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**PART II**

**Statutory Notifications (S.R.O.)**

**GOVERNMENT OF PAKISTAN**

**MINISTRY OF PETROLEUM AND NATURAL RESOURCES  
(Directorate General of Petroleum Concessions)**

**NOTIFICATION**

*Islamabad, the 17th February, 2017*

**S. R. O. 107 (I)/2017.**—Flared Gas (FG) Utilization Guidelines, 2016 as approved by Council of Common Interests and enclosed herewith as Annex-I, are hereby published for general information.

**Annex-I**

**Utilization of Flare Gas (FG) Guidelines 2016**

**A. Introduction**

Pakistan is currently faced with a serious challenge of rapidly increasing energy supply/demand gap. To reduce this gap, the Government of Pakistan is undertaking various measures for creating conducive investment environment in the Exploration & Production (E&P) sector. In addition, all efforts are being made to utilize the existing resources. One potential measure identified to this effect, is the utilization of gaseous hydrocarbons currently being flared and/or

(379)

Price : Rs. 5.00

[200 (2017)/Ex. Gaz.]

vented at oil & gas production and processing facilities mainly due to quality, technical, operational, and economic constraints.

## **B. Background**

The flaring of Gas from the oil and gas fields is always discouraged. The Petroleum Concession Agreements (PCAs) executed between the companies and the Government generally provide as follows:

*“The Operator shall not flare Natural Gas but shall use it commercially or for recycling. If Associated Gas is not so used or not planned to be so used, the Working Interest Owners shall negotiate an arrangement making it available to THE PRESIDENT or its designee free of cost at the downstream flange of the gas/oil separation facilities in accordance with Article 11.4. If THE PRESIDENT for whatever reason is unable or unwilling to take delivery of the Natural Gas that would otherwise be flared as provided for above, the Operator will be allowed to flare such gas in accordance with the Rules without any royalty or excise duty liability until such time as THE PRESIDENT or his designee can take delivery.”*

Article 11.4 of the PCA lays down the mechanism for dealing with Flare Gas and sets down the priority as to utilization of such gases by the Operators [Lease Holders which term shall include, Operators undertaking Extended Well Testing (EWT)]. In case, they cannot use such gases, the same will have to be offered to the President or his designee free of cost. The contents of Article 11.4 are reproduced below:

*“Article 11.4: Subject to the Rules, the Associated Gas which is not used in Joint Operations, and the processing and utilization of which, in the opinion of the Working Interest Owners, is not economical, shall be returned to the subsurface structure, or may be flared with the approval of THE PRESIDENT in accordance with the Rules. In the event the Working Interest Owners choose not to process and sell Associated Gas, THE PRESIDENT may elect to off-take such Natural Gas at the outlet flange of the gas-oil separator and use either itself or through its designee such Associated Gas if it is not required for Joint Operations. There shall be no charge to THE PRESIDENT or his designee for such Associated Gas.”*

In pursuance of the above PCA provisions, policy guidelines were issued by Director General (Gas) *vide* letter No. NG (III)-16(1)/97-M-MC dated 21st January 1998 advising the Lease Holders to invite proposals from the interested companies for utilization of low pressure / flare gases and submit such proposals to the Government for approval. However, the aforesaid policy

guidelines provided that the sale proceeds from such sales would be deposited in Government Treasury. These policy guidelines were therefore contradictory to the provisions of the PCAs as the companies were not only asked to invest but also to deposit the sale proceeds into the Government Treasury. The Flare Gas is not being used due to flaw in Policy. Therefore, a need has been felt to frame the guidelines for utilization of flare gas as far as technically and commercially possible ("~~Flare Gas~~"). Accordingly, these Flare Gas (FG) Guidelines 2014 have been framed.

#### C. F.G Guidelines Objectives:

The objectives of these FG Guidelines are to incentivize the existing arrangements by encouraging the Lease Holders to avoid wastage and utilize every molecule of Flare Gas.

FG Guidelines, therefore aim at achieving the following main objectives:

- Maximum utilization of Flare Gas by installing suitable facilities that may include collection, metering, compression, processing, transportation and sale to customer, to reduce carbon foot print.
- Encourage Lease Holders to invest additional Capital / Operational expenditure to commercially use Flare Gas.
- Generate additional revenues for the Government in the form of Royalty, Duties and Taxes.
- Ensure compliance with the HSE requirements in utilizing Flare Gas.

#### D. Applicability and Effect of FG Guidelines

The FG Guidelines shall come into effect from the date of publication in the official Gazette of Pakistan. The incentives of these FG Guidelines shall apply to all Flare Gas reported by all existing and future facilities under all phases of development (EWT & Commercial development phases) by the Lease Holders granted by the Government under all previous and future Rules and Policies duly certified by an independent third party engineering consultant categorizing it as Flare Gas and certifying that the same cannot be produce through normal processing facilities. For the said certification Government would appoint a consultant out of the list of prequalified consultants. The cost for such consultant and certification would be borne by the Lease Holders.

#### E. Definition of Flare Gas

Flare Gas is defined as any flammable hydrocarbon gas which is disposed of by venting, flaring or safe burning, irrespective of pressure and



heating values. For the sake of these guidelines, Flare Gas shall exclude blanket gas, purge and fuel gas, safety flaring and acid gas flaring or incineration.

#### F. Incentives for using Flare Gas

Recognizing that utilization of the Flare Gas would require substantial investment by the Lease Holders *inter-alia* that may include collection, metering, compression, processing, transportation and disposal to customers the following incentives shall be offered:

##### (1) Gas Quality

In case the customers are pipeline quality gas distribution companies in the country that is SSGCL or SNGPL then the gas shall be of minimum pipeline quality gas approved by Oil & Gas Regulatory Authority (OGRA). In case the gas is sold to third parties other than the above distribution companies then the quality of gas can be mutually agreed between the buyer & the seller.

##### (2) Delivery Point

The delivery point for the Gas supplies to customer shall be field gate at the mutually agreed gas injection pressure.

##### (3) Gas Pricing

The price for the Flare Gas sold to customer at the agreed quality between the seller and the buyer *via* any means such as injection into customer pipeline or network etc., shall be set in accordance with Petroleum Exploration & Production Policy, 2012 with an additional premium of US\$ 0.25 per MMBTU. Prior to filing an application to avail the above price incentive, the Flare Gas base line volume at the optimum production operations shall be verified by an independent third party engineering consultant acceptable to the Government and a detail report on technology to be used equipment needed alongwith additional investment plan will be submitted to DGPC.

##### (4) Import Duties and Taxes

The Lease Holders shall be allowed, on the recommendations of the regulator, to import equipment/machinery and the required facilities for development and utilization of Flare Gas free of duties and taxes by modification of the existing applicable SRO and Petroleum Concession Agreements. This incentive shall also apply to the equipment/machinery required for re-injection of FG into the reservoir. This incentive shall also apply to the equipment/machinery for FG to be recycled and reprocessed into the existing plant & facilities.

(5) **Separate regime of Gas Sale and Purchase Agreement (GSPA) and Metering**

FG will be dealt with under a separate regime of GSPAs, invoice verification system and metering protocol to be notified by the concerned regulator.

**G. Gas Pricing For Third Party Sale**

In case the Flare Gas cannot be used by the Lease Holder to inject into the reservoir or recycled into existing facilities or into the national pipeline system because of techno-economic constraints, then the Lease Holder shall be free to sell such gas to a third party / parties at negotiated price either through pipeline or virtual pipeline system or any other means provided however, that the Lease Holder shall ensure that applicable HSE rules, policies and industry standard practices are fully complied with.

In the case of third party sales, the "Wellhead Gas Price" for the purpose of Royalty determination shall be notified on the basis of agreed price between the Lease Holder and the third party under a Model Gas Sale Purchase Agreement (GSPA) to be approved by Oil & Gas Regulatory Authority.

**H. Offer Flare Gas to the Government**

In case the Lease Holder is unable to utilize the Flare Gas commercially including injection into the reservoir or national pipeline system or sell it to a third party, it shall so notify and offer the Flare Gas free of cost to the Government or its designee at the downstream flange (Field Gate/Delivery Point) of gas/oil separation facilities as defined in Petroleum Exploration and Production Policy, 2012.

The Government or its designee shall exercise this right within 30 days from the date of such notification by the Lease Holder. In case the Government elects to off-take such gas, then all investment for utilization of Flare Gas shall be borne by the Government or its designee including the arrangement in collection and transportation of gas within the plant & facilities to the delivery point which shall be field gate. However, subsequent to such an offer, the Lease Holder shall be allowed to flare the gas till further orders of the Government. Lease Holder shall, however, continue to make best efforts to utilize Flare Gas.

**I. Flare Gas Utilization Plan**

It is recognized that, Flare Gas utilization plan should be an integral part of the Field Development Plan. All existing Lease Holders shall submit Flare Gas utilization plan within 120 days of the publication of these FG Guidelines

for the existing fields. The plan should include not only volumes of flare gas, quality, facilities requirement but also economic viability of the undertaking. Similarly, all prospective Lease Holders shall include such a plan in the Field Development Plan while making an application for the grant of a Lease.

**J. Production / Processing Facilities, Metering and Utilization System**

The Lease Holders shall:

- Establish commercial viability for the utilization of flare gas at the facilities.
- Arrange to design all future oil & gas production and processing facilities to maximize the recovery of Flare Gas in a manner to eliminate or reduce flaring of such gases within the technical and commercial limitations.
- Limitations. Make necessary arrangements for a metering system for fuel and Flare Gas at the production facilities within a timeframe stipulated by the regulator. In case installation of metering system is not technically possible in old/existing facilities then material balance calculation may be carried to determine the rate of fuel and flare gas. However, for all new facilities the measurement of fuel and flare gas is mandatory.
- Submit Flare Gas utilization plans for the existing fields/facilities to the Government for approval within 120 days of the publication of these FG Guidelines in the Gazette of Pakistan.
- Suitable facilities for Flare Gas utilization system at the existing fields will be established as per the plan approved by the regulator.
- Submit a monthly report on Flare Gas with all the relevant details as per format to be notified by the concerned regulator.

**K. Royalty, Excise Duty and Taxes**

To incentivize a range of fiscal measures are being offered as follows:

1. Royalty rate on flare gas shall be 12.5%.
2. Accelerated depreciation rates shall be applied on the capital expenditure including consultancy on design and engineering services, procurement of equipment & machinery, installation & erection and commissioning of the facilities.



**L. Windfall Levy**

For the sale of Flare Gas to a third party, windfall levy will be applicable using the following formula:

$$WL = 0.4 \times (SP - BP) \times GVS$$

Where:

WL – Windfall Levy

SP - Sale Price

BP – Base Price (the price offered under these FG Guidelines)

GVS – Gas Volume Sold excluding Royalty

The benefit of windfall levy will be shared equally between the Federal and the Provincial Government concerned.

**M. Implementation Committee**

A committee will be setup under the chairmanship of Secretary/ Additional Secretary Ministry of Petroleum and Natural Resources (MPNR) to oversee the implementation of these FG Guidelines 2016 and removal of difficulties (if any) with the following composition:

- (i) Secretary/Additional Secretary, MPNR — *Chairman*
- (ii) A representative of concerned Province — *Member*
- (iii) A representative of the Ministry of Finance — *Member*
- (iv) A representative of the Ministry of Planning, Development and Reforms — *Member*
- (v) A representative of PPEPCA — *Member*
- (vi) Director General Petroleum Concessions — *Member*
- (vii) Director General Gas — *Member / Secretary*

The committee shall meet on a quarterly basis, unless convened earlier, as may be decided by the Chairman to discuss any emergent issue.

**N. Review of Flare Gas Guidelines**

The FG Guidelines 2016 may be reviewed by the Government every five years in the light of technological advancements and changes in circumstances including any changes in business dynamics. The existing Lease Holders utilizing Flare Gas at that point in time may also avail the benefits extended through modified guidelines. However no such changes shall be made which are detrimental to their existing rights.

[File No. Expl 10(1) (Low Pressure Fields)/2014-VOL-II.]

ARSHAD MIRZA,  
*Secretary.*