

**NATURAL GAS
ALLOCATION AND MANAGEMENT
POLICY, 2005**

GOVERNMENT OF PAKISTAN
Ministry of Petroleum & Natural Resources

(September 2005)

1. INTRODUCTION

Pakistan has limited natural gas deposits. At present, recoverable natural gas reserves in Pakistan are 32 Trillion Cubic Feet (TCF) and Reserve to Production (R/P) ratio based on current production of 3.7 Billion Cubic Feet per Day (BCFD) is 23 years. One of the significant developments in local gas market is the increase of natural gas share in primary energy supply mix from about 40% in 1999-2000 to over 52% in 2004-05 in about five years. If the demand/supply trend of past five years is maintained, the R/P ratio reduces significantly necessitating urgent need to increase natural gas supply. The Government of Pakistan has accordingly placed the highest priority to (a) enhance indigenous natural gas supplies through intensified exploration efforts, and (b) import natural gas through pipeline from neighbouring countries as well as LNG.

While the Federal Government is making concerted efforts to enhance natural gas supplies to meet growing demand, it is extremely important to establish a natural gas allocation and management plan to promote efficacious utilization of precious depleting natural resource particularly given the dominant role of natural gas in domestic energy landscape. Therefore, the Federal Government has set out these policy guidelines for the purpose in the paragraphs that follow.

2. CURRENT POSITION

2.1 CONSUMER MIX

As on 30th June 2005, natural gas is being supplied to various categories of consumers that are either connected to the pipeline system or independent pipeline network directly from Exploration and Production (E&P) Companies as per details given below:

A. On the SNGPL / SSGC System	Percentage Load
Domestic Sector	15.6
Commercial Sector	2.4
Fertilizer Plants	5.2
Industrial Units	19.4
WAPDA's and KESC Power Plants	32.5
Cement Plants	1.2
Captive Power Plants	4.2
CNG	0.5
<i>Sub Total (A)</i>	81
B. On Independent Network	Percentage Load
Fertilizer Plants	8.5
WAPDA's and KESC Power Plants	7.2
Independent Power Plants	3.3
<i>Sub Total (B)</i>	19
Grand Total (A+B)	100

2.2 EXISTING DEMAND MANAGEMENT

At present, natural gas demand on the system during peak winter load period or short supplies from E&P companies is met through following management programme:

- (a) Domestic and commercial consumers get continuous gas supply ;
- (b) Fertilizer plants are supplied continuous gas ;
- (c) Gas supply to industries having nine month contracts are curtailed or totally disconnected
- (d) Power plants get gas supply after meeting the requirements of domestic, commercial, fertilizer and industrial sectors; and
- (e) Cement plants are supplied gas on “as and when available” basis.

3. GAS ALLOCATION CRITERIA

3.1 For provision of new gas connections to consumers from the network system, the Gas Utility Companies will market gas under the following guidelines:

- 3.1.1 Gas supply to consumer in the Domestic Sector will be as per yearly target determined by the Federal Government.
- 3.1.2 Gas supply to consumers in Commercial Sector will be encouraged.
- 3.1.3 Gas allocation for the Fertilizer Sector will be made by the Federal Government keeping in view the domestic needs and gas supply position.
- 3.1.4 Gas supply to the consumers in the General Industrial Sector will be based on the following criteria:
 - (a) To the extent of process gas, the gas supply will be made on twelve months basis; and
 - (b) Assured gas supply for all other usages will be for nine months basis and for the remaining period, gas supply will be on the best effort basis.
- 3.1.5 Gas supply to all consumers in the Power Sector other than Captive Power Sector will be regulated as under:
 - (a) All those existing consumers in Power Sector who have yet to sign Gas Sales Agreements (GSAs), will sign GSAs with the respective Utility Company within six months;

- (b) Assured gas supply to all existing consumers in Power Sectors will be on nine months basis and for remaining period, gas supply will be on the best effort basis unless otherwise specified in the GSA; and
- (c) For new power generation, only those plants having combined cycle dual fired power technology will be supplied gas for the contract period with appropriate safeguards to protect the interest of the gas supplier and / or the Federal Government against non-availability or curtailment of gas supplies for events beyond their reasonable control.

3.1.6 Gas supply to all consumers in Captive Power Sector will be made after first meeting the requirement of Domestic, Fertilizer, Commercial, Industrial, and Power (both WAPDA / KESC and IPPs) Sectors on the following basis;

- (a) Those dual fired power plants with a capacity of upto 50 MW, which employ combined cycle or cogeneration technology, shall be encouraged for allocation of gas. In order to ensure the optimal gas use for power generation, industrial units collectively setting up merchant power plants for self-consumption only will also be included in this category.
- (b) Gas supply for self-power generation would be on “as and when available basis” at different locations.
- (c) The pipeline extension, if required, would be at the cost of the sponsor of the industrial unit.

3.1.7 Supply of gas to Service Industry for captive power generation will be subject to the following.

- (a) The sponsor makes an investment of over Rs.500 million; and
- (b) The gas load does not exceed 1 MMCFD.

3.1.8 Gas supply to CNG Sector will be continued as per existing arrangement.

3.1.9 Cement Sector will receive gas supply on “as and when available basis”.

3.1.10 Gas supply to any special project of strategic nature will be given priority.

3.2 Gas supply from independent network will be made to Fertilizer Sector and Power Sector as allocated by the Government or any special project of strategic nature with the approval of the Federal Government.

3.3 For any project other than an IPP, requiring gas load in excess of 10 MMCFD, the allocation will be made subject to the following:

- (a) The project sponsor shall make payment of commitment fee to the Federal Government on monthly basis as per the following formula till the GSA is initialed by the contracting parties and submitted to OGRA for approval. In case the initialed GSA is not submitted to OGRA for approval within 24 months from the issuance of the allocation letter, the allocation will automatically stand expired:

$$\text{Monthly Payment} = \text{Allocated daily quantity in MMBtu} \times \text{Rs.30 (US\$0.5 / MMBtu)}$$

The first monthly payment of the commitment fee will be made within 30 days after issuance of the allocation letter.

- (b) If the project sponsor fails to make the above payment(s) within a maximum of 30 days after it becomes due, the gas allocation will automatically stand expired.
- (c) The aforesaid payments will be non-refundable.

3.4 The cost of pipeline and other infrastructure for supplying gas to industrial consumers will be borne by gas Utility Companies on the basis of a transparent and objective criteria which shall be presented to and approved by the respective Board of Directors within a period of three months of issuance of this policy.

4. PROPOSED LOAD MANAGEMENT POLICY

To ensure optimal utilization of natural gas for the best socio-economic development of the country, the merit gas dispatch order outlined in sub-sections below will be observed during high demand and / or short supply periods.

4.1 For the consumers connected to the system, following priority order will be observed by Gas Utility Companies:

Sr. No.	Category of Consumers	Priority Order
1	Domestic and Commercial Sectors	First
2	i) Fertilizer Sector; and ii) Industrial Sector to the extent of their process gas	Second
3	Independent Power Plants as well as WAPDA and KESC's Power Plants having firm gas supply commitment under GSAs.	Third
4	General Industrial and CNG Sectors	Fourth
5	i) WAPDA's and KESC Power Plants other than those listed against Sr. No.3 above. ii) Captive Power Sector	Fifth
6	Cement Sector	Sixth

- 4.2 For the consumers on independent network, gas supply will be made in the following priority order:

Sr. No.	Category of Consumers	Priority Order
1	Fertilizer Plants;	First
2	Power Sector including WAPDA, KESC and IPPs having firm gas supply commitment under GSAs.	Second
3	Power Sector other than those listed against Sr. No.2 above.	Third

5. AUGMENTING GAS SUPPLIES

- 5.1 The Federal Government will continue to make efforts to increase gas supplies from indigenous sources.
- 5.2 To meet ever-growing demand of natural gas, the Federal Government will fast track gas import plans. Imported LNG will be utilized to enhance gas supply to southern market and any resultant surplus gas will be diverted to northern market.

6. NETWORK EXTENSION

- 6.1 It is the endeavor of the Federal Government to facilitate augmentation of natural gas network for the best socio-economic development of the country.
- 6.2 For supply of gas to those economically backward areas, which do not meet cost criteria determined by the Federal Government for supply of gas, the Federal and/or Provincial Government(s) will make available the resources to the extent of the amount over and above criteria limit.
- 6.3 All Khushhal Pakistan Schemes and other schemes of similar nature for upliftment of underdeveloped areas will be exempted from PC-1 requirement as per existing arrangement.

7. OTHER MEASURES

- 7.1 For expeditious lifting of gas from new fields to meet urgent needs of domestic market, the Utility Companies will be allowed to construct, operate and own the gas pipeline connecting such fields to the transmission system subject to approval of the Federal Government.
- 7.2 In order to facilitate early gas supplies to market, OGRA will clear within 30 days all GSAs submitted by licensees for approval.

8. IMPLEMENTATION OF POLICY

A committee to be notified by the Federal Government will review/oversee the allocation and management policy set forth in this document on regular basis.

9. APPLICABILITY AND EFFECT OF THE POLICY

- 9.1 This policy will come in force with immediate effect and will apply to all consumers connected on natural gas network or independent-network.
- 9.2 This policy supersedes all previous instructions, directives, orders and policies issued by the Federal Government from time to time in respect of the matters specifically covered in this policy.
- 9.3 OGRA will amend its rules and regulations as well as licence terms of its licencees where necessary, to give effect to this policy.