

## **Chapter 5:**

### **Infrastructure preparedness**



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### 5.1 Procurement and Sourcing of LPG

The OMCs source LPG from refineries, fractionators (ONGC and GAIL), private parties (M/s. Reliance and M/s. Essar) and import mainly from the Middle Eastern countries.

Detail of year-wise LPG consumption versus indigenous production and import during the period from 2013-14 to 2017-18 was as follows:

**Table 5.1: Year-wise LPG consumption, production and import for the last five years**  
(Quantity in '000 MT)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Consumption</b>	16294	18000	19623	21608	23342	24918
<b>Indigenous production</b>	10032	9840	10568	11253	12364	12876
<b>Imports</b>	6567	8313	8959	11097	11380	13194

(Source: PPAC)

The data reveals that the consumption of LPG is increasing consistently in the range of 1600 to 2000 TMT *per annum* whereas the indigenous production of LPG has increased only by about 2800 TMT. As a result, OMCs' dependence on import has drastically increased from 6567 TMT in 2013-14 to 13194 TMT in 2018-19.

### 5.2 Bottling of LPG

LPG is bottled in the bottling plants and supplied to the customers in the packed form. The OMCs have 192 LPG bottling plants across the country with bottling capacity of 18338 TMTPA as on 1 April 2019. The OMCs are marketing packed LPG to domestic customers (in cylinders of 5 Kg and 14.2 Kg) and to commercial customers (in cylinders of 19 Kg, 35 Kg and 47.5 Kg) through 23737 LPG distributors attached with their bottling plants as on 1 April 2019 to cater to the demand of 26.54 crore consumers (including 7.19 crore active PMUY and E-PMUY consumers).

### 5.3 LPG distributors

#### 5.3.1 Non-achievement of target to appoint distributors

In furtherance of its commitment to provide clean fuel to all households in the country with key focus on rural and difficult areas, the MoPNG directed (February 2016) the OMCs to start 10,000 new LPG distributorships in that year (2016-17). Further, while obtaining (March 2016) the approval of Cabinet Committee on Economic Affairs (CCEA) for PMUY, MoPNG mentioned that the scheme has a huge potential for generating direct & indirect employment and nearly 10,000 LPG distribution points were to be set up over the next year to cater to the increased demand and to provide better services to the rural poor. Accordingly, MoPNG issued (June 2016) a new set of Guidelines with the objective of strengthening LPG supply chain with focus on rural areas and creating job opportunities through the supply chain system. Key features of the Unified Guidelines for selection of LPG distributorships included four broad types of distributorships with varying refill ceiling limits- Sheheri, Rurban, Gramin and Durgam Vitrak. Eligibility norms for age, education, fund requirement and ownership of land

for godown and showroom were also relaxed to make the selection process more participative. Moreover, PPAC & CRISIL's Assessment Report (June 2016) on household cooking fuel usage and willingness to convert to LPG had also emphasized on lack of availability of LPG distribution centers as a barrier preventing LPG penetration.

Audit observed that the OMCs have commissioned only 4738 new LPG distributorships in the last 33 months (April 2016 to December 2018). Out of these, 2262 distributorships were related to the advertisements released prior to June 2016. After June 2016, OMCs advertised for 6373 locations out of which 2476 distributorships (39 per cent) were commissioned. It was further observed that in 12 states<sup>12</sup> less than 25 per cent LPG distributorships were commissioned against the advertisement.

OMCs replied (April 2019) that after receipt of the revised Unified Guidelines for Selection of LPG distributorships, OMCs conducted Feasibility studies / Surveys for identification of locations for setting up the LPG distributorships and 6382 locations were identified (till April 2019) and published on pan India basis. Completion of the stipulated procedures for selection for such a high number of locations took considerable time.

MoPNG added (May 2019) that 7807 new distributorships have been commissioned in the last four years and commissioning of more than 2000 new distributorships is at various stages. Further, during Exit Conference it stated that difficulties are being faced in obtaining the NOC/ Retail Sales License in some states.

The replies should be viewed against the fact that 2390 out of 6117 distributorships were yet to be commissioned (May 2019) in respect of locations advertised in 2016 and 2017. Further, Assembly Elections in three states was cited as the only reason for non-commissioning which seems only temporary.

Non-commissioning of targeted number of LPG distributorships has been compelling the distributors to supply cylinders for long distances, delivery of cylinders at godown or designated points instead of door-step delivery and considerable delays in supply of cylinders as discussed in the subsequent paras.

#### **5.3.1.1 Long distances catered to by the Distributors**

As per Unified Guidelines for selection of LPG distributorship issued (June 2016) by MoPNG Rural Urban Vitrak and Gramin Vitraks serve the LPG customers in specified rural areas covering all villages falling within 15 Km from the municipal limit / boundary limit of the LPG distributorship location respectively and / or the area specified by the respective OMCs.

Audit analyzed the data relating to the distance covered by 164 distributors and observed that LPG distributors are covering the various villages/areas/tehsils as specified by the OMCs which come in the range of 0 Km to 92 Km as detailed below:

**Table 5.2: No. of LPG distributors with distance covered for refill delivery**

Particulars	0-15 Km	Beyond 15 Km upto 92 Km
IOCL	47	35
HPCL	7	34
BPCL	15	26
<b>Total</b>	<b>69</b>	<b>95</b>

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<sup>12</sup> Andhra Pradesh, Assam, Dadra & Nagar Haveli, Goa, Gujarat, Jharkhand, Karnataka, Kerala, Meghalaya, Puducherry, Telangana & West Bengal

Thus, it can be seen that out of 164 LPG distributors, 95 LPG distributors (57.93 *per cent*) served the PMUY beneficiaries' located up to a distance of 92 Km. Covering such long distances to cater to the consumers led to delay in refill supply and non-delivery of refills at customer's door-steps as discussed in subsequent paras.

OMCs replied (April 2019) that the existing distributors had to extend their reach as prospective PMUY consumers were to be enrolled in a Mission mode. Setting up of new distributorships is a long process comprising of various stages of selection / commissioning. With the commissioning of all the locations, average distance between distributor and customers would reduce and almost all the villages would be catered by an LPG distributorship within vicinity.

Replies should be viewed against the fact that enrolment of consumers at such a huge scale without commissioning adequate distributorships affects the service capability of distributors in timely refill delivery.

MoPNG replied (May/July 2019) that the OMCs have been directed to expedite the commissioning of new distributorships and also effect intra as well as inter OMC customer transfer by re-distributing connections to the nearest distributorship and complete this exercise by 31 July 2019.

### **5.3.1.2 Non-Delivery of LPG cylinders at customers' address**

As per Marketing Discipline Guidelines (MDG), the LPG distributors should provide adequate delivery infrastructure for making home delivery of LPG cylinders commensurate to the average daily refill sales and also to take care of breakdowns/absenteeism. In case of a backlog, additional delivery infrastructure as per requirement is to be provided. In order to ensure that distributors follow operating policies, procedures and practices, various actions to be taken against erring distributors are prescribed as per MDG.

During beneficiary survey of PMUY consumers, audit observed that LPG distributors were not making home delivery to all consumers. Instead, consumers had to pick up the LPG cylinders either from the distributor's godown or from a common point in the service area as identified by the distributor. 247 (14.86 *per cent*) out of 1662 surveyed PMUY beneficiaries reported that they are getting refills either on point delivery basis or self pick-up from the distributors' godown. Audit also observed that since the OMCs are not maintaining any data in their system about the ex-godown / point delivery taken by the consumers, it could not be verified as to what portion of the population are still not getting refills delivered at their doorsteps which is mandatory as per the MDG.

OMCs replied (February 2019) that PMUY consumers are mostly from the rural segment with meager buying capacity. They prefer to take refills from the distributor premises as per their convenience and ease to buy.

BPCL further stated (April 2019) that in view of rapid expansion of customer base in rural areas after PMUY, district/state administration have suggested and advised distributors to identify Points of delivery as an interim arrangement of refill delivery till the commissioning of new distributors.

The replies disregard the fact that non-home delivery of refill can only be made under exceptional circumstances and with prior written authorization of the OMC. Non-compliance

of this condition falls under major irregularities defined under MDG. Further, it confirms the fact that there is an urgent requirement for the OMCs to appoint new LPG distributors in the rural areas.

MoPNG replied (May/July 2019) that the OMCs have been advised to ensure door step delivery by capturing coordinates of the refill delivery place or to allow ‘Cash and Carry’ rebate to customers. It also directed the OMCs to capture the mobile number of all the registered consumers in the system.

### **5.3.1.3 Delay in delivering refills to PMUY consumers**

During the period from May 2016 to December 2018, 19.41 crore LPG refills have been delivered by 17782 LPG distributors to 3.78 crore active PMUY beneficiaries. On analysis of data, audit observed that in case of 36.62 lakh LPG refills delivered to 24.83 lakh consumers (6.57 *per cent* of total active consumers) by 14290 LPG distributors (80.36 *per cent* of total LPG distributors), there was a delay of more than 10 days in delivery of refills by the LPG distributors which is in deviation to the OMCs’ Citizen Charter which specifies maximum delivery time of seven days. On further analysis, it was observed that out of 36.62 lakh refills, 5.94 lakh refills were delivered with a delay of more than 30 days as detailed below:

**Table 5.3: Delay in delivery of LPG refills**

Delay in refill delivery (in days)	IOCL		HPCL		BPCL		TOTAL	
	No. of refills	No. of consumers affected	No. of refills	No. of consumers affected	No. of refills	No. of consumers affected	No. of refills	No. of consumers affected
11-30	1263645	1007872	749289	692349	1055057	783261	3067991	2483482
31-180	221849		173055		195375		590279	
181-664	71		1701		2238		4010	
Total	1485565		924045		1252670		3662280	

It was further observed that 1209 LPG distributors supplied more than 100 refills (ranging from 100 to 9154 refills) with a delay of more than 30 days to 5 lakh beneficiaries. As majority of PMUY beneficiaries are having Single Bottle Cylinder (SBC), delayed delivery of refill is a deterrent to the main objective of the scheme of transferring the BPL households from unclean to clean fuel and may force PMUY beneficiaries to return to unclean fuel being used earlier.

OMCs replied (April 2019) that many consumers enrolled under PMUY are from difficult terrain / remote area wherein reach of LPG was a challenge in the recent past. Further induction of distributors will certainly improve the situation. Further, the system is not capturing the reason for delay in refill delivery, therefore the case-wise reasons cannot be provided.

OMCs’ reply is incorrect as LPG system of the OMCs has a feature in which the distributor can capture the reasons for delay in delivery. Further, the reply signifies that delay in delivery of refills was due to non-availability of LPG distributors in the vicinity of consumer residence and there was an urgent need to induct new distributors.

MoPNG replied (May/July 2019) that the OMCs have been advised to closely monitor the distributors’ performance and also been given the target to achieve ‘5’ or ‘4’ star rating of at least 80 *per cent* distributorships as a part of MoU for the year 2019-20.

### 5.3.1.4 Non-adherence to “Targeted Delivery Time” norms contained in the MDG

LPG distributorships are appointed by the OMCs and are governed by the terms & conditions of agreement/MDG. As per the MDG, the LPG distributors have to deliver the gas cylinders within the “Targeted Delivery Time” (TDT) where delivery time is the time between the booking date and the actual delivery date. The TDT performance envisages rating of distributors based on its quarterly performance as follows:

**Table 5.4: Criteria for Star rating of LPG distributors**

No. of Star	Delivery period	Category
<b>5 Star</b>	85% delivery in $\leq$ 2 days	Excellent
<b>4 Star</b>	85% delivery in $\leq$ 4 days	Good
<b>3 Star</b>	85% delivery in $\leq$ 6 days	Average
<b>2 Star</b>	85% delivery in $\leq$ 8 days	Below Average
<b>1 Star</b>	15% delivery in $>$ 8 days	Poor

The distributor is to ensure that its distributorship is not rated with ‘1’ Star, i.e. ‘Poor’ rating and ‘2’ Star, i.e. ‘Below Average’ rating in a quarter, failing which the OMCs have to take the action, as specified in the MDG, against the erring distributorship.

MDG states that in case of ‘1’ Star rating in 1<sup>st</sup> or 2<sup>nd</sup> quarter, OMCs have to issue a warning-cum guidance letter to the distributor. In all cases of ‘Poor’ rating during any quarter subsequent to above period, a fine equivalent to 25 *per cent* of one month’s distributor commission shall be imposed on the erring distributor. In every instance of ‘Poor’ performance rating subsequent to the above, 50 *per cent* of one month’s distributor commission shall be imposed. Further, it states that if LPG distributorship is rated ‘Poor’ in any four completed quarters during the preceding 2 years (i.e. 8 quarters), it would lead to termination of the LPG distributorship.

On analysis of the OMCs star rating data w. r. t. its LPG distributors, audit observed that there were 504 (IOCL: 373, BPCL: 87 and HPCL: 44) LPG distributors who were given one star rating in all eight quarters in the preceding two years on the basis of their performance and were therefore liable for termination.

Further, it was observed that there were 461 (IOCL: 371, BPCL: 40 and HPCL: 50) LPG distributors whose performance was observed at two-star rating, either on consistent basis or in last three quarters in the last two years. As per MDG, these distributorships were also liable for a penalty i.e. a fine equivalent to 10 *per cent* to 25 *per cent* of one month’s distributor commission due to continuous ‘Below Average’ performance.

OMCs replied (April 2019) that there were certain reasons, which were not attributable to distributors, like logistical issues involving law and order situation, state specific issues, natural calamities, the distributors which released high number of PMUY connections etc. due to which supplies to distributors and further to consumers were affected. In case of low TDT ratings all the above factors were analyzed and distributors were issued show cause letters for explaining low ratings. Once the reply was received, the same was reviewed at region/area office level and in case it was found that the distributor was responsible, action as per MDG was taken.

HPCL further stated (June 2019) that it has taken action on 43 out of 94 LPG distributors identified by audit. Similarly, IOCL informed (June 2019) that it has taken action against 89

LPG distributors out of 744. However, BPCL did not inform the details of action taken in this regard.

OMCs replies are not acceptable as the reasons given by the OMCs for low TDT ratings can have only a temporary impact on the supplies and can affect a quarter and not all the eight consecutive quarters in which the distributors were having either ‘1’ or ‘2’ star ratings.

MoPNG replied (May 2019) that the OMCs have been advised to deliver the refills to door steps of customer as per TDT norms. Further, during Exit Conference it stated that TDT performance of distributors has now been included in MoU with OMCs as a performance indicator.

#### **5.4 Insufficient steps to encourage consumption of 5 kg cylinders**

The Expenditure Finance Committee (EFC) in its meeting held on 7 March 2016, highlighted that unless and until the distribution policy of LPG was reformed to bring availability of small cylinders to the poor households, PMUY would not be that successful. In line with this, MoPNG recommended two sizes of cylinders i.e. 14.2 Kg and 5 Kg for PMUY beneficiaries depending upon the field situation. Further, encouragement of the option of using smaller sized cylinder was important as PPAC-CRISIL survey (June 2016) had highlighted that high refilling cost was a serious barrier to LPG usage with 83 *per cent* of the respondents of the survey considering it as a barrier.

However, it was observed that the OMCs, till December 2018, have been able to release only 16032 connections with 5 Kg cylinders as shown below:

**Table 5.5: Number of 5 kg LPG connections released**

<b>OMC</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19 (Dec.2018)</b>	<b>Total</b>
<b>IOCL</b>	325	322	13848	<b>14495</b>
<b>BPCL</b>	0	253	172	<b>425</b>
<b>HPCL</b>	0	896	216	<b>1112</b>
<b>Total</b>	<b>325</b>	<b>1471</b>	<b>14236</b>	<b>16032</b>

It is evident from the above that the number of 5 Kg cylinder connections released till December 2018 constituted only a minuscule portion (0.04 *per cent*) of the total PMUY connections.

Further, during the course of beneficiary survey, audit observed that 567 beneficiaries out of 1662 PMUY consumers (34 *per cent*) were not aware of the option of 5 Kg cylinders which raises a concern about the effectiveness of awareness building measures taken by the OMCs.

Though a pilot project for swapping 14.2 Kg cylinder with 5 Kg cylinder was launched (July 2017), the response was not very encouraging. In May 2018, eight focus states were identified to improve 5 Kg cylinder by certain ways viz. maintaining adequate stock at distributorship / plant level, close monitoring of LPG distributor performance on 5 Kg cylinder and undertaking wide publicity.

Further, MoPNG issued instructions in June 2018 to OMCs to encourage use of 5 Kg cylinders by providing the option to switching from 14.2 Kg to 5 Kg cylinder or opt for Double Bottle Cylinder (DBC) of 5 Kg cylinder instead of a 14.2 Kg connection. However, these steps should have been taken initially itself in view of caution expressed by EFC.

Despite introducing the above options, the OMCs have been able to convert only 75973<sup>13</sup> LPG connections till 31 December 2018 thereby totaling to 92005 connections of 5 Kg cylinder which was a meager 0.24 *per cent* of 3.78 crore active PMUY connections.

OMCs replied (April 2019) that the scheme had both the sizes for the prospective customers. Since the monetary value of 14.2 Kg cylinder was higher, the general tendency was to avail a higher benefit. Affordability being one of the main issues, they had introduced ways to familiarize these PMUY beneficiaries and prospective customers with the advantages of availing a smaller 5 kg package. Despite the intention of promoting 5 Kg package, the early feedback reflected that any further amount of promotion would go waste because of the very fact that availing 5 Kg option was losing proposition for beneficiaries comparing to 14.2 Kg.

MoPNG added (May 2019) that the OMCs have been promoting 5 Kg refill and also identified 10 districts for mandatory rollout of 5 Kg refill for PMUY beneficiaries. Learning from this pilot study would be replicated in other parts.

Replies have to be viewed in light of the fact that the Industry was only in a mission mode to meet the target fixed by the MoPNG. In that process, the promotion of 5 Kg cylinders was side tracked and it was only in June 2018 i.e. two years after the launch that this push was given for encouraging use of these cylinders.

Audit is of the view that had these smaller cylinders been extensively promoted in first two years, the issue of affordability as a major concern, which the MoPNG and the OMCs were aware since beginning itself, could have been overcome to a great extent. It is to be noted that BPCL and HPCL had not released a single 5 Kg connection in first year of the scheme and IOCL had released only 325 such connections. Further, there was lack of efficient measures for awareness building.

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<sup>13</sup> IOCL: 13613, BPCL: 49562 and HPCL: 12798