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CAG'S REPORT 'ON SUPPLY, LOGISTICS OPERATIONS OF MS, HSD & LPG IN OIL MARKETING COMPANIES' PRESENTED IN PARLIAMENT

CAG's Performance Audit Report No.13 of 2022 - 'On Supply, Logistics Operations of MS, HSD & LPG in Oil Marketing Companies' was presented in Parliament today.

The retail marketing of petroleum products in the country is mainly done by the public sector Oil Marketing Companies *viz*., Indian Oil Corporation Limited (IOCL), Hindustan Petroleum Corporation Limited (HPCL), Bharat Petroleum Corporation Limited (BPCL), Numaligarh Refinery Limited (NRL), Mangalore Refinery & Petrochemicals Limited (MRPL) and private companies like Reliance Industries Limited (RIL) and Nayara Energy Limited (NEL). The public sector Oil Marketing Companies predominantly (about 91 *per cent*) cater to the requirement of Motor Spirit (MS), High Speed Diesel (HSD) and Liquefied Petroleum Gas (LPG) of the country.

Primary transportation of the products from refineries to depots/ bottling plants, across the country, takes place by four transportation modes *viz.*, pipelines, rail, coastal and road. Secondary movement of these products *i.e.* from a depot/ bottling plants to the retail outlets Supply chain of Oil Marketing Companies to supply MS, HSD and LPG consists of primary transportation *i.e.*, supply of the products from refineries, import terminals to terminals/ depots/ bottling plants and secondary transportation *i.e.*, transportation of products from depots/ terminals/ bottling plants to retail outlets and LPG distributors outlets is exclusively done by roads. .

This Report examines the effectiveness of Petroleum Logistics of MS, HSD and LPG in Oil Marketing Companies under various aspect of the system, including planning for logistics, scheduling and transportation of petroleum products, logistics infrastructure as well as health, safety and environment aspects of supply logistics during the period from 2014-15 to 2018-19.

The Report highlights deficiencies in planning and implementation of the primary as well as secondary logistics of MS, HSD and LPG. The prominent findings of the Report are discussed below:

1. Planning for logistics

Though the optimised Logistics Plan is prepared using Linear Programming, during actual implementation the plan is modified with manual interventions. Audit observed that Indian Oil Corporation Limited incurred an overall additional cost of ₹516.30 crore due to deviation of optimised logistics plan in case of transportation of MS/ HSD during the period 2014-15 to 2018-19 and ₹132.55 crore in case of LPG during the period 2015-16 to 2018-19. Bharat Petroleum Corporation Limited reported lower expenditure compared to planned expenditure by ₹43.69 crore due to variations from optimised logistics plan in transportation of MS/ HSD during the period 2014-15 to 2018-19. Hindustan Petroleum Corporation Limited incurred additional cost of ₹200.21 crore in movement of MS/ HSD during the period 2014-15 to 2018-19 and ₹73 crore on LPG during the period of 2017-18 and 2018-19. **(Para 3.1.1)**

Hindustan Petroleum Corporation Limited and Bharat Petroleum Corporation Limited yet to implement suitable technology in its refineries as recommended by the Consultant appointed by Petroleum Planning and Analysis Cell (PPAC) to improve LPG yield and to reduce imports of LPG. **(Para 3.2)**

Oil Marketing Companies entered (August/ November 2016) into Memorandum of Understanding (MoU) with Reliance Industries Limited (RIL) for a period of two years for purchase of MS, HSD and LPG and with Nayara Energy Limited in October 2019. Oil Marketing Companies did not insist for compensating the short supply of Liquified Petroleum Gas in any month by private refineries in the subsequent month through imports as provided in clause 4.6 of the agreement with Reliance Industries Limited.(**Para 3.3)**

MoPNG advised (May 2014) Oil Marketing Companies that a combined Linear Programming model for three Oil Marketing Companies be operated on pilot basis and further directed (June 2015) to run the pilot model on continued basis with effect from August 2015. Oil Marketing Companies carried out a pilot run for movement of bulk LPG on Industry basis. Gain was estimated to be ₹52.52 crore during the pilot study period of three months. However, despite potential savings envisaged, the plan for MS/ HSD and LPG was not implemented due to not reaching an amicable arrangement for settlement of inter-company dues. **(Para 3.4.1)**

2. Transportation of petroleum products

Audit observed instances of pipeline shutdowns due to avoidable reasons, *viz.*, non-pigging of pipeline on annual basis resulting in pig getting stuck, entering of muck in pipeline during replacement work, non-availability of storage facility at marketing locations etc. This results in additional cost on transportation by other modes. **(Para 4.2.2)**

Insufficient port capacity resulted in vessels waiting for berthing. In case of voyage charter vessels, Oil Marketing Companies incurred `2,227.20 crore toward demurrages. Audit reviewed 137 instances of demurrage payments and observed that only 37 *per cent* of the total cases reviewed were due to non-controllable reasons such as delay in berthing of vessel (51 instances) and remaining 63 *per cent* were due to non-availability of storage space, shut downs, etc., which were controllable. **(Para 4.3.1)**

As per road transport agreement between Oil Marketing Companies and transporters, provision of vehicle tracking system in truck is mandatory. However, installation of system is yet to be completed by Oil Marketing Companies resulting in non-monitoring of trucks carrying hazardous petroleum products.**(Para 4.6)**

3. Logistics infrastructure

Audit observed delays in implementation of projects relating to construction of installations/ bottling plants and ongoing pipeline projects. The prominent reasons for the delays were delay in getting environmental and other statutory clearances. **(Para 5.1 and 5.2)**

Construction of import facility of Indian Oil Corporation Limited at Cochin was delayed due to delay in initiating construction activities of the jetty during the period 2009 to 2015 and due to local agitation subsequently. Similarly, completion of import terminal facility at Haldia of

Bharat Petroleum Corporation Limited was also delayed due to defunct planning of the project without considering the likely constraints while implementing the project. **(Para 5.4.1 and 5.4.3)**

4. Health, Safety and Environment

The Standing Committee on Petroleum & Natural Gas (2017-18) of 16th Loksabha in its Report No. 26 had recommended (January 2019) that the Safety Council under MoP&NG should ensure liquidation of all the pending recommendations made by Oil Industry Safety Directorate (OISD), in the safety audit reports in a fixed time frame. Audit observed that in respect of 19 OISD observations, PSUs took more than three years to take corrective actions. **(Para 6.2)**

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