

Executive Summary

Introduction:

Liquefied Petroleum Gas (LPG) is a clean fuel and hence Government of India (GoI) wanted to popularise use of this fuel for domestic use by making it affordable for the consumer. Subsidised supply of domestic LPG was intended to protect the consumers from highly volatile international prices. The under-recoveries of Oil Marketing Companies (OMCs), viz., Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL) arising from subsidising were compensated partly through budgetary support from GoI and partly through subsidy given by upstream companies on purchase of crude. GoI introduced “Pratyaksh Hanstantrit Labh Yojana” (PAHAL (Direct Benefit Transfer for LPG) Scheme) for transferring the subsidy on LPG directly to the consumers on 15 November 2014 in 54 districts (1st Phase) and in the remaining 622 districts on 1 January 2015 (2nd phase). Aadhaar number was not mandatory for a customer to avail of subsidy benefit under the PAHAL (DBTL) Scheme.

Objectives of PAHAL Scheme:

The objectives of the PAHAL (DBTL) Scheme were to:

- Remove incentive for diversion
- Weed out fake/duplicate connections
- Protect entitlement and ensure subsidy to the customer
- Improve availability/delivery of LPG cylinders to genuine users
- Allow self-selection in subsidy.

PAHAL (DBTL) Scheme envisaged curbing pilferage and diversion in domestic LPG distribution system of OMCs by affecting transfer of subsidy directly into the Bank account of eligible consumers. The Scheme is being implemented by the OMCs through its network of LPG distributors who constitute the interface with customers.

Highlights

While PAHAL (DBTL) Scheme appears to have addressed the concern regarding diversion of subsidised LPG cylinders to commercial consumers, the risk of diversion of non-subsidised domestic LPG to commercial consumers still remains. Audit observed that the number of domestic consumers consuming more than 24 cylinders in the first seven months of 2015-16 is 2.6 times that in the whole year of 2014-15. It was also noticed that 23,104 domestic consumers in IOCL, 5,662 in HPCL and 7,993 in BPCL had consumed more than 12 cylinders in the first seven months of 2015-16. Since there is a significant difference in

cost of non-subsidised domestic LPG and commercial LPG on account of differential taxes and duties levied on the two categories of consumers, there is a risk of diversion associated with higher consumption of domestic non-subsidised cylinders.

(Paragraph 3.1 & 3.2)

Audit noticed multiple LPG connections having the same Aadhaar number or same Bank account in the consumer database maintained by the OMCs. In some of the multiple connections, two or more than two connections constituting the multiple connections drew subsidy and Permanent Advance whereas in the remaining cases, one of the multiple connections remained 'active' while the other connections were indicated as 'transferred' or 'in-transit'. Though, subsidy was paid only for the 'active' connection, the possibility of payment of subsidy to 'transferred' or 'in-transit' connections in future cannot be ruled out.

(Paragraph 4.1.1 (i) & (ii))

Considering that the de-duplication exercise carried out by National Informatics Centre is presently on a real time basis, it was reasonable to expect that the database of consumers provided by the OMCs would not have any duplicate connection bearing 'Same Name Same Address' (SNSA). Audit scrutinised a sample of 34 *per cent* of the distributor database and found a number of exact matches (100 *per cent* match) of SNSA cases. This was noticed in all the three OMCs. Further, Audit also verified existence of connections with 'Same Name, Same Date of Birth and Same Registered Mobile Number' to identify multiple connections in the database. Audit examination indicated presence of multiple connections on the basis of these parameters. A total of 15,885 consumers linked with 34,729 connections were noticed against the first parameter across the OMCs, 11,171 consumers linked with 24,329 connections were noticed against the second parameter.

(Paragraph 4.1.1 (iii) & (iv))

Audit verified existence of multiple connections bearing 'Same Aadhaar Number' and 'Same Bank IFSC and Same Bank Account Number'. The verification identified 74,180 LPG customers linked to 37,090 Aadhaar numbers indicating existence of multiple connections. In the case of 'Same Bank IFSC and Same Bank Account Number', 17,694 LPG 'active' customer IDs were linked with 8,847 same bank IFSC and same bank account number.

(Paragraph 4.1.2 (i) & (ii))

Audit noticed that the Date of Birth of consumers were not accurately captured in the LPG Database. Further, LPG connections were issued to minors in violation of the LPG Control Order. Audit scrutiny also revealed incorrect capture of PIN codes, Aadhaar numbers, and incorrect seeding of IFS Codes in the consumer database of OMCs indicating lack of appropriate input controls. Such inconsistencies in the consumer database is evidence of invalid entries in the database and poor input controls, which compromises the authenticity

and integrity of the consumer database. Further, this may also lead to consumers being unable to avail of the subsidy benefit under the Scheme.

(Paragraph 4.4)

While the OMCs have addressed most of the Scheme related complaints of the customers, the target of redressal within seven days could not be achieved. Audit observed that the achievement rate of redressal within seven days was 86 *per cent* in IOCL, 76 *per cent* in HPCL and 82 *per cent* in BPCL. The overall rate of achievement was, however, 97.8 *per cent* of the complaints received regarding PAHAL (DBTL) Scheme from 1 January 2015 to 15 August 2015 as per data furnished to Audit. There were however instances where time taken to resolve the complaints ranged from one month to more than six months (1,611 cases in IOCL; 2,292 in HPCL and 11,740 in BPCL).

(Paragraph 5.1)

Issue of subsidised LPG cylinders beyond the quota of 12 cylinders per annum and instances of payment of Permanent Advance to multiple connections were noticed in audit examination. In 2014-15, the cap of 12 subsidised cylinders per annum had been violated and 15.57 lakh active domestic consumers had received more than 12 subsidised cylinders from April 2014 to 31 March 2015 leading to excess payment of subsidy. In the sample checked, intra-OMC de-duplication indicated that 37,499 consumers during the year 2014-15 and 8,707 consumers during the year 2015-16 (up to 31 October 2015) having multiple connections had availed more than their quota of 12 subsidised cylinders. Besides, 51,443 consumers had received permanent advance amounting to ₹1.30 crore on multiple connections.

(Paragraph 5.2)

Audit noticed that the reason for failure of 485 out of 751 failed transactions was attributable to distributors which emphasises the need for effective monitoring of data entry by OMCs and adequate input controls and validations in the database to ensure its accuracy. Moreover, some transactions failed as some of the Grameen Banks were not on National Payment Corporation of India's (NPCI) system. There is a need to ensure synchronisation of all customer banks with the payment bridge of NPCI.

(Paragraph 6.1)

Though customers have joined the PAHAL (DBTL) Scheme and linked their Bank account and in some cases Aadhaar number to the domestic customer database, transactions for transferring the Permanent Advance have failed. Audit examination of the same indicated that a total of 47.23 lakh consumers did not receive Permanent Advance amounting to ₹169.09 crore as on 31 October 2015. Since the purpose of payment of Permanent Advance is to assist the consumer in purchasing LPG cylinders at market price without any financial burden, it is imperative that all the eligible LPG consumers receive the advance upon their

first refill booking. Non-transfer of permanent advance to consumers defeated the objective of providing for permanent advance under the PAHAL (DBTL) Scheme.

(Paragraph 6.2)

Non-Cash Transfer Compliant (NCTC) consumers are those, who have not joined the PAHAL (DBTL) Scheme. A marketing research agency engaged by BPCL (May 2015) indicated that as many as *77 per cent* of the NCTC consumers wished to be a part of the Scheme but were deterred by lack of knowledge, lengthy process, low process clarity, time taken for processing, *etc.* This underlines the possibility that more efforts may be essential for the outreach to all LPG consumers so that deserving consumers are not deprived of subsidy, particularly considering that *28 per cent* of the NCTC consumers are rural consumers.

(Paragraph 7.1)

A one-time Permanent Advance is given to the domestic LPG consumer so as to enable the consumer to pay for the first cylinder delivered at market rates on joining the PAHAL (DBTL) Scheme. This advance is meant to remain with the consumer till the connection is terminated, when the advance would be recovered from the security deposit lying with the OMCs. Audit noticed that the security deposit held by the OMC was much lower than the advance paid in 29.92 lakh cases; the amount of shortfall being ₹68.39 crore. As such, recovery of the Permanent Advance (PA) would not be possible in these cases. Moreover, PA continued to be held by the consumer even when the consumer's status changes to Non Cash Transfer Compliant (NCTC). Audit noticed 9.58 lakh NCTC consumers holding ₹49.21 crore as Permanent Advance collectively.

(Paragraph 8.1)

MoPNG estimated (February 2016) potential savings in LPG subsidy for 2015-16 at ₹9,211 crore while the OMCs estimated the savings for the same period at ₹5,107.48 crore. The methodologies adopted by the Ministry and the OMCs were different. In both estimations, however, Audit noticed inherent inconsistencies which would lower the estimated savings. MoPNG assumed that the inactive or blocked consumers, who were not eligible for subsidy would have availed the entire quota of 12 cylinders against the national average per capita consumption of 6.27 cylinders in 2014-15. Considering the national average off take of 6.27 cylinders (as used by OMCs in their estimation), the estimated savings in subsidy for the year 2015-16 would be ₹4,813 crore only.

(Paragraph 9.1)

IOCL (the coordinating agency of OMCs for LPG) considered the average subsidy rate in 2014-15 while working out the subsidy savings for 2015-16. This has led to an over-statement of savings in subsidy, in view of the sharp fall in prices in 2015-16 vis-à-vis 2014-15. If the average subsidy of ₹169.45 per cylinder in 2015-16 was considered (as used

by MoPNG in their estimation), and after considering the savings in subsidy due to opting 'Give-it Up' by 67.27 lakh consumers (as on 29 February 2016), the subsidy savings would reduce to ₹3,473.48 crore, instead of ₹5,107.48 crore estimated by the OMCs.

(Paragraph 9.2)

The actual subsidy payout during the period from April 2015 to December 2015 was ₹12,084.24 crore as against ₹35,400.46 crore during April 2014 to December 2014. The significant reduction of ₹ 23,316.21 crore in subsidy payout was on account of the combined effect of decrease in off take of subsidised cylinders by consumers and lower subsidy rates arising from the sharp fall in crude prices in 2015-16. Audit examination indicated that reduced subsidy rate on account of fall in crude oil price resulted in reduced subsidy payout of ₹21,552.28 crore, while the effect on the same due to reduced offtake of cylinders by consumers worked out to ₹1,763.93 crore. Therefore, it is evident that the lower subsidy rates in 2015-16 is, by far, the most significant factor resulted in subsidy savings.

(Paragraph 9.3)

Audit suggests the following recommendations in order to address the issues highlighted in this Report:

- (i) Effective steps may need to be taken to dis-incentivise diversion of non-subsidised domestic LPG cylinders to the commercial segment.
- (ii) Considering that audit scrutiny of the selected sample revealed existence of multiple connections, the entire database needs to be scrutinised by the OMCs and effective action should be ensured. The integrity of the database needs to be maintained. While the OMCs have assured institution of appropriate checks for new additions to the consumer database, there is an urgent need to ensure correctness and integrity of the existing database. Appropriate and transparent documentation of blocking and un-blocking of suspected multiple connections also needs to be ensured.
- (iii) Appropriate input controls, data validations and strict oversight is essential at the distributor interface to ensure correctness of data entry at their end which would not only improve the integrity of the consumer database but also eliminate failed transactions arising from incorrect information.
- (iv) Audit has noted the decrease in the number of Non-Cash Transfer Compliant consumers. However, more focussed outreach efforts may be necessary to ensure that deserving consumers are not deprived of subsidy for want of knowledge of the Scheme or clarity regarding its processes.
- (v) Appropriate policy decisions may be necessary to address the blocking of Permanent Advance with Non Cash Transfer Compliant consumers and recovery of Permanent Advance from consumers having a lower security deposit compared to it.