

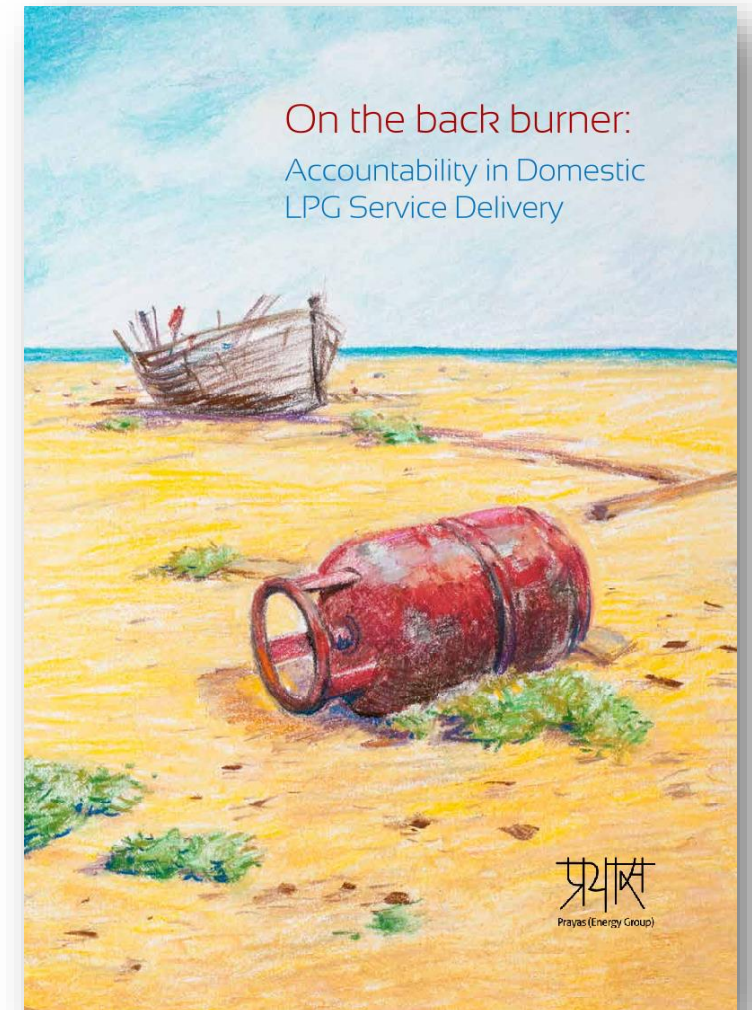
# WEBINAR

## On the back burner: Accountability in Domestic LPG Service Delivery

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<https://www.prayaspune.org/peg/publications/item/480>

*24 February 2021, 3pm*



# Context

## Current situation

~ 28.3cr total estimated Households

~27.4cr domestic LPG connections

~8cr PMUY

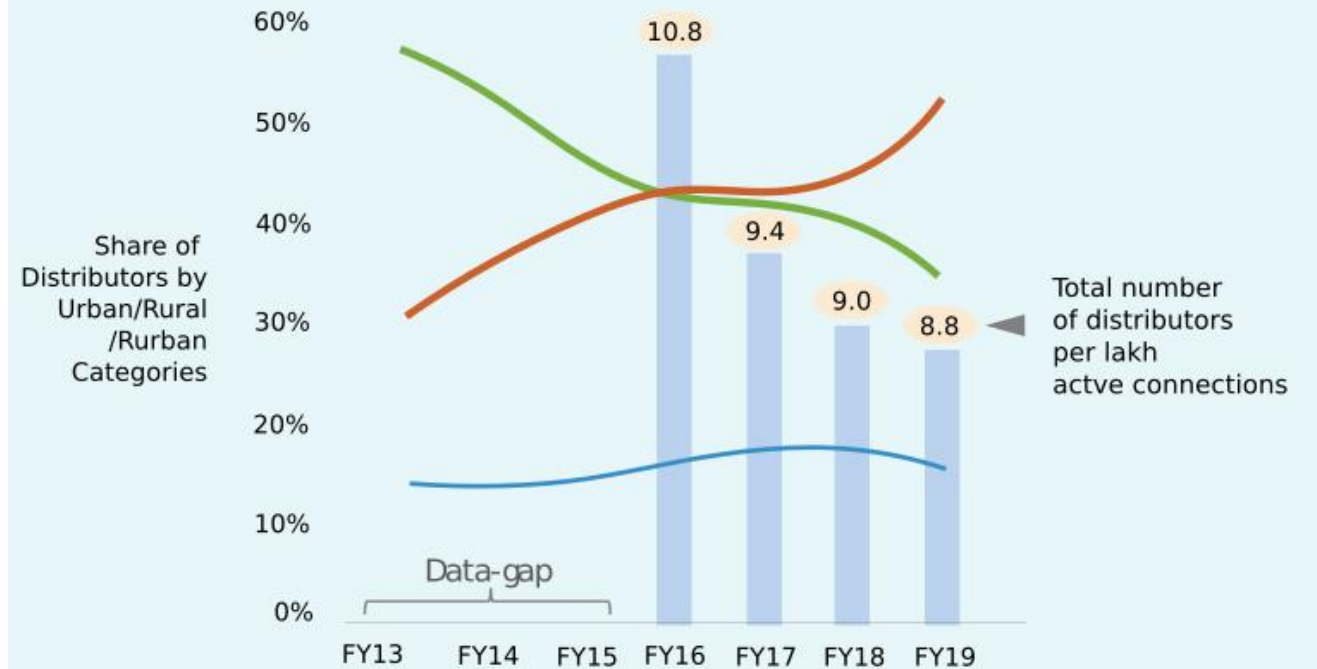
## Refill rate (Cylinders/Year)

1 2 3 4 5 6 National (including PMUY)

1 2 3 PMUY

**~1/2** of Rural Households rely on solid fuels for cooking needs

Number of distributors per lakh connections and share of distributors by category

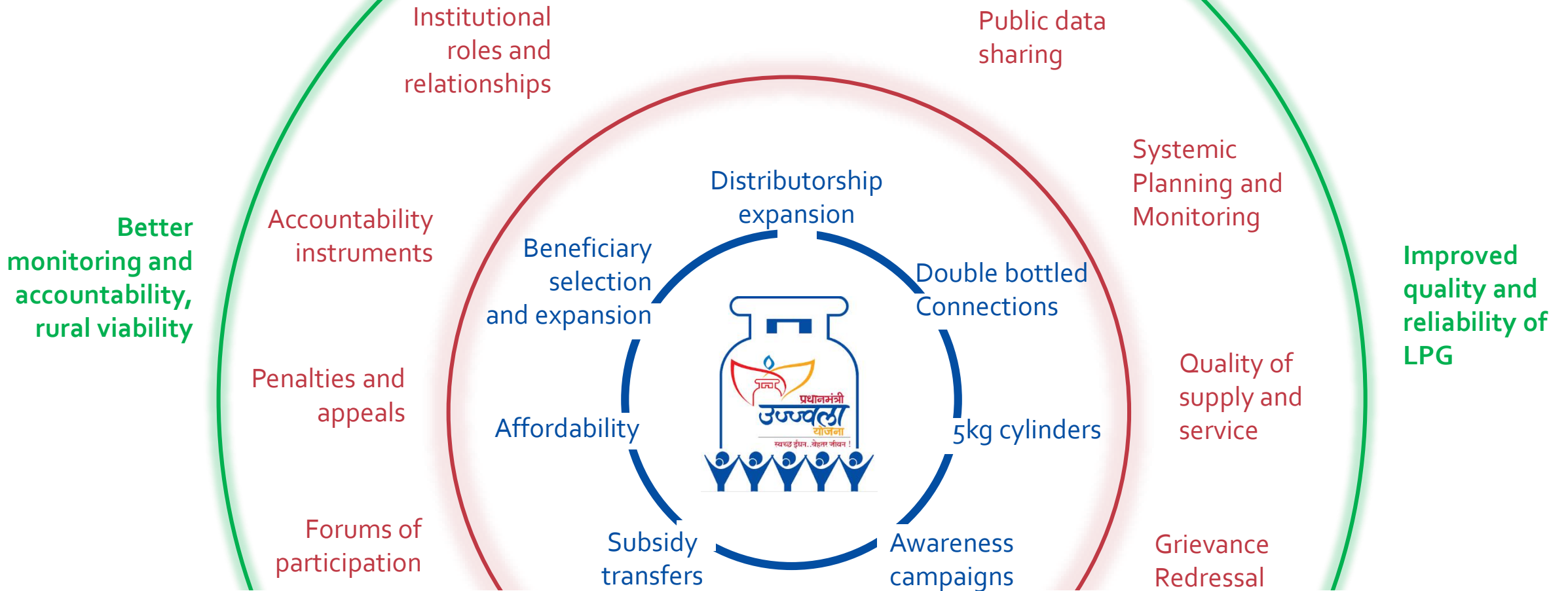


Source: PPAC, MoPNG

Legend:  
Blue bar: Total # of Distributors per lakh active connections  
Green line: Share of Urban Distributors  
Blue line: Share of Rurban Distributors  
Orange line: Share of Rural Distributors

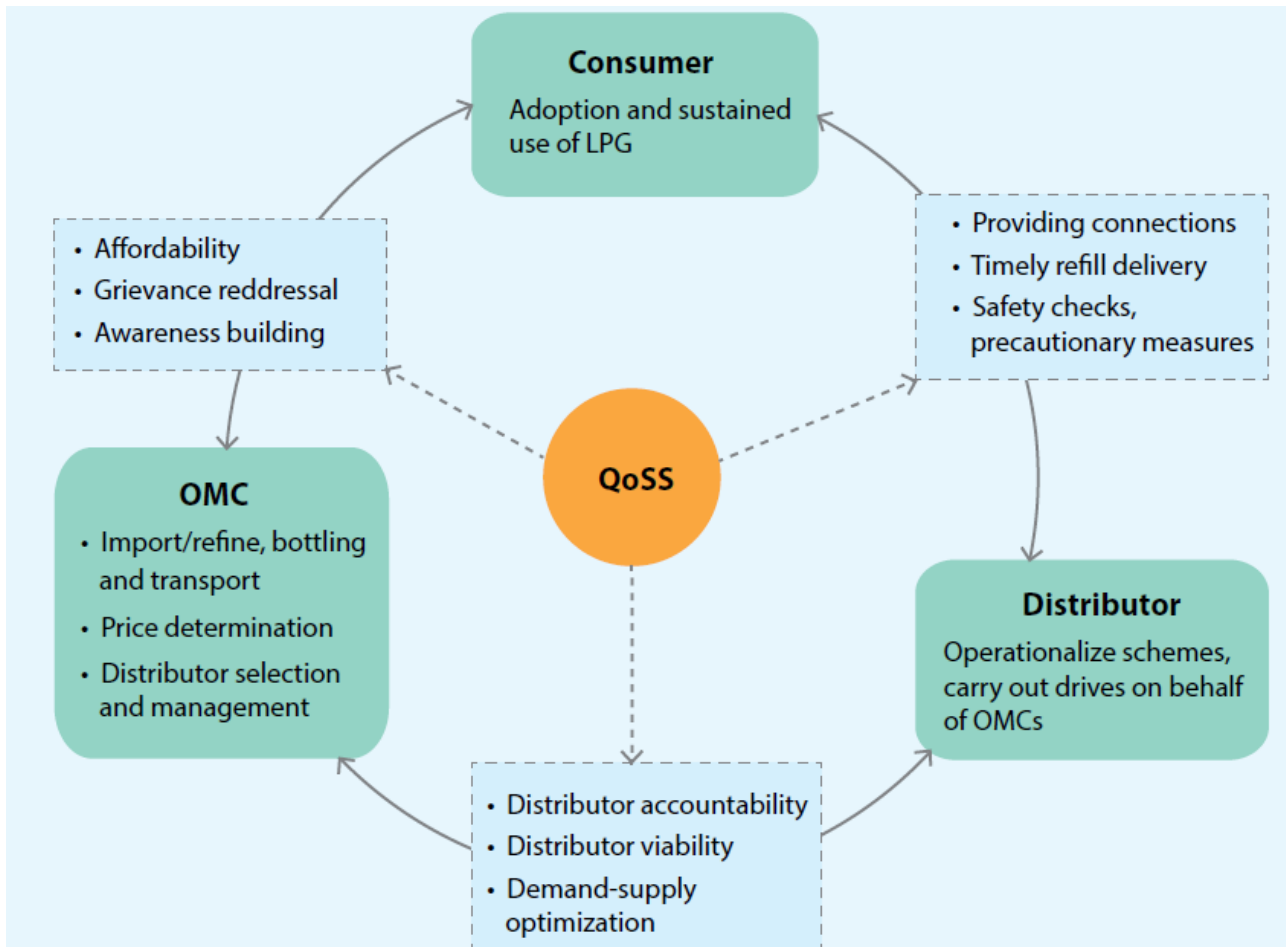
# Importance of governance and institutional arrangements

## Sustained adoption of LPG, realizing the Ujjwala goals



# Accountability—QoSS—Sustained use linkages

Relationship between, adoption and sustained use, distributor viability, and accountability



- Consumer Grievance Redressal is necessary but not sufficient
- If grievance redressal mechanisms do not always help in tracing and resolution of systemic issues then it does not lead to accountability and better QoSS

# Focusing on Quality of Supply and Service

## *What needs to be focused on...*

- Affordability, Behaviour Change, but also Quality of Supply and Service (QoSS)
- Rural distributor viability important if QoSS has to be ensured
- All of this can be tied together with strong accountability mechanisms with QoSS at the centre

## *Near future*

- Currently ~ 68 lakh Domestic Piped Natural Gas connections → ~ 3.5% of active non-Ujjwala LPG connections
- More and more urban domestic LPG consumers may move to PNG and electric cooking
- By 2027, CGD licensees have committed 4.23 cr domestic PNG connections (~30% of estimated Urban HHs)
- OMCs will be left with rural consumers in the underserved areas for domestic LPG business
- Making it essential to examine issues of sustained adoption, viability, accountability in rural areas

# Methodology

- To understand the extant and dominant accountability mechanisms
  - Analysis of publically available documents, portals, reports, case laws, answers in parliament
  - OMC annual reports, CAG report
  - Essential commodities Act (LPG Regulation of Supply and Distribution Order 2000) “Control Order”
  - Unified Selection Guidelines, Reconstitution Guidelines etc
  - Distributorship Agreement
  - LPG- Marketing Discipline Guidelines
- Literature survey of field-based studies to understand prevailing QoSS issues
- Multiple rounds of discussion with distributor groups, consumer representatives and sector experts to confirm findings

# Distributorship Agreement



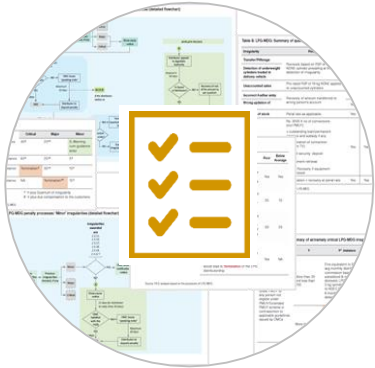
- ❑ Bipartite legally binding contract between the OMC and Distributor for a period of 10 years
- ❑ Lays out terms of operations for distributors, termination, risks, indemnity, arbitration etc

## *Some issues with DA*

- Appear to be many one-sided provisions with complete indemnity to OMCs and all liability on the distributor
- Sales area, norms like minimum sales, minimum uptake etc. not set consultatively, set uniformly across the country -irrespective of distributor type, local realities etc
- Arbitration clause appoints an OMC officer as arbitrator and distributor cannot object
- Some provisions in conflict with Marketing Discipline Guidelines (LPG-MDG).
- **As DA is a legal contract, it can cause confusion, ambiguity and potential discretionary action by OMCs**



# Marketing Discipline Guidelines



- ❑ Elaborate guidelines for distributors on *irregularities* identified in OMC inspection
- ❑ Details out penalty and appeal processes

## Some issues with LPG-MDG

- Treats all categories of distributors (Urban/Rural) the same way
- Some frivolous and serious irregularities are clubbed into *Minor* category. No appeal process for *Minor* irregularities
- For a not-so-serious charge, distributors can end up paying heavy penalties without a recourse to appeal. Other irregularities have appeal process, but very high security deposit
- **High penalties and opportunity for discretion can lead to local distortions**



# Overall issues with Accountability Mechanisms

## *Inadequate OMC accountability*

- PSU Sales= ~99.7% of India's total LPG consumption. Of which, ~93.8% is Domestic use
- OMC forms the crucial component in ensuring QoSS
- **Yet no mechanism like SoP regulations in the power sector or Public Accountability laws to compensate a consumer for poor QoSS**

## *No linkage of grievance redressal and accountability*

- All LPG-MDG irregularities arise out of OMC inspections rather than consumer complaints
- **Can lead to local compromises, not improving QoSS**
- Bridging the gap essential in ensuring QoSS as systemic root causes behind consumer complaints must be traced and dealt with

## *Distributor viability*

- Higher costs, lower sales but same commission as urban
- **Failing to ensure viability of rural segment may force distributors into adopting dubious methods**

# Action ideas and Systemic changes

## *Action Ideas*

- Possible in present framework
- Few measures tried out in other sectors
- Immediate implementation possible

## *Systemic changes*

- Policy/Institutional intervention
- Takes time to deliberate, plan and implement
- May need additional resource allocation
- Legislative or Executive routes need to be explored
- Long-term reform of the sector

# Suggestions for improvements- Action ideas 1/3

## *Improve accountability across the supply chain including OMC accountability*

- Conduct regular independent service delivery audits of OMCs, specifically of the domestic LPG segment
- Create a portal to streamline existing distributor accountability processes, make summary data public

## *Encourage viability of rural distributors*

- Performance based incentives and differential commission for rural distributors
- Enabling other sources of revenue without violating safety norms or conflict of interest
- OMCs and LPG Distributors associations should together consider targeted information sharing and mentorship exercises for rural distributors to help them improve their operational practices

# Suggestions for improvements- Action ideas 2/3

## *Improve consumer communication*

- Replace the current system of Domestic Gas Consumer Card with a printed bill like other consumer-facing, service delivery sectors like electricity.
- Printed bill should have information such as
  - detailed price build-up of the cylinder
  - last few digits of the Aadhar linked bank a/c and UID
  - number of subsidized refills availed thus far 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.

# Suggestions for improvements- Action ideas 3/3

## Make performance data publicly available

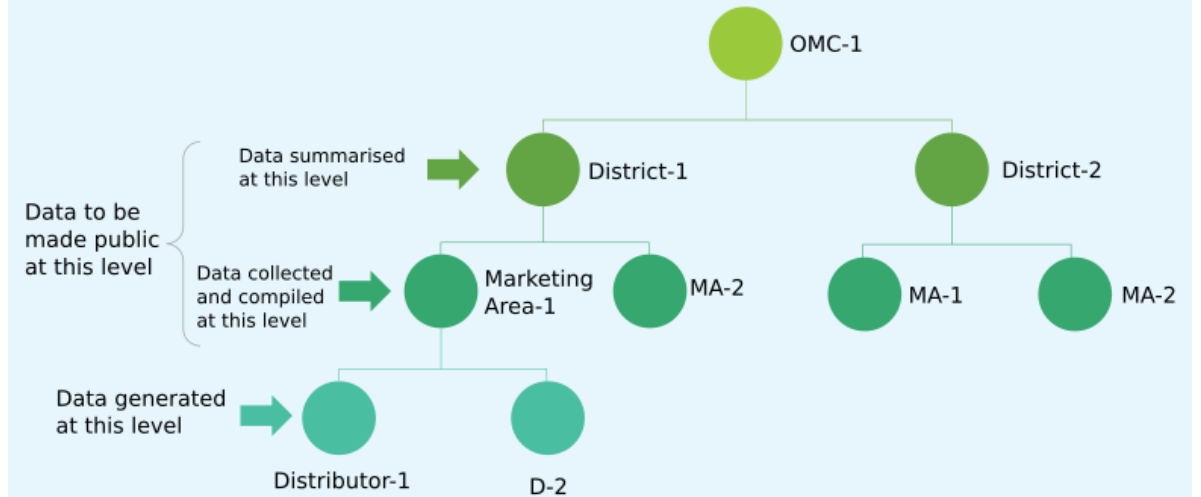
Few parameters at the distributor category level

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

MyLPG portals that are standardized across OMCs intended for transparent sharing of information to consumers can be leveraged.

Illustration of the suggested data compilation and reporting structure



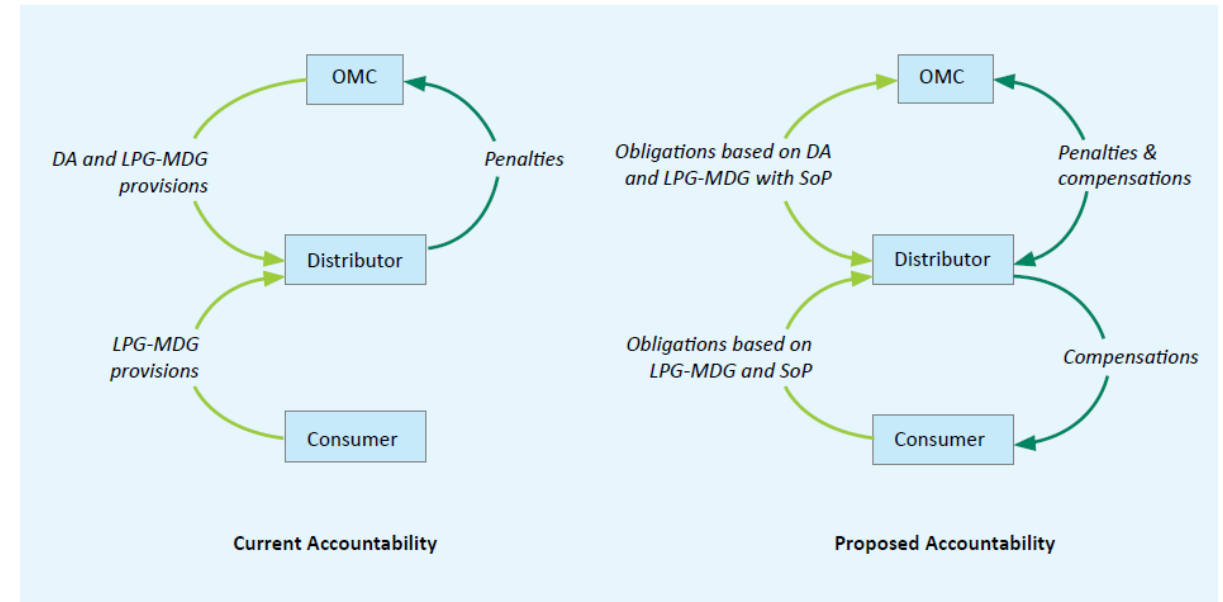
City	District	Quarter	Month	Sales (No of cylinders)			Number of Active connections as on date	TDT rating (1-Poor, 2-Below Average, 3-Average, 4-Good, 5-Excellent)	Consumer rating	Inspection irregularities					
				14.2 kg unsubsidised	14.2 kg subsidised	Total 14.2 kg				Externally critical	Critical	Major	Minor		
Durgam Kohliya, Gramin, Purbani, Shahri)	D-1	Q1	Apr												
			May												
			Jun												
		Q2	Jul												
			Aug												
			Sept												
		Q3	Oct												
			Nov												
			Dec												
		Q4	Jan												
			Feb												

# Suggestions for improvements- Systemic changes 1/2

## *Consultatively revise Distributor Agreement and LPG-MDG*

- To avoid conflicting provisions between MDG and DA, and make it consistent
- To create more equitable, realistic service parameters and bring Rural QoSS to Urban levels in say 5 years
- DA and LPG-MDG should have minimum standards of performance (SoPs) for service parameters and penalties for both the parties.
- In addition to remedying the issues in the current agreements, MoPNG should draft a Model LPG Distributorship Agreement.

Schematic of proposed Standards of Performance structure



# Suggestions for improvements- Systemic changes 2/2

## *Appoint an independent regulator for the domestic LPG business*

- PNGRB Act can be amended (or) LPG can be made a notified product
- PNGRB already has most of the necessary legal framework and powers
- Regulator must oversee the implementation of the Model Distributorship Agreement and resolve any disputes
- Regulator must order OMCs to set up Consumer Grievance Redressal Forums and itself appoint an Ombudsman for appeals against CGRF orders

## *Consider taking over the rural distributorships*

- Greater adoption of LPG in rural areas is a social welfare obligation, MoPNG should suitably support OMCs in their rural distributorship ventures
- OMCs can consider opening new rural distributorships themselves and provide good QoSS.
- Consider making a one-time option of a buy-out of existing genuinely distressed distributors.



Thank you,  
We look forward to your comments

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