

Legal, Policy and Institutional Framework on LNG Sector in Pakistan

By Shujauddin Qureshi

Pakistan has a diverse energy portfolio with gas playing a major role. Today gas consumption occupies the largest share of energy supply with approximately 53% share in 2018-19 annual consumption with power (35%), household (21%), industry (17%) and fertilizer (16%) being the major consumption sectors. Pakistan produces around four Billion Cubic Feet Per Day (Bcfd) of indigenous natural gas against an unconstrained demand of over six Bcfd. Pakistan has proven reserves equivalent to 12.0 times its annual consumption. According to an estimate, it has about 12 years of gas left at current consumption levels. Rapid depletion of gas reserves has led to an increasing import of liquefied natural gas (LNG) since 2015. According to sector analysts, excessive government subsidies to household and fertilizer sectors, or gross underpricing of natural gas for these sectors, result in excessive consumption and wastage.

The gas sector in Pakistan involves a range of actors, institutions, policies and legislations. The legal regime around gas has been growing in response to emerging needs. To exemplify, drafting of the LNG Terminal and Storage Access Rules, 2021 is underway.

The first-ever piece of legislation, the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act 1948, (amended in 1976) authorizes relevant departments of mines, oilfields and mineral development, across Pakistan to make rules for the grant or renewal of an exploration or prospecting license, including the control of production, storage and distribution of minerals and mineral oils as well as determining the prices at which minerals and mineral oils may be bought or sold. The Act is implemented by two sets of rules; one set applicable to onshore operations and a separate one to offshore operations.

The Oil and Gas Regulatory Authority (OGRA) Ordinance 2002 established the independent Oil and Gas Regulatory Authority to foster competition, increase private investment and ownership in the midstream and downstream industry; protect the public interest while respecting individual rights and provide effective and efficient regulations for similar matters. OGRA has the powers of RLNG price determination on monthly basis in line with other petroleum products. Approved pricing components include parameters such as losses on account of Net Sale Proceeds and relevant adjustments due to exchange rate, freight charges, import costs, importer's margin, terminal charges, cost of distribution, administrative margin, and transmission losses.

Another important legislation concerning LNG is the Petroleum Products (Petroleum Levy) Ordinance, 1961 which has placed LNG as a petroleum product and determines its price, through an amendment in 2015 in the First and Second Schedules of the Ordinance. LNG/RLNG regime is covered under the mid and downstream petroleum industry of Pakistan and the focal legislation on the subject is OGRA Ordinance 2002. Under the Ordinance, the regulator has the power to grant, issue, renew or revoke the license to domestic LNG purchasers and enforce compliance with licensing provisions. It also ensures cost-effectiveness, safety standards and best prices. License ranges from construction of pipelines, facilities, terminals, storage, transportation and marking gas utilities.

The Pakistan Offshore Petroleum (Exploration & Production) Rules 2003 framed under Section II of the Regulation of Mines Oilfields and Mineral Development Act, 1948, and Section 14 of the Territorial Waters and Maritime Zones Act, 1976, also apply to gas in addition to petroleum and other covered substances.

The first LNG policy was introduced in 2006 with the approval of the Economic Coordination Committee (ECC). In pursuance of LNG Policy 2006 and the Oil and Gas Regulatory Authority (OGRA) Ordinance 2002, the OGRA notified LNG Rules in 2007 to bring the anticipated LNG activity under the regulatory regime. The LNG Rules 2007 provide legal, commercial and technical parameters concerning LNG construction, processing, production, testing, licensing as well as the terminal and operational regimes.

The 2007 Rules define an LNG Terminal as a fixed or movable facility, whether located on land or sea, used for loading, unloading, storage and re-gasification of LNG including all ancillary and auxiliary equipment and pipelines. It defines LNG production as the process to convert natural gas into LNG and includes natural gas treatment, natural gas liquefaction, LNG storage and LNG filling. It authorizes OGRA to grant a license to carry on any regulated activity to such persons for a maximum period of twenty years.

The licensees are obliged, among other things, to locate, design, construct, operate and maintain their facilities in strict accordance with the standards prescribed by the Authority and in a manner so as not to endanger public health or safety; to strictly follow the requirements of the Pakistan Environmental Protection Act, 1997, as amended from time to time. In 2011, the LNG Policy 2006 was revised in line with the latest developments in the LNG sector (both locally and globally). Again in 2020, Directorate General Liquefied Gases, Petroleum Division of the Ministry of Energy initiated a process to revise the LNG Policy 2011 to make it in conformity with the latest developments in the LNG sector (locally and globally).

The Pakistan Onshore Petroleum (Exploration & Production) Rules 2013 framed under the Regulation of Mines and Oil Fields and Mineral Development (Government Control) Act, 1948, set out the terms and conditions of royalties to be paid by the federal government to provinces based on their share of liquid and gaseous hydrocarbons (such as LPG, Natural Gas Liquids, solvent oil, gasoline and others).

The Oil and Gas Regulatory (Amendment) Bill, 2021 which aims to ensure natural gas pricing on regular basis was approved in September 2021. After this amendment, the OGRA shall eliminate gaps between regular, semi-annual tariff determination and notification. It will also bring entire Liquefied Natural Gas (LNG) and Re-gasified Liquefied Gas (RLNG) licensing and pricing under the regulatory framework of OGRA. The amendment would further empower OGRA to determine and notify the RLNG sale price under the OGRA Ordinance, 2002.

The Directorate General of Gasworks under the petroleum wing of the energy ministry. On the exploration and production side, its main functions include formulation of the government policies regarding natural gas, LPG, LNG and CNG; assessment and management of demand and supply; allocation of gas from new finds to gas utility companies; allocation of natural gas from different supply sources to various sectors; review and execution of gas

price agreements with producers and gas sales agreements between the producers and the government-nominated buyer; assessment of prescribed price for consumers determined by OGRA and making recommendations to the government for their fixation

Pakistan LNG Limited (PLL) is a public sector entity founded in 2015. It operates under the governance of the Ministry of Energy (Petroleum Division), Government of Pakistan. The PLL has a mandate to buy, import, store LNG, distribute, transport, meter and sell natural gas. PLL procures LNG from international markets and enters into onward arrangements for the supply of gas to the end-user, managing the supply chain of LNG from procurement to end-user gas sales.

Sui Southern Gas Company (SSGC) is a public listed large-scale company and is Pakistan's leading integrated gas company. The government, directly and indirectly, owns the majority of the shares of this company which is engaged in the business of transmission and distribution of natural gas besides the installation of high-pressure transmission and low-pressure distribution system

Sui Northern Gas Pipelines Limited (SNGPL) was incorporated as a private limited company in 1963 and converted into a public limited company in January 1964 under the Companies Act 1913 and later The Companies Act 2017. The company took over the existing Sui-Multan System from the Pakistan Industrial Development Corporation (PIDC) and Dhulian-Rawalpindi-Wah system from the Attock Oil Company Limited. The company's commercial operations commenced by selling an average of 47 MMCFD gas in two regions, Multan and Rawalpindi.

Despite a comprehensive legislative framework, there are still major challenges that arise out of the existing operational and administrative structure of LNG imports in Pakistan and need to be addressed in future.

The writer is an award-winning environmental journalist and associated with The Knowledge Forum, a Karachi based collective.

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