

GAS AUTHORITY OF INDIA LIMITED

MINISTRY OF PETROLEUM AND NATURAL GAS

**COMMITTEE ON
PUBLIC UNDERTAKINGS
1995-96**

TENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

FORTY-FIFTH REPORT COMMITTEE ON PUBLIC UNDERTAKINGS

(1995-96)

(TENTH LOK SABHA)

GAS AUTHORITY OF INDIA LIMITED

MINISTRY OF PETROLEUM AND NATURAL
GAS

*[Action Taken by Government on the Recommendations Contained in the
36th Report of the Committee on Public Undertakings (Tenth Lok Sabha)]*



*Presented to Lok Sabha on 19.12.1995
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LOK SABHA SECRETARIAT
NEW DELHI

December, 1995/Agrahayana, 1917(Saka)

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(1995-96)

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S Ceased to be a Member of the Committee consequent on his appointment as Minister in the Council of Ministers w.e.f. 15th September, 1995.

INTRODUCTION

1. the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 45th Report on Action Taken by Government on the recommendations contained in the 36th Report of the Committee on Public Undertakings (Tenth Lok Sabha) on Gas Authority of India Limited.

2. The Thirty-Sixth Report of the Committee on Public Undertakings (1994-95) was presented to Lok Sabha on 20th December, 1994. Replies of the Government to all the recommendations contained in the Report were received on 29th November, 1995. The Committee on Public Undertakings (1995-96) considered and adopted this Report at their sitting held on 12th December, 1995.

3. An analysis of the action taken by Government on the recommendations contained in the 36th Report (1994-95) of the Committee is given in Appendix v.

NEW DELHI;
December 18, 1995

Agrahayana 27, 1917 (Saka)

KAMAL CHAUDHRY,
Chairman,
Committee on Public Undertakings.

CHAPTER I

REPORT

The Report of the Committee deals with the action taken by Government on the recommendations contained in the Thirty-Sixth Report (Tenth Lok Sabha) of the Committee on Public Undertakings (1994-95) on Gas Authority of India Limited which was presented to Lok Sabha on 20th December, 1994.

2. Action Taken notes have been received from Government in respect of all 26 recommendations contained in the Report. These have been categorised as follows:—

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

Sl. Nos. 1,3,4,5,6,7,8,9,16,17,18,19,20,21 and 22.

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies:—

Sl. Nos. 12 and 13.

(iii) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee:—

Sl. Nos. 2, 15, 23 and 25.

(iv) Recommendations/Observations in respect of which final replies of Government are still awaited

Sl. Nos. 10,11,14,24 and 26.

3. The Committee desire that final replies in respect of recommendations for which only interim replies have been given by Government should be furnished to the Committee expeditiously.

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

A. Projects for Fractionation of Gas

(Recommendation Sl. No. 1 & 17)

5. While noting that the main objectives of the Company were to transport, treat, process, fractionate, purify and to generally deal in marketing of natural gas and natural gas liquids, the Committee had observed that GAIL had not been able to achieve its objectives in regard to setting up of fractionating facilities for using the gas fractions for higher value additions to the extent it was expected to do. The Committee had desired the company to at least now gear up to meet the challenges that are expected to come up in the face of expected substantial increase in the consumption of gas. The Committee had also observed that GAIL suffered

heavily over the years on account of selling of this gas as lean gas. There was much delay in conceiving the projects for fractions of natural gas which resulted in huge losses to the national exchequer. They had, therefore, recommended that for the pipeline projects to be taken up in future care be taken so that projects for fractionations of gas come up simultaneously.

6. Government have in their reply stated that it is true that the facilities of extractions of high value components of natural gas have not been set up to the optimum extent. In order to maximise the production of gas fractions for higher value additions GAIL has set up 3 LPG plants for extraction of LPG (2 at Vijaipur and 1 at Vagodhia), having a capacity of 4.79 lacs tonnes per year. The Company has the facilities to extract Propane, SBP Solvent and Pentane etc. with an annual capacity of 1,00,000 TPA which is under expansion to 2,00,000 TPA. GAIL is setting up an LPG Plant at Lakwa, Assam for the production of 85,000 TPA of LPG from 2 MMSCMD of natural gas. The Company is also setting up a 139,500 TPA LPG plant at Usar, Maharashtra which will process around 5 MMSCMD of natural gas. The proposal for LPG extraction from the additional gas to be available in the HBJ pipeline after upgradation, is under finalisation. However, according to audit the project at Lakwa which was scheduled to be completed by May, 1996 is now scheduled to be completed by January, 1997 and the Usar Project which was expected to be completed by March, 1997 is now expected to be completed by August, 1997.

7. The Committee would again emphasize that all efforts should be made so as to ensure that projects for fractions of gas which are in hand and which will be taken up in future come up simultaneously with the pipeline projects and there is no further slippages in this regard.

B. Signing of Memorandum of Understanding

(Recommendation Sl. No 2)

8. The Committee had deprecated the inordinate delay on the part of the Administrative Ministry in approving the MOU. The Committee also felt that in order to make the system of MOU more effective and to give adequate time to the company to fulfil its obligations under the MOU, the same should be signed well before the beginning of the financial year.

9. In their reply the Ministry have stated that the draft MOUs submitted by the PSUs are discussed in the meetings of Ad-hoc Task Force and thereafter by the High Powered Committee under the Chairmanship of Cabinet Secretary. It is only after the clearance of the High Powered Committee the MOUs can be finalised by the Ministry. Since the Department of Public Enterprises is the Administrative Department concerned, the observations of Committee were communicated to that Department for examination. The Department of Public Enterprises have pointed out that over 100 PSEs are signing MoUs since last 3 years. The

MoU process involves 3 parties viz. PSE, Administrative Ministry and the Ad-Hoc Task Force (ATF) and is completed in 4 stages. The Department of Public Enterprises have added that the early signing of the MoU is critically dependent on the submission of the revised MoUs by the PSEs on the basis of the MoU meeting and after consultation with the Ministry. The Department has time and again impressed on the PSEs the need to submit revised MoU within minimum time so that clearance from the High Powered Committee (HPC) can be obtained in the month of April itself. So far as GAIL is concerned, the MoU for 1994-95 was approved by the HPC in June, 1994 and the MoU was signed in July, 1994. For 1995-96, the approval of the HPC was received on 11.8.1995 and the MoU has been signed on September 15, 1995.

10. The Committee are dismayed to find that despite their emphatic stress on early signing of the MoU in their Report presented in December, 1994, the MoU for the year 1995-96 was signed on 15th September, 1995. While the procedure for signing of the MoU as at present might be somewhat lengthy the time taken at each stage to sign the MoU has not been given in a chronological order to pinpoint the stage where the delay actually occurred. The Committee are, however, of the firm view that in case the company and the Administrative Ministry initiate the MoU process at an early stage, timely signing of MoU can be made very much possible. Moreover, since the signing of the MoU is critically dependent on the submission of the revised MoUs by the PSEs on the basis of the MoU meeting and consultation with the Ministry, the Committee need hardly emphasise that the time gap between the MoU meeting and the submission of the revised MoU should be reduced to the minimum so as to facilitate early clearance from the High Power Committee. They would also suggest that Government should further simplify the procedure for signing the MoU so that the delays can be avoided.

C. Non-fulfilment of Ministry's obligations under MoU
(Recommendation Sl. No. 3)

11. The Committee had observed that in reality, the MoU companies have not been given the autonomy to the extent it is required in fulfilling the objectives and missions. The Committee had also observed that while the company binds itself to specific milestones and targets, there are no means to ensure that the Ministry also fulfils its obligations under the MoU. The Committee had, therefore, recommended that while making assessment of the MoU of a company, in case of the failure of the Administrative Ministry to fulfil its obligations, some responsibility be fixed on the Ministry also and suitable action taken against the persons held responsible.

12. In their reply the Ministry have stated that the Department of Public Enterprises, which is concerned with the implementation of the MoU scheme have reported that they are aware of the need for assigning

responsibility on the administrative Ministry with regard to fulfilment of their obligations under the MOU. They fully agree with the recommendation of the Committee that while making assessment of the MOU of a Company, some responsibility be fixed on the Ministry also. This alone can make the MOU system more effective. The matter will be taken up for discussion in the forthcoming meeting of High Power Committee.

13. The Committee are dismayed to find that little action has been taken on the recommendations of the Committee. Though more than 10 months have passed when the Committee had given its Report, the matter is still pending at the discussion stage. The Committee desire that examination of the matter should be expedited and provisions made with a view to fixing some responsibility on the Administrative Ministry also in case of their failure to fulfil their obligations under the MOU. The Committee would also like to be informed of the actual decisions taken in this regard.

D. Corporate Plan

(Recommendation Sl. No. 8)

14. The Committee had observed that GAIL had prepared a Corporate Plan for the period 1992-2002 and submitted it to the Ministry of Petroleum and Natural Gas in February, 1992 and its approval was awaited from the Ministry. Since there was no specific request for approval, the Ministry felt it had been sent for record only. The Committee had deprecated such lack of coordination between the company and its Administrative Ministry and expected greater and close coordination between the Administrative Ministry and the Company in future.

15. In their reply, the Government have stated that the question of approval of the Corporate Plan has been carefully considered in the Ministry. Since the Corporate Plan was prepared in 1992 many of the projections made at that time are no longer valid. GAIL has accordingly been asked to update the plan which will then be examined in consultation with the Planning Commission and other concerned Ministries.

16. The Committee desire that since a period of four years has already elapsed when the Corporate Plan should have commenced, the Plan should be finalised without further delay under intimation to the Committee.

E. Litigation with Consortium

(Recommendation Sl. Nos. 10, 11 & 14)

17. Two agreements were signed by GAIL and the Consortium on 10th May, 1986 for execution of the contract. Clause 3.8.1 of the agreement provided that in case the Consortium failed to complete the work within the stipulated period, then the Consortium would pay liquidated damages for every week of delay or part thereof to be calculated at the rates prescribed therein. For delay in construction of various sections, GAIL called upon the Consortium on 23 August, 1988 to pay liquidated damages estimated at Rs. 75.51 crores (Rs. 149.81 crores as per exchange rate of

31.12.1993). The Consortium did not accept the claim but instead preferred a counter claim of Rs. 638.54 crores (Rs. 1418.42 crores as per exchange rate of 31.12.1993) against GAIL alleging that the Consortium was prevented from fulfilling obligations under the contract due to various reasons for which GAIL was responsible.

18. The case regarding encashment of Performance Guarantee was stated to be pending before a French Court and the case regarding claims of liquidated damages was before the International Chamber of Commerce. It was on the request of the French Government, that the Government of India appointed a Joint Committee in March, 1993 with the approval of the Prime Minister to resolve the dispute between the two companies. The recommendations of this Committee are awaited. The Committee had recommended that all efforts should be made by Government to resolve this dispute at the earliest under intimation to them.

19. In their reply the Ministry have stated that the Consortium raised the claim at the International Chamber of Commerce, Paris. On the basis of this claim, ICC, Paris initiated arbitration proceedings. GAIL moved the Delhi High Court seeking an order of stay on the arbitration proceedings, which was granted. Further, the claims of the Consortium had been held not to be arbitrable in accordance with the provisions of contract between GAIL and Consortium. The judgement to that effect delivered by the Honourable Single Judge of the Delhi High Court had been appealed against by the Consortium in a Letters Patent Appeal which was pending for hearing by a Division Bench of the High Court. In the above said judgement of the High Court, GAIL's claim for Liquidated Damages and invocation of Performance Bank Guarantee furnished by the Consortium have been held to be arbitrable.

20. The Ministry have further stated that the matter pertaining to liquidated damages and invocation of Performance Bank Guarantee by GAIL, has been referred to an Arbitral Tribunal constituted in accordance with the rules of Conciliation of International Chamber of Commerce, International Court of Arbitration, Paris. There has been no further hearing in French Appellate court pertaining to the case of encashment of Performance Bank Guarantee by GAIL. The Joint Committee has had five meetings so far. As decided by the Joint Committee, GAIL, Spie Capag, the leaders of the Consortium have had a fresh round of discussion to seek a solution to the dispute. However, these discussions remain inconclusive. The Joint Committee in their last meeting noted the differences in the position of the two companies. The Joint Committee has not yet submitted any report to the Government. The Committee have decided to continue the efforts to find the solution to the dispute.

21. The Boreri-Sawai Madhopur branch line originally included in the HBJ Pipeline Project was subsequently cancelled due to change in location of fertilizer plant from Sawai Madhopur to Gadepan. The Committee were

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

22. In their reply, the Ministry have stated that the deletion of work pertaining to Boreri Sawai-Madhopur section of the pipeline was intimated to the Consortium before the Consortium mobilised for taking up the laying of the line in that section. In accordance with the provisions of contract, the amount payable for approx. 104 km of this section of pipeline was not paid to the consortium. As such there is no question of any recovery from consortium. The consortium have, however, preferred the claims that the deduction of the entire Rs. 9.5 crores by GAIL was not justified as the consortium had made some mobilisation before the cancellation. This claim is a part of the total claim of US \$ 450 million raised by the consortium. This entire claim has been held by the Delhi High Court to be non-arbitrable. The Indo-French Joint Committee before which the claim is also pending, has yet to take a view in the matter.

23. The Committee are very much concerned to note that no decision has so far been taken in the case of encashment of Performance Guarantee and liquidated damages as also the deduction made by GAIL in regard to cancellation of Boreri-Sawai Madhopur section of the pipeline. They urge that sincere efforts should be made by the Government to pursue the matter at highest level and the matter should be decided without any further delay.

F. HBJ Upgradation Project

(Recommendation Sl. No. 15)

24. In order to enable GAIL to supply gas to various consumers by 1995-96 to whom gas has been allotted, the upgradation of the existing

HBJ Pipeline System is being taken up. The Committee were shocked to observe that though the Techno Economic Feasibility Report for the HBJ Upgradation Project was submitted by the Company in November, 1990, the project was finally approved only on February, 1994. Meanwhile the cost of the Project had escalated from Rs. 1427 crores to Rs. 2376 crores i.e., by about 66%. The Committee had strongly deprecated such inordinate delays in approving the projects and desired the Government to evolve a system to ensure that such delays are avoided in future.

25. In their reply the Ministry have stated that in the oral evidence before the Committee, the Ministry submitted that the time taken to clear the proposal was mainly due to the examination of the availability of gas for the upgradation. The Gas Linkage Committee recommended the upgradation in its meeting held on 21.2.1992. Thereafter, the Prime Minister ordered a review of gas availability/commitments. A presentation was made in August, 1992 to the Prime Minister who approved the proposed Action Plan of the Ministry and also directed that the projects required to be completed for achieving the gas profile be completed expeditiously. The decision to approve the upgradation was taken in view of that directive.

26. The Ministry have further stated that they are acutely aware of the need to consider and approve the project proposals of the PSUs in time. The CMDs of the PSUs draw the attention of Secretary, PNG to all pending proposals in their monthly letters. The status of pending proposals are also monitored in the quarterly performance reviews of each PSU. Besides the above, these are also discussed in the fortnightly staff meetings held by Secretary, PNG with the officials of the Ministry.

27. The Committee are constrained to observe that Government have not gone into the spirit of the recommendations. The Committee had desired the Government to evolve a system whereby such inordinate delays in approving the projects could be avoided. However, instead of stating whether any steps have been taken in this direction, the Government have merely repeated what was said during evidence. The reply is also silent about the present stage of the project. The Committee reiterate their earlier recommendation and desire that the steps taken to avoid such delays in approval of the projects to be set up in future be informed to the Committee.

G. Need for fixing realistic targets

(Recommendation Sl. No. 23)

28. The Committee had noticed that the profits of the Company during 1990-91, 1991-92 and 1992-93 were Rs. 22.73 crores, Rs. 93.55 crores and Rs. 210.53 crores respectively against the estimates of Rs. 15.35 crores, Rs. 41.85 crores and Rs. 109.08 crores. While appreciating the increased trend in profits, the Committee had desired that targets should be made more realistic in order to avoid complacency and get better results.

29. The Government have stated in their reply that the actual profit for 1993-94 was Rs. 320.54 crores against the revised estimated profits of Rs. 275.62 crores. The profit for 1994-95 was Rs. 368 crores against the target of Rs. 253 crores. According to Government, GAIL is not suffering from any complacency and is straining itself to achieve higher standards of performance.

30. The Committee's intention in making the recommendation was not to undermine the efforts of the Company for achieving higher profits. In fact what they wanted to emphasise was that achieving substantial higher profits than the targets continuously over the years might be the result of unrealistic targets. It is in this context that the Committee would reiterate their earlier recommendation that the targets should be fixed by the Company more realistically.

H. Transportation Charges

(Recommendation Sl. No. 24)

31. The Committee had noticed that the transportation cost worked out by GAIL in consultation with BICP on the same principles as adopted for ONGC worked out to Rs. 1275/1000 M3 but the transportation charges of Rs. 850/1000 M3 fixed w.e.f. 1.1.1987 have not been revised despite repeated representations by GAIL. They had, therefore, recommended that the whole issue of pricing of gas be gone into the suitable measures taken to give fair return to the Company.

32. Government have stated in their reply that a Committee has been constituted under the chairmanship of Sh. T.L. Shankar, Principal ASCI to recommend revisions in the prices of natural gas. The Committee would look into the principles of calculating the transportation charges and their incidence.

33. The Committee regret to point out that the reply of Government is silent about the time and date when the Committee which was constituted to recommend revisions in the prices of natural gas was set up and when it is likely to give its recommendations. They desire that the examination of the matter should be expedited and this Committee apprised of the results within three months of presentation of this Report.

I. Gas allocation rights to GAIL

(Recommendation Sl. No. 25)

34. The Committee had noticed though the Gas Use Policy Paper prepared by the Ministry which was accepted by the Committee of Secretaries recommended to allow the Company to allocate 10% of the total availability of gas on its own, the Company has not been given this right which sometimes resulted into non-utilisation of gas. Even for small allocation if released by one customer, the matter was discussed by the Gas Linkage Committee. The Committee had, therefore, recommended

the Government to give some autonomy to the Company in the matters relating to marketing so that the Company might be able to show better results.

35. In their reply the Government have stated that the policy of bulk allocation of a certain percentage quantity of cases to GAIL for further sub allocation to consumers at its discretion would result in the gas being sold to the consumers willing to pay the highest price, irrespective of the end use. Keeping in view the current demand-supply position of gas in the country, Government considers it in public interest that gas is allotted to high priority end uses in the larger social interest.

36. While the Committee do not disagree with the Government contention that the gas should first be allotted to high priority end-uses, they would again stress that allocation of a small percentage of gas at the discretion of GAIL for further allocation to consumers is desirable at least to prevent situations which result into non-utilisation of gas when some gas is released by a particular customer. However, some safeguards or guidelines could always be laid down to ensure that such gas is allocated to priority areas.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation No. 1

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

Reply of the Government

GAIL is now operating over 3000 kms. of natural gas pipeline and supplying gas to around 75 customers in the power, fertiliser, sponge iron and other industrial sectors. The total supply of natural gas made by GAIL in 1994-95 amounted to 13,721 MMSCM valued at Rs. 3750 crores. It is submitted that this is no mean achievement for a 10 year old company.

It is true that the facilities for extraction of higher value components of natural gas have not been set up to the optimum extent. In order to maximise the production of gas fractions for higher value additions, GAIL has set up 3 LPG plants for extraction of LPG (2 at Vijaiapur and 1 at Vagodia), having a capacity of 4.79 lacs tonnes per year.

GAIL has the facilities to extract Propane, SBP Solvent and Pentane etc., with an annual capacity of 1,00,000 TPA, which is under expansion to 200000 TPA.

GAIL is setting up an LPG plant at Lakwa, Assam for the production of 85,000 TPA of LPG from 2 MMSCMD of natural gas. This project is scheduled to be completed by April, 1996. GAIL is also setting up a 139,500 TPA LPG plant at Usar, Maharashtra which will process around 5 MMSCMD of natural gas. The proposal for LPG extraction from the additional gas to be available in the HBJ pipeline after upgradation, is under finalisation.

GAIL is implementing the U.P. Petrochemical Complex at Auraiya for use of gas fractions for higher value additions. The UPPC Project was approved by Government on 1.10.92. Thereafter GAIL taken up the implementation of the project. The actual progress on major activities for the various units as on 15th July, 95 is indicated below:—

	Engg.	Procurement	Construction	Overall Physical
Gas Processing	81	84	31	54
Gas Cracker	84	79	32	55
Utilities				
Offsites	74	75	19	38
LLDPE	45	39	4	11
HDPE	46	38	3	10
UPPC Project (Total)	66	66	32	41

The project is expected to be completed on schedule.

[Ministry of Petroleum and Natural Gas DO No. L-15016/2/94-GP dated 29.11.1995]

Comments of the Audit

The Ministry's reply is silent about the progress of the HBJ pipeline Upgradation Project to meet the challenges that are expected to come up in the face of expected substantial increase in the consumption of gas.

Further, the total supply of natural gas as per Balance Sheet for the year 1994-95 amounted to 13680 MMSCM valued at Rs. 3146 crores (excluding

internal consumption amounted to 317 MMSCM valued at Rs. 122 crores) against 13721 MMSCM valued at Rs. 3750 crores given in the reply.

Comments of the Committee

Please see paragraph No. 7 of Chapter I of the Report

Recommendation No. 3

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

Reply of the Government

Since the Department of Public Enterprises is the administrative Department concerned with the implementation of the MOU scheme, the observations of the Committee were referred to that Department for examination. The Department of Public Enterprises have reported that they are aware of the need for assigning responsibility on the administrative Ministry with regard to the fulfilment of their obligations under the MOU and the failures of the administrative Ministries have been highlighted in the ATF's report to the HPC.

They fully agree with the recommendations of COPU that while making assessment of the MOU of a company, some responsibility be fixed on the Ministry also. This alone can make the MOU system more effective. This matter will be taken up for discussion in the forthcoming meeting of the HPC.

So far as GAIL is concerned, it may be mentioned that GAIL's performance under the MOU have been excellent all through out and all necessary assistance and cooperation has been extended to GAIL from the side of the Ministry.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94-GP dated 29.11.1995]

Comments of Audit

No comments, however, the fact remains that signing of MOU for 1995-96 on 15.9.95 after 5^{1/2} months partially defeat the purpose of MOU.

Comments of the Committee

Please see paragraph No. 13 of Chapter I of the Report.

Recommendation No. 4

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

Reply of the Government

This point is dealt alongwith recommendation No. 5

Recommendation No. 5

The Committee are further pained to observe that the powers of the CMD, GAIL were reduced to the present level at the initiative of Government Directors in November, 1992 and since then the management's repeated efforts to bring the matter regarding enhancement of power of CMD before the Board have remained unsuccessful due to the desire of Government Directors to defer the matter. The Secretary, Ministry of Petroleum and Natural Gas while justifying his stand in his regard stated that internal power sharing arrangement between the Chairman and the Government is governed by the Articles of Association and Bye laws of the company, and in case GAIL wants to be at par with ONGC, the Ministry will have no objection in recommending it. In this connection the Ministry also pleaded that in the absence of a regular CMD, it was not possible for the delegated powers to be exercised in the manner contemplated by the Board in September, 1990.

In view of the fact that the Clause 82(1) of the Articles' of Association of GAIL clearly empowers the Board to delegate such of its powers as it may think fit to the Chairman-cum-Managing Director and also the fact that from 2nd November, 1991 to November 1992 full powers were being

enjoyed by the CMD who happen to be an acting CMD, the contention put forward by the Secretary and the Ministry is unacceptable to the Committee. The Committee are, therefore, constrained to infer that a deliberate attempt has been made by the Ministry in curtailing the powers of CMD for the reasons best known to them. Moreover, non-appointment of a regular CMD is also none of the fault of GAIL. The Committee, therefore, take a serious note of such an interference by the Ministry in affairs of Public Sector Undertakings working under their administrative control, which is against the very concept of autonomy. They fail to understand as to how in the face of such a direct interference a public sector unit can discharge its functions efficiently. They, therefore, recommend that no stumbling block should be put by the Government Directors, in case the Board wants to delegate more financial powers to the CMD.

Reply of the Government

Government has decided to increase the delegated powers of CMD, GAIL for works/purchase orders to levels (under various categories) five times that existing currently, as delegated by the Board of Directors at its 11th and 12th meetings held on 24.2.86 and 25.3.86. A copy of the powers currently exercised by CMD, GAIL is given at Annexure A. The enhancement of the delegation of powers will be effected through a Resolution to be passed by the Board of Directors at its next meeting with that, the powers delegated by the Board to CMD in instances where more than one valid tender is received, and the lowest tender is accepted, would stand increased to Rs. 5 crores. Government is of the view that this level of delegation would be optimum for the CMD looking to the organisational structure and the outlays for the various projects under implementation in the company.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016294-G.P.
dated 29.11.1995]

Comments of Audit

In the reply, the Ministry has stated that the level of delegation in respect of GAIL was being increased to Rs. 5 crores. The same is stated to have been approved by the Board in its meeting held on 27.9.95. The enhancement of delegation is, however, not at par with the ONGC as recommended by the Committee.

Recommendation No. 6

The Committee have been informed that a Steering Committee was appointed by the Ministry of Petroleum & Natural Gas in August, 1990 in respect of GAIL on the pattern of ONGC & OIL to examine release of foreign exchange above Rs. 50 lakhs. However, after the introduction of the liberalised exchange rate mechanism in March, 1992, no foreign exchange is now required to be released by Government, in view of convertibility of rupee. But the institution of Steering Committee is still

being continued to deal with purchase cases where International Competitive Bidding is resorting and values above Rs. 5 crores. The Committee have been given to understand that such Steering Committee does not exist in any other Ministry nor in relation to any other organisation except for ONGC/OIL/GAIL, even within the Ministry of Petroleum & Natural Gas. The Committee are not convinced with the plea of the Ministry of Petroleum and Natural gas that the Steering Committee has been rendering useful advise to these undertakings in the matter of tenders/award of contracts and facilitating speedy decisions and it would be useful for them to have a Committee of this nature. On the other hand, the Committee wish to point out that the approval first by the Steering Committee and then by the Board results in duplication of work resulting in avoidable delays. Moreover, since such Committees do not exist in any other Ministry or even in relation to any other public undertaking under the administrative control of the Ministry of Petroleum & Natural Gas itself, the Committee fail to understand the relevancy of the same with respect to these three undertakings only. In their opinion this is just an avoidable encroachment upon the autonomy of the public undertakings. The Committee, therefore, recommend that the Steering Committee be abolished forthwith under intimation to them.

Reply of the Government

After careful consideration of the Committee's recommendations, Government has decided to abolish the Steering Committee set up to render advice in the matter of tenders/award of contracts in GAIL. This has been conveyed to CMD, GAIL under D. O. No. 0-22012/592-93-ONG. D.V. dated 30.8.95.

Comments of Audit

No comments.

Recommendation No. 7

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

Reply of the Government

The appointment of a regular CMD of GAIL has been made on 5.5.95.
[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94-GP
dated 29.11.1995]

Comments of Audit

No Comments.

Recommendation No. 8

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

Reply of the Government

In view of the above recommendation of the committee the question of approval of the Corporate Plan (1992-2002) of GAIL has been carefully considered in the Ministry. Since the Corporate Plan was prepared in 1992, many of the projections made at that time are no longer valid. GAIL has accordingly been asked to update the plan. The Plan will then be examined in consultation with the Planning Commission and other concerned Ministries.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94-GP
dated 29.11.1995]

Comments of Audit

The Ministry has not indicated whether PSE has to forwarded corporate plan for its approval. If so, time limit during which corporate plan would be approved.

Comments of the Committee

(Please see Paragraph No. 16 of Chapter I of the Report.)

Recommendation No. 9

GAIL took the HBJ pipeline project from ONGC on its formation on 16th August, 1984. After receiving the global tenders for the project the GAIL and EIL finalised a proposal and submitted their recommendations to the Government in February, 1985 for three of the six packages of the project. The Committee are surprised to note that instead of approving the proposal Government appointed a high level committee headed by Prof. M.G.K. Menon to go into the capability of GAIL and EIL to implement the project. Based on the recommendation of this Committee, Government decided that fresh consolidated tenders be invited for all the packages of the project except the one relating to procurement of pipes inspite of the fact that the procedure adopted for competitive bidding for different segments of the project for had been agreed to at a meeting of the Secretaries held on 7th May, 1984. The Committee are not able to understand the basis of the doubts which arose at such a late stage about the capability of GAIL and EIL, resulting in the entire operations carried out over a period of one year being rendered infructuous apart from the inevitable postponement of time frame for completion of the project by over a year. They would recommend that in respect of such important projects all the related issues should be examined in depth before embarking on their implementation so that such avoidable delays do not occur.

Reply of the Government

The original schedule for the HBJ pipeline, with a zero date of April, 1984 envisaged supply of gas to the first project by October, 1986. As mentioned by the Committee according to the initial strategy of the implementation of the project, the plan was to float tenders for six packages which together aggregated the entire planned facilities. In respect of the linepipe requirements tenders were floated and the price bids received were opened on 10.7.84. The requirement of pipes was in several diameter categories combined with several wall-thickness specifications. The total quantity of linepipes required was 4.61 lakh tonnes. Finalisation of this tender took a very long time because of certain crucial constraints:

(i) The need of place order on several manufacturers to minimise risk of the failure of the suppliers.

(ii) The 36st diameter pipes were the ones required earliest in sequence as they were needed in the Hazira-Guna sector. The completion of this sector of the pipeline was required to coincide with the commissioning of the fertilizer plant at Guna. There were two bidders for this category of linepipes. Brazilian manufacturer with one mill and a Japanese consortium with five mills. The Brazilian manufacturer was dependent on the supply of steel plates from a steel mill 1000 kms away. In view of these factors the simple option of placing the order on the lowest bidder could not be adopted. The order had to be split between both the bidders and

considerable time was spent in bringing down the price of the second lowest bidder to a reasonable level. In short the consideration of the bids was affected by the paramount need to arrive at a modality such that the possibility of non-supply/late supply by a single supplier did not constitute an unacceptable risk in the course of the implementation of the project.

(iii) Since the requirement of foreign exchange was large the possibility of utilisation of different lines of foreign credit had to be examined. For example OECF funds, German credit and Italian credit were negotiated and confirmed. Negotiations for Canadian/French/Dutch credits were also initiated. Since in those days of foreign exchange scarcity availability of lines of foreign credit could not be presumed and negotiations had to be initiated for several of them in the expectation that some of these credits would finally become available. These lines of credit, themselves had restrictions as to the origin of equipment they would finance leading to more complications in linking imports to available credits.

(iv) Within the above mentioned factors, the quantities of different categories of pipes had to be divided between the suppliers after optimising cost.

The above mentioned factors required prolonged and multi-lateral discussions between foreign Governments, foreign credit institutions, Ministry of Finance, Ministry of Petroleum and Natural Gas and GAIL. As a result, a long period was taken in resolving these issues. When the matter came to be reviewed in Ministry of Petroleum and Natural Gas in April, 1985, The serious need for crashing the implementation schedule in the remaining period had become a high priority. It was then noted that the work would earliest commence in September/October, 1985 and would take atleast 18-24 months to complete. The assessment was that the project could only be expected to be completed by April, 1987/October, 1987. At that stage, a slippage of 6-12 months was apparent and the need for making up the lost time was keenly felt.

In this background, it was noted that the project involved several activities which need close coordination and supervision in order to complete the work successfully. Given the fact that GAIL as an organisation had only just been established, and had no experience of a project of this size, there was some apprehension as to whether GAIL could even, with the back-up of EIL, coordinate all these activities satisfactorily to ensure that the completion schedule was achieved for the project. The Expert Group under the Chairmanship of Prof. MGK Menon had also high lighted the need for strengthening various areas in project management, though that report was in a different context and at a point of time when the time constraint in the implementation schedule was not so acute. Judging the status of the project at that point of time MOPNG felt that some further efforts should be made to reduce the burden of project coordination on the consultants (EIL) so that their efforts could be used

more towards design engineering quality control etc. It was recognised that one way in which it could be achieved was by entrusting the responsibility for project construction/coordination to a single party or single group. The possibility of change in strategy for the implementation of the project was discussed in detail between Ministry of Finance and MOPNG on several occasions including two meetings at the level of Ministers. A conclusion was reached that a complete integration of all sections of the pipeline would be necessary in order to ensure the earliest possible commissioning and the efficient performance of the pipeline. While arriving at this conclusion, it was also considered desirable to stipulate that the tender notice should spell out that due weightage would be given to the extent of use of indigenous capabilities for evaluating the offers. This was to maximise the utilisation of indigenous capabilities while simultaneously ensuring that the responsibility for construction of the project was a single point one on the prime contractor. In this background, it was decided in April, 1985 that apart from the responsibility for the procurement of linepipes and pipe laying material which had already been ordered, the contract for the remaining five categories of activities should be entrusted to one agency to ensure a single point responsibility for execution and coordination. The revised strategy for implementation enabled GAIL to supply gas to its first customer from August, 1987. Thus from a zero date of April, 1985, when the new strategy of implementation was adopted, the project was completed in a period of 28 months as against a period of 30 months provided in the project schedule. From the above, it will be observed that given the situation in which the project was in April, 1985 the change of strategy enabled GAIL to crash the schedule to make gas available at the earliest possible date.

Before closing its comments on this recommendation of the Committee, the Ministry would respectfully submit that the entire 'post-facto' review of this project needs to be carried out in the context that neither GAIL nor any other agency had institutional experience of such a gigantic and technically sophisticated project. The HBJ pipeline was completed successfully despite some stumbles. GAIL and EIL gained invaluable experience through that project. It can be claimed that it is the experience acquired by GAIL/EIL in that first project which, today while executing the new project for upgradation of the HBJ pipeline capacity to 33.4 MMSCMD, gives these organisations the confidence to take it up without any substantial foreign technical assistance. While saying this, we would also emphasise that we have carefully noted the recommendation of the Committee that for important projects all relevant issues should be examined in depth before embarking on their implementation so that avoidable delays do not occur.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94-GP
dated 29.11.1995]

Comments of Audit**No Comments****Recommendation No. 16**

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

Reply of the Government

To implement the city distribution at Bombay, Joint Venture Agreement has been signed on 6.12.94 with M/s. British Gas, U.K.

This project when completed would supply natural gas to 0.62 million Households, 4500 commercial and 150 industrial consumers. This project envisages distribution of 1.5 MMSCMD of natural gas in Greater Bombay. This project would help in releasing 107,000 tonnes of LPG & 40,000 tonnes of Kerosene, annually for use elsewhere in rural areas.

Joint Venture Company has been incorporated on 8th May' 95.

Preliminary study for supply of gas to domestic consumers through gas pipeline in Delhi was conducted and submitted the same to the Government in Feb., 1993. The availability of gas for this project was under examination. GAIL is now being asked to update the pre-feasibility report and to take necessary steps to implement the project.

Latest technologies are being used to implement these projects to avoid any possibility of leakages. An example of GAIL's specification for Maruti Line, which will service the Southern part of Delhi in the City Gas Distribution project is attached.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94 GP
dated 29.11.1995]

Comments of Audit

The reply of the Ministry has been verified. There are no comments so far as distribution of gas in Bombay is concerned. Regarding distribution of gas in Delhi, GAIL, has been asked (24.7.1995) by the Ministry to form a Joint Venture Company for implementation of the Project and also preparation of the company is taking steps for identifying a joint venture partner. However, no further communication has been issued by the Ministry regarding updation of the pre-feasibility report.

Recommendation No. 17

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

Reply of the Government

In line with the recommendations, Gas Authority of India Limited is already in the process of implementation of the following facilities—

(1) Facilities for extraction of propane from natural gas & SEP solvent and pentane etc. from NGL at its existing plant at Vijaipur, Dist. Guna, MP from processing of natural gas received through HBJ pipeline system.

(2) New LPG recovery facilities at Lakwa, Distt. Sibsagar, Assam, based on gas projections of ONGC from nearby areas.

(3) LPG recovery facilities at Usar, Dist. Raigad, Maharashtra based on projected additional gas availability at Uran from Bombay High.

GAIL's proposal for gas processing facilities for recovery of LPG at Gandhar based on gas availability from ONGC's development of oil/gas fields in and around Gandhar area has been considered in the pre-PIB meeting which has recommended it to the PIB.

Based on additional gas availability in HBJ system after upgradation, a proposal for an LPG extraction plant is under finalisation in GAIL.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94-GP dated 29.11.1995]

Comments of Audit

The present status of the projects given in the reply is as under:

	Projected date of completion	Revised schedule of completion
LAKWA PROJECT	May, 1996	January, 1997
USAR PROJECT	March, 1997	August, 1997

Comments of the Committee

(Please see paragraph No. 7 of Chapter I of the Report.)

Recommendation No. 18

The Committee are constrained to observe that the capacity utilisation of the LPG plant of GAIL at Vijaipur has been very low and the plant was able to produce only 3.43 lakh MT of LPG during 1992-93 against a total capacity of 4.06 lakh MT. The reason for the low capacity utilisation has been stated to be non-availability of sufficient gas. The Committee are unhappy to observe that a Plant with a huge investment of about Rs. 274 crores would remain largely unutilised for years to come. Similar is the fate of Vagodia Plant commissioned in January, 1993 with a capacity of 73,000 MTPA. They are led to the conclusion that this state of affairs has been the result of faulty project planning both at the undertaking and the Ministry's level. They, therefore, recommend that in future projects should be planned in a manner so as to ensure that such type of mismatch between gas availability and actual requirement is avoided.

Reply of the Government

In the year 1993-94 and 1994-95 the production of LPG at Vijaipur has been increased to 3.65 lakhs MT and 3.71 lakhs MT respectively thus, substantially improving the capacity utilisation. The availability of gas in the HBJ pipeline is expected to go up by around 4 MMSCMD in 1995-96. As a result, the capacity utilisation of the Vijaipur plant is expected to improve further.

Because of the shortfall in overall gas supply by ONGC to the HBJ pipeline, the Ministry had to resort to a demand-management operation. Priority was given to the supply of gas to Fertiliser units. As a result, the supply of gas in the spur line on which the Vaghodia LPG Separation Plant is located, had to be reduced to a small fraction of its designed throughout capacity of 2.0 MMSCMD. With the increase in supply of gas by ONGC in 1995-96, the utilisation of the Vaghodia LPG plant has also improved. The full capacity utilisation of the plant will be secured with the completion of the HBJ upgradation project.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94-GP dated 29.11.1995]

Comments of Audit

No Comments.

Recommendation No. 19

In order to utilise C_2 and C_3 fractions from the gas supplied to the consumers through HBJ pipeline Gas Authority of India Limited is setting up a Petrochemical Complex at Auraiya. The Committee regret to note that though the HBJ Pipeline Projects was taken over by GAIL in August, 1984, the Detailed Feasibility Report for the Auraiya Petrochemicals Project was submitted only on October, 1990. The Committee are of the opinion that GAIL should have thought of using the fractions of natural gas for such higher value applications much earlier. What is worse, the Government gave letter of intent to GAIL for the Down Stream units only in April, 1991 though according to the Secretary, Ministry of Petroleum and Natural Gas downstream Industries have got to be set up in order to be safe in the Market of fluctuations. The project was finally cleared by the Government in October, 1992. The Committee deprecate this lackadaisical approach on the part of GAIL and the Ministry in the formulation and approval of this project. They need hardly stress that the project should be taken up in right earnest to ensure its completion in December, 1996 as scheduled.

Reply of the Government

The UPPC Project was approved by Government on 1.10.92. Thereafter GAIL taken up the implementation of the project. The actual progress on major activities on the various units as on 15th July, 1995 is indicated below:—

	Engg.	Procurement	Construction	Overall Physical
Gas Processing	81	84	31	54
Gas Cracker	84	79	32	55
Utilities & Offsites	74	75	19	38
LLDPE	45	39	4	11
HDPE	46	38	3	10

For the overall complex 66% engineering, 66% ordering, 32% construction and 41% physical progress has already been achieved.

The project is expected to be completed on schedule.

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dated 29.11.1995]

Comments of Audit

No Comments.

Recommendation No. 20

The Committee are dismayed to find that the HBJ pipeline is being heavily underutilised. The capacity utilisation during the last three years was 8.71, 10.55 & 13.641 respectively against an installed capacity of 18.2 MMSCMD. The CMD GAIL informed the Committee during evidence that had the pipeline been fully utilised, GAIL could have earned an additional revenue of about Rs. 390 crores. The under utilisation is stated to be first due to non-commissioning of fertilizer plants and then the non-availability of gas from ONGC. In the present circumstances when the demand for gas is increasing the need for making available sufficient gas can hardly be over emphasised. The Committee doubt whether the HBJ upgradation project which is presently under implementation will ever be able to reach at its full capacity. However, the Ministry have assured the Committee that with the completion of Gas Flaring Reduction Project by July, 1996 the gas availability at Hazira will be 32.55 MMSCMD. The Committee hope that there would be no slippage in completion of this project and the HBJ pipelines even after upgradation does not remain underutilised on account of non-availability of gas.

Reply of the Government

The Gas Flaring Reduction Project being implemented by ONGC has the following components:

- (i) NQP platform at Bombay High.
- (ii) SHG platform at Bombay High.
- (iii) ICP-Heera trunk pipeline.
- (iv) The second Bassein-Hazira trunk pipeline.
- (v) Expansion of the Hazira Gas Terminal.

The first three components of the project have been completed. With this, as also with improved supply from existing gas wells, the average supply of gas at Uran and Hazira terminals in the period April-July, 1995 has risen to 36.3 MMSCMD from an average of 30.5 MMSCMD in 1994-95.

The second Bassein-Hazira trunk pipeline is expected to be commissioned in December, 1995. The expansion of the Hazira Gas Terminal is scheduled to be completed alongwith the completion of the HBJ upgradation project as per Government approved schedule.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94-GP dated 29.11.1995]

Comments of Audit

No Comments at this stage

Recommendation No. 21

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

Reply of the Government

In September, 1994 an agreement on Principal Terms was signed with Oman to enable the Oman Oil Company to take up the Phase-II of the feasibility study for the Oman-India subsea gas pipeline project. Oman Oil Company have since made some progress in the feasibility study. The progress is being monitored by a group of Experts from the Indian side. The Long Term Gas Supply Contract can be signed with the Oman Oil

Company only after the successful completion of Phase-II of the feasibility study.

GAIL has since been designated as the agency which will negotiate, and once that is successfully accomplished, enter into the Long Term Gas Supply contract with Oman Oil Company.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94-GP dated 29.11.1995]

Comments of Audit

No Comments.

Recommendation No. 22

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

Reply of the Government

Ist phase of Gas Training Institute at NOIDA is expected to be commissioned by Dec., 1996. The setting up of Gas Training Institute would help GAIL in doing research work in-house.

GAIL has launched in 1992-93, an experimental programme for introduction of Compressed Natural Gas (CNG) in road transport sector in a pilot scale project. CNG has been introduced in Delhi, Bombay and Baroda involving an expenditure of over Rs. 8.00 crores. GAIL has also imported CNG kits for conversion of vehicles to CNG fuel. GAIL has sponsored R&D projects on CNG to outside parties such as IIP, Dehradun and ARAI, Pune. Further, GAIL is contributing its resources such as CNG kits and CNG to ARAI, Pune, VRDE, Ahemad Nagar, IIT Delhi to Promote use of CNG in the Transport Sector.

R&D activities in GAIL are headed by a full-time senior management level officer. GAIL is persuing R&D activities in the following areas with a view to effectively utilize GAIL's resources.

1. Natural Gas Distribution
2. Natural Gas Vehicles

3. Energy conservation in operating plants
4. Other related areas.

Currently about 25 different project proposals are under evaluation for possible funding by GAIL. The total budget estimate for these proposals is approximately Rs. 10 crores.

To boost R&D activities in GAIL, a computer network 'ERNET' (operated by DOE) has been installed to have access to latest technologies, processes, equipment, patents etc. related to natural gas and petrochemicals industry in the world.

The details of research and development projects sponsored by GAIL to various institutions is annexed.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94-GP dated 29.11.1995]

Comments of Audit

No Comments.

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

Recommendation No. 12

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

Reply of the Government

This point has been dealt along with recommendation No. 13.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94-GP dated 29.11.1995]

Comments of Audit

No Comments.

Recommendation No. 13

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

An agent had been appointed by the Japanese Consortium to whom Japanese Yen 906 million (approx.) was paid. But the Consortium failed to inform the GAIL about the appointment of this agent. This amount has

been claimed by GAIL as compensation from the Consortium and the case is still pending before arbitration. In the opinion of the Committee this aspect warrants further probe. The Committee are also unhappy over the lifting in April, 1991 of the ban imposed on the Public Undertakings on future business dealings with Sumitomo Corporation, which was imposed in February, 1990 while the compensation claim of GAIL in this matter is still pending before arbitration.

Reply of the Government

The two offers considered for the supply of 36" linepipes were those of M/s. Petrobras of Brazil and the Japanese consortium. The timely supply from Brazil was in doubt since.

- (i) The Brazilian company had only one mill as against five mills of the Japanese consortium.
- (ii) The Brazilian company earlier offered extended delivery schedule which were later radically altered to suit the project schedule.

An expert Committee visited Brazil to make an assessment of the capabilities of Petrobras. One of the important facts which emerged was that the Brazilian firm had to procure steel plates from a steel mill situated 1000 kmtrs. away from the pipe mill. After taking all factors into account, it was decided to place orders for 36" linepipes as follows:

- (i) Phase-I (Hazira-Bijaipur sector, 275 kmtrs. 110,000 tonnes)—from the Japanese consortium.
- (ii) Phase-II (Hazira-Bijaipur sector, 380 kmtrs. 142,000 tonnes)—from the Brazilian firm.

During price negotiations, the Japanese consortium offered an 11% discount on the FOB price provided 60% of the order was placed on them. This was agreed to and an order of about 40,000 tonnes was shifted from the Brazilian firm to the Japanese consortium.

The orders as finally placed involved an extra cost compared to placing the entire order of 36" linepipes on Petrobras. As explained above, the decision to incur this extra cost was taken with a view to securing the reliability of supply for Phase-I of the Hazira-Bijaipur sector which was considered critical for matching the commissioning schedule of the fertiliser plant at Guna.

So far as the arbitration between GAIL and Sumitomo is concerned, the arbitrators have since given their award. In terms of the award GAIL has realised half of the Jap. Yen 906 million deposited by Sumitomo in GAIL's account.

The decision taken in April, 1991 to withdraw the orders issued by this Ministry to PSUs under its administrative control not to give further business to the Japanese consortium was taken after a view of the representation made by M/s. Sumitomo Corporation and after M/s. Sumitomo Corporation agreed to:

- (i) Enter into an Arbitration Agreement with ONGCGAIL.
- (ii) Deposit an amount equivalent to the agency commission in the account of ONGCGAIL pending the arbitration award.

The Cabinet Committee on Political Affairs had considered the matter in its meeting held in May, 1990 and October, 1990. It was felt that the continuation of the order of not, doing business with the Japanese firms which were members of the consortium had become an irritant in the overall relationship between Japan and India. It was also felt that the arrangements for arbitration proposed by M/s. Sumitomo Corporation should be adequate to take care of the interests of the country.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94-GP dated 29.11.1995]

Comments of Audit

No Comments.

CHAPTER IV

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

Recommendation No. 2

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

Reply of the Government

The draft MoUs submitted by the PSUs are discussed in the meetings of the Adhoc Task Force and thereafter by the High Powered Committee under the Chairmanship of Cabinet Secretary. These meetings are organised by the Department of Public Enterprises. It is only after the clearance of the High Powered Committee the MoUs can be finalised by the Ministry. Although every effort is made by the Ministry to finalise the MOUs as soon as possible, the Committee may kindly appreciate that the timing is not completely under the control of this Ministry.

Since the Department of Public Enterprises is the administrative Department concerned, the observations of the Committee were communicated to that Department for examination. The Department of Public Enterprises have pointed out that over 100 PSEs are signing MoUs since last 3 years. The MoU signing process involves 3 parties, viz. PSE, administrative Ministry and the Adhoc Task Force (ATF) and is completed in 4 stages.

In the first stage, the draft MoU is submitted by the PSE after due consultations with the Ministry, to DPE, normally, in the months of December.

In the second stage, the MoU meeting, to finalise the MoU, between the ATF, PSE and the Ministry takes places in March. These meetings can be held only after the presentation of the Union Budget because MoU targets are linked to budget targets, besides performance of PSEs is affected by budget proposals.

In the third stage, the PSE revises the MoU on the basis of the outcome of the MoU meeting and after consultation with the Ministry. Normally, the PSEs, are taking about 2 months to submit the revised MoUs. Finally, Department of Public Enterprises (DPE) takes the clearance from the HPC for all the MoUs and communicates the HPC's approval of the MoUs to the PSEs and the Ministries in the Month of May.

The Department of Public Enterprises have added that the early signing of the MoU is critically dependent on the submission of the revised MoU by the PSEs. The Department has time and again impressed on the PSEs the need to submit revised MoU within minimum time so that clearance from the HPC can be obtained in the month of April itself.

So far as GAIL is concerned, the MoU for 1994-95 was approved by the High Powered Committee in June, 1994 and the MoU was signed in July, 1994. For 1995-96, the approval of the High Powered Committee has been received on 11.8.1995 and the MoU has been signed on September 15, 1995.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94—GP dated 29.11.1995]

Comments of Audit

Ministry has not indicated the time taken in each stage to sign the MoU in July, 1994 for 1994-95 and in September, 1995 for 1995-96 in a chronological order to to pinpoint the stage where the delay actually occurred.

Comments of the Committee

(Pl. See paragraph No. 10 of Chapter I of the Report)

Recommendation No. 15

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

Reply of the Government

In the oral evidence before the Committee, the Ministry submitted that the time taken to clear the proposal was mainly due to the examination of the availability of gas for the upgradation. The Gas Linkage Committee recommended the upgradation in its meeting held on 21.2.1992. Thereafter, the Prime Minister ordered a review of gas availability/commitments. A presentation was made in August, 1992 to the Prime Minister who approved the proposed Action Plan of the Ministry and also directed that the projects required to be completed for achieving the gas profile be completed expeditiously. The decision to approve the upgradation was taken in view of that directive.

This Ministry is acutely aware of the need to consider and approve the project proposals of the PSUs in time. The CMDs of the PSUs draw the attention of Secretary, PNG to all pending proposals in their monthly letters. The status of pending proposals are also monitored in the quarterly performance reviews of each PSU. Besides the above, these are also discussed in the fortnightly staff meetings held by Secretary, PNG with the officials of the Ministry.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94—GP dated 29.11.1995]

Comments of Audit

No comments.

Comments of the Committee

(Pl. see paragraph No. 27 of Chapter I of the Report)

Recommendation No. 23

The Committee appreciate that the profits of the Company are showing increasing trend. During 1990-91, 1991-92 and 1992-93 the profits of the Company were Rs. 22.73 crores, Rs. 93.55 and Rs. 210.53 crores respectively against the estimates of Rs. 15.35 crores, Rs. 41.85 crores and Rs. 109.08 crores. The Committee hope that the Company will make continuous efforts to maintain this increase in profits. However, they feel that targets should be made more realistic in order to avoid complacency and get better results.

Reply of the Government

Actual profit for 1993-94 was Rs. 320.54 crores against the revised estimated profit of Rs. 275.62 crores. The profit for 1994-95 was Rs. 361 crores (provisional) against the target of Rs. 253 crores. These figures would show that GAIL is not suffering from any complacency and is straining itself to achieve higher standards of performance.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94—GP dated 29.11.1995]

Comments of Audit

The actual profit for 1994-95 was Rs. 368 crores against the target of Rs. 253 crores which needs to be more realistic.

Comments of the Committee

(Pl. see paragraph No. 30 of Chapter I of the Report)

Recommendation No. 25

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

Reply of the Government

The policy of bulk-allocation of a certain percentage quantity of gas to GAIL, for further sub-allocation to consumers at its discretion, would result in the gas being sold to the consumers willing to pay the highest price, irrespective of the end-use. The current demand-supply position of gas in the country is so critical but Government considers it in public interest that gas to be allotted to high priority end-uses in the larger social interest. The possibility of implementing the recommendation of the Committee will be considered once the gas supply position improves.

1Ministry of Petroleum and Natural Gas D.O. No. L-15016/2 / 94—GP
dated 29.11.1995]

Comments of Audit

The Committees recommendation was particularly for non-utilition of available gas. The apprehension of the Ministry that gas would be sold otherwise if discretion is given to GAIL can be eliminated if suitable safeguards are prescribed.

Comments of the Committee

(Pl. see paragraph No. 36 of Chapter I of the Report)

CHAPTER V

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

Recommendation No. 10

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

Reply of the Government

The Consortium raised the claim at the International Chamber of Commerce, Paris. On the basis of this claim, ICC, Paris initiated arbitration proceedings. GAIL moved the Delhi High Court seeking an order of stay on the arbitration proceedings, which was granted. Further, the claims of the Consortium have been held not to be arbitrable in accordance with the provisions of contract between GAIL and Consortium. The judgment to that effect delivered by the Honourable Single Judge of the Delhi High Court has been appealed against by the Consortium in a Letters Patent Appeal which is pending for hearing by a Division Bench of the High Court.

In the above said judgement of the High Court GAIL's claim for Liquidated Damages and invocation of Performance Bank Guarantee furnished by the Consortium, have been held to be arbitrable.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/294-GP dated 29.11.1995]

Comments of Audit

No comments at this stage.

Comments of the Committee

(Pl. see Paragraph No. 23 of Chapter I of the Report)

Recommendation No. 11

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

Reply of the Government

The matter pertaining to liquidated damages and invocation of Performance Bank Guarantee by GAIL, has been referred to an Arbitral Tribunal constituted in accordance with the rules of Conciliation of International Chamber of Commerce-International Court of Arbitration, Paris. There has been no further hearing in French Appellate court pertaining to the case of encashment of Performance Bank Guarantee by GAIL.

The Joint Committee has had five meetings so far. As decided by the Joint Committee, GAIL, Spie Capag, the leaders of the consortium have had a fresh round of discussion to seek a solution to the dispute. However, these discussions remain inconclusive. The Joint Committee in their last meeting noted the differences in the position of the two companies. The Joint Committee has not yet submitted any report to the Government. The Committee have decided to continue the efforts to find the solution to the dispute.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94-GP dated 29.11.1995]

Comments of Audit

No comments at this stage.

Comments of the Committee

(Pl. see Paragraph No. 23 of Chapter I of the Report)

Recommendation No. 14

The Boreri-Sawai Madhopur branch line originally included in the HBJ Pipeline Project was subsequently cancelled due to change in location of fertilizer Plant from Sawai Madhopur to Gadepan. The Committee are constrained to observe that though the possibility that the Fertilizer plant would not be established at Sawai Madhopur became known by August, 1987, the contractor was informed by GAIL only in May, 1988 about the cancellation of that branch line. The contention of the company that it was

awaiting a decision from the Department of Fertilizers about the relocation of the fertilizer plant, is not acceptable to the Committee since this decision was taken only in October, 1988 i.e., five months after the cancellation of the Boreri-Sawai Madhopur section had been intimated to the contractor by GAIL. Although the Committee do not appreciate the delay in taking a decision about the location of the fertilizer plant they are of the firm opinion that GAIL and the Ministry of Petroleum and Natural Gas failed to pursue the matter with the Department of Fertilizers with a view to get an early decision in the matter since it was ultimately GAIL who was going to lose by way of expenditure of the pipeline section which was not needed. The Committee are perturbed to observe that this delay in taking timely decision and communicating the same to the Consortium resulted in uncertainty about recovery of Rs. 9.50 crores claimed by GAIL. The Committee, therefore, recommended that such lapses should not be allowed to recur in future. They would also like to be informed about the final outcome of the claim preferred by GAIL on Consortium on account of reduction in cost.

Reply of the Government

The deletion of work pertaining to Boreri-Sawai Madhopur section of the pipeline was intimated to the Consortium before the Consortium mobilised for taking up the laying of the line in that section. In accordance with the provisions of contract, the amount payable for approx. 104 km of this section of pipeline was not paid to the Consortium. As such there is no question of any recovery from Consortium.

The Consortium have, however, preferred the claims that the deduction of the entire Rs. 9.5 crores by GAIL was not justified as the Consortium had made some mobilisation before the cancellation. This claim is a part of the total claim of USD 450 million raised by the Consortium. This entire claim has been held by the Delhi High Court to be non-arbitrable. The Indo-French Joint Committee before which the claim is also pending has yet to take a view in the matter.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94-GP
dated 29.11.1995]

Comments of Audit

No comments at this stage.

Comments of the Committee

(Pl. see Paragraph No. 23 of Chapter I of the Report)

Recommendation No. 24

The Committee have been informed by the Company that the transportation charges of Rs. 850/1000 M3, fixed w.e.f 1.1.1987 give to GAIL much lower returns. The transportation cost worked out by GAIL in consultation with BICP on the same principles as adopted for ONGC

works out to Rs. 1275/1000 M3. Despite repeated representations by GAIL to the Ministry for upward revision of transportation charges, these have not been revised. The Committee are not convinced with the plea of the Ministry that since the gas comes under administered price regime, the Ministry have no say in this matter. They, therefore, recommend that the whole issue of pricing of gas be gone into and suitable measures taken to give fair returns to the Company.

Reply of the Government

This Ministry has constituted a Committee under the Chairmanship of Sh. T.L. Shanker, Principal ASCI to recommend revisions in the prices of natural gas. The Committee will look into the principles of calculating the transportation charges and their incidence.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94-GP
dated 29.11.1995]

Comments of Audit

The Ministry has not indicated when the Committee was constituted and by which date the Report of the Committee was expected for their examination.

Comments of the Committee

(Pl. see Paragraph No. 33 of Chapter I of the Report)

Recommendation No. 26

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

Reply of the Government

The current arrangement between ONGC and GAIL is such that GAIL pays penalty on non-lifting on a back-to-back basis after realising the penalty from consumers. ONGC does not pay any penalty for short-supplies. GAIL has submitted to ONGC a draft contract incorporating the provision for penalty on the part of the ONGC for failure to supply. The draft contract is currently under negotiation between ONGC and GAIL.

[Ministry of Petroleum and Natural Gas D.O. No. L-15016/2/94-GP
dated 29.11.1995]

Comments of Audit

The Ministry has not indicated whether they have accepted the recommendation in principle as this is one of the most important aspect on the part of the GAIL. All the investment made by GAIL is dependent upon availability of Gas from ONGC.

NEW DELHI;
December 18, 1995

Agrahayana 27, 1917 (S)

KAMAL CHAUDHRY,
Chairman,
Committee on Public Undertakings.

APPENDIX I

(Vide Reply to Recommendation No. 5)

WORKS/PURCHASES	EXTENT OF POWERS
WORKS	
Acceptance of tender for approved works when open advertised tenders/limited tenders from contractors on the company's approved list.	
When more than one valid tenders are received and lowest tender is accepted.	Upto Rs. 1 crore.
When only single tender is received.	Upto Rs. 50 lakhs.
When lowest tender is not being accepted for valid reasons to be recorded.	Upto Rs. 15 lakhs.
Extension of scope of existing works contract with no change in rates, terms and conditions or approval of extra items for existing contracts.	Upto Rs. 20 lakhs for (a) to (c) above or upto 20% of the contract value whichever is less.
Award of contracts for consultancy subject to fulfilment of conditions laid down by Govt. of India/Board from time to time.	Upto Rs. 25 lakhs & contract above Rs. 10 lakhs to be reported to the Board.
Award of contracts without calling for tenders or emergent cases on single quotation basis for reasons to be recorded in writing.	Upto Rs. 5 lakhs.
Powers to waive liquidated damages in case of delays in execution of contracts where the liquidated damages are recoverable as per contract.	Upto Rs. 5 lakhs.
Powers for waiver of submission of earnest money/security deposit.	
Powers to extend completion dates of contracts awarded within own powers.	
Powers for forfeiture/refund of earnest money/security deposits.	Full powers

WORKS/PURCHASES	EXTENT OF POWERS
Powers to terminate contracts awarded within own powers.	Full Powers Compared with the original minutes of 11th & 12th meeting of Board of Directors held on 24.2.86 & 25.3.86 respectively.
1. Acceptance of tenders/quotations For approved purchases when open advertised tenders/limited tenders from supply on company's approved list:	
(a) When more than one valid tenders are received and lowest tender is accepted.	Upto Rs. 1 crores.
(b) When only single tender is received	Upto Rs. 50 Lakhs.
(c) Repeat orders when there is no change in rates, terms & conditions	Upto 50% of the purchase order value as long as the total value order remain within own powers.
(d) When lowest tender is not being accepted for valid reasons to be recorded in writing.	Upto Rs. 15 lakhs.
2. Acceptance of contracts without calling for tenders in emergent cases for reasons to be recorded in writing/or on single tender basis.	Upto Rs. 5 lakhs.
3. Acceptance of quotations without calling for tenders:	
(a) For proprietary items.	Upto Rs. 1 crores.
(b) For controlled category items.	Upto Rs. 2 crores.
(c) For items' against D.G.S. & D. rate contract.	Upto Rs. 50 lakhs.
(d) For surplus materials equip. from other Pub. Sector	Upto Rs 50 lakhs.

WORK/PURCHASES	EXTENT OF POWERS
(c) For placing trial order to develop indigenous capabilities for import substitutes including alternate sources.	Rs. 5 lakhs.
4. Powers to waive liquidated damages in case of delays in deliveries, where the liquidated damages are recoverable as per contract.	Upto Rs. 5 lakhs.
5. Powers for waiver of submission of earnest money/security deposit.	
6. Powers to extend completion dates of contracts awarded within own powers.	Full powers. Compared with the original minutes of 11th & 12th meeting of Board of Directors held on 24.2.86 & 25.3.86 respectively.

APPENDIX II

(Vide reply to recommendation No. 16)

SAFETY FEATURES PROVIDED BY GAIL IN MARUTI PIPELINE

S.N.	Item	Code ANSI B 31.8 Requirement	As Applied	Status W.R.T. Code
1.	Pipe steel making	Flexible	Open hearth, electric furnace	Better than code
2.	Plate/Coil Rolling	Flexible	Controlled continuous cast	Better than code
3.	Line Pipe Material	Steel composition P & S < 0.03% Steel meeting SMYS & TS Values Carbon 0.26% Max.	P&S < 0.2 % INC Grain Fully filled Steel and SMYS / TS. Carbon 0.15% Max.	Better than code Better than code Better than code
4.	Pipe Manufacturing	Electric welded/Seamless	High Frequency Elect. Welded	Better than code
5.	Quality Control	Coil Inspection Weldseam Inspection Fracture Toughness Optional Reverse Bend Test Not Recd. Mill Hydrotest for 5 Secs. Inspection after Hydrotest	Ultrasonic inspection of Coil 100% Ultra Sonic Inspection FTT Compulsory Compulsory for EW pipes Hold pressure for 15 secs. 100% UST of weld seam	Better than code Better than code Better than code Better than code Better than code Better than code
6.	Pipe Design	Design factors from 0.72 to 0.4	0.17	Better than code
7.	Coating	No specific requirement	Double Coat Triple Wrap CTE	Better than code
8.	Sectionalising Values	Based on Population Density Min. Spacing 8 Km.	1.5 to 8 Kms.	Better than code

S.N.	Item	Code ANSI B 31.8 Requirement	As Applied	Status W.R.T. Code
9.	Operation Mechanism	Does not require Automatic Valves (Para 846.21 d)	Automatically closing valves in city area	Better than code
10.	Min. cover	Up to 75 Cm. (Para 841.142)	75 Cm. to 150 Cms.	Better than code
11.	Clearance from Utilities/ Other structures	15 Cm. or otherwise install casing / bridging / insulation (Para 841.143)	Code requirement fully met; Electric cables cased P.E. Insulation provided elsewhere	Full compliance of code
12.	Girth weld radiography	10% to 75%	100%	Better than code
13.	Flaw acceptance basis	API 1104	More stringent	Better than code
14.	Holiday detection test	Not required by code	Mandatory before lowering	Better than code
15.	Hydrostatic Testing	1.1 to 1.4 Times M.O.P.	5 HMRS Max. Opening Press	Better than code
16.	Operation & Maintenance	Written O & M Plan Emergency Plan Training & Upgrading of Plans	Exists Exists Elaborate System in use	As per code As per code As per code
17.	Cathodic protection monitoring	Regular inspection / Analysis of readings & coating condn.	Monthly tests, analysis of data and condition monitoring	As per code
18.	Surveillance	Regular quarterly line walk	Daily line walk in city area	Better than code
19.	Supervisory control	Monitoring of critical data facilities to isolate affected section of pipeline	Round the clock monitoring of data in a control room with automatic isolation	Better than code

S.N.	Item	Code ANSI B 31.8 Requirement	As Applied	Status W.R.T. Code
20.	Maintenance	Leakage surveys to determine if potentially hazardous leaks exist. action as per code	Fully complied, exceeds in urban areas.	As per code
21.	Other safety features	Code specs as in Ansi B31.8	Full compliance	Equal or better than code requirement

Notes

1. Cover on Pipelines.

Cover is provided on pipelines with the purpose of reducing overburden/stressing of pipes as well as to reduce the possibility of third party accidental damage. However, deeper the pipeline is laid. The lower soil resistivity is encountered, which may lead to higher corrosivity. It also makes the monitoring and maintenance more difficult in urban areas. The sewer lines are laid around 1.5 mtr. depth. A gas pipeline laid deeper may lead to gas entering sewer lines in the event of an accident. Therefore, a balance needs to be struck while deciding upon the cover requirement over a pipeline, which may not be uniform over the entire length of the pipeline.

2. Clearance from utilities.

In an urban area. A specific clearance may not be feasible at isolated locations in view of this. The code has allowed flexibility in this regard and has therefore suggested alternative means to meet the purpose i.e. by casing, bridging or insulation. The electric cables in the vicinity of Maruti pipeline have been separated by casing or insulation.

APPENDIX III

(Vide reply to recommendation No. 22)

AS OF RESEARCH AND DEVELOPMENT PROJECTS SPONSORED BY GAIL TO VARIOUS INSTITUTIONS ARE GIVEN BELOW:

Name of Institutions	Sponsoring Year (Rs. Lakhs)	Total Proj. Cost (Rs. Lakhs)	Ast. Alloc. by GAIL	Details of Research & Development Projects	Status	Period	Payment Made (Rs. Lakhs)
Indian Institute of Petroleum, Dehradun	1991-92	21.50	20.00	Creation of infrastructure for testing evaluation and optimisation of CNG Kits and testing on CNG bus.	Completed	1991-92	10.00
			1.50			1992-93 1993-94	10.14
Indian Institute of Petroleum, Dehradun	1991-92	20.00	20.00	CNG operation on 2-Stroke engine for 3-wheeler application (Bajaj Make)	Completed	1991-92 1994-95	10.00 9.92
Indian Institute of Petroleum, Dehradun	1994-95	22.00	11.00	Development of improved industrial natural gas burners	Under Progress	1994-95	5.00
Automotive Research Association of India	1993-94	14.80	14.80	CNG operation on 2-Stroke engine for 3-wheeler application (API Make)	Under final testing	1993-94 1994-95	5.00 6.50
Indian Institute of Technology, Delhi	1993-94	0.31	0.31	Mission Programme on fuel efficient engines working on conventional/non-conventional fuels	Under Progress	1993-94	0.31
Indian Institute of Technology, Delhi	1994-95	0.26	0.26	CNG Utilisation in multicylinder passenger car S.I. Engine	Under Progress	1994-95	0.26
Indian Institute of Technology, Delhi	1994-95	7.20	7.20	CNG utilisation in single cylinder/multi-cylinder diesel engines	Under Progress	1994-95	7.20
Mineral Exploration Corpn. Ltd., Nagpur	1994-95	21.70	21.70	Coir Bed Mathane Project	Draft final report Submitted	1994-95	19.00
National Chemical Laboratory, Pune	1991-92	34.00	34.00	Development of process for converting natural gas to Ethylene	Completed	1993-94	34.00
Total		141.77	130.77				117.33

APPENDIX IV

MINUTES OF THE 36TH SITTING OF COMMITTEE ON PUBLIC UNDERTAKINGS (1995-96) HELD ON 12TH DECEMBER, 1995.

The Committee sat from 1500 to 1550 hrs.

PRESENT

Sqn. Ldr. Kamal Chaudhry—*Chairman*

MEMBERS

2. Prof. Susanta Chakraborty
3. Shri Oscar Fernandes
4. Smt. Sheela Gautam
5. Dr. A.K. Patel
6. Shri Pius Tirkey
7. Shri Deepankar Mukherjee
8. Shri Krishan Lal Sharma

SECRETARIAT

1. Shri G.C. Malhotra *Joint Secretary*
2. Smt. P.K. Sandhu *Director*
3. Shri P.K. Grover *Under Secretary*

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

1. Dr. B.P. Mathur *Additional Deputy C&AG-cum-Chairman, Audit Board*
 2. Shri Jagbans Singh *Assistant C&AG*
- I. *Consideration and Adoption of Draft Report on Hindustan Organic Chemicals Limited.*
* * * * *
 - II. *Consideration and adoption of draft Report on Burn Standard Company Limited.*
* * * * *
 - III. *Consideration and Adoption of Draft Report on Action Taken by the Government on the recommendations contained in 36th Report of Committee on Public Undertakings (1994-95) on Gas Authority of India Limited.*

* Minutes relating to items at I and II have been kept separately.

3. Thereafter the Committee considered the draft report on Action Taken by Government on the recommendations contained in 36th Report of Committee on Public Undertakings (1994-95) on Gas Authority of India Limited and adopted the same.

4. The Committee authorised the Chairman to finalise the draft reports on the basis of factual verification by the Ministry/Undertaking and Audit and to present the same to Parliament.

The Committee then adjourned

APPENDIX V

(Vide Para 3 of Introduction)

Analysis of the Action Taken by Government on the recommendations contained in the 36th Report of the Committee on Public Undertakings (Tenth Lok Sabha) on Gas Authority of India Limited.

I. Total number of recommendations	26
II. Recommendations that have been accepted by the Government (vide recommendations at Sl. Nos. 1, 3—9, 16—22) Percentage to total 57.7%	15
III. Recommendations which the committee do not desire to pursue in view of the Government's replies (vide recommendations at Sl. Nos. 12, and 13) Percentage to total	2 7.7%
IV. Recommendations in respect of which replies of Government have not been accepted by the Committee (vide recommendations at Sl. Nos. 2, 15, 23 and 25) Percentage to total	4 15.4%
V. Recommendations in respect of which final replies of Government are still awaited (vide recommendations at Sl. Nos. 10, 11, 19, 24 and 26) Percentage to total	19.2%