

# **Chapter-6**

## **Conclusion and Recommendations**

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### 6.1 Conclusion

Natural Gas is the most sought after feedstock in fertilizer sector and one of the best fuels in power sector. It also has utility in other sectors. Its availability at affordable price, therefore, has significant influence on the economy. Various agencies involved in allocation of indigenous NG, utilization and supply of NG from all sources have important roles to play.

Performance Audit on 'Supply and Infrastructure Development for Natural Gas' revealed:

- Lack of co-ordination within GoI in monitoring development of pipeline and R-LNG infrastructure projects, which resulted in non-availability of NG at affordable price to priority sectors viz. Fertilizer and Power.
- Time lapse in taking executive decisions such as notification of Section 16 of PNGRB Act providing powers to PNGRB for issuing authorisations for laying, building, operating and expanding pipelines, notification of Rules prescribing eligibility conditions which an entity shall fulfill for registration for setting up R-LNG terminal led to a situation where the statutory authority created for the purpose remained ineffective for a considerable period of time in facilitating development of cross country pipelines and R-LNG infrastructure.
- Non-availability of an assured supply of NG on a long-term basis and inadequate pipeline connectivity remained one of major constraints for non-revival of the closed fertilizer units identified for revival and non-conversion of some of the units. This led to production loss and increase in cost of production of urea with resultant increase in subsidy burden on GoI for imported urea.
- Lack of availability of NG at affordable price to power sector resulted in underutilisation of gas based power plants with resultant generation loss and higher generation cost due to use of alternate fuels.
- Non-establishment of a control system/mechanism in MoPNG/DoF led to diversion of NG supplied at regulated price for unauthorised purposes.

- System lapses in the NG supply contract management by GAIL led to non-recovery of market rate for APM gas utilized for other than specified purposes.
- Marketing Margin on supply of domestic NG for GAIL was approved by GoI in Rupee terms, whereas the Contractor for KG D6 block was charging marketing margin in US dollar terms. DoF was not yet reimbursing marketing margin as demanded by the contractor to the fertilizer units and subsidy claims on account of marketing margin on KG D6 gas were kept pending from 2009-10. If DoF decides to reimburse marketing margin as charged by the contractor and requested by fertilizer units, additional subsidy burden would be ₹ 201.40 crore from May 2009 to March 2014, being the difference between marketing margin demanded by the contractor and marketing margin allowed to GAIL.

## 6.2

### Recommendations

We recommend that:

1. MoPNG should develop a mechanism, with clearly defined responsibility centres, in coordination with implementing agencies and authorities, to ensure and assess timely completion of NG pipeline and R-LNG projects across the country and cut down delays so that the desired growth in the NG sector is achieved.
2. MoPNG in coordination with DoF and MoP may consider setting up of Inter Ministerial Committee that could suggest:
  - (i) A time bound action plan for synchronising implementation of NG pipeline projects and revival of fertilizer units so that benefit of NG as feedstock may be derived optimally besides reducing import of urea.
  - (ii) Measures to create required infrastructure to provide NG/R-LNG to Power Sector at affordable price so that capacity created in the sector is adequately utilised.
3. MoPNG may work out modalities by involving all the implementing agencies for implementing a control system/mechanism to detect and prevent diversion/mis-utilization of NG supplied at regulated price. The modalities so worked out may also include decision on the rate at which recovery would be made for utilisation of such NG for other than specified purposes as there would be no difference between APM and non-APM price with effect from November 2014.

4. GAIL may critically review NG supply contract management system and put in place specific measures, such as incorporation of a clause in Gas Sales and Transmission Agreement enabling GAIL to verify end use of NG and reviewing Article 17 that permits buyer to use the NG for purposes other than those contemplated with mutual agreement between buyer and seller *etc.*, that would empower it adequately to track ultimate utilisation of NG supplied at regulated price and prevent its diversion towards unauthorised purposes.
5. MoPNG should ensure that same methodology, *i.e.* charging marketing margin in Indian Rupee, is adopted for supply of NG from domestic source for use in sectors where GoI bears subsidy burden.



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Countersigned



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