Chapter 9
Savings in Subsidy through PAHAL (DBTL) Scheme

The PAHAL (DBTL) Scheme was expected, *inter alia*, to weed out fake/duplicate connections, address the concern regarding diversion and promote self-selection in subsidy. This, in turn, would reduce the diversion of domestic LPG cylinders for commercial use, decrease of subsidy outgo and thereby generate savings for the Government. The PAHAL (DBTL) Scheme commenced on 15 November 2014 in 54 districts and was subsequently extended to the remaining 622 districts on 1 January 2015. The Scheme had a three month grace period. As such, the specific effect of the Scheme for the year 2014-15 would be confined to 54 districts for the period 15 February to 31 March 2015, which may not be very significant. Quantification of savings for 2015-16 was obtained from MoPNG and OMCs and the following were noticed:

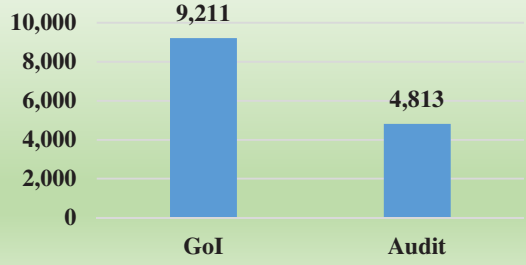
9.1. Savings on account of PAHAL (DBTL) Scheme estimated by Government of India for 2015-16

MoPNG estimated (February 2016) that the potential savings in LPG subsidy for 2015-16 would be ₹9,211 crore. This has been worked out after considering that 4.53 crore domestic LPG consumers would not avail of subsidised cylinders during 2015-16 (including 1.42 crore domestic consumers who had not joined the Scheme and hence not eligible to receive subsidy and 3.11 crore blocked/inactive consumers). It has also been assumed that all of these consumers would have availed 12 subsidised cylinders @ ₹169.45 subsidy per cylinder (being the average subsidy in 2015-16 in Delhi State). The details of subsidy savings worked out by MoPNG is shown below:

4.53 crore domestic LPG consumers not joined the Scheme/blocked/ inactive x 12 cylinders per year x ₹169.45 being the average subsidy = ₹ 9,211 crore

The results of analysis of the savings in subsidy estimated by GoI in audit is depicted in the graph given below. In this regard, the following aspects need to be considered:

Figure-5: Estimated savings in subsidy by GoI vs. Audit (₹ in crore)



(i) The national average per capita consumption of domestic LPG cylinders in 2014-15 was 6.27 cylinders. As such, the underlying assumption made while working out the subsidy savings that blocked/inactive consumers would have availed the maximum quota of 12 cylinders on which subsidy is

payable appears to be an overstatement. Considering the national average offtake of 6.27 cylinders (2014-15 average), the estimated subsidy savings for 2015-16, as per the methodology adopted by the Ministry, would be ₹4,813[1] crore. The difference in subsidy savings on account of adoption of higher national average per capita consumption alone is ₹4,398 crore. The actual subsidy savings, however, are as reported in Para 9.3 below.

(ii) While the 1.42 crore domestic consumers who have not joined the PAHAL (DBTL) Scheme have contributed to subsidy savings of ₹1508.68 crore (1.42 crore consumers x ₹169.45 per cylinder x 6.27 cylinders per year) which was indeed a direct outcome of the Scheme implementation in 2015-16, the savings from 3.11 crore blocked/inactive consumers cannot be attributed entirely to implementation of the PAHAL (DBTL) Scheme in 2015-16. In fact, it was noticed that the number of blocked/inactive domestic consumers as on 1 April 2015 was 3.34 crore which decreased to 3.11 crore (19 February 2016).

MoPNG stated (June 2016) that an intensive exercise was carried out for identifying duplicate/ fake/ghost/inactive domestic LPG connections and, as of 1 April 2016, 3.46 crore such consumers had been blocked. As a result of implementation of DBTL mechanism, it became possible to block these consumers, as the subsidy was transferred in the accounts of only those consumers who had registered under PAHAL and who have cleared after de-duplication exercise. In addition, 1.33 crore consumers were not availing subsidy and the total works to 4.79 crore consumers, and for these consumers who were outside the subsidy net, the estimated savings would be ₹9740 crore (i.e., 4.79 crore consumers x 12 cylinders x ₹169.45 being the average subsidy per cylinder for 2015-16). It was further added that the principle applied was a sound one, since the past experience was that the full quota of 12 cylinders would have been drawn by the suspect consumers who were diverting domestic cylinders.

The reply is to be viewed against the fact that the de-duplication was carried out by the OMCs through National Informatics Centre in June 2012, and as a result of which the duplicate/ fake/ghost/inactive domestic LPG connections were blocked. On the other hand, the DBTL Scheme was launched in June 2013 and PAHAL (DBTL) Scheme was launched in November 2014. As such, the entire blocking of fake, duplicate, or inactive consumers cannot be attributed to the outcome of PAHAL (DBTL) Scheme. In other words, as pointed out by Audit above, the real outcome of PAHAL (DBTL) Scheme was the subsidy savings on account of 1.33 crore consumers not linking their Aadhaar number and Bank account with the Scheme. Further, Audit is of the view that the national per capita consumption of 6.27 cylinders per annum is a more appropriate and realistic parameter than the full permissible quota of 12 cylinders for calculation of estimated savings.

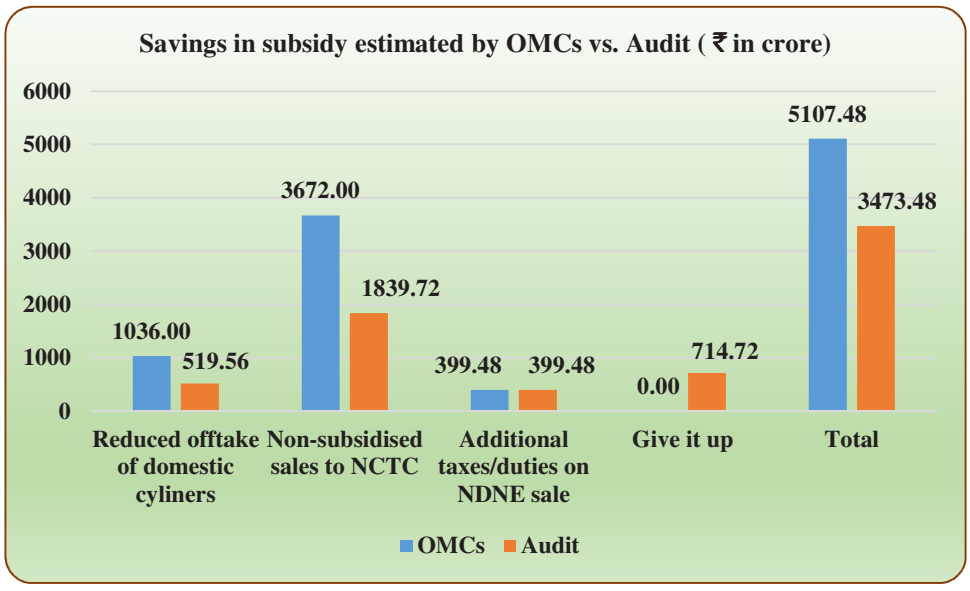
[1] 4.53 crore consumers x ₹169.45 per cylinder x 6.27 cylinders per year.

9.2. Savings estimated by OMCs for 2015-16

Audit observed that the OMCs worked out the projected subsidy savings for the year 2015-16 differently. IOCL (the coordinating agency of OMCs with GoI for LPG) estimated subsidy savings of ₹5107.48 crore in its submission to Petroleum Planning and Analysis Cell (PPAC) by considering the following:

- Savings due to reduction in domestic LPG consumption (by considering the increase in domestic consumer base in 2015-16 compared to 2014-15 coupled with the reduction in offtake of domestic cylinders): **₹1036 crore**
- Savings due to non-subsidised sales to 1.73 crore domestic consumers (non-cash transfer compliant consumers as on September 2015): **₹3672 crore**
- Additional taxes/duties due to rise in sale of non-domestic non-exempt (NDNE) LPG cylinders: **₹399.48 crore**

Audit analysed the assumptions applied by the OMCs and calculation of estimated subsidy savings. The results of analysis is depicted in the Chart alongside. In this regard, the following aspects need to be considered:



(i) While working out the subsidy savings[1], OMCs considered an average annual consumption of 6.27 cylinders per consumer and average subsidy of ₹338 per cylinder (average subsidy rate applicable to Delhi market in 2014-15). While the assumption of annual consumption of 6.27 cylinders per consumer based on the average national offtake of 2014-15 was reasonable, consideration of average subsidy rates of 2014-15 at ₹338 per cylinder led to an over-statement of savings, in view of the sharp fall in prices during 2015-16 vis-à-vis 2014-15. In fact, if the average subsidy of ₹169.45 per cylinder for

[1] Subsidy savings pertaining to reduction in domestic LPG consumption and non-subsidized sale to domestic consumers.

2015-16 was considered (as used by MoPNG in their estimation), the estimated subsidy savings would reduce to ₹2359.28 crore (₹1839.72 crore + ₹519.56 crore) adopting the same methodology as the OMCs except for the value of subsidy.

(ii) Alongside implementation of PAHAL (DBTL) Scheme, a 'Give it Up Campaign' has been operational which has resulted in 67.27 lakh domestic consumers having opted out as on 29 February 2016. This would have also led to estimated savings in subsidy of ₹714.72[1] crore. Thus, the total estimated subsidy savings projected for 2015-16 would work out to ₹3473.48[2] crore (details are at Annexure-III).

(iii) It may also be noted that the OMCs have assumed 1.73 crore Non Cash Transfer Compliant (NCTC) domestic consumers (as on September 2015). However, their number has reduced to 1.42 crore as on February 2016 as stated by MoPNG. As such, the savings in subsidy on account of NCTC consumers, as worked out by the OMCs may need to be rationalised.

The difference in estimated savings on account of inconsistencies in estimation pointed out at (i), (ii), and (iii) above alone is ₹ 1,634 crore. The actual subsidy savings, however, are as reported in Para 9.3 below. The subsidy savings, as worked out by the OMCs at ₹5107.48 crore and as revised by Audit to ₹3473.48 crore (in line with the comments made at (i), (ii) and (iii) above) is at Annexure – III.

While BPCL (April 2016) agreed with findings of Audit, HPCL did not offer (May 2016) specific response on this issue. On the other hand, though IOCL did not offer any specific response on this issue, it forwarded (May 2016) a reply given on behalf of the OMCs to MoPNG with regard to a Parliamentary Question on "Savings on LPG subsidy". Scrutiny of the same revealed that while calculating the savings on LPG subsidy, IOCL followed a similar approach as adopted by MoPNG (refer Para 9.1 above) as updated up to 31 March 2016 (considering 4.87 crore blocked/inactive consumers, offtake of 12 cylinders per annum per customer and average subsidy of ₹156.48 per cylinder in 2015-16 thereby the savings worked out to ₹9,144 crore). The shortcomings of this methodology has already been highlighted in the said para above.

9.3. Actual subsidy savings in the first three quarters of 2015-16 (April to December 2015) vis-à-vis comparable period of 2014-15

Audit compared the actual subsidy payout during April 2015 to December 2015 against the same during April 2014 to December 2014. It was noticed that subsidy paid during April 2015 to December 2015 was ₹12,084.23 crore, as against the subsidy of ₹35,400.44 crore during similar period in 2014-15. The fall in subsidy payout in 2015-16 compared to

[1] 67.27 lakh consumers x ₹169.45 subsidy per cylinder x 6.27 cylinder per year = ₹714.72 crore

[2] ₹2359.28 crore + ₹714.72 crore + ₹399.48 crore (additional tax/duties on NDNE sale) = ₹3473.48 crore.

2014-15 (worked out for nine months period from April to December 2015) was a combined effect of decrease in off take of domestic cylinders on which subsidy was paid and the lower subsidy rates arising from the sharp fall in crude prices in 2015-16.

The total decrease in subsidy in 2015-16 (April – December 2015) compared to 2014-15 (April – December 2014) was ₹23,316.21 crore (i.e., ₹35,400.44 crore - ₹12,084.23 crore). The contribution of lower subsidy rates and lower off take in quantity causing this reduction in subsidy payout is summarized below (the detailed calculation are at Annexure IV).

- To arrive at the effect of reduced subsidy rates on lower subsidy payouts in 2015-16, the consumption levels of 2015-16 had been considered while applying the difference in the subsidy rates between 2014-15 and 2015-16, which works out to ₹21,552.28 crore.
- To arrive at the effect of reduced quantity of offtake of subsidised LPG, the subsidy rates were held constant at 2014-15 levels while considering the decrease in consumption levels in 2015-16 over 2014-15, which was an outcome of the PAHAL (DBTL) Scheme. This works out to ₹1,763.93 crore.

It is evident from the above analysis that the effect of lower subsidy rates in 2015-16 was by far the most significant factor resulting in subsidy savings. While the reduced off take of subsidised LPG, which could be considered to be an outcome of implementation of PAHAL (DBTL) Scheme, has contributed to savings in subsidy, its effect was not as significant.

From the above, the following issues emerge:

(i) While working out subsidy savings in a year as an outcome of efforts made during that year, it may be reasonable to compare the savings achieved in that year vis-à-vis savings of previous year(s) after considering the changes in external parameters *like* change in crude prices. As such, it may not be correct to attribute the number of blocked/inactive consumers in a year to efforts made entirely during that year.

(ii) While working out/estimating the savings in subsidy, the average off take of cylinders by domestic consumers and average subsidy rates for the year need to be considered. This assumes particular importance as the average off take of cylinders was slightly higher than half the cap allowed under the Scheme (average off take of 6.27 against the cap of 12) and subsidy rates being halved (as against average subsidy of ₹338 per cylinder in 2014-15, it was ₹169.45 per cylinder (average for the period from April to December 2015) in 2015-16).

(iii) Comparing the actual subsidy payouts in 2015-16 (April – December 2015) over a comparable period of 2014-15, a high quantum of subsidy savings was noticed. However, 92 *per cent* of such savings could be attributed to the fall in subsidy rates alone. While implementation of PAHAL (DBTL) Scheme coupled with the 'Give-it up' campaign resulted in reduction of off take of domestic subsidised LPG cylinders, the resultant subsidy savings was not significant compared to the savings generated through fall of subsidy rates.

The subsidy burden over the period from April 2015 to December 2015 was lower than that for the comparable period in 2014 by ₹23,316.21 crore. However, this was a combined effect of decrease in off-take of subsidised cylinders by consumers (₹1,763.93 crore) and lower subsidy rates arising from the sharp fall in crude prices (₹21,552.28 crore) in 2015-16. While implementation of the PAHAL (DBTL) Scheme coupled with the 'Give it up' campaign has resulted in the reduction of offtake of domestic subsidised LPG cylinders, the resultant subsidy savings was not as significant as that generated through fall of subsidy rates.