On the back burner:

Accountability in Domestic LPG Service Delivery

Prayas (Energy Group)

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About Prayas

Prayas (Initiatives in Health, Energy, Learning and Parenthood) is a non-profit organisation based in Pune, India. Members of Prayas are professionals working to protect and promote the public interest in general, and interests of the disadvantaged sections of society, in particular.

Prayas (Energy Group) works on theoretical, conceptual, regulatory and policy issues in the energy and electricity sectors. Our activities cover research and intervention in policy and regulatory areas, as well as training, awareness, and support to civil society groups. Prayas (Energy Group) has contributed to the development of energy sector policy as part of several official committees constituted by ministries, the erstwhile Planning Commission and NITI Ayog and advisory committee of many regulatory commissions. Prayas is registered as a SIRO (Scientific and Industrial Research Organisation) with the Department of Scientific and Industrial Research, Ministry of Science and Technology, Government of India.

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Executive Summary

The role of Pradhan Mantri Ujjwala Yojana (PMUY) in providing relief to the sections most vulnerable to the ongoing COVID-19 pandemic highlights the importance of the domestic LPG sector now and going forward. However, the perceived success of PMUY and the claims of having achieved multiple social welfare goals has put some crucial aspects of governance of this sector on the back burner. While India has achieved near 100% coverage of LPG connections, latest publicly available NSSO data suggests that nearly half of rural India still relies primarily on solid fuels for its cooking needs. Further, the domestic LPG sector is faced with many challenges of providing quality service, especially in the rural and under-served areas, leading to low usage of LPG. These challenges pose a threat of reversal of gains made in household health and quality of life for the women by forcing them to relapse to solid cooking fuel options. While affordability and behaviour change are crucial in ensuring sustained adoption of LPG, quality of supply and service (QoSS) also plays a key role. These issues are pertinent now more than ever before as the urban transition away from LPG and towards PNG is increasingly likely, leading to a situation where Oil Marketing companies (OMCs) are left with rural and under-served consumers in the domestic LPG segment, making it important to understand and remedy issues with their QoSS.

Therefore, in order to provide long-term quality of supply and service (QoSS), systemic issues need to be identified and remedied through strong accountability mechanisms that go beyond grievance redressal. Presently, such systems in the domestic LPG service delivery appear to be very weak and inadequate. In this report, we focus on Distributorship Agreement ("Agreement") and LPG Marketing Discipline Guidelines ("LPG-MDG") to highlight the issues in the sector and suggest ideas for improvement. We highlight issues of uneven accountability of OMCs, complex provisions for addressing irregularities, inaccessible mechanisms for appeals, lack of consumer centric mechanisms to improve QoSS and aspects of distributor viability underlined by unfair agreement.

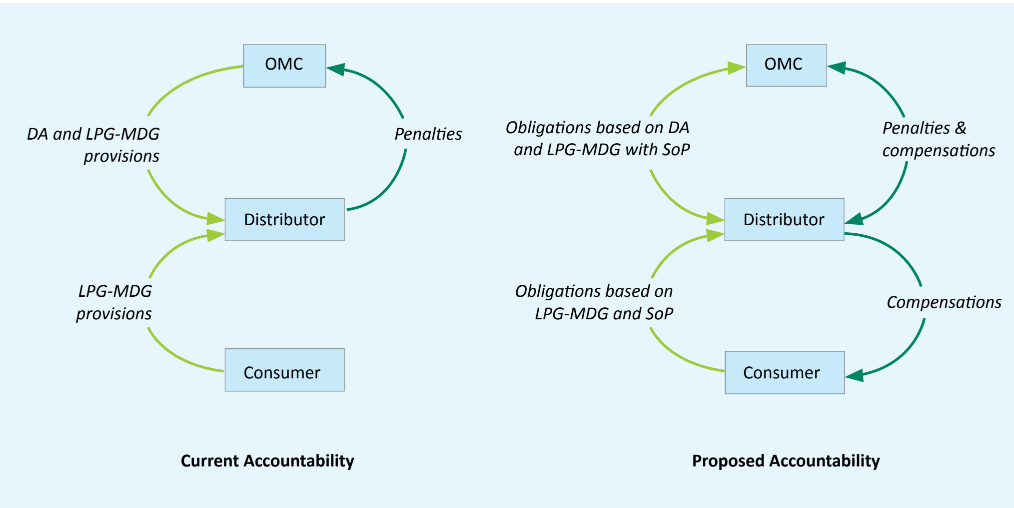
Based on the analysis, we suggest the following improvements to overcome the challenges.

Improve accountability across the supply chain: In addition to improvements in distributor accountability mechanisms, OMC accountability also needs to be enhanced as OMCs form a crucial link in ensuring quality of service and supply. Disaggregated performance data needs to be made publicly available and updated periodically in well-defined formats. In order to identify gaps in performance across the supply chain, it is vital that a service delivery audit of the domestic LPG sector is done every 2 years, looking into various aspects, and the audit report needs to be made public on MoPNG website. These measures would highlight issues with accountability across the supply chain. We also suggest a separate portal for distributors with information on performance ratings, inspection findings, action taken reports distributor grievances and remedies of all distributors. This will empower distributors to demand better services from OMCs.

Encourage viability and performance of rural distributors: Domestic LPG distributors in general and rural distributors in particular could be provided with performance-based incentive so that they get a greater margin on the commissions based on normative levels of performance. Further, rural and urban distributors should have different commissions, with rural distributor commission being higher as rural distributors will mostly have lesser sales and higher costs per consumer in comparison to urban. Provisions in the Agreement that enable sources of revenue for distributor should be utilised to permit distributors to engage in business activities not in conflict with OMC interests. Further, OMCs and LPG Distributors Association should together consider targeted Information sharing and mentorship exercises for rural distributors to help them improve their operational practices.

Consultatively revise Distributor Agreement and LPG-MDG: Currently, many provisions of the Agreement and LPG-MDG are one-sided causing difficult legal and business environment for distributors to ensure QoSS for the consumers. In order to make it fair from natural justice viewpoint and encourage improvement of QoSS for the consumer, the Agreement and LPG-MDG should have minimum standards of performance (SoPs) for service parameters and penalties for both the parties. Further, consumers should also receive compensation in their bills for poor performance as compared to pre-identified targets linked to SoPs. A model Agreement and LPG-MDG with these features should be drafted consultatively and revised periodically to reflect changing ground realities.

Schematic of proposed Standards of Performance structure



Improve consumer communication: One of the ways to ensure grievance redressal systems and accountability mechanisms are coupled is by increasing consumer awareness. This can be achieved by replacing the current system of Domestic Gas Consumer Card (DGCC) with a printed bill akin to other consumer-facing, service delivery sectors like electricity. The printed bill should have information such as a detailed price build-up of the cylinder, last few digits of the Aadhar linked bank account and UID, number of subsidised refills for the financial year if applicable. The other side of the bill should have information on safety, SoPs, TDT norms and other grievance redressal related information printed in permanent ink.

Appoint an independent regulator: The domestic LPG sector not only lacks a comprehensive accountability system but also a strong independent regulatory framework to tackle many of these challenges. An independent regulator, through consultative processes, would enact realistic SoP regulations with clearly defined QoSS parameters and compensations to the consumer and distributor against critical parameters, and hold the various stakeholders, including the OMCs, accountable. The regulator must not only oversee the implementation of principles agreed upon in the Model Distributorship Agreement, but also ensure the setting up of Consumer Grievance Redressal Forums and appointing an Ombudsman for appeals against CGRF orders. Petroleum and Natural Gas Regulatory Board (PNGRB), which is the downstream regulator for the notified petroleum products segment, would be the appropriate institution for this purpose.

Consider taking over the rural distributorships: Since greater adoption of LPG in rural areas is a social welfare obligation, MoPNG should suitably support OMCs in their rural distributorship ventures. Since rural distributor unviability is a business reality not just due to distributors shirking QoSS responsibilities, OMCs can consider running unviable rural distributorships. To further rural distribution networks, OMCs could also consider opening new rural distributorships themselves. They could also consider a scheme with an option of buying-out interested existing distributors. The MoPNG and OMCs should come up with the modalities of implementing this suggestion through a consultative process, even as the OMCs run some rural distributorships on a pilot basis to understand and address specific challenges of viability in this sector.

1. Introduction and Context

There is an overwhelming consensus that the use of solid cooking fuels has a dual adverse impact, in terms of health levels of households and the drudgery of women. As noted by the Steering Committee on Air Pollution and Health Related Issues constituted by the Ministry of Health and Family Welfare (MoHFW 2015), Household Air Pollution (HAP) by itself contributed to about 10 lakh deaths in 2010 and is the second biggest health risk factor in India; in comparison, Ambient Air Pollution (AAP) was seventh. The committee also concluded that about 26% of particulate matter contributing to AAP was actually due to combustion of solid fuels in households, underlining that the use of solid fuels for cooking is a public health issue. To address these issues, the Government of India in May 2016 launched the ambitious Pradhan Mantri Ujjwala Yojana (PMUY). Under this programme, rural and BPL households were provided concessional LPG connections in the name of the women of the household[1].

In September 2019, the Ministry of Petroleum and Natural Gas (MoPNG) reported having met its 8 crore connections target (MoPNG 2019a), claiming thus to have covered around 96.5% of India's population (PPAC 2019a). Commendable as these efforts to increase LPG coverage are, when it comes to the actual usage, NSSO 76th round “Drinking Water, Sanitation, Hygiene and Housing Condition” survey data showed that 51.1% of households in the rural areas continue to primarily rely on solid fuels for meeting their cooking needs even as of December 2018[2]. Even with households that have secured an LPG connection, fuel stacking is a prevalent issue that nullifies these benefits. We have argued elsewhere that a connections-only based approach will not help achieve all the policy goals (Dabadge, Sreenivas, and Josey 2018). Apart from behavioural aspects, various factors, including affordability and Quality of Supply and Service (QoSS) determine sustained use and adoption of LPG (Josey, Sreenivas, and Dabadge 2019). The same is echoed by the CAG[3] and the Parliamentary Standing Committee on Petroleum & Natural Gas[4].

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1. For details of the scheme see https://pmuy.gov.in/ and https://vikaspedia.in/energy/policy-support/pradhan-mantri-ujjwala-yojana

2. Few caveats apply to this data. 76th round’s Housing Condition survey is the latest relevant Government sample survey data since the launch of PMUY. 66th and 68th rounds “Energy Sources of Indian Households for Cooking and Lighting” surveys asked “primary source of energy for cooking” whereas 76th round asked the “type of fuel used for cooking”, which may not necessarily capture primary cooking fuel used by the household. This leaves the data on fuel-stacking, which may represent the actual picture of cooking fuel usage, inadequate. Moreover, the comparable 69th round survey on Housing Condition did not ask the cooking fuel questions altogether, leading to further data incomparability and discontinuity. The next best public data source would be Census, which is due in 2021.

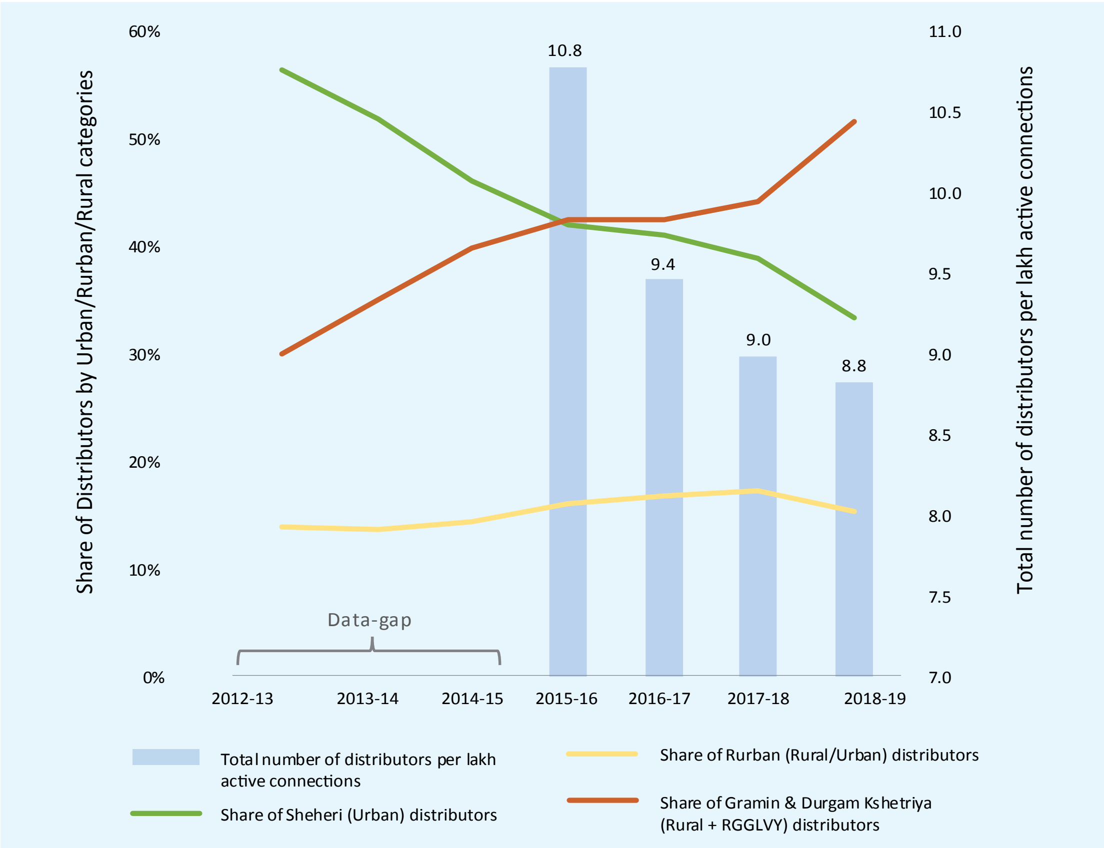
3. CAG in section 6.2 of its recent PMUY audit report said, “...[s]uccess of such a huge social scheme cannot be measured in terms of mere distribution of connections without ensuring the transition to clean fuel through sustained usage of LPG.” (CAG 2019)

4. “Considering the economic background of PMUY beneficiaries, the Committee opine that higher pay out of cash of Rs. 650/- for a 14.2 kg cylinder could also be a reason for lower refill average. In order to fulfill the intention of the scheme and to increase the use of LPG, the Committee recommend that the Ministry should consider a separate scheme with higher subsidy so that the LPG cylinders become affordable to PMUY beneficiaries.” (Lok Sabha 2019a).

India's domestic LPG consumption grew at a CAGR of 6% between FY15 and FY19. As on November 2019, the three PSU Oil Marketing Companies (OMCs)[5] together serve 27.44 crore LPG connections (PPAC 2019b) in the domestic category through a network of 24,204 LPG distributors (Lok Sabha 2019b).

This translates to about 8.8 distributors per 1 lakh active connections at a national level, and is reducing year on year as shown in Figure 1[6]. However, post PMUY, the number of rural distributors has increased and in fact overtaken the urban, indicating that the hitherto urban-centric nature of domestic LPG business is changing rapidly. The migration of urban LPG domestic consumers towards piped natural gas (PNG) is only likely to continue owing to the policy push for PNG[7], further increasing the rural share among LPG consumers.

Figure 1: Number of distributors per lakh connections and share of distributors by category



Source: PPAC, MoPNG

5. They are, Indian Oil Corporation Limited (IOCL), Hindustan Petroleum Corporation Limited (HPCL) and Bharat Petroleum Corporation Limited (BPCL).

6. As per the unified selection guidelines (OMCs in India 2018), Sheheri Vitrak (or Sheheri distributor) means those located in 'Urban Area' as per Census definition, serving customers located within the Municipal Limits of the Metro city/City/Town. Rurban Vitrak means those located in 'Urban Area' and also providing service in specified 'Rural Area', generally covering all villages falling within 15km from the municipal limits of the distributorship location. Gramin Vitrak means those located in 'Rural Area', generally covering all villages falling within 15km from the boundary limits of the distributorship location. And Durgam Kshetriya Vitrak means those located in difficult and special areas like hilly regions, forests area, tribal inhabited area, sparsely populated, disturbed area, islands, Left Wing Extremism (LWE) affected areas. RGGLVY stands for Rajiv Gandhi Gramin LPG Vitrak Yojana, which was a scheme to set up small size LPG distribution agencies in order to increase rural penetration and to cover remote and low potential areas.

7. PNGRB reported around 55.9 lakh Domestic PNG connections as on June 2019 (PNGRB 2019), which is around 3% of active non-Ujjwala LPG connections. It is reported that the Petroleum and Natural Gas Regulatory Board (PNGRB) is set to launch the 11th round of CGD bidding (ETEnergyworld 2020).

Thus, in the context of domestic LPG, the developments in the PNG sector will eventually lead to OMCs being left with more consumers in the rural and under-served areas when compared to the urban. Therefore, it is pertinent that OMCs and distributors shift their focus in addressing challenges in the rural service delivery keeping in mind the likely long-term trajectory of this sector.

On 26th March 2020, the Government of India announced a suite of measures under the Pradhan Mantri Garib Kalyan Package (PMGKP) to tackle distress caused by COVID-19 pandemic and the lockdown imposed on 23rd March (MoF 2020b). Under this package, PMUY beneficiaries were eligible for receiving cash transfers for three free refills until June 2020, and the same was subsequently extended till September 2020 (MoPNG 2020). MoPNG claimed that in the period between April-August 2020, around 13 crore free PMUY refills at the cost of Rs. 9,670 crores were delivered by the OMCs (Lok Sabha 2020c). Therefore, given the importance of this sector both in the times of global crisis and otherwise, tackling the various issues in service delivery is crucial for the state to discharge its social welfare function.

Today, for a new rural consumer who has adopted LPG at an additional cost, the quality of service and supply becomes an important determinant in whether she continues using LPG on a sustained basis. LPG service delivery from a consumer's perspective is a once in 6 weeks or so affair which determines their behaviour for the rest of the period until the next refill. Therefore, each interface with the distributors and OMCs plays a crucial role. Repeated instances of unreliability, especially for PMUY consumers, majority of whom have single cylinder connections, may lead to stacking or a complete relapse to solid fuels. In this context of low usage and decreasing distributor density, QoSS becomes very important to enable sustained LPG usage by rural consumers, and available data suggests that QoSS levels are not quite satisfactory. Table 1 shows categories of prevalent QoSS issues reported in various studies. MoPNG data collected from the Ujjwala LPG Panchayat Collect app suggested that 44% of the impediments to LPG refill are QoSS related[8]. Therefore, it is becoming clearer that the future of India's domestic LPG sector is a rural consumer for whom affordability and QoSS are crucial factors for adoption and sustained use.

Table 1: QoSS issues compiled from various sources

Scheme related	Erroneous selection of beneficiaries
	Delayed release of connection
	Not receiving subsidy
	Lack of knowledge of the loan scheme for PMUY connections
Safety and Awareness	Not conducting mandatory inspections
	Not conducting mandatory pre-installation inspections
	Not knowing how to book a refill
	Fear of using LPG
Refill delivery	Non-delivery at address
	Delayed delivery of refills

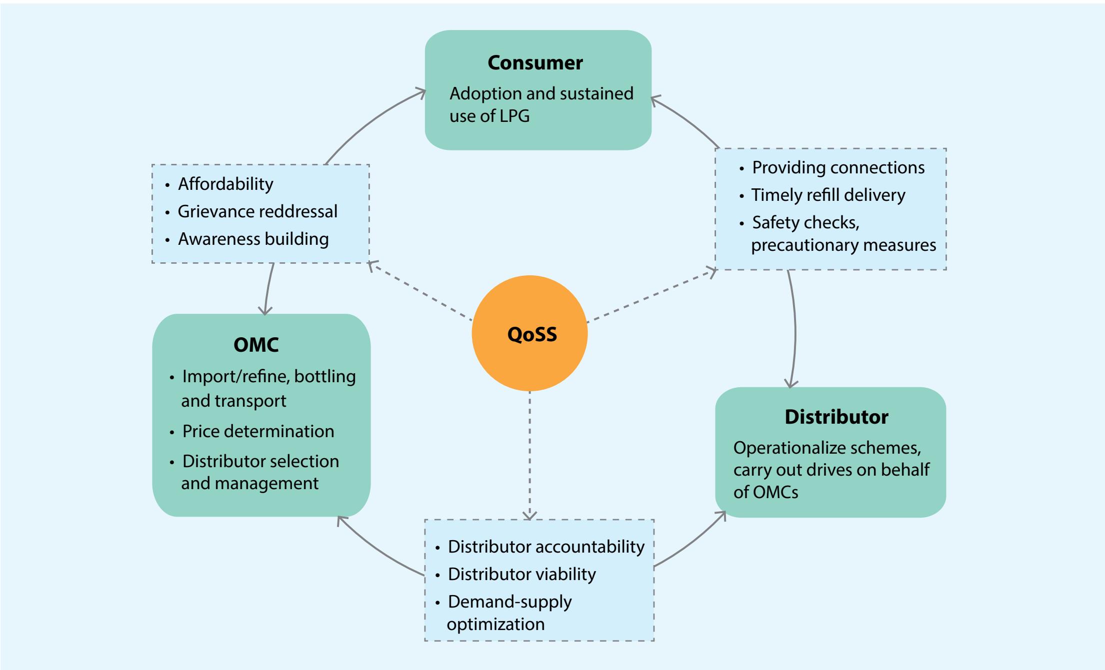
Source: (MoPNG 2019b; CAG 2019; Giri and Aadil 2018; Sharma, Parikh, and Singh 2019; Srivastava 2017; Kar et al. 2019; Gupta et al. 2019)

8. Easy access to biomass-28%; Affordability-28%; Fear of using LPG- 18%; Not knowing how to book a refill- 11%; Lack of home delivery- 9%; Delayed delivery of LPG-6% (MoPNG 2019b)

Many of the consumer issues however can be addressed through effective grievance redressal systems, but they are only a "necessary but not sufficient" condition for delivery of what has now essentially become a public service, especially in the rural areas. Currently, the LPG consumer can raise complaints through various channels, but there is no compensation for poor service and accountability built into the compliant handling mechanisms[9]. The consumer is also not empowered with knowledge of grievances of other consumers and action taken on them, in order to themselves be able to hold OMCs and distributors accountable. In other words, in the current system, a consumer complaint is unlikely to identify and remedy systemic issues before the OMC and distributor.

Addressing the linkages of accountability, distributor viability, QoSS, and adoption and sustained use is crucial because of the rapid expansion of distributors in the rural areas where sales is limited and risks are not well understood yet. As many of these consumers are new users typically with only one distributor in their area, accountability mechanisms available to the consumer to demand and ensure better QoSS from the OMC and the distributors need to be strengthened. In the absence of strong mechanisms, such consumers could be neglected and may relapse to solid fuel options, further lowering viability of the distributor and resulting in non-optimal use of huge investments made in PMUY, PAHAL and distributorship schemes, in addition to increasing the health risks of rural women and children. Figure 2 shows these linkages in a schematic diagram, where solid arrows represent the nature of relationships between actors, and dotted arrows represent activities that constitute QoSS.

Figure 2: Relationship between, adoption and sustained use, distributor viability, and accountability



9. In addition to a common toll-free number, OMC portals and apps to receive complaints, the Department of Administrative Reforms and Public Grievances (DARPG) receives consumer complaints on its Centralized Public Grievance Redress and Monitoring System (CPGRAMS). The complaints received in CPGRAMS are forwarded to the relevant authority for action. The latest available report (DARPG 2017) suggests that between August 2016 and March 2017, the MoPNG received 11,443 complaints, which was about 3% of the total complaints received by CPGRAMS portal for the same period. A 1000 sample study of the MoPNG related complaints showed that the majority were related to LPG connection (34%), followed by malpractices and corruption (13%).

Presently, there does not appear to be any mechanism to hold OMCs accountable to the consumer and all known accountability mechanisms are focused towards holding distributors accountable to OMCs. In this paper, we try to understand these accountability mechanisms and suggest improvements in the same towards ensuring better QoSS for the consumer. In section 2, we discuss in detail the current accountability mechanisms, especially the LPG Marketing Discipline Guidelines and Distributor Agreement and some of the issues arising out of these. In particular, we develop the argument of impact of these mechanisms on QoSS through aspects of uneven accountability, distributor-OMC relationships, distributor viability and linkages of consumer grievance redressal systems with these mechanisms. In section 3, based on the analysis we suggest various measures and approaches to tackle the issues discussed in section 2. Section 4 is the conclusion.

2. Extant accountability mechanisms

The OMCs invoke terms of the Distributorship Agreement (referred to as "Agreement" hereinafter) and the LPG Marketing Discipline Guidelines (referred to as "LPG-MDG" hereinafter) in order to take actions against errant distributors (Rajya Sabha 2019, 2015; Lok Sabha 2017, 2019b, 2020a). The recent CAG report on PMUY also uses the provisions of the Distributorship Agreement and LPG-MDG (IOCL 2014a) as the basis of its audit (CAG 2019).

Since the Distributorship Agreement and LPG-MDG form the basis of accountability for LPG distributors of the OMCs, which currently cater to almost all LPG consumers, in this discussion paper we have analysed these two documents[10]. Apart from these, we have studied relevant orders of the Supreme Court, High Courts and National Consumer Disputes Redressal Commission, reports of the CAG, and Parliamentary Standing Committee on Petroleum and Natural Gas.

2.1. Distributor irregularities and penalties

The LPG-MDG provides elaborate Standards of Performance (SoP) in the form of stipulated 'irregularities' and details out the processes to hold the distributors accountable to OMCs. LPG-MDG provides four categories of irregularities namely 'extremely critical', 'critical', 'major' and 'minor' (Annexures 6.2 and 6.3). Penalty structures are defined with respect to the category and the frequency of the irregularities found in inspections (Annexures 6.4 gives the details of penalties applicable to 'critical', 'major' and 'minor' irregularities and 6.5 gives the details of quantum of punishment for specific irregularities). For all irregularities other than minor, the distributor has the right to an appellate process to appeal the decision for termination or levy of penalty. In addition to these, LPG-MDG also tracks and penalizes distributors for not meeting the 'Targeted Delivery Time' (TDT) norm (Annexure 6.6). The 'Targeted Delivery Time' (TDT) is a stipulated norm for the period between booking date and delivery date so as to ensure prompt deliveries.

It must be noted that over half of the unique irregularities defined in LPG-MDG belong to the 'minor' category[11]. As per the LPG-MDG, the second instance of any 'minor' violation

10. The IOCL website's RTI section has made public a document compiled by Ministry of Corporate Affairs, listing information that can be disclosed (IOCL 2016). Item 6 and 25 pertain to Agreements entered into by the corporation. Relying on Delhi HC and CIC rulings, it prescribes making public the format of Distributorship Agreement. At the time of writing, only HPCL had this information on its website; see HPCL (2011). Given this constraint, we have assumed that the principles of terms laid in this format resemble/agree with extant LPG Distributorship Agreements of all OMCs. Another prominent instrument is Liquefied Petroleum Gas (Regulation of Supply and Distribution) Order, 2000 and its various amendments (MoPNG 2014). The LPG Control Order, enacted under the Essential Commodities Act 1955 (ECA), prohibits distributors from engaging in malpractices such as pilferage, overcharging the customers, refusal to register new connection requests, unauthorized possession or transport of filled or empty cylinders and so on (Schedule-1, Control Order). The prohibited activities in the LPG Control Order is a subset of irregularities specified in the LPG-MDG. Violations of the Control Order attract provisions of ECA, which are as high as imprisonment (Section 7, ECA). However, upon studying various case laws we infer that the punitive provisions of Control Order are not invoked against distributors by OMCs per se. The Economic Survey 2020 notes that the conviction rate under ECA is only 2-4% on an average (MoF 2020a).

11. Refer Annexure 6.3

detected in a quarterly OMC inspection will result in deduction of 5% of the average monthly distributor's commission based on sale of subsidised and non-subsidised domestic LPG in 14.2 kg and 5 kg cylinders including sale to non-domestic non-exempt category (NDEC) for the preceding 6 months[12]. Considering only 14.2 kg sales, 5% of the monthly average commission could come to about 31% of the monthly profit[13]. There is no appellate process, to which a distributor can take recourse if she/he is aggrieved by a penalty imposed under 'minor' irregularities (Figure 3)[14]. Hence it is worth examining a few issues with these irregularities[15].

i. **Varying degrees of severity:** Many of the 'minor' irregularities are not of comparable severity, yet attract the above-mentioned penalty. For example, a rude and discourteous behaviour of delivery personnel[16] attracts the same penalties as deliberate withholding of OMC's payment collected from consumer as Security Deposit[17]. Clubbing irregularities of varying severities into the same category is a matter of concern, especially given that the penalties may not be commensurate to the severity of the irregularity.

ii. **Compliance issues:** In our assessment, a considerable number of irregularities are easy to avoid by compliance on the inspection day alone, and thereby avoid being identified in the inspection. For example, while an inspection is being carried out, the distributor personnel can accept cashless payments at the time of refill delivery even if it is not usual practice[18]. As we shall see in the later section, since the LPG-MDG irregularities do not originate from consumer complaints, it is possible that the distributor may avoid such irregularities by just ensuring compliance during inspection alone. This ensures that a related systemic issue either on the OMC-side or on the distributor's side remains undetectable in the inspection.

iii. **Redundancy caused by TDT norms:** Many of the irregularities, including the ones in critical and major categories, directly affect refill delivery time. For example, inadequate delivery infrastructure[19] and not placing sufficient and timely demand indents[20] directly affect delivery times. Since TDT norm is monitored and penalized separately, it creates redundancies and ambiguities in compliance. If these irregularities are observed during an inspection, the distributor may be penalized both under 'minor' category and under TDT requirements. On the other hand, this irregularity could be suppressed or ignored altogether owing to the fact that the distributor would anyway be penalized under TDT requirements.

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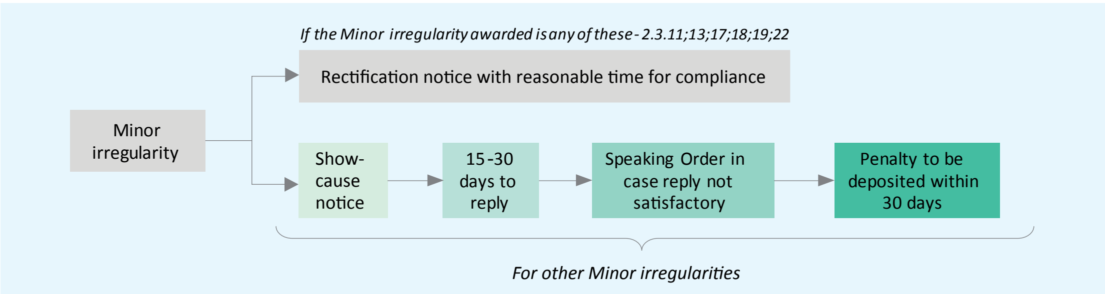
12. 3.3 (i) in LPG-MDG
13. Based on annual refill rate of 6.25 cylinders per year per connection and 11,500 connections per distributor, we assume that the average distributor sells about 6000 refills per month. The distributor commission, assuming home delivery of cylinders, is Rs 61.84 per cylinder (Lok Sabha 2019a), and we assume a profit margin of not more than Rs. 10 per refill. Therefore, 5% of average monthly commission comes to about Rs 18,600, against likely monthly profit of Rs 60,000.
14. Refer Annexure 6.5 for the detailed flow diagram of critical, major and minor penalty and appeal process under LPG-MDG
15. Refer Annexure 6.7 for details
16. Minor irregularity 2.3.6 in LPG-MDG
17. Minor irregularity 2.3.4 in LPG-MDG
18. Minor irregularity 2.3.26 in LPG-MDG
19. Minor irregularity 2.3.17 in LPG-MDG
20. Minor irregularity 2.3.9 in LPG-MDG

iv. **Lack of enabling OMC provisions:** While some of the irregularities may not be impractical per se, in the absence of support and enabling provisions from the OMC, they can be difficult to implement. For example, the delivery personnel are required to demonstrate weight using digital scale and test for leaks using a leak detector before every delivery[21]. While this is an ideal goal to have, in reality, without additional enabling support from the OMCs, it is neither practical to expect the delivery personnel to be able to do this for every delivery nor do such OMC checks happen regularly, thus defeating the purpose of this guideline. One alternative could be to make this an on-demand service available at a small premium to the consumer (say Rs. 15), so that the distributor can account for the inconvenience and difficulty of carrying the checking equipment to every doorstep. The delivery personnel delivering through vehicles can ensure the equipment is always present in the vehicle, available for use if a consumer wants to use the service, but without having to be carried to each house every time a cylinder is delivered. The option of checking the weight and leak, and the small fee to do so would be mentioned clearly to the consumer during home delivery. If the cylinder is found faulty, the fee would be waived and the cylinder would be replaced with a fresh cylinder, checked for weight and leak, free of cost. Else, the consumer bears the service cost. Measures such as these may provide an incentive for consumers to demand such crucial services at random, leading to overall preparedness and efficiency throughout the system.

The above discussed issues with the minor irregularities, absence of appellate process and high penalties for any ambiguously worded and difficult to implement SoPs may only end up providing perverse incentives to game the inspection and reporting process. Therefore, these issues lead to ineffective systemic accountability and ultimately poor QoSS for the consumer.

Figure 3: LPG-MDG penalty processes: 'Minor' irregularities



Source: PEG analysis based on the provisions of LPG-MDG

2.2. Distributor termination, appeals, and arbitration

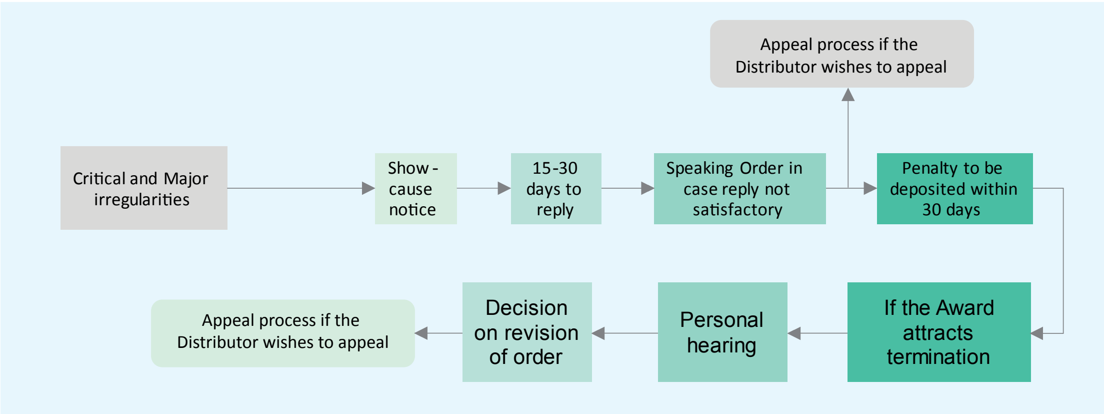
As mentioned earlier, for other higher-level irregularities in the LPG-MDG that lead to termination (Figure 4), the appeal processes exist but the distributor has to deposit a high security deposit[22]. For Sheheri, Rurban and Gramin distributors, the maximum security

21. Minor irregularity 2.3.15 in LPG-MDG

22. For distributors other than Durgam Kshetriya Vitrak- 25% of quantum of irregularity or Rs. 10 Lakhs, whichever lower.

deposit is equivalent to the distributor commissions for about 16,000 refills and equivalent to 1,600 refills for the Durgam Kshetriya distributor[23]. Moreover, in case the verdict on the appeal goes in favour of the distributor, the OMC refunds the security deposit without interest after the disposal of the appeal[24]. These heavy and interest-free security deposits may make the appeal process inaccessible to genuinely distressed distributors, which would prompt them to seek relief from High Courts, whose application fees are much lower in comparison.

Figure 4: LPG-MDG penalty and appeal processes: 'Critical' and 'Major' irregularities



Source: PEG analysis based on the provisions of LPG-MDG

Apart from the LPG-MDG, the Agreement also provides grounds for termination of the distributorship[25]. While the Agreement gives the distributor four days to remedy a breach of terms[26], the LPG-MDG provides for at least 15 days for the distributor to reply (and not necessarily remedy them). Disparities in the MDG and the Agreement such as these can lead to ambiguity and could potentially affect distributorship termination decisions discretionarily.

Further, with respect to the termination of distributor, clause 28(n) of the Agreement reads thus, "...the General Manager shall not be bound to give reasons for such decisions". Since the legally binding Agreement can have an overriding effect over LPG-MDG, if the OMC wishes so, it can terminate a distributor one way or the other and such a decision would not be open to scrutiny. These ambiguities and arbitrariness do not appear to be fair to the distributor and could once again provide perverse incentives to the OMC and distributor, thus affecting QoSS.

Such disparities can force the distributors to go for an arbitration process as provided in the Distributorship Agreement[27]. However, contrary to the principles of arbitration law in India[28], the Agreement does not provide for appointment of an independent arbitrator and forces the distributor to accept any officer of the OMC as arbitrator. It further prevents

23. For Durgam Kshetriya Vitrak- 5% of quantum of irregularity or Rs. 1 Lakh, whichever lower.
24. 3.11 LPG-MDG
25. Clauses 28B (a to n), Distributor Agreement
26. Clause 28B(a), Distributor Agreement
27. Clause 38, Distributor Agreement
28. For a detailed discussion see Sabharwal, Sivakumar, and Singh (2017)

the distributor from raising any objections against this appointment, even on the grounds that the officer has been known to have a view favourable to the OMC in the past. Moreover, the OMC can transfer the arbitrator (since it is to be an OMC official as per the agreement) at any stage of the arbitration process, replace him/her with another official and the distributor cannot raise any objections. Such a process creates non-uniform and unpredictable conditions for termination. In effect, the instruments of accountability with uncertainty of procedures built into them come at the ultimate cost of consumer, for whom the QoSS does not improve.

2.3. Distributor viability issues

As already discussed, distributor viability is a crucial factor in ensuring QoSS for the consumer. Low purchasing power of a more dispersed clientele makes rural LPG distributor viability a questionable proposition anyway. In addition, some provisions of the Agreement[29] also affect distributor's business viability as listed below:

- OMCs reserve exclusive rights over determining and redrawing sales territory for the distributors, and appoint more distributors in the same area.
- The distributor has to uplift a minimum number of cylinders from the OMC bottling plant per month and keep a minimum stock of cylinders to meet the consumer requirements, all of which would be specified by the OMC from time to time. In addition to this, the Agreement requires distributors to effect a minimum sale as specified by the OMCs.
- The Agreement prevents a distributor from engaging in any employment or business other than the LPG Distributorship without explicit permission from the OMC.

Prima facie, these provisions are understandable, as the OMCs need to ensure that distributors are fully engaged in the business of LPG distributorship and disallow economic activity, which may be in direct conflict with OMC business interests. The OMCs also ought to have the right to augment their distributorship network and supply decisions to maximize sales and optimize costs. However, a sole discretion with limited deliberation with distributors make these provisions problematic as the distributors bear the risk of ensuring storage space infrastructure and staff to cater to sales which could be uncertain (MoPNG 2018). As sales is a function of ground realities that distributors would be more aware of, these decisions need to be made in a collaborative manner. As the period of the Agreement is set at 10 years, the business of LPG distributorship locks the distributor into considerable capital expenditure and business risks, especially in the rural and underserved areas. Therefore, while the Agreement provisions protect the interests of the OMCs, little attention has been paid to distributor viability in the Agreement.

2.4. Inadequate accountability with respect to OMCs

In a robust accountability mechanism, it would be important to ensure that the OMCs are as accountable to consumers and distributors, as distributors are to consumers and OMCs. However, the Agreement appears to indemnify the OMC from any third party

29. Clause 2.b.i to vi, Distributorship Agreement

claims even in the event of injury or loss of life[30]. As per the Agreement, the OMC is also free from any liability for losses to anybody arising out of manufacturing defects. Below is an illustrative list of OMC functions that are crucial parameters in ensuring QoSS

- **Pricing:** Determining the price of the domestic LPG, especially such that the subsidized cylinder prices remain affordable.
- **Pipelines and Transportation:** Commissioning and maintenance of LPG pipelines for bulk transfers. Ensuring transportation to the bottling plant through pipelines and road.
- **Bottling:** Commissioning of new bottling plants and augmentation of existing bottling plants in order to improve QoSS and reduce intra-state price disparities.
- **Inventory management:** Inventory management in bottling plants in order to mitigate issues of lack of empty cylinder stock and poor physical quality of cylinders.
- **Operations and Maintenance:** Mitigation of operations and maintenance issues at bottling plants, including planning of ramp-down or shutdown. Meeting of all statutory conditions of safety standards and adherence to labour laws.
- **Capacity building:** Hiring personnel and conducting trainings including safety-related trainings.
- **Planning:** Receiving of demand indents[31] from the distributors in order to check any erroneous estimation and subsequent QoSS issues of delay.
- **Inspection and vigilance:** Identification of instances of pilferage, diversion, under-filling of cylinders at stages before supplying to the distributor through vigilance teams. Carry out periodic and surprise inspections to the effect.
- **Risk mitigation:** Alternative transport planning to mitigate the risks arising out of breakdown of vehicles delivering cylinders to distributors and/or physical road blockades.
- **Consumer interface and enabling digital payments:** Maintenance of OMC infrastructure like portal, call center for complaints handling and systems for digital payments.
- **Managing exigent contingencies:** Preparedness to natural disasters and other emergencies.

While statutory compliance of safety standards at bottling plants and distributor godowns exist[32], there is no known mechanism to quantify any breach in accountability regarding the points listed above and suitably compensate the consumer (and perhaps distributor) for poor QoSS as required, leading to the impression that OMCs are not sufficiently accountable to LPG distributors and consumers. In the power sector, all distribution companies are subject to Standards of Performance regulations, which provide for compensation to the consumer, if certain critical service standards are not met in

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30. Clause 19(b) of the Agreement
31. Refer 'HYC/N 3203 Stock Accounting and Indenting' PC1-PC10 for details of the typical indenting and stocking tasks undertaken by the distributor (NSDA 2017).
32. As laid down by Oil Industry Safety Directorate (OISD) of MoPNG

compliance with the Electricity Act, 2003. In the absence of a regulator, MoPNG can notify rules specifying standards of performance for the OMC as well as the distributors. This would be similar to the Draft Electricity (Rights of Consumers) Rules 2020 (MoP 2020) published for public consultation by the Ministry of Power.

Further, 18 states have enacted Public Services Guarantee Acts[33] for time-bound delivery of welfare services and compensations on defaults. These Acts provide for specified timeline for delivery of services, define the responsible officer and provide compensation to consumers. Central schemes such as MGREGA are required to synchronize their grievance redressal processes with the respective state Service Delivery Acts (Ministry of Rural Development 2014). Examples from other PSUs includes the public sector monopoly of Coal India Ltd. (CIL), which now publishes the quantity of coal it has dispatched to power companies on a daily basis and has improved its coal quality assessment mechanisms to become more consumer friendly.

The aspect of uneven OMC accountability was clearly underscored during the implementation of free PMUY refills under PMGKP. LPG Distributors associations gave multiple representations to the MoPNG on undue pressure on them to meet the refill 'target' during the ongoing COVID19 pandemic and indicated that OMC officials the LPG-MDG provisions are often used as a coercive mechanism[34]. While MoPNG in the Parliament stated that the executives of OMCs have not forced the distributors to deliver the refill without the requirement of customer or low demand from them (Lok Sabha 2020c), our discussions with LPG Distributors and Distributor Associations indicated otherwise. Therefore, in the light of the historically low refill demand among PMUY consumers, setting any such refill targets and arbitrary penalties for not meeting them during a pandemic exposes the fault lines in the interplay of these accountability mechanisms.

2.5. Linkage of grievance redressal and accountability

As noted earlier, a consumer can lodge a QoSS related complaint through a toll-free number, OMC apps, portal or in-person to the distributor and OMC officials. The OMC grievance redressal mechanism also requires the field officer inspecting the distributor to contact the complainant and resolve the complaint (IOCL 2014b). However, it is limited to the complaints entered in the book the distributor is required to maintain as per LPG-MDG. These do not include the complaints raised by consumers through call, portal and apps. The distributors or OMC officials do not face any actions if they do not track and close the complaint within the time stipulated in the Citizen's Charter (IOCL 2014a), nor is an inspecting officer required to investigate consumer complaints and award suitable irregularities under LPG-MDG. In other words, the action against distributors are not based on consumer complaints but OMC inspections alone. Thus, the accountability of the distributor is only to the OMC and in turn, there is limited consumer accountability for the functions performed by the OMC. These grievance redressal systems lack penalties,

33. These states are Assam, Chhattisgarh, Delhi, Gujarat, Goa, Haryana, Himachal Pradesh, erstwhile Jammu and Kashmir state, Jharkhand, Karnataka, Kerala, Maharashtra, Odisha, Punjab, Rajasthan, Uttar Pradesh, Uttarakhand and West Bengal.

34. Only a part of the correspondence between distributor groups and OMCs/MoPNG are publicly available. In order for research and policy advocacy community to better understand the issues in the sector, distributor groups should ensure their memorandum of grievances/demands and other correspondence is well-documented and public record. See FLDI 2020a, 2020b for more.

compensations, statement of reasons, systemic tracing of responsibilities and in fact based on publicly available documents, automatic escalation of unresolved issues within any particular stipulated time does not seem to be in place. Thus, it is a process of individual issue-solving at the consumer level without ensuring systemic accountability of the OMC and the distributors to the consumers. Bridging this gap is essential in ensuring QoSS as systemic root causes behind consumer complaints must be traced and dealt with and the consumer should be compensated for the same.

3. The way forward

India's domestic LPG sector, dominated by PSU OMCs, is faced with many challenges in order to continue providing quality service to its consumers. These challenges are further underlined by the fact that the relative share of urban consumer base is shrinking and there have been more concerted efforts made in the recent times to ensure the rural transition to clean cooking fuels. The lack of fair, transparent and effective accountability mechanisms is one of the foremost challenges that need to be addressed in order to address issues of QoSS. The highlighted issues in the current accountability mechanisms affect distributor viability, systemic improvements and more primarily, protection of consumer interests. Thus, having examined the various instruments and the lacunae in ensuring QoSS for the consumer, we suggest several measures the MoPNG and OMCs could undertake to address these lacunae.

3.1. Improve accountability across the supply chain

Even though centralised systems of complaints receiving and resolving exist, data on the number and nature of the consumer and distributor complaints, pendency, time taken to address issue etc., need to be made public, so that specific insights can be drawn on the prevalent gaps and systemic challenges in service delivery in order to formulate corrective measures. It is evident from the analysis that there are pervading QoSS issues in the domestic LPG sector, especially in the rural areas. The fact of low average refills also points to the possibility of issues beyond affordability and need for behaviour change[35]. Our analysis shows that presently the accountability mechanisms are inadequate, opaque and disaggregated, making accountability of OMCs and distributors to the consumers, and that of OMCs to their distributors difficult.

3.1.1. Need for performance data to be publicly available

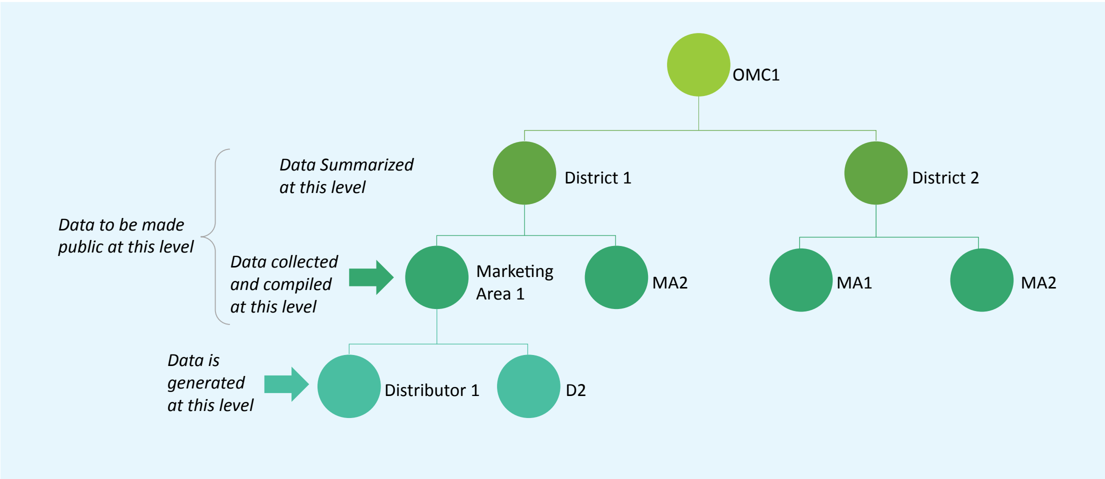
Increased transparency will help to hold OMCs more accountable and identify any systemic weaknesses or challenges. Therefore, in order to improve OMC accountability and to help understand the various issues in the PSU domestic LPG sector, OMCs must periodically compile and release crucial data in the prescribed formats, which are currently not in the public domain. For example, the following parameters at the distributor category level must be tracked on a periodic basis:

- Ratio of refill ceiling-limit to total sales
- Ratio of minimum uptake to total sales
- Ratio of minimum sales requirement to total sales
- Non-PMUY and PMUY refill rate

35. The MoPNG submitted to the Standing Committee On Petroleum & Natural Gas (2019-20) that the national average refill of domestic LPG cylinders by consumers was 6.25 cylinders per year and 3.08 for PMUY consumers (Lok Sabha 2019a). In a response to a question raised in the Lok Sabha, the MoPNG stated that this average is 3.27 for PMUY consumers (Lok Sabha 2020b).

The lowest level of data for a particular OMC would come from say, a Gramin distributor of Wadegaon Marketing area in Nanded district of Maharashtra, a Shehri distributor from Pune marketing area and so on. We have suggested some indicative data formats in Annexure 6.1 and the proposed data compilation structure for the same is depicted in Figure 5 for an illustrative OMC. The MyLPG portals that are standardized across OMCs and are intended for transparent sharing of information to consumers can be leveraged to this end.

Figure 5: Illustration of the suggested data compilation and reporting structure



3.1.2. Regular independent service delivery audits

Given that LPG is the largest source of clean cooking fuel in India whose usage has to be encouraged, it is important that various aspects of LPG service delivery be subject to independent assessment and third-party audits, which are publicly available. Therefore, it is vital that a service delivery audit of the sector is done every two years, which looks into aspects of subsidy delivery, safety, consumption, distributor performance, bottling plant performance and planning, and such a report should be published on the MoPNG website.

3.1.3. Portal to streamline existing distributor accountability processes

We also suggest that the OMCs create a portal where the distributors can view performance ratings of other distributors, inspection findings, action-taken reports, distributor grievances and the OMC remedies. In addition to these, the portal must also provide details of the LPG-MDG appeals, time taken and decisions made. Periodic summary statistics at the level of distributor category should be made public. This will enhance accountability in the way OMCs enact LPG-MDG/ Agreement provisions, thereby empowering distributors to demand better supply-side performance from OMCs to improve QoSS for consumers.

3.2. Encourage viability of rural distributors

3.2.1. Performance based incentives

LPG distributors in general and rural distributors in particular could be provided with performance-based incentives, so that they get a greater margin on their commissions if their performance exceeds some normative levels (details in section 3.3). The performance parameters can be clearly and quantitatively designed to avoid any ambiguity and possibility of misuse. For example, they can be based on the number of cylinders sold, number of PMUY consumers to whom sales were made, the average time taken to deliver, the number of home deliveries, the number of consumer complaints received etc. The ratios discussed in suggested data formats in Annexure 6.1 can be used for these metrics. The incentives can also be provided in a graded manner, with higher levels of performance meriting higher levels of margins. The norms for evaluating performance should be different for each distributor category to take into account different challenges and business environments they face. The norms themselves should be subject to periodic revision. Over time, the standards can be revised such that all distributors have normative performance standards at par with urban distributors.

3.2.2. Differential commission for rural distributors

It is acknowledged that, in general, the cost per consumer for rural distributors will be higher and the sales per consumer will be lower. Moreover, they will also have lesser opportunities for sales to non-residential consumers. Given this situation, it is only fair that rural distributors – i.e. Gramin and Durgam Kshetra distributors – should be provided higher commissions for sale of LPG cylinders, as compared to their urban counterparts. The commission should be computed based on the likely higher cost of service provision and lower cylinder sales per month for these categories of distributors. The commission for Rurban distributors can be decided so that it falls between the commission for urban and rural distributors. In the past, MoPNG has commissioned detailed studies to arrive at revised distributor commissions (MoPNG 2019c). However, such studies are not made public citing reasons of commercial interest and are not shared with even the distributors to whom it is of material concern. Understanding the basis of setting distributor commissions is key to periodically rationalising commissions for all categories to reflect changing realities.

3.2.3. Enabling other sources of revenue

In the context of the changing rural economy, marked with greater penetration of mobile technology and digital payments, OMCs ought not to have objections to distributors providing services such as phone recharging, document printing, photo-copying etc. As noted earlier, the business of LPG distributorship is capital intensive, thus the possibility of distributors engaging in small business activities from the distributor owned premises should be considered, in order to improve distributor viability in rural areas. Business diversification should be permitted provided the activities are not in conflict with OMC's business interests in any way and do not compromise safety in any manner. Clause 24(c)(ii) in the Agreement indeed opens up avenues for this, as it states that a distributor cannot engage in other business activities without the OMC's written permission. Rather than introducing processes of permissions, MoPNG could periodically draw up a black-list of items and business activities that would be prohibited, and the distributor would be free to pursue any other business activities. The Agreement and MDG should be amended to reflect this.

3.2.4. Educate distributorship aspirants and mentor distressed distributors

Another aspect of distributor viability that needs to be further studied is the information asymmetry in the sector across geographies. Going by the general experience and perception in the urban areas, LPG sector is a rather stable business if not lucrative as an enterprise. The government also awards distributorships as a welfare scheme to war widows, ex-servicemen and people of other vulnerable categories. Such beneficiaries and rural distributorship applicants in general may not be fully aware of the challenges in running the business including the detailed compliance that LPG-MDG and Agreement demands of them and business viabilities consideration. OMCs and LPG distributor associations should together consider targeted information sharing and mentorship exercises for genuinely distressed distributors to reduce this information asymmetry.

Adopting measures such as the above would make rural LPG distributors more financially viable and thus increase the likelihood of good QoSS by such distributors.

3.3. Revise Distributorship Agreement and LPG-MDG

3.3.1. Make the Distributorship Agreement fair and balanced

Agreements that create ambiguous or unsuitable conditions for one or more parties, naturally lead to disputes[36]. A dotted line agreement is one where one of the parties sets the terms, and other parties generally have no say over the terms. In other words, they have to sign on the dotted line or forgo the contract. Distributorship Agreement is one such dotted line agreement. While formulating dotted line Agreements, it is imperative to ensure that, to the extent possible, the terms are kept fair[37]. Most importantly, contractual Agreements entered by PSU OMCs must be treated as state executive action, and need to adhere to principles of natural justice, fair play, keeping the public interest at its core[38]. However, a fair and balanced Agreement between OMCs and distributor is not only necessary from a natural justice point of view but also essential to improve QoSS for the consumer. The Agreement should have minimum standards of performance or service obligations and penalties for both the parties in order to make it a fair and balanced bipartite agreement with QoSS for the consumer as its core.

3.3.2. Draft Model LPG Distributorship Agreement consultatively

In addition to remedying the issues in the current agreements, MoPNG should draft a Model LPG Distributorship Agreement. This draft must be finalized only after extensive consultations, which includes conducting regional meetings with distributor groups and unions, and inviting public comments on the draft Model Agreement on the MoPNG website. This process will ensure that interests of all stakeholders and the general public

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36. For illustrations of the disputes between OMCs, distributors and consumers refer the following cases- (Bombay HC 2019; Gujarat HC 2015; NCDRC 2012, 2019; Punjab-Haryana HC 2014; Rajasthan HC 2017a, 2017b, 2019)

37. The Supreme Court of India (1995) made the following observation as a test to mark the reasonability of the terms – "... if a contract or a clause in a contract is found unreasonable or unfair or irrational one must look to the relative bargaining power of the contracting parties. In dotted line contracts there would be no occasion for a weaker party to bargain or to assume to have equal bargaining power. He has either to accept or leave the services or goods in terms of the dotted line contract. His opinion would be either to accept the unreasonable or unfair terms or forego the service for ever. With a view to have the services of the goods, the party enters into a contract with unreasonable or unfair terms contained therein and he would be left with no option but to sign the contract".

38. Supreme Court of India (1990) in *Mahabir Auto Stores* noted that "[e]very action of the State executive authority must be subject to rule of law and must be informed by reason. So, whatever be the activity of the public authority, in such monopoly or semi-monopoly dealings, it should meet the test of Article 14 of the Constitution". This ruling continues to be the prevailing jurisprudence on state executive nature of PSUs. Specifically for PSU OMCs, recently the Supreme Court of India (2015) reiterated this position while settling a long drawn case between an LPG distributor and IOCL in Para 31 of the judgement.

are considered on a deliberative platform before formulating the terms of the Agreement, thereby bringing legal clarity, mutual trust and consensus in the design stage itself. The resultant Model Distributorship Agreement would be applicable to new distributors and all distributors whose Agreements are due for renewal. The Model Distributorship Agreement should be reviewed and, if necessary, revised every few years after a similar process to reflect changes in the business and ground realities. The same process should be followed to draft a Marketing Discipline Guideline (MDG) to make it consistent with the Model Distributorship Agreement.

3.3.3. Formulate Standards of Performance in DA and LPG-MDG

In order to identify and address the specific issues affecting QoSS in the domestic LPG segment, the MoPNG should formulate model Standards of Performance (SoP) in the LPG-MDG and Agreement for various distributor categories. On the consumer side, the SoP should identify realistic and clear SoPs for parameters which affect QoSS, have provisions for tracking compliance based on consumer complaints, and define compensations for the consumer against failures in meeting some critical service parameters including targeted delivery time and home delivery. On the OMC side, the Agreement must contain SoPs for OMCs and compensations to Distributors, which are ultimately passed on to the consumer. A periodic consultative process to draft and update the same (say, every 5 years) will ensure that the SoP is realistic and set in such a manner that in due course of time, the rural QoSS levels converge with the urban standards. Finally, to avoid any ambiguities, adherence to the new MDG including the SoPs, should be made explicitly binding in the Agreement.

Figure 6: Schematic of the suggested SoP structure

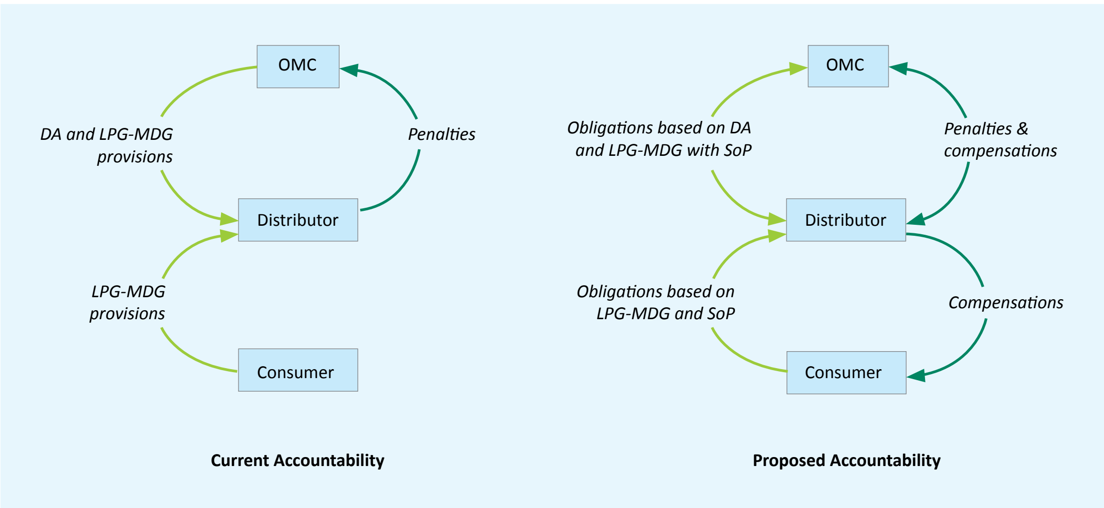

Figure 6 shows the current situation of accountability where OMCs impose penalty under Agreement and LPG-MDG on distributors. In addition to the improvements in DA and LPG-MDG that holds distributors accountable to OMCs, in the proposed addition of SoPs, the consumer is compensated for the distributor not meeting an SoP and in turn, the distributor gets compensated if OMC is the reason for not meeting that particular standard. This will ensure that accountability of both the OMCs and Distributor is primarily to the consumer and systemic issues causing the standards to be not met are traced and remedied at the appropriate level. In LPG-MDG, TDT is one category of Standards that are already available. Few other illustrative categories of SOPs are-

- Number of defective/damaged cylinders received by the Distributor
- Number of underweight cylinders received by the Distributor
- Number of days taken by the distributor to place demand indent
- Number of days taken by the OMC to honour a demand indent placed by the distributor (i.e TDT for OMCs)
- Unscheduled outages of OMC operations portals as they lead to disruption in Distributor processes and QoSS

3.4. Improve QoSS and accountability related consumer information

As discussed in section 2.5, the systems of consumer grievance redressal and accountability are disaggregated. One of the ways to improve this is to improve communication by including consistent messaging on consumer safety, pricing, entitlements, and SoPs (as discussed in section 3.3.3). Presently, the delivery personnel fills in particulars of price in Domestic Gas Consumer Card (DGCC) at the consumer end at the time of delivery, and may hand out a printed receipt with some information on the other side of the receipt. Instead of DGCC, a system of a printed bill in a format uniform across OMCs and distributors, and printed in the regional language and English, should be introduced. Details of the break up of each component of the retail-selling price, taxes and the actual time taken to deliver refill needs to be printed on a receipt format with other information on the overlay. Following are the details the informative bill should have-

- Detailed breakup of price build-up of the cylinder (suggested breakup in Table 2)
- Number of refills, number of subsidised refills for the financial year if applicable
- Last few digits of the Aadhar linked bank account and UID
- Details of the distributor including emergency contact
- Date of booking, date of delivery, and number of days to deliver

Table 2: Detailed price break up of a 14.2 kg LPG cylinder (illustrative values)

Sl No	Elements	Rs/14.2 kg Cylinder
1	**Import Parity price (same as Refinery Transfer price)**	**470.00**
2	Add: Storage, Distribution, Bottling Charges, Cylinder cost, Delivery to Distributor, State specific charges, VAT, Other costs	127.00
3	Add : Distributor Commission component (1): Establishment Charges	34.24
4	Add : Distributor Commission component (2): Delivery Charges	27.60
5	**Retail Selling Price (inclusive of GST)**	**658.84**
6	Less: Subsidy under DBTL	208.84
7	**Effective Cost to Consumer after Subsidy**	**450.00**

The other side of the bill can have the following details printed in permanent ink-

- Details of rights of the consumer
- Information on TDT norms under LPG-MDG
- Infographics on safe practices while using LPG
- Details of the area in charge officials of the OMC and other grievance redressal mechanisms
- Process for applying for LPG Portability

Such information is routinely made available to consumers through bills in other sectors such as electricity and mobile telephony, and this good practice should be introduced in the LPG sector too.

3.5. Appoint an independent regulator for the domestic LPG business

Given its rapidly changing nature, the domestic LPG sector has to go beyond a case-based grievance redressal system if the MoPNG envisages more sustainable penetration in the rural sector going forward. More importantly, the domestic LPG sector not only lacks a comprehensive accountability system but also a strong independent regulatory framework to tackle many of these challenges. A regulator, through consultative processes, would enact realistic SoP regulations with clearly defined QoSS parameters and compensations to the consumer and distributor against critical parameters. This would lead to greater accountability and efficiency, especially in the rural sector and enhance legitimacy leading to increased uptake of LPG. The regulator would also be independent, and therefore in a better position to hold the OMCs accountable, than MoPNG which is currently both the owner and regulator of the OMCs.

Constituted under the Petroleum and Natural Gas Regulatory Board Act, 2006 (or PNGRB Act) the Petroleum and Natural Gas Regulatory Board (PNGRB) is the downstream regulator for the notified petroleum products segment (PNGRB 2006). In 2011, the PNGRB issued guidelines to OMCs to protect domestic LPG consumers from “fraud or harassment by unauthorized persons” (PNGRB 2011). It did so by invoking section 11(a) of the Act, that reads- "[t]he Board shall... protect the interest of consumers by fostering fair trade and competition amongst the entities". The Act can be used to fully bring the domestic LPG sector under PNGRB’s regulatory purview, if necessary, by appropriately notifying LPG as a regulated product. In addition to electricity sector, the Appellate Tribunal for Electricity (APTEL) is the appellate forum for all orders passed by the PNGRB, under Section 33 of the PNGRB Act[39]. Bringing LPG under PNGRB would automatically also provide an appellate mechanism in the LPG sector. The regulator must not only oversee the implementation of principles agreed upon in the Model Distributorship Agreement, but also order OMCs to set up Consumer Grievance Redressal Forums (CGRFs) and itself appoint an Ombudsman for appeals against CGRF orders. There have been concerns regarding PNGRB’s effectiveness in enabling the development of a robust, competitive PNG sector, and these concerns need to be addressed. However, we believe strengthening an existing institution to fulfil this mandate would be a simpler approach than setting up another institution from scratch.

39. For a review on APTEL functions and capabilities see Prayas (2018).

3.6. Consider taking over the rural distributorships

Strengthening the accountability mechanisms not only improves QoSS for consumers, but also helps MoPNG identify systemic issues in the OMC and distributor operations. Since rural distributor unviability is a business reality not just due to distributors shirking QoSS responsibilities, OMCs can consider taking over rural distributorships. They could do this by opening new rural distributorships themselves. They could also consider a scheme with an option of buying-out interested existing distributors, with the option being in effect for say 2 years since the date of announcement. Since greater adoption of LPG in rural areas is a social welfare obligation, MoPNG should suitably support OMCs in their rural distributorship ventures. This scheme can be operationalised using criteria such as number of months a distributor performed under the feasibility limit as defined in Unified Guidelines For Selection Of LPG Distributors (OMCs in India 2016), for an assessment period of say 5 years. The MoPNG and OMCs should come up with the modalities of implementing this suggestion through a consultative process. To begin with, OMCs can consider taking over some distressed distributors and run them on pilot basis in order to understand and address specific challenges of viability in this sector.

4. Conclusions

Adoption and sustained use of modern, clean-burning cooking fuels by poor and rural households is critical to addressing energy poverty and the severe health impacts associated with usage of solid fuels. India rightly views LPG as the most important tool to overcome this challenge. However, consumers are likely to use LPG regularly only if they are provided with requisite QoSS in the supply of LPG. Our analysis of the extant QoSS mechanisms for LPG supply indicate many weaknesses that we have highlighted. These include issues around the terms of the LPG-MDG and the Distributorship Agreement, and viability concerns around rural LPG distribution as a business. More importantly, while there are some (albeit weak) accountability mechanisms regarding distributors, there are practically no mechanisms and systems to hold OMCs accountable regarding QoSS and their responsibilities towards consumers and distributors. This is a matter of serious concern, as OMCs are the most critical link between the government and consistent usage of LPG by consumers.

In this paper, we have provided some suggestions on how these weaknesses regarding QoSS and accountability of OMCs can be addressed. While failing to ensure viability of rural segment may force distributors into a vicious cycle of engaging in malpractice, skewed and ineffective accountability mechanisms will erode the quality of supply and service to the rural consumer. Until effective accountability mechanisms are ensured, the risk of rural consumers returning to non-modern fuels due to poor quality of service and supply will continue to prevail. This relapse will not only nullify the public health gains, but will also fail to reduce drudgery of rural Indian women and result in sub-optimal use of the significant subsidy payments in the LPG sector. Therefore, unless these issues are effectively addressed, efforts made in the recent past to transition rural India to clean cooking fuels will not be fully realized and the large investments made for this will go in vain.

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6. Annexures

6.1. Suggested Data Formats

Table 3: Suggested data format-Marketing area level table

Distributor Agency Name	Category (Durgam Kshetriya, Gramin, Rurban, Shehri)	Quarter	Month	For 14.2 kg cylinders only		
				Refill-ceiling limit (No of cylinders)	Minimum-uptake from OMC (No of cylinders)	Minimum-sales to be effected (No of cylinders)
		Q1	Apr			
			May			
			Jun			
		Q2	Jul			
			Aug			
			Sept			
		Q3	Oct			
			Nov			
			Dec			
		Q4	Jan			
			Feb			
			Mar			

Table 3 continued...

<table>
<tr><th rowspan="3">Distributor Agency Name</th><th rowspan="3">Category (Durgam Kshetriya, Gramin, Rurban, Shehri)</th><th rowspan="3">Quarter</th><th rowspan="3">Month</th><th colspan="6">Non-PMUY</th><th colspan="4">PMUY</th><th rowspan="3">Total 14.2 kg Sales (No of cylinders)</th></tr>
<tr><th rowspan="2">Number of Active connections as on date</th><th rowspan="2">Number of new connections</th><th colspan="4">Sales (No of cylinders)</th><th rowspan="2">Number of Active connections as on date</th><th rowspan="2">Number of new connections</th><th colspan="2">Sales (No of cylinders)</th></tr>
<tr><th>14.2 kg unsubsidised</th><th>14.2 kg subsidised</th><th>Total 14.2 kg</th><th>5 kg</th><th>14.2 kg subsidised</th><th>5 kg</th></tr>
<tr><td rowspan="12"></td><td rowspan="12"></td><td rowspan="3">Q1</td><td>Apr</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>May</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Jun</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="3">Q2</td><td>Jul</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Aug</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Sept</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="3">Q3</td><td>Oct</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Nov</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Dec</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="3">Q4</td><td>Jan</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Feb</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Mar</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

Table 3 continued (Ratios will be automatically calculated)

Distributor Agency Name	Category (Durgam Kshetriya, Gramin, Rurban, Shehri)	Quarter	Month	Ratio (for 14.2 kg cylinder only)				
				Ceiling-limit to Sales	Minimum Uptake to Total Sales	Minimum Sales requirement to Total Sales	Non-PMUY Refill rate (number of cylinders per active connection)	PMUY Refill rate (number of cylinders per active connection)
		Q1	Apr					
			May					
			Jun					
		Q2	Jul					
			Aug					
			Sept					
		Q3	Oct					
			Nov					
			Dec					
		Q4	Jan					
			Feb					
			Mar					

Table 3 continued...

Distributor Agency Name	Category (Durgam Kshetriya, Gramin, Rurban, Shehri)	Quarter	Month	TDT rating (1-Poor, 2-Below Average, 3-Average, 4-Good, 5-Excellent)	Consumer rating	Inspection irregularities			
						Extermely critical	Critical	Major	Minor
		Q1	Apr						
			May						
			Jun						
		Q2	Jul						
			Aug						
			Sept						
		Q3	Oct						
			Nov						
			Dec						
		Q4	Jan						
			Feb						
			Mar						

Table 4: Suggested data format- District level table (Ratios will be automatically calculated)

Distributor Category	Quarter	Month	Total Number of distributors in this category	Total number of Active connections	Total Sales (no of cylinders)	Average Ratio (for 14.2 kg cylinder only)				
						Ceiling-limit to Sales	Minimum Uptake to Total Sales	Minimum Sales requirement to Total Sales	Non-PMUY Refil rate (number of cylinders per active connection)	PMUY Refil rate (number of cylinders per active connection)
	Q1	Apr								
		May								
		Jun								
	Q2	Jul								
		Aug								
		Sept								
	Q3	Oct								
		Nov								
		Dec								
	Q4	Jan								
		Feb								
		Mar								

6.2. Summary of 'Extremely Critical' LPG-MDG irregularities

The table illustrates 'Extremely critical' category of irregularities that were added to the LPG-MDG post PMUY.

Table 5: LPG-MDG: Summary of extremely critical LPG-MDG irregularities

Irregularity	Y	1st instance	2nd instance
Y cases of proven violations detected of issuing connection under PMUY to any person not eligible under PMUY/Extended PMUY scheme in contravention to applicable guidelines issued by OMCs	More than 25 and less than 200	Fine equivalent to 50% of avg monthly distributor's commission based on sale of subsidized & non-subsidized domestic LPG in 14.2 kg & 5 kg cylinders including sale to NDEC for the preceding 6 months from the month of detection of irregularity	Termination#
	More than 200	Termination#	NA

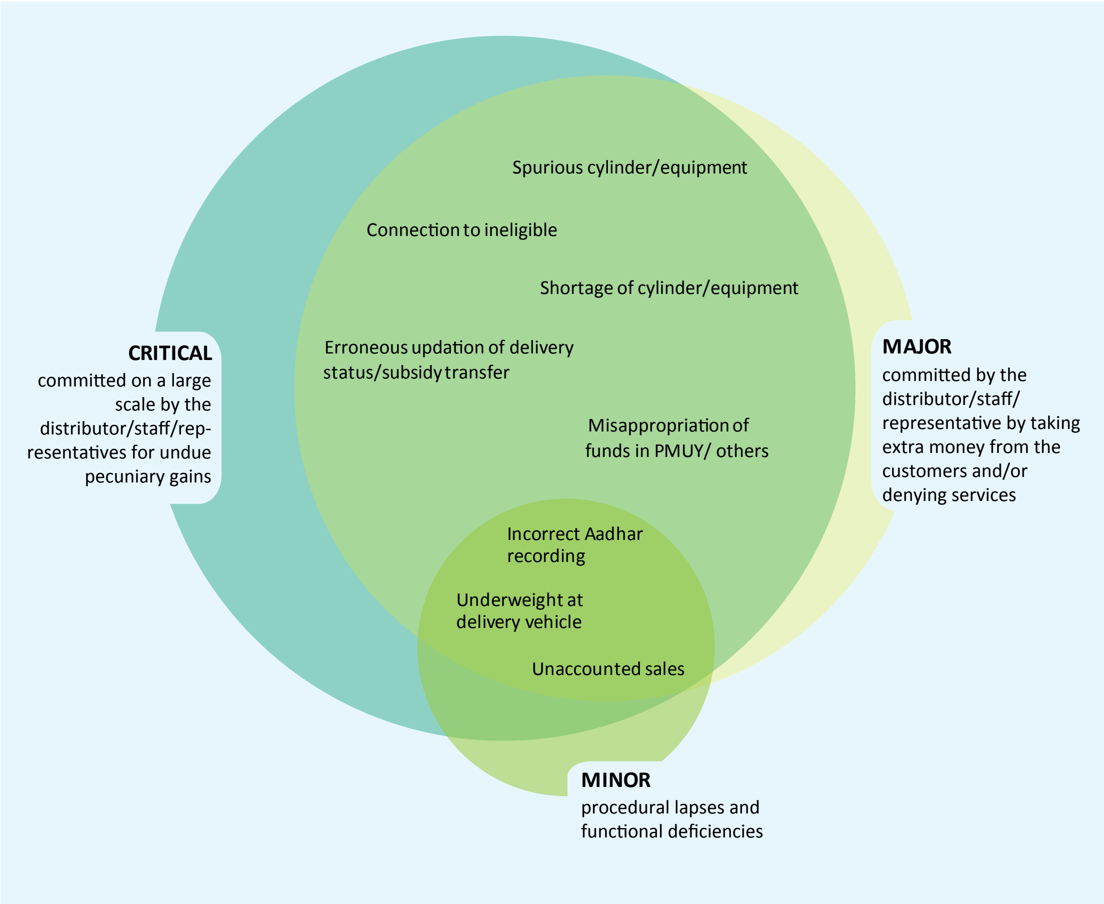
→ plus Rs. 3000/- multiplied by number of such connections released, outstanding loan, and subsidy if any. Connections to be terminated and equipment to be retrieved

Source : PEG analysis based on the provisions of LPG-MDG

6.3. Summary of the common LPG-MDG Irregularities categorization

In total, 39 irregularities in the LPG-MDG unambiguously fall under one of the categories of 'extremely critical', 'critical', 'major' and 'minor' of which 24 belong to the 'minor' category. 8 irregularities can be 'critical', 'major' or 'minor' depending on their severity as shown in Table 5. Figure 7 provides an overview of what these overlapping irregularities are.

Figure 7: Summary of common 'critical', 'major', 'minor' irregularities



Source: PEG analysis based on the provisions of LPG-MDG

Table 6: LPG-MDG: Summary of common Critical, Major and Minor irregularities

Irregularity	Critical	Major	Minor
X of Filled LPG cylinders loaded in a delivery vehicle for delivery to customers found under weight beyond permissible limit prescribed in the Legal Metrology (Packaged Commodities) Rules, 2011 as amended from time to time.	More than 25%	More than 10% and upto 25%	Up to 10%
Unaccounted sale of X filled LPG cylinders in 14.2 kg & 5 kg (supplied by OMCs at subsidized and non-subsidized domestic LPG rates) detected during the inspection or on the date of inspection for a period of preceding 1 years. This will include supply of filled cylinders to ineligible customer including customer/s already transferred/terminated/fake/ blocked. All refills supplied to such customers will be treated as unaccounted sale. It will also include filled cylinder sale accounted in the name of a genuine customer but not delivered to him and/ or selling more than the permitted domestic subsidized 14.2 kg/5 kg LPG cylinders as per entitlement to household/Non-Domestic Exempted category customers	more than 50	more than 10 and upto 50	Up to 10
X cases detected of incorrect recording of 'Aadhaar' number and/ or Bank account number against consumer number resulting in advance subsidy/subsidy amount being transferred to wrong person's bank account.	More than 100	More than 50 and upto 100	Up to 50
Detection of X spurious cylinders or domestic pressure regulators or both put together during the inspection or on the date of inspection.	more than 10	upto 10	-
Release of X Nos of Subsidized/non-subsidized domestic connections to ineligible persons/consumers/household/ detected during the inspection or on the date of inspection.	more than 10	upto 10	-
Shortage of X domestic LPG cylinders or domestic pressure regulators or both put together detected during the inspection or on the date of inspection.	more than 5	up to 5	-
X cases detected of updating delivery of cylinder for a customer in the OMC software by distributor or his staff whereas cylinder has actually not been delivered to the customer leading to wrong transfer of advance/subsidy to customer's bank account.	More than 50	Up to 50	-
Misappropriation of OMC funds given to distributor towards the cost of Suraksha Hose, DGCC, installation and administrative charges etc. - X cases of LPG connections under the PMUY & such other special scheme wherein the funds have been claimed from the OMCs without providing the product /services to the eligible customers /claimed from OMC as well as recovered from the customer.	more than 50	up to 50	-

Source: PEG analysis based on the provisions of LPG-MDG

6.4. Summary of penalties and quantum of irregularity

Table 7: LPG-MDG- Summary of penalties

		Critical	Major	Minor
Fine equivalent to X% of avg monthly distributor's commission based on sale of subsidized & non-subsidized domestic LPG in 14.2 kg & 5 kg cylinders including sale to NDEC category for the preceding 6 months from the month of detection of irregularity	1st instance	40*	20*#	0; Warning-cum-guidance letter
	2nd instance	60*	25*#	5*
	3rd instance	Termination*	35*#	10*
	4th instance	NA	Termination*#	15*

* → plus Quantum of irregularity
\# → plus due compensation to the customers

Source: PEG analysis based on the provisions of LPG-MDG

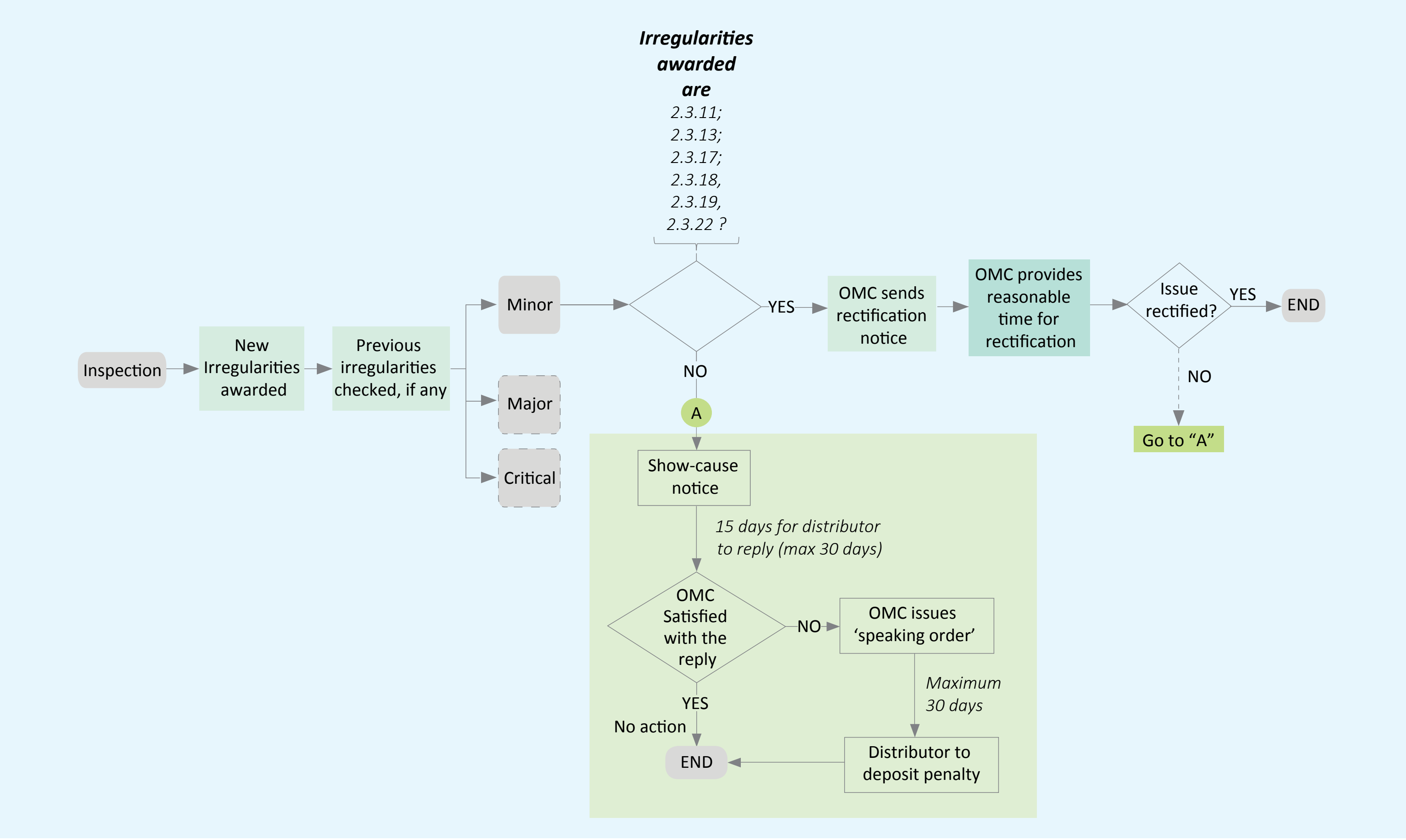
Table 8: LPG-MDG: Summary of quantum of irregularity

Irregularity	Penalty	Critical	Major	Minor
Transfer/Pilferage	Recovery based on RSP of 19 kg NDNE cylinder prevailing at the time of detection of irregularity	Yes	-	-
Detection of underweight cylinders loaded in delivery vehicle		Yes	Yes	Yes
Unaccounted sales	Pro-rated RSP of 19 kg NDNE applied to unaccounted cylinders	Yes	Yes	Yes
Incorrect Aadhar entry	Recovery of amount transferred to wrong person's account	Yes	Yes	Yes
Wrong updation of delivery		Yes	Yes	-
Shortage of stock	Penal rate as applicable	Yes	Yes	-
Connection to ineligible	Rs. 3000 X no of connections (incl PMUY) + outstanding loan/permanent advance and subsidy if any + Termination of connection (prepare TV) + forfeit security deposit + equipment retrieval + addl. Recovery if equipment not retrieved	Yes	Yes	-
Spurious equipment	Confiscation + recovery at penal rate	Yes	Yes	-

Source: PEG analysis based on the provisions of LPG-MDG

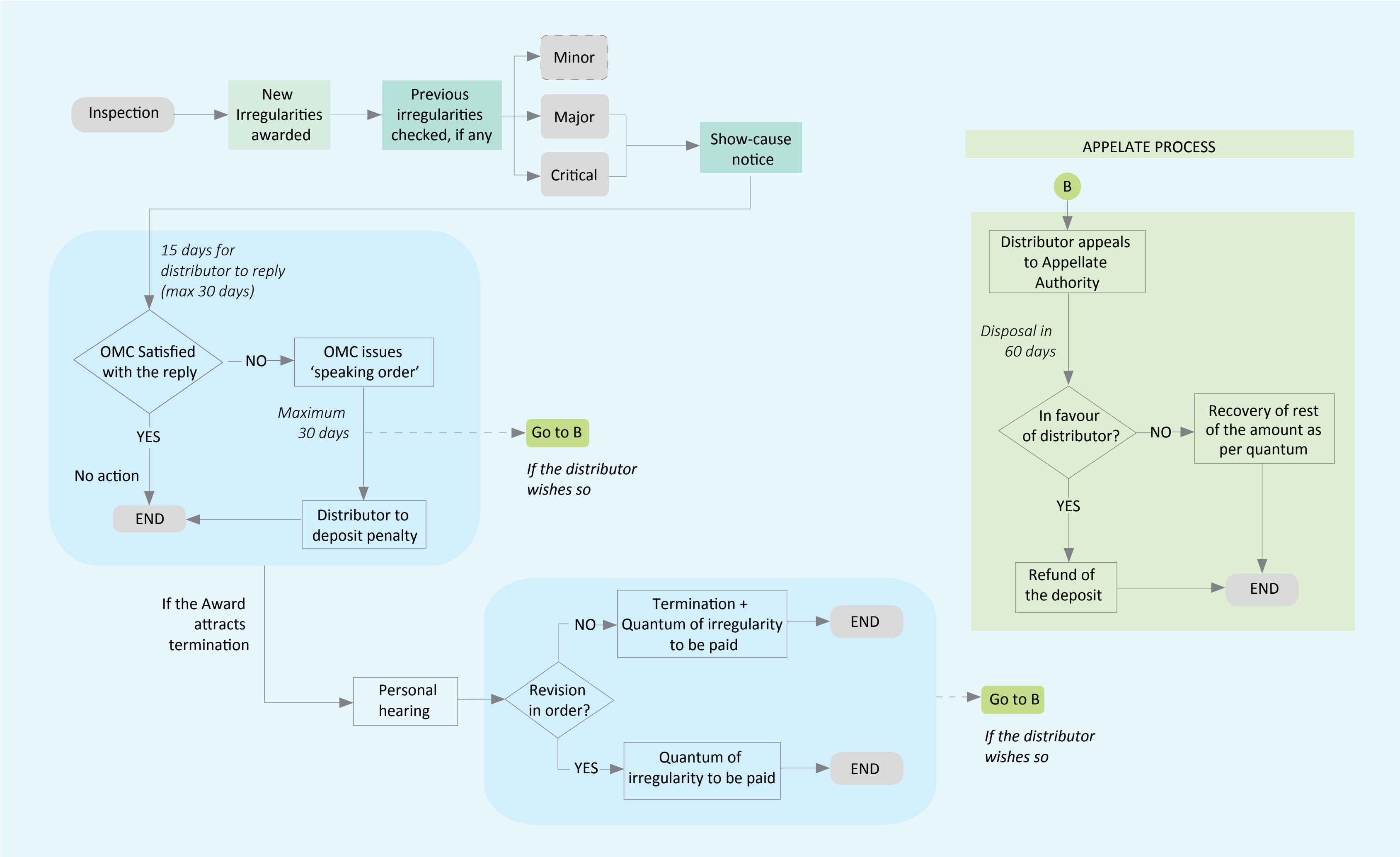
6.5. LPG-MDG penalty and appeal processes

Figure 8: LPG-MDG penalty processes: 'Minor' irregularities (detailed flowchart)



Source: PEG analysis based on the provisions of LPG-MDG

Figure 9: LPG-MDG penalty and appeal processes: 'Critical' and 'Major' irregularities (detailed flowchart)



Source: PEG analysis based on the provisions of LPG-MDG

6.6. Summary of Targeted delivery time (TDT) norms

Table 9: LPG-MDG: Summary of Targeted delivery time (TDT) norms

Rating	% delivery	days
5 – Excellent	85	<= 2
4 – Good	85	<= 4
3 – Average	85	<= 6
2 – Below Average	85	<= 8
1 – Poor	15	> 8

Action to be taken	Poor	Below Average
Rating in 1st or 2nd quarter during the period of first six months from the implementation of MDG, a Warning-cum guidance letter shall be issued to the distributor.	Yes	Yes
Rating during any quarter subsequent to above, a fine equivalent to **X**% of one month's distributor's commission shall be imposed.	25	10
Rating during any quarter subsequent to above, a fine equivalent to **X**% of one month's distributor's commission shall be imposed on every instance of the particular performance rating in a quarter.	50	25
Established that the distributorship performance is rated as "Poor" in any four completed quarters during the preceding 2 years (i.e. 8 quarters), it would lead to **Termination** of the LPG distributorship.	Yes	NA

Source: PEG analysis based on the provisions of LPG-MDG

6.7. Analysis of LPG-MDG Minor irregularity

Table 9 shows a list of SoPs under 'minor' category, marked against which are some remarks in our assessment. In our assessment, a large number of irregularities classified as 'minor' should receive higher categorisation. We also note that compliance of some SoPs are important for QoSS but easy to comply on the inspection day only. Ideally, irregularities of similar severity must be clubbed together so as to justify applying similar penalties to them, but it does not seem to be the case. Further, non-compliance of some SoPs are already penalized under targeted delivery (TDT) norms raising questions on the efficacy of these provisions in the LPG-MDG.

Table 10: Analysis of LPG-MDG Minor Irregularity

MDG clause number	Some irregularities classified under minor in MDG	Affects QoSS	Should be categorised higher than "minor"	Can be easily complied just during inspections	Directly affects TDT which has a separate penalty process for it
2.3.1	Upto 10 % of Filled LPG cylinders loaded in delivery vehicle for delivery to customers found underweight beyond permissible limit prescribed in the Legal Metrology (Packaged Commodities) Rules, 2011	✓	✓	✗	✗
2.3.2	Unaccounted sale of up to 10 filled LPG cylinders in 14.2 kg & 5 kg (supplied by OMCs at subsidized and non-subsidized domestic LPG rates) detected during the inspection or on the date of inspection for a period of preceding 1 year.	✓	✓	✗	✓
2.3.4	Deliberate withholding of Corporation's payment collected from customer as Security Deposit.	✗	✓	✗	✗
2.3.6	Rude/discourteous behavior of distributor/staff/ deliveryman without any provocation by customer	✓	✗	✓	✗
2.3.9	Non-placement of timely and sufficient indents at Bottling Plants to cover demand for each type of filled cylinders.	✓	✓	✗	✓
2.3.14	Non-compliance of pre-delivery checks for refills before delivery of refills by distributor's staff/distributor	✓	✗	✓	✓
2.3.15	Not complying of demonstrating weight through digital scale of the cylinder and leak testing of cylinder by leak detector before its delivery	✓	✗	✓	✗

2.3.17	Distributors not having adequate delivery infrastructure for home delivery and adequate manpower for Mechanic service	✓	✓	✗	✓
2.3.23	Up to 50 cases detected of incorrect recording of ‘Aadhaar’ number resuting in erroneous transfer/ non-transfer of subsidies	✓	✓	✗	✗
2.3.24	Non installation of new connection at the consumer’s premises and demonstration of its safe use.	✓	✓	✗	✗
2.3.26	Refusing to accept payment from LPG consumers through cashless mode	✓	✗	✓	✗
2.3.27	Non availability of platform type digital weighing scale of least count +/-10 gms at Godown, in working condition and having valid certificate.	✓	✓	✗	✗

Source: PEG analysis based on the provisions of LPG-MDG

Selected Publications of Prayas (Energy Group)

1	Ujjwala Yojana Needs to be More Ambitious to End Pollution in Rural Kitchens (2019) https://www.prayaspune.org/peg/publications/item/432.html
2	Fuelling the Transition: Costs and Benefits of using Modern Cooking Fuels as a Health Intervention in India (2018) https://www.prayaspune.org/peg/publications/item/376.html
3	Pradhan Mantri Ujjwala Yojana: What we need to know (2018) https://www.prayaspune.org/peg/publications/item/375.html
4	Five stitches in time: Regulatory and policy actions to ensure effective electricity service (2019) http://www.prayaspune.org/peg/publications/item/418.html
5	Consumer's Guide for Electricity Services (2019) https://www.prayaspune.org/peg/publications/item/417.html
6	Many Sparks but Little Light: The Rhetoric and Practice of Electricity Sector Reforms in India (2017) https://www.prayaspune.org/peg/publications/item/332.html
7	From connections to use: Realizing the objective of smokeless kitchens for all (2016) https://www.prayaspune.org/peg/publications/item/316.html
8	Demanding Electricity Service: A Guide for the Community Activist (2015) http://www.prayaspune.org/peg/publications/item/300.html

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The role of Pradhan Mantri Ujjwala Yojana (PMUY) in providing relief to the sections most vulnerable to the ongoing COVID-19 pandemic highlights the importance of the domestic LPG sector now and going forward. However, while India has achieved near 100% coverage of LPG connections, latest NSSO data suggests that nearly half of rural India still relies primarily on solid fuels for its cooking needs. Thus, significant efforts are needed to bridge the gap between connections and sustained use in rural India. Addressing challenges of affordability, behaviour change and quality of supply and service are crucial to ensuring sustained adoption of LPG. These issues are very pertinent now, as urban India may move to other cooking fuel options such as piped natural gas or electricity, leading to a situation where OMCs are left mainly with rural and under-served consumers in the domestic LPG segment.

Therefore, in order to provide long-term quality service, systemic issues relevant to rural consumers need to be identified and remedied through strong accountability mechanisms that go beyond just individual grievance redressal. Presently, such systems in the domestic LPG service delivery appear to be very weak and inadequate. In this report, we study accountability mechanisms in domestic LPG sector, and highlight issues of uneven accountability of OMCs, aspects of distributor viability, and mechanisms that do not take consumer grievance redressal systems into consideration, among other things. In order to effectively link grievance redressal mechanisms and systems of accountability, we highlight that there is an immediate need to ensure consumer information through transparent and detailed billing and data dissemination.

We analyse the Distributorship Agreement and Marketing Discipline Guidelines to highlight the issues in the sector and suggest ideas for improvement. While there are some accountability mechanisms regarding distributors, there are practically no mechanisms and systems to hold OMCs accountable regarding their responsibilities towards consumers and distributors. This is a matter of serious concern, as OMCs are the most critical link between the government and consistent usage of LPG by consumers. Going forward there is a need to amend the guidelines and agreements through a consultative process to ensure they take into account current realities and to incorporate standards of performance targets for OMCs and distributors alike.

Before the flame of Ujjwala dies out completely, these issues need to be understood and addressed so that the massive public investments made towards realising the social and developmental goals do not go in vain.

प्रयास
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