

URGENT

No. P-20029/41/2003-PP (Vol. IV) (Pt.)
Government of India
Ministry of Petroleum & Natural Gas
(PP Section)


New Delhi, the 19th January, 2012

Office Memorandum

**Subject: Disclosure of Committee Report on RO Dealer Commission -
Uploading in the website of MoP&NG.**

The undersigned is directed to refer to the above stated subject and to say that it has been decided to host the Report of the RO Dealer Commission on the website of this Ministry. A copy of the said Report is enclosed.

2. NIC is requested to take necessary action in this regard immediately on priority.



(J. K. Singh)
Under Secretary to the Govt. of India
Tele No. 23383391 / Fax No.23383100

To

The Technical Director (NIC), Shastri Bhawan, New Delhi.

COMMITTEE REPORT ON RO DEALER COMMISSION

1. **BACKGROUND :**

MOP&NG vide letter Ref. P-11013/7/2010(Dist) dated 22/9/10 constituted a committee, comprising of the following members:

- | | | |
|-------|-------------------------------------|------------|
| (i) | Joint Secretary (Marketing), MOP&NG | - Chairman |
| (ii) | Director(S&P), MOP&NG | - Member |
| (iii) | Director(Marketing), IOC | - Member |
| (iv) | Director(Marketing), BPC | - Member |
| (v) | Director(Marketing), HPC | - Member |

to resolve various issues raised by Retail Outlet dealers of Oil Marketing Companies. The terms of reference inter alia included devising a suitable mechanism for fixation of dealer commission including examining the feasibility of having dealers commission as a fixed percentage of the invoice value of petrol and diesel.

2. **PROCESS :**

The first meeting of the committee took place on 9th Oct 10 to study in depth the existing frame work of dealership commission and evolve a broad approach for review.

It was decided to have interaction with a large cross section of dealers from all Regions with a view to understand their aspirations and have inputs on various issues raised by FAIPT.

Accordingly, a series of meetings were held as detailed below:

- For Eastern Region dealers at Kolkata on 26.10.10
- For Western Region dealers at Mumbai on 29.10.10

- For Southern Region dealers at Bangalore on 30.10.10
- For Northern Region dealers at Delhi on 3.11.10

Over 120 dealers with different backgrounds, representing different class of markets/States, different categories of dealers participated to put forward their concerns/ viewpoints and suggestions.

3. ANALYSIS OF EXISTING DEALERSHIP COMMISSION :

3.1 **Dealer Commission** rates have been revised from time to time in the past as under :

₹ / KL

| | MS | HSD |
|-------------------|-------|------|
| Prior to Apr 2004 | 613 | 365 |
| Apr 2004 | 707 | 425 |
| Aug 2005 | 848 | 509 |
| March 2007 | 894 | 529 |
| May 2007 | 1024 | 600 |
| May 2008 | 1052 | 631 |
| Oct 2009 | 1125* | 673* |
| Sept 10 | 1218* | 757* |

*includes service tax element on LFR @ 10.3%

As can be seen from the above, effective Sept. 10 the dealer commission for MS and HSD are ₹1218 and ₹757 per kl respectively . Broad Breakup of the same in terms of major components is given below :

| | MS | | HSD | |
|---------------------------|-------------|------|------------|------|
| | ₹/ KL | %age | ₹/ KL | %age |
| Operating cost | 822.7 | 67.8 | 609.4 | 80.9 |
| Product losses | 270.8 | 22.3 | 61.2 | 8.1 |
| Return on Working capital | 74 | 6.1 | 44 | 5.8 |
| Return On NFA | 46 | 3.8 | 39 | 5.2 |
| Service Tax on LFR | 4.43 | | 3.71 | |
| Total | 1218 | | 757 | |



The above breakup indicates that 90 % Commission in case of MS and 89 % in case of HSD is towards pure reimbursement of various costs required to be incurred, including product loss.

3.2 **Operating Costs** : mainly comprises of following major elements :

| | MS | | HSD | |
|-------------------------|------------|------|------------|------|
| | ₹/ KL | %age | ₹/ KL | %age |
| Salary and wages | 599 | 73 | 443 | 73 |
| Electricity | 106 | 13 | 79 | 13 |
| Insurance | 36 | 4 | 27 | 4 |
| Water and Maintenance | 16 | 2 | 12 | 2 |
| Taxes / audit | 6 | 1 | 4 | 1 |
| Telephone/ bank charges | 7 | 1 | 5 | 1 |
| Uniform | 10 | 1 | 8 | 1 |
| Printing and stationery | 21 | 3 | 16 | 3 |
| Consumables | 8 | 1 | 6 | 1 |
| Staff welfare | 13 | 2 | 10 | 2 |
| Total | 822 | | 609 | |

All operating costs are based on operation of an RO with a standard thru put of 170 KL p.m. (40 kl MS + 130 KL HSD). The current all India average thru put is also in the same range.

As can be seen from above, Salary/Wages and Electricity are the major components of the operating costs of an RO.

3.2.1 **Salary & Wages** : Following manpower has been considered and accounted for in the costing of operations for operation of a standard RO:

- 1 Manager
- 2 skilled manpower
- 10 semi-skilled manpower
- 2 un-skilled manpower

The wages for manpower is considered on the basis of average of Minimum Wages for each category (skilled, semi-skilled and un-skilled) for major States based on latest available State Govt. notifications. In case of Manager, presently an element of ₹10839/- per month is provided for. Over and above the wages, as applicable for each category, other elements at applicable rates i.e., Bonus (8.33%) , PF (12%) and ESIS (4.75%) - **Total 25.08%** - is also provided for in the costing.

3.2.2 **Electricity:** a consumption of 2414 units per month per RO is considered for standard RO operation. The unit cost of electricity is taken on the basis of average unit cost for major States.

3.3 **Product loss:** an element of 0.59% in MS and 0.18% in HSD is built into the Dealer Commission, which is directly related to product prices.

3.4 **Return on Working Capital :** Return on Working Capital is worked out on the following assumptions :

- Average inventory to cover stocks for 5 days for MS and 4 days for HSD.
- Prime Lending Rate (SBI) at the time of cost updation
- Product price as explained above (in stock loss)

3.5 **Return on Net Fixed Assets :** The applicable rates are :

₹/kl

| | | MS | HSD |
|-------------|-------|----|-----|
| Corporation | Owned | 46 | 39 |
| Outlet | | | |

3.6 **LFR recovery :** Recovery of License Fee which is linked to the return on NFA was also last updated in 1997 and no change has been made thereafter except for the service tax element @10.3% included in October 2009. The applicable rates are :

| | MS | HSD |
|--------------------------|----|-----|
| Corporation Owned Outlet | 47 | 40 |
| Dealer Owned Outlet | 17 | 15 |

3.7 **Annual Cost Updation** :The revision in Dealer Commission is decided based on annual cost updation carried out by the Industry. This exercise is carried out as under :

3.7.1 Operating Cost

- **Salary and wages** is updated on the basis of average of minimum wages for each category (skilled, semi skilled and unskilled) for major states based on latest available state Govt. notification.
- **Electricity cost** is updated on the basis of average unit cost for major States .
- **All other elements** are being updated on the basis of inflation adjusted to AICPI.

3.7.2 Stock Loss

Stock Loss component for both MS & HSD is updated on the basis of **product price** arrived on the basis of weighted average (proportion of actual sales of State) of invoice value at State Capital for preceding one year in respect of major states.

3.7.3 Working capital

Return on Working Capital is updated on the basis of latest PLR (SBI) at the time of cost updation and Product price as explained above (in stock loss) for average inventory to cover stocks for 5 days for MS and 4 days for HSD.

7. **Return on NFA :**

No revision has been made in this component after 1997.

4 **DEALER'S DEMANDS, CONCERNS AND SUGGESTIONS :**

During interaction following main issues were raised:

- a) Stock losses element is extremely in-adequate especially in MS .
- b) Number of State specific issues were brought out by dealers like high wages, electricity cost, incidence of high local taxes , extreme climatic conditions, Law and order problems, lower average thruptut etc.
- c) Non Reimbursement of expenses towards bank charges for cash collection /deposit in Banks (which is a recent phenomenon).
- d) Increased communication and conveyance expenses
- e) Present Dealer Commission considers costs reimbursement and there is no compensation for dealer's efforts.
- f) Commission should be 5% of the invoice value.
- g) Cost of Credit given to customers for increasing sales, especially in HSD is not considered
- h) Though the dealers expressed concerns about economic viability of low selling dealers, majority was not in favor of Slab system.

5 **RECOMMENDATIONS OF COMMITTEE :**

Committee analyzed the issues raised by dealers. After review of various cost components the recommendations of the Committee are as under : -

5.1 **Dealer Commission as % age of invoice value :**

The committee does not recommend linking Dealer Commission as %age of invoice value for the following reasons:

- The RSP of MS and HSD contain a large element of Central and State taxes which account for about 50% of RSP in case of MS and 30% in case



of HSD. The dealer commission as a percentage of invoice value amount would mean that the dealer commission varies on account of changes in taxation by the Central or the State Governments. This is not an acceptable way of computing dealer commission as taxes should not play a role in arriving at the dealer commission.

- The dealer commission compensates a dealer for the expenses incurred by him during the course of business apart from providing a reasonable remuneration to the dealer for his efforts. Major components like cost of manpower and electricity costs are not linked to the RSP of MS and HSD. Only the components of stock losses and working capital are directly related to product prices which constitute about 28% for MS and about 14% for HSD in the present dealer commission.
- Product prices also reflect the international crude price movement. While crude price is rising, the dealer would be happy with rising dealer commission as a percentage of invoice value. However, in case of a fall in crude price, as happened in the year 2008 from US\$145/barrel to US\$40/barrel, no dealer would accept a reduction in dealer commission, citing elements like wages, electricity, etc. which are not dependent on product prices.

5.2 **Operating Costs :**

Various cost elements have been considered based on the discussions/suggestions from dealers and have been further reviewed by the committee. The item-wise comments are as under:

- 5.2.1 **Salary and Wages:** The number of people to be employed has been kept at the current levels of 2 skilled persons, 10 semi skilled persons (DSMs) and 2 unskilled persons for a standard RO operation of 170 kl monthly thrupt.

The manpower requirement at a RO is based on a study done by a Consultant in 2006-07. With increased automation as also addition of facilities, the manpower profile may have changed over a period. The manpower required for high selling dealers would be different than that arrived from a linear extrapolation of the manpower required at a RO selling 170 kl/month. A fresh study needs to be commissioned regarding the manpower requirement at ROs. Meanwhile the existing system of calculation may continue.

5.2.2 Dealer Remuneration: Though presently Manager's salary to the extent of ₹ 10,839/- pm is being taken into account but Dealers have been seeking that they should be adequately paid for their efforts at the RO. The issue has been debated and it is proposed that an element of Dealer Remuneration of ₹12000/-per month may be provided for. This amount is provided for considering that the dealer has to personally supervise the operation of the Outlet as per our Dealer Selection Guidelines.

5.2.3 Electricity Cost: The existing basis of calculation of electricity cost i.e. consumption of 2414 units per months (for standard operation of RO of 170 kl thruput per month) and has been reviewed and found to be adequate. It is proposed to continue with the existing system.

5.2.4 Insurance: Currently insurance is reimbursed for fire, flood (for stocks) and cash in transit and also for safe custody of cash at the RO. Existing element of ₹29.07 is considered adequate and no change is proposed.

5.2.5 Repair & Maintenance/water charges : Current level of ₹12.94 per kl has been retained.

5.2.6 Communication Expenses and conveyance : Currently ₹5.35 per kl is included under the head "Telephone & Bank charges". This head (i.e. Telephone & Bank charges) is proposed to be modified as

1. "Communication Expenses and Conveyance" and an element of ₹20.00 per kl is proposed to be introduced. This will address dealer's demand to provide for conveyance expenses for travelling to bank, supply points etc.

5.2.7 **Bank Charges:** A new head for Bank Charges has been included as under:

Assuming that more than 70% sales are on cash basis (and balance is through Plastic Cards/ cheques) at RO, the dealer will have to deal with cash of about 1.5 lakhs per day. Presently banks are charging cash handling charges at varying rates. The charges vary from Bank to Bank and also depend upon type of relationship of customer with Bank. Considering above, an element of ₹20/- per kl is proposed to be introduced as a new item.

5.2.8 **Taxes/Audit /Fees:** An amount of ₹4.61 per KL has been included in the present working. Considering the expenses indicated by the Dealers this amount is considered adequate. No change is proposed from existing level.

5.2.9 **Uniform:** Presently an amount of ₹8.35 per KL has been included in the commission built up. The present cost reimbursement is considered adequate and no change is proposed from existing level.

5.2.10 **Printing and Stationery :** Presently an amount of ₹16.92 per KL has been considered. The present cost reimbursement is considered adequate and no change is proposed from existing level.

5.2.11 **Consumables:** An amount of ₹6.18 per KL has been included in the working. The present cost reimbursement is considered adequate and no change is proposed from existing level.

2.1 **Staff Welfare:** Presently an amount of ₹10.75 per KL is included in the commission working. The present cost reimbursement is considered adequate and no change is proposed from existing level.

5.3 **Stock Loss :**

Presently MS stock loss is allowed at 0.59% and HSD @0.18%.

Study by IIP Dehradun during 2008 at the behest of MOP&NG on MS stock loss has brought out as under:

Quote

MS Stock data- Average loss of around 0.54% and 0.42 % of volume on decantation during summers and winters respectively. In addition to above loss, there is vapor displacement loss of around 0.25% and some handling loss

Unquote

Considering above and also representations made by dealers, Stock loss for MS is proposed to be revised to 0.75% (from 0.59% currently). No change is proposed in HSD stock loss. However, M/s IIP Dehradun can be requested to make a study in respect of HSD to decide the operating losses in the country in retail operations including evaporation losses in HSD as several dealers indicated that with the introduction of higher grade of fuels of Euro-III and Euro-IV quality, the stock losses have increased.

5.4 **Return on Working Capital:**

In the existing Dealer Commission working, average inventory of 5 days for MS and 4 days for HSD is considered for standard operation of RO with monthly thruptut of 170 kl. Looking into current All India average thruptut, no change is proposed from existing level.

5.5 **Return on Net Fixed Assets:**

The current return on NFA was last revised in 1997. The cost of assets especially land has grown exponentially over the past few years. The marketing margin of the OMCs is also to take into account the return of all marketing activities including the return on assets. As of now about on industry basis 60% of the ROs are on 'A' sites while 40% are on 'B' sites. Considering the increased costs of investment and maintenance of facilities at retail outlets and the deregulated and competitive scenario where the oil company business and margins would be market driven, a review of the entire issue needs to be undertaken separately. Moreover, this issue is also directly related to the LFR recovery from the Retail outlets and hence both these issues viz return on NFA & LFR would need to be reviewed separately. While the issue of return on NFA and LFR may be reviewed separately but in the interim in case of 'B' sites i.e. dealer owned ROs, recovery on LFR may be discontinued.

5.6 **The final All India Dealer Commission**

As of now the oil companies are calculating the average of minimum wages and average electricity rates on a mathematical mean of the rates prevailing in major States/ state capitals while the average product prices are considered on weighted average basis of major states. It was felt that it would be better to take weighted average for all the three elements i.e., product prices, manpower & electricity. It is also proposed to consider the prices / rates for all the States instead of limiting it to only major States.

After taking in to account all the above factors and considering:

- o Weighted average current Product price of 34 States (as applicable in State capitals except for Haryana and Punjab. In respect of these



a) two states prices as applicable at Ambala & Jullandhar respectively have been considered)

o Weighted average Minimum Wages of 34 States (from website of Union Ministry of labour site)

o Weighted average Electricity unit cost of 34 States (collected from the recent/random bills of various State Electricity Boards)

the uniform dealer commission works out to ₹1611/- and ₹926/- respectively. This would mean an increase in Dealer Commission by 33% in case of MS and 23% in case of HSD as under:-

| | MS (₹/ KL) | HSD(₹/KL) |
|---------------------------------------|-------------|-----------|
| Existing commission wef Sep 2010 | 1218 | 757 |
| Uniform commission as per this report | 1611 | 927 |
| Increase | 393 | 170 |
| %age increase | 33 | 23 |

5.7 STATE SPECIFIC DEALER COMMISSION :

Need for Moving away from uniform Common Dealer Commission Formula:

In the deregulated scenario the dealer commission should be a function of the market conditions and competition. In our country we have been following a system of dealer commission which is approved by the Government and is uniform for all markets across the country for the dealers of all the three public sector oil marketing companies. While in the eighties there used to be a slab system with higher dealer commission for dealers having lower sales and reducing progressively as the sales increased, the number of slabs was reduced from five to three and then to two and finally a single uniform rate in 2003. A deterministic rate for all markets does not capture the diversity of circumstances in the country and gives advantage to some while affecting others.

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In a competitive market, dealer commission should be decided by the marketer depending on the market conditions as well as the services rendered by the dealer. However in the formula for determination of dealer commission, almost 90% of the commission is constituted by the expenses on manpower, power, product loss compensation and working capital expenses. While the manpower expenses depend on the minimum wages applicable on the location of the retail outlet which vary widely from State to State, the commercial power rates paid by a dealer also vary from State to State. Further the expense on working capital as well as the product loss allowed in value terms would depend on retail price of the product at the location of the retail outlet which in turn would depend on the VAT rates applicable. Thus all the major components which go into the determination of the dealer commission as it is worked out today depend substantially on the State in which the retail outlet is located. The minimum wages vary from about ₹ 6900 to ₹2600 in case of skilled workers in Andhra Pradesh & Manipur while in case of unskilled workers the range is between ₹5900 in Maharashtra and ₹2100 in Manipur. The electricity rates vary from ₹9.0 per unit in Kerala, Bihar to ₹3.0 per unit in Manipur, Daman and some other States. The product prices vary from ₹62 per litre for normal MS in Punjab, Karnataka to ₹54 per litre in Puducherry & Mizoram. The HSD price vary from ₹42 per litre in Maharashtra, Gujarat and Karnataka to ₹36 in Haryana. Since these components constitute a large portion of the dealer commission, there is a case for State specific dealer commission.

India is a large and diverse country. There are issues associated with specific markets which cannot be captured in a single formula. While State level dealer commission is a step forward but still it cannot capture the entire gamut of issues. Regional interaction with dealers reveal that even though wage rates are low in States like Bihar and Orissa but additional expenditure has to be incurred on security. Also even though the power rates are low but the availability of power is poor and additional

Expenditure has been incurred as additional generators are used in the absence of grid power. The cost of manpower in urban areas may be higher than rural areas within the same State even though the published minimum wages are the same. Moreover, in some states labour is not available even at higher than the notified minimum wages. The land cost and cost of other infrastructure in urban areas has not been factored in as uniform rates are applied across all markets. Ideally there should be flexibility of dealer commission depending on the situation in the market.

However, it is felt that OMCs as well as the dealer fraternity is not yet ready for market level pricing principles primarily as the same would lead to substantial variation in the dealer commission across the states to as much as 40 % between the lowest and highest. It is a fact that the market conditions like availability of requisite labour etc vary from State to State and that too from market to market within a State itself. Under such circumstances, even though the uniform minimum wages are declared by the respective state Governments from time to time, the actual wages paid by the dealers to his/ her staff could be different based on the local conditions and therefore can be at variance from the stipulated amount resulting in different operating costs. Therefore, as a first step it is suggested that the concept of State level dealer commission rates be introduced taking into account the product prices of the State only.

Leaving the market level system for dealer commission for the future to be adopted by the oil companies as and when full deregulation of HSD prices takes place and for MS as and when the markets become competitive with the re-entry of non-PSU players, the Committee recommends State specific dealer commission with State specific cost of product which accounts for the product losses and working capital expenses of the dealer.

The above would be step towards market level system in future. In deregulated scenario, oil companies should themselves take into account the market variations and finalize the dealer commission for different markets. Such commissions should also have an inbuilt incentive for high performers and for those accepting higher responsibilities through Ex-MI deliveries.

State-wise dealer Commission after taking into account State specific product prices works out as under:

| | States/UTs | ₹/KL | |
|----|-------------------|------|-----|
| | | MS | HSD |
| 1 | CHANDIGARH | 1583 | 919 |
| 2 | DELHI | 1577 | 919 |
| 3 | HARYANA | 1578 | 916 |
| 4 | HIMACHAL PRADESH | 1601 | 922 |
| 5 | JAMMU & KASHMIR | 1604 | 923 |
| 6 | PUNJAB | 1635 | 919 |
| 7 | RAJASTHAN | 1608 | 925 |
| 8 | UTTAR PRADESH | 1610 | 925 |
| 9 | ASSAM | 1603 | 922 |
| 10 | BIHAR | 1596 | 926 |
| 11 | ORISSA | 1576 | 927 |
| 12 | WEST BENGAL | 1613 | 927 |
| 13 | MAHARASHTRA | 1618 | 933 |
| 14 | GUJARAT | 1611 | 933 |
| 15 | MADHYA PRADESH | 1615 | 931 |
| 16 | GOA | 1576 | 925 |
| 17 | TAMIL NADU | 1620 | 927 |
| 18 | KERALA | 1606 | 931 |
| 19 | PUDUCHERRY | 1561 | 923 |
| 20 | KARNATAKA | 1641 | 934 |
| 21 | ANDHRA PRADESH | 1636 | 930 |
| 22 | MANIPUR | 1567 | 919 |
| 23 | SIKKIM | 1572 | 921 |
| 24 | TRIPURA | 1547 | 915 |
| 25 | NAGALAND | 1570 | 918 |
| 26 | ARUNACHAL PRADESH | 1568 | 918 |
| 27 | MEGHAYALAYA | 1571 | 918 |
| 28 | MIZORAM | 1558 | 915 |
| 29 | ANDAMAN NICOBAR | 1512 | 914 |
| 30 | UTTRANCHAL | 1596 | 928 |
| 31 | JHARKHAND | 1578 | 925 |

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| | States/UTs | ₹/KL | |
|----|------------------|------|-----|
| | | MS | HSD |
| 32 | CHATISGARH | 1590 | 932 |
| 33 | DAMAN & DIU | 1585 | 930 |
| 34 | DADRA & N HAVELI | 1586 | 930 |

Difference between the State with the highest Commission & the State with the Lowest commission in the above scenario is as under:

| | State | MS (₹/KL) | HSD (₹/KL) |
|---------------------|-------------------|-----------|------------|
| Highest Commission | Karnataka | 1641 | 934 |
| Lowest commission | Andaman & Nicobar | 1512 | 914 |
| Difference | | 129 | 20 |
| % Diff over highest | | 7.9 | 2 |

5.8 Periodic Review of Commission rates

As of now, the dealer commission is changed with the approval of the Ministry of Petroleum & Natural Gas once in a year based on the average figures of the previous year. However, this leads to discrepancies especially in the year 2010 when the product prices of MS and HSD are 25 to 30% higher than the average product prices in the previous year. Moreover, the chances of frequent changes in product prices are more due to fluctuations in international prices. Further in several States minimum wages are changed twice a year in March & September. Since MS prices have been decontrolled and HSD prices are to be decontrolled over a period of time, (it is recommended that the OMCs vary the dealer commission automatically in January and July every year to take into account variations in minimum wages and power rates. All other cost components of the operating cost like Insurance, Repair & maintenance/water charges, Communication and conveyance expenses, Bank charges, Taxes/Audit/Fees, Uniform, printing & Stationary, Consumables, Staff welfare, Manager's salary and Dealers remuneration will be varied in line with AICPI % variation and revised from 1st January and 1st July taking in to account the AICPI as applicable for October (for

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January revision) and April (for July revision) respectively.) For this purpose the AICPI base assumed is of November 2010 of 4156 (1960 series). The variation may take place along with product price changes for MS and if HSD is not decontrolled then automatically on the 1st of January and July. Variations on account of product prices can be carried out on a formula basis as and when the oil companies are effecting the change in product prices. The changes on account of dealer commission need to be passed on to the customers as and when the changes are made.

The suggested formula for allowing variation in dealer commission consequent to product price revision would be as under:-

MS: Loss component of 0.75% of product price+ Working capital component of ₹93.90 per KL over weighted average product price of ₹58339/- per KL and this works out to 0.16%.

Hence as and when the product price is revised 0.90% of the RSP will be automatically worked out as dealer commission and the dealer allowed to collect such revised commission from the customers on due advice from the OMC in this regard.

e.g. Assume that the existing price is ₹58000/- and commission is ₹1610/per KL in a state. Assume that an increase has been effected to the tune of ₹2000/per KL including taxes. The revised commission would be $₹1610 + 2000 * 0.90\%$ which is equal to $₹1610 + 18 = ₹1628$.

HSD: Loss component of 0.18% of product price+ Working capital component of ₹50.66 per KL over weighted average product price of ₹39339/- per KL and this works out to 0.13%.

Hence as and when the product price is revised 0.30% of the RSP will be automatically worked out as dealer commission and the dealer allowed to collect such revised commission from the customers on due advice from the OMC in this regard.

..g. Assume that the existing price is ₹40000/- and commission is ₹925 per KL in a State. Assume that an increase has been effected to the tune of ₹1000/- per KL including taxes. The revised commission would be $₹925 + 1000 * 0.30\%$ which is equal to $₹925 + 3 = ₹928/-$.

The revised commission rates would be implemented simultaneously with the product price revision. Revision amount to be rounded off to the nearest integer. These percentages of 0.90% in respect of MS & 0.30% in respect of HSD would be reviewed as and when the commission rates would be reviewed taking in to account the other parameters of minimum wages, electricity costs, Prime lending rate of State bank of India etc. in January and July every year.

5.9 Others

5.9.1 LFR

The license fee recovery for assets has not been changed since 1997. Since this issue is directly related to the issue of return on net fixed assets, a review of the entire issue needs to be undertaken separately. While the issue of return on NFA and LFR may be reviewed separately but in the interim in case of 'B' sites i.e. dealer owned ROs, recovery on account of LFR may be discontinued.

5.9.2 OMCs to fix dealer commission for its dealers

Ideally the commission payment to the dealers should be market determined. Since MS prices have already been derègulated by the MOP&NG, individual oil companies would be free to fix their own commission rates for its dealers depending on their logistics and other parameters. (The committee's suggestion of the commission as given in this report are purely directional in nature and has done so as to guide the OMCs as the deregulation has taken place only very recently. There will be no role of MOP&NG in fixing the dealers commission in respect of

this product. As and when HSD product also gets deregulated, the same principle would be applicable in respect of HSD.)

5.9.3 Free Facilities at ROs

Some of the facilities like water, air and toilets have been provided traditionally free at the ROs. However, a cost is incurred in maintaining and providing these facilities. Toilet facilities are being provided at a charge even by civic authorities now. There is scarcity of water and it is available in majority of the places only against a cost. Hence there is no reason why ROs should provide free service of toilets at its retail outlets. The draft MDG has also provided user charge of ₹2/- per customer. As regards air, it is an essential facility for all vehicles. However, a staff needs to be deployed for filling of air and a cost is also incurred for the air pumps. In view of the above the following charges are suggested to be allowed to be levied at Retail outlets:-

| | | |
|------------------------------------|---|--------------|
| User charge of Toilet | - | ₹2/- per use |
| Air facility for a car/jeep | - | ₹5/- |
| Air facility for a two /3 wheelers | - | ₹2/- |
| Air facility for trucks/buses | - | ₹20/- |
| Air facility for any other vehicle | - | ₹10/- |

The above are the maximum suggested charges. The RO dealer would be at liberty to charge lower rates. Provision for water is a matter of courtesy. However in case the dealer is providing cooled, treated drinking water, he may be allowed to levy a nominal charge at his discretion.

6. CONCLUSION:

- 6.1 In a deregulated scenario, the pricing of product should vary in various markets depending on factors like competition, cost for delivery, cost of assets, etc. Dealer commission should also vary depending on cost of assets, manpower, electricity charges as also incentives for high performers. A formulaic approach which is suitable in the regulated regime, will not work in a deregulated scenario. A beginning is being made while suggesting State level dealer commission taking into account the variations in product prices amongst the States. The Committee finally recommends State level dealer commission rates contained in Table in para 5.7 of the Report. The suggested rates are only indicative for MS as the prices have been decontrolled.
- 6.2 Fixing dealer commission as a percentage of the retail selling price may not be desirable for two reasons: (a) a large portion of the retail sale price of Petrol and Diesel is comprised of taxes. While taxes do impact the working capital requirement of a dealer, in the overall workings of the dealer commission, working capital is only a part of the total dealer commission. The major expenditures of the dealers relate to wages and electricity and are not impacted by taxes. (b) In a deregulated scenario, a rise in international oil prices would mean a higher dealer commission not for any actual increase in dealer's costs, and would, therefore, be akin to a windfall profit at the cost of the consumer. However, it is recognized that the elements of stock loss and return on working capital are directly linked to the product prices, and compensation for these elements may be linked to the product prices.
- 6.3 In line with the recommendations of the Indian Institute of Petroleum, Dehradun while considering stock losses in MS, it is proposed that losses to the extent of 0.75% be allowed in place of the present 0.59%. A separate study may be conducted regarding evaporation losses in HSD as several dealers indicated that with the introduction of higher grade of fuels of Euro-III and Euro-IV quality, the stock losses have increased.


- 6.4 To account for Dealer remuneration apart from Manager's salary and cash handling/bank charges, separate new components have been considered in the dealer commission formulation.
- 6.5 The present dealer commission is worked out on the basis of an average throughput of 170 kl per month for an RO. However, the costs of a dealer do not have a linear correlation with the sales but instead move in step function for major elements like manpower. Linear formula for dealer commission on the basis of ₹/kl benefits high selling dealers while the low selling dealers get lower compensation. A fresh study needs to be conducted on the manpower requirement in Urban ROs (more MS sales), Highway ROs (more HSD sales), high selling ROs etc. also taking into account the increased level of automation at ROs. Different requirement of manpower in different markets would again indicate the need for market level fixation of commission.
- 6.6 It would be possible to vary the dealer commission rates to take into account the changes in product prices as and when the product prices are changed. For other benefits like wages, electricity costs, etc., the OMCs may vary dealer commission rates in January and July without referring to MoP&NG. The changes in dealer commission rates including the recommended rates as per this report should be passed on to the customers.
- 6.7 The return on Net Fixed Assets and Licence Fee Recovery has not been changed since 1997 even though the land prices have gone up exponentially. While the OMCs get a return on their investment on 'A' sites through the marketing margin, the dealers of 'B' sites are not adequately compensated. This issue needs to be looked into in greater detail by a separate group. In the interim, the OMCs shall not make any LFR recovery for 'B' sites. However, in respect of 'A' sites, recovery of LFR at current rates would continue.
- 6.8 Some charges have been suggested for use of toilets and air facilities at ROs. A dealer is free to charge lower than the suggested charges.

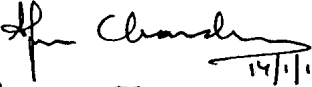


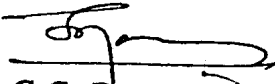
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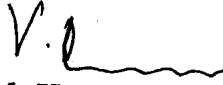
6.9 About 50% of the dealer commission comprises of compensation of salary and wages of the manpower employed at a retail outlet by the dealer. Apart from the minimum wages declared by the state Government from time to time as applicable in the state other benefits like Bonus, Provident fund and ESIS contributions as applicable would also have to be incurred by the dealers. While working out the dealer commission rates in this report all such incidentals have been considered. It is expected that the dealers would adhere to the same in the operation of the retail outlets.


6.10 Having taken care of Dealers' aspirations in terms of their compensation, OMCs must also remind dealers of their obligations towards better upkeep, customer service and taking proper care of their staff in terms of their compensation and welfare.


S. Radhakrishnan
Director (Mktg.), BPC


Apurva Chandra
Joint Secretary (Mktg.)
MOP&NG


G.C. Daga
Director (Mktg.), IOC


Vivek Kumar (IC)
Joint Secretary
MOP&NG
and former Director (SE P)


S. Roy Choudhury
C&MD, HPC and
(Addl. charge-Director(Mktg))