**Annex- II**

# MARGINAL/ STRANDED GAS FIELDS- GAS PRICING CRITERIA AND GUIDELINES, 2013

**GOVERNMENT OF PAKISTAN**
**MINISTRY OF PETROLEUM & NATURAL RESOURCES**

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## A. Introduction

Pakistan is facing big challenge in meeting its ever growing energy requirements due to expanding population and economic growth. Energy demand is projected to grow from 64.91 Million tons of oil equivalent (MTOE) in 2010 to 147 MTOE by 2022 reflecting a phenomenal increase of 126%. Gas being the largest component of energy supply (48%) is projected to decline from existing 4.2 BCFD to 1.6 BCFD in 2022. Serious efforts are, therefore, needed to explore, discover and produce additional oil and gas reservoirs for a long term sustainable energy security of Pakistan. Thus every molecule of energy discovered in any form has to be exploited to bridge the ever increasing demand /supply gap.

The Government of Pakistan (GOP) is committed to accelerate exploratory efforts and to expand production from producing fields that is uneconomic at the valid contract prices of the respective fields/ D&P Leases. GOP intends to accelerate exploratory efforts to reverse the decline in crude oil production, increase the domestic gas supplies and reduce the burden of imported energy which otherwise will have serious impact on the balance of payments and trade. In the current global energy price environment, E&P Policy has to be dynamic to meet the new challenges faced in meeting energy needs of the country and to minimize the adverse effects on the economy.

During the course of oil and gas exploration, the E&P companies come across gas discoveries with Marginal Reserves which may not be economically viable for development. There are gas fields in the country with proven reserves but could not be exploited due to poor economic viability. Furthermore, there is huge potential of discovering large number of marginal fields, which Companies are not currently targeting due to poor economics. Due to heavy capital investment required for drilling of additional number of wells because of lower productivity from Marginal Fields the cost of production from these fields is extremely high as compared to a normal gas field.

In view of the above, additional financial incentives are required for E&P companies to attract them in developing and producing from the Marginal Fields discoveries making their investment economically viable to accelerate the E&P activities in the country.

The purpose of these Guidelines is to establish policies, procedures and pricing mechanism to accelerate the development and production from Marginal Field discoveries and from re-development efforts from such discoveries in Pakistan.

**B. Guidelines Objectives**

These Marginal Field Guidelines, 2013 are aimed at achieving the following principal objectives:

1. Fast track development and production of hydrocarbons from the existing discovered Marginal reservoirs which have remained dormant due to poor economics.

2. Encourage field re-developments/ infield drilling in order to expand production from producing fields that is uneconomic at the valid contract prices of the respective fields/ D&P Leases.

3. Opportunity for the investors for exploration, development and production of Marginal Fields which would help to reduce the energy deficit.

4. Additional revenues for the Government in the form of Royalty and Taxes.

5. Improving balance of payments position by reducing the need for import of other fuels such as LNG and Fuel Oil requiring massive foreign exchange outflow.

6. Producing additional hydrocarbons to make indigenous energy at affordable tariff for the consumers by using indigenous gas resources.

7. Increasing security of energy supplies.

**C. Applicability and Effect of the Guidelines**

The Marginal Field Guidelines, 2013 shall come into effect from the date of its notification in the official Gazette. The incentives of this Guidelines shall however, apply to discoveries that qualify and are accepted as "Marginal Fields" under the existing and future exploration licences, PCAs, D&P leases and Mining leases but are not in production prior to the notification of these Guidelines.

**D. Definition of Marginal Field**

The 'Marginal Field' or 'Marginal Discovery' means a field which is uneconomical for development (including re-development efforts like infield drilling) and production using current technologies based on the terms of the current Petroleum Concession Agreements applied to the size of the reserves.
For further clarity a marginal field is defined as an oil or gas reservoir that cannot be exploited economically under the existing E&P Policies, pricing structure and available technologies.

Marginal Fields shall be categorized as under:

1. Reservoir size of Stranded Fields for Zones (Zones as marked in Petroleum Policy 2012)
   a. Zone I - [25] Bcf
   b. Zone II - [20] Bcf
   c. Zone III - [15] Bcf

   (For Oil discoveries the above gas volumes will be converted in equivalent oil barrels)

2. Reservoirs' that are certified to be compartmentalized and where the size of the individual compartments is smaller than the reservoir size mentioned hereinabove (and the compartment cannot be exploited economically under the existing E&P Policies, pricing structure and available technologies).

3. Depleting Fields already nearing the end of economical production life requiring secondary / tertiary recovery methods.

The Government may also approve a field or discovery as Marginal taking into consideration the following:

- Initial well Productivity
- Recoverable Volume
- Lack of appropriate technology
- Remote Area
- Distance to infrastructure
- Economics of field development at current policy price

## E. Marginal Fields Certification by Independent Consultant

1. In order to become eligible to claim incentives given in this Guidelines, the producers of Marginal Fields shall be required to obtain a certification from an independent consultant for (i) confirmation that such gas qualifies as Marginal Gas as defined in this policy, and (ii) assessment of Marginal Gas reservoir and Marginal Gas reserves to be done in accordance with best international petroleum industry methods, and (iii) certification that such gas cannot be produced naturally through conventional methods at commercial rates.
2. In case the Marginal Field producing Low BTU gas, the price incentive of either Marginal or Low BTU gas will apply. In no case the two prices can be applied simultaneously.

**F.** **Incentives for Marginal Discoveries**
**Gas Pricing**

The Marginal Fields Gas Prices will be set in accordance with Petroleum Exploration & Production Policy 2012 with an additional premium of US$ 0.25 MMBTU for the three zones as defined in Petroleum Exploration & Production Policy 2012. The Price determined in accordance with this clause will be hereinafter referred as “Base Price” will be allowed for pipeline specification.

**G.** **Royalty**

Royalty shall be payable as per applicable Petroleum (Exploration &Production) Policy.

**H.** **Retention Period**

The E&P companies shall be entitled for a minimum of 5 years retention period to determine various development options and marketing of gas from the date of approval of development plan. The retention period may further be extended for another 5 years to implement the development plan. [Such a retention period of 5 years or 10 years as the case may be, shall not form part of total lease period.

**I.** **Gas Pricing / Third party sale**

i. The Government shall have the first right to purchase pipelines specification gas from the Marginal Gas Fields at a price to be determined in accordance with the above clause F

ii. The Government shall exercise this right within ninety (90) days from the date of application for declaration of a Marginal Gas Field under this Policy by the E&P Company.

iii. In case the Government does not exercise its rights, the E & P Company will be free to sell the gas to the third party at negotiated rates either through pipeline or virtual pipeline.

iv. In case of third party sale there would be no requirement of further review by any other Authority or Government body.

**J.** **Windfall levy**

For the sale of gas from Marginal gas discovery to third parties windfall levy above the base price of US$ 8/MMBTU will be applicable to extent of 50% on the difference between the applicable base price i.e. US$ 8/MMBTU and the 3rd party sale price. All the benefits of windfall levy may be equally divided between the Federal Government and Provincial Government concerned.

**K.** **Import duties and other levies & taxes:**

As per applicable SRO.

**L.** **Remittance of Proceeds Abroad:**

The provisions of Petroleum (Exploration &Production) Guidelines, 2013 shall be applicable.

**M.** **Production Bonus:**

The first production bonus applicable to Development &Production lease of a Marginal Field shall be waived.

**N.** **Delivery Point and Field Gate**

For the purpose of pricing and delivery obligations for natural gas from Marginal discoveries, the gas will be delivered at outlet flange (Field Gate/Delivery Point). All field gate locations, for Marginal discoveries, will be anywhere within a [3] Km radius from the outlet flange of a production facility

In case of sale to third parties where SSGCL/SNGPL network is not available for use, the delivery would be through a pipeline laid for the purpose or through a virtual pipeline e.g. CNG transport vehicle and tariff for the pipeline will be settled between the producer and the buyer on a case to case basis on commercial terms.

**Grant of Old Areas**

DGPC may invite bids from E&P companies, to re-grant old relinquished areas with possible Marginal discoveries. The bids will be evaluated based on signature bonus, which would be spent for social welfare of the area in which the field is located. The previous licensee shall be allowed to match the highest bid.

**O.** **Review of Marginal Field Guidelines**

This Marginal Field Guidelines, 2013 may be reviewed by the Government every five years in the light of additional information of development of gas fields, Technological advancements and changes in circumstances including change in business dynamics. The existing producers of Marginal discovery at that point in time may also avail the benefit of any Guidelines review. However, no change shall be made which is detrimental to their existing economic rights.