Chapter 3
Removing Incentive for Diversion

3.1. Increase in growth rate of commercial LPG and decline in growth rate of domestic LPG

LPG cylinders in the country are sold to three broad categories of consumers, *viz.,* domestic consumers, non-domestic non-exempt (NDNE) consumers and auto LPG consumers. Audit compared the sales pattern of these three categories in terms of their growth in sales during the period from April to October 2015 (post implementation of the Scheme) against an identical period in 2014. The results are tabulated below:

Table-3: Growth in sales across different categories of consumers during April-October 2014-15 *vis-a-vis* April-October 2015-16

(In *per cent*)

Month	Domestic sale		NDNE packed sale[1]		Auto LPG sale	
	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
April	12.0	7.8	-13.3	41.2	-23.0	14.5
May	17.4	3.5	-11.0	37.0	-24.8	10.2
June	12.8	10.3	-11.1	28.3	-21.3	6.5
July	5.8	9.6	-15.8	38.8	-26.0	6.2
August	11.1	5.2	-13.3	43.7	-25.8	4.5
September	17.2	2.5	-3.7	40.0	-20.1	7.8
October	7.5	10.4	-9.9	66.3	-23.8	7.2

There has been a sharp growth in offtake of NDNE and auto LPG cylinders after introduction of PAHAL (DBTL) Scheme. The negative growth rate of NDNE and of auto LPG categories in the year 2014-15 turned positive in 2015-16 and NDNE sales rose significantly. This is accompanied by decline in the growth of sales in the domestic segment particularly after the end of the parking period of the Scheme, *i.e.*, w.e.f. July 2015.

The changes in the sales pattern of the different consumer categories indicating an increase in offtake in the non-domestic segment vis-à-vis domestic segment could in the opinion of Audit be due to the positive effect of PAHAL (DBTL) Scheme since it has done away with dual pricing thereby curbing the incentive for diversion of domestic LPG cylinders for non-domestic use.

While replies of IOCL and HPCL (May 2016) were silent on this issue, BPCL agreed (April 2016) with the findings of Audit.

[1] Sale of LPG in filled cylinders is known as packed sale. In case of Non Domestic Non Exempt (NDNE) consumers sale of LPG is made either as packed sale (*i.e.,* in cylinders) or as Bulk sale (*i.e.,* through tankers- mainly to industrial consumers).

3.2. Large scale offtake of non-subsidised domestic LPG

A domestic CTC consumer is entitled to receive subsidy on 12 cylinders per annum under the PAHAL (DBTL) Scheme. A consumer can consume more than the quota of 12, but for the consumption in excess of 12 cylinders the consumer has to pay market prices and he/she would not be entitled to receive the subsidy. Considering that the national average consumption of domestic LPG cylinders per household was 6.27 in 2014-15, it may be reasonable to assume that the requirement of LPG in a household would not, in general, exceed 24 cylinders in a year (double the quota allowed for subsidy). Increase in offtake of non-subsidised LPG cylinders by domestic consumers prima facie points to positive outcome of the Scheme objective subject to removal of incentive for diversion.

Audit noticed a significant increase in the offtake of domestic non-subsidised cylinders during the year 2015-16 compared to 2014-15 in the 34 *per cent* sample examined in audit. The number of domestic consumers consuming more than 24 LPG cylinders during the first seven months of 2015-16 (April to October 2015) exceeded the corresponding numbers for the entire year of 2014-15 by 261.34 *per cent* as shown below.

Table-3: Details of offtake of non-subsidised domestic LPG cylinders during April-October 2014-15 *vis-à-vis* April-October 2015-16

Name of OMC	No. of active LPG domestic consumers who consumed more than 24 cylinders during 2014-15	No. of active LPG domestic consumers who consumed more than 24 cylinders in the first seven months of 2015-16 (April to October 2015)
IOCL	1,506	5,056
HPCL	353	1,332
BPCL	1,211	1,635
Total	**3,070**	**8,023**
Percentage increase in consumption		**261.34**

Thus, the number of domestic consumers consuming more than 24 cylinders in the first seven months of 2015-16 is 2.6 times that of the entire year of 2014-15. It was also noticed in audit that 23,104 number of domestic consumers (with a minimum consumption of 12 cylinders during 2014-15) in IOCL, 5,662 in HPCL and 7,993 in BPCL had consumed more than 12 cylinders and their consumption during the first seven months of 2015-16 was higher than that of the entire year of 2014-15.

Audit would however highlight the risk associated with higher consumption of domestic non-subsidised LPG cylinders since there is a significant price difference between the price of commercial and domestic non-subsidised LPG on account of additional duties and levies (*i.e.*, customs duty, excise duty, and value added tax differentials). Considering the duty differential, an equivalent 14.2 kg LPG cylinder would cost ₹233.20 higher for the commercial consumer *vis-à-vis* the domestic non-subsidised consumer (at prices applicable to Mumbai in October 2015). This difference was much higher than the price difference between subsidised and non-subsidised domestic LPG cylinder, which in October 2015 stood at ₹ 99.86. There is, therefore, the risk of diversion of non-subsidised domestic LPG for commercial uses.

The OMCs, in their reply (April/May 2016), stated that the consumers have not consumed more than 12 subsidised cylinders in the prescribed period, which is the capping limit as per control order. HPCL further stated that the consumers had taken more cylinders as their consumption is high and that distributors have been advised to monitor such consumers to establish their genuineness. BPCL added that the cases where the consumption has been very high were reticulated consumers with a higher quota based on the number of households.

The reply of BPCL is factually incorrect as Audit had specifically filtered the sample data to weed out reticulated consumers. The contention of the OMCs that the cap of 12 subsidised LPG cylinders has not been exceeded is well appreciated. However, the need to address the possibility of diversion of non-subsidized domestic cylinders to commercial consumers, given the significant price difference between the two is reiterated.

In response to the conclusion made in Chapter 10 on the above aspects, MoPNG stated (June 2016) that sale of commercial LPG cylinders registered a growth rate of 39.3 *per cent* in the period from April 2015 to March 2016 compared to the corresponding period last year, while that of domestic LPG cylinders registered only 7.1 *per cent* growth. This might be attributable to curtailing diversion of domestic subsidized LPG with the implementation of PAHAL (DBTAL) Scheme.

The reply is to be viewed against the fact that though there was growth in commercial LPG cylinders, there was also significant growth registered in respect of domestic non-subsidised cylinders during the year 2015-16 as compared to 2014-15. Such being the case, Audit highlighted the risk associated with higher consumption of domestic non-subsidised LPG cylinders in view of the price difference between the commercial and domestic non-subsidised LPG.

Audit noticed a marked growth in sale of LPG cylinders to commercial consumers post implementation of PAHAL (DBTL) Scheme. However, there has also been a sharp increase in offtake of domestic LPG cylinders not entitled to receive subsidy, which increases the risk of diversion, particularly considering the significant price difference between domestic LPG cylinders not entitled to receive subsidy and commercial LPG cylinder on account of differential taxes and duties levied on the two categories of consumers.