



GOVERNMENT OF PAKISTAN
Ministry of Petroleum & Natural Resources

LIQUEFIED PETROLEUM GAS
(PRODUCTION & DISTRIBUTION)
POLICY GUIDELINES, 2013

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 1000 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, 6.1 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, 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 LPG (P&D) Rules, 2001 were transferred to OGRA in March 2003. The Government in 2006 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 auto sector.

Subsequently in 2011, the Government introduced LPG (Production & Distribution Policy), 2011 with the objective to increase LPG supplies through indigenously produced and imported product streamlining its distribution at competitive prices, and promoting healthy competition for growth of LPG market while ensuring safety standards across the LPG supply chain. The Policy covered the issues of setting up of LPG extraction plants, LPG licensing, safety standards, pricing, imposition of Petroleum Levy, import and guidelines for regulation of auto sector.

2. Objectives

In order to incentivize the LPG Industry for enhancing local LPG production as well as import of LPG and its utilization in the automotive sector & in LPG Air Mix plants for provision of gas to consumers, the Government is introducing these

policy Guidelines. The main objectives of these policy Guidelines is to address the various issues that could not be covered in the previous LPG policies, to encourage growth of LPG industry for its sustainable and enhanced availability of LPG products. To achieve these objective, issues regarding LPG production, LPG licensing, safety standards, pricing, use of LPG in Automotive sector, provision of LPG Air Mix to reduce pressure on existing gas system, import & export have been addressed in these policy Guidelines

3. Policy Guidelines

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

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 E&P Company remains unable to implement the development plan with reference to extraction of LPG as per provisions of the applicable Petroleum Concession Agreement (PCA), its right would stand surrendered to the Government who can get it extracted through competitive bidding.

Public sector E&P companies shall give preference in sale of LPG to LPG Air-Mix plants. In case such Air-Mix plants are unable to lift the same, the LPG would be disposed of in a transparent manner to the LPG licensed marketing companies on terms and conditions to be settled between the Buyer and Seller.

The existing LPG supply agreements of E&P companies shall however be honoured.

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

Private sector E&P companies having potential to produce LPG shall submit details of LPG potential to DG Petroleum Concession as part of field development plan and their intention to exercise their right for extraction of LPG. If E&P Company fails to provide a definite road map for LPG extraction, its right would stand surrendered to the Government who can get it extracted through competitive bidding.

In case, the E&P Company remains unable to implement the development plan with reference to extraction of LPG as per provisions of the applicable Petroleum Concession Agreement (PCA), its right would stand surrendered to the Government who can get it extracted through competitive bidding.

3.2 LPG Licensing

- 3.2.1 OGRA will issue provisional licenses for an initial period of one year, for LPG Marketing to technically and financially sound applicants/ parties for construction of works commensurate to their work program.

The work program will ensure that adequate storage, cylinders and logistics infrastructures are 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 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 automobiles. Permission from Department of Explosives will also be required wherever applicable under Rules.
- 3.2.3 The licenses shall be cancelled in case of non-compliance with licensing terms and conditions.
- 3.2.4 With a view to ensure adequate supplies of LPG to far flung areas of the country and to halt deforestation, the Sui companies will establish LPG supply network marketing companies preferably to meet the requirements of far flung areas.

3.3 LPG Safety Standards

- 3.3.1 To ensure safety throughout the LPG supply chain i.e. LPG storage tanks, LPG cylinders carrying trucks/ LPG bowzers, and distribution outlets, the licensees will meet the minimum safety standards in accordance with NFPA 58 or equivalent and 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 and OGRA shall cancel licences of the LPG marketing companies involved in violation of this section.
- 3.3.3 Prescribed codes and standards for conversion of vehicles to LPG and the establishment of LPG re-fuelling stations for the auto sector by LPG Marketing Companies, Oil Marketing Companies and individual CNG stations / Petrol Pumps or other companies will be

followed. HDIP or any other party (ies) authorized by OGRA will certify compliance of the above equipment in accordance with international standards.

- 3.3.4 NFPA-58 or equivalent standards 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 the regulator concerned as per law.
- 3.3.5 Refilling of domestic cylinders as well as commercial cylinders or any other cylinders at auto gas 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 (ies) 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 the regulator concerned.
- 3.3.7 CNG stations/Petrol Pumps are also allowed to setup LPG Auto refuelling stations subject to meeting LPG Auto Gas Rules; and inspection of HDIP or any other party authorized by OGRA.
- 3.3.8 The LPG auto refuelling licensee will be at liberty to purchase LPG from any licensed LPG company/source.
- 3.3.9 All the LPG marketing companies shall provide certificate(s) duly mentioning the serial number of cylinders, to OGRA before 31st December each year, confirming that their cylinders have been thoroughly tested as per requirement of LPG Rules/Standards. Further, it shall be the responsibility of LPG marketing companies that their LPG cylinders have been revalidated as per law, after a specific period as determined by the regulator concerned.

3.4 LPG Pricing

- 3.4.1 The Government will continue to follow its deregulation policy and the Price of LPG supply chain will not be determined or notified by the Government. The Government will 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 MP&NR and level of this levy be so fixed to protect investment in local LPG production as well as to encourage imports.

- 3.4.2 To ensure that cartels are not formed and high consumer price of LPG is not charged, MPNR & OGRA will determine the quantity of LPG to be imported to meet the gap between demand and supply. This quantity will be imported by public sector Sui companies. Besides, the private sector companies can also import LPG to meet the demand.
- 3.4.3 The LPG consumer price/retail prices will be determined by Market forces in accordance with Government's de-regulation policy. However, OGRA will oversee/ monitor that LPG Prices remain within a reasonable margin after accounting for primary transportation, all operating and administrative costs and taxes for LPG marketing companies and distributors.
- 3.4.4 OGRA will intervene in case of deviation from the above basis and would also involve the local administration to ensure punitive action against the defaulting 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 dues.
- 3.5.2 Export of surplus quantity of LPG will be allowed by MPNR, keeping in view the local demand.

3.6 General

- i) For effective policy formulation all LPG licensees shall furnish requisite information/data to MPNR/OGRA as may be required.
- ii) OGRA will also apprise the MPNR about the implementation status of these policy Guidelines on a quarterly basis.
- iii) The Federal Government may issue instructions to OGRA from time to time for implementation of these policy Guidelines and/or in respect of matters related thereto, as may be considered necessary.
- iv) OGRA shall obtain list of all existing LPG Distributors from LPG marketing companies and register them within 90 day of the date of issuance of these Policy Guidelines.
- v) OGRA will charge a reasonable fee from each distributor 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 distributors.

- vi) The LPG marketing companies being the license holder of OGRA; would remain responsible for observance of all safety codes and standards at distributors premises as well as for sale price to be notified by marketing companies.
- vii) With a view to ensure adequate supplies of LPG in remote, rural and hilly areas i.e. AJK, FATA and Northern Areas and to halt deforestation, all local LPG producers in Punjab and KPK will supply 7% of their production to marketing companies having distribution network in the above areas for exclusive marketing in said areas. Similarly, all local LPG producers in Sindh and Balochistan will supply 7% of their production to marketing companies having distribution network in Balochistan for exclusive marketing in that Province.

4. Applicability and effect of the Policy Guidelines

- i) These policy Guidelines will come in force with immediate effect.
- ii) OGRA will amend its rules and regulations as well as licensing terms of its licensees where necessary, to give effect to these policy Guidelines.
- iii) These policy Guidelines supersedes all previous instructions, orders and policies issued by the government from time to time in respect of the matters specifically covered in these policy Guidelines.

5. Removal of difficulties

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

(Abid Saeed)
Secretary
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