GOVERNMENT OF PAKISTAN
MINISTRY OF PETROLEUM AND NATURAL RESOURCES
(MONITORING AND EVALUATION UNIT)

MONITORING AND EVALUATION REPORT
JULY 2013 – MARCH 2017

27TH APRIL 2017

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Pakistan primary energy mix constitutes around 45% of Natural Gas followed by around 35% contribution of liquid fuels. Up to end of 2014, entire gas supply was from indigenous sources while only 49% of oil requirements were met through ingenuous production and remaining oil requirements were met through imports. While the existing oil and gas producing fields are on continuous depletion, the new discoveries are not significant and the same are hardly able to offset the impact of depletion resulting in no net addition in domestic production. On the other hand, the demand is increasing resulting in continuous widening of energy demand supply gap.

2. In 2013, the Government of Pakistan initiated a 'Sustainable Energy Sector Reforms Program' aimed to mitigate the demand supply gap through:

(i) enhancement of indigenous oil and gas production by incentivizing the exploration and production companies,

(ii) augmentation of gas supplies with imported gases either as liquefied natural gas (LNG) or through transnational pipelines and gradual substitution of expensive liquid fuels with comparatively imported gas, and

(iii) reform in petroleum sector to promote competition, transparency and efficiencies.

3. Keeping in view the above objectives, the Petroleum Exploration and Production Policy 2012 was implemented through award of new exploration licenses as well as conversion of existing licenses/leases to the said Policy. This was done through development of model Petroleum Concessions Agreement and Model Supplemental Agreement with the consultation of all relevant stakeholders to ensure transparency and uniformity.

4. At the same time, an unbundled approach for import of liquefied natural gas (LNG) was adopted. First ever contract in the country was awarded for LNG Receiving, Storage and Regasification terminal on build, own and operate basis. LNG supplies were timely secured from international market through spot tendering, competitive bidding as well as government to government basis. An extensive system augmentation project to allow transmission of Re-gasified LNG was implemented which allowed free flow of gas across the country. At present, Re-gasified LNG is being supplied to various categories of customers under a ring fenced full cost recovery model without involving any subsidy whatsoever.

5. With a view to open up the gas market, Government is pursuing a gas sector reforms process which includes unbundling of SNGPL and SSGC into one National Gas Transmission Company and Gas Distribution Companies at Provincial level. The Transmission Company will operate under open access common carrier arrangement which will allow gas producers/importers/buyers to transport their gas from injections points to consumption points on payment of regulated wheeling charges. This will eliminate the presently prevailing monopolistic market and will encourage new investment and foster competition.

6. On regulatory side, it is being envisaged to delineate the policy making and regulatory functions for upstream petroleum sector. An independent regulator will be established through an Act of Parliament while the role of Directorate General of Petroleum Concessions will be confined to Policy making pertaining to upstream petroleum sector.

7. The above initiatives are expected to strengthen the petroleum sector which will definitely result in sustained fuel supplies to all industrial as well as residential purposes at competitive and affordable prices.

BACKGROUND

To achieve the objectives laid down in Policy, Government of Pakistan with the assistance of development partners started the reform program “Pakistan Sustainable Energy Sector Reform Program” (program) in 2014.

2. Program was divided into three sub programs with sub programs 1 and 2 were jointly financed by Asian Development Bank (ADB), World Bank (WB) and Japan International Cooperation Agency (JICA) and has been approved. The completion of Subprogram 3 requires the completion of prior actions for Sub program 3 and continued implementation of actions completed in Subprogram 1 and 2.

3. One of the goals of reform program is the Monitoring and Surveillance as laid down in policy action 10 of Sub program 1 that reads as follows:

> **“***The policy action requires establishment of a Monitoring unit within both MOWP and MPNR with the responsibilities of monitoring the energy sector, reporting on quarterly basis and make public disclosure of the quarterly report”*

4. Therefore, a comprehensive monitoring report is required to be prepared to cover all the activities under the program pertaining to Petroleum Sector and in addition to other areas, presents an overview of the progress achieved on various policy actions under subprogram 1 to 3, the impact of reforms and the analysis of performance of power sector under various key performance indicators.

5. For the ease of reference, the Policy actions agreed under all the three Sub programs which pertain to Ministry of Petroleum and Natural Resources are reproduced hereunder:

Sub Program 1: Policy Action

Policy Action 5: (i) MPNR disclosed the 2013 Model Petroleum Concession Agreement on their website; (ii) MPNR announced the award of petroleum exploration blocks for the 2013 bidding round; and (iii) OGRA issued at least 3 pricing notifications under the 2012 Petroleum Policy *(Refer to chapter 1 for detailed discussion)*

Policy Action 10: ECC approved establishment of monitoring units within both MOWP and MPNR with the responsibilities of monitoring the energy sector, reporting on quarterly basis and make public disclosure of the quarterly report; and MOWP and MPNR formulated the scope of work for advisors to review quarterly monitoring reports and provide advice and recommendations on the implementation of the reforms which will be made public *(refer to chapter 2 for detailed discussion)*

Sub Program 2: Policy Action

Policy Action 4: MPNR has signed supplemental agreements agreeing to revised prices for 92 exploration concessions production leases at levels set out in the 2012 Petroleum Policy, including 26 from the private sector *(refer to Chapter 1 for detailed discussion)*

Policy Action 5: The Economic Coordination Committee has approved policy directives stating that LNG will be provided to consumers who pay its full cost through the tariff *(refer to chapter 3 for detailed discussion)*

Sub Program 3: Policy Action

Policy Action 7: MPNR approves a general restructuring plan for midstream and downstream gas sector and issues respective policy directives to initiate the unbundling *(refer to chapter 3 for detailed discussion)*

Policy Action 8: Sui Northern and Sui Southern complete: (i) Operational unbundling (separate transmission and distribution business units under same legal company) (ii) accounting unbundling between transmission and distribution business units *(refer to chapter 3 for detailed discussion)*

Policy Action 9: MPNR (Gas sector leadership committee) undertakes review of the roles and responsibilities of upstream and downstream regulatory agencies to improve efficiency and ensure adequacy in respect of ongoing sector restructuring *(refer to chapter 3 for detailed discussion).*

CHAPTER-1: PAKISTAN PETROLEUM EXPLORATION AND PRODUCTION POLICY 2012

Background, reforms undertaken and discussion on sub-program 1, policy action 5 and sub-program 2, policy action 4.

The importance of the domestic petroleum industry to the economy of Pakistan is a core issue of national security, national self-reliance and as a major source of government revenue. Taking cognizance of the importance and changed scenario in international petroleum market, a new Petroleum Exploration and Production Policy 2012 was promulgated in August 2012. The principal objectives of this Policy are:

(i) **To accelerate E&P activities in Pakistan** with a view to achieve maximum self-sufficiency in energy by increasing oil and gas production.

(ii) **To promote direct foreign investment in Pakistan** by increasing the competitiveness of its terms of investment in the upstream sector.

(iii) **To promote the involvement of Pakistani oil and gas companies** in the country's upstream investment opportunities.

(iv) **To train the Pakistani professionals in E& P sector to international standards** and create favourable conditions for their retaining within the country.

(v) **To promote increased E&P activity in the onshore frontier areas by providing globally competitive incentives.**

(vi) **To enable a more proactive management of resources** through establishment of a reorganized Directorate General of Petroleum Concessions (DGPC) comprising of a Federal and Provincial representatives with Federal

Director as ex-officio Director General and providing the necessary control and procedures to enhance the effective management of Pakistan's petroleum reserves.

(vii) To ensure the energy secure of the country by enhancing domestic exploration

(viii) To decrease reliance on imported energy by providing additional incentives to exploration and production companies for enhancing indigenous production

(ix) To undertake exploitation of oil and gas resources in a socially, economically and environmentally sustainable and responsible manner.

2. The Petroleum Exploration and Production Policy 2012 superseded the previous polices and allows better financial incentives to the new investments in terms of attractive Oil, Condensate and Gas pricing as well as improved regulatory conditions including increased period for petroleum rights and subsequent extensions, renewals and re-grants.

3. The Petroleum Exploration and Production Policy 2012 also allow the existing license/lease holders to convert to the said Policy for their new exploratory efforts. The Policy also offers better gas price incentives for enhanced gas production from existing fields subject to meeting certain criteria.

Implementation of Petroleum Exploration and Production Policy 2012

4. To implement the Petroleum Exploration and Production Policy 2012, Pakistan Onshore Petroleum (Exploration and Production) Rules, 2013 were promulgated and notified in March 2013.

5. Simultaneously, a Model Petroleum Concessions Agreement (PCA) for Onshore area was developed which was finalized in January 2014.

6. After finalization of Model PCA, the Petroleum Concessions Agreement will be successful bidders of bidding round carried out in 2013were executed. So far, forty six (46) new exploration licenses have been granted where PCAs have been executed under the Petroleum Exploration and Production Policy 2012. The licensees are various stages of implementation of their exploration programs including acquisition of 2D and 3D Seismic Data and drilling of exploratory wells.

7. To process the cases for conversion of existing licenses/leases, a Model Supplemental Agreement (MSA) to the PCAs was developed and published in January 2015. So far, seventy-two (72) Supplemental Agreements have been executed through which one hundred and five (105) applications for conversion of existing licenses/leases have been processed. A few remaining cases are being examined for removal of certain anomalies and after which SAs will also be executed in said cases.

8. The gas pricing of new discoveries is being determined and notified by OGRA under the applicable pricing parameters as enunciated in the Petroleum Exploration and Production Policy 2012.

9. At least, four cases where the existing lease holders have applied for Petroleum Exploration and production Policy 2012 price for their incremental production have also been approved and their gas price is being determined and notified accordingly.

10. A summary of major activities in upstream petroleum sector is as under:

S#	Year	Exploration licences Granted	Leases granted	Seismic Acquired	
				2D (L. Kms)	3D (Sq. Kms)
1	2012-2013	1	11	4,672	7,724
2	2013-2014	43	14	3,746	3,753
3	2014-2015	3	3	7,692	5,314
4	2015-2016	0	3	7,632	6,586
5	Jul-Dec 2016	0	2	3,148	2,168

S#	Year	Exploratory Wells drilled	Discoveries	Appraisal/ Dev. Wells Drilled	Oil (BOPD)	Gas (MMCFD)
1	2012-2013	35	13	62	76,277	4,126
2	2013-2014	51	28	50	86,533	4,092
3	2014-2015	51	27	41	94,493	4,016
4	2015-2016	46	27	53	86,481	4,048
5	Jul-Dec 2016	11	8	19	85,550	4,032

CHAPTER-2: ESTABLISHMENT OF MONITORING UNITS

Background, reforms undertaken and discussion on sub-program 1, policy action 10.

Vide MPNR's order No. 1(1)/2006-Admn dated 29th August 2014, it was decided that services of an executive of Mari Petroleum Company Limited (MPCL), have been borrowed temporarily by MPNR from MPCL and was attached at MPNR as Director (Monitoring and Evaluation) with effect from 5th August 2014 and until further orders. The person was entrusted to look after the work of Monitoring Unit and Policy analysis and other assignments. Subsequently, the person was given additional assignments of Senior Petroleum Economist in the office of Directorate General of Petroleum Concessions.

2. However, the advisors with the envisaged role of reviewing quarterly monitoring reports and providing advice and recommendations on the implementation of the reforms could not be engaged / posted.

3. So far, three quarterly monitoring and evaluations reports have been published with prior approval of the Economic Coordination Committee of Cabinet which are available on website of Ministry of Petroleum and Natural Resources.

CHAPTER-3: IMPORT OF LIQUEFIED NATURAL GAS (LNG) AND PRICING THEREOF

Background, reforms undertaken and discussion on sub-program 2, policy action 5.

The first LNG Policy was promulgated in 2005 which was subsequently revised in 2011. Since then multiple efforts were made for import of LNG under integrated project structure whereby single project developer was made responsible for securing LNG supplies from international market, its transportation to Port Qasim and construction and operation of Receiving, Storage and Re-Gasification of LNG thus supplying, Re-gasified LNG at tie in point of SSGC. However, none of the efforts could materialize due to various reasons.

2. The Economic Coordination Committee (ECC) of the Cabinet in June-2013 approved cancellation of the bidding processes initiated earlier and authorized Ministry of Petroleum and Natural Resources (MPNR) to engage in negotiations with Qatargas on government to government basis for importing LNG up to 500 MMCFD.

3. For receiving, storage and re-gasification of LNG, the ECC in August-2013 approved for tendering of fast track LNG project.

4. Pursuant to above decisions, competitive tendering/bidding process was initiated for provision of LNG receiving, storage and re-gasification services at a terminal to be located at Port Qasim under a tolling agreement without involving any government guarantee. The project was aimed to initially handle a minimum of 200 MMCFD RLNG in the first year and 400 MMCFD in the subsequent years for delivering to SSGC with a total contract period of 15 years.

5. A single stage two envelope bidding process was undertaken by ISGSL to procure the services, in accordance with Public Procurement Rules, 2004 which ultimately culminated to award of contract to a private party. The Terminal commissioned operations in March 2015. In early 2017, the remaining available capacity of 200 MMCFD

was also procured by SSGC and as of now the terminal is operating at it full capacity of 600 MCMFD.

6. For LNG supply, the MPNR nominated Pakistan State Oil (PSO) as its designated entity for negotiating LNG Sale Purchase Agreement (LNG SPA) with State of Qatar's designated entity. To negotiate the LNG price and other important aspects, ECC in August-2014 approved constitution of a LNG Price Negotiation Committee (PNC). In parallel, LNG procurement under competitive bedding prices was also pursued. The efforts ultimately resulted in award of LNG Supply contracts which is now being imported and being supplied to various categories of customers.

7. To allow the LNG supply chain to operate in a sustainable manner, it was decided that RLNG will be supplied to customers under a ring-fenced full cost recovery model. Accordingly, the Economic Coordination Committee (ECC) of the Cabinet in June-2015 approved the following:

"Pricing Components for RLNG:

i. LNG DES Price including any take or pay volumes, losses on account of Net Sale Proceeds and relevant adjustments due to exchange rate. In case of FOB cargoes, the price should include FOB price plus freight charges.

ii. PSO's other imports related actual costs.

iii. PSO's Margin upto 4 percent of LNG DES Price, subject to review after three months.

iv. Terminal Charges under LNG Service Agreement (LSA)

v. SSGCL/SNGPL cost of service (to be determined by OGRA)

vi. SSCGL/SNGPL administrative margin upto $ 0.05/ MMBTU (to be paid in rupees) for each company (to be treated as non-operating income), subject to review after three months.

vii. Transmission losses at 0.5% and distribution losses, if any (to be determined by OGRA)

The RLNG Price will be determined by OGRA and notified by PSO on similar lines to that for petroleum products pricing including Exchange Rate adjustments. However, RLNG price will be determined on the basis of price of LNG cargoes scheduled to arrive in Pakistan during the relevant month (as against the preceding month's practice in fuels) so that price should reflect the close to actual cost of LNG.

Moreover PSO has been allowed to incorporate any differential between actual versus provisional prices in subsequent pricing period upon availability of all actual costs. This will remove any ambiguity in the pricing mechanism and ensure that the actual and auditable prices are charged to customers.

Gas Infrastructure Development Cess will not be applicable on RLNG."

8. The ECC also approved to constitute a Committee comprising Secretary Finance Division (Convener), Secretary Ministry of Water & Power, Secretary Ministry of Petroleum & Natural Resources and Secretary Law, Justice & Human Rights to review the pricing mechanism and submit report to ECC for consideration.

9. Consequently, in June-2016, the ECC approved the recommendations of the Committee, constituted in June-2015, for conveying to OGRA as policy guidelines under Section 21 of the OGRA Ordinance, 2002 as under:

i. LNG DES Price to be taken as per Contract(s)
ii. Port charges will also be taken at actual including amount reimbursed to supplier as per relevant agreement. There was a consensus that all relevant cost may be allowed to PQA to sustain its operations along-with a reasonable profit margin.
iii. PSO was advised to take up the matter with Sindh Government for non-applicability of Sindh Infrastructure Cess in line with other 'Petroleum Products'. The Ministry of Petroleum and Natural Resources was also advised

to facilitate PSO accordingly. It was also agreed that pending the ultimate settlement of this issue, the said Cess will also be included in RLNG Price.

iv. PSO Margin will be determined at 2.50%.

v. All charges under LSA including but not limited to capacity charges and utilization charges as well as Retainage are to be included at actual. SSGC/PSO will share all relevant details with OGRA.

vi. SSGC's Margin for LSA Management to be determined @ $ 0.025/MMBTU to be treated as non-operating income.

vii. Transmission Loss to be determined and charged at actual subject to a maximum of 0.5% (to be shared by gas companies based on length of Transmission Line involved).

viii. Distribution Loss to be determined and charged at actual. The said loss for the customers located on high pressure transmission lines as well as those customers who are willing to lay their dedicated line from SMS/TBS at their own cost shall also be determined and charged at actual. However, for other customers on distribution lines, an actual average UFG for the last financial year will be taken in determination.

10. Till March 2017, a total of seventy seven (77) LNG cargoes have been imported into the country. The RLNG in being supplied to CNG, Industry and Fertilizer Plants on full cost recovery model under a ring fenced arrangement in line with ECC decision of June-2016.

Second Lng Terminal

11. Award for 2nd LNG terminal with 600 MMCFD through put capacity has been made which is expected to commission in September 2017.

System Augmentation Projects

12. Both gas companies have already completed an extensive system augmentation project which has enhanced their gas transportation capacity by 1,200 MMCFD. It is

being envisaged that this entire capacity will be dedicated for transportation of equivalent volumes of LNG imports through the two terminals.

CHAPTER-4: GAS SECTOR REFORMS – UNBUNDLING OF GAS UTILITY COMPANIES

Background, reforms undertaken and discussion on sub-program 3, policy actions 7, 8 and 9.

Pursuant to 18th Constitutional Amendment, whereby the mineral oil and natural gas within the Province or the territorial waters adjacent thereto have been shall vested jointly and equally in that Province and the Federal Government, the provincial role of matters relating to mineral oil and natural gas has been acknowledged. Consequently, the Minister for Petroleum and Natural Resources constituted a gas sector Leadership Committee which includes the Energy Ministers of all the four provinces.

First meeting of the Gas Sector Leadership Committee

First meeting of the said Committee was held on 25th July 2016 in Islamabad to ensure overall strategic directions and decision-making to implement the roadmap for gas sector reforms. The two major issues which were discussed in the mattering were (i) Unbundling of Transmission and Distribution and (ii) Strengthening of Regulatory Institutions.

Unbundling of Transmission and Distribution

2. It was discussed that the ECC in March 2013 approved, in principle, to initiate the process for proposed unbundling of gas companies subject to the condition that the Provincial Governments will be consulted in advance and the matter will also be placed before the Council of Common Interest. ECC also approved that as a first step, consultants of international repute will be inducted to undertake the assignment.

3. In accordance with the above refer ECC decision, the following was proposed to Gas Sector Leadership Committee:

Transmission

- Unbundling of Transmission and Distribution functions
- Merger of Transmission assets into one National Gas Transmission Company (NGTC)
- Shareholders of SNGPL and SSGC will own proportionate shares in NGTC based on asset valuation
- NGTC will operate as common gas carrier on tolling fee basis
- NGTC will not be allowed to buy, sell, or distribute gas
- SNGPL and SSGC to be split into 4 separate Distribution companies on Provincial basis
- Existing SNGPL and SSGC shareholding will remain intact in new Distribution companies
- Provision will be made to provide option for purchase of shareholding by Provinces in NGTC and new Distribution companies

Distribution

Phase I

- SNGPL and SSGC will complete accounting and operational unbundling of Distribution function on Provincial basis
- Existing arrangement of revenue requirement determination to continue

Phase II

- Separation of SNGPL and SSGC transmission assets into NGTC
- SNGPL and SSGC will be split into 4 corporate entities, each with jurisdiction to distribute Gas within a Province
- Separate revenue requirement determination of each entity
- Gas Sales Agreements will be novated to new entities
- Gas pricing Agreements will remain intact

4. The Gas Sector Leadership Committee agreed in principle to the proposal. With a view to implementing the 2013 ECC decision, the provinces agreed to consider the unbundling implementation plan, proposed by MPNR. The Leadership Committee tasked the technical committees to develop details of the implementation plan, pursuant to unbundling and Phase I and II, as set out above.

Strengthening of Regulatory Institutions

5. A proposal was submitted for the development of a series of options for strengthening of regulatory institutions including:

a. Undertaking a study to identify the specific issues to be resolved and review regulatory objectives.
b. Reviewing the Roles and Responsibilities of the Ministry and the upstream and downstream regulatory agencies (primarily DGPC and OGRA) as they relate to policy and regulation, including reviewing the allocation of policy, executive and regulatory functions
c. Reviewing of Organization and Financing
d. Reviewing of Processes and Systems, including reporting and IT systems

6. With respect to strengthening of regulatory institutions, the Leadership Committee agreed to endorse the overall approach for strengthening of regulatory institutions and the outlined framework for the assessment and development of a plan. It was also agreed to appoint interim provincial representatives to DGPC, based on criteria agreed jointly by the Federal and Provincial governments. It was further agreed to take the necessary steps to speed up the appointment of provincial representatives, including agreeing that the interim provincial representatives will be funded by the federal government until the end of FY17.

2nd meeting of Gas Sector Leadership Committee

7. The second meeting of the Gas Sector Leadership Committee was held on October 18, 2016. The Minister for Petroleum and Natural Resources outlined the three major changes at the heart of this effort without which the gas sector may end up in a financial deficit situation like the power sector and without which the 18th Amendment cannot be implemented in true intent and spirit:

(i) Unbundling of SNGPL and SSGC into a single, national transmission company and four provincially-based distribution companies;

(ii) A two-tier market which distinguishes the users of imported gas from those of domestic gas;

(iii) The introduction of Third Party Access (TPA) to the transmission network whereby a buyer of gas can contract with a supplier and use the transmission system to move that gas against a charge.

8. In this regard, vide letter dated 9th Sep 2016, both gas utility companies were directed, after obtaining approval of the Board of Directors, to immediately start the financial, technical and legal due diligence process to ensure timely completion of gas sector unbundling process. It was conveyed that propose structure of the unbundled companies will comprise of one National Gas Transmission Company and four (4) gas distribution companies on provincial basis. Both the gas companies have engaged consultants for necessary due diligence leading to unbundling of gas companies. Lately, during the review meeting chaired by the Minister for Petroleum and Natural Resources held on 10th March 2017, it was informed that the operational and the accounting unbundling between transmission and distribution businesses is effective in both the gas companies since 1st January 2017 while certain matters relating to management structure and fine tuning on financial reporting is in process.

9. The Minister for Petroleum and Natural Resources directed the Sui companies to complete the entire process on internal operational and accounting unbundling, addressing the areas of management structure, staff and cost allocations and preparation of management accounts on unbundled transmission and distribution businesses.

10. Vide letter dated 10^{th} Apr 2017, both Sui companies have been requested to submit compliance report to above directions and to state that when the management accounts for 1^{st} quarter (January-March 2017) can be made available for review of this Ministry. Replies of the companies are expected shortly.

11. For a reorganized Directorate General of Petroleum Concessions (DGPC) to work well, support from World Bank has been sought for fully examining the various models that are available in relation to the roles and responsibilities of each provincial representative and to anticipate the expectations with respect to new personnel at DGPC. World Bank has engaged services of expert/consultant to set out the possible approaches to the operationalization of the reorganized DGPC.

12. World Bank has recently shared a draft note on 'Reforming DGPC for Provincial Participation' which is under examination in the DGPC.

CHAPTER-5: IMPACT OF REFORMS PROGRAM

The support of Asian Development Bank (ADB), World Bank (WB) and Japan International Cooperation Agency (JICA) has been very instrumental in approaching towards the Government's policy objectives in a structured manner.

2. Implementation of Petroleum Exploration and Production Policy 2012 through execution of Petroleum Concessions Agreement and Supplemental Agreements for Conversion of existing licenses/leases improved the investors' confidence resulting in enhanced exploration activities. As a result, the depletion of oil and gas production from old fields have been compensated by way of production becoming online from new discovers or production enhancement from existing fields. The domestic gas production is almost similar during last few years while oil production has increased from base year of 2012-13.

3. Uninterrupted supply of RLNG to the CNG, fertilizer and industrial sectors has allowed these sectors to operate at a comparatively cheap, efficient and clean fuel. At the same time, the full cost recovery model under ring fenced arrangement has allowed the LNG supply to sustain its operations without any difficulty.

4. Involvement of provincial directors in regulatory matters of upstream petroleum sector has been appreciated at various fora which has increased the confidence of stakeholders. This will further be strengthened in future after completer operationalization of reorganized DGPC to be followed by establishment of an intendant and autonomous regulatory authority.

5. The initiative of reform process leading to unbundling of gas utility companies has also been taken positively by various stakeholders. This will allow flow of gas across the

country under third party access arrangement on payment wheeling charges to be determined in a competitive manner and with greater transparency.

CHAPTER-6: LESSONS LEARNT AND RECOMMENDATIONS

During this reform process, a few issues crop up which could have been handled in a better way. For example, after approval of Petroleum Exploration and Production Policy 2012, it took a considerable time to development of Petroleum Exploration and Production Rules 2013, Model Petroleum Concessions Agreement and Model Supplemental Agreement for conversion of old licenses/leases to said Policy. In future, whenever a new Policy is formulated, it should be done as a package which should include the Rules to implement the Policy as well as all required Model Agreements.

2. Unbundling the LNG Terminal and Supply Contract has been a success. However, after first terminal as well as first supply contract, it was realized that these aspect could have been better handled through special purpose vehicles (SPVs) which have now been established as Pakistan LNG Terminals Limited (PLTL) and Pakistan LNG Limited (PLL). The LNG Terminal Contract of SSGC and LNG supply contract of PSO may also be novated to PLTL and PLL respectively which will clearly delineate the functions and ensure proper coordination amongst respective entities.

3. The Petroleum Exploration and Production Policy 2012 provides for establishment of separate fund for payment of salaries to provincial directors. However, no mechanism has been provided in the Policy to this effect resultantly the requisite fund could not be created so far. In future, it would be expedient to resolve such like issues at the time of policy formulation and should not be left open ended for settlement at a later stage.

4. Despite that the in principle approval of ECC to initiate the process for proposed unbundling of gas companies was granted in March 2013, the process was actually initiated during 2016. As the ECC decision of March 2013 was subject to the condition that the Provincial Governments will be consulted in advance, it was considered

expedient to constitute a Gas Sector Leadership Committee comprising the Federal Minister for Petroleum and Natural Resources and the energy Ministers of the four Provincial Governments. The Inter-Provincial Coordination Division was also associated in the matter keeping in view of its mandate and functions. Three separate technical committees i.e. (i) Policy and Legal Committee, (ii) Market & Regulation Committee and (iii) Sector Structure Committee were constituted for examining the issues and making recommendations to the Gas Sector Leadership Committee. Although, the reforms process is progressing, it would be expedient to evolve a periodic monitoring and reporting mechanism to ensure timely implementation of decisions of such like fora.

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