



GOVERNMENT OF PAKISTAN
Ministry of Petroleum & Natural Resources

LIQUEFIED PETROLEUM GAS
(PRODUCTION & DISTRIBUTION)
POLICY, 2016

1. Introduction

Liquefied Petroleum Gas (LPG) is a colourless, odourless and environment friendly mixture of hydrocarbons (mainly propane and butane) which is gaseous at normal temperature and pressure, and liquefiable under reduced temperature or moderate pressure. A chemical ethyl mercaptan is added to impart a pungent odour for leak detection. Currently about 1390 tons/day LPG is being produced domestically contributing less than 1% to the total energy supply mix. Because of its characteristics LPG is fast becoming a fuel of choice in the areas, where natural gas distribution network is not available. Currently out of 27 million households in Pakistan, 7 million are connected to natural gas network and the rest are relying on LPG and conventional fuels like coal, firewood, kerosene, dung cake etc.

In June 2000, the **Federal Government** decided to deregulate the LPG industry with a view to making it investor friendly, foster healthy competition, improve safety standards and ensure better consumer services. Accordingly, in supersession of LPG (Production & Distribution) Rules 1971, the LPG (Production & Distribution) Rules, 2001, were formulated under which LPG allocations made by the Ministry of Petroleum & Natural Resources (MPNR) prior to deregulation were given protection to the extent of terms of existing agreements between the marketing companies and producers. These Rules also empower the producers and marketing companies to fix a reasonable producer price for their product and a retail price respectively. After promulgation of Oil & Gas Regulatory Authority (OGRA) Ordinance, 2002 all LPG regulatory functions as envisaged in the LPG (P&D) Rules, 2001, were transferred to OGRA in March 2003. The Government introduced LPG(Production & Distribution) Policy, 2006, with the objective to streamline its distribution at affordable prices and promoting competition etc. The policy covered the issues of licensing, safety standards, pricing, import and automobile sector.

Subsequently, the Government introduced LPG (Production & Distribution Policy), 2011, and 2013, with the objective to increase LPG supplies through indigenously produced and imported product. However, despite the above policy initiatives, the LPG prices for domestic consumers remained considerably high due to linkage of domestic LPG producer prices with international prices, deregulated consumer prices as well as high producer price and overcharging by the marketing companies. LPG is considered as a poor man's fuel yet the same is being priced at over 20 times higher than natural gas for lifeline domestic consumers.

Taking cognizance of the issue, MPNR has reviewed the issue in its entirety and has concluded that the price deregulation policy has failed to achieve its intended objective of enhancing availability of LPG at affordable prices.

2. Objectives

The main objective of this policy is to make available LPG for domestic consumers at an affordable price and to avoid frequent price fluctuations to ensure a sustained price level.

3. Policy Guidelines

3.1.1 Production and Disposal of LPG by Public Sector (E&P) Companies and Refineries

Public Sector E&P Companies shall directly or through other companies exercise their right to set up LPG extraction facilities at gas fields where LPG can be commercially extracted in accordance with the development plan approved by the Government.

In case, the Public Sector E&P Company is unable to set up LPG extraction plant as per the development plan with reference to extraction of LPG as per provisions of the applicable Petroleum Concession Agreement (PCA), its right of LPG extraction would stand surrendered to the Government who can get it extracted through a competitive bid process.

Public Sector E&P Companies and Refineries shall give preference in sale of LPG to Gas Utility Companies for supply to LPG Air-Mix Plants in pursuance of GOP's socio economic consideration for supply of fuel to domestic consumers. In case Gas Utility companies are unable to lift LPG, the LPG would be disposed of in a transparent manner through a competitive bid process to the licensed LPG marketing companies on terms and conditions to be settled between the Buyer and Seller, subject to LPG Pricing as provided in Section 3.4 of this Policy.

The existing LPG supply agreements of Refineries and E&P Companies shall however be honoured to the extent of their terms.

3.1.2 Production and Disposal of LPG by Private Sector (E&P) Companies & Refineries

Private Sector E&P Companies having potential to produce LPG shall submit details of LPG potential to DG Petroleum Concession as part of their field development plan and their intention to exercise their right for extraction of LPG.

In case, the Private Sector E&P Company is unable to set up LPG extraction plant as per the development plan with reference to extraction

of LPG as per provisions of the applicable Petroleum Concession Agreement (PCA), its right of LPG extraction would stand surrendered to the Government who can get it extracted through a competitive bid process.

3.1.3 Production and Disposal of LPG by Private Sector Producers other than E&P Companies and Refineries

Other Private LPG producers will dispose of LPG in a transparent manner to the licensed LPG marketing companies on terms and conditions to be settled between the Buyer and Seller, subject to LPG pricing as provided in Section 3.4 of this Policy.

3.2 LPG Licensing

3.2.1 OGRA will issue a Provisional Licenses for an initial period of two(2) years for LPG Marketing to technically and financially sound applicants for construction of works commensurate to their work program.

The work program will ensure that adequate storage, cylinders and logistics infrastructure is constructed within this timeframe in line with the marketing plan of the company. On completion of works to the satisfaction of OGRA, the Provisional License will be converted to a Marketing License for a period of Fifteen years.

3.2.2 OGRA will also issue licences for Production/Extraction/LPG Air-Mix plants, LPG Storage and Filling plants, and LPG Refuelling Stations for automotives. Permission from Department of Explosives will also be required wherever applicable under the Rules.

3.2.3 The Licenses shall be cancelled in case of non-compliance with the licensing terms and conditions.

3.3 LPG Safety Standards

3.3.1 To ensure safety throughout the LPG supply chain i.e. LPG Extraction Plants, LPG Storage Tanks, LPG Transporters and Distribution Outlets, the Licensees will meet the minimum safety standards in accordance with NFPA 58 or equivalent standards as updated from time to time.

3.3.2 Decanting of LPG from cylinder to cylinder is prohibited and cross filling of other LPG marketing companies' cylinder is also prohibited

except under hospitality arrangement with prior information in writing to OGRA. OGRA shall cancel Licenses of the LPG Marketing Companies involved in violation of provisions of this section.

- 3.3.3 Prescribed codes and standards for conversion of vehicles to LPG and the establishment of LPG refuelling stations for the automobile sector by LPG Marketing Companies, Oil Marketing Companies and CNG Stations / Petrol Pumps or other companies will be followed. Hydrocarbon Development Institute of Pakistan (HDIP) or any other party authorized by OGRA will certify compliance of the above equipment in accordance with NFPA 58 or equivalent.
- 3.3.4 NFPA 58 or equivalent standards, as updated from time to time, will be used for regulating the LPG auto sector, and an effective compliance monitoring mechanism will be put in place by OGRA concerned as per the applicable laws and rules.
- 3.3.5 Use of Domestic or Commercial cylinders in automobiles is prohibited. Refilling of Domestic or Commercial cylinders or any other Gas cylinders at LPG refuelling stations is prohibited.
- 3.3.6 OGRA will publish a list of authorized manufacturers for all LPG equipment including LPG refueling stations, conversion kits, fuel tanks, cylinders, storage tanks etc. duly approved and certified by HDIP or any other party authorized by OGRA. The equipment manufactured by the authorized manufacturers will be verified and monitored for conformance to the international standards through strict quality control and quality assurance measures by OGRA.
- 3.3.7 The LPG Marketing Companies shall provide certificates duly mentioning the serial number of their cylinders to OGRA before 31st December of each year confirming that the cylinders have been properly tested as per requirement of the LPG Rules/Standards. Further, it shall be the responsibility of the LPG Marketing Companies to ensure that their LPG cylinders have been revalidated as per law after a specific period as determined by OGRA.

3.4 LPG Pricing

- 3.4.1 Subject to Policy Guidelines of the **Federal Government**, the Oil and Gas Regulatory Authority will regulate and notify the prices of indigenous LPG including Producers' Price, Margins of Marketing and Distribution Companies and Consumer Prices.

- 3.4.2 The Government may charge a Petroleum Levy from local LPG Producers as provided in the Petroleum Products (Petroleum Levy) Ordinance, 1961, as specified from time to time by the **Federal Government**.
- 3.4.3 The **Federal Government** will, from time to time in consultation with OGRA and relevant stakeholders, determine the quantity of LPG to be imported to meet any gap between demand and supply; this quantity will be imported by Public Sector companies. Petroleum Levy on LPG or Gas Infrastructure Development Cess (GIDC) may be utilized to subsidize the LPG imported by Public Sector companies for bringing the prices equal to local LPG prices for Domestic sector supplies.
- 3.4.4 Tariff for LPG Air-Mix for supply to Domestic and commercial consumers will be as determined by the **Federal Government** from time to time.
- 3.4.5 LPG prices will be regulated with a Maximum Price at all levels of the supply chain. However, Producers, Marketing Companies and Distributors may sell below the Maximum Price determined from time to time.
- 3.4.6 OGRA will intervene in case of deviation from the above pricing basis and would also involve the local administration to ensure punitive action against the defaulting Marketing Companies and Distributors.

3.5 Import and Export of LPG

- 3.5.1 Any party having valid OGRA Licence can import LPG after paying applicable government duties and taxes.
- 3.5.2 Export of surplus quantity of LPG will be allowed by the MPNR keeping in view the local demand of LPG.

3.6 General

- 3.6.1 For effective policy formulation and implementation all LPG Licensees shall furnish requisite information/data to MPNR/OGRA as may be required.
- 3.6.2 OGRA will also apprise the MPNR about the implementation status of this Policy on a quarterly basis.

- 3.6.3 The **Federal Government** may issue instructions to OGRA from time to time for implementation of this policy and/or in respect of matters related thereto, as may be considered necessary.
- 3.6.4 OGRA shall obtain list of all existing LPG Distributors from LPG Marketing Companies and register them within 90 days of the date of issuance of this Policy.
- 3.6.5 OGRA will charge a reasonable fee from each LPG Distributor not exceeding Rs. 10,000/- for registration. For all future Distributors, the Marketing Companies shall within 7 working days of the appointment of a Distributor notify OGRA, and OGRA shall within 90 days thereof register those Distributor(s).
- 3.6.6 The LPG Marketing Companies being the License holder of OGRA; would remain responsible for observance of all safety codes and standards at their Distributors' premises as well as implementation of LPG sale price to be notified by OGRA.
- 3.6.7 With a view to ensure adequate supplies of LPG and discourage deforestation in mountainous areas of KPK and Punjab, and in AJK, FATA and Northern Areas, all local LPG producers in KPK and Punjab will dedicate 10% of their production to LPG Air-Mix plants and Marketing Companies for exclusive distribution in these areas. Similarly, all local LPG producers in Sindh and Balochistan will dedicate 10% of their production to LPG Air-Mix plants and Marketing Companies for exclusive distribution in Balochistan and Rural Sindh.
- 3.6.8 The Air-Mix Plants established by Public Sector Companies will be operated either by these companies or through their third party operators in accordance with prescribed safety standards.
- 3.6.9 The indigenous LPG production will primarily be supplied to Domestic and Commercial consumers. All other sectors such as automobile and industrial will only be allowed to use imported LPG.
- 3.6.10 In case, the indigenous LPG production is not fully consumed by domestic and commercial sector, the **federal government** may allow its use in other sectors giving due consideration to all relevant factors.

4. Applicability and effect of the Policy Guidelines

- 4.1 This policy will come into force with immediate effect.
- 4.2 OGRA will amend its rules and regulations as well as Licensing terms of its Licensees, where necessary, to give effect to this policy.
- 4.3 This policy supersedes all previous instructions, orders and policies issued by the **Federal Government** from time to time in respect of the matters specifically covered in this policy.

5. Removal of difficulties

If any difficulty arises in giving effect to any provision of this Policy, the **Federal Government** may issue such orders as may be necessary for the purpose of removing the difficulty.
