

LPG PRODUCTION AND DISTRIBUTION POLICY 2006

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 1600 tons/day LPG is being produced domestically contributing 0.4 % 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 25 million households in Pakistan, 4.3 million are connected to natural gas network and the rest are relying on LPG and conventional fuels like coal, firewood, kerosene, dung cake etc.

1.1 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.

2. OBJECTIVES:

This policy aims at increasing LPG supplies, streamlining its distribution at affordable prices, especially to LPG starved areas of the country and promoting healthy competition for growth of LPG market while ensuring minimum safety standards across the LPG supply chain. To achieve this goal, issues regarding LPG production, LPG licensing, safety standards, pricing, distribution in under developed areas and import of LPG have been addressed in this document.

3. POLICY GUIDELINES

3.1 DISPOSAL OF LPG BY PUBLIC SECTOR (E&P) COMPANIES

Public sector E & P companies shall 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.

3.2 LPG LICENSING.

- 3.2.1 OGRA will issue provisional licenses to technically and financially sound applicants/ parties for construction of works commensurate with their work programme, for a period of one year.
- 3.2.2 OGRA will induct additional reputable third party inspectors to check/monitor compliance with the terms and conditions of licenses.
- 3.2.3 The licenses shall be cancelled in case of non-compliance with licensing terms and conditions.

3.3 LPG SAFETY STANDARDS

- 3.3.1 To ensure safety throughout the LPG supply chain, LPG storage tanks, cylinders bowzers, and distribution outlets of the licensees will meet the minimum safety standards as laid down in applicable Rules.
- 3.3.2 Decanting of LPG from cylinder to cylinder is prohibited and OGRA shall cancel licenses of the LPG marketing companies involved in this activity directly or indirectly.
- 3.3.3 OGRA will prescribe 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.
- 3.3.4 OGRA will develop safety standards, rules and procedures in line with the international best practices for regulating the LPG auto sector, and an effective compliance monitoring mechanism will be put in place by the regulator.
- 3.3.5 OGRA will publish a list of authorized manufacturers for all LPG equipment including LPG refilling stations, conversion kits, fuel tanks, cylinders, storage tanks, and bowzers.
- 3.3.6 LPG fitted vehicles will be obligated to obtain insurance cover to ensure compliance of prescribed standards for cylinders and conversion kits.

3.4 LPG PRICING

- 3.4.1 The Federal Government will prescribe a formula for LPG producer (base-stock) price within three months of approval of the policy.
- 3.4.2 The Federal Government will continue to follow its deregulation policy. However, to ensure that cartels are not formed for charging a high

consumer price of LPG, OGRA will determine the reasonableness of price keeping in view the import parity price of LPG, producer price and audited accounts of LPG marketing companies for the last two years.

3.4.3 OGRA will regularly monitor LPG prices and intervene in exceptional circumstances if the consumer prices are considered not reasonable.

3.5 DISTRIBUTION OF LPG IN UNDER DEVELOPED AREAS

3.5.1 With a view to ensure adequate supplies of LPG in remote, rural and hilly areas of the country, and to halt deforestation, all LPG marketing companies receiving LPG from sources in Punjab and NWFP will be obligated to supply at least 7% of their local LPG in Northern Areas, 7% in AJK and 6% in FATA. All LPG marketing companies receiving LPG from sources in Sind and Balochistan will be obligated to supply at least 10% of their local LPG in Balochistan province.

3.5.2 OGRA will develop an appropriate mechanism to monitor actual supplies to the above specified areas.

3.5.3 OGRA will initiate action against defaulting LPG marketing companies under the applicable rules and license conditions which, interalia, may include revocation/cancellation of marketing licenses.

3.6 IMPORT AND EXPORT OF LPG

3.6.1 Any party can import LPG after paying applicable government dues. However, for the handling of LPG a license will be obtained from OGRA.

3.6.2 No party shall export LPG without the prior approval of MPNR.

3.7 GENERAL

- i) For effective policy formulation all LPG licensees shall furnish requisite information/data to MPNR as may be required.
- ii) OGRA will also apprise the MPNR about the implementation status of this policy on a quarterly basis.
- iii) 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.

4. APPLICABILITY AND EFFECT OF THE POLICY

- i) This policy 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 this policy.
- iii) This policy supersedes all previous instructions, orders and policies issued by the 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.