THIRTY-SIXTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS
(1994-95)

(TENTH LOK SABHA)

GAS AUTHORITY OF INDIA LIMITED

(MINISTRY OF PETROLEUM & NATURAL GAS)

सत्यमेव जयते

Presented to Lok Sabha on ——————

Laid in Rajya Sabha on —————— 20 DEC 1994

LOK SABHA SECRETARIAT
NEW DELHI

September, 1994/Bhadra, 1916 (Saka)

C.P.U. No. 742

Price: Rs. 13.00

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Seventh Edition) and Printed by the Manager, P.L. Unit, Government of India Press, Minto Road, New Delhi-110002.

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(1993-94)

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3. Shri P.K. Grover	—	*Under Secretary*

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* Ceased to be a Member of the Committee consequent on his appointment as Minister in the Council of Ministers w.e.f. 17 February, 1994.

** Elected w.e.f. 12.8.1993 vice Shri Sunil Basu Ray ceased to be Member of the Committee w.e.f. 9.7.1993 consequent on his retirement from Rajya Sabha.

*** Ceased to be a Member of the Committee consequent upon the retirement from Rajya Sabha w.e.f. 2nd April, 1994.

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19. Shri Dipankar Mukherjee
20. Shri Suresh Pachouri
21. Shri Parvat Kumar Samantaray
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SECRETARIAT

1. Shri Murari Lal — *Joint Secretary*
2. Smt. P.K. Sandhu — *Director*
3. Shri P.K. Grover — *Under Secretary*

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this 36th Report on Gas Authority of India Limited.

2. The Committee's examination of the subject was mainly based on the Report of the Comptroller & Auditor General of India (No. 9 of 1990).

3. The Committee on Public Undertakings (1993-94) took evidence of the representatives of Gas Authority of India Limited on 28th January and 10th February, 1994 and the representatives of Ministry of Petroleum and Natural Gas on 30th March, 1994.

4. The Committee on Public Undertakings (1994-95) considered and adopted the Report at their sitting held on 25th August, 1994.

5. The Committee feel obliged to the Members of the Committee on Public Undertakings (1993-94) for the useful work done by them in taking evidence and sifting information. They would also like to place on record their sense of deep appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

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

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

NEW DELHI;
September 16, 1994
Bhadra 25, 1916 (*S*)

VILAS MUTTEMWAR,
Chairman,
Committee on Public Undertakings

PART A

BACKGROUND ANALYSIS

I. ROLE AND OBJECTIVES

A. *General Background*

1.1 Oil was discovered in Bombay High by the ONGC in 1974; free gas at South Bassein offshore fields was also discovered in April, 1976. Taking note of the potentiality for commercial exploitation of the free gas and the associated gas arising from processing the crude oil, a Committee headed by Shri Satish Chandran was set up by the Government in 1977 to study the optimum utilisation of the offshore gas. This Committee, *inter-alia* recommended that the most economic use of the free gas would be its use as feed stock for the manufacture of nitrogenous fertilizers. Two further Committees were set up, one by the Department of Petroleum in April, 1980 under the Chairmanship of Shri Lovraj Kumar to study the optimum pipeline alignment required for the transportation of natural gas for the proposed fertilizer plants and the other in September, 1980, by the Department of Chemicals and Fertilizers, headed by Shri K.C. Sharma, to study the potential locations and recommend the exact locations for the new six gas based fertilizer plants. These two Committees were subsequently asked to co-ordinate their work and they submitted their joint report to the Government in December, 1981.

1.2 The joint report of the two Committees recommended that one fertilizer plant at Bijaipur (Guna) in Madhya Pradesh, one fertilizer plant in Sawai Madhopur in Rajasthan and four fertilizer plants at Babrala, Nara, Jagdishpur and Aonla or Shahjahanpur in Uttar Pradesh might be set up. After examining the proposals, the Ministry observed that the land at Nara was fertile and that the acquisition of land and development would not only be costly but also time consuming at Nara. In these circumstances, it was decided by the Ministry in July, 1982 that the six fertilizer plants based on offshore gas would be located at Bijaipur (Guna) in Madhya Pradesh, Sawai Madhopur in Rajasthan and Jagdishpur, Aonla, Babrala and Shahjahanpur in Uttar Pradesh.

1.3 ONGC was entrusted by Government with the job of laying the onshore pipeline from Hazira to supply gas to six fertilizer plants and their captive power plants as per communications dated 8th March 1983 and 14th March 1983 from the Deptt. of Petroleum and Deptt. of Chemicals and Fertilizers to the Commission, respectively. The Feasibility Report (F.R.) of the Project was submitted to Government by ONGC on 18th July, 1983, Public Investment Board (PIB) gave clearance to the

Project on 16th February, 1984, Cabinet Committee on Economic Affairs (CCEA) gave approval on 31st March, 1984 and sanction for execution of the Project was issued by Government on 17th April, 1984 at an estimated cost of Rs. 1700.17 Crores (including foreign exchange (FE) component of Rs. 680.35 crores).

1.4 On a proposal forwarded by Ministry of Petroleum and Natural Gas, the CCEA also gave approval for setting up a new public sector Gas Corporation and the Gas Authority of India Ltd. (GAIL) was formed on 16th August, 1984. The Company was entrusted in the first instance, with the responsibility to execute and then to operate and maintain the Hazira-Bijapur-Jagdishpur Pipeline Project (HBJ Pipeline Project) covering a distance of over 1700 KMs. for supply of natural gas primarily to fertilizer plants (and their related captive power plants) being set up in the States of Madhya Pradesh, Rajasthan and Uttar Pradesh.

B. *Role and Objectives*

1.5 The Committee were informed by the CMD, GAIL, during evidence that primary source of energy all over the world was in five major forms viz. oil, gas, coal, hydro and nuclear. Out of the total energy sources used, 40% is in the form of oil, 23% is in the form of gas, 27% is in the form of coal, 7% in the form of nuclear and 3% in the form of hydro. Against the world average of 23%, the source of energy from gas in India is about 7.3% Gas has got its own advantages and disadvantages. Environmentally, gas is very friendly. If we have gas, the quality of the product also improves very much. Moreover, its combustion is complete. A gas based power plant in open cycle takes 18 months and 30 months in combined cycle to be set up as against coal which normally takes 5 years and if it is hydro it takes between 7 to 10 years and if it is nuclear it normally takes 10 years. The disadvantages of gas were its high cost of transportation and of its shortage.

1.6 In view of the growing importance of natural gas as a major source of energy it was envisaged that a gas company should thereafter be responsible for processing, transportation and marketing of natural gas. The formation of GAIL visualised that the gas producing Companies (ONGC, OIL) would sell gas to GAIL just as they sell the oil produced by them, to the Oil Refining Companies. The price of gas is to be decided by the Government from time to time.

It was also decided by Govt. that to begin with GAIL would take over the existing relevant assets of ONGC at book value and would implement HBJ Pipeline Project and subsequently would take all development plans and such other projects that may be required for utilisation of natural gas in the country.

1.7 Main objectives of the Company have been stated as under:

— To transport, treat, process, fractionate, purify and to generally deal in marketing of natural gas and natural gas liquids.

— To create necessary infrastructure facilities for the utilisation of natural gas-free or associated.

— To carry out all activities connected with the business of acquiring, purchasing and otherwise ensuring natural gas availability in the country or purchase from other countries.

— Planning and setting plants for treatment and fractionation of gas.

— Planning, utilisation and taking up Projects for use of gas fractions for higher value applications.

— To take over from ONGC and OIL or any other company all assets alongwith obligations and liabilities in connection with transportation, treatment, processing, fractionation, distribution etc. in respect of natural gas and natural gas liquids.

1.8 When asked to state how far GAIL has been able to achieve its objectives, the CMD, GAIL stated during evidence:

"I would entirely agree with you that we have not been able to achieve fully the objectives set before us, in this short time we have been in existence. This company was started in August, 1984 and we have been in existence for about nine and a half years. For a company, nine and a half years is not a very long period and if we have not been able to achieve fully our objectives, you may pardon us for that."

1.9 Later in a written reply, the Company informed the Committee that the Company has laid pipelines in various parts of the country for distribution of natural gas. The company has set up 3 LPG Plants for extraction of LPG and is planning to set up number of new LPG and gas fractionating units. The Company is implementing U.P. Petrochemical Complex at Auraiya for use of gas fractions for higher value additions. GAIL is also planning to upgrade its HBJ Pipeline to transport additional gas that is expected to be available by the year 1996.

1.10 The Company has been signing Memorandum of Understanding (MOU) with the Ministry since 1990-91. The MOU for the year 1993-94 was signed on 13th August, 1993 i.e. after four months of the current financial year. When asked whether it was not advantageous if the MOU is signed at the beginning of the financial year, the company stated in a written reply:

"The MOU for the year 1993-94 was sent by GAIL to the Ministry of Petroleum on 11.2.93. GAIL has given commitment of performance for the year 1993-94 well before the commencement of the year. The MOU was examined in BPE during a meeting held on 6.4.93.

> Minutes were sent on 8.4.93. GAIL submitted the MOU to the Ministry again after incorporating the decisions arrived in the meeting held on 6.4.93. The approval from the Ministry for signing of the MOU was received on 10.8.93 and MOU was signed on 13.8.93. GAIL fully appreciates that MOU be signed at the beginning of the financial year."

1.11 When the Ministry of Petroleum & Natural Gas were asked to explain the reasons for such delay in approving the MOU, the Secretary, Petroleum & Natural Gas stated:

> "xxxxxxx Last year, the signing of the MOU with GAIL was delayed because there were a couple of processes to be gone through. Due to some correspondence on delegated powers there was delay. This year, we have initiated action to ensure that as soon as possible the MOUs are signed at the earliest. We have completed the exercise and MOUs are awaiting the approval of the High Power Committee. As soon as that is cleared, we will be signing it."

1.12 When the Committee pointed out that the late signing of MOUs leads to delays, the witness stated that:—

> "If the MOUs are signed before March, I do not think there will be any problem."

1.13 The Committee desired to know whether the company enjoyed the desired autonomy as envisaged in the system of MOU, the Company stated in a written reply:

> "While the concept of MOU is in principle correct but the manner in which it is actually practised leaves much to be desired. The MOU companies have not been given the autonomy to the extent it is required in fulfilling the objectives and missions. While the company binds itself to specific milestones and targets but there is no means to ensure that stipulated assistance from and responsibility, support from the Administrative Ministry and other Government Departments are also executed within the Scheduled time. In such a situation the MOU does not serve the purpose with which the concept was introduced."

1.14 In this regard, the CMD, GAIL stated during evidence:

> "In concept, the MOU system is excellent. You have invested money and created an organisation. The money is of the public, of the Government and of the nation. You want a good return and you want the management of the company to run in a manner so that the money gives a good return. This is the criteria by which you judge the management. You introduced the MOU system. It has become one sided. As far as the PSU is concerned there are obligations. What is the obligation of the Ministry there? How much time do they take to approve a project? Take the Bombay Project. It has taken

four or five years. HBJ upgradation approval has taken two and a half years. Who has lost? Everybody has lost in this dilatory process. If you want to do something, where is the input coming from? Board is the highest place to take decisions. If you feel that we are not competent to take a decision put a representative of the Finance Ministry and the Planning Commission on our Board. What else is required? We go on giving explanations to everybody at the lowest level, middle level and so on. I have not seen any project not being approved. All that I have seen is only delay. If this rule of Boards taking final decisions can be applied to others, why should it not be applied to public sector undertakings also?"

1.15 When asked about the obligations of Ministry under the MOU, the Secretary, P&NG stated during evidence that conflict of interest is always there. Elaborating further, the witness stated:

"This question of conflict arises even before the MOU as to who would enforce this obligation on the Government. What happens is if Government does not live up to its obligation the PSU sleeps over its target. This is the responsibility of the Government to get the things done from the Minsitry.

There is a high power body which is presided over by the Cabinet Secretary. Certainly they will look into it. The Government can take all such action as they deem fit and nothing prevents them. Everytime an assessment is also made there."

1.16 In a written reply, the Ministry informed the Committee that in case there are delays on the part of the Ministry in the discharge of its obligations under the MOU which affect the performance of the Public Sector Undertaking, this is taken into account while evaluating the PSU's performance.

C. *Financial Powers of the CMD*

1.17 As regards the powers of the CMD, the Company informed the Committee in a written reply that in September, 1990 it was decided that the CMD be delegated full powers for purchase and award of contracts and decision had to be taken by CMD in consultation with the concerned Director and Director (Finance). However in a Board meeting held on 20.11.1992 Government Directors *suo-moto* moved the question of reducing the power of the CMD to the pre-1990 level viz. upto Rs. 1 Crore only. The minutes of the above sitting read as follows:

"The Government Directors said that after due consideration they felt that such items should not be brought for *ex-post-facto* information of the Board as it did not give them an adequate opportunity to examine the decision taken and that such matters should be implemented only after approval by the Board as was the position before the 40th Meeting of the Board. They were informed that work would suffer very much if every case involving purchase or contract matter above Rs. 1 crore was to be got approved from the Board before placment of the order or award of the work as suggested by Government Directors. It was agreed that proposal for revised delegation of powers to CMD etc. may be put up as early as possible.

1.18 Accordingly a note on enhancing the powers of CMD, GAIL in line with the Chairman, ONGC was put up to the Board in December, 1992 and since then the matter has been raised by the management on a number of occasions and the same has not been considered by the Government Directors and thus by the Board. The matter was again put up before the Board on 29th October, 1993 but the agenda item was deferred again as per the desire of Government Directors.

1.19 When asked to state the reasons for curtailing the powers of the CMD, the Ministry of Petroleum & Natural Gas stated in a written reply as under:—

> "In November, 1992, GAIL did not have a regular CMD. In the absence of CMD, the Director (Finance) was looking after the current duties of the CMD; so it was not possible for the delegated powers to be exercised in the manner contemplated by the Board in September, 1990. It was felt that such items should not be brought up for *ex-post-facto* information of the Board as it did not give them adequate opportunity to examine the decision taken and that such matters should be implemented only after the approval of the Board as was the position before 17.9.1990. The position has not changed since then."

1.20 In this connection, the Committee were informed by the Company that the Chairman, ONGC had the full powers of the commission to award contract or issue purchase orders upto any amount with regard to the domestic bids and with regard to the International Competitive Bidding basis, he has powers to award contracts or issue purchase orders upto Rs. 10 Crores in individual cases and upto full amount as Chairman of the Steering Committee.

When the Committee desired to know the rationale behind delegation of powers to CMD, GAIL being different from those of the Chairman, ONGC, the Ministry informed the Committee as follows:—

> "The delegation of powers depends on the specific requirements of the individual companies and, therefore, the level and extent of delegation of powers determined by their respective Boards of Directors differs from company to company. In respect of this need-based issue, it is neither necessary nor desirable that there should be uniformity among the companies. There are variations in the delegation of powers to the Chief executives of the

different public sector undertakings of the same schedule under the administrative control of this Ministry."

1.21 In this connection, the Secretary, Petroleum & Natural Gas stated during evidence:

"ONGC earlier was a statutory corporation. They had their own separate regulations. But, that apart, as I said, so far as project expenditure is concerned, the PSU Board has got the power to sanction up to Rs. 50 crores. The internal power sharing arrangment between the Chairman and the Government is governed by their Byelaws. If the GAIL wants to be on par with ONGC, the Government will have no objection. It is governed by their Articles of Association and Byelaws.

1.22 On being asked whether these byelaws are required to be approved by the Ministry, the witness answered in affirmative and stated that if GAIL wants to be on par with ONGC, the Ministry will recommend it.

D. *Steering Committee*

1.23 The Committee were informed by GAIL in a note that a Steering Committee was appointed by order issued by Ministry of Petroleum and Natural Gas in August, 1990 in GAIL on the pattern of ONGC and OIL. This was done in view of the delegation made by the Government, authorising CMD, GAIL to release foreign exchange. Members of the Board as well as representatives of Ministry of Petroleum & Natural Gas and Ministry of Finance were made Members of the Steering Committee to examine each proposal requiring release of Foreign Exchange above Rs. 50 lacs. According to the Company this concept has become redundant from March, 1992 due to convertibility of rupee, as no foreign exchange is now required to be released by Government. However, the institution of Steering Committee is being continued vide Ministry's letter dated June 24, 1992 for "expediting all decisions in cost effective manner in view of the imperative need to ensure timely execution of projects without time and cost over-runs."

1.24 It was also stated that while ostensible purpose of continuation of the Steering Committee is to avoid time and cost overrun, in actual fact this Steering Committee examines and deals only with purchase cases where International Competitive Bidding (ICB) is resorted to of value above Rs. 5 crores (in ONGC the comparative figure is Rs. 10 crores). In any case, purchase cases above Rs. 1 crore go to Board for ultimate approval.

1.25 In this regard, the company further informed the Committee as under:

"It takes lot of time to take approval first from the Steering Committee and then from the Board. Preparing a very detailed agenda note as required by the Steering Committee and fixing meetings to suit the conveniences of all concerned takes lot of time."

1.26 The Company also made a suggestion before the Committee that in the interest of speedier execution of the projects, it is necessary that Steering Committee be abolished, as such a concept does not exist in any other Ministry nor in relation to any other organisation except for ONGC/OIL/GAIL, even within the Ministry of Petroleum & Natural Gas.

1.27 When the Committee desired to know how far the continuation of the Steering Committee was relevant after the convertibility of rupee, the Ministry of Petroleum & Natural Gas stated in a post evidence reply as under:—

"The question of continuation or otherwise of the Steering Committee after the introduction of the liberalised exchange rate management system (LERMS) was examined. It was then noted that over a period of time Steering Committee has been rendering useful advice to ONGC etc. in the matter of evaluation of tenders/award of contracts. Since a large number of tenders costing huge amount are required to be handled by ONGC/OIL/GAIL, it was observed that it would be useful for them to have a Committee of this nature with representative from the Ministry of Petroleum & Natural Gas and the Ministry of Finance. Moreover, the Government is vitally interested in the speedy decisions by these companies, apart from the fact that this Ministry is answerable to the various donor and financing agencies who would like the Ministry to monitor various projects. It was noted that the Steering Committee could, with the participation of Government Members, assist ONGC/OIL/GAIL in taking expeditious decisions. It was, therefore, decided with the approval of the Minister that the institution of Steering Committee should continue even after."

1.28 On being pointed out by the Committee whether the approval of cases first by the Steering Committee and then by Board of Directors did not result in duplication, the Ministry of Petroleum & Natural Gas stated as under:—

"In the case of GAIL, the Board is the competent authority to approve the award of contracts even in respect of those cases which are considered by the Steering Committee, which is to assist the Management and which has no delegation of powers. Accordingly, the cases considered by the Steering Committee are placed before the Board for approval."

1.29 In response to a query, the Ministry of Petroleum & Natural Gas informed the Committee that it was not aware of any Steering Committee of identical nature functioning in other Ministries.

E. *Appointment of Regular CMD*

1.30 The company is operating through a Board of Directors with Chairman & Mg. Director as Chief Executive assisted by four functional Directors viz. Director (Finance), Director (Planning), Director (Projects) and Director (Personnel). The Board also consists of part time Directors from the Government. The full time Directors are functionally and administratively responsible to the Chairman & Mg. Director.

1.31 The post of regular CMD in the company has been vacant since 2nd November 1991. The Ministry have stated that Public Enterprises Selection Board recommended on 16th September, 1992, a particular name for being appointed as CMD, GAIL. They had to get some vigilance clearance and there were some other clarifications also required by the Establishment Officer. When asked whether the vigilance clearance was required in all cases, the Secretary, P & NG informed the Committee that the vigilance is sought only in respect of the people whose names are recommended to the Appointment Committee of Cabinet (ACC). The witness further elaborated:—

> "I may submit one more thing. If the date of demitting office of CMD is known earlier, we take prompt action to fill the vacancy. Normally, three months' time is available for us. In this period we make efforts to fill the vacancy. But in the present case the incumbent abruptly resigned from office. Moreover we have selection system for selecting to various public sector undertakings. A person selected to ONGC may also be selected for GAIL. He will have the option to accept one. This process also takes time."

F. *Corporate Plan*

1.32 Gas Authority of India Ltd. prepared a Corporate Plan for the period 1990-2000 and submitted the same to the Ministry of Petroleum & Natural Gas in January, 1990. In view of the fact that the 8th Five Year Plan was rescheduled to commence from 1.4.1992 instead of 1990, the Ministry of Programme Implementation desired Gas Authority of India Ltd. to dovetail its Corporate Plan with the commencement of the 8th Five Year Plan. Accordingly, GAIL updated the Corporate Plan in the month of February 1992 for the period 1992-2002 and submitted the same to the Ministry of Petroleum & Natural Gas for its consideration.

1.33 When the Committee desired to know whether the Government has approved the Corporate Plan, the company stated in a written reply that the approval of the same is awaited. When asked from the Ministry the reasons for such an inordinate delay in approving the Corporate Plan, the Secretary, Petroleum & Natural Gas stated during evidence:—

> "Let me submit that I have checked up not only in my Ministry but with the BPE also and there is no policy or instruction or guidelines that the Corporate Plan or the perspective Plan of a PSU should be

approved by the administrative Ministry. GAIL seems to be under the impression that it should be approved. I have asked the BPE to give us in writing. Once they write to us, we shall clarify to all PSUs that so far as Corporate Plan is concerned, no approval from the Government is required. I do not think there is anything to show that they have sought our approval."

1.34 The Committee were further informed by the Ministry that the company sent the Corporate Plan under the impression that the Ministry should approve it, and since there was no specific request for approval, the Ministry felt that they had sent it for record.

When asked whether the Government Directors on Board were not coordinating with them. the Secretary stated:

"That shows that this issue has not been brought to our notice at anytime."

II. HBJ PIPELINE PROJECT

2.1 Initially, ONGC was entrusted with the job of laying the onshore pipeline from Hazira to supply gas to six fertilizer plants. The Feasibility Report of the project was submitted to Government by ONGC on 18th July, 1983, Public Investment Board (PIB) gave clearance to the project on 16th February, 1984, the Cabinet Committee on Economic Affairs (CCEA) gave approval on 31st March, 1984 and sanction for the execution of the project was issued by Government on 17th April, 1984 at an estimated cost of Rs. 1700.71 crores (including foreign exchange component of Rs. 680.35 crores). As against this the expenditure incurred upto 31st March, 1993 was Rs. 1621.93 crores. GAIL took the project from ONGC on its formation on 16th August, 1984. The pipeline (Hazira to Bijaipur) became operational from August, 1987.

A. *Execution of HBJ Project*

2.2 For purposes of procurement of equipment and construction work, the main project was divided by ONGC and EIL into the following six packages:

(i) Procurement of Steel pipes;
(ii) Procurement of pipeline material;
(iii) Coating and wrapping of pipes, laying of pipeline;
(iv) Cathodic protection;
(v) Compressor stations and allied facilities; and
(vi) Tele-metry and tele-supervisory systems.

(These six packages were estimated to cost Rs. 1415.18 crores according to June, 1983 price level).

2.3 Global tenders were invited by ONGC in April/May, 1984 for the first three items and the closing dates for receiving offers were June-end and mid-July, 1984. In respect of the remaining 3 items, the indigenous angle which was noticed, was decided to be examined in depth. When this matter was placed before a meeting of the Secretaries of the Government held on 7th May, 1984, the procedure adopted by ONGC and EIL for competitive bidding for different segments of the project was agreed to. But when GAIL and EIL finalised the proposal and submitted their recommendations to the Government in February, 1985, Government appointed a high level committee headed by Prof. M.G.K. Menon to go into the capability of GAIL and EIL to implement the Project. This Committee observed that management and organisational aspect and timely completion of the Project was likely to be sources of considerable concern and recommended that for effective project coordination and "a single point responsibility" might be given to "one agency for the execution of the pipeline laying work". Based on these recommendations, Government decided in April, 1985 that fresh consolidated tenders be invited for all packages of the project except the one relating to procurement of pipes (*i.e.* for items (ii) to (vi) of para 2.2). Audit have pointed out that as a result of this the entire operations so far carried out over a period of one year in inviting tenders, their evaluation etc. were rendered infructuous; apart from the inevitable postponement of the time frame for completion of the project by over a year. Further, in so far as last item of package on tele-metry and tele-supervisory system is concerned, it could have been included in an indigenous tender since adequate technical capability was available in the country.

2.4 The Committee desired to know what were the considerations which weighed with the Government to verify the capability of EIL & GAIL at such a late stage. The Ministry of Petroleum & Natural Gas informed the Committee in a written note:

> "As recorded by the Secretary (P&NG), the then Energy Minister had, in October, 1984, expressed certain misgivings about the capabilities of GAIL and EIL to implement the project, which was the first major high-pressure cross-country pipeline in the country involving considerable technological sophistication and calling for proven expertise and experience in this field. The Minister had directed that the matter be examined by an expert Committee. Accordingly, the M.G.K. Menon Committee was set up to go into the questions relating to the competence of EIL and GAIL to handle the HBJ pipeline project."

2.5 Fresh bids which were received on 3rd April, 1986 based on Government's instructions, were opened on the same date. The table below indicates the comparative position of the four offers; as evaluated by GAIL:

S.No.	Name of Consortium	Basic Price (Rs.)	Evaluated Price (Rs.)
1.	M/s. Spie Capag	760,51,94,000	881,77,42,500
2.	M/s. Condix	755,50,22,363	887,99,03,543
3.	M/s. Snamprogetti	817,49,08,020	960,31,57,890
4.	M/s. Novo Corpn.	909,44,71,167	1116,56,91,372

As seen from the above, the offer (basic price) of M/s. Condix became the lowest. When the offers were placed before the Board of Directors of GAIL on 4th April, 1986 the Board decided to forward the bid evaluation to Government for award of contract but did not recommend any specific party for the award of the contract.

2.6 On receipt of the revised bids, the Ministry of Petroleum & Natural Gas requested Finance Ministry to work out the evaluation, taking into account the technical and commercial loading in respect of 4 bidders.

The Finance Ministry analysed the bids in detail, taking into account the technical and commercial loading and also after taking into consideration firm credit package as confirmed by the concerned embassies and revised the bid analysis as indicated below:

S.No.	Name of Consortium	Basic Price (Rs. in crores)	Evaluated Price (Rs. in crores)
1.	M/s. Spie Capag	760.48	711.040
2.	M/s. Condix	755.50	869.116
3.	M/s. Snam Progetti	817.49	846:394
4.	M/s. Novo Corpn.	909.45	936.549

2.7 When asked how the evaluated price of Spie Capag became the lowest, the CMD, GAIL stated during evidence:

"The Government has evolved a procedure. First there is the technical and commercial evaluation of the bids. Secondly, the Government considers how to give credit to those who give soft-loans. The Government works out how the money would be paid over a period of 20-30 years. Then, they discount it and bring it to the present value. Earlier, the method was that they used to discount at a uniform rate of 10 percent whether it was Dollar or Yen or DM. The present value would be deducted from cash value to arrive at grant element. They will use that figure. Whether it is a bigger loan or softer loan, they get a greater credit for the grant element. Those who are giving Commercial loans they do not get much because the discount is 10 percent. Having done that evaluation, you load foreign exchange further with 25 percent in rating the parties and in that rating M/s. Spie Capag was the lowest."

2.8 In this regard the Ministry of Petroleum and Natural Gas informed the Committee as under:

"In the letter dated 3rd April, 1986 GAIL had forwarded the evaluation report by its task force to the Ministry. In that report, the task force had quoted the offer of Spie-Capag as Rs. 760.51 crores for alternative 2. The Finance Ministry in its evaluation had quoted this figure as Rs. 760.48 crores. The difference is only Rs. 3 lakhs which could be due to a typrographical error."

B. *Litigation with Consortium*

2.9 Two agreements were signed by GAIL and the Consortium on 10th May, 1986 for execution of the contract. Clause 3.8.1 of the agreement with the Consortium provided that in case the Consortium failed to complete the work within the stipulated period, then, unless such failure was due to *"force majeure"* or due to owner's default, the Consortium would pay liquidated damages (not as penalty) for every week of delay or part thereof to be calculated at the prescribed rates. For delay in constructions of various sections (excluding Compressor Stations and Telecom/Telesupervisory System), GAIL called upon the Consortium on 23rd August, 1988 to pay liquidated damages estimated at Rs. 75.51 Crores (as per GAIL, it works out to over Rs. 149.81 crores) (as per exchange rate of 30.12.93). The Consortium did not accept the claim but instead preferred a counter claim of Rs. 638.54 crores (Rs. 1418.42 crores as per exchange rate of 30.12.93) against GAIL alleging that the Consortium was prevented from fulling obligations in the manner and in the time frame foreseen under the Contract due to following reasons:—

(i) Consistent late approvals of drawings, designs, specifications, materials etc.

(ii) Unwarranted comments on the Consortium design submissions, piecemeal review of the same, the imposition of requirement over and above the accepted design criteria without the issue of a change pursuant to the provisions of general conditions.

(iii) Both the late supply of pipe and the supply by GAIL of pipe unsuitable for the purpose necessitating additional work and/or repair to the same by the Consortium.

(iv) Non-availability and/or lack of information in regard to the right of way and land for sites.

(v) Lack of nomination of the Engineer and thereafter nomination of the Engineer(s) from within the organisation of GAIL.

(vi) Total disregard for the contractual provisions concerning extensions of time despite requests having been made by the Consortium.

2.10 When asked about the Company's comments on the reasons attributed by M/s. Spie Capag for delay in completion of work, the Company stated in a written reply:—

"As per contract, Owner's obligations are limited to issue of Line Pipes, ROU/Land for site, Frequency clearance for permanent installation and Statutory clearances for Rail/Road/Water crossings. No delays occurred in these areas. Therefore in our view delays were not attributable to the owner."

2.11 When the Committee desired to know the present stage of the case, the CMD, GAIL stated during evidence:

"There are two disputes. In April, 1990, Spie Capag wrote to ICC International Chamber of Commerce referring the dispute between GAIL and Spie Capag. Now we have told ICC that they have no jurisdiction to arbitrate on these disputes. We acted and wrote to Indo-Suez which had given us Performance Guarantee for encashment of their guarantee. Therefore, the dispute got divided into three parts.

We went to the Indo-Suez saying you encash their guarantee because Consortium had delayed the implementation of the project. With regard to Delhi High Court, a single bench gave judgement that our stand essentially was correct. That means with regard to 450 million dollars, ICC has got no jurisdiction. Now regarding LD claim of GAIL, ICC has started the proceedings, and we have nominated our nominee. We have made it clear that our nominee, ex-Chief Justice of India will specifically be for liquidated damage claim."

2.12 When the Committee enquired about the action taken by the Company to recover the liquidated damages, the Company stated in a written reply:—

"GAIL invoked the Performance Bank Guarantee in April, 1990. The Consortium obtained a stay from the French Commercial Court. In September, 1991, GAIL got the stay vacated and the French Bank/ Consortium were ordered to pay the amount to GAIL, on furnishing of a bank guarantee of equivalent amount from a front ranking bank in France. GAIL after obtaining all requisite approvals informed its readiness to Banque Indo Suez to provide bank guarantees as per court's orders. But the Indo Suez Bank did not pay the amount on the one pretext or the other and in the meantime SPIE had appealed in the higher court in Paris. The case is since pending befóre the court."

2.13 In this regard the Ministry of Petroleum & Natural Gas informed the Committee in a written reply that the Ministry did not consider it appropriate to intervene in the dispute between GAIL and Spie-Capag which were of a commercial nature. However, at the request of the French Government, the Government of India appointed a Joint Committee in March, 1993 with the approval of the Prime Minister to resolve the dispute between the two companies. The Committee has had four rounds of discussions but has not yet made any recommendation to the Government.

2.14 On being asked as to what extent the Consortium was responsible for delay in implementation, the CMD, GAIL stated during evidence:

"We had Bid evaluation criteria which they had met. The delay was due to various reasons. Two of the rea^ons were that the consortia consisted of NKK & Toyo from Japan and Spie Capag from France. These two nationalities which had come together to execute this project, their personalities were different. There was clash of interests between the members too. Within Spie Capag, there was clash even within their own organisation. There were professional pipeliners and others coming from a particular Institute. That clash was very much responsible for delays and the Project Director who was initially there, whom we rated very high, was removed. Somebody else was brought in who did not know how to take decisions. The project thus got delayed Spie Capag Company has some history. There were some other places too where they have done similar things (large claims). The fact of the matter is that they had got good experience of laying pipeline."

2.15 When Ministry was asked as to what steps have been taken to settle the dispute, the Secretary, Ministry of Petroleum & Natural Gas stated as under:—

"They went to arbitration first. It was appealed against in the Delhi High Court. During our Prime Minister's visit to France, a view was expressed that this dispute is coming in the way of French investment in India. Ministry was of the view that it was purely commercial dispute and, therefore, it should be settled on that basis. We also want a quick settlement. It was agreed that a Committee would-be appointed to look into this and recommend jointly to the two Governments if there is any way of resolving this dispute. The Committee has had three or four sittings. They have not come to any conclusion. They agreed to meet finally and make recommendations to Government."

C. *Purchase of Steel Pipes*

2.16 In the project estimates provision to the following extent had been made for purchase of steel pipes comprising linepipes:—

		(Rs. in Crores)
Cost of Pipes	390.20	(FE 317.36)
Cost of Casing Pipes	3.34	
Customs Duty	190.42	
Handling, Transport etc. expenses	55.85	
Total	639.81 (FE 317.36)	

2.17 For purchase of 36" linepipes of varying thicknesses, (0.625", 0.875" & 1.062") 9 offers were received. These were opened on 10th July, 1984. Out of the 9 tenders, only two-a Japanese Consortium and a Brazilian firm were qualified to be recommended for financing the project under the overseas Economic Cooperation Fund (OECF). The technical evaluation of the tenders was done by EIL which recommended acceptance of the offer of the Japanese Consortium for linepipe of thickness 0.875" & 1.062" and that of Brazilian firm for 0.625" and 0.75" thickness. However, the tender committee of GAIL recommended on 26th July, 1984 to Government the acceptance of offer of Japanese Consortium for the entire quantity after holding negotiations with the Japanese Consortium so as to match the prices with the lowest offer received. In making this recommendation, the tender committee had observed that it was aware of the need to split the offer "since no single supplier can be trusted for the total supply". On 7th May, 1985, Government advised GAIL to issue Letters of Intent to both the parties for purchase of linepipes of approximately 350 Kms. from each.

2.18 In the meantime on 8th March, 1985, the Japanese Consortium offered 11% discount provided orders for entire quantity were placed with it. This discount offer was negotiated with the Consortium on 17th and 20th May, 1985 when the Consortium agreed to extend the discount even if at least 60% of the order was placed on it.

2.19 The matter was referred to Government of India for reconsideration in the light of the discount offer and with Government approval, firm orders were placed on 15th July, 1985 with the Brazilian Firm for linepipes for a length of 287 Kms. and with Japanese Consortium for linepipes for length of 373.5 Kms. However, according to Audit even after giving allowance for the discount of 11% the offer of Japanese Consortium was not cheaper than the Brazilian offer; the placement of orders for linepipes for thickness of 0.625" and 0.75" with the Brazilian Firm and balance with Japanese Consortium would have resulted in substantial saving of foreign exchange to the tune of Rs. 10.88 crores (US $ 95,45,665).

2.20 The Committee desired to know the reasons which weighed with GAIL to go in for procurement of linepipes from Japan at a loss of Rs. 10.88 crores in preference to the Brazilian firm which was also eligible for OECF loan. The Company stated in a written reply as under:—

> "EIL recommended procurement of 455.5 Km. from Japanese Consortium and 200 Km. from Brazilian firm taking into consideration the criticality of project, reliability of delivery from the parties and availability of OECF loan. Finally 373.5 Km. was awarded on Japanese Consortium and 287 Km. on Brazilian Firm after negotiations with the parties and obtaining 11% discount from Japanese Consortium who agreed to give the discount of 11% if order quantity was at least 60%.
>
> It is felt that chances of getting OECF loan might have got jeopardised if no procurement of pipes had been done from Japanese Consortium even though they had five large mills compared to only one mill with Brazilian Firm of smaller size."

2.21 In this connection, the CMD, GAIL deposed before the Committee as under:

> "All the decisions with regard to the award of contract that 60% of 36" diameter pipes will be awarded to Japanese and 40% to Brazilian Firm was in accordance with the decision of the Government of India.
>
> The brief history of this case is, this purchase was initiated in April, 1984 before GAIL was formed. ONGC had received the tenders for the linepipe. In July, they had made a recommendation to the Government of India for this. GAIL was formed in August, 1984. In

May, 1985, we received the decision of the Government of India saying that we should have a discussion with the Japanese and tell them this is the possibility. We had a discussion with the Japanese, who said that they will give us 11% rebate if 60% is given to them. If this was done, there was a saving of 2.8 million dollars and we communicated to the Government of India and we received approval from the Government of India. The over-all saving is there. We have got the contract on that basis."

The witness further added:

"When we called the tenders, the position of Brazilian firm was not very good. The first phase was to be completed in a short time. They had written that they will start supplying after 392 days."

2.22 The Secretary, Ministry of Petroleum & Natural Gas stated in this connection:—

"It was felt that it was better to have more reliable supply from five mills of Japanese firm. But it is true that even after deduction, Brazilian was cheaper."

2.23 When asked whether the Japanese firm had any local agent, the CMD stated:

"We negotiated with the Japanese themselves. When we placed the order, they had not mentioned any Indian agent. When we placed the order, against the column 'Indian agents' they have written 'Nil'. That means they have not informed us whether there is an Indian agent."

However, in a written reply, the Company stated as under:—

"As per the Bid Package and Supply Order, the Japanese Consortium had no Indian Agent. It was subsequently discovered that they had appointed M/s. Jyotsna Holding Pvt. Ltd. as their 'Consultant' and paid Japanese Yen 906 Million (approx.) to them. GAIL lodged a claim against Japanese Consortium for compensation of an equal amount. The case is pending before Arbitration."

2.24 In this regard the Ministry informed the Committee that there was nothing on record to show that the Consultant M/s. Jyotsna Holding Pvt. Ltd. played any role in the negotiations. The Ministry came to know of the matter from newspaper reports published on 29th July, 1988. It was ascertained that the Sumitomo Corporation had violated the condition of the tender and contract in as much as the appointment of M/s. Jyotsna Holdings Pvt. Ltd. as the agent was not disclosed in the bid documents. The opinion of the Attorney General was obtained and GAIL and ONGC were directed in December, 1989 not to have further business dealings with the Sumitomo Corporation. In February, 1990 this order was extended to all the Public Sector Undertakings under this Ministry. Subsequently, the matter was considered by the Cabinet Committee on Political Affairs on April, 1992, and it was decided that the ban on future business should be lifted and that was done. Besides, GAIL and ONGC were instructed to pursue their claims through arbitration.

D. Cancellation of Boreri Sawai Madhopur Pipeline

2.25 The HBJ Pipeline Project had provided for a branch line from Boreri to Sawai Madhopur exclusively for supply of gas to Fertilizer Plant at Sawai Madhopur. As there was no firm schedule of commissioning of the fertilizer plant, GAIL decided to abandon the Boreri-Sawai Madhopur Section from the scope of the project and accordingly intimated the Consortium (M/s. Spie-Capag) on 27th May, 1988. The Consortium was also requested to refund all payments consequent on the alteration on the scope of Contract. The Consortium, however, contended in its reply dated 18th July, 1988 that the Contract anticipated completion of the line upto Sawai Madhopur, that because of the late issue of intimation for stopping work at Boreri, it became unavoidable for substantial costs to be incurred by it. While admitting reduction in cost by Rs. 9.60 crores, M/s. Spie-Capag perferred an additional claim amounting to Rs. 9.50 crores due to cancellation of this section.

GAIL has not, however, accepted the additional claim preferred by the Consortium and the matter has been raised by the Consortium in the arbitration case filed by them in the French Court.

2.26 When asked to state the reasons for not intimating the Consortium in 1987 to cancel construction of the branch line, the company stated in a written reply as under:

> "Though the possibility that the Fetilizer Plant would not be established at Sawai Madhopur became known by August, 1987, a clear decision could not be taken to cancel the contract since a decision was awaited from the Ministry of Fertilizers, in this regard.
>
> Department of Fetilizer vide letter No. 189/2/89-F.S.II dated 11th October, 1988 conveyed their approval of change-of location of Fertilizer Plant from Sawai Madhopur to Gadepan and immediately the cancellation of this portion of the pipeline was communicated to M/s. Spie Capag."

2.27 In this connection the CMD, GAIL stated during evidence:

> "I can not tell the contractor to cancel it unless I get the full clearance from the Government. If I ask him to cancel it and if the

Government says 'no' to it then I may be asked as to how did I do it without getting the approval of the Government."

The witness further stated:

"In June 1987, we brought it to the notice of the Government. When they conveyed the decision within one or two days, we asked him (contractor) to cancel it."

2.28 The Ministry of Petroleum & Natural Gas informed the Committee in a written reply as under:

"The Department of Fertilizers approved the relocation of the Sawai Madhopur plant to Gadepan in October, 1988 but did not inform either GAIL or the Ministry of this decision. Prior to that GAIL came to know informally that the Sawai Madhopur site would have to be changed because of objections from the Ministry of Environment. GAIL accordingly notified the contractor in May, 1988 that the particular branch line had been cancelled."

E. HBJ Upgradation Project

2.29 For Upgradation of existing HBJ Pipeline System, so that GAIL is able to supply gas to various consumers by 1995-96, to whom gas had been allotted, a Techno-economic Feasibility Report was submitted to Government of India, Ministry of Petroleum on 20.11.1990. The revised estimated cost as on March, 1993 price level works out to Rs. 2482 crores. PIB considered the proposal on 22.1.1993 and gave the first stage clearance. Final PIB clearence was accorded on 4.11.1993. Pre-project activities like surveys, Basic Engineering and Selection of packages etc. have been completed.

2.30 When asked to state the cost escalation of the project due to delay, the CMD, GAIL stated during evidence:—

"We are waiting for the approval of HBJ Upgradation Project. There is no escalation in cost in the sense that this is the first estimate. We have worked out this figure based on the latest exchange rate."

The witness further stated:—

"Time overrun is there once a project is approved. Time overrun is in the execution of projects. The approval of project takes time. I do not know of any major project which was approved in 6 months time. Our experience is every project is taking 3-4 years' time."

2.31 In a post evidence reply the company stated as under:—

"In the TEFR submitted in November, 1990 the total cost of the scheme was envisaged at Rs. 1,427 crores (FE component Rs. 812 crores) as against present estimated cost of Rs. 2,376. crores (FE component of Rs. 1,330 crores). Analaysis of the reasons for variation is submitted below:—

		(Rs. in Crores)
(a)	Due to change in exchange rate & resultant increase in Custom Duty	599
(b)	Due to Escalation in prices-the TEFR prices were based on November 1990 price level while the approval by PIB were based on November, 93 price level	222
(c)	Due to increase in financing cost due to change in Debt: Equity ratio from 1.3:1 to 3.1	151
(d)	Others (Design Engg., Supervision, contingencies)	39
(e)	Net effect due to changes like deletion of additional compressors at Bijaipur consequent to increase in size of pipelines from 30" to 36" and other deletion like Auraiya Compressor Station Upgradation, Gadepan Line & terminal, new terminals at Babrala & Shahjahanpur, expansion of existing terminals at Anta & Auraiya, since required urgently to meet the gas delivery commitments, have been taken up separately.	(−)62
	Total	949

2.32 Stating the reasons for delay in approval of the HBJ Upgradation project, the Ministry of Petroleum & Natural Gas stated:—

"The HBJ Upgradation Project has since been aproved by the CCEA on the 23rd February, 1994 and the Government sanction has been issued. The delay in the PIB clearance was mainly due to the examination of the availability of gas for the upgradation. The Gas Linkage Committee recommended the upgradation in its meeting held on 21.2.1992. Thereafter, the Prime Minister ordered a review of gas availability/commitments. A presentation was made in August, 1992 to the Prime Minister who approved the proposed Action Plan of the Ministry and also directed that the projects required to be completed for achieving the gas profile be completed expeditiously. The decision to approve the upgradation was taken in view of that directive.

The project cost at the TEFR stage was Rs. 1427 crores at November, 1990 prices. The approved cost is Rs. 2376 crores at March, 1993 prices."

F. City Gas Distribution

2.33 The company have stated that Techno-Economic feasibility studies have been conducted for utilisation of natural gas as a Domestic, Commercial & Industrial fuel in (a) Greater Bombay including city and its Eastern and Western Suburbs which would help in releasing 1.07 lakh tonnes of LPG and 40,000 tonnes of Kerosene annually and (b) Delhi Kanpur & Noida which would help in releasing 2.09 lakh tonnes of LPG and 51911 tonnes of kerosene in Delhi/Noida and 31588 tonnes of LPG and 17294 tonnes of kerosene in Kanpur per annum.

2.34 When asked to elaborate the reason for delay in taking up these projects, the company stated in a written reply as under:

> "GAIL is in the process of finalising the Joint Venture Company with British Gas Co. for undertaking the City Distribution Project of Natural Gas in Bombay. The Joint Venture company once formed, would draw up its plan for implementation of this project.
>
> The PIB took considerable time to get the imputed value of Natural Gas determined as well as in establishing the additional availability of gas for the project. As availability of gas has been indicated to be lower then the earlier figure of 1.5 MMSCMD, it has been considered to implement this project at this stage for Domestic and Commercial Sector only. It was only in September, 93 that GAIL was advised that PIB approval is not necessary for formulation of JVC as GAIL's equity would be less than Rs. 50 Crores."

2.35 When the Committee desired to know that how much time it will take to supply the gas for the project, the CMD, GAIL stated during evidence:—

> "Keeping in view the fact that gas was not fully available Ministry of Petroleum and Natural Gas reviewed the availability of gas and said that gas may not be made available for industrial use now, they will make it available after 2002. If additional gas is available, then it may be made available to industries."

2.36 On being asked about the supply of gas in Delhi, the CMD, stated as under:—

> "We had submitted a proposal to our Ministry about 8-10 months ago.The proposal is under consideration because there is a problem. There was a party to whom the gas had been allocated. DDA says they will not allow to lay pipeline to them because there was explosion in their factory. We have therefore proposed we will supply gas to 2.5 lakh houses. We submitted proposal to the Government in this regard and since the IRR is good, it is worth implementing. I think the Ministry is having some problems because if they give gas for this project, then other customers will say that we are not giving

gas to those who are already allocated gas. If we start with 20,000-30,000 houses, then in few years at least one lakh connections would have been done. We are trying to convince Ministry that our stand is correct and we have asked them to help us."

2.37 In this regard the Ministry of Petroleum & Natural Gas stated in a written reply:—

"GAIL have proposed a city gas distrubution project for Delhi at a cost of Rs. 294 crores to supply gas to 2,31,000 house holds and commercial units. The requirement of gas is 0.344 MMSCMD. The project is being processed for first stage clearance."

2.38 A pipeline supplying gas to Maruti Udyog Limited separately sprung a leak at Dhaula Kuan in July, 1993. The pipeline was stated to contain 30 Kgms of Natural Gas at any given time. When the Committee desired to know the facts of the case, the CMD, GAIL stated during evidence:

"There was a very small leakage of gas in the pipeline from DESU to Maruti. The gas pipeline is passing above and a cable is there below. When the pipeline was laid, there was soil in between. During the rainy season last year water got collected like a pool above it. Our pipeline is one metre below the surface of the earth. The soil between the cable and the pipeline got eroded and the cable came in contact with the pipeline. It is possible that a portion of the cable was naked and there, short circuit took place. Then gas bubbles started coming out and since there was water pool, it was possible to see. It was visible to a worker and he reported the matter and we were there in short time. Having seen this sort of a thing, we have taken preventive action all over the city. Wherever there is crossing of a cable and a pipe, we have now put a strong material so that they can never come in touch and this sort of thing will never happen in future."

III. PROJECTS FOR EXTRACTION OF LEAN GAS

A. Selling of Rich Gas as Lean Gas

3.1 The chemical composition of the gas being supplied through HBJ Pipelines is as under:—

Methane (C1 fraction)	79.8%
Ethane (C2 fraction)	7.7%
Propane (C3 fraction)	4.6%
Butane (C4 fraction)	1.8%
COR fraction	5.5%
Other fractions put together	0.6%
Total	100.00%

The entire gas is termed as rich gas; while the C1 fraction, after extraction of other fractions (mainly C2, C3, and C4) is termed as lean gas. The requirements of fertilizer/Power plants are met by lean gas while a combination of fractions C2 and C3 is used for petrochemical production and a combination of fraction C4 with a equal quanity of fraction C3 is utilised for supply of Liquified Petroleum Gas (LPG) for domestic consumption. It was envisaged in the Feasibility Report of the HBJ Pipeline Project that though rich gas would be transported by Pipeline, ONGC would integrate the requirement of LPG and extraction of C2, C3 & C4 fractions.

According to Audit, the gas users whose demands are confined to lean gas are being supplied rich gas which contains about 14% of fractions not needed to their use; these fractions not only get wasted in the production operations of the fertilizers and power plants without any ultimate national benefit, but also go to increase the cost of fuel/raw material suplied to the customers by GAIL.

The value of such unutilised part of the gas supplied upto March, 1990 was estimated at over Rs. 128.73 crores as per details below:

Quantity sold since 1987-88 to 1989-90	4086.684	MMSCM
14% thereof being C2, C3 and C4 fractions	572.136	MMSCM
Cost thereof @ Rs. 2250/-per 1000 CM	128.73 Crores	

3.2 The Committee desired to know the reasons for ignoring the plants for treatment and fractionation of gas. The CMD, GAIL stated during evidence:

> "I think there is misunderstanding which I would like to clarify. As you have rightly observed, gas has got many components which are C1, C2 *i.e.* Methane, Ethane, Propane, etc. C3 and C4 is known as LPG when it is mixed in certain proportion. In India we mix it in 50 ratio. C2 is known as ethane from which normally petrochemicals are made.
>
> Let me clarify that whether it is C2, C3 or C4 these rich fractions can also be used for production of fertilizers, for power or for Methanol. So with the lesser quantity of rich gas you can produce more power etc. Take for example the case of fertilizers. In fertilizers, you are first producing Ammonia. For producing Ammonia all that you have to do is to take out the Hydrogen component of the gas. It is not when you supply rich gas C2 or C3 is being wasted. It is utilised in the production of these items."

3.3 Elaborating further, the witness stated:

> "There is a value added use of C2, C3 and C4. GAIL was earlier given a task of laying pipelines and also gas transportation. For petrochemicals there were another company *viz.* IPCL. In 1988-89 they wanted to put up a petrochemicals plant at Auraiya. It was thought that as far as GAIL was concerned, it will not go into the production of petrochemicals. In 1989 we moved in petrochemicals. In 1992 it took us about three years' continuous effort to get that proposal approved. However, it does not mean that this plant could have been set up much earlier. A petrochemical plant costs about Rs. 3000 crores and you cannot set up a petrochemical plant which has an ethylene capacity of less than 300000 tonnes per annum. World over you have plants which have an ethylene capacity of about 400000-500000 tonnes per annum for which you require minimum 11 M cubic metre of gas per day. Therefore, you must have down stream users otherwise this petrochemicals plant cannot be profitably used, such a huge capacity will remain idle. Therefore, kindly bear in mind that if we had by mistake invested such a large amount, and if we were not assured that down stream users were ready to take 11 MMSCM gas on a regular basis, it would have been a waste of money, which we cannot afford in this country."

B. LPG Plants

3.4 LPG Phase I plant at Vijaipur was commissioned in February 1991 (7 months ahead of scheduled completion). The production capacity of the plant is 2,03,000 TPA. As against the projected capacity utilisation of 60% in the first year, the actual achievement was 105% i.e. 213,292 MT of LPG was produced during the year 1991-92.

LPG Phase II with the same capacity as Phase-I was commissioned in February, 1992. But this plant cannot be fully utilised for want of gas throughput and downstream consumers, for some time to come. Whatever is the gas surplus to Phase I shall be processed in Phase II.

Total production of LPG from the above two trains during 1992-93 had been 342,802 MT. LPG Plant of 73,000 MTPA capacity to process 2.5 MMSCMD of rich gas at Vagodia was commissioned on 27th January, 1993 within a record time of 25 months from its approval as against approved commissioning date of March, 1994. Cumulative LPG production for the quarter ending March, 1993 is 5,320.7 MT.

3.5 The Committee desired to know that by what time the LPG plant (phase II) is expected to achieve 100% capacity utilisation. The company stated in a written reply as under:

> "The plant can achieve 100% capacity at any time. However, for achieving 100% capacity utilisation a gas flow of 15 MMSCMD in the pipeline at Vijaipur is needed and this is expected to be available in 1996-97 as per the present projections."

3.6 In reply to a question as to what projects for LPG production were being undertaken by the company during the 8th Plan, the company stated in a written reply that the following plants are proposed to be put up during 8th Plan besides existing plants at Vijaipur and Vaghodia.

1. LPG plant at Lakwa, Assam-capacity 85,000 MTPA

2. LPG plant at Ussar, Maharashtra-capacity 139500 MTPA

3. Gas Processing Plant, Gandhar-capacity 393,000 MTPA

A fourth LPG plant along HBJ pipeline to take out LPG from additional gas that will flow on its upgradation is also planned tentatively at Vijaipur.

3.7 When the Committee desired to know the extent to which these projects will reduce import of LPG and the estimated saving of foreign exchange, the company stated in a written reply that the quantum of LPG anticipated to be produced during 8th Plan would result in saving of foreign exchange of about US $ 450 million at average price of $ 200 per MT.

C. Petrochemical Plant at Auraiya

3.8 The present per capita consumption of Plastics in India is only about 1 Kg. per annum as against world average of 14 kgs. Petrochemicals are widely used in household as well as various industrial sectors, Agriculture, Transport, Power Sectors etc. It is characteristic of a developing economy like India that demand tends to be supply driven. Setting up of world scale petrochemicals projects in the country would further accelerate the demand by offering a vast range of grades at competitive prices. With many of the plastic products being used in households and agriculture/water management sector, it would inevitably lead to improved standards of living. Based on market study by a leading consultant in the field, the demand-supply projections for 1994-95 and 1999-2000 were stated to be as follows:—

Demand Supply Balance for Commodity Plastics:

(000 Tonnes)

	1994-95			1999-2000		
Products	Demand	Supply	Gap	Demand	Supply	Gap
IDPE	216	180	36	288	180	108
LLDPE	150	132	18	314	252	62
HDPE	349	190	159	528	334	194
PVC	440	346	94	740	346	394
POLYSTRENE	86	46	40	162	91	71
PP	190	133	57	365	238	127
Total	1431	1027	404	2397	1441	956

3.9 Government has development a Gas Use Policy whereby natural gas is being considered as a multiproduct thereby using each fraction of natural gas for higher value applications. Under this policy C2/C3 fractions of natural gas are to be used for petrochemicals. In order to utilise C2/C3 fractions from the gas supplied to the consumers through HBJ Pipeline, Gas Authority of India Ltd. is, setting up a petrochemical complex at Auraiya (U.P.), for utilisation of C2 fraction which is scheduled to be completed by December, 1996 at an estimated cost Rs. 2941.5 Crores. Another for utilisation of C3 fraction at Vijaipur (M.P.) has been decided to be handed over the private sector.

U.P. Petrochemical Complex (UPPC) in district Etawah, U.P. shall have the following capacities:

C2/C3 mix	400,000 TPA
Ethylene	300,000 TPA
LLDPE/HDPE	160,000 TPA
HDPE	100,000 TPA
Styrene	80,000 TPA
Polystyrene	40,000 TPA
Propylene	11,600 TPA
Butadiene & C4 mix	11,600 TPA
CBFS	1,300 TPA
Toluene	2,000 TPA

3.10 The detailed feasibility report for this project was submitted by GAIL in October, 1990. The Committee asked the reasons for delay of more than five years in preparing DFR for the Petrochemicals Project since the HBJ Pipelines Project was taken over by GAIL. The company stated as under:

> "The HBJ Pipeline project was set up with a view to transporting and supplying gas to the basic industries of fertiliser, power etc. The DFRs for projects using the gas, whether in fertilizer, power, petrochemical or other industries such as LPG extraction etc. were separately prepared by the concerned PSUs in the relevant ministries. Accordingly IPCL in 1988 proposed setting up of the petrochemical complex at Auraiya,. GAIL similarly proposed setting up LPG extraction plant and propylene-polypropylene complex at Vijaipur in Madhya Pradesh in 1987-88.
>
> GAIL on consolidating its position as a new company and with the HBJ Pipeline commissioned considered setting up the petrochemical complex at Auraiya in 1988 on its own. An LOI in respect of the Gas Cracker was granted to GAIL in September, 1989. The Downstream units were to be in the private sector. GAIL pursued the concept of the entire integrated complex to be put up by GAIL (as has been the case with IPCL, Reliance etc.) It was in April, 1991 that the Government of India gave a LOI to GAIL for the downstream units also. The project was cleared by the Government in October, 1992."

3.11 In this connection, with Secretary, Ministry of Petroleum and Natural Gas stated during evidence:

> "There are two things. This petrochemical complex from the beginning is not in the public sector. This is not a reserved item.

When the issue came up as to how many LOI should be given etc. an exercise was done in petrochemical Ministry and not in petroleum ministry. The Abid Hussain Committee was asked to go into this question. Whatever they have identified, they have been approved by the CCEA. What happens is that in order to have that optimum size of extraction of the fractions, the minimum gas to be processed is to be around 11 million cubic meters. -This demand of 11 million cubic meters could be reached only by that point of time and not earlier."

3.12 When asked whether the GAIL had submitted any proposal in this regard, the witnesses stated as under:

"A proposal was submitted in 1988. Then the Auraiya petrochemical Complex was recommended to be included in the Eighth Plan by the Abid Hussain Committee. LOI for the Gas Creacker Complex was issued in September, 1989 with CCEA's approval. Subsequently GAIL wanted to put up downstream projects also."

3.13 When asked about effect of these delays on the growth of Petrochemical industry, the witness stated:

"It is not only important, but it is also fluctuating. Therefore, Investment has to be done very carefully. Even today, the private sector people have deferred the LOI which have been given to them. The public sector must move very cautiously. That is why they have got to set up downstream industries in order to be safe in the market of fluctuations."

IV. PRODUCTION

A. Capacity Utilisation

4.1 The project was designed by ONGC for initial supply of gas of 18.2 MMSCMD with a future potential for 33.4 MMSCMD. However, when GAIL decided to put up plants for extraction of LPG on route at Vijaipur and Auraiya, utilising in all 18 MMSCMD of gas for extraction of LPG. ONGC was prepared to commit supply of only 15 MMSCMD of gas through the pipelines. Project wise-expected capacity vis-a-vis actual capacity utilisation of the pipelines during the last three years is given below:—

	1990-91		1991-1992		1992-93	
	Expected Capacity	Actual Capacity	Expected Capacity	Actual Capacity	Expected Capacity	Actual Capacity
Natural Gas (Transportation) (MMSCMD)						
HBJ	18.20	8.71	18.20	10.55	18.20	13.641
TTK-KKD Pipelines	—	—	—	—	4.50	1.04
Grasim Pipelines	—	—	—	—	0.75	NEG

4.2 When the Committee desired to know as to what were the reasons for underutilisation of HBJ pipeline, the CMD, GAIL stated during evidence:—

> "We are not able to meet the total demand of this country. We have a registration of 260 MMSCMD of gas from various parties. There was a temporary phase when availability of gas was there and the demand was not there; that is only for three years. Just for a period of three years, the fertilizer plants did not come up. Then in 1988 they allowed us to go ahead with giving connections to other parties. Then in 1990 they worked out the total availability of gas in future then they allocated all gas to various power and fertilizer plants and other consumers. Our daily problem now is how to ration gas. What happened in past is not likely to happen now. In fact, the reverse is taking place in every areas North, South and West. Their demand is more and more for gas. Some of the decision with regard to investment that Government had to take got delayed because of some political reasons; there was

change in the Governments there and major decisions were taken recently."

4.3 Replying to a question as to what were the reasons for underutilisation inspite of the demand, the witness stated:—

"The problem is with regard to availability of gas from ONGC; it cannot provide more gas because investment in Bombay High were not approved in time or additional facilities that were to be created at Hazira have not come up. The decisions to invest at right time could not be taken for various reasons which the Government is in the best position to answer and therefore, they cannot bring more than 20 MMSCMD which is designed capacity of the terminal."

4.4 On being asked about the steps being taken to ensure that sufficient gas was made available to GAIL, the Ministry of Petroleum & Natural Gas stated in a written reply as under:

"ONGC is implementing the Gas Flaring Reduction Project comprising two process platforms in Bombay High, ICP-Heera trunkline the second trunkline from South Bassein to Hazira and expansion of the Hazira Terminal. The Project is likely to be completed by July, 1996. With the completion of this project, the gas availability at Hazira will be 32.55 MMSCMD."

4.5 The Committee desired to know whether the Company had got commitment from ONGC for additional capacity the witnesses stated that they get commitment from the Government that ONGC will give you so much gas.

4.6 When the Committee pointed out that ONGC did not supply the quantity of gas committed earlier the witness stated:

"Our failure is a national failure in this area that we could not push the fertiliser plants to come up earlier. If we work out what gas was available (since ONGC could not provide more than 10-15 MMSCMD for the last three or four years) and this all we could have used, if these fertiliser plants had come up, then as far as GAIL is concerned, we would have got Rs. 850 per 1000 M3 additional and in the last three or four years, we would have got about Rs. 390 crores by way of additional transportation charges."

B. *Future Plans*

4.7 The Ministry of Petroleum & Natural Gas constituted a sub-group for the purpose to review the availability of gas from the various fields of ONGC and OIL. This group submitted its report in early 1990 and the availability potential by 1994-95 was assessed at 98 MMSCMD. (million metric standard cubic metres per day)

Based upon this availability of gas, an allocation of 95.5 MMSCMD of gas was made. Recently, however, the availability of gas has been reassessed by ONGC and the revised availability potential by the year 1996-97 has been assessed at 67.53 MMSCMD. While, therefore, formulating the Corporate Plan for GAIL for the year ending 2001-2002, the company have considered the availability of gas as 68 MMSCMD against allocation of 95 MMSCMD. The downward revision in the availability of gas has necessitated review of allocation. The Ministry of Petroleum & Natural Gas has formed the Gas Linkage Committee which is reassessing the production potential and prioritisation necessary for deferring certain projects for avoiding the mismatch between gas availability and allocations and, therefore, projects to be commissioned during 8th Plan may be restricted to the extent the demand is met out of 68 MMSCMD of natural gas. Linkage for additional gas which will become available during 9th Plan will be incorporated as and when the numbers are firmed up.

4.8 The Committee desired to know how the availability of gas assessed by sub-group of Ministry of Petroleum & Natural Gas and that assessed by ONGC differed by as much as 27 MMSCMD, the company stated that according to ONGC the number of structures which were supposed to be undertaken for development were not taken and therefore, the additional availability expected from the anticipated discoveries has been delayed resulting into reduction in availability of gas.

4.9 The responsibilities of Gas Linkage Committee were stated to be as follows:

(a) It shall periodically review the progress of implementation of upstream and downstream projects for utilisation of natural gas with a view to ensuring maximum and timely synchronisation of these facilities.

(b) It shall consider and recommend requests for the allocation of natural gas, including its fractions, by downstream consumers keeping in view the objective of ensuring that the allocation of gas to downstream users is economically efficient.

(c) It shall monitor the progress of downstream units to whom gas had been allocated, and shall make recommendations regarding cancellation or otherwise of gas allocations to downstream units the progress of implementation of which is not satisfactory.

4.10 When asked whether the projects likely to be affected or deferred in order to avoid mismatch between gas availability and allocations have been identified, the company stated in a written reply as under:

> "The reivew of allocation has been made by the Ministry and GLC, and all "in principle" allocations have been kept in abeyance. The allocation made to following power plants have also been reduced and contracts are being signed accordingly.

(MMSCMD)

Name of Consumer	Earlier Allocation	Revised Allocation
NTPC Gandhar/GEB Gandhar	2.25 each	1.50 each
NTPC Kakinada-APSEB Jegurupadu	1.50 each	0.75 each
New Fertilizer Plant in K.G. Bassein	0.50	Kept in abeyance

4.11 In this connection, the Ministry of Petroleum and Natural Gas stated that the power plant and the methanol plant in Tripura and the power plant in the Cauvery Basin for which 'in principle' allocations were made, may not be set up unless the availability of gas improves.

4.12 The Company has made an assessment of the requirement of pipelines and other related infrastructure in order to fruitfully utilise the supply of potential available. GAIL would require to implement a number of gas Pipeline projects including the upgradation of HBJ pipeline to carry 33.4 MMSCMD of gas, LPG Plants, C2/C3 Recovery Plants and other related projects. The expenditure on these projects has been estimated during the 8th Five Year Plan (1992-97) at Rs. 6537 crores.

In the 9th Plan, besides completion of the on-going projects spilling over from 8th Plan, a number of new pipelines, terminals, LPG plants and petro-chemicals would be undertaken. In the 9th Plan an investment of Rs. 7364 crores is envisaged for investment in new pipelines, petrochemical plants, LPG Plants and terminals. However the 9th Plan projections are very tentative and the shape of investments may undergo a major change, if gas pipeline from Middle-east is laid and GAIL has to lay pipeline within country for distribution of gas received from Middle-east. Further investments in Petrochemicals may also have to be reviewed. The total investment during 10 years period covering 8th and 9th plans is likely to be of the order of Rs. 13901 crores.

4.13 When asked to state whether the investments needed for 8th & 9th Plan have been tied up by GAIL, the company informed the Committee in a written reply as under:

"GAIL has prepared its present financing Plan and submitted the same to Ministry of Petroleum and Natural Gas and Ministry of Finance on a number of occasion while seeking approval to various projects. Tieing up of financing for the 9th Plan shall be taken up after the investments/projects are firmed up."

4.14 When the Committee desired to know whether the financing Plan relating to investment to be made by GAIL during 8th & 9th Plan have been approved by the Ministry, the Ministry stated that the 8th Plan outlay of GAIL has been approved by Government and the 9th Plan proposals will be considered by the Planning Commission only at the time of formulation of the 9th Plan.

4.15 On being asked which agency will be responsible for implementing the pipeline project from Middle-East, the Company stated that as per recommendations of the Group approved by the Ministry, GAIL should be the nodal agency for receiving and distributing the natural gas so received from Middle East (Oman or/and Iran).

4.16 On being enquired about the role of GAIL in this project, the CMD, GAIL stated during evidence:

"This is an issue over which the Ministry is very much working hard on it. GAIL, as an organisation, is not fully involved in it, although some of our officers are working on some of the Committees appointed. Their expertise is being taken advantage of by the Ministry. But the GAIL, as such, is not in the total picture. What kind of planning is being done, who are the consumers who are tying up, how much gas will be made available by which time, these are all issues not known to GAIL."

4.17 In this connection, Secretary, Ministry of Petroleum & Natural Gas stated of during evidence:

"Discussions are still going on. The pipeline from Middle-East to India will be put up by those agencies. No Indian Agency will be involved. No final view has been taken who exactly would do this."

4.18 However, in a written reply, the Ministry of Petroleum & Natural Gas stated as under:

"The Oman Oil Company (OOC) have completed the pre-feasibility study for an Oman-India pipeline system to carry 56.6 MMSCMD of natural gas. OOC propose to commission the first pipelines by 1998 if the Long Term Gas Supply Contract is signed with the Government of India by 1994. The pipeline will be designed, constructed, owned and operated by the OOC. OOC have indicated an investment of about USD 5 billion for the project.

In the MOU signed with Iran in November, 1993 it has been decided that the two countries will jointly identify an agency to undertake the pre-feasibility study for the Iran-India gas pipeline. The task of identifying the agency has been taken up.

The likely availability from Oman will be 56.6 MMSCMD. The sector-wise utilisation of this gas is proposed to be done according to the Imputed Economic Values. The State-wise distribution will be decided after the locations and the requirements of the consumer units are firmed up."

C. Research and Development

4.19 GAIL has stated that it believes in getting research work done on its behalf from outside expert bodies. In the year 1990-91 National Chemical Laboratories (NCL), Pune was asked to provide advisory consultancy for Research & Development activities to be taken by GAIL. NCL has completed this report and was paid a total fees of Rs. 75,000 for the same. National gas production in India is expected to increase at a much faster pace than that of crude oil. As India is a net importer of liquid fuels, there is considerable incentive for coverting methane/natural gas to liquid fuels to supplement the shortfall in domestic availability of these fuels. As per the recommendations of the NCL's report, GAIL has commissioned NCL to take up R&D project for conversion of Natural Gas to liquid Petroleum products (middle distillates). This process is a direct conversion process avoiding coversion of gas to Syngas and Methanol. NCL will be charging total fees of Rs.34 lakhs for this project and project duration will be 2 years. GAIL has already paid the first instalment of Rs. 16 lakhs to NCL in July, 1991. NCL has developed a number of catalysts for oxidatic coupling of natural gas to olefins. These catalysts are under further evaluation.

4.20 The percentage of expenditure on R&D to the total turnover of the Company during 1991-92 and 1992-93 was 0.00075 and 0.01995 respectively. When the Committee asked whether this expenditure on R&D was not very less for a company like GAIL, the CMD, GAIL stated during evidence:

"With regard to R&D, I would more than fully agree with you that it is very important. For a Unit to be healthy it must pay full attention to R&D. On that there cannot be two opinion. But you would have also seen that there are companies which employ a lot of officers but net result is not very good. We do not want to go into that category. Money, as you have rightly said, we have earned the hard way. To the government institutes which are there in Pune or Delhi, where there is manpower, we give them money and project to work for example in Pune we gave them a project to convert gas into middle distillates which are needed, things like diesel, etc.

As far as R&D areas are concerned, you will agree that if we take up two or three projects, out of those two or three projects, if we succeed in one project, that would be a good thing. The project that we have undertaken in Pune has not been a success. Similarly, we have an Institute in Dehradun. We are working on a project on CNG in transport sector. This will suit for a particular type of car. For this we require a certificate for declaring these cars road worthy. That project, we have given to the institute at Dehradun and the Road Research Institute, Pune. These two projects were given and each project is costing about Rs. 28 lakh or so. Our basic philosophy is that instead of building up huge infrastructure inhouse if we can get the job done outside by professional institutes, it would perhaps be better."

4.21 Later in a written reply, the company stated as under:—

"To meet the R&D requirement, GAIL is making use of state owned Research Centres facilities already established *viz.* IIP Dehradun, NCL Pune, and CRRI etc. These centres have highly qualified professional manpower/scientists and state of the art equipments/data bank to conduct the requisite R&D. However, GAIL is planning to set up inhouse R&D centre at Gas Training Institute at Noida."

V. FINANCIAL MATTERS

A. Working Results

5.1 The following table gives the details regarding turnover actual profits, Estd. profits (RE) value added and internal resources generated during the period 1988-89 to 1992-93 (Estimated.)

(Rs. in Crores)

	1988-89	1989-90	1990-91	1991-92	1992-93
(i) Turnover	327.06	646.53	791.01	1046.85	2783.34
(ii) a) Actual Profits	(−)52.89	24.94	22.73	93.55	210.53
b) Estd. Profits	(−)77.57	(−)20.23	15.35	41.85	108.08
(iii) Value added	111.59	218.18	269.05	382.15	538.00
(iv) Internal Generation	67.68	162.51	195.05	306.32	440.70

5.2 When asked whether the targets are fixed on realistic basis, the company stated in a written reply:—

> "Targets for profits are based on the basis of detailed Budget estimates prepared for the year. The estimates are based on likely availability of Gas and detailed production plans at gas processing plants (LPG plants). The targets are fixed realistically to the extent data is available at the time of formulating the budgets."

B. Pricing structure & Marketing

5.3 The price of gas effective from 1.1.1992 has been fixed as under:—

(i) Offshore gas at landfall point and onshore gas	Rs. 1550/1000 M3
(ii) Gas sold along the HBJ pipeline.	Rs. 2400/1000 M3
(iii) Gas sold in North-Eastern States with a provision for discounts upto individual cases.	Rs. 1000/1000 M3 Rs. 400/1000 M3 in

The above prices at (i) and (ii) above would increase by Rs. 100/1000 M3 per year for a period upto 31.12.1995.

The transportation cost was reworked by GAIL in consultation with BICP on the same principles as were adopted by Dr. Kelkar Committee for working out the price allowed to ONGC. The transportation cost on this basis worked out to Rs. 1275/1000 M3. The Govt. however retained the old transportation cost of Rs. 850/1000 M3 which was fixed on 1.1.87 and is to remain same till 31.12.95.

The Committee were informed by Gas Authority of India that the transportation charges of Rs. 850/1000 M3 allowed to GAIL, give to GAIL much lower return than that allowed to ONGC /OIL. To give GAIL the same return as has been given to ONGC, the transportation charges have to be increased or payment by way of marketing margin has to be made.

5.4 The Committee desired to know the actual formula adopted for the purpose of fixing of price of gas. The CMD, GAIL stated during evidence:—

"We worked out the transportation cost based on 12 per cent post tax return formula. Which is applicable for the case of fertiliser, etc. That is a well established formula and you get 12 per cent post tax return.

Kelkar Committee recommended that transport charges of Rs.850 may be given. We strongly objected to that. We told the Committee that our transportation charge is working out to be Rs. 1456, if return is 14 per cent, and if return is 12 per cent, then it is Rs. 1275. The same principle, as applied to ONGC, may be applied to GAIL also. We had detailed discussions with the Kelkar Committee which ultimately admitted that on 12 per cent return it will come to about Rs. 1037. But, despite our repeated representation to the Government of India, this figure of Rs. 850 was not changed. I would like to place before you that even originally when the Ministry of Petroleum worked out the amount to be given to ONGC and GAIL, it said that to ONGC Rs. 1325 at the rate of 15 per cent return and to GAIL Rs.1075 at the rate of 12 per cent return should be given. In spite of that decision, we were given Rs. 850 on the ground that we do not pay tax. We protested but unfortunately we did not succeed. Because of this we have suffered a heavy loss."

5.5 Elaborating further the witness stated:—

> "You must provide us not only this but some market margin. If GAIL had continued to remain as part of ONGC and seeing the number of projects we are taking up we would require money and that we can get only if we are provided with the marketing margin. We have been requesting the Government of India to kindly make it effective retrospectively. Instead to giving us Rs.1075 till December 1993 you gave us Rs. 850. You are not increasing the transportation charges at all, meanwhile four increases have taken place.

Firstly, for selling the same amount of gas, we have invested Rs. 125 crore more in extending the pipeline to Delhi. When for the first time we took up this line, the dollar was about for Rs.12 and now it is for Rs. 35. When I repay, I have to pay large amount of rupees to be able to pay back the Dollar or Yen loans. The price of gas is also going up. Salary and wages that I have to pay and the cost of spare parts also have gone up. All this has been submitted to the Government and we asked the Government also to mention any commodity whose price has remained constant from 1.1.87 to December 1995. But, this has not been fully appreciated.

Difference in the price of gas to the consumers along the HBJ line cannot be very wide. We have submitted to make the price uniform instead of making us suffer. That should be the right approach. We are not being fully compensated. We are putting it before you also that remunerative price has not been fixed as far as HBJ is concerned."

5.6 When asked to state how the transportation cost was worked out by GAIL, the company stated in a written reply:

"The transportation charges for HBJ gas supply system were fixed by the Government. GAIL was allowed transportation charges of Rs. 850/1000 M3 based on 12% pre-tax return which will work out to around 5% post tax return compared to 15% allowed to ONGC.

GAIL has been working out transportation charges in respect of consumers other than on HBJ, who have been allocated gas, based upon 12% post-tax return on its investments."

5.7 When the Committee desired to know whether the company had ever approached the Government for revision of transport charges, the company informed the Committee as under:-

"Based upon representations made by GAIL, to the Ministry of Petroleum & Natural Gas with which the latter presumably agreed it is learnt that Ministry while commenting on Kelkar Committee recommendation observed that the Committee had not taken into account the increase in operational costs and other operating expenses and have also not adopted the principles for working out the transportation charges for GAIL that have been adopted for working of the production, transportation and sweetening cost for ONGC. If same principles were observed, transportation charges of atleast @ Rs. 1219/1000 M3 would require to be fixed for GAIL so that the same return on investment as the producer is getting. However, the recommendation of the Ministry was not finally accepted and Govt. retained old transportation cost of Rs. 850/1000 M3.

One way of compensating GAIL for the low transportation charge allowed to it since 1987 would be to allow GAIL to retain the amount accruing in the gas pool account. In fact it was one of the main reasons for which gas pool account was created. Alternatively this amount could be allowed to GAIL as the interest free loan for the period of 20 years to be repaid over subsequent period of 10 years in ten equal instalments. This alternative may be more workable from practical angle."

5.8 On being asked about the Ministry's reaction on the request of the company to allow it to fix gas prices, the Secretary, P&NG stated as under:—

"Even the Ministry does not fix the gas prices as long as administered price continues. In this present regime the Government continues to fix the administered price.... What I am submitting is that when the Government takes a decision it should be possible to do so. Now what GAIL can do, it can fix its transportation charges. This also the direction in which we are moving. There should be no problem in allowing GAIL or any other transporter to fix their transportation charges. They have given in writing earlier, it was part of the MOU. Since the administered price continue, we are unable to agree with them."

5.9 The allocation of gas to various consumers or group of consumers is made by Government. GAIL's role in marketing of gas is somewhat limited essentially to entering into contract with parties who have got allocation from Government. GAIL has, however, sought Government's permission to be allowed to market 12.5% of gas in different regions on its own. The allocation of gas is presently being done by an inter-ministerial Gas Linkage Committee for this purpose. The Committee among other things identifies the quantity of gas available in different regions. Once the quantity of gas available has been firmed up the inter sectoral allocation of gas is then decided by the above Committee for allocation of gas to the priority sectors i.e. fertilizer, power, sponge iron, petrochemical sectors etc. The imputed value of gas for various uses is kept in view while allocating gas to various sectors. The allocation of gas to individual parties is made by Ministry of Petroleum and Natural Gas. Keeping in view the rcommendation received from various Ministries allocation of gas is made after considering that a diversity factor of 12.5% i.e. Consideration that all the consumers would not be drawing gas at all times of their operations due to various reasons including annual plan shutdown etc. to effectively utilise the gas at 100% of its availability a commitment of 112.5% is made.

5.10 When the Committee desired to know how in the absence of right to allocate gas to consumers on its own, the company was able to protect its commercial interest, the company informed the Committee as under:

"The Gas Use Policy Paper prepared by Ministry of Petroleum & Natural Gas which was accepted by Committee of Secretaries have recommended that in order to optimally utilize the natural gas while allocating to priority sectors users in Fertilizer, Power be made by

High Powered Committee, allocation of natural gas for various miscellaneous purposes to the extent of 10% of total availability be made by distributing agency. Therefore, the allocations to the priority sector were continued to be made by the Govenment, in consultation with the user department, the allocation of gas to the miscellaneous users need to have been made by the distribution company. This aspect has been agreed to be considered by Government in the MOUs entered into between GAIL and the Ministry when it was considered that allocation from 10 to 12% be made by GAIL. However, this has not come through and is resulting into non-utilisation of gas atleast from small and marginal fields and gas in being flared from such structures.

Further, situation has also arisen where the fertilizer plants along HBJ have got delayed by 5-6 years for which GAIL along has suffered.

In absence of such authorisation the company is not able to protect the commercial interest of the producer of gas as well of the economy. In the present context even small additional quantity of 2000 M3, available from isolated field and if it is to be supplied to existing consumer who has additional demand, it needs authorisation from Government.

Similarly small allocations of few thousands of cubic meteres of gas, if released by one customer or available otherwise requires GLC to sit and decide. When a marketing company specially created for the purpose exists, the need for GIC to go into these petty allocations is pointless and wastage of everyone's time and brings in bureaucratic delays."

5.11 When the Ministry was asked as to what steps have been taken by them on the company's request to permit GAIL to allocate 12.5% of gas, the Ministry stated in a written reply:—

"The MOU for 1990-91 and 1991-92 contained GAIL's request for permission to allocate 12.5% of gas to the consumers where gas replaces other fuels specially liquid hydrocarbons. The allocations already made exceed the availability of gas and this request would be considered when the availability of gas improves."

C. *Contract with ONGC for Gas Supplies*

5.12 A memorandum of understanding between GAIL and ONGC was arrived on 21st January, 1987 for supply of gas. Based upon this MOU, the detailed draft agreement was also finalised. An agreement was to be finalised by 23rd January, 1987 after ratification of the MOU by the respective managements. The MOU was not, however, ratified by GAIL management as the management of ONGC stated to have raised certain points contrary to the provisions in MOU. In the meantime, based on the Provisions of the MOU which provided for supply of certain minimum quantity of gas, ONGC preferred claims for the quantity falling short of minimum of 80 percent of the quantity committed by GAIL on monthly basis and till 31st March, 1991 ONGC claims accumulated to Rs. 141.5 crores. According to information furnished by the company, this issue is stated to have been resolved while signing MoU dated 27.12.1990 between ONGC and GAIL whereby these claims have become invalid and GAIL has not made any payment to ONGC.

5.13 The Committee pointed out that though GAIL had to pay penalty for its failure to lift the gas, ONGC was not liable to pay the penalty in case it fails to supply the gas. In this regard the CMD, GAIL stated during evidence:

> "The contract or the MoU that we signed with ONGC is on back to back basis. It means that if I do not get it, I will not pay thing to ONGC. so, it is not that I am going to pay out of my pocket. I am going to retain my transportation charges and I am going to provide in a customer's contract that he will pay MGO and all that.
>
> With regard to you second question as to whether I will provide for such a clause on a reverse basis, in expansion, I have to talk to ONGC and make them agree on it."

The witness further stated:

> "I will try my best."

PART B

RECOMMENDATIONS/CONCLUSIONS OF THE COMMITTEE

1. The Gas Authority of India Limited was formed on 16th August, 1984 to take charge of all the post exploration activities connected with natural gas. The company was entrusted in the first instance with the responsibility to execute and then to operate and maintain the HBJ pipeline project covering a distance of over 1700 kms. for supply of natural gas primarily to the fertilizer plants being set up in the States of Madhya Pradesh, Rajasthan and Uttar Pradesh. The main objectives of the Company are to transport, treat, process, fractionate, purify and to generally deal in marketing of natural gas and natural gas liquids. The Committee note that in pursuance of its obectives, the company has laid pipelines in various parts of the country. Besides setting up of LPG plants, the company is in the process of implementing Petrochemical Complex at Auralya in Uttar Pradesh for use of gas fractions for higher value additions. The company is also planning to upgrade its HBJ pipeline to transport additional gas that is expected to be available by the year 1996. However, the Committee regret to note that even after about ten years of its existence the company has not been able to achieve its objectives to the extent it was expected to do particulary in regard to setting up of fractionating facilities for using the gas fractions for higher value additions. The Committee expect that the company would at least now gear up to meet the challenges that are expected to come up in the face of the expected substantial increase in the consumption of gas.

2. The company has been signing Memorandum of Understanding with the Ministry of Petroleum and Natural Gas since the year 1990-91. While the performance of the company is stated to have been adjudged as excellent during these years, the Committee are not happy with the delay in signing of these MoUs. The MoU for the year 1993-94 was signed on 13th August, 1993 *i.e.* after four months of the beginning of the current financial year. It is intriguing to note that the MoU was sent by the company to the Ministry on 11th February, 1993 but the Ministry approved it only on 10th August, 1993. The Committee deprecate the inordinate delay on the part of administrative Ministry in approving the MoU. Though both the company as well as the Ministry feel that it is more advantageous to sign the MoU at the beginning of the financial year, no tangible reasons could be adduced before the Committee for delay in signing the MoU. The MoU for the year 1994-95 has also not been signed upto the end of March, 1994. The Committee feel that in order to make the system of MoU more effective and to give adequate time to the company to fulfill its obligations under the MoU, the same should be signed well before the beginning of the financial year.

3. After examining the Gas Authority of India Limited, the Committee observe that in reality the MoU Companies have not been given the autonomy to the extent it is required in fulfilling the objectives and missions. The Committee need hardly emphasise that in case this situation is allowed to continue, the very purpose of signing the MoU would be defeated. Besides, while the company binds itself to specific milestones and targets, there are no means to ensure that the Ministry also fulfils its obligations under the MoU. The Committee feel that the system of MoU has no meaning if it is one sided. Both the company as well as the Ministry should share equal responsibilities to fulfil the obligations envisaged in the MoU. The Committee are of the opinion that merely taking into account the failure of the Ministry to discharge its obligations under the MoU while evaluating the PSU's performance would not serve the purpose since it only amounts to giving some concessions to the undertaking due to non-performance of Ministry. They, therefore, recommend that while making assessment of the MoU of a company, in case of the failure of administrative Ministry to fulfill its obligations, some responsibility be fixed on the Ministry also and suitable action taken against the persons held responsible.

4. The Committee regret to observe that there is disparity in the matter of delegation of powers to GAIL and ONGC both of which are Schedule 'A' Companies and under the same Ministry. In September, 1990 full powers were delegated to CMD, GAIL for purchase and award of contracts and the decision had to be taken by the CMD in consultation with the concerned Director and Director (Finance). However, since November, 1992 the limit has been restricted to pre 1990 level *viz.* Rs.1 crore only. In contrast, the Chairman, ONGC has full powers of the commission to award contracts upto any amount with regard to domestic bids and utpo Rs.10 crores with regard to international competitive bidding basis. Such a huge difference in delegated powers in respect of the companies belonging to the same Schedule and handling large projects is not understandable.

5. The Committee are further pained to observe that the powers of the CMD, GAIL were reduced to the present level at the initiative of Government Directors in November, 1992 and since then the management's repeated efforts to bring the matter regarding enhancement of power of CMD before the Board have remained unsuccessful due to the desire of Government Directors to defer the matter. The Secretary, Ministry of Petroleum and Natural Gas while justifying his stand in this regard stated that the internal power sharing arrangement between the Chairman and the Government is governed by the Articles of Association and Bye laws of the Company, and in case GAIL wants to be at par with ONGC, the Ministry will have no objection in recommending it. In this connection the Ministry also pleaded that in the absence of a

regular CMD, it was not possible for the delegated powers to be exercised in the manner contemplated by the Board in September, 1990.

In view of the fact that the Clause 82(1) of the Articles' of Association of GAIL clearly empowers the Board to delegate such of its powers as it may think fit to the Chairman-cum-Managing Director and also the fact that from 2nd November, 1991 to November 1992 full powers were being enjoyed by the CMD who also happened tobe an acting CMD, the contention put forward by the Secretary and the Ministry is unacceptable to the Committee. The Committee are, therefor, constrained to infer that a deliberate attempt has been made by the Ministry in curtailing the powers of CMD for the reasons best known to them. Moreover, non-appointment of a regular CMD is also none of the fault of GAIL. The Committee, therefore, take a serious note of such an interference by the Ministry in affairs of Public Sector Undertakings working under their administrative control, which is against the very concept of autonomy.They fail to understand as to how in the face of such a direct interference a public sector unit can discharge its functions efficiently. They, therefore, recommend that no stumbling block should be put by the Government Directors, in case the Board wants to delegate more financial powers to the CMD.

6. The Committee have been informed that a Steering Committee was appointed by the Ministry of Petroleum & Natural Gas in August, 1990 in respect of GAIL on the pattern of ONGC & OIL to examine release of foreign exchange above Rs. 50 lakhs. However, after the introduction of the liberalised exchange rate mechanism in March, 1992, no foreign exchange is now required to be released by Government, in view of convertibility of rupee. But the institution of Steering Committee is still being continued to deal with purchase cases where International Competitive Bidding is resorted and the value is above Rs. 5 crores. The Committee have been given to understand that such Steering Committee does not exist in any other Ministry nor in relation to any other organisation except for ONGC/OIL/GAIL, even within the Ministry of Petroleum & Natural Gas. The Committee are not convinced with the plea of the Ministry of Petroleum and Natural gas that the Steering Committee has been rendering useful advise to these undertakings in the matter of tenders/award of contracts and facilitating speedy decisions and it would be useful for them to have a Committee of this nature. On the other hand, the Committee wish to point out that the approval first by the Steering Committee and then by the Board results in duplication of work resulting in avoidable delays. Moreover, since such Committees do not exist in any other Ministry or even in relation to any other public undertaking under the administrative control of the Ministry of Petroleum & Natural Gas itself, the Committee fail to understand the relevancy of the same with respect to these three undertakings only. In their opinion this is just an avoidable encroachment upon the autonomy of the public undertakings. The Committee, therefore,

recommend that the Steering Committee be abolished forthwith under intimation to them.

7. The Committee have been recommending from time to time in their various Reports that the post of Chief Executive of any Undertaking should not be kept vacant for long. They are, however, dismayed to note that the post of regular CMD in GAIL has been lying vacant for the last more than two and a half years (since 2nd November, 1991) inspite of the fact that the Public Enterprises Selection Board had made their recommendation for appointment to the post on September 16, 1992. The Committee feel that the post of CMD in a company like GAIL with a huge turnover should not remain vacant for such a long period. They, therefore, desire that the post of CMD be filled up without any further delay and the Committee be informed in this regard at the earliest.

8. The Committee have been informed by the Company that it prepared a Corporate Plan for the period 1992-2002 and submitted the same to the Ministry of Petroleum and Natural Gas in February, 1992 and its approval is awaited from the Ministry. The Ministry on the other hand have stated that the company sent the Corporate Plan under the impression that the Ministry should approve it, and since there was no specific request for approval, the Ministry felt it had been sent for record only. In this regard the Secretary, Petroleum and Natural Gas stated during evidence that there is no policy or instruction that the Corporate Plan of a PSU should be approved by the administrative Ministry. The Committee seriously deprecate this lack of coordination between the company and its administrative Ministry. It is amazing that after submitting the Corporate Plan in February, 1992, neither the Company made any attempt to get it approved from the Ministry nor the Ministry thought it proper to inform the company that it did not require the Ministry's approval. The Committee, expect greater and close coordination between the administrative Ministry and the company in future.

9. GAIL took the HBJ pipeline project from ONGC on its formation on 16th August, 1984. After receiving the global tenders for the project, the GAIL and EIL finalised a proposal and submitted their recommendations to the Government in February, 1985 for three of the six packages of the project. The Committee are surprised to note that instead of approving the proposal, Government appointed a high level Committee headed by Prof. M.G.K. Menon to go into the capability of GAIL and EIL to implement the project. Based on the recommendations of this Committee, Government decided that fresh consolidated tenders be invited for all the packages of the project except the one relating to procurement of pipes, inspite of the fact that the procedure adopted for competitive bidding for different segments of the project had been agreed to at a meeting of the Secretaries held on 7th May, 1984. The Committee are not able to understand the basis of the doubts which arose at such a late stage about the capability of GAIL and EIL, resulting in the entire operations carried

out over a period of one year being rendered infructuous apart from the inevitable postponement of time-frame for completion of the project by over a year. They would recommend that in respect of such important projects all the related issues should be examined in depth before embarking on their implementation so that such avoidable delays do not occur.

10. Two agreements were signed by GAIL and the Consortium on 10th May, 1986 for execution of the contract. Clause 3.8.1 of the agreement provided that in case the Consortium failed to complete the work within the stiupulated period, then the Consortium would pay liquidated damages for every week of delay or part thereof to be calculated at the rates prescribed therein. For delay in construction of various sections, GAIL called upon the Consortium on 23rd August, 1988 to pay liquidated damages estimated at Rs. 75.51 crores (Rs. 149.81 crores as per exchange rate of 31.12.1993). The Consortium did not accept the claim but instead preferred a counter claim of Rs. 638.54 crores (Rs. 1418.42 crores as per exchange rate of 31.12.1993) against GAIL alleging that the Consortium was prevented from fulfilling obligations under the contract due to various reasons for which GAIL was responsible.

11. The case regarding encashment of Performance Guarantee is stated to be pending before a French Court and the case regarding claims of liquidated damages is before the International Chamber of Commerce. It was on the request of the French Government, that the Government of India appointed a Joint Committee in March, 1993 with the approval of the Prime Minister to resolve the dispute between the two companies. The recommendations of this Committee are awaited. The Committee recommend that all efforts should be made by Government to resolve this dispute at the earliest under intimation to them. The Committee do not appreciate the role of the Ministry in the matter in as much as it did not consider it appropriate to intervene in the dispute between GAIL and *Spie-Capag* on the plea that it was of a commercial nature.

12. The Committee note that after technical evaluation of the tenders for purchase of Steel Pipes, EIL recommended acceptance of offer of the Japanese Consortium for linepipes of thickness 0.875" & 1.062" and that of the Brazilian firm for 0.625" and 0.75" thickness. Inspite of this the tender Committee of GAIL recommended on 26th July, 1984 to Government the acceptance of offer of Japanese Consortium for the entire quantity. On 7th May, 1985, GAIL was advised to issue Letters of Intent to both the parties for purchase of linepipes of approximately 350 Kms from each. Subsequently, the Japanese Consortium agreed to offer 11% discount if at-least 60% of the order was placed on it. Finally, with Government approval, firm orders for linepipes were placed on 15th July, 1985 with the Brazilian firm for 287 Kms and with the Japanese Consortium for 373.5 Kms.

13. The Committee fail to understand the insistence of GAIL on larger purchases being made from the Japanese Consortium although their offer

even after taking into account the 11% discount, was not cheaper than the Brazilian offer, as admitted by the Secretary, Ministry of Petroleum & Natural Gas during evidence. In fact, as pointed out by Audit, the placement of orders for linepipes of thickness 0.625" and 0.75" with the Brazilian firm and balance with the Japanese Consortium as recommended by EIL initially would have resulted in substantial saving of foreign exchange to the tune of Rs. 10.88 crores. The arguments advanced by the company that higher order was placed with the Japanese Consortium in view of the availability of OECF loan and reliability of supply are not tenable. For, the Brazilian firm was also eligible for OECF loans.

An agent had been appointed by the Japanese Consortium to whom Japanese Yen 906 million (approx.) was paid. But the Consortium failed to inform the GAIL about the appointment of this agent. This amount has been claimed by GAIL as compensation from the Consrotium and the case is still pending before arbitration. In the opinion of the Committee this aspect warrants further probe. The Committee are also unhappy over the lifting in April, 1991 of the ban imposed on all Public Undertakings on future business dealings with Sumitomo Corporation, which was imposed in February, 1990 while the compensation claim of GAIL in this matter is still pending before arbitration.

14. The Boreri-Sawai Madhopur branch line originally included in the HBJ Pipeline Project was subsequently cancelled due to change in location of fertilizer Plant from Sawai-Madhopur to Gadepan. The Committee are constrained to observe that though the possibility that the Fertilizer plant would not be established at Sawai Madhopur became known by August, 1987, the contractor was informed by GAIL only in May, 1988 about the cancellation of that branch line. The contention of the company that it was awaiting a decision from the Department of Fertilizers about the relocation of the fertilizer plant,is not acceptable to the Committee since this decision was taken only in October, 1988 *i.e.*, five months after the cancellation of the Boreri-Sawai Madhopur section had been intimated to the contractor by GAIL. Although the Committee do not appreciate the delay in taking a decision about the location of the fertilizer plant they are of the firm opinion that GAIL and the Ministry of Petroleum and Natural Gas failed to pursue the matter with the Department of Fertilizers with a view to get an early decision in the matter since it was ultimately GAIL who was going to lose by way of expenditure of the pipeline section which was not needed. The Committee are perturbed to observe that this delay in taking timely decision and communicating the same to the Consrotium resulted in uncetainity about recovery of Rs. 9.50 crores claimed by GAIL. The Committee, therefore, recommend that such lapses should not be allowed to recur in future. They would also like to be informed about the final outcome of the claim preferred by GAIL on Consortium on account of reduction in cost.

15. In order to enable GAIL to supply gas to various consumers by 1995-96, to whom gas has been allotted, the upgradation of the existing HBJ Pipeline System is being taken up. The Committee are shocked to observe that though the Techno Economic Feasibility Report for the HBJ Upgradation Project was submitted by the Company in November, 1990, the project was finally approved only in February, 1994. Meanwhile the cost of the project has escalated from Rs. 1427 crores to Rs. 2376 crores *i.e.*, by about 66%. The Committee strongly deprecate such inordinate delays in approving the projects and desire the Government to evolve a system to ensure that such delays are avoided in future.

16. The Committee observe that the company have taken up projects for distribution of natural gas to domestic & commercial consumers in Bombay and Delhi. The Committee expect GAIL to finalise early the proposed Joint Venture Company with the British Gas Company for distribution of 1.5 MMSCMD to domestic and commercial sectors in Bombay. In regard to supply of gas to 2.38 lakhs households and commercial units in Delhi a Rs. 294 crores project is still being processed by Governmment for first stage clearance. While the Committee urge the Government to give an early clearance to this project, they would like to caution that gas being a highly inflammable substance, the slightest negligence in handling the projects may create a very disastrous situation in the metropolitan cities like Bombay and Delhi. The Committee need hardly emphasise, therefore, that utmost care should be taken in Implemening these projects and foodproof arrangements made to prevent the kind of leakage that occured in July, 1993 in Delhi.

17. The entire gas being supplied through HBJ pipeline is termed as rich gas, while the C1 fraction after extraction of other fractions mainly C2, C3 and C4 is termed as lean gas. The requirements of fertilizer/power plants are stated to be confined to lean gas while a combination of fractions C2 and C3 is used for petrochemical products and a combination of C3 and C4 fractions is utilised for supply of LPG. The Committee have been given to understand that the Company suffered heavily over the years on account of selling of rich gas as lean gas. 14% of the fractions not needed in the production operations of the fertilizer and power plants not only get wasted without any ultimate national benefit but also go to increase the cost of fuel/ raw material supplied to customers. The value of such unutilised part of the gas supplied upto March, 1990 is estimated at Rs. 128.73 crores. The stand taken by CMD, GAIL during evidence that C2 and C3 fractions can also be utilised in the production of fertilizers and these are not wasted has not impressed the Committee. While comparatively lesser quantity of gas containing rich components might be needed for production of fertilizer this certainly prevents the rich components for being utilised for more profitable purposes. Under the present Government policy also C2 and C3 fractions of natural gas are to be used for petrochemicals. The Committee feel that there was much delay in conceiving the projects for fractionation of natural

gas which resulted in huge losses to the national exchequer. They, therefore, recommend that for the pipeline projects to be taken up in future, care be taken so that projects for fractionation of gas come up simultaneously.

18. The committee are constrained to observe that the capacity utilisation of the LPG plant of GAIL at Vijaipur has been very low and the plant was able to produce only 3.43 lakh MT of LPG against a total capacity of 4.06 lakh MT. The reason for the low capacity utilisation has been stated to be non-availability of sufficient gas. The Committee are unhappy to observe that a Plant with a huge investment of about Rs. 274 crores would remain largely unutilised for years to come. Similar is the fate of Vagodia Plant commissioned in January, 1993 with a capacity of 73,000 MTPA. They are led to the conclusion that this state of affairs has been the result of faulty project planning both at the undertaking and the Ministry's level. They, therefore, recommend that in future projects should be planned in a manner so as to ensure that such type of mismatch between gas availability and actual requirement is avoided.

19. In order to utilise C2 and C3 fractions from the gas supplied to the consumers through HBJ pipeline Gas Authority of India Limited is setting up a Petrochemical Complex at Auraiya. The Committee regret to note that though the HBJ Pipeline Projects was taken over by GAIL in August, 1984, the Detailed Feasibility Report for the Auraiya Petrochemicals Project was submitted only in October, 1990. The Committee are of the opinion that GAIL should have thought of using the fractions of natural gas for such higher value applications much earlier. What is worse, the Government gave a Letter of Intent to GAIL for the downstream units only in April, 1991 though according to the Secretary, Ministry of Petroleum and Natural Gas downstream industries have got to be set up in order to be safe in the market of fluctuations. The project was finally cleared by Government in October, 1992. The Committee deprecate this lackadaisical approach on the part of GAIL and the Ministry in the formulation and approval of this project. They need hardly stress that the project should be taken up in right earnest to ensure its completion in December, 1996 as scheduled.

20. The Committee are dismayed to find that the HBJ pipeline is being heavily underutilised. The capacity utilisation during the last three yeras was 8.71, 10.55 & 13.641 respectively against an installed capacity of 18.2 MMSCMD. The CMD GAIL informed the Committee during evidence that had the pipeline been fully utilised, GAIL, could have earned an additional revenue of about Rs. 390 crores. The under utilisation is stated to be first due to non-commissioning of fertilizer plants and then the non-availability of gas from ONGC. In the present circumstances when the demand for gas is increasing the need for making available sufficient gas can hardly be over emphasised. The Committee doubt whether the HBJ upgradation project which is presently under implementation will ever be able to reach at its full capacity. However, the Ministry have assured the Committee that with the completion of Gas Flaring Reduction Project by July, 1996 the gas

availability at Hazira will be 32.55 MMSCMD. The Committee hope that there would be no slippage in completion of this project and the HBJ pipelines even after upgradation does not remain underutilised on account of non-availability of gas.

21. The Committee have been informed that though the availability of gas was initially assessed at 98 MMSCMD by the sub-group of Ministry of Petroleum and Natural Gas, on reassessment by ONGC it was found to be 67.53 MMSCMD only which necessitated review of allocation to the various consumers. The Ministry of Petroleum and Natural Gas has formed a Gas Linkage Committee to reassess the production potential and prioritisation necessary for deferring certain projects for avoiding the mismatch between gas availability and allocations. The Committee are perturbed to note that some power, fertilizer and other plants in different regions may be substantially delayed or may not even see the light of the day due to non-availability of gas. In these circumstances, the proposed gas pipeline from Middle East expected to carry 56.6 MMSCMD of natural gas can be the only hope to fill the gap between gas availability and requirement. They, therefore, recommend the Government to take effective steps for an early implementatin of Middle East Pipeline Project and ensure signing of the long term Gas supply contract within this year so that the first pipeline for carrying 28.3 MMSCMD of gas is commissioned by 1998. The Committee also feel that since GAIL has also attained sufficient experience in pipeline projects, it should also be involved in the implementation of this project to the extent possible.

22. R&D activities of the company is another area where the Committee want to express their deep concern. The percentage of expenditure on R&D to the total turnover the Company is stated to be 0.00075 and 0.01995 during the year 1991-92 and 1992-93 respectively. The Committee are not happy with the current level of expenditure on the R&D activities of GAIL which is quite insignificant compared to the total turnover of the Company. The Committee ,therefore, strongly urge the Company to increase its outlay on R&D activities. The Company at present is depending on external research bodies such as NCL, Pune, IIP, Dehradun, TERI, Delhi and EIL for its research work. The Committee feel that much research has to be done in the field of Natural Gas and keeping this in view the Company should have its own full-fledged R&D centre. They would, therefore, urge that the proposed R&D Centre at Gas Training Institute at NOIDA should be set up expeditiously.

23. The Committee appreciate that the profits of the Company are showing increasing trend. During 1990-91, 1991-92 and 1992-93 the profits of the Company were Rs. 22.73 crores, Rs. 93.55 and Rs. 210.53 crores respectively against the estimates of Rs. 15.35 crores, Rs. 41.85 crores and Rs. 109.08 crores. The Committee hope that the

Company will make continuous efforts to maintain this increase in profits. However, they feel that targets should be made more realistic in order to avoid complacency and get better results.

24. The Committee have been informed by the Company that the transportation charges of Rs. 850/1000M3, fixed *w.e.f.* 1.1.1987 give to GAIL much lower returns. The transportation cost worked out by GAIL in consultation with BICP on the same principles as adopted for ONGC works out to Rs. 1275/1000 M3. Despite repeated representations by GAIL to the Ministry for upward revision of transportation charges, these have not been revised. The Committee are not convinced with the plea of the Ministry that since the gas comes under administered price regime, the Ministry have no say in this matter. They, therefore, recommend that the whole issue of pricing of gas be gone into and suitable measures taken to give fair returns to the company.

25. The Committee are surprised to find that though the Gas Use Policy Paper prepared by the Ministry which was accepted by Committee of Secretaries have recommended to allow the Company to allocate 10% of the total availability of gas on its own, the Company has not been given this right which sometimes results into non-utilisation of gas. The Committee have also been informed by the company that even for small allocation if released by one customer, the matter is discussed by the Gas Linkage Committee. The reply of Ministry that the request of the Company to get allocation right of 12.5% of gas will be considered when the availability of gas improves is far from convincing. The Committee, therefore, recommend the Government to give some autonomy to the company in the matters relating to marketing so that the company may be able to show better results.

26. The Committee observe that in the MOU signed between ONGC & GAIL though GAIL, has to pay the penalty for its failure to lift certain minimum quantity of gas, there is no such penalty to be imposed on ONGC in case it fails to supply the gas. The CMD, GAIL has assured the Committee that he would take up the matter with ONGC. The Committee feel that it would only be fair if a provision for penalty is also made in case ONGC fails to supply the committed gas to GAIL. They would, therefore, recommend that the agreement between ONGC and GAIL should be modified accordingly.

NEW DELHI,
16th September, 1994

25 Bhadra, 1916(S)

VILAS MUTTEMWAR
Chairman,
Committee on Public Undertakings.