. Concerning item No. (iv) it may be stated that the Public Enterprises Selection Board makes recommendations to the Government for all board level appointments in public sector undertakings.

Regarding Item No. (v) instructions have already been issued by the BPE enhancing the ceiling from Rs. 30,000 to 36,000 for gratuity payments to the executives and employees not covered by the provisions of the payment of Gratuity Act in respect of the employees coming within the purview of the Act as amended from time to time.

Regarding item No. (vi) the pay structure of incumbent of top posts has been revised with effect from 11th August, 1982. In respect of the other executives holding posts below Board level, generally, pay revision has been permitted within certain parameters. Revised pay structure of the executives below the Board levels has been implemented in about 50 undertakings.

Regarding item No. (vii), BPE in December, 1982 have suggested to the public enterprises that there should be no objection to permit the benefit of transfer expenses, gratuity, etc. where such movement has taken place with the consent of both the managements.

3. It is hoped that all these matters would go a long way for containing the exodus of the employees in the public enterprises.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. J-13020/8/83-Gem. dated 30.12.1983]

Recommendation Serial No. 35 (Paragraph No. 5.38)

The Committee find that the actual number of persons employed by HPCL has been considerably lower than the assessed requirement in refineries throughout the period 1978 82 and in marketing division during 1980—82. The Committee have been informed that keeping in view the recommendations of Administrative Staff College of India which reviewed the position of management staff of the Corporate and Marketing at the Headquarters office, a realistic assessment of overall manpower requirements was made by the management and a proposal submitted to the Board. The Committee would like to be informed of the decision taken by the management on the proposal.

Reply of the Government

The recommendations made by the Administrative Staff College, Hyderabad, in regard to the strength of the Officers of the Corporate and Marketing Departments at the Headquarters office were considered in detail by the Board. Most of their recommendations were accepted except some recommendations in respect of the upgradation of certain senior positions. It was decided to review them after a period of two to three years.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. 13020/9/83-Gen. dated 30-11-83]

Recommendation Serial No. 36 (Paragraph No. 5.39)

There are reportedly anomalies in the fitment/fixation of management staff in appropriate grades/scales from the date of rationalisation of pay and allowances in 1980 and complaints about upgradation/promotions on *ad hoc* basis without determining *inter se* seniority of the management staff. The Committee desire that the matter should be looked into and resolved early. The Committee would urge that proposed recruitment and promotional policy should be drawn out expeditiously.

Reply of the Government

In order to resolve the anomalies in the fitment/fixation of management staff in the appropriate grades/scales from the date of rationalisation of pay and allowances, the Management had constituted a Grievance Committee for this purpose. The Grievance Committee had examined the representations made by some of the officers. The Committee's recommendations were considered in detail by the Board. Most of these recommendations were accepted and have since been implemented.

In case of those officers whose representations were rejected by the Grievance Committee, they have been given a further opportunity to make their submission to the Chairman. These would be further examined by the Corporation and decision communicated to the individual officer within four months. If the officer was still not satisfied with the decision of the Corporation, he would have the opportunity to make his submissions before the Secretary (Petroleum), Department of Petroleum, Government of India for the final decision

In regard to the *inter se* seniority, a list of officers in each salary group indicating his seniority in the current salary group has been published. The officers have been given an opportunity to make representation regarding his date of seniority if he so desired. All such representations received will be examined and Corporation decision will be communicated to the officer concerned within four months of his representation.

The criteria of officers promotion policy has been examined in detail and the policy has since been rationalised. The details of the current promotion policy have been communicated to the representatives of the officers' associations.

A detailed recruitment policy has been formulated by the Corporation which envisages that the recruitment to entry level management positions other than Chartered Accountants and MBAs will be through all-India written examination conducted by a major Institute of Management followed by personal interview by officers of the Corporation. A panel of short-listed candidates is prepared in the order of merit and appointment letters issued depending upon the vacancies in respective disciplines from the panel. Recruitment of Chartered Accountants is through open advertisement and interviews while MBAs are generally recruited through campus interviews. Recruitment for non-management positions is made through Employment Exchange at each working location governed by prescribed rules and regulations. The Officers' Associations have been apprised of the salient features of the recruitment policy.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. J-13020/9/83-Gen. Dated 30.11.83]

CHAPTER III

RECOMMENDATION WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLY

Recommendation Sl. No. 27 (Paragraph No. 4.34)

The Committee regret to note that there were long delays in the establishment of retail outlets/primarily for HSD. Only 9 outlets were commissioned against the target of 35 in 1979-80, 37 against 94 in 1980-81 and 22 against 109 in 1981-82. The delays were stated to be largely due to moratorium on award of dealership and changes in dealer selection guidelines and on account of financial problems particularly in SC/ST category. Now that fresh guidelines have been evolved for award of dealerships and arrangements made for financial assistance to dealers/distributers, the Committee would urge that HPCL should ensure that the backlog in the establishment of retail outlets are cleared expeditiously and plan targets achieved without fail. Further, the Committee desire that with a view to minimise movement of oil in the country, the question of rationalising the policy of establishment of retail outlets should be considered fresh so that there may not be duplication of efforts of the oil companies.

Reply of the Government

HPCL is giving top priority to the commissioning of new retail outlets and in particular, to clearing the backlog of the planned target. Significant progress in this direction has already been made and an additional of 112 outlets out of the backlog have since been commissioned, thus completing a total of 180 outlets as of July 31, 1983, against a total planned target of 238 outlets covering the 1979-80, 1980-81 and 1981-82 plans.

There is already a rationalised and regulated policy existing for establishing new retail outlets in the country by the oil industry so as to prevent undesirable proliferation/concentration of outlets in any area, and to ensure the viability of not only new outlets but also existing ones. This policy of rationalisation is covered in the established volume—distance norms and guidelines for setting up of new retail outlets, both regular type and low cost in rural areas in different types of markets.

These norms and guidelines were formulated by the Government after discussions with the Oil Industry, details of which have already been given in answer to Question 7 (iii) of preliminary material submitted to COPU. For the present, these volume-distance guidelines are considered to be helpful and prevent duplication of efforts by the oil companies in establishing new retail outlets in various areas. Additionally, it would enable the rural customers to purchase HSD nearer home.

[Ministry of Energy (Deptt. of Petroleum) O.M. No. J-13020/9/83-Gen. Dated 30.11.83]

CHAPTER IV

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

NIL

CHAPTER V

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

NIL

MADHUSUDAN VAIRALE,

NEW DELHI : *Chairman,*

February, 28, 1984 *Committee on Public Undertakings.*
Phalguna, 9, 1905 (Saka)

APPENDIX I

MINUTES OF THE 46TH SITTING OF COMMITTEE ON PUBLIC UNDERTAKINGS (1983-84) HELD ON 9 FEBRUARY, 1984

The Committee sat from 15.00 to 15.30 hrs.

PRESENT

Shri Madhusudan Vairale — *Chairman*

MEMBERS

2. Shri Harish Kumar Gangwar
3. Shri Krishna Chandra Halder
4. Shri Nihal Singh Jain
5. Shri Lakshman Mallick
6. Shri N. Kudanthai Ramalingam
7. Shri B.D. Singh
8. Shri Hari Shankar Bhabhra
9. Shri Mahendra Mohan Mishra
10. Shri Narendra Singh
11. Shri Manubhai Patel
12. Shri M.S. Ramachandran
13. Shri Syed Sibtey Razi

SECRETARIAT

1. Shri M.K. Mathur—*Chief Financial Committee Officer*
2. Shri S.C. Gupta—*Senior Financial Committee Officer*
3. Shri G.S. Bhasin—*Senior Financial Committee Officer*

The Committee considered the following Action Taken Reports, as approved by the Action Taken Sub-Committee and adopted the same :

(ii) Action Taken Report on 72nd Report of CPU (1982-83) on Hindustan Petroleum Corporation Ltd.

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

The Committee then adjourned.

APPENDIX II

(*Vide* reply to recommendation at Sl. No. 24 of chapter II)

Copy of Ministry of Energy (Deptt. of Petroleum) O.M. No. J-25011/91/83-Gen, dated 28-12-1983.

OFFICE MEMORANDUM

SUBJECT :—*Setting up of a High Powered Review Committee for assessment of research potential in the field of Petroleum.*

A variety of institutions in the country are engaged in research, both fundamental and applied in the Field of Petroleum. In order to make an assessment of the research potential and the achievements till now, and to advice the Department of Petroleum regarding the research needs in the fields of exploration, refinery and petrochemicals, it has been decided to set up a High Powered Review Committee.

2. The composition of the Committee will be as follows :

1.	Dr. G. S. Siddhu, Director General, CSIR, New Delhi.	—	Chairman
2.	Prof. M. M. Sharma, Prof. of Chemical Engineering, University Deptt. of Chemical Technology, Bombay.	—	Member
3.	Dr. Nilay Chaudhuri, Chairman, Central Board for the Prevention and Control of Water Pollution, New Delhi.	—	Member
4.	Shri S. N. Talukder, Member (Exploration) Oil & Natural Gas Commission.	—	Member
5.	Shri L. L. Bhandari, Director, Keshav Dev Malviya Institute of Petroleum Exploration, ONGC, Dehra Dun.	—	Member

6. Shri T. K. Sinha, Managing Director (R&P Division), Indian Oil Corporation Ltd. New Delhi. — Member

7. Shri V. K. Beri, Chairman & Managing Director Engineers India Limited, New Delhi. — Member

8. Dr. S. Ganguly, Chairman & Managing Director, Indian Petrochemicals Corpn. Ltd. Gujarat. — Member

9. Dr. I. B. Gulati, Director, Indian Institute of Petroleum, Dehra Dun. — Member

3. The Committee will examine the matter with a view to identify the—

(i) Gaps in our research effort where fresh effort should be made or existing arrangements strengthened ;

(ii) Problems of coordination and flow of information so that results of research are put to productive use in the operating agencies :

and make suitable Recommendations.

4. No remuneration will be paid to the Members of the Committee. However, the expenditure, on TA/DA of the non-official Members will be met by the Government through the Oil Industry Development Board. TA/DA of Government officials/Representatives of Central Public Sector Undertakings will be met by the concerned Department/Undertakings.

5. The expenditure of the Committee will be borne by the OIDB.

6. The Secretarial Assistance for this Committee will be provided by CSIR.

7. The term of the Committee will be initially for a period of 3 months from the date it starts functioning.

8. Hindi version is enclosed.

Sd./-

(T.N. Parameswaran)
Under Secretary to the Govt. of India.
(Telo No. 382583)

To

All Members of the Committee and

Chairman, Indian Oil Corporation,

Chairman, Oil & Natural Gas Commission,

Chairman & Managing Director, Engineers India Limited,

Chairman & Managing Director, Indian Petrochemicals Corpn. Ltd.

APPENDIX III

(*Vide* Para 3 of the Introduction)

Analysis of the Action Taken by Government on the Recommendations Contained in the 72nd Report of the Committee on Public Undertakings (Seventh Lok Sabha) on Hindustan Petroleum Corporation Ltd

I	Total number of recommendations	36
II	Recommendations that have been accepted by the Government (*Vide* recommendations at S. Nos. 1 to 26 and 28 to 36)	35
	Percentage to total	97.22%
III	Recommendation which the Committee do not desire to pursue in view of Government's reply (*Vide* recommendation at S. No. 27)	1
	Percentage to to total	2.78%
IV	Recommendation in respect of which final replies of Government have not been accepted by the Committee.	NIL
	Percentage to total	NIL
V	Recommendation in respect of which fiinal replies of Government are still awaited.	NIL
	Percentage total	NIL

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Sixth Edition) and Printed by Gupta Printing Wo.
472, Esplanade Road, Delhi-110006