



GOVERNMENT OF PAKISTAN
Ministry of Petroleum & Natural Resources

LIQUEFIED PETROLEUM GAS
(PRODUCTION & DISTRIBUTION)
POLICY, 2011

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 1200 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.

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, through indigenously produced and imported product streamlining its distribution at competitive 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

E&P companies shall directly or through Sui 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 does not set up LPG

extraction plant in accordance with timelines then Public Sector Gas Utility Companies will set up their plants and E&P Companies will forego their right.

Public Sector Gas Utility Companies will have first preference for the LPG extracted by public sector E&P Companies.

3.2 LPG Licensing

3.2.1 OGRA will issue provisional licenses for an initial period of one year to technically and financially sound applicants/ parties for construction of works commensurate with their work programme subject to providing commitment of LPG supplies from local or international source. OGRA will revoke licences of the licence holders including existing licence holders who fail to demonstrate firm supply commitment of minimum 5 MT per day, for a period of 3 consecutive years.

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 subject to availability of LPG supply and meeting applicable safety rules.

3.2.2 OGRA will also issue licences for production/extraction/LPG Air Mix plants, LPG storage and filling plants, LPG refuelling stations. However, permission from Department of Explosives will also be required wherever applicable under Mineral and Industrial Gases Safety Rules, 2010.

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 i.e. LPG storage tanks, cylinders bowzers, and distribution outlets, 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 cross filling of other LPG marketing companies' cylinder is also prohibited except with the prior approval of OGRA under hospitality arrangement and OGRA shall cancel licences of the LPG marketing companies involved in violation of this section.

- 3.3.3 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, Oil Marketing Companies and individual CNG stations / Petrol Pumps will be met.
- 3.3.4 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 refueling stations, conversion kits, fuel tanks, cylinders, storage tanks. The equipment manufactured by these 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.
- 3.3.6 CNG stations/Petrol Pumps are allowed to setup LPG Auto refuelling stations subject to meeting LPG Auto Gas Rules; and commitment of LPG supplies from local or international source.
- 3.3.7 The LPG auto refuelling licensee will be at liberty to purchase LPG from any licensed LPG company/source
- 3.3.8 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 all of their cylinders have been thoroughly tested as per requirement of LPG Rules/Standards. Further, it shall be responsibility of LPG marketing companies that their LPG cylinders have been revalidated by HDIP or any other authority concerned, after every five years.

3.4 LPG Pricing

- 3.4.1 The LPG Producers shall set base stock price of LPG at par with landed cost of imported LPG (FOB Saudi Aramco Contract Price plus marine freight and import incidentals) to ensure uninterrupted LPG imports in terms of clause 3.4.2. The differential between the landed cost and FOB Saudi Aramco Contract Price shall be paid by LPG producers as Petroleum Levy on LPG and would be deposited in the government treasury. However, based on commercial considerations the producers may sell LPG at a lower price without having any impact on the Petroleum Levy, as mentioned above. The maximum base-stock price of LPG and the amount of Petroleum Levy will be determined and notified by OGRA on monthly basis by third day of every month. OGRA will monitor/take

measures to keep the profit margin of middleman at reasonable level.

- 3.4.2 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. In this regard, to ensure regular supplies of LPG in the market, OGRA may require all companies holding local allocations, to import or to purchase from importer(s), at least 20% of their local supplies on monthly basis. If they do not do so, for consecutive three months, the local LPG allocations of LPG marketing companies will be cancelled by Producers upon direction of OGRA.
- 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 having licensed LPG storage and filling plants in Punjab and KPK 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 having licensed LPG storage and filling plants in Sindh 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, inter alia, 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.
