C.P.U. No. 513

COMMITTEE ON PUBLIC UNDERTAKINGS (1982-83)

(SEVENTH LOK SABHA)

SEVENTY-SECOND REPORT

ON

HINDUSTAN PETROLEUM CORPORATION LTD.
(Ministry of Energy—Department of Petroleum)

Presented to Lok Sabha and
Laid in Rajya Sabha on
27-4-1983

LOK SABHA SECRETARIAT
NEW DELHI

April, 1983/Vaisakha, 1905 (Saka)

Price : Rs. 4-45

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(1982-83)

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STUDY GROUP III ON HINDUSTAN PETROLEUM CORPORATION LTD., NATIONAL FERTILIZERS LTD., OIL AND NATURAL GAS COMMISSION, NATIONAL FILMS DEVELOPMENT CORPORATION AND INDIAN ROAD CONSTRUCTION CORPORATION LTD.

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INTRODUCTION

I, the Chairman, Committee on Public Uudertakings having been authorised by the Committee to present the Report on their behalf, present this Seventy-Second Report on Hindustan Petroleum Corporation Ltd.

2. The Committee took evidence of the representatives of Hindustan Petroleum Corporation Ltd. on 6 and 7 December, 1982 and of Ministry of Energy (Department of Petroleum) on 24 and 25 January, 1983.

3. The Committee considered and adopted the Report at their sitting held on 20 April, 1983.

4. The Committee wish to express their thanks to the Ministry of Energy (Department of Petroleum) and Hindustan Petroleum Corporation Ltd. for placing before them the material and information they wanted in connection with examination of the Company. They also wish to thank in particular the representatives of the Department of Petroleum and the Hindustan Petroleum Corporation Ltd. who gave evidence and placed their considered views before the Committee.

NEW DELHI ;
April 22, 1983
Vaisakha 2, 1905 (S)

MADHUSUDAN VAIRALE
Chairman,
Committee on Public Undertakings

CHAPTER I

OBJECTIVES AND OBLIGATIONS

A. Historical Background

Hindustan Petroleum Corporation Ltd. was formed in 1974 after the acquisition by Government of majority shareholding in Esso Standard Refining Co. and Lube (India) Ltd. (in which it already held 50% shares). In December 1976, Caltex operations in India were also taken over by Government, and in May 1978, these were amalgamated with this Corporation. In 1979, Kosangas Company, engaged in the activities of bottling, distribution and marketing of LP Gas was acquired and merged with HPCL. Similarly, Central Government took over in the public interest the management of undertakings of the Parel Investment and Trading Company Private Limited, pending acquisition of these undertkakings and appointed HPCL as "Custodian" of these two companies for carrying on the management for and on behalf of the Central Government.

B. Objectives and Obligations

1.2 The Administrative Reforms Commission had recommended that Government should make a comprehensive and clear statement on the objectives and obligations of the public enterprises. The statement should *inter alia* lay down the broad principles for determining the precise financial and economic obligations of the public enterprises in matters such as creation of various reserves, responsibility of self-financing, the anticipated returns on the capital employed, and the basis for working out rational wage structure and pricing policies. In November 1970, Ministries were asked by BPE that statements of objectives and obligations for the undertakings should be formulated by the individual enterprises with the approval of government and that Ministry of Finance should be consulted before finalising the financial aspects of such statements.

1.3 The Committee were informed by Chairman and Managing Director (CMD), HPCL during evidence that the statement of objectives and obligations of HPCL was formulated and approved by the Board in December 1980. Pointing out that HPCL was formed in 1974, the Committee enquired the reasons for delay in formulation of objectives. The CMD, HPCL replied, "We were actually doing the exercise right

from 1978 and in that year Caltex got merged. In 1979 by parliamentary legislation Kosan Gas Company was taken over. We wanted to know what level of activities we are going to have ; it took some time." Asked whether the statement had the approval of the Government, the witness stated that he did not know whether the Government had formally approved it although it had been submitted in December, 1980.

1.4 The Secretary, Department of Petroleum (DOP), however, stated that the micro objectives laid down by the Company did not require specific Government approval and added, "we have our representatives in the Board of Directors. They see that the objectives are in line with socio-economic objectives which will be beneficial to the economy of the country." He further added, "We want to delegate more and more power to the Board ; it can take decisions in consultation with the Government Directors."

1.5 Enquired whether the Ministry was aware of the Administrative Reforms Commission's recommendation regarding formulation of objectives and obligations of public undertakings and Government's decision taken thereafter (November 1970), the Department of Petroleum stated in a post evidence reply that they were aware of these. In this connection the Department referred to BPE's O.M. dated 7th May 1979. According to this O.M., the administrative Ministries were to advise the public enterprises under their control to spell out their micro objectives consistent with the broad objectives spelt out in Industrial Policy Statement of December 1977 without any further loss of time to facilitate realistic and meaningful evaluation by the Parliamentary Committe and the Government.

C. Budget Estimates and Actuals

1.6 The budget targets and actuals of HPCL in respect of production value added, profit and loss and internal generation of funds for the period 1975-82 were as under : —

Rs. lakhs

Year	'000 tonnes Production		Value added		profit & Loss before tax		Internal generation of funds	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
1975	2647	2486	—	3942	(135)	336	20	297
1976	2672	2646	—	4353	414	804	292	507
1977-78 (15 months)	3555	3462	—	5843	978	1290	727	880
1978-79	4338	3847	—	7988	2200	2435	1465	1684
1979-80	4395	4015	—	9791	2207	2717	1631	2198
1980-81	3913	4217	—	12773	2147	3385	1647	2540
1981-82	3987	4663*	—	15948	2115	3039	2599	2692

1.7 The variation between production target and actual was (−) 11.3% in 1978-79, (−) 8.6% in 1979-80 (+) 7.8% in 1980-81 and (+) 11.7% in 1981-82. It has been stated that in 1978-79, there was a major plant problem at Bombay Refinery due to leak in the pipestill shell which resulted in a plant shutdown of around 7 weeks and decrease in crude througput of 4,64,000 tonnes. During 1979-80, higher than normal througput loss was sustained due to problems associated with crude availability/quality and BPT strike. At the Visakh Refinery, planned maintenance turnaround during 1979-80 had to be taken in stages due to delayed receipt of equipment/materials from vendors which led to an additional throughput loss of 109,000 MT. In 1980-81 the production was stated to be higher than the target by 7.8% due to good capacity utilisation and in 1981-82 by 11.7% due to postponement of planned shutdowns assumed in Budget Estimate.

1.8 Referring to the figures of budget targets and actuals, the Committee enquired when there were shortfalls in production during 1975-80 how the profits and internal generation of resources turned out to be higher than those budgeted. Explaining in this context the basis for

*The Committee were informed by HPCL at the stage of drafting of report that the figure was actually 4456.

fixing budget targets of production and profits, a representative of HPCL stated during evidence :

> "We work out the budget on a fairly detailed manner. We take into consideration each and every important face of activity... One important factor is the 'through-put' of the crude. At 100% capacity, we know how much crude can be processed. We know the number of days a refinery is likely to work. It depends upon planned shutdowns. Based on our experience we have the cycle of overhaul of the machinery every 18 months or so. It is 'unplanned shut downs', however, which create problems. We know what are the types of crude that we are likely to process and accordingly we work out the production pattern.
>
> The second factor and which is a very important one is market sales. Our production and sales are not the same. In fact, we sell more than what we produce. To the extent we sell more, we buy either from other oil companies or through the share of canalised imports. Then in addition to interest cost, a detailed exercise is done in regard to all operating costs. We go through our working capital requirements and take into account prevailing rate of interest. One more factor which is very important for the results is the claims on the pool account. Under the pricing system, pool accounts are operated and the claims are settled from these accounts. In estimating what are the claims that will be settled we consider only approved product prices and pool account procedure. We do not consider those reliefs which are still under the consideration of the government and where relief or compensation for cost increase is yet to be allowed. Those reliefs are only taken as and when they are allowed."

1.9 In a post evidence reply the Committee were informed by DOP that the variations in actual profits as compared to Budget Estimates arose mainly due to reliefs announced by the Government subsequent to the preparation of budget estimates in which these reliefs could not be anticipated and incorporated.

1.10 A representative of HPCL informed during evidence that if there is improvement in other areas, to that extent any reduction in profit as a result of lower production gets offset. Illustrating this point, the witness stated :

"May we take 1978-79 wherein there was major reduction in the production. In this case as a result of lower production we lost about one and a half crore rupees. That means if we had acheived production target, we would have earned one and half a crore rupees more. We had more sales ; there was better product mix as compared to budget estimates and as a result of that we made higher margin of one crore thirty lakhs. Then our claims from pool accounts increased subsequently as a result of implementation of the final report of the OPC (Oil prices Committee 1976). Net result shows a profit higher than the budget estimates eventhough production was lower than budget estimates."

1.11 It is noted from the post evidence note furnished by DOP that even though there were losses on account of lower crude throughput during the period 1977-80, the overall/profits were higher than the targets due to other factors such as reliefs from Government subsequent to preparation of budget estimates, lower expenses etc.

1.12 Referring to sales volume/mix effect, margin improvement, reliefs from Government subsequent to preparation of estimates and interest costs the CMD, HPCL stated during evidence that "between all these factors in the Budget and production there is no linkage."

1.13 Asked how the Ministry reviewed the performance of HPCL in the absence of linkage between budget targets and actuals, the Secretary, Department of Petroleum stated during evidence :

"So far as Hindustan Petroleum's refining marketing is concerned, the point is this-crude-oil through-put is being assessed and targets laid down for the future. An operating cost budget is prepared on the basis of individual unit operations. All these factors are reviewed very regularly at our periodical meetings. Sometimes there can be changes because of changes in the planned shut-down of the refinery. There are variety of assumptions. Sometimes a pipe develops a leak and we have to carry out shut-down operations. Some variations do take place. These are taken into account in revision of estimates. There is one other factor. We have got what is called, a 'retention price' system. The actual result will come close to the budget estimates if prior period adjustments are excluded. In 1979-80, we have a prior period adjustment of 556 lakhs ; in 1980-81 it

was 814 lakhs, in 1981-82, it was 750 lakhs. If we exlude these prior period adjustments, the variation is quite small."

1.14 Enquired whether the Ministry agreed that the profits of HPCL as shown in the annual accounts did not depict correct picture as the huge prior period adjustments made every year inflated the figures of actual profits, the DOP stated in a post evidence reply that it would not be correct to say so and pointed out that the Profit and Loss Accounts clearly exhibited the prior period adjustments as a specific item under the capiton "prior period Extra-ordinary credits (Debits)". The Department have however stated that Company has been advised to present in its Annual Report a separate summary highlighting, *inter-alia*, the operating profits (without prior period adjustments).

1.15 The information furnished to the Committee regarding budget targets did not include targets for value added for any of the years during 1975-82. Enquired whether no targets were fixed for value added during this period, a representative of HPCL stated :

"When we prepare the budget we fix targets for various items and for various activities and all these items when taken together, the value added figure is arrived at. But we do not show the value added figure as a separate item."

1.16 Enquired whether it would be possible to indicate the targets for value added in future in order to assess performance in this respect, HPCL replied in a post evidence note that "suggestion noted for compliance in future."

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

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

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

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

CHAPTER II

PROJECTS

A. Projects Completed.

HPCL had completed four projects during 1974-81. The details of these projects *viz.* the original cost, revised cost, actual expenditure as of 31.3.1982 and originally scheduled and actual date of completion, furnished by HPCL, are as follows :—

Name of Project	Original Cost	Revised Cost	Actual expenditure as on 31.3.82	Date of Completion	
				Original	Actual
		Rs. in lakhs			
1. Vaccum pipe-still and Catalytic cracker Debottle-necking project	430	—	463	Nov. 76	Dec. 77
2. ATF pipeline from Refineries in Mahul to Santa-cruz Airport	104	190	184	Dec. 79	March 81
3. Mandatory Crude Tanks Phase IA, Bombay	763	778	797	Jan. 78	June 78 March 79
4. Mandatory Crude Tanks Phase IA, Visakh	209	—	213	August 79	Oct. 80
Total :	1506		1657		

2.2 It is seen that there was delay of 13 to 15 months in the completion of these projects and cost over run of 82% in the case of ATF pipeline from Refineries in Mahul to Santacruz Airport. Some of the reasons given for delay were delay in finalisation of order, change in scope of the project, delay in delivery of equipments by suppliers and irregular supply of steel and cement. The Committee enquired if some of these delays were not avoidable by proper planning and advance action. The CMD, HPCL stated in evidence :—

> "We have gained experience in the project planning and implementation which we have got in the last few years because prior to that time ESSO and Caltex were.....not incurring any large capital expenditure... .. If I make a review of the last five years, I think we have done a very good job in the reorientation of the Corporation. Today most of our planning and our project feasibility reports which we had prepared departmentally are much better than what they were made in the earlier years."

2.3 Referring to the delay in ATF pipeline project a representative of HPCL said that "pipeline had to pass through thickly populated area ; our consultants or ourselves did not have that much experience for construction through such areas." Another reason for delay in this project was stated to be re-routing the pipelines half-way at the instance of authorities, like Bombay Municipal Corporation, International Airport Authority, Railways etc. Reasons for cost escalation in this project were stated to be increase in cost of the pipes by 30-40% during the period between preparing the report and placing the order, increase in laying cost of pipeline from Rs. 38 lakhs to 88 lakhs, increase of Rs. 20-30 lakhs due to change in scope of the project. Asked whether the cost escalation had not altered the relative cost of transportation of ATF and made the project uneconomical, the CMD, HPCL stated during evidence :

> "The pipeline movement cost even after the increased cost comes to Rs. 3.42 per tonne and if we continue to transport ATF by road, the cost per tonne will work out to Rs. 8 per tonne.....Even on the revised basis, we gain an advantage of about Rs. 4 per tonne. The total quantity is about 3 lakhs to 3,50,000 tonnes per year."

The other major advantages of this project were stated to be removal of congestion, lower losses on account of evaporation and less pollution.

2.4 Referring to the 13 months delay in the Cat Debot/VPS project, the Committee enquired about the production loss on account of limitation in secondary processing capacity during the period of delay. The loss was stated to be at least Rs 1 crore per year as per the feasibility study report. One of the main reasons for the delay in this project was delay in supply of equipment.

B. Projects under execution

2.5 Following 9 projects are currently under execution by HPCL :

Name of Project	Original Cost	Revised Cost	Completion Original	Schedule Anticipatee
	Rs. in crores			
1. Lube Refinery Expansion	13.20	14.30	June 81	II Q82/83
2. Sulphur Recovery	2.70	*	May 82	Dec. 82
3. Mandatory Crude Tankage—Phase I B				
Bombay	2.74	—	June 83	Oct. 83
Visakh	2.87	—	Nov. 83	Nov. 83
4. Mandatory Crude Tanks Phase II				
Bomboy	3.32	—	Dec. 83	Dec. 83
Visakh	9.40	—	April 84	April 84
5. Visakh Refinery Expansion project	65.85	150.36	Dec. 84	March/ October 84
6. Marketing of LPG Phase I	30.44	38.88	April 80 to Mar. 83	Nov. 80 to March 83
7. Marketing of LPG—Phase II	23.93	—	83/84	83/84
8. Bombay—Pune Pipeline	21.17	*	Aug. 84	Aug. 84
9. Crude Furnace Bombay	2.56	*	July 84	—
Total	178.18	203.54		

*Revised feasibility report under preparation. Cost likely to be higher.

(i) Visakh Refinery Expansion Project (VREP)

2.6 The project envisaged expansion of the capacity of the Visakh Refinery from 1.5 million tonnes to 4.5 million tonnes. HCPL assigned the job of preparing a study Report to the Engineers India Ltd. (EIL) who submitted its report in February 1979. A feasibility Report, based on EIL study was submitted to Government in November 1979. Based on the Feasibility Report Government approved this project at a cost of Rs. 65.85 crores in December 1980. A revised feasibility Report was submitted to Government in December 1981. The project cost had been revised from Rs. 65.85 crores to Rs. 150.36 crores thereby increasing it by 128.3% over the original estimate. Government accorded its approval to the revised outlay in October 1982.

2.7 The Committee enquired whether detailed project report (DPR) was not prepared before the project was approvedby Government and if so, the reasons for implementing the project without detailed engineering. HPCL stated in a written reply :

> As per the present practice a feasibility Report has to be prepared on the lines, indicated by the Planning Commission. The Feasibility Report forms the basis for an investment decision by the Government. DPR is also necessary which can only be prepared after the detailed engineering has been done and the estimates of accurate quantities of various Service Facilities (Water, power, steam, etc) have been made which may take about 12 to 18 months after receipt of process package from process licensors. Therefore, at the time of Feasibility Report, which forms the basis for an investment decision, the detailed engineering information is not available. At this stage, only major information regarding equipment like overall equipment sizes, capacities and operating temperature etc. is available, which is not adequate for preparation of DPR. The detailed engineering work commences only after project approval. The information required for purpose of DPR becomes progressively available only as project implementation advances.

2.8 In this context a representative of HPCL stated during evidence :

> "In most of our cases, here because the projects are so highly profitable and so important from the national aspect, what we call a feasibility report which is nothing but an investment

proposal because no amount of engineering is done on it is prepared.....It is finally the question of whether the Government would like to spend about a year and about one per cent of the total cost and have a pacca report with plus-minus 20% accuracy or have an investment proposal where accuracy cannot be predicted very much, but on the whole still considered to be a project which has to be done in national interest.".

Elaborating this point further, another representative of HPCL stated :—

"If on the basis of some accurate feasibility report, we start construction of the plant to-day we will have a definite advantage of operating the plant in 1986 i.e. 4 years time. However if the feasibility report is to be based on a detailed engineering of the entire project, it would take arcund one year period. By this process we lose one year lead time to start and complete the project."

2.9 In regard to the procedure for sanction of projects, Ministry of Finance instructed the administrative Ministries in 1978 (O.M. dated 23 Nov. 1978) that in case the initial investment decision is not based on DPR or detaliled cost estimates the concerned Ministres should ensure that these are prepared within a year of the sanction of the project. Further in case the administrative Ministry feels that the period of one year may not be sufficient for preparation of DPR/cost estimates, the time required for this purpose should be got settled when the proposals are first processed through EFC/PIB.

2.10 Taking note of the fact that no DPR had been prepared till January 1983 for VREP which was approved by Government in December 1980, the Committee enquired the reasons for long delay. The Secretary, DOP replied in evidence :—

"The DPR can only be completed once the full process package has been received, where it means purchasing a particular process, when all the detailed engineering is completed so that we can identify every single piece of equipment. So the final process package arrived only in January 1982. Therefore, what we did was as the engineering design proceeded towards the end of 1982, we simultaneously worked out a complete revision in the feasibility report, in the cost estimates.

I would consider the starting point of a DPR was May 1982, when the revised cost estimates were approved. The DPR would be received in mid 1983".

2.11 HPCL stated in a written reply that the substantial increase in the project cost over the original estimate of VREP was mainly due to factors like price escalation, changes in project scope e g. inclusion of a captive power plant, heavy construction equipment, etc. changes during detailed engineering, increase in project management charges etc. The factor analysis of increase in cost by Rs. 84.51 crores in stated to be as follows :—

	Rs. crores	%age of the increase.
(i) New items and changes in scope	10.80	13
(ii) Change from indigenous to imports	5.79	7
(iii) Change during detailed engineering	9.78	11
(iv) Project management and engineering	2.44	3
(v) Price escalation	21.83	26
(vi) Under-estimation	9.87	12
(vii) Provision for possible changes in design etc.	9.76	11
(viii) Contingency	9.54	11
(ix) Preproduction interest	4.65	6
	84.51	100

2.12 Enquired whether cost will further escalate with the preparation of DPR, CMD, HPCL stated :

"My estimate is that cost will not escalate for two reasons. Out of Rs. 150 crores, today we have made the commitment

for Rs. 80 crores already for the equipment etc. In the next two or three months, another Rs 40 crores commitment will be made. That covers by and large our total commitment of Rs. 120 crores. The balance of Rs. 30 crores are the contingency and the financing cost".

2.13 Considering HPCL's past experience in project execution the Committee enquired whether it would really be possible to complete the project as scheduled. The CMD, HPCL stated :

"Keeping in view our present progress we have already completed 55% of the engineering ; 96% of the process design and about 62% of the ordering ; and tendering is done upto 74% ; balance is there. We do hope that within the cost estimates we will be able to complete the project. So far as the time is concerned, it is closely monitored in the Ministry as well as the Corporation. There has been a delay of two to three months in respect of certain equipment. But we are still hopeful that crude distillation may start before October 1984. As of date, delay is not more than two to three months."

2.14 Asked how do the economic/social cost-benefit ratio and the rate of financial return on the investment compare with those anticipated at the time of initially sanctioning the project and when revised estimates were approved by Government, the Chairman HPCL stated during evidence :

"In the case of the petroleum industry, we tried to compare the economic benefits and financial return in two ways, because ours is an administered prices industry.....we try to assess the internal rate of return on the investment as well as the net foreign exchange savings. These are the most important criteria. The internal rate of return on the basis of the earlier cost estimate of Rs. 65 crores was 85% which has been reduced to 52% on the basis of the revised estimate. Similarly the net foreign exchange savings projected in the original feasibility report was Rs. 134 crores which has been reduced to Rs. 101 crores on account of lower F.O,B. prices of petroleum products prevailing at the time of preparation on the revised feasibility report. The internal rate of return of 52% can still be considered high in this case because this is not a grassroots refinery, for which the costs will be close to Rs. 200/225 crores. For a

new grassroots refinery, the internal rate of return may be between 30-35%, whereas in the present case it is 52%."

(ii) *Other projects under execution*

2.15 Delay in completion is anticipated in some of the other projects under execution. Revised feasibility reports are stated to be under preparation in respect of three projects viz. sulphur recovery, Bombay, Pune pipeline and crude Furnance, Bombay. Costs are likely to be higher than the original estimates for these three projects. Asked what were the factors which necessitated revision of feasibility reports for these projects, the CMD, HPCL, stated during evidence :

"The pipeline of Bombay-Poona is passing through some populous areas and the cost will go up by 100 per cent. There are two or three reasons. One is after we had the feasibility report the diameter of the pipeline has been increased from 12" to 14" to take care of a much longer period ; that means it will have a capacity to carry projected throughputs beyond year 2000. The second is, the tenders which we have received for laying the pipeline for 151 kilometres, show a substantial increase because of rock cutting, passing through congested areas etc. The scope also getting changed.....

In regard to sulphur recovery unit, this was taken up for removing the pollution.....We gave an estimate of Rs. 2.7 crores. Because of the process package this project got delayed by one year. The entire project may now touch Rs. 5 or more crores.....

The third project where we changed the yardstick is the crude furnaces. We prepared a feasibility report ourselves. When we went out for tenders and got the offer, we were surprised to see the price escalation. Originally the cost of one furnace was Rs. 3 crores. Now its cost is Rs. 9 crores for two furnaces."

C. Project Planning and Implementation

2.16 The Committee were informed by HPCL that under the present system of preparing the feasibility study reports, in most of the cases, within the time available it was not possible to complete the detailed engineering and estimate correctly the costs on those items. Hence, lumpsum provisions were being made in the feasibility study reports for

these types of items and as the detailed engineering was completed, the changes were incorporated. The Committee enquired whether the Department were aware of this practice and if so, whether the Department did not think that such a practice deprived cabinet of having full facts before taking an investment decision on projects. The Secretary, DOP, replied in evidence :

> "We have been following the standard procedure in Government but now in all new investment projects we are endeavouring to carry out a substantially better cost estimation than done in the past. This means getting lot more information of a particular process or engineering design etc. so that when we prepare a feasibility report we get a much closer estimate of what the investment is likely to be. We explained to the inter-Governmental Committee which looks into feasibility report that for refineries and continuous processing plant we do need certain other provisions like contingency provisions so that the margin of error is greatly reduced and I am glad to say that this inter-governmental committee has accepted the conclusions of the study which we had carried out."

2.17 Informing that certain improvements were being made in the whole system of investment of Central Government, the Secretary, DOP, stated during evidence :

> "Approval is given in terms of current costs. Suppose cost estimate is to be approved within the next few months, it is related to the cost which obtains today—that is, in January, 1983. These escalations can be considered by relating these to suitable price indices of the RBI. We find that the cost indices are a little too broad. We are ourselves trying to develop cost indices pertaining to refining of hydro carbons and if they are related to RBI indices, you get a fairly good picture of what cost changes have taken place due to prices of equipment themselves increasing from time to time. Cost estimate is related to the actual base cost. The project comes up after 4 years or 5 years later. We relate it to current cost, to January 1983. DPR is finalised once engineering designs are completed and orders are placed."

2.18 The inhouse data regarding prices of equipment and cost of construction available with HPCL was stated to be limited as no major projects were completed by it in recent years. Enquired what steps did the Ministry take to arrange and co-ordinate flow of information and services from various agencies and enterprises in order to develop HPCL's organisation for project planning, the Secretary DOP stated :

> "There is the scientific advisory Committee on Hydro-Carbon Processing. It sees what sort of scientific input is required for management and operation. On environment we have got a committee in the Department they are in close touch with all companies including HP. In Bombay HP has an Adviser on Environment ; he is helping the company to have a proper Environmental Section. In regard to manpower, apart from the recruitment, there will be Director (Personnel) ; he will be a functional director at a high level. Personnel Management has a great role to play in the future. They will look into all aspects of Management, promoting, training etc. within the industry and outside so that the whole system can be thoroughly reviewed and suitable action taken.....Within the project itself, to assist project formulation and implementation, close interaction with consultants is there."

2.19 The Committee were informed that there were difficulties in getting the services of experienced and reputed contractors to undertake the various projects and major turnaround jobs at reasonable rates because of the bunching of a large number of projects in refinery, fertilizer and chemical areas and in getting timely supplies of equipment from the indigenous sources. It was also not feasible to get many bids for fabricated equipment. There was also inordinate delay in land acquisition which consequently delayed the completion of the project. Asked whether these problems were taken up with Government and if so, with what result, the CMD, HPCL stated in evidence :

> "AT the time of monitoring of the projects, we do bring out these problems to the Secretary's notice. This has proved very useful because there is a coordination committee of Secretaries in which matters pertaining to delay are brought by the Secretary to the notice of his counterparts and they do take corrective measures. But the basic problem is that while we have taken too many projects for implementation in the

chemicals, fertilizer and refining, the equipment fabrication and supply position has not improved."

Making a suggestion in this connection he said :

"Since new projects are to come up, I think a little systematic forecast of this demand of equipment by the DGTD would invite many engineering fabricators to go into this."

2.20 Referring to the suggestion made by the CMD, HPCL, the Secretary Department of Petroleum, stated during evidence :

"An effort in this respect has been made.....Engineers India did at our request undertake a very detailed study, trying to project what sort of problems are anticipated in all the critical types of equipment. So, this is also being discussed with the DG Technical Development. The Department of Heavy Industry quite separately has also done a large exercise on this. The Planning Commission has set up a group in which we are all represented. Bharat Heavy Plates and Vessels is extending its range of manufacturing. BHEL has also undertaken production of certain items which it can do."

2.21 Regarding the question of adequacy of capacity in construction activities the DOP stated in a written reply that it was one of the aspects looked into in the context of the refinery expansion projects currently under implementation and the following steps were identified :

"A resource survey was conducted to identify contractors in various disciplines who were capable of taking up works in Refinery Projects. Mobilisation advances were given to contractors and assurances of prompt payment made in order to enthuse contractors taking up works in the Projects. Even then in certain of the Project the responses were poor. The matter has been discussed at length and following steps have been identified as short term and long term steps to deal with the situation.

Short Term :

Encouraging contractors who are about to complete their contract in the Middle East to return with the construction

equipments available with them ; providing facilities to contractors to obtain equipment and developing Technical skills, which the contractors are not able to easily find.

Long Term :

The following action has been taken/proposed :

There is need to complete a list of construction jobs likely to arise over a period of time alongwith list of construction equipment needed for such jobs. These lists should be utilised for initiating advance action. A list of construction equipment for construction in the refinerp sector for the next 10 years has been prepared for arranging advance action to obtain them.

2. Regular efforts are made to develop additional vendors and enhance capacities of existing manufacturers for different type of equipment.

3. Standardisation of equipment is also being done wherever possible."

Besides these, other steps such as advance order of equipment, liberalising payment terms to manufacturers and close monitoring to ensure timely delivery of equipment are also taken.

2.22 Enquired whether the project planning, execution and cost control mechanism were satisfactory, HPCL stated in a written reply that taking the overall position, the project planning, execution and cost control mechanism was considered satisfactory. HPCL also stated that it has been experiencing a great difficulty in buiding up the organisation for project planning, implementation and cost control. The problem became also agravated since some of the experienced officers who were trained in this work have left the organisation. Regarding project planning, the CMD, HPCL stated during evidence that "EIL is one agency which is developed but it is also facing the same problem that a number of people are leaving. I think, we have to develop more than one agency".

2.23 Some of the steps taken by HPCL to improve these aspects include giving great emphasis to properly assess the project scope before

finalisation of feasibility report, acquiring the services of some senior engineers, developing officers from within the organisation, setting up of a two tier project monitoring organisation—one at the corporate level which is handled by the Corporate Planning and projects Division and the other at the project (Site) Management level, incorporating a Management Information System and introduction of the use of pert charts and computers.

2.24 The Deparrment of Petroleum admitted in a written reply that project formulation by HPCL, as well as by some of the other oil companies, had not been adequate and left considerable room for improvement. Regarding the steps taken to impove project formulation and implementation the DOP mentioned the following :

> "Instructions were given to the compaines to strengthen the project cells by inducting technical staff and technical capability to interact with the consultants to scrutinise the work done by the consultants and the data provided by process licensors to analyse alternatives and be aware of the latest developments in process technology. The project cells were to be multi-disciplinary in character, and apart from the mere financial and technical aspects, involvement of economists with experience of disciplines like operational research and economic appraisal was proposed. These project cells will undertake project planning and be fully responsible for all the key investment activities for smallar projects. However, the requirement of staff and capabilities for major projects will turn out to be much higher and therefore, in these cases, the companies were advised to constitute task forces for project planning as they are now doing for the project implementation. For this they can draw on the expertise from the operating departments to constitute these task forces.
>
> 2. For developing proposals for expansion of existing facilities, these task forces, consisting of experts from operating departments, will be able to visualise, in advance, all the requirements. The project proposals should be scrutinised by all the Departmental Heads to ensure that all the requirements have been properly taken note of.
>
> 3. The companies have also been advised that cost estimates as generated internally must be cross-checked with outside

specialised agencies also so as to be sure about the estimation and methods of cost-estimation and project schedules.

4. The Companies were advised that there must be intensive interaction between the Board of Directors and the management staff involved in the preparation of the feasibility reports.

5. For implementation of projects, a number of steps were taken to execute the projects as per schedule without any delay. These were delegation of financial powers, rationalisation of the procedure for the issue of industrial licence, advance import licence and expeditious clearances by DGTD and statutory authorities.

6. Effective monitoring of projects was introduced. The Ministry set up a monitoring cell and follow-up action was taken on the basis of the reports of the monitoring cell. This enables more effective follow-up of projects. Prompt review meetings are held with public sector vendors at ministerial level whenever any delay in supplies of critical equipment are anticipated.

7. Apart from the above, certain specific action has been initiated to expedite completion of many of the projects under implementation. For instance, purchases of mobile cranes, equipments like girth welding machines and Vibro-floaters will help in expediting completion of projects.

8. In the area of project formulation, a small group was appointed with the Projects Appraisal Division of the Planning Commission as convener, to examine project formulation and preparation of feasibility reports and cost estimation. Recommendations of this Group are being processed further.

D. Delay in project approvals

2.25 According to the information furnished by HPCL Government took one year or more for clearing 5 projects. They (i) Visakh

Refinery Expansion, (ii) LPG phase I, (iii) Bombay Pune product pipeline, (iv) Mandatory crude Tankage—I B (B) and (v) Mandatory Crude Tankage—I B (V). Enquired whether it was not unusually long time to clear the projects and how it was proposed to reduce the time taken for project clearance, the Secretary, DOP, stated during evidence :

> "I think I have to go back a little and explain why it has taken much time. In many cases, these investments have also to be tied with investments elsewhere, may be with railways, may be with the ports or may be with other types of facilities. Now, quite often we do find that the feasibility reports have not adequately taken into account, the facilities that will have to be built by other people and when those facilities will be available or modifications that have to be made. There can be a variety of reasons, why sometimes it has taken a longer time. I might just say that with the tightening of the whole system of preparing the feasibility reports, we have speeded up clearance. For instance, recently a crude oil furnace was approved within a matter of three months, mandatory crude tankage was cleared within six months. Our effort is certainly on."

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

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

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

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

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

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

engineering fabricators in the field. The Committee would like the Department of Petroleum to pursue this suggestion with the D.G T.D.

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

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

CHAPTER III

PRODUCTION

A. Performance Criteria

As per the current pricing policy, refining and marketing operations of HPCL are provided retention margins. The Committee enquired, under the retention pricing prioring system, what are the yardsticks of assessing the performance of the undertaking on various aspects and what is Ministry's assessment of HPCL during the last five years. The DOP informed in a written reply that under oil pricing several operating norms have been established such as (i) standard crude throughput by refinery which is generally determined at 90% of installed capacity, (ii) ocean losses upto 0.5% of C & F cost of imported crude and 0.2% for Bombay High Crude, (iii) Fuel and Loss by refinery which is determined with reference to factors like refineries, product pattern, throughput level, crude mix and (iv) market sales by undertakings. The admissible marketing expenses have been distributed over the sales entitlement volume to determine the per unit marketing cost.

3.2 The DOP have stated that HPCL's perfermance in regard to crude throughput has been more or less in line with the standards except during 1978-79 when Bombay refinery throughput was affected by emergency shutdown of pipestill and in 1979-80 when Visakh Refinery throughput was lower because of planned maintenance taken in stages due to delays in receipt of material. As regards refinery fuel and loss, performance of both Bombay and Visakh refineries have been well within the norms. In case of crude ocean loss, the performance of Bombay refinery has been satisfactory except for 1979-80. In case of market sales, the standard considered for pricing purposes is 4.164 (M.T.) and the Corporation's sales are substantially higher as compared to the standard.

3.3 The detail regarding licenced capacity, installed/achievable capacity, actual production and precentage utilisation of installed/ achievable capacity of HPCL refineries at Bombay and Visakh for the period 1975-82 are given in the statements below. The 'achievable'

capacities numbers have been derived after taking into consideration the maximum daily throughput capacity of each unit and the planned plant maintenance downtime (if any). To the maximum intake numbers so derived a 10% deduction has been provided to cater to contingency situations such as plant emergencies, power failures, etc. The CMD, HPCL informed during evidence that the installed capacity is based on 350 working days and the achievable capacity is based on 330 working days. 330 days was stated to be the international standard for a normal operating year.

I FUELS REFINERY, BOMBAY

Year	Licenced capacity (M. Tonnes)	Installed/Achievable (Capacity (M.Tonnes)		Actual Production (M. Tonnes)	% Utilization of installed/ Achievable capacity as per Col. (4)
		Primary Distillation	As limited by Secondary Processing Capacity @		
1975	1.92	3.50/3.03	2.75/2.75	2.723	99.0/99.0
1976	1.92	3.50/3.30	2.75/2.75	2.820	102.5/102.5
1977/78 (12 mths)	1.92	3.50/3.03	2.75/2.75	2.940	106.9/106.9
1978/79	1.92	3.50/3.30	3.50/3.30	2.820	80.6/85.5
1979/80	1.92	3.50/3.30	3.50/3.30	3.133	89.5/94.9
1980/81	3.50	3.50/3.03	3 50/3.03	3.115	89.0/102.8
1981/82	3.50	3.50/3.30	3.50/3.30	3.485	99.5/105.6

@Prior to implementation of Cat Debot Project, which was commissioned in January 1978, secondary processing capacity (cracker capacity) was of the order of 2.75 MTPA as compared to primary crude distillation capacity of 3.30 MTPA. Secondary processing operations at the refinery permit conversion of low value heavy petroleum fractions into high value light

products such as gasoline and Middle Distillates. Since the Secondary processing capacity fell short of the distillation capacity for the period upto Jan. 1978 crude through put level was restricted in line with the secondary processing capability so as to avoid inferior yield pattern.

II VISAKH REFINERY

Year	Licensed capacity (M. Tonnes)	Installed/ Achievable Capacity (M. Tonnes)	Actual production (M. Tonnes)	%Utilization of Installed Achievable Capacity
1975	Data for 1975/76 not given as/CORIL became a Govt. Co. only on 30.12.1976.			
1976				
1977/78 (12 mths)	0.675	@ 1.40/1.30	1.305	93.2/100.4
1978/79 (9.5 78 to 31.3.79)	0.675	@ 1.25/1.16 (prorate)	1.196	95.7/103.1
1979/80	0.675	@ 1.40/1.19	1.100	78.6/92.4
1980/81	1.50	@ 1.40/1.30	1.319	94.2/101.4
1981/82	1.50	@ 1.40/1.19	1.178	84.1/99.0

@ The Installed capacity for Visakh Refinery appearing in the Printed Accounts is 1.50 MTPA. However, the above number was based on a different type of crude mix and production pattern applicable in earlier years and the revised figure of 1.40 MTPA is in line with the types of crude processed at the Refinery and yield optimisation required of it in the years covered by the review period.

III LUBE REFINERY, BOMBAY

(All production figures in MT)

Year	Licensed capacity	Installed Capacity	Actual production	%Utilization of Installed capacity
1975	184,000	184,000	163,300	88.7
1976	184,000	184,000	179,000	97.3
1977/78*	184,000	184,000	167,200	90.8
1978/79	184,000	184,000	192,100	104.4
1979/80	184,000	184,000	202,700	110.1
1980/81	@	184,000	179,000	97.7
1981	@	184,000	155,900	90.2

* The Committee were informed at the stage of drafting of report that the figures of actual production and % of utilisation of installed capacity were actually 1,77,200 and 96.3 respectively.

@ Effective 1980/81, the licensed capacity figure of Lube Refinery has been merged with the overall Licensed capacity number of 3.50 MTPA for Fuels Refinery.

3.4 It is seen from the above statements that the installed capacity in Fuels Refinery, Bombay had remained higher than licensed capacity almost by 100% during 1975-80 and in the case of Visakh Refinery by over 100% during 1977-80. Asked how HPCL accounted for this situation, the CMD, HPCL replied that in the past the ESSO was permitted to produce more if the country needed and expressed satisfaction that "we have got enough licensed capacity for Bombay and Visakh refineries which will take care of the present expansion which is going on."

3.5 It is further seen that the capacity utilisation was considerably less than the standard throughput in Euels Refinery, Bombay during 1978-79 and in Visakh Refinery during 1979-80.

B. Production Constraints

3.6 The reasonas for shortfall in production have been mentioned in an earlier Chapter. Apart from these, some of the main production constraints which have contributed to loss of capacity utilisation at various production units of HPCL are stated to be high salt water content in crude receipts, power dips/outages, crude avalilability problems, slting problems at Bombay Refinery jetty and steam limitation in Visakk Riefinery.

High salt water content in crude receipts

3.7 HPCL has sought to counter the problem of high salt water content in crude receipts by installing a crude desalter at Visakh Refinery at a cost of Rs. 41 lakhs and a similar unit is under installation at Bombay Refinery. Enquired whether the problem has been overcome at Visakh Refinery where a crude desalter had already been commissioned in October 1980, the CMD, HPCL said, "somewhat, we are better now." He added further "We have two distillation units there. One is known as crude topping unit and the other is the crude distillation unit. We found that heat available was limiting crude topping. We are taking necessary steps to overcome this problem".

3.8 It was stated that since mid 1979, HPCL had been facing the problem of high salt water content in crude receipts at Bombay Refinery. The CMD, HPCL stated in this connection :

> "A decision was taken towards the end of 1979 for installing a desalter. The Bombay desalter project was approved in April 1980 and we expect that we complete this project by June 1983."

3.9 The original estimated cost of desalter was Rs. 85 lakhs which had subsequently been revised to Rs. 140 lakhs after detailed engineering. Explaining the reasons for higher cost of desalter project at Bombay compared to that of Visakh a reprensentative of HCPL said "We are making some improvements which roughly cost Rs. 23 lakhs. The capacity at Visakh is 1.1 MTPA but here is 3.5 MTPA."

Silting problems at Bombay Refinery Jetty

3.10 High siltation at Bombay Refinery Jetty is stated to cause excessive carryover of silt alongwith sea water supply to the refinery resulting in plugging of exchanger tubes and cause difficulties in operating the pumps due to suction lift problems. The Committee were informed during evidence that this problem was referred to the Central Water and Power Research Station Khadakwasla, Pune who recommended a short term measure *viz.* dredging operation to minimise silt formation around the pump jetty and the following long term measures :

1. Extending the jetty upto Pir Pan channel ;
2. Providing see water settling tank for Lube Refinery ;
3. Use of polymeric flocculating agents for quick settlement of silt ;
4. Providing cooling towers and recirculating cooling water to reduce the volume of high silt bearing cooling water sucked at low tide conditions.

3.11 HPCL has been undertaking regular dredging to silt around the jetty which is stated to have greatly reduced the problem. Regarding implementation of long term measures, a representative of HPCL stated :

> "We are implementing fourth recommendation—installing the cooling towers. Three have been installed and the fourth one is towards nearing completion. After the commissioning of all the four towers, 50% needs of cooling water will be met internally by this change over".

Power interruption

3.12 The Committee were informed in a note that frequent power intervptions have resulted in loss of crude throughput in both the refineries at Visakh and Bombay. In another context it was stated that even in the states where the power cut was imposed, the refineries were exempted from power cut. Asked why there were power interruptions when the refineries were exempted from power cut a representative of HPCL said during evidence, "As far as Visakh Refinery is concerned being a continuous processing industry in the vital petroleum sector we have generally been able to get exemption from power cuts.....But we

have a problem there of frequent power interruptions, power dips and power failure of small duration. This is due to inherent weaknesses in the distribution system" and added "we understand, the Electricity Board is trying to improve upto it."

3.13 The Committee were informed by HPCL that at Visakh where frequency of power failures/dips is quite high, a small captive power plant of 2.5 M.W. capacity is being provided to cater to the power requirements of the critical units of the expansion unit which is presently under construction. As regards Bombay refineries (existing unit); the question of providing captive power generation facilities is being looked into.

3.14 Pointing out that power fluctuations have been the biggest single contributory factor affecting the stable performance of the refineries, the Secretary, Department of Petroleum informed the Committee during evidence (January 1983) that money has been provided in the 1983-84 plan (for a captive power plant in Bombay Refinery) and that the feasibility report is expected in the course of a few weeks.

3.15 Regarding the cost of captive power generation, a representative of HPCL stated :

> "When you put small plant of 2 5 M.W. the cost will be more compared to the commercial generation of 250 m.w. by the Electricity Board. We are trying to look at a compromise where we are willing to pay little extra cost per unit for the sake of better reliability of power both from the point of view of minimising frequent interruptions and also thermal shocks to the critical equipments."

In regard to power supply in Visakh Refinery, the Committee were informed during evidence :

> "In the old refinery, the supply of power has been given at 11 KV. For the new expansion unit, they have imposed a condition on us, that the supply will be made at 132 KV because the higher the voltage lesser the transmission losses. We will be spending a fair amount of money in providing a major receiving station so that it can step down the voltage from 132 to 11 KV to feed the various units."

Fresh Water Supply Limitations

3.16 In a note furnished to the Committee, HPCL stated that over the years the requirement of fresh water for Visakh refinery has increased to 6 lakh gallons per day but the supplies from the Municipal Corporation were averaging to only around 4 lakh gallons which at times had led to an alarming decrease in the level of the fresh water reservoir.

3.17 Referring in this connection to the Koyali project where the project has its own arrangement for water supply from Mahi river, when the Committee enquired why not HPCL have its own arrangements at Visakh for water supply a representative of HPCL, replied that the water system at Visakh was not as favourable as in Baroda and that there is no river near about. The witness stated that after taking up the matter at Minister's level, the Visakh Municipal Corporation gradually restored the fresh water supply to about 3.5 lakhs to 4 lakhs gallons per day. He further stated that the arrangements have been finalised with the Public Health Department for laying a new 8 inch pipeline for the supply of increased water supply from the reservoir. The pipelines project is exptected to be completed by January end 1983. The witness expressed the hope that when the pipeline is completed, HPCL will be able to tide over the crisis.

Crude Availability Problems

3.18 HPCL informed the Committee that during some years it has been experienced that certain amount of crude throughput has been lost due to situations of crude supply shortages/dry-outs. This has arisen due to a variety of reasons such as temporary disruptions in crude supply arrangements as experienced particularly during the recent Iran/Iraq conflict, delays in crude loadings at foreign load ports resulting from Force Majeure conditions, mechanical problems on tankers, non-availability of berths at discharge ports due to congestion, strikes, etc. or other external factors.

3.19 Asked what are HPCL's suggestions to overcome these problems and to ensure regular supply of crude, HPCL informed in a written reply that to avoid the dry-outs of the crude and tanker slippages, decisions were taken to increase the storage capacity of the crude and accordingly 4 mandatory crude tanks with a total capacity of about 3 lakh tonnes at Bombay and one tank of 55000 tonnes at Visakh have been completed and more crude storage tanks are being developed both at Bombay and Visakh to enable HPCL to increase the crude inventory to the coverage of 45 days. This will help in avoiding the crude dry-outs.

3.20 Presently, Bombay refinery uses 100 per cent imported crude and Visakh, until the expansion is completed, uses partly Bombay High crude 5,00,000 to 7,00,000 tonnes per year and balance imported crude for which supplies are centralised through IOC.

3.21 In so far as Bombay Refinery is concerned, as a part of take-over of ESSO, Government of India and EXXON entered into an agreement on 13.3.1974 for supply of 100 million barrels of crude oil—consisting of 80% Arabian light (AL) and 20% Arabian Heavy (AH) for a period of 7 years @ approx. 55,000 barrels per day (B/D) for the first three years are approx. 27243 B/D for the subsequent four years at the same rate which EXXON charged its Far East Affiliates (which is the official selling price of Saudi crude oil without the 30 days credit period). This agreement expired on 13.3.1981 and approx. 98.5 million barrels were supplied under this agreement.

3.22 With effect from 13.3.1981, EXXON has continued supplies of crude oil on an *ad hoc* cbasis @ approximately 27,000 B/D at the same affiliate prices. However, the quality of crude mix was changed from 80/20 of AL/AH to 60/40 of AL/AH.

3.23 Enquired if the 'ad hoc' arrangement with EXXON is likely to continue without break the CMD, HPCL said in evidence :

> "In the latest discussion which I had with them they have now agreed that if at any time they want to discontinue the supplies, they will give 90 days' notice."

The DOP informed in a written reply that CMD, HPCL visited USA in July, 1982 to discuss with EXXON the following :

(a) Supply of 1,4 million tonnes of crude oil on a long term basis ;

(b) to provide for 30 days' credit period (as done by petromin).

EXXON only agreed to continue to supply 1.4 million tonnes of crude oil per year to HPCL ; it will however, give 90 days, notice for discontinuation of supply ; it also did not agree to give the credit facility sought for.

3.24 Asked if it would be possible to make alternative arrangement for supply of required crude type within this period of notice, the

Secretary, DOP stated that "it is possible to make alternative arrangements which we consider will be more satisfactory, and in fact, this process is currently on." He also stated that "we do have a financially better and otherwise also a more advantageous agreement, under consideration right now."

3 25 In a note submitted after evidence, the DOP, however, informed the Committee that keeping in view the prevailing international oil market situation, a decision has now been taken to replace the supply arrangements with EXXON by obtaining supply through other sources, including swapping arrangements for disposal of surplus Bombay High crude oil.

3.26 HPCL is stated to have informed EXXON on 28th January, 1983 that there will not be any need for crude upliftments from EXXON sources from 1st May, 1983 onwards.

C. Demand for Lubricants

3 27. The Committee were informed that reduced demand for Industrial Oils/RPO/Axle Oil has resulted in some under utilisation of installed capacity in Lube Refinery. Since 1975 there has been excess capacity in the country for production of Low Viscosity Index (LVI) Grade oils *vis-a-vis* the prevailing demand levels.

3.28 Explaining the reasons for low demand for LVI oils the Department of Petroleum stated in a post evidence reply that earlier when there was large differential in price between LVI & HVI (High Viscosity Index) oils, LVI oils were being diverted for automotive use. This resulted in high and wasteful consumption of lubricating oils. Due to the change in pricing introduced during 1973 and the increased consciousness of motor vehicle users for quality lubricating oils, the demand for LVI oils decreased and the demand for HVI oils increased ; this resulted in conservation of lubricating oils. Further steps are being taken to conserve the consumption of lubricants. These are (1) through the re-cycling of waste oils by proper re-refining and (2) through the upgradation of quality of lubricants.

3.29 Regarding quality of lubricants, the Secretary, DOP, stated during evidence :

> "The trend in the world is to produce far more efficient lubricating oils where you do not have to change the lubricating oil

very often. In India we are far from international standards. That is not because of lube oil but because of the engine design. But we have been using rather inefficient lubricating oil, even considering the old engine design. Over the last few years there has been a shift towards better lubricating oils which do save total lubricating oil consumption."

In a post evidence reply the Department stated that efforts to upgrade the quality of lubricants and thus reduce the consumption by conservation are essential and are continuing.

3.30 Enquired how it is proposed to utilise the excess capacity for production of LVI oils, a representative of the Company stated during evidence that the shortfall in the production of the LVI oils has been made up to a large extent by the increased production of HVI oils. Elaborating this point DOP stated in a post evidence note that production of both LVI oils ans HVI oils at the HPCL refinery requires 'dewaxing' as the final finishing operation. Reduction in LVI production, therefore, releases some dewaxing capacity which can be used for HVI oil production. However, the limiting factor here is the capacity of phenolfining unit in which the HVI oils have to be treated before dewaxing. To maximise the production of HVI oils within the overall available dewaxing capacity, the refinery devised the following technological solutions such as :

(i) readjusting the operating parameters in the phenolfining unit so as to increase treating rates ;

(ii) minor debottlenecking the phenolfining unit.

The three lube refineries at Bombay, Madras and Haldia have been asked to formulate projects debottleneck ; their lubricating oil basis stock facilities to recover the full lube potential from imported crude oil processed at these refineries ; this debottlenecking should enable an increase in the production of HVI oils and at the same time reduce the production of LVI oils.

3.31 The Committee were informed by a representative of HPCL in evidence that during 1981-82 the shortfall in the production of LVI oil was of the order of 38,000 tonnes out of which 25,500 tonnes was made up by the increase in production HVI oil. Even then there was

a shortfall in 18,000 tonnes compared to the installed capacity of the refinery in 1981-82. Informing that in the recent months the price differential between HVI and LVI oils has increased, the witness expected an increase in the requirement of LVI oils About the prospects for exporting these oils the witness said, "we did try once but there is not much of a market and we could not find any satisfactory market."

D. Technology for marine lubricants

3.32 HPCL's sale of marine lubricants at present is stated to be about 4,000 barrels a year marketed under HP brand. HPCL has, however, been facing some difficulties marine lubricants as its lubricants do not carry the recommendations of marine engine manufacturers and ship builders. Majority of the marine engines fitted in the ships are of foreign make and the owners prefer to use the lubricants approved and certified by the engine builders. This is stated to be at the instance of marine engine builders who guarantee the performance of their engines, only on the condition of using the certified lubricants. In order to overcome this difficulty HPCL is currently negotiating (August 1982) with foreign collaborators for the transfer of technology for blending the required grades of marine lubricants in our country.

3.33 Asked when was Government's permission obtained in this connection and how soon is it expected to finalise the collaboration, absorb technology and start blending the required grades, the Committee were informed during evidence by a representative of the Company that after receiving Government's clearance on 9th March 1982 to negotiate with foreign collaborators, HPCL had addressed enquiries to five of the major international marketing companies viz. the TEXACO International Trading Inc., Chevron Chemicals, Petro-fina Belgium, Shell International Petroleum Co. and Antar Marine—France. Of these only two Companies—Petro-fina, Belgium and Antar Marine, France—responded to HPCL's enquiries. Petro-fina, Belgium, however, withdrew during discussions and HPCL was left only with Antar Marine, France. HPCL has stated that in the next few months some final arrangements would be made with the French Company. The Secretary, DOP said during evidence (January 1983) that negotiations have been virtually completed and that within three to four months it is expected to be finalised and approved. He added that HPCL will be able to to offer marine lubricating oils which will be accepted by international bodies.

3.34 Elaborating about the collaboration a representative of HPCL said :

> "When we collaborate with them it will be initially in the joint brand name of HP and Antar Marine. Subsequently they will also assist us in getting the approval from Foreign Engine Builders for marketing marine lubricants under HP branch. Their product brand of marine lubricants are acceptable by most of the foreign engine manufacturers- Our major consumer would be SCI where we expect quite a substantial increase in our marine trade from the present level."

3 35 About the period of collaboration, the Secretary, DOP said that the agreement can be for two years extendable to five years with suitable termination by giving due notice. Regarding the transfer of technology he said, "What H.P. petroleum will get is the complete blending formula of what particular types of virgin base stock oil will be used and in what proportion, what additive packages have to be added and how these have to be blended so that users can accept it". Enquired about the financial implications of the collaboration, the witness said that there is no royalty. He also said that there is no other financial facility to the foreign collaborator.

3.36 About transfer of technology, the CMD, HPCL stated :

> "In the next 2 years they will develop some other new product. They will offer to us as and when improved formulations are available. Now, it is all a continuous process because they go on developing new products".

3.37 The Committee enquired as collaborator is not agreeable to the use of HP brand name and in the context of continuous improvement in the formulations abroad, what steps have been by taken by the Department for developing the indigenous technolegy through R&D efforts. The Secretary, DOP, replied in evidence :

> "Initially these marine lubricating oils which will be marketed by Hindustan Petroleum will have a joint brand name—Hindustan Petroleum—the name of the foreign collaborators which happens to be the French State Oil Company, Simultaneously, we are doing work ourselves—the IOC Research Centre is developing the very same type of oils which will

then have to go Engine Manufacturers not merely in the country but overseas before shipping companies accept these lubrieating oil. This is in progress. We do hope over the course of the next few years it will be possible for us to develop marine lubricating oils which will be accepted by everybody."

E. Maintenance and Replacements

3.38 Both Visakh/Bombay Refineries of HPCL are over 25/28 years old. The Committee were informed that due to progressive agening of plant and machinery, a substantial amount of replacement/ repairs have to be carried out over the next three/five years. Some of the major items could be replaced only during the refinery turnaround period. This will call for a detailed planning and executing the job in a short duration of turnaround period.

3.39 The Committee desired to know whether any plan for modernisation/replacement had been drawn up and, if so what were the details of cost estimates, extent of modernisation envisaged and the scheduled dates of completion. A representative of HPCL stated during evidence that after Government took over the management, the HPCL drew up a list of replacement/renewals and facilities. The capital expenditure to be incurred on this account between 1979 to 1982-83 was projected to be about Rs. 9.4 crores at Bombay Refinery and Rs. 6.9 crores at Visakh Refinery. At Visakh, Rs. 1.5 crores were also spent uuder revenue head for some of the minor replacements. The witness added that in April 1978 a Working Group was constituted comprising some of the senior officers from both Visakh and Bombay refineries to assess the condition of the plant and equipment at Visakh. This team submitted the report in May, 1978. Since then some of the major expenditure incurred on Visakh was reported to be in line with the recommendations of the task force. No study group was however formed to assess the plant and equipment condition at Bombay Refinery reportedly due to the fact that the maintenance standard kept up by ESSO at Bombay Refinery was comparatively a little better than that of Caltex at Visakh Refinery before take over.

3.40 All the six boilers at Visakh Refinery are stated to be 25 years old. Asked what is the average efficient life of a boiler and how soon would it be possible to replace the over-aged boilers, a representative of HPCL stated during evidence :

"In project economics, the normal life of the boiler is 15 years. But the replacement criterion is generally based on the increase in maintenance and repair cost. With the passage of time, there is a higher figure of fuel consumption due to lower efficiency and frequent failures of the boiler units with corresponding production loss. As the boiler grow older, there is fall in output. During the last three years, we have had a very large number of boiler shut-downs and unscheduled unit shut-downs, due to failure of boilers in our Visakh Refinery. Now when we thought of replacing them it was felt that we better replace all six boilers of smaller capacity of 17 tonnes by two boilers of 50 tonnes capacity each...The bigger the unit the higher will be the efficiency. We have gone in for replace ment with 50 tonnes boilers which have higher efficiency than the older boilers. One boiler is already on order and we expect that it will be ready for operation by November, 1983."

3.41 The second boiler is to be replaced under World Bank Financing. With the replacement of these 2 boilers, the Company hopes to achieve a saving of Rs. 75 lakhs per annum by virtue of better fuel efficiency.

3.42 Enquired whether the Department of Petroleum looked into HPCL's action plan for modernisation of refineries and are satisfied with the effectiveness of the machinery for planning and executing this job, the Secretary, DOP replied :

"As regards Visakh, there was a comprehensive study done about four years ago. The whole programme is under implementation and it is anticipated that by 1983-84, the full modernisation would have been completed. As regards Bombay, some of the areas where there is need for modernisation and revamping, these have already been identified and also approved by the Government, like crude oil furnaces. Other things are under study right now and there will be no difficulty in giving approval of this nature because money is provided in the Annual Plan to expedite modernisation of the refineries."

3.43 Regarding the effectiveness of the machinery for planning and executing modernisation, the witness stated that all the project planning cells in all the refineries need strengthening. Informing that there has been a steady improvement, the witness stated :

"This is on the way. The project cells have been created. They are being expanded. From the Ministry's point of view, I can say that we impress upon them the need to do it, today rather than tomorrow. Particularly in regard to the Hindustan Petroleum and the Bharat Petroleum, these companies were taken over only six or seven years ago. Prior to that, I fear, whoever owned the refineries, had really done very little for years because negotiations for sale to the Government were in progress. They spent no money. A lot of employees went either to other companies or abroad. After we have taken them over, you will have seen what has been the rate of growth and the rate of investment. It has been unprecedented in the history of these companies. They have got a tremendous challenge."

3.44 In 1978-79 there was a major plant problem at Bombay refinery due to leak in the pipe still shell which resulted in a plant shut-down of around 7 weeks and total crude throughput loss of 4,64,000 M.T. In 1977-78 there were 2 numbers emergency shut downs of Lube VPS (Vaccum pipestill) due to tube leak in one case and due to transformer failure in another and 13 days emergency shutdown of PDU (propane De-asphalating Unit) due to non-availability of propane (arising out of propane Unit shutdown for coil leak) and some icing problems.

3.45 The Committee enquired whether these frequent shutdowns do not indicate weakness in the maintenance system and the need for preventive maintenance policies in the refineries. A representative of HPCL explained in evidence :

"As regards the emergency shutdown of pipestill at the Bombay Refinery, the first leak was noticed in May 1978 and some temporary repair work was done. Again when the leak developed in June 1978, they decided to shut it down. A detailed investigaiion was carried out by Dr. M.S. Mitra, the then Executive Director (Technical), Engineers India Ltd...The main conclusions of this report are that the cracking in pipe-still shell was caused due to H_2S stress corrosion and this cracking occurred during normal operation. The presence of underhead cracking, internal defects and thermal shocks during operational upsets could have further aggravated the problem... This report only highlighted the fact that it was not an operational malfunction and it was one of these engineering problems which happen in any plant."

F. Penalty Clause in Contracts

3.46 At the Visakh Refinery, planned maintenance turnaround during 1979-80 had to be taken in stages due to delayed receipt of equipment/materials from vendors which led to throughput loss of 109,000 M.T. The Committee enquired whether the Company does not incorporate penalty clause in the contracts with suppliers of equipments for delayed delivery and in the present case, considering the extent of throughput loss whether any claim was made on the suppliers of equipment. Admitting that in many contracts for equipment supplies the penalty clause does not exist the CMD, HPCL conceded in evidence that Company's procedure does provide for a penalty clause. He, however, added that wherever possible, HPCL provide either penalty clause or liquidated damages clause. Pointing out that nowadays the suppliers are not willing to accept either of these clauses, he stated that due to power cuts and (strained) industrial relations, the suppliers are not sure whether they will be able to maintain the delivery schedule, "Some of the major corporations say that they do not like this penalty clause at all. In the case of certain equipment, the manufacturers are one or two and the question comes whether we should leave that manufacturer or alternatively accept their word because they are a reputed firm." He pointed out further that "because of the large expansion going on and the bunching of the contracts, it has become necessary that we accept their supplies without a penalty clause." In the works contract, HPCL have, however, been insisting on and have been practically successful to include the penalty clause.

3.47 Referring to the throughput loss of 109,000 M.T. at Visakh Refinery in 1979-80 due to delayed receipt of equipment/material from vendors the Committee enquired whether the question of non-inclusion of penalty clause in the contract came to the notice of the Ministry. The Secretary, Department of Petroleum replied :

> "At the time this seemed to have occurred, it did not come to the notice of the Ministry. Thereafter, not only in respect of this but generally speaking we have had discussions with all the oil companies and have agreed that we must insist on having a penalty clause."

He explained further :

> "Some times with limited vendors, they (suppliers) may not agree to give commitments of this nature. This is where

> Government has a role to play and the Department in association and in consultation with the concerned Departments... call such vendors...and make it clear that there has to be a penalty clause for failure to deliver together with a bonus clause for prompter delivery."

3.48 Referring to the contract in question, when the Committee enquired about recovering the loss, the Secretary replied :

> "I can once again say that it is for Hindustan Petroleum to check if there is some provision for liquidated damage or not. I also would go so far as to say that if we come across unreliable contractors or venders of equipment we black-list them."

G. Port Limitations

3.49 The cost of freight on transport of crude decreases as the cargo size increases. At the same time because of port limitations, if large size tankers are used, it would require a tanker-to-tanker transfer at sea from the larger vessel i.e. mother tanker to the smaller vessels (daughter tanker). These operations are called lighterage operations. Since HPCL was to handle crude affreightment for both HPCL and BPC refineries in Bombay which involved higher quantities of crude and in view of the directional economics in the use of large size tankers, HPCL started the lighterage operation for Bombay in August 1975. For Visakh, since its takeover in 1976, crude was received via lighterage operations involving lighterage either at Madras or Visakh for taking crude into the port of Visakh on a daughter tanker.

3.50 In regard to lighterage operations in Bombay the Committee were informed that even though lighterage operations are directionally cheaper than the direct voyages, the former resulted in receiving crude in the form of emulsions which were not only detrimental to the refinery equipments but also caused loss of crude throughput. Asked what was the loss incurred on account of lighterage operations during the period 1975-81, the CMD, HPCL replied in evidence :

> "The first four years the arrangements went on very smoothly. In June and August, 1979. We discovered that in the lighterage operation, sea water got mixed with the crude and with that salt content got increased."

"In the four months, May to August 1979 we got the maximum quantity of water in the crude. We lost about 1.28 lakhs tonnes crude throughput."

3.51 In October 1979 the Company appointed a Committee to investigate the causes for high content of sea water in crude and to suggest future course of action. The Committee gave its report in January 1980. The major reasons for high sea water content in the receipt of crude were stated to be poor stripping performance, bad weahter and poor supervision. Pointing out, in this connection that at that time the inventory of crude in Bombay Refinery was low, the CMD, HPCL stated that "We could not allow enough time to the crude mixed with salt water to settle down. Ordinarily that water will settle down below the crude. But it requires 3 or 4 days, some times even longer time. So, when the inventory is for one or two days, we could not allow enough time for setting the water."

3.52 At the inter-ministerial meeting held on 27th February, 1980, at which representatives of OCC, SCI, HPCL and BPC were also present a decision was taken to change the crude affreightment method back to direct voyages. This decision has been stated to be by and large implemented since March 1980. Explaining the reasons for giving up lighterage operations, the CMD, HPCL said during evidence :

"Our assessment was that freight saving will be of the order of Rs. 6 to 10 per tonne if lighterage continues.....If I am importing 3 million tonnes, it is a big saving...That was the positive advantage which weighted with us in August 1975 while deciding in favour of lighterage operations. If we lose the crude throughput, the differential between the product price and the crude price in those years was close to 100 dollars or Rs. 800 a tonne. So, if I was going in for 128,000 tonnes, I would have indirectly made a loss of nearly Rs. 10 crores. If I have got the advantge for four years on the lighterage operations I have now lost about Rs. 8 to 9 crores by way of lower throughput. This was the comparative position. But because of this position we decided that till the de-salter is installed, we will give up the lighterage."

3.53 Enquired if HPCL is not having any lighterage operations at present, the witness replied :

"We have comparatively very small lighterage operation (in Bombay). If we buy crude on the spot market, the other party may say 'I will give you additional one lakh tonnes, provided you take delivery here'. But it is on a very reduced scale."

The witness, however, added :

"On the East Coast the lighterage continues, because the distance is longer. So, the savings will become much bigger. Secondly, the tanker will bring crude for Madras, Visakh and Haldia. The capacities of large crude tankers can thus be utilised."

3.54 In March 1974, Government set up an Oil Prices Committee (OPC) under the Chairmanship of Dr. K.S. Krishnaswamy, the then Executive Director of Reserve Bank of India. The OPC which submitted its report in November 1976 emphasised among other things that lighterage cannot be considered a long terms solution. They recommended that in the interest of optimising tanker utilisation and reducing overall transportation costs as also from the point of view of safeguarding against pollution in the coastal waters, the need to develop facilities in the ports and for direct receipt and handling of tankers— at least upto 87,500 DWT—should receive the highest possible priority.

3.55 Asked what was the progress made in the implementation of the OPC's recommendation, the Secretary, DOP stated during evidence :

"A number of steps have already been taken.....In Bombay already tankers around 50,000 tonnes are received and as soon as the 4th jutty is commissioned, we will be able to receive 90,000 tonne lots right away.

In Visakhapatnam, at the moment, it is receiving 30,000 tonnes tanker lots by the lighterage of 87,000 tonne lots, (Large Range—LR—II). The new jetty which is expected to be set up around 1983-84 will receive upto 1,25,000 tonne tankers without any lighterage.

Cohin receives about 30,000 tonne lots by lighterage of LR II vessels. A new berth is expected to be ready by the end of 1983. Upto 60,000 tonnes of oil is expected to be handled in the new jetty.

In Haldia, we will continue to have a problem because of the draught limitations. Here too, it may well prove possible to impove the facilities significantly with a new jetty.

I may mention here that there are the Port Oil Advisory Committees which have been formed so that all aspects of port improvements as required for the oil industry are being identified and approved. I may also mention that in the Ministry of Transport, there are regular meetings of the Port Commissioners and the Head of port trusts and we attend their meetings so that specific items relating to oil are taken up and resolved rapidly."

3.56 The Committee noted from the post evidence note furnished by DOP that a new Oil Jetty to handle LR II vessels in Madras is scheduled to be compeled by early 1985 and a feasibility report is under preparation for a new Oil jetty in Haldia. It is anticipated by DOP that off shore lighterage operations will be progressively eliminated over the next two or three years.

3.57 HPCL informed in a note that the port limitation in Bombay is expected to be relaxed (to a crude cargo size approximately 75,000 tonnes) after the construction of new 4th oil berth at Butcher Island Marine Oil Terminal, Bombay is completed. Pointing out that approach channel to the Butcher Island may not permit to bring a larger vessel, the Committee enquired whether it would be worthwhile considering Nova Sheva for larger vesseles. The CMD, HPCL replied that "I will enquire from the Ministry of Transport whether they have looked into this aspect."

3.58 Regarding construction of new jetty at Visakh, the CMD stated :

"The Ministry of Transport has already awarded the contract for the construction of jetty and hopefully it will be completed by 1984. We have already issued our tenders through EIL for laying pipelines."

Asked about the estimated cost of the pipeline, the witness said. "It will be about Rs. 9 crores. The distance is about 8 kilometeres. But part of the pipeline will be submarine pipeline.....It is 36" diametre pipeline. We are planning in such a way, with the powerful pumps we should be able to unload the tanker within 24 hours."

H. Research and Development

3.59. One of the objectives of HPCL is to make a conscious effort towards applied research in oil refining and stimulate research and development in developing new petroleum products. For a short period (around 2 years during 1975-77) HPCL had reportedly set up a formal R&D Department for doing basic research on development of new products/processes. Specific studies were undertaken on certain items. However, none of these projects were found to be economically viable. Subsequently, this Department was disbanded with the formation of Centech which was a joint R&D effort between BPC and HPCL. However, for any major R&D programmes, HPCL has been drawing upon the resources of the national institutions. Marketing division of HPCL does not have a recognised and separate R&D centre. In the refinery laboratories, R&D work has been more of a routine nature.

3.60 Asked whether it was not considered desirable to strengthen the Centech so as not to depend on the outside agencies for R & D programmes, the Company informed in a written reply that Centech was established as a common organisation manned by technical officers of HPCL and BPC Refineries, to study and advise the two refineries of their technical problems. After its functioning for a couple of years, the position was reviewed and it was noticed that the technology employed by the two refineries was different and a common organisation of the type of Centech was not able to be of much technical assistance and the refineries felt that it would be better to handle the technical problems by their own technical personnel instead of referring to a common agency like Centech. Hence it was decided to close this organisation.

3.61 Enquired whether it was not known to Government at the time of establishment of Centech that the technology employed by the two refineries was different, the Secretary, DOP, replied in evidence :

> "Centech helped to achieve optimal utilisation of the capacity of the two refineries. Centech did identify certain possibilities which have been implemented with very notable economic benefits. If we look at it from the point of view of this limited objective, that is how to partly utilise the facilities in the two refineries. I believe they achieved that limited objective. The other objective—basic research and development—frankly, they could not do. There are no facilities in the two refineries to aim at achievement of that objective. This objective was neither achievable nor particularly well conceived."

3.62 The Secretary informed the Committee that Centech did not have equipment nor did they have the right type of research and manpower. Asked what was the expenditure incurred over the establishment and during the existence of Centech, the wi ness said :

> "I believe the total cost was Rs 12 lakhs. It was mostly salary etc. to the management staff, clerical. labour staff and very little in the way of anything else."

3.63 Regarding the question of separate R & D centre, HPCL stated in a written reply that there are already two large R&D centres, Indian Institute of Petroleum, Dehradun and IOC (R&D) centre at Faridabad, undertaking basic and applied research in the petroleum field. Under these circumstances it was not considered feasible to have a separate large scale R&D centre for HPCL to avoid duplication of facilities. Help has been obtained from these centres as well as other organisations like Lubrizol (India) Ltd , in HPCL's product development activity. A number of new products have been developed by HPCL in the recent past.

3.64 To increase the capability in product development work, HPCL has invested in a new building costing about Rs. 30 lakhs. A number of new performance oriented equipments are being acquired to improve the activity. A provision for about Rs. 75 lakhs has also been made in the five year corporate plan for investment in additional equipment to evaluate the new products under development. It has been stated ithat these measures will definitely increase HPCL's capability in improving the Product Development activity. The current annual revenue expenditure on Product Development activity in the Marketing Division is about Rs. 10 lakhs.

3.65 Admitting that so far the refining industry has not gone into basic economic research, the CMD, HPCL stated during evidence

> "Our own weakness is the R&D. I must admit it. We have establisbed a centre at Faridabad in which we are doing research of lube oils used in the motors. We have got an engine room, Fiat Car, Ambassador and various other engines. Without a massive role of basic research how can we encourage our own technicians and scientists ? Presently, the Secretary, P&C is so much involved into this. I think in the next few months we must come out with some scheme on the R&D because we cannot live on the support all the time from outside."

3 66 Enquired whether the Department of Petroleum looked into the question of basic research in oil refining and if so, what steps are proposed to be taken in this regard, the Secretary of the Department stated during evidence :

"I agree that the required attention in regard to R & D in the oil industry has not been there. I might only submit that we are making very determined efforts. I will explain the efforts we are making. First of all, last year a Scientific Advisory Committee was formed and it has some of the most distinguished scientists from Universities and various Institutes of Technology, including the CSIR laboratories, as members. Number two, Standing Committees have been set up of research scientists and technologists so that they are also going into the programmes.

So far as research and development in the oil refining sector is concerned, it embraces a variety of disciplines. There is scientific research as well as technological research both in small pilot plants and in large scale commercial plants. This is where the responsibilities of the various institutions have been worked out. The Indian Institute of Petroleum has small pilot plants which are not semi-commercial plants. It is alright for initial process work. They have now got virtually all the pilot plants required for further large scale pilot plant work in all the basic unit operations/in the refinery. But what has been missing is in respect of two very major areas.

One is, large-sized pilot plants or semi-commercial plants for all the unit operations in the refinery. This has to be done through close co-operation with the user and the engineering design company. Therefore, a decision has been taken that a very large pilot plant research facility will be erected by Engineers India in cooperation with all the refining companies. Land has also been selected. The feasibility report has already been approved by the Scientific Advisory Committee. Detailed cost estimates have been prepared. They will be going to the Government for approval. This will have an investment of Rs. 15 to 18 crores.

The second is the area of catalysts. The existing research facilities in the area of catalysts for the refining and petrochemical

industry are totally inadequate. In consultation with the scientists...it has been decided that a large catalyst research laboratory will be set up as part of the research centre of Indian Petro-chemicals Corporation. They have already a large research centre and it will now have a new laboratory for catalyst research which will work very closely with the CSIR laboratories. These are the major areas."

3.67 The witness also informed the Committee that the research centre of Indian Oil Corporation is being expanded vastly and all the oil companies are going to be involved in that research centre. He stated in this connection that "for research and development in the refining and petro-chemical industry, we have to do a lot more. We have made a start. A very significant investment in this area will be carried out in the next few years."

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

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

would like to be informed of the steps taken to ensure regular crude supply to this refinery.

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

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

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

3.73 Both Visakh and Bombay refineries of HPCL are over 25/28 years old and due to progressive ageing of plant and

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

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

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

3.76 The Committee regret to note that in many contracts of HPCL for equipment supplies no penalty clause had been included even though the procedure did provide for such a clause. As a result HPCL could not make any claim for throughput loss of 109,000 M.T. in Visakh Refinery where planned maintenance turnaround during 1979 80 had to be taken in stages due to delayed receipt of equipment/materials from vendors. The Committee cannot but deplore the lapse whatever be the reasons. They would urge that the Company should safeguard

its financial interest fully by insisting on a penalty/liquidated damages clause in the contracts in future. The Committee wou'd like to know whether claim has been enforced wherever liquidated damages provision existed in the contracts.

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

3.78 Port limitations in receiving and handling large size tankers led to the introduction of lighterage operations in 1975. The Committee have been informed that the lighterage operations went on smoothly for the first four years, but since May 1979 these resulted in receiving crude in the form of emulsions (with high sea water content) which were not only detrimental to the refinery equipments but also caused loss of crude throughput. HPCL is stated to have lost about Rs. 8 to 9 crores by way of lower throughput. Hence it was decided in February 1980 to change the crude affreightment method back to direct voyages. The Committee note that lighterage operations still continue on the East Coast and to a small measure in Bombay also. The Committee are Constrained to point out in this connection that the progress in the development of port facilities for direct receipt and handling of large size tankers appears to have been slow though it should have received the highest possible priority as recommended by the Oil Prices Committee in 1976 The Committee desire that the projects undertaken and those proposed for upgradation of the oil handling facilities in ports should be completed early and the lighterage operations eliminated in the interest of optimising tanker utilisation and reducing

overall transportation costs as also guarding against pollution of coastal waters. Incidentally, although the Committee are not in favour of continuing lighterage operations they are not clear as to how the lighterage in Bombay which went on smoothly for a long period initially could create problems. They would await a clarification in this regard. They feel that the high sea water content in crude receipt during May to August 1979 which was stated to be due to poor stripping performance, bad weather and poor supervision and the consequent crude throughput loss of 1.28 lakh tonnes could have been avoided to a large extent with better care and management.

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

CHAPTER IV

MARKETING

A. Sales performance

Under the Ministry of Petroleum "Sales Plan Entitlement" (SPE) Scheme which was introduced in 1977 the product availability of any marketing company is completely delinked from the production of its own refineries. In other words, products from each of the refineries as well as imported products from each of the main port installations are available to all the marketing companies in proportion of their SPE allocations. The sales entitlements are reportedly determined by OPC in consultation with Government. Giving details of SPE a representative of HPCL stated during evidence :

> "Prior to the Government take over of ESSO and Caltex...the marketing ability and efforts of private oil companies were limited to their own refinery production, and the availability of products, with the exception of petrol which was surplus than what IOC could sell, prior to 1974, IOC being the only public sector undertaking, had the freedom for expansion of their existing refineries and also for putting up the new refineries. So, they had the benefit of all the additional production. But, soon after the take over of the other private oil companies, there was dialogue and sometime during the end of 1976 the sales plan concept came into existence. The objective was that progressively the growth of IOC should be reduced and that of other companies, which have now become public by nationalisation, have a little faster growth than IOC. Initially, a suggestion was made that IOC marketing growth per year can be reduced by 1 per cent, which was not accepted. Later on, it was decided that the existing business of all the companies would be retained and the new growth will be shared in the proportion of 50 per cent by IOC and 50 per cent by the other companies (prorata to their market share in the base year 1976-77). At the time the sales plan concept came into the picture, it was envisaged that there would not be any large transfer of the existing business from IOC but

some consumer accounts were shed by IOC to other companies ...After shedding of some volumes by IOC in favour of HPCL and BPCL, we are still free to solicit new business, which is coming in the industrial sector. We are free as a Corporation to respond to DGS & D tenders, which are floated on behalf of various major consumers, like Government departments defence services, railways for supply of petroleum products and solicit their business."

4.2 Regarding the market share of HPCL, the Secretary, DOP, informed during evidence that "HP, which had a share of 15.8% of the total market in 1976 has now got a share close to 18% by 1990, it is anticipated that it would be close to 20-21%".

The details of sales performance of HPCL are as given below :

(000 M Tonnes)

	SPE	Prorata SPE	Actual Sales	% of prorata SPE	% Market Share
1978-79	4820	4877	4838	99.1	17.11
1979-80	5514	5194	5161	99.4	17.27
1980-81	6030	5596	5596	100.0	18.11
1981-82	6100	5768	5687	98.6	17.59

4.3 Pointing out that HPCL's market share has grown only marginally from 17.11% in 1978-79 to 17.59% in 1981-82 and that the market share actually declined from 18.11% to 17.59% in 1981-82 compared to the previous year, the Committee enquired whether under these circumstances the sales performance of HPCL could be considered satisfactory. Claiming that performance of HPCL has been satisfactory, HPCL stated in a written reply that the yardstick for judging the sales performance of the Corporation is to meet the SPE volumes or prorata SPE volumes in case the demand during the course of the year has increased or decreased over the estimated demand. Informing that /

HPCL's sales growth is also higher than Industry's growth and should be considered satisfactory, HPCL furnished the following figures :

	1978-79	1981-82	Vol. Increase	% Increase
		(000 M Tonnes)		
HPCL	4838	5687	849	17.5
Industry	28250	32335	4085	14.4

4.4 The drop in market share from 18.11% in 1980-81 to 17.59% in 1981-82 is stated to be as a result of loss of Fuel Oil/LSHS quantity 84,000 tonnes during 1981-82 on account of Textile Mill Workers' strike in Bombay and closure of Mandavi Pelletts in Goa. In this connection the Committee were informed by a representative of HPCL during evidence that "all major accounts of fuel oil are allotted by DGTD and OCC. Therefore, we could not open any new market...While we have suffered loss of fuel oil in 1981-82, we have tried to recoup the loss in other products in 1982-83 performance period." Enquired whether the company made any effort to divert the fuel oil to some other areas, the witness said :

> "Yes, sir. We went all over the market to pick up small accounts of fuel oil.....During this period, unfortunately barring one or two accounts, the others were not of sizeable volumes which came up for allocation by DGTD and OCC. We made an approach and represented to OCC to give new accounts in Bombay Market. Unfortunately no new accounts have come up in the market. We could not get the replacement. But efforts are still continuing with OCC that till we get our quota, other companies should not be given new allocation."

Supplementing this point, the CMD, HPCL stated :

> "We lost nearly 0,59 of the market share which in absolute quantity comes to 116,000.....If the question is that...if we followed a still more aggressive policy, we would have got the market, then the answer is 'yes'...Then when we start losing the business, it takes time to get into aggressive sales and get recovery of this order. One cannot do it in a short period

because in a sales plan discipline the scope is limited. Therefore we had received a set back in 1981-82 but we have been able to make up by and large in the first six months of 1982-83."

4.5 When the Committee expressed their view that had the Corporation anticipated the prolonged character of the textile strike, it could have avoided the loss in market share, the CMD, said :

"Even then it would have been 0.3 instead of 0.5..... I want to leave this impression that there is no want of effort on our part even in 1981-82 to get the business. Since the time available at our disposal-from December to March was not adequate, we could not get it."

4.6 HPCL's share in the SPE for 1982-83 was only 18.1% as against its 27% share in industry's total number of retail outlets and its requiement for direct supply to consumers. Asked what are the reasons for HPCL not being allocated SPE in proportion to its number of retail outlets and its requirement for direct supply, a representative of HPCL replied during evidence :

"Through retail outlets, we sell only 2 major products namely HSD and petrol whereas in terms of petroleum products there are several other products which are not catered for throught retail outlets. It would not be the right way to compare SPE's allocation because it covers varsous other products with the share in retail outlets. Motor spirit is colled petrol. Compared to our 27% share in respect of retail outlets our market share of petrol is 32.2% and in HSD our share is 25.4%. Combining these two products together our share in the market today is 26.5%. We are very close to our share of 27% of retail outlets that we have in the country."

4.7 Enquired whether HPCL is satisfied with the existing system of allocation of SPE, a representative of HPCL stated. "Yes. We are satisfied with the existing allocation system" and added, "In our view there were enough opportunities for us to grow faster."

4.8 HPCL's corporate plan envisages an increase of its sales target from 5.593 million tonnes in 1980-81 to 7.909 million tonnes in 1984-85. The actual sales in 1981-82 was, however, only 5.687 million tonnes against to 5.999 million tonnes.

4.9 Euquired whether there were any instances of interruption in supplies in the network of HPCL since 1975, HPCL stated in a written reply that considering the handling and movement of enormous quantities of petroleum products, there have been some instances of interruptions in supplies in HPCL network since 1975. Such instances normally airse out of causes outside HPCL control-such as floods, tanker delays, unforeseen shutdowns of various refineries, etc. However alternative supply arrangements are expeditiously made as and when such situations arise so that the interruption duration is reduced as much as possible.

B. Performance of retail outlets :

4.10 The Committee were informed by HPCL in a note that the average diesel throughput per retail outlet per month in respect of HPCL and industry were 55.0 and 58.7 K.L. respectively for the calender year 1979, 58.0 and 60.0 K.L. for the year 1980 and 60.3, 62.5 K.L. for the financial year 1981-82. Asked what precisely were the reasons for the HSD average throughput per retail outlet of HPCL being lower than that of the industry, a representative of HPCL stated during evidence :

> "Prior to the take over by the Government there was hardly any growth of any retail outlet by the private oil compaines, particularly in the agricultural, rural and highways. Further there was no such restriction for putting up new retail outlets for IOC being a public sector undertaking. Another point of consideration is that ESSO and Caltex organisations mostly concentrated in metros, main cities and urban areas. Our concentration was to develop service stations to capture as much as possible of gasoline potential, because gasoline gave maximum margin of profit to the Corporation. During the last eight to ten years there has been a shift of potential. Diesel potential has shifted from urban areas to rural areas where we did not have much representation earlier. For the above reasons our average throughput per retail outlet was lower than the industry's average."

4.11 Asked to explain HPCL's efforts for improving the position and to state whether any target is set for achieving throughput rate comparable to industry the witness stated that from 1978 onwards HPCL has been concentrating in putting up HSD retail outlets in rural markets and highways. Existing outlets where there has been a shift of HSD

potential because of bye-pass, octroi limits or such other reasons, are being resisted at other locations. Facilities at existing retail outlets in rural areas/highways have been are being improved to attract additional HSD business. These facilities include provision of minor repairs/ servicing for agricultural equipment and implements, washing/servicing of tractors etc. Claiming that between 1979 and 1981-82 HPCL's average of HSD has gone up by 5.3 KL while that of industry only by 3.8 KL the witness said :

> "We expect that during the next few years with our above efforts our HSD throughput per outlet would increase and be in the line with the industry average throughput."

4.12 Keeping in view the norms with regard to the development of the new outlets, as mentioned below HPCL is stated to have adopted a criterion that if the existing retail outlet achieves around 75% of the volume, its performance could be considered as a satisfactory level of operation :—

> Minimum volume for lone Petrol outlet in the second year of operation —15 KL per month
>
> Minimum volume for lone HSD outlet in the second year of operation —50 KL per month
>
> Minimum volume for lone HSD low cost outlet —25 KL per month

4.13 Asked, on the basis of this criterion, how many outlets were found to be below mark during each of the last 3 years and what steps have been/are being taken to improve the performance of those outlets, HPCL furnished the following information in a written reply :

	1979/80	1980/81	1981/82
(a) Total No. of Retail outlets	3198	3234	3254
(b) No. of outlets not meeting 75% of the volume criterion	965	737	693
(c) percentage of (b) to (a)	30.2	22.8	21.3

4.14 The following steps have been/are being taken to improve the performance :

> —Dealer counselling and training of his staff.
>
> —Upgrading of facilities to attract more customers such as washing, servicing, free air, asphalting/concreting of driveways, improved lighting and toilet facilities.

—Promotional activity through proper display of products.

—Provision of minor repair facilities with mechanic for cars, trucks, tractors etc.

—Stocking of tyres, batteries and spare parts.

—Reconstitution of dealership/dealer changes.

—Resitement of outlets in case there is a shift of trade/potential.

C. Establishment of retail outlets

4.15 A plan drawn by the Industry in 1977 envisaged establishment of about 100 new Retail Outlets primarily for HSD on Industry basis which were to be developed/spread over a period of 5 years from 1978-79 onwards However, before the end of this 5 year period another tentative plan has reportedly been drawn by the Industry in association with the administrative Ministry to establish 1283 regular and low cost outlets out of which HPCL's share is 335. Asked what was HPCL's share in the target of establishment of outlets as fixed in the original plan and the achievement thereof, HPCL furnished the following information in a written reply (Jan. 83) :—

Year	HPCL's share of Retail Outlets	Outlets Commissioned
1978-79	34	31
1979-80	35	9

Roster System :

Year	No. of Retail Outlets in the Roster	Outlets commissioned as of 30.10.82	Letters of Intent issued to the selected candidates
1980-81	94	37	82
1981-82	109	22	74
1982-83	Roster under finalisation.		

4.16 Reasons for shortfall in the establishment of retail outlets are stated to be :—

(a) Delay due to moratorium on award of dealership and changes in dealer selection guidelines.

(b) It takes months to one year's period to construct and commission the retail outlet from the date of Intent letter is issued. Depending upon the location and type of market, it involves selection of site, arranging finances, obtaining local approvals from the municipality, PWD, Police, District Magistrate, Explosives Dept., and thereafter completing/constructing the retail outlet.

(c) 70% of award of dealership is in the Reserve Category and delays do occur on account of financial problems, particularly in SC/ST category.

4.17 The Secretary, Department of Petroleum stated in this connection during evidence that "it is correct that there were long delays for a variety of reasons. The policy of selection is most important because certain decisions were taken that we must try and assist the socially disadvantageous classes to have retail outlets." Asked whether the Department reviewed HPCL's performance in this regard during the course of performance appraisal meetings and if so, what directions were given to improve the performance, the witness stated:

> "This is a matter which we have reviewed very continuously with oil compaines. You will have seen that whatever might have been the shortfalls in the earlier years, there has been a tremendous drive in the last two years, and we are expecting that a number of outlets will be created, in the sense that we are trying to catch up with the backlog. One of the problems has been that after you have selected a distributor, he needs money to set up his outlet and that money is not always easily available specially when a large proportion of the dealerships are reserved for the socially backward classes. So we have discussed this with the Finance Minister and he has concented to have the banks informed that in the case of petroleum agents and distributors they must give loans on the condition that the oil companies will deduct from the commission to be paid to the agents and distributors the amount of money that has to be repaid to the banks. I hope this will solve the problem and I believe that the actual commissioning will now be accelerated."

4.18 The Committee were informed in a past evidence note that fresh guidelines have been recently evolved for the award of dealerships from 1982-83 plan onwards.

4.19 Since the entire oil refining industry is in the public sector, the Committee enquired whether Government thought of rationalising the policy of establishing retail outlets for different oil companies so that there is no long distance movement of oil in the country. The Secretary, Department of Petroleum stated that "Each year the percentages are worked out for each Company. For instance, in 1982-83, 40 per cent of the retail outlets are there. This is a regular programme which is worked out in advance and a particular outlay is earmarked to a particular company." The Secretary further stated :

> "The matter was studied when all the companies were taken over from the foreign owners.....I would like to submit two points here. One is, the way the companies developed in the past, they were becoming all-India Companies or attempting to be all-India Companies. I would like to say one thing with some degree of hesitation. We do have a lot of industrial relations problems in the country. Suddenly, we find that there is strike in, let us say, the Bharat Petroleum which did happen last year. It was most unfortunate. Then we had the stoppage of work in the Koyali refinery some months ago. When something of this nature happens, if you happen to have only one oil company operating in the area, the effect of it can be enormous. Therefore, I would submit that perhaps one should not limit it only to one company operating in just one area."

The witness, however, informed :—

> "I certainly accept the point that further rationalisation is prudent. I may submit that we are, in fact, looking into it right now as to what sort of rationalisation one can do to tidy the situation taking precisely into account the factors mentioned by the hon. Member."

4.20 For petrol retail outlets, the current net-work of the Industry is by and large considered adequate. Asked when is it expected to establish adequate number of Retail Outlets for HSD, HPCL stated in a written reply that HSD demand is a matter of continuous growth, particularly in rural areas and highways. Keeping in view the prime aim of establishing retail outlets (HSD) closer to the point of consumption, this will remain a continuous programme of establishing of new HSD retail outlets.

D. Shortages and Thefts

4.21 The Committee noted from the information furnished by HPCL that there were 7 major cases of shortages in stocks and 5 cases of pilferages and thefts involving over Rs. 15 lakhs investigated by the Corporation from 1977 onwards. The number of cases and the total amount involved might be higher if the other non-investigated cases are also taken into account. Shortages in stocks appear to be mainly due to defective and overaged pipelines, tanks and vessels. Enquired whether defects in pipelines could not be detected by proper maintenance checks and shortages avoided by replacing overaged pipelines, HPCL stated in a written reply that the major losses have arisen out of the defects in the pipelines owned and operated by Bombay Port Trust (BPT). Oil Industry at Bombay—via the Oil Industry Import & Export Committee, (OIIEC) has already represented to BPT the need for correcting the defective lines, and BPT has carried out some repairs. We also understand that replacement of the aged pipelines in a phased programme is under consideration by BPT.

4.22 One of the thefts investigated was suspected to be committed over a period of 2 years and another over a period of one year. Enquired whether this does not indicate weakness in the security system, HPCL stated in a post evidence reply that HPCL operates 2 refineries, 13 major installations, 16 LPG bottling plants, 5 company operated Training & Service Centres and 63 depots in India. As of 31.3.1982, stocks and stores on hand amounted to Rs. 277.54 crores. HPCL's present security arrangements are satisfactory, because in the context of above magnitude of operations the losses arising from thefts have not been significant. HPCL also have a system whereby every theft gets reported to the Vigilance/Audit/Management—and wherever required, appropriate further remedial measures such as—(a) strengthening of watch & ward, (b) improving fencing heights, (c) obtaining police assistance, etc. are taken. However, the security systems are under constant review for further improvements and currently deployment of CISF (Central Industrial Security Force) at our 2 refineries is under consideration.

E. Adulteration and Malpractice

4.23 HPCL informed the Committee in a note that one of the major problems faced in marketing is adulteration of products. It has been stated that there are cases where HSD was adulterated with Kerosene, petrol with Kerosene, or diesel and quality lubricating oil with

re-refined lubricating oil. The CMD, HPCL stated in this connection during evidence :

> "The adulterations are primarily, if one goes to the root, due to the financial benefit which a dealer gets from the adulteration...The price parity which we were earlier maintaining between Kerosene and diesel is not being maintained now with the result that if a small percentage-up to 10%—is mixed in diesel, it is difficult to detect. There is a sort of encouragement for the dealers because the price parity is not being maintained.....If this price parity could be maintained, it will go a long way in getting quality product at the retail outlets."

4.24 Admitting that disparity in prices has been a major cause of adulteration, the Secretary, Department of Petroleum stated during evidence :

> "This is particularly highlighted by adulteration of HSD with Kerosene. This is capable of influencing the price of Kerosene, and it has its impact on mass consumption and specially in the poorer areas in the villages."

4.25 HPCL informed the Committee in a note that in case of lubricating oils, checking of adulteration is becoming increasingly difficult. Asked what is the periodicity of drawing samples from Retail Outlets for quality check and whether this priodicity cannot be increased and severe action taken against the erring party, HPCL stated in a written reply that as per the current practice, each Sales Representative is required to take one sample per month in his Sales Area. This amounts to testing over 1000 samples per year in the Corporation. However, increase in periodicity would require augmentation of Lube Testing facilities, which is being taken in hand.

4.26 Enquired whether the system of maintaining Complaint Register in Retail Outlets and attending regularly to the complaints recorded is being followed in practice, HPCL informed in a written reply that in order to further improve upon awareness/effectiveness of the Customer Complaint system, HPCL and the Industry have embarked on a mass media communication through extensive use of TV, Radio and Newspaper advertisements. Besides the Complaint Register, HPCL has also created Complaint Cells at various Regional Offices and storage

points to take care of complaints even in the muffasil areas. In addition to the above regular review of Complaint Register at Retail Outlets is made by Field Officers during periodic inspection and in case of registered complaints, corrective action is taken.

4.27 According to Department of Petroleum, types of malpractices spotted by the oil companies are the following :

(i) Variation in stocks and sales.

(ii) Unauthorised method of supply and diversion of stocks.

(iii) Over charging and short deliveries.

(iv) Mismanagement of dealership affairs.

(v) Non-display of prices and stocks.

(vi) Refusal to disclose stocks/show sales registers.

(vii) Adulteration and sale of off-specification products.

(viii) Violation of state control order/Regulations etc.

4.28 The number of malpractices spotted and the break-up of such cases with nature of action taken during 1980 82 company-wise as noted from the information furnished by Department of Petroleum in post evidence reply are as given below :

	Total No. of cases	Warning etc. issued	Suspension of supplies	Termination of dealerships
HPCL	161	29	128	4
Indian Oil Corporation Ltd.	1027	586	421	20
Bharat Petroleum Corpn. Ltd.	138	1	135	2
Indo-Burma Petroleum Co. Ltd.	234	61	170	3

4.29. Regarding malpractices, the CMD, HPCL stated during evidence :

"It partly comes out of the adulteration or partly comes out of shortages. So far as the era of shortages is concerned and until something happens in the foreseeable future, there would be no shortages. I do not think there is going to be much change in the outlet of LPG, diesel etc. But it is our effort on the part of the distribution to increase the storage capacity at the depot, terminal and other places to avoid drying out of retail outlet or man-made shortage created by anybody at any time. We would like to assure you, Sir, that as far as possible in the movement of petroleum products, we do take care that the shortage does not exist. If the shortage does not exist, adulteration is taken care of. The scope of malpractices is automatically minimised."

4.30 Asked how do the Ministry propose to solve the problem of malpractices, the Department of Petroleum mentioned in a written reply that all the public sector oil companies sat together and evolved marketing discipline guidelines for uniform adoption by the entire oil industry. These guidelines evolved in February, 1982 are being vigorously implemented, so as to place a check on malpractices.

4.31 Enquired whether the Ministry have any system to check malpractices, the Secretary, Department of Petroleum said in evidence :

"In a limited way. We do have a vigilance cell in the Oil Coordination Committee. It is a small vigilance cell. Through that vigilance cell, we have conducted some raids. For example, we got information of mal-practices going on in Barauni. We had raids organised through the Petroleum Vigilance Cell, by the CBI and a very large number of persons were also arrested. Secondly, in Delhi itself, we received some private information that there were a lot of malpractices taking place in Shakurbasti near Lawrence Road. The raids were organised by the CBI and illegal stocks were seized. A number of persons were arrested. Similarly, in Hyderabad, where we got some information, we had the raids conducted there also. We are strengthening our vigilance cells and we are also improving the liaison between the vigilance cells and the CBI organisation. Sometimes, the information may be available in some area and it may not be transmitted. We are trying to improve the system of information so that wherever there happens to be some

information about a mal-practice going on, we will be able to take some effective action. Of course, there are vigilance cells in the oil companies also."

4.32 HPCL has been maintaining its market share so far as sales of its products is concerned between 17 to 18 per cent. The Company has also been able by and large to fulfil Sales Plan Entitlement obligations. However, in 1981-82 the Company lost nearly 0.59 per cent of its market share which in absolute quantity came to 1,16,000 tonnes. The Company's sale growth (17.5 percent) was also higher than industry's growth (14.4. per cent) during 1978-79 to 1981-82. The Committee hope that the Company will not relax its effort and will constantly endeavour to improve its performance further.

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

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

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

4.36 According to the information furnished by Deptt. of Petroleum the number of malpractices spotted by oil companies during 1980-82 was over 1500. Malpractices reportedly arise partly out of audlteration and partly of shortages. Disparity in prices is stated to be the major cause of adulteration especially in the case of HSD with kerosene. In regard to lubricating oils where checking of adulteration is becoming

increasinlgy difficult, the Committee stress that Lube testing facilities should be augmented without delay to increase periodicity of checking. The marketing discipline guildelines evolved recently for uniform adoption by the entire oil industry should be vigorously implemented, as assured, so as to place a check on malpractices. Further the Committee recommend that the vigilance cells in the oil companies and in the Department of Petroleum should be strengthened and information system improved to take quick and effective action on malpractices.

CHAPTER V

GENERAL

A. Profits

The Committee were informed in a note furnished by HPCL that Unit-wise profit before tax and interest for each of the last 5 years is as given below :—

Rs. crores

	1977-78	1978-79	1979-80	1980-81	1981-82
	(15 months)				
Bombay Refineries	3.01	5.04	8.70	12.57	20.03
Visakh Refinery	—	1.80	0.13	2.41	3.02
Marketing	11.26	18.01	22.66	34.23	29.19
Profit before interest and tax	14.27	24.85	31.49	49.21	52.24
Interest (Corporate)	(1.37)	(0.50)	(4.32)	(15.36)	(21.85)
Profit before tax	12.90	24.35	27.17	33.85	30.39
Tax provision	(6.47)	(12.40)	(13.49)	(17.35)	(15.99)
Profit after tax	6.43	11.95	13.68	16.50	14.40

5.2 HPCL informed in a written reply that the latest estimate of profit before interest and tax for 1982-83 was Rs. 43.18 crores which

is lower by 17% compared to 1981-82. The profits of Marketing Division declined from Rs. 34.23 crores in 1980-81 to Rs. 29.19 crores in 1981-82 and that of Visakh Refinery from Rs. 1.80 crores in 1978-79 to Rs. 0.13 crores in 1979-80. Informing that there has been improvement in the profit as percentage of capital employed HPCL stated in a written reply that during the years 1979-80, 1980-81 and 1981-82, the return on capital employed was 22.4%, 23.6% and 26.0% respectively. It, however, came down to 19.9% in 1982-83.

5.3 Major factors contributing to reduction in return on capital employed in 1982-83 are stated to be higher depreciation and interest charges. Higher depreciation arises from proposed purchase of LPG cylinders during the year. In case of LPG cylinders, 100% depreciation is charged during the year of acquisition. During 1980-82, total depreciation was Rs. 14.65 lakhs as compared to 1982-83 estimates of Rs. 2323 lakhs showing an increase of Rs. 858 lakhs. Higher interest on increased working capital, etc. has also contributed to decrease in profitability in 1982-83.

5.4 The net profit after tax of the Company was Rs. 14.40 crores during 1981-82. The Committee noted that the corporate target of net profit after tax for the year 1984-85 was Rs. 35.65 crores. Asked about the strategy to improve the profitability, HPCL indicated the following steps :

(a) Growth in production and sales. As a result of the Lube Refinery Expansion, Visakh Refinery and Bombay Refinery Expansion Projects which are due for completion, profitability is expected to improve.

(b) HPCL have furnished data to OCC regarding Marketing costs and expect to receive compensation/reliefs which may go to improve profits.

(c) On a continuing basis, measures are being taken at all levels management to control costs and reduce expenses.

B. Pricing Policy

5.5 As per the current pricing policy, which is based on the recommendations of the Oil Price Committee (November 1976) and accepted by Government, Refining/Marketing operations are provided

retention margins based on 15% return on fixed assets and 15% compensation on working capital as well as expenses for Refining/ Marketing based on assumed levels.

5.6 In a note furnished to the Committee HPCL made some suggestions which related to 1. reviewing of the increase in the value of net fixed assets on an annual basis and adequate compensation therefore, 2. reviewing the current norms of allowing compensation on financing increased working capital requirements, 3. undertaking of cost study of the areas of under recoveries on regular basis, 4. increase in the rate of return on capital assets and 5. reimbursement of increased intesest charges on automatic basis. In reply to Committee's query as to whether these suggestions were taken up with Government and if so, with what results, HPCL informed in a written reply that action in respect of the first three items had already been taken by OCC/Ministry. DOP informed the Committee in a written reply that in view of the satisfactory over all position of the profitability of HPCL, the reimbursement of increased interest on working capital automatically, whenever prices are revised, is being considered.

5.7 In reply to HPCL's suggestion that bonus should be treated as an item of cost and compensated to the Oil companies, DOP stated in a written reply that bonus was not considered as an item of expense by the OPC for the purpose of reimbursement of cost.

5.8 Regarding return on fixed assets, the CMD, HPCL pleaded during evidence :

> "With the stage of economy and escalations through which we are passing, the replacement of any equipment will cost much more than the original purchase price. So, either you allow me something more, so that I can make a reserve ; or otherwise, I will have to borrow funds from the Exchequer...In respect of the return on fixed assets, it may be given at such a rate with a condition that the return on the fixed assets should be ploughed back except for a small percentage going for dividend declaration, so that money is available for replacement. Today, we are getting a 15% return before tax ; and if my tax level is 60%, I will retain 6% only. Even if I quantify the amount, at the rate by which I will replace it, I will not have sufficient money."

5.9 Illustrating his point that if the selling prices are computed on the basis of original capital costs, it would mean subsidising the prices and that any such hidden subsidy in a public sector can cause much more strain on the Exchequer than an open subsidy, the witness said :

> "Koyali was built at a cost of Rs. 37 crores—Today a new plant may cost Rs. 500 crores—If at Koyali we are calculating the refining costs at the same level, it will mean my subsidising the selling prices..."

Pleading for higher return in this context, he said :

> "Just as we are pooling the imported price of crude and the indigenous price to such a level that the producers of indigenous crude would generate large resources needed for oil exploration. This policy has helped us. The same concept has to come in our Public Sector administered pricing system. Between the old and new capital costs, a via *media* has to be found."

5.10 Conceding that this would result in passing a higher price to the consumer, the CMD, HPCL said during evidence :

> "...in the end result, the consumer would be able to bear out. After all, this is not the only product. There are many other essential items which are outside price control.....The indirect subsidy part of it must be minimised, if not eliminated."

5.11 Regarding increase in the rate of return on capital assets the DOP, stated in a written reply that under the present formula, the overall profitability of HPCL has been good and that any extra compensation to oil companies will entail an extra burden to the consumer.

Time lag in price revision

5.12 HPCL stated in a note furnished to the Committee that there is always a time lag between the increase in expenses and announcement of relief by Government during which the profitability of the Company gets adversely affected. In a written reply HPCL informed that the major instances of time lag relate to *Ad-hoc* relief given in 1981 covering

increase in cost of certain items for the years 1978-79, 1979 80 and 1980 81. Similarly, working capital/stock loss compensation arising from product price increases was given in 1981 with retrospective effect from June 1980. To the extent the relief for the past years is received in subsequent period, the Oil companies lose the benefit of interest in intervening period. The lag in price revision is also stated to cause wide variation in budget targets and actuals of profits. On being enquired as to what is the reaction of the Department of Petroleum to HPCL's suggestion in this connection that there should be a mechanism of automatic revision in prices of petroleum products with increase in costs, the Secretary of the Department said during evidence :

> "I will accept that there had been a time lag in the past. We are trying to curtail it. If they make a claim, a certain percentage can be approved quickly and the balance 25% will be paid after a thorough scrutiny. So, we are trying to hurry it up. So the time lag is made as short as possible."

***Prices of refinery products used in other industries*:**

5.13 Finished products of refineries are used either directly by the consumers or as intermediate products for further processing. For example, through carbon black feed stock is an intermediate product for the carbon industry, it is a finished product of the petroleum industry. Similarly, there are products like solvents, transformer oil, base stock, etc., which are also intermediates for various other process industries but are finish products of the petroleum industry.

> The CMD, HPCL suggested in this context :
>
> "I would say that in respect of industrial products, you can freeze them from the administered prices, because they are not going directly to the consumers' pocket. There is scope for its being used by any sector, public or private, to have a somewhat better return, that what I am getting."
>
> Illustrating this point he said :
>
> "If increase in price of benzene is Rs. 500 per tonne the net effect on nylon saree, I am told, is less than Rs. 5/-. There is no machinery to enable the dealer to charge more from the consumer or less."

5.14 Reacting to this suggestion, DOP stated in a written reply that the retention pricing mechanism for refineries has been formulated

in order to ensure a certain specified rate of return on the total capital employed and further to ensure that a fair prices is charged to the user industry. In case certain products manufactured in a refinery are left out of the purview of this mechanism, the principle of each refinery getting a specified fair rate of return and charging a rational price, based on costs of raw material and inputs may be vitiated.

5.15 HPCL informed the Committee in a written reply that in case of HPCL the product groups viz. 1. petroleum specialities, 2. Auto specialities, 3. finit and 4. Auto Accessories etc. are outside the OPC price control mechanism. The sales turnover realisation of these products is stated to be Rs. 11.93 crores constituting 0.60% of the total.

C. Working Capital Financing

5.16 The Committee were informed in a note that HPCL faced difficulty in meeting the norms established by Reserve Bank of India which places constraints on their ability to obtain working capital financing. Giving the background in this connection HPCL stated that in the past ten years working capital financing has been the subject of two official committees—Tandon Committee and Chore Committee. Reserve Bank of India has accepted certain recommendations of these committees for implementation in regulating grant of credit facilities to meet working capital requirements.

5.17 The norm affecting HPCL is the Chore Committee recommendation that 25% of current assets should be financed by long term funds (Method II of Tandon Committee Report). Hitherto, HPCL was meeting the Tandon Committee Method I requirement of financing upto 25% of the working capital gap through long term funds. HPCL's annual plan and long term plan exercises have been based on the assumption that the Method I recommendation would be complied and accordingly HPCL funds were earmarked to meet expansion programmes.

5.18 To satisfy the Chore Committee norm for 1982-83, which represents a current ratio of 1.33 : 1, HPCL would have to generate additional/long term funds amounting to Rs. 30 to Rs. 40 crores. It has been indicated to Reserve Bank of India that the generation of these funds would not be possible in the financial year 1982-83.

5.19 Enquired how the Department propose to solve this issue, the Secretary, DOP stated during evidence :

"This matter has already been taken up with the Reserve Bank and we are confident that we will be able to resolve this problem. There are several ways in which the problem can be resolved and we are already in touch with the Reserve Bank Meetings have been held with the Deputy Governor concerned and also with the Ministry of Finance. This problem will definitely be resolved satisfactorily."

D. Flight of personnel

5.20 HPCL is reported to have been losing experienced officers and operators in large numbers. During 1974-82, 405 officers have left the Corporation in addition to those who have retired by superannuation. The exodus is attributed to highly remunerative employment opportunities in the Gulf region and in some measure, to the apprehension before and after the take over of ESSO & Caltex about reduction in salary and perquisites. Rationalisation of pay scales and allowances in August/September 1980 has also reportedly influenced large scale resignations. The phenomenon of exodus of personnel is also experienced in IOC which is a much larger organisation where 492 management staff have resigned and in Bharat Petroleum Corporation 280 have resigned during the above period.

5.21 Asked what steps did HPCL take to arrest the drain of talent, HPCL mentioned the following in a written reply :

Better career opportunities, exposure to better training opportunities both abroad and within the country ; better residential housing facilities at metropolitan cities and Visakh ; improving service conditions ; taking a Bond for serving the Corporation for 3 years in case of fresh induction of officers at the entry point level and continuous dialogue and discussion with the officers Association to identify their problem and try to resolve them expeditiously.

5.22 In a note furnished to the committee HPCL suggested that they feel introduction of pension plan and better long range retirement benefits could minimise the rate of resignations. In this connection, the CMD, HPCL stated during evidence :

"In addition to the Provident Fund Policy, the pension scheme should be there which will act as deterrent for the people to leave the job when their experience is valuable to that industry

and will also provide a security after superannuation—rather his usefulness comes to me when he has worked for ten to fifteen years and gained maturity and experience."

Responding to this suggestion, the Secretary, DOP, stated during evidence :

"My reaction is very favourable. But that apart, I might mention that a Study Group was appointed by the Government to go into this very question. Their recommendations in this matter are expected to be received shortly and they will be put up to Government."

5.23 Informing that they have started recruiting a large number of officers, HPCL stated in a note that in the next few years when they have achieved good experience, this problem (loss of experienced personnel) would be resolved to a great extent.

5.24 Asked whether the phenomenon of exodus of personnel engaged the attention of the Ministry and if so, how it is proposed to check the trend, the Secretary, DOP, assured during evidence that the problem will definitely be resolved. He stated in this connection :

"This is a matter which has created some anxiety...Some of the ways of solving it are increased recruitment, far better training and the most important point is improved service conditions. It is a question of salaries and remuneration.

The second most important point is housing. Particularly in major metropolitan cities like Bombay, housing had emerged as the most critical issue, There we are building very rapidly and I might just mention that some five years ago, the housing satisfaction was barely a few per cent, We are confident that it will reach a fair percentage soon. We are in touch with the Government of Maharashtra. Meetings have been held with the Chief Minister. We have sought their assistance in getting land so that we can get more houses for the staff and workers. We are determined to solve this problem with the utmost speed."

He stated further :

"...I think that the major efflux has already occurred The position in the gulf countries for these people is not very happy

now...Many of them, in fact, wish to come back and we are taking them back happily.....If we are able to provide reasonable housing, many people would come back.

E. Manpower requirements

5.25 The total manpower requirements as originally assessed for the level of production during the years 1978-79 to 1981-82 andt he number of persons actually employed by HPCL are stated to be as given below :

Years	Division	Requirement originally assessed	No. actually employed as of Mar. 31 of each year.	Crude through put (M. tonnes)
1978-79	Refinery	1457	1259	3.94
	Marketing	3588*	3599	
1979-80	Refinery	1634	1406	4.23
	Marketing	3822*	3890	
1980-81	Refinery	1665**	1523	4.44
	Marketing	4470**	3970	
1981-82	Refinery	1728**	1601	4.66
	Marketing	4470**	4219	

*These numbers are derived from the actual staff strength at the time of takeover of ESSO and Caltex. 1976-80 number also includes staff of Kosangas taken over.

**These numbers are based on the assessment made by the specialised teams set up in the Corporation and specialised outside agencies for Refineries and Marketing.

5.26 The Committee noted that the actual number of persons employed by HPCL has been considerably lower than the assessed requirement in refineries throughout the period 1978-82 and in marketing division during 1980-82. However, this shortfall in manpower requirements does not appear to have affected the performance of the Company. In view of this situation, asked whether it can be said that the assessment of manpower requirements by HPCL is realistic and accurate, HPCL stated in a written reply that the gap between the estimated assessment manpower and the actual manpower is primarily due to the following reasons :

(a) Delay in commissioning of some of the Projects such as Lube Refinery Expansion, Bottling Plants etc.

(b) Some of the works in the Refineries and Marketing Divisions relating to maintenance, engineering and construction continues to be done through contracts and casual labour.

(c) In respect of management staff, the shortfall was made good by the posting of Officers to work for longer hours and non-management staff by paying O.T. and engaging casual labour.

The overall variation between the estimated strength and the actual strength varies between four to ten per cent. Except during the year 1981-82, the growth of manpower is commensurate with the growth of sales.

5.27 HPCL informed in a written reply that the Administrative Staff College of India reviewed the position of management staff of the Corporate and Marketing at the Headquarters Office. Keeping in view its recommendations, a realistic overall manpower requirements was made by the management and a proposal was submitted to the Board. It has been stated that the approved total strength as on 1.1.1977 was 1459 and the proposed strength was 1361.

5.28 Government reportedly appointed a Committee in 1978 under the Chairmanship of Shri B.B. Tandon to examine the problems arising from the integration of Management staff of erstwhile Caltex Oil Refining India Ltd. with that of HPCL. Referring to the Tandon Committee, the Secretary, DOP stated during evidence :

"While indeed this Committee had been appointed, some months after the appointment of this Committee, certain decisions were taken. Basically the decision was that the IOC scales of pay and allowances could be extended to all the companies that had been taken over. This itself resolved most of the problems. There were a few cases where the question of fitment into scales came up. Therefore, a Sub-Committee was appointed by the Hindustan Petroleum. It is called the Grievance Committee and this Committee has been able to settle the cases of anomalies wherever they occurred."

5.29 CORIL Management Staff Association has, however, represented to the Committee about persisting anomalies in the Fitment/Fixation of Management Staff in the appropriate grades/scales from the date of rationalisation, and about upgradation promotions on ad-hoc basis without determining interse seniority of the Management staff. HPCL informed the Committee in a written reply that in August/September 1980 the pay scales and allowances of officers of the Corporation were rationalised.

5.30 According to the Corporate Plan of the Company recruitment and promotional policy commensurate with the Corporate requirements is planned to be drawn out and a detailed career planning will be done to provide timely training and exposure to high potential employees.

Productivity Incentive Scheme

5.31 HPCL informed the Committee in a note that the three major oil companies in coordination with OCC have jointly prepared a productivity incentive scheme which is expected to be implemented during the current year of productivity. The benefits under the incentive scheme will be based on a marking system giving due weightage to the various performance criteria adopted for assessing the performance in respect of Refining, pipeline and Marketing activities. Each company will establish standard manpower requirements concurrent with the fixations of targets in respect of each performance criterion.

F. Annual Report

5.32 The Committee noted that the Annual Report of the Undertaking did not contain important information on many aspects such as the review of accounts by the Indian Audit and Accounts Department,

accounting policies, review of financial operations and objectives of the company and enquired whether it would not be possible to make the Annual Report of HPCL more informative with these and other statements containing figures of the past few years like summarised accounts, value added statements, sources and utilisation of funds and summarised cash flow. HPCL stated in a written reply that the review of accounts is issued by the Indian Audit and Accounts Department. This review is normally issued by them when 3 years figures on a comparable basis are available. Due to take-over/merger of Caltex and Kosangas companies, so far the figures for consecutive 3 years on comparable basis were not available. A review of accounts will be issued from next year onwards which will be printed along with the accounts for 1982/83 onwards. Suggestion to make Annual Reports more informative will be considered from the accounts of 1982/83.

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

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

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

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

5.37 The Committee are concerned to note that HPCL and other Oil Companies have been losing experienced officers and operators in large numbers. HPCL lost 405 officers during 1974-82 and IOC and BPC together lost 772 officers during this period. The Committee note the various steps taken by HPCL to arrest the exodus of experienced officers. The Committee dealt with the question of flight of personnel in their 18th Report (1980-81) on Khetri Copper Complex of Hindustan Copper Ltd. The Committee were informed in reply (60th Report—1982-83) to their recommendation that various measures were under consideration of Government to check the flight of technical and skilled personnel. The Committee desire that the measures under the consideration of Government should be decided early and decision taken reported to them.

5.38 The Committee find that the actual number of persons employed by HPCL has been considerably lower than the assessed requirement in refineries throughout the period 1978-82 and in marketing division during 1980-82. The Committee have been informed that keeping in view the recommendations of Administrative Staff College of India which reviewed the position of management staff of the Corporate and Marketing at the Headquarters office, a realistic assessment of overall manpower

requirements was made by the management and a proposal submitted to the Board. The Committee would like to be informed of the decision taken by the management on the proposal.

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

NEW DELHI ;
April 22, 1983
Vaisakha 2, 1905 (Saka)

MADHUSUDAN VAIRALE,
Chai man,
Committee on Public Undertakings.

APPENDIX

Statement of conclusions/Recommendations of the Committee on Public undertakings Contained in the Report.

S. No.	Reference to Para No. in the Report	Conclusions/Recommendations
1	2	3
1	1.17	Hindustan Petroleum Corporation was formed in 1974. The statement of objectives and obligations of the undertaking was, however, formulated only in December 1980. This statement has not been specifically approved by Government. The explanation of the Department of Petroleum that their representatives in the Board of Directors of the Company see that these objectives are in line with the overall socio-economic objectives is not convincing. As the Department is accountable for the efficient functioning of the public undertakings under it and the clear definition of objectives is basic to the evaluation of efficiency, these and the Corporate Plans should be specially approved by the Department. As regards financial objectives, the Ministry of Finance should also be consulted. The Committee hope that the Department would take action accordingly.
2	1.18	The Committee find that there have been wide variations between budget target and actuals of HPCL in respect of production, profits and generation of internal resources during the period 1975-82. Although there was lower crude through-put during

1	2	3
		the period 1975-80 and in 1978-79 alone the Company suffered a production loss of about one and a half crores of rupees, the overall profits were higher than the targets. In this connection the Committee note that the Company sells not only its products but also those provided from other companies and its share of canalised imports. Thus marketing activities seems more profitable. In order to bring out the results of the operations clearly and meaningfully, the Committee feel that Petroleum enterprises should bring out Production and Marketing Accounts working out the profits/loss on each account, in future. This may be examined for suitable action in consultation with the CAG of India.
3	1.19	Another factor which led to the actual profits and generation of internal resources being more than what were budgeted for, was the huge prior period adjustments made every year but not taken into account at the time of preparing budget estimates. The Committee desire that the financial working results should be so analysed that they could be compared with the past performance and the budget anticipations. The manner in which these should be depicted in the Annual Reports may therefore be settled in consultation with the CAG of India.
4	1.20	The Committee have been informed that no targets are set for value added. They desire that this should be done in future and the plan target for capital investment, generation of internal resources, production and value added together with achievements and explanation for shortfalls, if any, brought out in the Annual Reports and performance

1	2	3
		Budgets of the Administrative Ministry and the oil companies.
5	2.26	The Committee find that in the 4 projects completed by HPCL during the period 1974-81 there was delay of 13 to 15 months in each case. These projects were originally estimated to cost Rs. 15.06 crores but their cost of completion was Rs. 16.57 crores. In the case of one project namely ATF pipeline there was cost over-run of 82 per cent and delay in the completion of debottlenecking project had resulted in the loss of production amouning to over Rs. 1 crore. The reasons for delay have been largely attributed to delay in finalisation of orders and delivery of equipments by suppliers, changes in scope of projects and irregular supply of steel and cement.
6	2.27	Nine projects currently under execution by the Company involve an expenditure of Rs. 178.18 crores. Cost of three projects has, however, been revised and they alone are now expected to cost Rs. 203.54 crores. Delay in completion in some of these projects is anticipated which will inevitably push up the cost further. Revised feasibility reports of three other projects are reportedly under preparation and costs are likely to be higher than those originally estimated.
7	2.28	The Committee note that the Visakh Refinery Expansion Project was approved by Government in December, 1980 at a cost of Rs. 65.85 crores on the basis of a feasibility report which was based on a study report prepared by Engineers India Ltd. A revised feasibility report submitted to Government in December, 1981, however, envisages project cost of Rs. 150.36 crores, recording an increase of 128.3

1	2	3
		per cent over the original estimates Thus, project estimates have more than doubled.
8	2.29	The Committee are distressed to note the delay in the execution of projects and the unreliability of the project estimates requiring steep upward revision. The Committee feel that something seriously is wrong with the project formulation, implementation, monitoring and control. The Committee need hardly stress that all efforts should be made to see that the projects are formulated realistically and completed by the scheduled dates and within the estimated expenditure.
9	2.30	The Department of Petroleum and the Company have stated that they have been experiencing a great difficulty in building up the organisation of projects planning, implementation and costs control. The problem has been further aggravated with the exodus of experienced officers. The Committee have been informed that recommendations of the Study Group appointed to examine this aspect were being processed. They hope that with the implementation of Study Group's suggestion the Company will soon be able of organise fully its project formulation, implementation and monitoring cell which will ensure economical and timely completion of all projects currently under execution. The Committee would await the steps taken in this regard.
10	2.31	One of the reasons attributed to late completion of projects is difficulty in getting the services of experienced and reputed contractors to undertake various projects jobs at reasonable rates and in getting timely supplies of equipment from the indigenous sources. It has also been stated that it is not feasible to get many bids for fabricated

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		equipment. The Department of Petroleum has identified steps to deal with the situation but the Company has suggested that a systematic forecast of demand of equipment might be made by the Director General of Technical Development which would invite many engineering fabricators in the field. The Committee would like the Department of Petroleum to pursue this suggestion with the D.G.T.D.
11	2.32	In regard to Visakh Refinery Expansion Project the Committee also note that Government had approved the project in December, 1980 but its detailed project report is expected to be completed only in mid 1983. The delay in the preparation of detailed project report is stated to be due to delayed receipt of process package and completion of detailed engineering. According to the procedure laid down by the Ministry of Finance if it is felt that DPR could not be prepared within a year after the sanction of the project, the time required for this purpose should be got settled when the proposals are first processed through Public Investment Board. This does not seem to have been done in the case of Visakh Refinery Expansion Project. The Committee regret that the Company has not cared to follow the procedure laid down by the Ministry of Finance and the Administrative Ministry has also overlooked the requirement. The Committee desire that there should be no avoidable delay in the preparation of DPRs.
12	2.33	The Committee noticed that in five cases Government took a year or more for approving the project. These are—(1) Visakh Refinery Expansion (2) LP—Phase I ; (3) Bombay—Pune

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		Product Line ; (4) Mandatory Crude Tankage—I.B. (B) and (5) Mandatory Crude Tankage—IB (V). The Committee have been informed that with the tightening of system of preparing feasibility report the project clearance has been speeded up. The Committee are of the view that as laid down by the Ministry of Finance (Bureau of Public Enterprises) normally it should not take more than six months to clear a project proposal. They hope delays in project approval will be avoided in future.
13	3 68	HPCL has reportedly been facing productian constraints due to high salt water content in crude receipts, power dips/outages, crude availability problems, silting problems at Bombay Refinery and steam limitation in Visakh Refinery. The Committee have been informed of various projects which are either under execution or proposed to be undertaken to counter these problems. They hope that with these measures the production constraints would be overcome soon and the utilization of the present refining capacity maximised.
14	3.69	HPCL uses 100% imported crude for Bombay Refinery. It had an agreement with EXXON for supply of 100 million barrels of crude for a period of 7 years since March 1974 approx. 55,000 barrels per day (B/D) for the first three years and approx. 27243 B/D for the subsequent four years. This agreement came to an end in March 1981. Since then EXXON has continued supplies of crude oil on an ad hoc basis. The Committee have been informed that keeping in view the prevailing international oil market situation, a decision has been taken to replace the supply arrangements with EXXON by obtaining supply through other sources, including swapping arrangements for disposal of surplus Bombay High Crude Oil.

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		It has been stated that there will not be any need for crude upliftments from EXXON sources from May 1983 onwards. The Committee trust that while making alternative arrangements, it would be ensured that there is no interruption in supply of crude to the Bombay refinery. They would like to be informed of the steps taken to ensure regular crude supply to this refinery.
15	3.70	Reduced demand for Industrial Oils/RPO/Axle Oil has reportedly resulted in some under utilisation of installed capacity in Lube Refinery. Since 1975 there has been excess capacity in the country for production of Low Viscosity Index (LVI) Grade Oils vis-a-vis the prevailing demand levels. The Committee note that the shortfall in LVI capacity utilisation is made up by stepping up production of High Viscosity Index (HVI) Oil to the maximum extent within the equipment design limit. The capacity utilisation in Lube Refinery was still low by 18,000 tonnes in 1981-82. The Committee recommend that in order to ensure full capacity utilisation suitable projects to debottleneck lubricating oil base stock facilities should be formulated and executed expeditiously. Such debottlenecking would reportedly enable an increase in the production of HVI oils which have a large demand.
16	3.71	Lubricating oils produced in our country are admittedly inefficient and far below international standards. Over the last few years, however, there has reportedly been a shift towards better lubricating oils. The Committee feel that efforts to upgrade the quality of lubricants and thus reduce the consumption are essential and should be made vigorously.
17	3.72	There are difficulties in marketing marine lubricants as HPCL's lubricants do not carry the

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		recommendations of marine engine manufacturers and ship builders. In order to overcome this difficulty an agreement for collaboration with Antar Marine, France, is expected to be finalised shortly for transfer of technology for blending the required grades of marine lubricants. The Committee expect HPCL to absorb the technology soon and get its lubricants certified by engine manufacturers and ship builders with the assistance of the collaborator. The Committee note the efforts of IOC Research Centre in developing the marine lubricating oils to the standard acceptable to Engine manufacturers. They urge that this matter should receive more attention.
18	3.73	Both Visakh and Bombay refineries of HPCL are over 25/28 years old and due to progressive ageing of plant and machinery substantial replacements/renewals are required to be carried out over the next three/five years. However, the machinery for planning and executing modernisation works is weak and needs to be strengthened. The Committee would stress that the project planning cell should be strengthened qualitatively and modernisation of the plant and machinery in the refineries taken up and completed at the earliest. It is heartening to note in this connection that finances do not constitute a constraint as the money was being provided in the Annual Plans for expediting modernisation of the refineries.
19.	3.74	The Committee regret to note that during the last 3 years there have been large number of boiler shutdowns due to failure of boilers in Visakh Refinery. They feel that the boiler shutdowns in Visakh could have been avoided if steps had been taken in time to replace over aged boilers soon after the take over of the refinery. It has now been planned to replace these

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		six boilers of 17 tonnes capacity by two boilers of 50 tonnes capacity each. The Committee note that with the replacement of these 2 boilers, a saving of Rs. 75 lakhs per annum is expected to be achieved by virtue of better fuel efficiency. They desire that the replacement of boilers should be completed without any further loss of time.
20	3.75	Unscheduled shutdowns of some units in the refineries in Bombay have also resulted in appreciable loss in production. Even though such emergency shutdowns could not be directly attributed to weakness in the maintenance system, they nevertheless underscore the need for better preventive maintenance policies in the refineries. The Committee hope due attention will be paid to this aspect of the matter.
21	3.76	The Committee regret to note that in many contracts of HPCL for equipment supplies no penalty clause had been included even though the procedure did provide for such a clause. As a result HPCL could not make any claim for throughput loss of 109,000 M.T. in Visakh Refinery where planned maintenance turnaround during 1979-80 had to be taken in stages due to delayed receipt of equipment/materials from vendors. The Committee cannot but deplore the lapse whatever be the reasons. They would urge that the Company should safeguard its financial interest fully by insisting on a penalty/liquidated damages clause in the contracts in future. The Committee would like to know whether claim has been enforced wherever liquidated damages provision existed in the contracts.
22.	3.77	The Committee are also of the view that the fact that this lapse did not come to the notice of the

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		administrative Ministry when the planned maintenance was delayed resulting in a huge production loss, only indicates that performance review of HPCL by the Ministry had not been effective in identifying the causes for losses and issuing directions for timely correctives. On the general question of the desirability of having a penalty clause in the contracts for equipment supplies, the position has been clarified by the Secretary, Department of Petroleum. According to him the oil companies must insist on having a penalty clause in all the equipment supply contracts and if need be a bonus clause for prompter delivery may be added. The Committee desire that suitable instructions on these lines may be issued to all the undertakings.
23	3.78	Port limitations in receiving and handling large size tankers led to the introduction of lighterage operations in 1975. The Committee have been informed that the lighterage operations went on smoothly for the first four years, but since May 1979 these resulted in receiving crude in the form of emulsions (with high sea water content) which were not only detrimental to the refinery equipments but also caused loss of crude throughput. HPCL is stated to have lost about Rs. 8 or 9 crores by way of lower throughput. Hence it was decided in February 1980 to change the crude affreightment method back to direct voyages. The Committee note that lighterage operations still continue on the East Coast and to a small measure in Bombay also. The Committee are constrained to point out in this connection that the progress in the development of port facilities for direct receipt and handling of large size tankers appears to have been slow though it should have received the highest possible priority as recommended by the Oil Prices Committee in 1976. The Committee desire that the projects

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		undertaken and those proposed for upgradation of the oil handling facilities in ports should be completed early and the lighterage operations eliminated in the interest of optimising tanker utilisation and reducing overall transportation costs as also guarding against pollution of coastal waters. Incidentally, although the Committee are not in favour of continuing lighterage operations they are not clear as to how the lighterage in Bombay which went on smoothly for a long period initially could create problems. They would await a clarification in this regard. They feel that the high sea water content in crude receipt during May to August 1979 which was stated to be due to poor stripping performance, bad weather and poor supervision and the consequent crude throughput loss of 1.28 lakh tonnes could have been avoided to a large extent with better care and management.
24	3.19	Research and Development has been a neglected area of the refining sector. Admittedly required attention has not been paid to R & D in the oil industry. The Chairman and Managing Director of HPCL was of the view that the refining industry has not gone into basic research so far. According to the Secretary, Department of Petroleum the major missing areas in the R & D of refining sector are two. One is large-sized pilot plants or semi commercial plants for all the unit operations in refinery ; the other is in the area of catalysts where the existing research facilities are totally inadequate. The Committee note that a beginning has been made in this direction by deciding to erect a large pilot plant research facility involving all the oil refining companies and a large catalyst research laboratory as a part of the research centre of Indian petro-chemicals Corporation. They hope these

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		would be set up early. There are two large R & D centres viz. Indian Institute of Petroleum, Dehradun and IOC (R & D) centre at Faridabad undertaking basic and applied research in petroleum field. The Committee desire that vigorous effotrs should be made with the active involvement of all the oil companies to put R & D activities in the refining sector on a sound footing and to strengthen them to keep pace with the development abroad.
25	4.32	HPCL has been maintaining its market share so far as sales of its products is concerned between 17 to 18 per cent. The Company has also been able by and large to fulfil Sales Plan Entitlement obligations. However, in 1981-82 the Company lost nearly 0.59 per cent of its market share which in absolute quantity came to 1,16,000 tonnes. The Company's sale growth (17.5. percent) was also higher than industry's growth (14.4. per cent) during 1978-79 to 1981-82. The Committee hope that the Company will not relax its effort and will constantly endeavour to improve its performance further.
26	4.33	HPCL's corporate plan envisaged its sales to increase from 5.6 MT in 1980-81 to 7.9 M.T. in 1984-85. Its market share was also anticipated to increase from 17.59% in 1981-82 to 20-21% by the year 1990. However, HPCL's sales in the second year of the corporate plan, 1981-82 have been only 5.7 MT and the market share has come down from 18.11% in 1980-81 to 17.59% in 1981-82. These suggest that the corporate plan target and long term anticipations are far too ambitious. They nevertheless hope HPCL will formulate suitable strategy and plan of action to promote sales and increasing market-share in the coming years to achieve the targets set for 1984-85 and

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		1990, The Committee find that the Company did not make much effort in the past to put up HSD retail outlets in rural areas. Its concentration was to develop service stations to capture gasoline potential which had high profit margin. As a result HPCL's average diesel throughput per retail outlet per month has been much lower than industry's average. Although diesel potential has shifted from urban to rural areas during the last eight to ten years, HPCL started its efforts to concentrate in rural markets only since 1978. The Committee note that the performance of 965 (30%) out of 3198 of its retail outlets in 1979-80 and 693 (21%) out of 3254 in 1981-82 was below satisfactory level of operation. The Committee hope that with the steps that are being taken throughyut rate comparable to industry's average would be achieved early and performance of outlets will also be improved to reach a satisfactory level of operation.
27	4.34	The Committee regret to note that there were long delays in the establishment of retail outlets primarily for HSD. Only 9 outlets were commissioned against the target of 35 in 1979-80, 37 against 94 in 1980-81 and 22 against 109 in 1981-82. The delays were stated to be largely due to moratorium on award of dealership and changes in dealer selection guidelines and on account of financial problems particularly in SC/ST category. Now that fresh guidelines have been evolved for award of dealerships and arrangements made for financial assistanee to dealers/ distributors, the Committee would urge that HPCL should ensure that the backlog in the establishment of retail outlets are cleared expeditiously and plan targets achieved without fail. Further the Committee desire that with a view to minimise movement of oil in the country the question of rationalising the policy

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		of establishment of retail outlets should be considered afresh so that there may not be duplication of efforts of the oil Companies.
28	4.35	There were 7 major cases of shortages in stocks and 4 cases of pilferages and thefts involving over Rs. 15 lakhs investigated by the Corporation from 1977 onwards. The number of cases and the total amount involved could be higher if the other non-investigated cases are also taken into account. The Committee would urge that the security arrangements in HPCL should be made effective and the question of deployment of Central Industrial Security Force in HPCL's refineries should be considered early. According to HPCL major losses have arisen due to defects in the pipelines owned and operated by Bombay Port Trust. The replacement of the aged pipelines in a phased manner was stated to be under consideration of BPT. The Committee recommend that the authorities concerned should be impressed upon by the Ministry of Shipping & Transport to correct the defects in the pipelines and replace the overaged ones expeditiously,
29	4.36	According to the information furnished by Deptt. of Petroleum the number of malpractices spotted by oil companies during 1980-82 was over 1500. Malpractices reportedly arise partly out of adulteration and partly of shortages. Disparity in prices is stated to be the major cause of adulteration especially in the case of HSD with kerosene. In regard to lubricating oils where checking of adulteration is becoming increasingly difficult, the Committee stress that Lube testing facilities should be augmented without delay to increase periodicity of checking. The marketing discipline guidelines evolved recently for uniform adoption by the entire oil industry should be vigorously

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		implemented, as assured, so as to place a check on malpractices. Further the Committee recommend that the vigilance cells in the oil companies and in the Department of Petroleum should be strengthened and information system improved to take quick and effective action on malpractices.
30	5.33	The overall profit before interest and tax of HPCL came down from Rs. 52.24 crores in 1981-82 to Rs. 43.18 crores (estimates) in 1982-83. The profits of marketing Division declined from Rs. 34.23 crores in 1980-81 to Rs. 29.19 crores in 1981-82. Considering the slow growth of the net profit after tax during 1977-82 from Rs. 6.43 crores in 1977-78 to Rs. 14.40 crores in 1981-82, HPCL should evolve suitable strategy to achieve the Corporate plan profit target of Rs. 35.65 crores during the year 1984-85. For this purpose expansionary projects undertaken for execution should be completed as per schedule. Measures to control costs and reduce expenses should also be taken on a continuing basis.
31	5.34	In the current pricing policy of retention margins there is stated to be always a time lag which sometimes extend to years between the increase in expenses of oil companies and announcement of relief by Government. To the extent there is lag in announcing relief, the oil companies lose the benefit of interest in the intervening period during which the profitability of the companies gets adversely affected. The Committee desire that the time lag in announcing relief to the oil companies should be minimised to the extent possible. For this purpose a system should be evolved whereby a certain percentage of claims of oil companies can be approved quickly and the balance approved after thorough

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		scrutiny. Further the Committee desire that the question of reimbursing increased interest on working capital automatically whenever prices are revised, should be considered early.
32	5 35	The Committe feel that the question of increasing the rate of return on fixed assets should be examined keeping in view the interests of consumers and at the same time the need for creation of sufficient resources for future needs of oil companies. Further the Committee feel that there ought to be a price regulation over the final products of the process industries which use finished products of refineries as intermediates so that no unintended benefit accrue to them. If for some reasons that price regulation of the products to these process industries is considered no necessary or feasible there is a case for placing the refinery products used by these industries, along with the product groups which are already outside the price control mechanism.
33	5.36	The Committee note the difficulty faced by HPCL in meeting RBI's norms regarding working capital requirements. They would await the result of Department of Petroleum's efforts in solving it.
34	5.37	The Committee are concerned to note that HPCL and other Oil Companies have been losing experienced officers and operators in large numbers. HPCL lost 405 officers during 1974-82 and IOC and PPC together lost 772 officers during this period. The Committee note the various steps taken by HPCL to arrest the exodus experienced officers. The Committee dealt with the question of flight of personnel in their 18th Report (1980-81) on Khetri

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		Copper Complex of Hindustan Copper Ltd. The Committee were informed in reply (60th Report—1982-83) to their recommendation that various measures were under consideration of Government to check the flight of technical and skilled personnel. The Committee desire that the measures under the consideration of Government should be decided early and decision taken reported to them.
35	5.38	The Committee find that the actual number of persons employed by HPCL has been considerably lower than the assessed requirement in refineries throughout the period 1978-82 and in marketing division during 1980-82. The Committee have been informed that keeping in view the recommendations of Administrative Staff College of India which reviewed the position of management staff of the Corporate and Marketing at the Headquarters office, a realistic assessment of overall manpower requirements was made by the management and a proposal submitted to the Board. The Committee would like to be informed of the decision taken by the management on the proposal.
36.	5 39	There are reportedly anomalies in the fitment/fixation of management staff in appropritate grades/scales from the date of rationalisation of pay and allowances in 1980 and complaints about upgradation/promotions on ad hoc basis without determining interse seniority of the Management staff. The Committee desire that the matter should be looked into and resolved early. The Committee would urge that proposed recruitment and promotional policy should be drawn out expeditiously.

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