

**SENATE OF PAKISTAN  
HOUSE OF THE FEDERATION**

**REPORT NO. 07 / 2018**



**PERIODICAL REPORT OF THE SENATE STANDING  
COMMITTEE ON PETROLEUM FOR THE PERIOD FROM  
MAY TO OCTOBER, 2018.**

**PRESENTED BY:  
SENATOR MOHSIN AZIZ  
CHAIRMAN COMMITTEE**

## SENATE SECRETARIAT

### PERIODICAL REPORT OF THE SENATE STANDING COMMITTEE ON PETROLEUM FOR THE PERIOD FROM MAY TO OCTOBER, 2018.

I, Senator Mohsin Aziz, Chairman Standing Committee on Petroleum have the honor to present on behalf of the Committee, this report about the performance of the Committee during the period from May to October, 2018.

2. The composition of the Committee is as under:-

1.	Senator Mohsin Aziz	Chairman
2.	Senator Lt. Gen. (R) Salahuddin Tirmizi	Member
3.	Senator Saleem Zia	Member
4.	Senator Shamim Afridi	Member
5.	Senator Mir Kabeer Ahmad Muhammad Shahi	Member
6.	Senator Atta Ur Rehman	Member
7.	Senator Behramand Khan Tangi	Member
8.	Senator Qurat Ul Ain Marri	Member
9.	Senator Kauda Babar	Member
10.	Senator Taj Muhammad Afridi	Member
11.	Senator Dr. Jehanzeb Jamaldini	Member
12.	Senator Sardar Muhammad Azam Khan Musakhel	Member
13.	Sardar Muhammad Yaqoob Khan Nasar	Member
13.	Minister for Energy (Petroleum Division )	Ex-officio Member

3. During the period from May to October 2018, the Committee held eight meetings i.e. on 10<sup>th</sup> May, 7<sup>th</sup> & 28<sup>th</sup> June, 6<sup>th</sup> July (in-camera), 31<sup>st</sup> August, 13<sup>th</sup> September, 1<sup>st</sup>, 3<sup>rd</sup> and 22<sup>nd</sup> October, 2018. During these meetings the Committee considered and discussed Bill, matters referred by the House, Public Petition and other important issues of general public interest and national importance and made important recommendations thereon. All the members took keen interest in the issues taken up by the Committee and actively participated in discussions on the same.

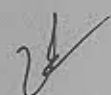
4. Legislation : During the period under report, a Bill titled "The Gas Infrastructure Development Cess (Amendment) Bill, 2018" referred to the Committee for consideration and report was taken up in its meetings held on 10<sup>th</sup> May, 2018. The Secretary and other Officers of the Petroleum Division briefed the Committee about the Bill. The Committee held detailed discussions on the bill and recommended to pass the Bill with certain amendment.



5. Issues Referred by the House: The House in its sittings held during the period under report referred the following points of public importance raised by Members, to the Committee for consideration and report:

- (a) Point of Public Importance regarding non-installation of RO plants by the Oil and Gas E&P companies operating in district Sanghar, raised by Senator Imamuddin Shouqeen during sitting of the Senate held on 15<sup>th</sup> May, 2018.
- (b) Point of Public Importance regarding low gas pressure in District Charsadda raised by Senator Behramand Khan Tangi during sitting of the Senate held on 30<sup>th</sup> August, 2018.
- (c) Point of Public Importance regarding sending of four gas bills in one month to the consumers of Rawalpindi by SNGPL raised by Senator Mian Muhammad Ateeq Shaikh during sitting of the Senate held on 30<sup>th</sup> August, 2018.
- (d) Point of Public Importance regarding accidental compensation to the coal-mines workers in Balochistan raised by Senator Sardar Muhammad Shafeeq Tareen during sitting of the Senate held on 30<sup>th</sup> August, 2018.
- (e) Point of Public Importance regarding the implementation of 6% employment quota of Balochistan in the gas companies raised by Senator Sardar Muhammad Azam Khan Musakhel during sitting of the Senate held on 18<sup>th</sup> September, 2018.

5(a). The Committee took up the first point of public importance in its meeting held on 28<sup>th</sup> June, 2018. The officials of Petroleum Division, OGDCL and PPL briefed the Committee regarding the issue. Their contention was that the Oil and Gas companies are bound to deposit a specific amount in a joint account of the Deputy Commissioner of the concerned district under the CSR obligations. For planning and executing the welfare schemes out of this fund, there is a Committee headed by the MNA of the concerned district. It is the responsibility of that Committee to plan, approve and execute welfare schemes in the area. However, keeping in view the poor condition of welfare work in the district the Committee directed the OGDCL and PPL to install 10 RO plants in the area in coordination with the Government of Sindh. The Department of Public Health Engineering and Rural Development, Sindh was informed accordingly to take up the matter with both the departments for further necessary action.



5(b). Regarding the low gas pressure in Charsada, the GM, SNGPL, Peshawar informed that the issue have been resolved in coordination with the mover. The Committee directed him to ensure that the issue may not re-occur during the winter seasons.

5(c). Regarding the sending of four bills in one month to the consumers, the MD, SNGPL informed that this is due to the inclusion of LNG in the gas system. The PSO has an agreement with the importer to pay the amount on cargo basis which usually arrives on weekly basis. In turn the SNGPL has an agreement with PSO to pay it on weekly basis. Therefore, the SNGPL sends bills to the RLNG consumers on monthly basis which are then reconciled at the end of the month. The Committee directed them to present both these agreements before the Committee.

5(d). Regarding, accidental compensation to coal mines workers in Balochistan, the Committee was informed that the issue pertains to the Government of Balochistan. However, the Committee felt that it is a serious issue which involves poor workers and their families. Therefore, it was decided to take it up as an agenda point in a meeting to be held in Quetta in the presence of the Provincial Government Officials.

5(e). Regarding the issue of implementation of 6% employment quota of Balochistan in gas companies, the Committee was informed that it is dually being observed. However, the Committee directed to verify the domicile certificates of the all the persons working in those companies against the quota of Balochistan.

6. Public Petition : During the period under report, the Honorable Chairman Senate referred a public petition No. 2298 to the Committee for consideration and report. The Committee took up the public petition in its meeting held on 28<sup>th</sup> June, 2018. The Committee discussed the matter at length and keeping in view the importance of the issue in petition, the Committee constituted a Sub-Committee for further consideration of the matter. The Sub-Committee took up the issue during its meeting held on 2<sup>nd</sup> August, 2018 in the office of Deputy Commissioner, District Sanghar. The Sub-Committee also visited the Oil and Gas exploration and production blocks in the District and took input from the locals of the area. The Sub-Committee prepared its report with certain recommendations which was adopted by the Standing Committee during its meeting held on 1<sup>st</sup> October, 2018. A report about the public petition was accordingly submitted to the office of the Hon'ble Chairman, Senate.





7. Other Important Agenda items : Besides a number of other matters, the Committee took up the following important issues on its agenda in its meetings held during the period under report:

- a. Agreements for Import of LNG and establishment LNG Terminals.
- b. Implementation of the recommendation of the Senate Special Committee on GIDC.
- c. Issue of deemed duty on Petroleum products.
- d. Issue of demurrages being incurred on the import of Petroleum products.
- e. Non-extraction of gas from known/discovered reservoirs in Kohlu, Balochistan.
- f. Issue of Oil tanker lorries.

7(a). Agreements for import of LNG and establishment of LNG Terminals: The Committee took up the issue of Agreements for Import of LNG Terminals and establishment of LNG Terminals in the country during its meetings held on 7<sup>th</sup> June, 6<sup>th</sup> July (in-camera), 31<sup>st</sup> August and 1<sup>st</sup> October, 2018. The Committee was informed that the agreement for import of LNG from Qatar was a Government to Government agreement; therefore, there was no competitive bidding involved therein. About the price of LNG, it was informed that it was the lowest at the time in international market. Another agreement was made with M/s Gunnover after competitive bidding. The agreement made with the Government of Qatar was also presented to the Committee during an in-camera meeting which was discussed at length. The Committee, however, showed serious concern on the fact that there is neither S-curve mechanism nor price capping clause in the agreement. The Committee was of the view that since the rates of Brent oil fluctuates overtime, therefore, there should have been such mechanism in the agreement to protect the interests of the country. The Committee also noted that prices of crude oil were at the lowest in international market at the time of making the agreement and now due to increase in its prices, the country is incurring huge losses. The Committee also expressed its serious concerns on making the agreement for 15 (10+5) years. The Committee also deliberated the issue of establishment of the LNG terminals in the country. The Committee showed serious concern on the underutilization of the 1<sup>st</sup> LNG terminal which accrues huge losses to the national exchequer in the shape of penalties for non or under utilization. The Committee further showed its concerns on the establishment of a 2<sup>nd</sup> LNG terminal in the face of underutilization of the 1<sup>st</sup> terminal. The Committee was also concerned on the fact that the contractor of terminal 2 disputed an amount of \$ 51 million penalty imposed on it on account of



delayed commercial start of the terminal whereas it is being paid the amount of penalties for underutilization. The Committee also showed serious concerns on allowing FRSU's entry without payment of customs and other duties.

7(b). Issue of GIDC : The Committee discussed the issue of implementation of the recommendation of the Senate Special Committee regarding GIDC for CNG, Industrial Sector including Captive Power Companies and Fertilizers Companies. The Committee noted that while the recommendation has been implemented in case of CNG sector but the same has not been implemented in case of Industrial sector including Captive Power Companies. The Committee directed for implementation of the said recommendation in letter and spirit.

7(c). Issue of deemed duty: The representatives of the Oil Refineries informed the that they are operating under the Petroleum Policy, 1997. They stated that to help the oil refineries to up-grade and expand their operations, deemed duty is allowed to them @ 7.5%. However, the Committee found it not justifiable as the same is a burden on the consumers. The Committee, therefore, asked the Oil Refineries to utilize the amount of deemed duty on up-gradation and expansion of their refineries in letter and spirit. Simultaneously, they were asked to give their proposals to abolish this duty in a way to protect the interests of both the refineries and the consumers. The Committee was of the view that such concession/subsidy to Oil Refineries cannot be without a time limit and periodical audit of utilization of the amount for the designated purpose. The Committee also directed that the Petroleum Policy, 1997 be revised to cater for the needs of the day.

7(d). Demurrages being incurred on the import of Petroleum products : The Committee showed serious concerns on increase in the amount of demurrages being paid by the PSO on import of Petroleum products which has increased about 20 times since, 2013. The Committee was informed that it is because of increase in demand for the products, lack of sufficient storage capacity at KPT, choking of oil pipeline by majority of smaller OMCs etc. The Committee asked the PSO to take immediate steps to control the demurrages.

7(e). Non-Extraction of gas from known/discovered reservoirs in Kohlu:- The MD (OGDCL) informed the Committee that in Kohlu there are 7 prospective blocks but the gas has been discovered in only two blocks. In one of the blocks, Xin, the pressure of the gas is quite low hence it is not commercially viable. However, deeper drilling in the block is continued. The other



block namely 'Jandran West' had very little gas (24 BCF) and the site being quite away from infrastructure had been closed. He further informed that Block 28 was full of potential. The Block was with M/s Tullow for 20 years and has been in force majeure. OGDCL has been made operator of the block one and a half year ago with the consent of M/s Tullow. He stated that there is security issue and now Frontier Corpse has agreed to help in this respect. The Committee directed that the work should be expedited on those reservoirs and a time-line should be given to the operators failing which the fields should be re-auctioned. The Committee also decided to monitor the progress on it on quarterly basis. The Committee directed that a progress report about the fields in Kohlu be submitted to it on quarterly basis.

7(f). Issue of oil tanker lorries:- The representatives of the Oil tanker lorries Association informed the Committee that they had an agreement/understanding with PSO regarding provision of load to lorries in a queue. But after the Ahmadpur Sharqia incident, the PSO, in the name of up-gradation of lorries, has started a 2<sup>nd</sup> queue which is adversely affecting the lorries' owners. The DG, Logistics, PSO informed the Committee that after the above mentioned incident, the concerned quarters directed to strictly observe the standards prescribed for oil tanker lorries. Accordingly, the owners were asked to upgrade their lorries and now they give preference to those lorries which are compliant to the approved standards. The Committee, however, observed that the owners were given a deadline of September, 2019 for up-gradation of their lorries. Therefore, the Committee directed the PSO to strictly follow the queue system except in the case of lorries which are in dilapidated condition and that there should not be 2<sup>nd</sup> queue. The Committee also asked the PSO to exclude/ ban all those lorries which are in dilapidated condition by giving comprehensive reasons for this in writing.

#### 8. Key Recommendations :

1. The Petroleum Division should implement the recommendations of the Senate Special Committee on GIDC for Captive Power Companies and Industrial sector.
2. The Petroleum Division should take effective measures to keep the summery/news of increase in prices of Petroleum Products confidential to protect the interests of consumers.
3. The OGDCL and PPL to install 10 RO plants in district Sanghar with coordination of the Public Health Engineering and Rural Department, Government of Sindh.



4. The Committee recommended that one Senator may be included in the Committees constituted for carrying out social welfare schemes under the CSR obligations.

5. The Committee recommended that the agreements made for import of LNG and establishment of LNG Terminals may be investigated by the NAB and a report thereof be sent to the Committee.

6. The Committee directed that deemed duty on POL products, being an unfair advantage to the inefficient oil refineries may be abolished and parameters of quality of those products be brought at par with the international standards.

7. The Committee directed the PSO to make a comprehensive plan for reducing the demurrages on POL products.

8. The Committee recommended that two piers should be dedicated for POL imports and KPT to reduce demurrages. The Committee also directed that oil be imported through large vessels instead of small ones in order to reduce burden on the ports.

9. The Committee recommended that the Petroleum Division should probe that why the PGPCCL terminal 2 is being underutilized which results in high penalties. The Committee further directed that the amount of Rs. 51 billion penalty on account of delayed commercial start of Terminal 2 including the amount of customs and other duties on the part of FRSU be recovered.

10. The Committee recommended carrying out a cost analysis of power production through imported LNG by establishing an LNG Terminal and through Furnace oil by a modern and latest power plant.

11. The Committee directed the PSO to make its monitoring system more effective so that complaints regarding sale of fake and substandard products at its petrol pumps and distribution points can be controlled.

13. The Committee recommended that a mechanism should be introduced whereby the districts where oil and gas fields are located should be given share from the royalty collected by the Provincial Governments on account of those fields.





