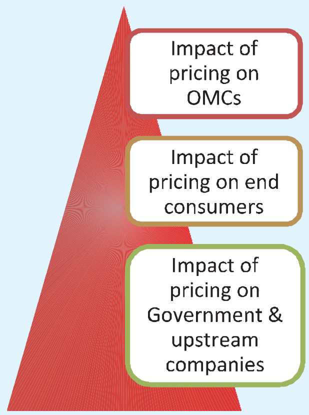
Executive Summary



At present, there are three regulated products, viz., High Speed Diesel (HSD), Superior Kerosene Oil (SKO) for Public Distribution System (PDS) and Liquified Petroleum Gas (LPG) for Domestic use. Motor Spirit (MS) or Petrol has been de-regulated *with effect from* June 2010. Performance Audit of Pricing of Major Petroleum Products covering the period 2007-12 has been conducted with reference to the pricing methodology for regulated petroleum products to ascertain its effect on the stakeholders – *viz.*, Oil Marketing Companies (OMCs), the end consumers, the Government and upstream companies. The significant audit findings are as below:

❖ Refinery Gate Price(RGP) is arrived at by adding various cost elements associated with import of products to their FOB (Free on board) price, though it is the raw material or crude oil (and not the products) that is imported by the refineries. OMCs do not incur bulk of these expenses as majority of the products are processed in OMC refineries rather than being imported. In financial terms, import related elements charged at refinery gate on regulated products produced in refineries over and above the FOB price during 2007-12 worked out to ₹50,513 crore. After allowing for import related expenses on import of crude oil that were estimated at ₹23,887 crore during the above period, OMCs would be expected to derive a price advantage. However, this advantage does not appear to have been translated adequately in terms of efficiency improvements in refining margins, optimization of costs of production and improvements in yields. This, in turn, is sought to be attributed almost entirely to inherent problems of PSU refineries, *viz.*, vintage, uneconomical size, limitation of configuration, *etc.*

(Para 3.1.1 & 3.1.2)

❖ OMCs have taken some initiatives towards technology up-gradation of existing vintage refineries. However, there is still scope for improvement especially Haldia refinery of IOCL and Mumbai refineries of BPCL and HPCL.

(Para 3.1.3)

- OMCs uplift petroleum products from standalone/private refineries in order to fill the gap between production and domestic requirement at *RGP* (*i.e.* Trade Parity Price or TPP for MS and HSD and Import Parity price or IPP for other products). Private refiners export balance petroleum products at prices comparable to EPP/FOB, which are lower than TPP/IPP. Procurement at TPP/IPP affords an undue benefit to private refiners (Reliance Industries Limited and Essar Oil Limited), which was estimated at ₹667 crore on HSD in only one year, i.e. 2011-12. The benefit to stand alone PSU refineries on the same count was ₹1,428 crore during 2011-12.

  (Para 3.1.4)

- There is a mismatch between the actual transportation cost and the amount factored in the product pricing on account of freight. OMCs were compensated slightly higher than the actual cost, the compensation calculated based on actual cost incurred on various modes (and not on the actual mode of transport) of transportation and operating cost of pipelines.

  (Para 3.1.6)

- OMCs incurred excess marketing cost on sale of regulated products over the admissible rate fixed by the Government in all the years. While IOCL and BPCL could generate some surplus on marketing margin fixed on the regulated products, HPCL could not generate the desired return. Similarly, margin on retail investment was below the desired level in BPCL and HPCL.

  (Para 3.1.7)

- In order to meet the requirements of working capital in the context of delayed settlement of under recovery claims, OMCs sold oil bonds issued by Government at a discount suffering a loss of ₹3,994 crore. OMCs also incurred ₹22,802 crore towards interest on borrowed working capital and suffered an interest loss of ₹5,180 crore due to delay in release of compensation during 2007-08 to 2011-12. Delay in declaration of cash compensation also led to avoidable payment of interest of ₹381 crore on short payment of advance income tax by the OMCs.

  (Para 3.1.10)

- While Central taxes have been periodically rationalized, the State taxes vary widely and at ad-valorem rates which lead to a higher burden on customers with increasing product prices. Rationalization of State taxes along with a transition to specific tax is yet to be achieved.

  (**Para 3.2.2**)

- There was no uniform system of sharing of under recoveries amongst the stakeholders namely, OMCs, upstream companies and the Government leading to an uncertainty for both upstream companies and OMCs.

  (Para 3.3.1)

- Delay in implementation of the mechanism to target subsidies to deserving consumers has led to increased under recoveries. Though the eligibility for subsidised LPG cylinders has been capped and the scheme for direct transfer of benefit for LPG cylinders launched, much progress has not been achieved on targeting PDS kerosene supplies.

  (**Para 3.3.2**)

- Government implemented dual pricing policy on HSD in January 2013 with the bulk consumers of HSD paying non-subsidized market determined price. Subsequent to this change, there has been a rise in the retail HSD sales, and the share of bulk HSD sales in total HSD sales has declined to around 10 *per cent* in August 2013 as against annual average of 18 *per cent* during 2011-12. Appropriate checks are needed to prevent likely diversion of cheaper subsidized fuel which would dilute the positive impact of market pricing for bulk customers on under-recoveries.

  (**Para 3.3.3**)