

Chapter-2

Audit Framework

Chapter 2 Audit Framework**2.1 Audit objectives**

Gap between demand and availability of NG including R-LNG is widening in the country due to shortfall in domestic production and insufficient import and re-gasification infrastructure.

Domestic demand of gas is far in excess of indigenous production and there are very few new domestic sources available to cater to additional demand. Options available to meet the demand were import of NG through trans-national pipelines and import of LNG.

Pipeline network is a pre-requisite for developing gas supply network. Though a formal pipeline policy was notified (2006) and a regulator (PNGRB) was established in 2007, the present pipeline infrastructure is insufficient to reach the demand centres in the country. There were instances of non-development of new pipelines and underutilization of existing pipelines due to non-availability of NG.

Similarly, instances of underutilization of capacity of plants in fertilizer and power sectors on account of non-availability of NG leading to loss of production and increase in cost of production due to use of alternate costlier feedstock/fuels have also been noticed. In fertilizer sector, GoI meets the deficit of urea production through import. This leads to excess payment of subsidy as the cost of imported urea is higher than that of indigenously produced urea.

In the backdrop of these concerns, Performance Audit on 'Supply and Infrastructure Development for Natural Gas' was taken up to ascertain:

- Whether GoI has played its wider role in providing adequate pipeline and R-LNG infrastructure to cope with emerging demand in the country;
- The impact of non-availability of NG/R-LNG on fertilizer/power sector and pipeline infrastructure providers; and
- Whether NG allocation and utilization policies of the GoI were effective to meet the requirement of NG across the country.

2.2

Scope of audit

Performance Audit covered the period 2009-10 to 2013-14. During the Performance Audit, records of MoPNG relating to assessment of demand, allocation of NG, pipeline authorisations, steps taken to create import and re-gasification infrastructure for LNG, records of Ministry of Power (MoP) and Department of Fertilizers (DoF) relating to demand projections and utilisation of available NG were test checked. Records relating to payment of subsidy on domestic production/import of urea, details of plant utilisation in DoF and MoP respectively were also test checked. Audit also test checked record of GAIL (India) Limited (GAIL) in respect of major pipeline projects, utilization of pipeline capacity, supply of APM gas, procurement of R-LNG *etc.* Entry conference with representatives of MoPNG, MoP, DoF, GAIL and PNGRB was held on 11 January 2013.

This audit did not cover examination of the records of PNGRB because of their contention that “decisions of the Board taken in the discharge of its functions under Petroleum and Natural Gas Regulatory Act, 2006, being matters appealable to the Appellate Tribunal, shall not be subject to Audit” as per explanation given below sub-Section (2) of Section 40 of the Act.

2.3

Audit criteria

Performance Audit was carried out with reference to:

- Policies, procedures, guidelines of MoPNG regarding
 - allocation and utilization of NG;
 - creation of pipeline and R-LNG infrastructure; and
 - marketing margin for supply of NG
- Annual plans of MoPNG, MoP and DoF;
- Expansion/revival plans of units under power and fertilizer sectors;
- Agreements for pipeline infrastructure projects of GAIL; and
- Contracts for supply of NG/R-LNG by GAIL

2.4

Response to Draft Audit Report

The Draft Audit Report (DAR) was issued to MoPNG, MoP, DoF and GAIL on 6 June 2014 with the request to send their response within four weeks. Audit received the response from MoPNG and GAIL in July 2014 and August 2014 respectively. MoP and DoF furnished their response in October 2014. The responses of audited entities have been duly considered and relevant portions have also been incorporated in the report.

As per the Comptroller and Auditor General of India standard practice, an Exit Conference was held on 10 September 2014 to provide an opportunity to the audited entities to discuss the audit findings and present their views. The views expressed during the Exit Conference have been duly considered while finalising the report.

Draft Final Report (DFR) after incorporating views expressed during Exit Conference was issued to audited entities on 5 December 2014 soliciting response thereto within two weeks. Replies to DFR were received from MoPNG (23 December 2014), GAIL (30 December 2014), DoF (14 January 2015) and MoP (9 February 2015). These replies have also been considered while finalising the Report.