ENERGY POLICY PROGRAM

JUNE 2015

PAKISTAN PETROLEUM E&P RULES REVIEW AND RECOMMENDATIONS

SUBCONTRACT EPP-C2-SC-004
D.O. NO. EPP-C2-DO-002

Request-2, Amendment-1
Work Area – 2

Deliverable WA 2-D7

June 2015

This report is made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of this report are the sole responsibility of Advanced Engineering Associates International Inc. and do not necessarily reflect the views of USAID or the United States Government.

Contents

EXECUTIVE SUMMARY **1**

1. PREAMBLE **3**

2. OBJECTIVES **4**

3. METHODOLOGY **6**

3.1 CONNECT WITH STAKEHOLDERS **7**

4. IDENTIFIED ISSUES **8**

5. REVIEW, EVALUATION AND RECOMMENDATIONS **11**

6. REGULATORY REFORMS **12**

ANNEXURES **14**

ANNEXURE 1: AREAS INCLUDED IN CONVERSATIONS WITH STAKEHOLDERS 15

ANNEXURE 2: NOTES FROM MEETINGS WITH STAKEHOLDERS 17

ANNEXURE 3: LIST OF IDENTIFIED ISSUES 28

ANNEXURE 4: PAKISTAN ONSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2013 (REDLINE VERSION) 32

ANNEXURE 5: PAKISTAN ONSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2009 (REDLINE VERSION) 89

ANNEXURE 6: PAKISTAN OFFSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2003 (REDLINE VERSION) 140

ANNEXURE 7: PAKISTAN PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2001 (REDLINE VERSION) 201

ANNEXURE 8: PAKISTAN PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 1986 (REDLINE VERSION) 252

ANNEXURE 9: PAKISTAN ONSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2013 296

ANNEXURE 10: PAKISTAN ONSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2009 352

ANNEXURE 11: PAKISTAN OFFSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2003 407

ANNEXURE 12: PAKISTAN PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2001 468

ANNEXURE 13: PAKISTAN PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 1986 514

EXECUTIVE SUMMARY

This report is based on the work carried out by PTS Consultants under a contract signed with AEAI, the energy consultant for USAID providing support to Directorate General of Petroleum Concession (DGPC), Ministry of Petroleum & Natural Resources (MPNR) through the Energy Policy Program (EPP).
The objective of this report as per the agreed scope was to examine the E&P Rules (Rules 2013, Rules 2009, Rules 2003 (Offshore), Rules 2001 and Rules 1986) and based on the discussion with the stakeholders, address issues such as delays in decisions, time limits, discretionary powers, fines, over-regulation and an appeal forum for resolution of issues/disputes. Also, keeping in view international practices, recommend potential improvements in Rules to make regulatory approval process efficient to achieve reasonable timeline expectations.

The Consultants met with a mix of foreign, local and state companies and the Policy/Rules Committee of PPEPCA besides meeting with the regulator to obtain their views and to ensure coverage of the entire stakeholders spectrum.

The report reviews and analyses the issues identified by the Consultants/stakeholders and makes recommendations for necessary changes in the Rules 2013, Rules 2009, Rules 2003, Rules 2001 and Rules 1986 to bring clarity and to remove regulatory impediments related to the effective and efficient application of said Rules which have slowed down the pace of exploration and production activities in the country.

The key recommendations from this work are:

- Bring clarity in the rules as identified through redline version of the Rules 2013, Rules 2009, Rules 2003, Rules 2001 and Rules 1986.
- Adopt/enforce provisions suggested to enable regulator to impose fines for non-compliance of regulatory requirements which may not justify or are not sufficiently material for revocation of a licence/lease.
- Adopt/enforce provision suggested to be incorporated in the Rules for a mechanism to expeditiously resolve issues with the regulator, including an appeal forum.
- Bring all stakeholders on the same page with reference to comprehension of the rules, intent of the rules and their interpretation. This aim can be achieved through joint sessions of all stakeholders to develop understanding of rules and bring all stakeholders on the same page.

- The aspect of regulator's limitation due to lack of capacity came up repeatedly crystallizing into a combined challenge where the regulation through enforcement of the Rules was significantly hampered. The regulator's challenge was around limited capacity due to various constraints (technical experience, unfilled positions in the DGPC's office due to the hiring freeze, etc.). There is dire need for an organizational overhaul in DGPC that takes in to account the increased work flow post significant rise in the number of ELs and D&PLs.
- Develop new SOPs to facilitate E&P Companies to understand the requirement of rules in well-defined manners as well as provide an opportunity for DGPC officials to carry out regulation of E&P activities in well-structured manner (this recommendation has already been implemented through development of new SOPs by the Consultants in June 2015).
- Consider that there should be no new set of rules announcement for at least the next 5 years but, if need be, appropriate amendments to the existing rules should be made that brings clarity and compatibility on specific points. This will eliminate the challenge introduced at both the regulator's and the E & P companies' end, to redevelop understanding of the new rules.

1. PREAMBLE

The United States Agency for International Development (USAID) under an agreement with the Government of Pakistan is providing support to Directorate General of Petroleum Concession (DGPC) Ministry of Petroleum & Natural Resources (MPNR) through the Energy Policy Program (EPP) which includes a broad range of consultancy services for DGPC via specialized expertise (long term and short term consultancy) in policy, technical, legal, regulatory, commercial and operational aspects of upstream oil and gas sector.

Advanced Engineering Associates International Inc. (AEAI) of USA was contracted by USAID to manage the EPP Program. AEAI through a competitive bidding process had selected the Petroleum Technology Solutions (PTS) to implement the Upstream Oil & Gas Program.

As a part of this Work-Plan, PTS's Consultants (Consultants) held series of meetings during September, 2014 with the stakeholders including regulator and E&P companies to exchange views and to identify issues concerning the Policies, rules and regulatory impediments slowing down the development of the E&P sector. Consultants focus was to review, evaluate and make suitable and workable recommendations for the improvement of the existing Policies and rules in the overall interest of the stake holders.

Along with the Consultants, AEAI team also participated in meetings held with a couple of companies and provided context and insight for this effort besides sharing their experience.

2. OBJECTIVES

The objectives of this work emanate from a contract signed between AEAI and PTS as per the agreed scope of work in the contract which is as provided below:

- Review Petroleum E&P Rules 2013 as well as previous Rules of 1986, 2001, 2003 (Offshore) and 2009 and recommend improvements for the benefit of the sector. Also analyse the over-regulation of the sector. The issues such as delays in decisions, time limits, discretionary powers, penalties for offences/defaults, and appeal forum will also be addressed. Recommendations should include revision of the Rules to improve regulatory approval process for creating reasonable timeline expectations for the industry as well as an appeal forum for resolution of issues /disputes.

The above deliverables were elaborated in work areas wherein each of the work area was further crystallized in terms of the activity set to be carried out with specific deliverables.

This report captures the effort undertaken with focus on review and evaluation of 2013 Rules, 2009 Rules, 2003 Rules, 2001Rules and 1986 Rules.

The details of activity to be undertaken by the Consultants and the deliverable as per the above referred contract are represented below:

Activity

The Consultants are to:

- Examine E&P Rules 2013, 2009, 2003 (Offshore), 2001 and 1986 and based on the discussion with the stakeholder, address issues such as delays in decisions, time limits, discretionary powers, penalties for minor offences/defaults, and independent appeal forum.

- Recommend potential improvements in Rules, keeping in view international practices, to improve regulatory approval process for creating reasonable timeline expectations for Operators as well as a proper appeal forum for resolution of issues/disputes.

- Suggest changes to reduce over-regulation.

Deliverable

The Consultants are to deliver a report covering the discussion with the stakeholders as well as redline (and clean copy) versions of Rules (2013, 2009, 2003 (Offshore), 2001 and 1986) for suggested improvements with

justification including recommendations regarding appeal forum, penalties for defaults/offences, approval process timelines and over-regulation issues.

3. METHODOLOGY

Currently over twenty eight (28) Exploration & Production (E&P) Companies including sixteen (16) foreign, two (2) state and ten (10) local are engaged in petroleum exploration and production activities in Pakistan. The E&P activities are being carried out in approximately 176 Exploration Licenses (ELs) and 157 Development & Production Leases (D&PLs) spread in all four provinces of the country.

Of these companies the Consultants picked six (6) foreign, two (2) state and two (2) local companies for interviews, although two of the less active foreign companies did not make themselves available. This ensured that the Consultants had picked all the major players among foreign companies, both state companies (which operate) and two out of ten local companies which are undertaking significant activity. The companies selected for interviews hold ~70% of total exploration blocks and ~90% of the total D&PLs in the country. To cover the remaining E&P companies, the Consultants held meetings with the Secretary General of the PPEPCA, an association representing the E&P companies and members of the Rules & Policy Committee of the PPEPCA.

Following the conclusion of the meetings with the E & P companies and PPEPCA, meetings were held with the regulator's team (Director General and Officers of DGPC) to gather their views on the Policies, Rules and regulatory matters. Consultants were also keen to understand the difficulties faced at the regulator's end for implementation of Policies/Rules and the challenge of clarity for the directorate as it works to facilitate the stakeholders and regulate E&P activities.

Following is a list of the E&P companies contacted. These meetings were held between September 15 and 25, 2014:

- MOL Pakistan Oil and Gas Company B.V.
- OMV (Pakistan) Exploration Gesellschaft M.B.H
- Petroleum Exploration (Private) Limited
- United Energy Pakistan Limited
- Oil and Gas Development Company Limited
- Mari Petroleum Company Limited
- Eni Pakistan (M) Limited S.A.R.L
- Pakistan Petroleum Limited
- Xenhua (did not make themselves available)

- BHP Petroleum (Pakistan) Pty Ltd (did not make themselves available)

  Other (PPEPCA - Policy/Rules Committee members)

3.1 Connect with Stakeholders

Structure of connect with the stakeholders (E&P selected companies) was developed with a focus to identify issues in policies, rules and regulatory impediments. This exercise was essential to address such identified issues for keeping the interest of E&P companies operating in Pakistan alive, the regulatory process efficient, and to make new investment in Pakistan upstream petroleum sector attractive.

Consultants approached and interacted with stakeholders as listed above keeping in view the various aspects covered under the policies and rules, E&P activities carried out by the companies and regulated by the regulator. This structure was devised to ensure that appropriate aspects of the policies and rules were discussed with the stakeholders and relevant queries were directed to appropriate companies in terms of their experience.

The strategy for conducting the individual meetings was as follows:

- Provide the context for exercise being undertaken i.e. review of policies/rules and suggest necessary revision to remove bottlenecks and improve efficiency in upstream regulation.
- Invite them to share their thoughts/concerns/ suggestions on policies, rules and regulatory issues.
- Prompt them through set of questions to get additional feedback where necessary.

During interaction, the specific areas Consultants included in conversation with the stakeholders were as per **Annexure-1**. Notes from the meetings with individual stakeholders are attached as **Annexure-2**. This includes all the companies visited, PPEPCA and the regulator.

4. IDENTIFIED ISSUES

Consultant's interaction with the stakeholders identified a number of challenges emanating from their understanding (or otherwise) of the Rules which resulted in issues of clarity, interpretation as well as identified a need for providing clearer verbiage in the Rules.

The Consultants also identified a number of issues that need to be additionally addressed as the current regulatory regime is either not sufficient or requires inclusion of specific provisions in order to provide mechanism for expeditious resolution of issues (including an appeal forum) and penalty provisions for irregularities/non-compliance of regulatory requirements. In the current Rules there is no provision for appeal short of arbitration/court and no provision to enable regulator to put fine/penalty for minor offenses short of revocation of lease.

There are certain requirements in the various E&P Rules, which are to be met by petroleum right holders for various E&P activities. Currently there is no provision in the Rules to impose a penalty if the petroleum right holder fails to comply with those requirements, even though the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act, 1948 permits the imposition of fines. The only provision in the Rules for violation is cancellation/revocation of petroleum rights, where the offence is material. This creates a challenging situation for the regulator, in terms of enforcement of the Rules, particularly when the offence is of a relatively minor nature.

While reviewing 2013 Rules, and other Rules, enabling provisions have been suggested for:

- Imposing penalties, to be commensurate with the nature, magnitude and type of violations.
- Providing opportunity to E&P Companies to appeal against the decisions of the authority.
- Providing opportunity to the authority to review its decision
- Enabling authority to develop SOPs for carrying out regulatory activities.

THEMES

During the interaction with the stakeholders a number of themes emerged indicating common issues faced by the regulator as well as the E & P companies. It was clear that significant focus was required to understand and address these areas to ensure quicker progress through an efficient regulatory process and to help companies keep their focus on delivering their committed work programs on agreed schedule resulting in reserve additions, production enhancement, and maintenance and cost management.

Following were the themes picked up by the Consultants:

- **Clarity on Rules**
  Clarity around certain provisions of the rules of the individual rules documents is needed.

- **Capacity and Implementation**
  This aspect came up repeatedly crystallizing in to a combined challenge where due to limited capacity available with the regulator the implementation of the rules and its application through the earlier and 2013 Rules (as applicable) was significantly hampered. The regulator's challenge was around limited capacity due to various constraints (technical experience, unfilled positions due to the hiring freeze, etc.). Stakeholders saw this aspect significantly neglected as they did not see resolution on their issues including those tied to the implementation of recent Policies. Their suggestions were for an organizational overhaul in the regulator's set-up that takes in to account the increased work flow through the regulator's office post the significant rise in the number of ELs and D&PLs and development/implementation of Standard Operating Procedures (SOPs) for many of the routine/regular matters managed by the regulator (work on development of new SOPs has been completed by the Consultants in June 2015).

- **Well-defined program**

  The Consultants are of the opinion that to bring all stakeholders on the same page with reference to comprehension of rules, their intent and their interpretation, final drafts of Rules 2013 Rules, 2009 Rules, 2003 Rules, 2001 Rules and 1986 Rules (draft agreed by DGPC after review of recommended redline version) should be discussed in joint sessions of all stakeholders to develop understanding of rules and bring all stakeholders on the same page.

- **Frequency of issuance of new Rules**
  Stakeholders echoed Consultant's view regarding frequency of issuance of new set of Rules. The Consultants consider that there should be no new set of rules announcements for at least the next 5 years but, if need be, appropriate amendments should be made to the

existing rules that brings clarity and compatibility to specific rules. This will eliminate the challenge introduced at both the regulator's and the exploration and production companies' end, to redevelop understanding of the new rules.

The issues identified by the stakeholders and the Consultants based on their own review for further evaluation and recommendations for clarity and modification are contained in **Annexure- 3**.

5. REVIEW, EVALUATION AND RECOMMENDATIONS

The 2013 Rules, 2009 Rules, 2003 Rules, 2001 Rules and 1986 Rules were reviewed and evaluated by the Consultants in the light of practical difficulties/issues identified by the stakeholders and the Consultants themselves. Based on the review and evaluation, the Consultants developed initially redlined version of the 2013 Rules along with reasons for recommended changes.

A. PAKISTAN ONSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2013

The redlined version of Rules 2013 along with reasons for suggested changes is attached as Annexure-4

B. PAKISTAN ONSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2009

The redlined version of Rules 2009 is attached as Annexure-5

C. PAKISTAN OFFSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2003

The redlined version of Rules 2003 is attached as Annexure-6

D. PAKISTAN PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2001

The redlined version of Rules 2001 is attached as Annexure-7

E. PAKISTAN PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 1986

The redlined version of Rules 1986 is attached as Annexure-8

6. REGULATORY REFORMS

Based on the input from stakeholders and their own review, the Consultants identified the following regulatory impediments related to the Rules which have slowed down the pace of exploration and production activities in the country. The Consultant's recommendations to address these are also represented in the below write-up:

- **Clarity**

  The Consultants consider bringing clarity around certain provisions of the rules of the individual rules documents.

- **Well-defined program**

  The Consultants are of the opinion that to to bring all stakeholders on the same page with reference to comprehension of rules, their intent and their interpretation, final drafts of Rules 2013 Rules, 2009 Rules, 2003 Rules, 2001 Rules and 1986 Rules (draft agreed by DGPC after review of recommended redline version) should be discussed in joint sessions of all stakeholders to develop understanding of rules and bring all stakeholders on the same page.

- **Uniform Regulatory Regime**

  The Consultants are of the opinion that there is a need to review the possibility of bringing all E&P Companies under uniform regulatory regime through the application of the latest rules (2013 Rules) to minimize complexity of regulation through application of multiple rules (2009 Rules, 2001 Rules and 1986 Rules),

- **Capacity and Implementation**

  This aspect came up repeatedly crystallizing into a combined challenge where due to limited capacity available with the regulator for regulation through application of the Rules (as applicable) was significantly hampered. The regulator's challenge was around limited capacity due to various constraints (technical experience, unfilled positions in the DGPC's office due to the hiring freeze, etc.). Stakeholders saw this aspect significantly neglected as they did not see resolution on their issues. Their suggestions were for an organizational overhaul in DGPC that takes in to account the increased work flow through the regulator's office post a significant rise in the number of ELs and D&PLs.

  It may be that systems can be put in place such that proceeds from recovery of fines can be used for capacity enhancement and in the same manner as currently proposed for the sale of data.

- **Standard Operating Procedures**

  The Consultants recommend development of a capacity building plan for the regulator's office as well as review of existing SOPs and development of new SOPs to facilitate E&P Companies to understand the requirement of rules in well-defined manners as well as provide an opportunity for DGPC officials to carry out regulation of E&P activities in well-structured manner (this recommendation has already been implemented through development of new SOPs by the Consultants in June 2015).

- **Frequency of issuance of new Rules**

  Stakeholders echoed Consultant's view regarding frequency of issuance of new set of Rules. The Consultants consider that there should be no new set of rules announcements for at least the next 5 years but, if need be, appropriate specific amendments be made to the existing rules that brings clarity and compatibility. This will eliminate the challenge introduced at both the regulator's and the E & P companies' end, to redevelop understanding of the new rules

ANNEXURES

ANNEXURE 1: AREAS INCLUDED IN CONVERSATIONS WITH STAKEHOLDERS

This Annexure captures the areas included in conversations with stakeholders, as appropriate.

Exploration Activities

- Grant reconnaissance permits.
- Grant exploration licenses (EL).
- Review work programs / work units.
- Requests for exploration license extensions/renewals.
- Relinquishment of acreage (mandatory & total).
- Requests for well commencement, testing and side-track.
- Requests for plug & abandonment.
- Declaration of commerciality.
- Requests for extended well testing.
- Approval of Petroleum Concession Agreement, Petroleum Sharing Agreement, Supplemental Agreements, Assignments, etc.
- Review of periodic reports submitted by the E&P Companies
- Division of Area into block and zone.
- Appraisal, evaluation and renewals.
- Retention of gas discovery.
- Reports of discovery.
- Petroleum exploration within lease area.
- Exploration and use of facilities by third party.
- Programs related to unconventional hydrocarbon resources.

Production Activities

- Regulate petroleum development & production operations.
- Development & production lease application (D&PL)
- Review of development plans
- Requests for well commencements, testing, side-tracks, plug & abandonment
- Requests for well testing & in-fill wells
- Requests for D&PL renewal/extensions
- Flaring consent
- Award/application of gas pricing regimes
- Review of unitization cases & disputes
- Relinquishments of acreage
- Review of periodic reports submitted by the E&P Companies
- Re-grant of lease after expiry of lease term
- Transportation of petroleum.
- Revocation of lease.

- Inspect plants, production records and well records.
- Commencement, testing and abandonment of drilling operations

Support Services & General Activities

- Interpretation of PCA's provisions/rules
- Policy formulation
- Provincial Government Issues
- Force majeure issues
- Facilitation including imports & exports
- Audits both technical & financial.
- Rents & marine research fees
- Fulfilment of training obligations

- Payment of royalty & taxes
- Fulfilment of social welfare obligations

- Payment of production bonuses
- Data collection/management
- Litigation & arbitration cases
- Periodic reports including daily, monthly and annual reports.

ANNEXURE 2: NOTES FROM MEETINGS WITH STAKEHOLDERS

This Annexure captures the interaction by Consultants with the individual stakeholders during September 2014.

Company A:

Incentives relate to gas sector only – we have oil. Problem arose from 1997 Policy – if we convert in order to secure gas incentives we lose benefit on liquids – because this works as a package we have not converted.

Why will GOP not offer price increase to match other producers?

Implementation of "additional 10%" added to 2012 Policy by amendment– how will this work in practice?

18th Amendment – we consider the argument between Provincial and Federal to be fixed now.

Commercial discovery – delays in obtaining GOP approval. Need approval to be retrospective to cover EWT production.

Quality of operator submissions has raised GOP expectations of what will be included in FDPs.

Regulator has been allowing extensions in periods to avoid claims of force majeure but this is entirely discretionary.

Relinquishment – we prefer allocation of smaller acreage and a lower requirement to relinquish.

- Option to not relinquish against additional work program e.g. 30% additional work units for 30% area relinquish.

Third party access rules are intended only for gas.

DGPC is not providing a buffer between IOCs and state companies.

Definition of "local" is unclear – by contrast "from this area" is clear – does "local" mean Pakistan national?

Extension of lease after expiry – we are concerned about the additional 15% payment – but this is probably OK provided it can also apply to pre-2012 contracts (i.e. we can extend them on the same basis).

- Rule 34 , may vs. shall for extensions/renewals

COMPANY B:

Policy 2012

- Indexation issue: tying rent indexation to renewals/ extension is not ok
- Everything goes to the top for approval
- Approvals should have categories i.e., info only, deemed approval and approval
- Chairing of OCMs by regulator should be eliminated
- Relinquishment?
- Unable to farm-in with others who are sitting on blocks for many years w/o executing committed work program
- Appellate
    - Regulator capacity needs to be enhanced
    - Whatever regulator is happy to agree but wants Secretary to decide.
- Circular debt is becoming a big issue again
    - 30% FE payment- Money is stuck with transmission company

Other

- Limit / clarity on GDS ,Transmission Tariff clarity is needed
- Data Purchase
- Data reporting: Can the previous website by LMKR be worked so daily requests go away?
- CSR: Old system when company disbursing/spending funds was Ok
- Provincial regulator: Support PPEPCA view- i.e. one regulator
- Double hatting by Regulator
- Wish list on data/well notification, need clarity on what is really required
    - Examples of duplication
- PPEPCA input is now reduced
- Work Unit is Seismic focus
    - Need to improve balance with possibly other G & G work.

Company C:

DGPC is weak in decision making and has problems in

- capacity
- comprehension
- prioritisation
- demarcation

FDP approval – there is no period stated within which DGPC must respond.

Example – DGPC refuses to approve an FDP because it is based on economics which assume a price which will not be fixed until a Supplemental Agreement is signed.

Bring clarity around what is needed for FDP/DoC Approvals. Create checklist that everybody works with i.e. DGPC/Operator

Two burning issues for us are incremental production and lease extension.

First extension after 25 years should be at producer's option subject to commercial production continuing. Should have same for extension after 30 years (subject to increased payment). This is justified by the need to make earlier investment decisions based on the assumption that extension is optional – not discretionary.

No need to amend force majeure provisions – GOP should not have right to terminate after a fixed period of FM.

Item-12 Communication of reserves between two fields – DGPC has clear role under [2013] Rules. No reaction or assistance from DGPC. 1986 Rules apply to one field – 2001 Rules to other.

Disparity in treatment of different companies with respect to extensions – some companies are given extensions to do nothing!

Income Tax – prior to a 2012 amendment sale price for oil and gas sales were exempt from withholding tax but now foreign companies are treated differently which is discriminatory (Schedule 2 Clause 46?).

Contrary to terms of the relevant PCA, Pakistan State Bank is refusing to keep export sales receipts in foreign currency.

COMPANY D:

Challenge for DGPC is achieving the right level at which to manage the industry. It needs to spend more time on ensuring effective management of the national reserve base than micro managing producers' activities. For this purpose it needs a consistent and annually updated view of the reserve base. To be developed as part of RQ-3

Regulation and policy should not be confined in one agency – regulation is not a commercial issue.

GHPL has lost its sense of impartiality – with a board full of GOP people it behaves like an arm of FG.

"Endless analysis is leading to paralysis".

Regulator is not geared up to respond to the increased pace of the industry – it ought to be geared up because this activity is in the national interest.

"Indexation and extensions" – it is necessary to process cases without any linkage between these two issues.

We have a discovery which is likely to overlap with a state owned company lease. DGPC has refused to approve a second well. We have also proposed unitisation but DGPC will not approve our DOC or FDP. Example of DGPC/GoP supporting national oil co!

The industry is hurting and DGPC does not appreciate the impact of delay on a pro-active industry. It has insufficient technical competence.

Industry is willing to pay for a quality service which achieves some independence of thought. State companies are exerting undue influence on DGPC whose mind set is to protect state interests to the exclusion of private interests. We need a one-stop shop on regulation which is effective and we need clarity where there are overlapping roles

Joint ownership as established by the 18th Amendment is being used by different provinces in different ways.

The "local" definition creates problems for us – local authorities become antagonists to E+P companies making unreasonable demands outside their scope of authority.

There can however be some benefit where a local authority takes ownership of an area of responsibility

We have no issue with land rentals but the inflation linkage of old rules rentals make them less attractive than the rentals under 2013 Rules.

Extensions beyond 25 years should be at the producer's option – in other words a producer should have the right to continue indefinitely while there is commercial production (but we would concede an increased government take at some point).

On relinquishment the incumbent licence holder should always have the advantage because it knows the field so we favour minimal relinquishment and retention of data for a short time at least.

Data should generally be kept confidential but we need clarity as to what must be included – across the range from raw data to company's internal interpretations. Need to define what is needed by DGPC and for what purpose.

The charge by DGPC for data should be based on actual cost and allow no profit margin.

COMPANY E:

Generally facing the same problems as another company.

Provisional approval to allow early production

– in house certification should be sufficient to obtain provisional approval with 3rd party provided later

- Should be ok to begin with EWT price provided that there is retrospective adjustment to full price when DOC and FDP are approved later.

Incremental production – all production should qualify for incentive price to encourage investment.

Marginal field definition – does this apply only to new discoveries or also to depleted fields, needs clarity?

Mining leases – conversion to DPL permits access to current prices and incentives but company loses benefits of ownership of facilities.

PCA Article 28 refers to arbitration under ICSID Rules and only if ICSID declines jurisdiction then under ICC Rules. This applies also under the model JOA. ICSID is not appropriate.

Company should not have liability for the production bonus while owned by GOP.

Relinquishment – where a block straddles two Provinces and two Provincial holding companies are involved it is unreasonable that one can use voting power to block work on the other side of the border because it wants more work on its own side.

Deadlock under JOA among partners – needs attention.

Offshore projects – challenge of two jurisdictions operating on one side of the territorial limit and only one on the other.

Exploration within lease area – Rule 65 – third party may get licence for maximum period and then new lease for 25 years– what period of extension is given to incumbent if it matches terms?

Extensions beyond 25+5 years should not require automatic payment of additional 15% which ignores cost of additional investment.

18th Amendment has created an imbalance of treatment among Provinces – some are using influence to prevent gas reaching Provinces where it is needed.

Extensions to exploration phase – experiencing difficulty in obtaining approvals

Rents – rents under 2012 Policy are actually lower than rents under earlier rules after indexation.

Regulator making agreement to increased levels of rent a condition of extensions which is not permitted by rules but some companies are paying these simply to get extensions. This is a big issue for the company.

Extension of discovery outside licence area – Rule 22(8). DGPC can revise co-ordinates but not clear what needs to be disclosed to prove this (Why 10%, remove limit)?

Item – 14 Flaring – Rule 24(3) restricts DGPC approving flaring for more than 30 days and then only on condition of distance from infrastructure and this needs more flexibility.

General point – DGPC has no geological and geophysical capability.

COMPANY F:

- Well commencement- deemed approval
- DoC / FDP
- Flare Gas- Penalty – a field's EWT, extension not given, waiting on DoC approval.
- CSR- Optional giving money to DCO
- No issue on "Local" definition.
- Training Funds
  - XYZ Mining Lease was 30+30 years. Lease period expiring before loan period, solution was to go to 1986 Rules (20 years)
- Does new discovery in old lease get separate award period for production.
- Relinquishment 30% for 30%
- Transfer of commitment - GoP wants same JV to commit.
- Penalty: Any days
- Dispute resolution
- FM- not given then why is it there?
  Companies should be allowed related benefit like extension for relevant period.

COMPANY G:

- Revocation
- Penalty
- Appellate Forum
- Unitization
  - Improve this authority
  - Clarity on when will this trigger
- No Rules yet for Tight Gas & Low Btu Gas
- 40% over 2009 Policy Price almost same as 2012 Policy Price. Should be reviewed further as incentive is reduced /gone
- Can be quickly developed
- There is inconsistency / contradictions

General:

- Federal/Provincial
  - Dual window operation not desirable. One regulator!
- Policy 2012 and 2013 Rules
- Tight Gas
- Marginal – deficiencies
- Low Btu – deficiencies
- Documents / Templates in well commencement etc. + list of deemed approval etc.
- Relinquishment
- Unitization suggestion
- Sample of issues

COMPANY H:

Real problem is with implementation by DGPC – there is a lack of competence and understanding and they need a change of mind set.

Some of our problems remain unresolved even after five years.

We have suffered discrimination – provisions of Article 13.8 were introduced to favour one foreign company in relation to gas surplus to their commitment.

We however have waited for years for a Supplemental Agreement which will allow us to rely on this provision.

As a consequence of unfair treatment we are now expanding outside Pakistan.

We made a discovery of gas and condensate and requested approval of our declaration of commerciality and classification of the field as marginal – but there is silence.

Another example – we completed drilling of a well and have had no response to submitting results.

DGPC is delaying approval of surrender of our interest in small marginal discovery

We have had similar experience in relation to a low BTU field.

We have had lengthy meetings with DGPC and DG Gas but there is no movement on open issues. No one has accused us of deficiency in our paperwork and we have no meeting minutes on which to rely.

Current allocation system of commitments to gas utilities is unfair and should be relaxed to allow producers to sell up to 50% of production to commercial third parties.

Import duties on equipment and machinery should be zero during exploration and development phases.

Social and training obligations should be removed during exploration as there is no long term commitment at that point – but GOP could charge token lump sum as part of signature bonus to cover this.

G+G data should be available free of any charge other than copying costs and should be available in the public domain after three years.

All companies including state owned companies should have the same obligation to provide performance guarantees – which could also be corporate guarantees.

Work units need to be reviewed to include wider range of work types.

Policies need to be attractive and the regulator needs to emerge as a facilitator rather than obstruction. Consider separating DGPC from GOP in some way – established by law but autonomous to attract professionals with experience.

We need a concept of deemed approval to overcome the excessive delays which are delaying activity.

An effective appeal process is needed to avoid the courts or arbitration – possibly comparable to the Tax Ombudsman.

We think that the ombudsman could also determine disputes between field partners

Discrimination in treatment of companies is evident in DGPC giving similar approvals to different companies and then treating them differently when it comes to formalising in documents.

Meeting with PPEPCA:

Issues List:

- Pricing / 10%
- Conversion
- Provincial Holding
- Index Rent (Extensions have been stopped). Legal view being sent.
- 3rd Party access
- Appeal Forum- Federal Ombudsman!

General

- Definition of Exploratory effort changed, Cut off
- Policy price reversed after amendment in 2013 for earlier periods. 2013 Amendment list shared with PPEPCA.
- Other than 2001 Policy, no confidence in subsequent as they never got implemented despite requests for conversion.
- Supplemental is still awaited.
- Never sure if they will get the offered price.
- Approvals for ATA/TARs:
  - Difficulty in scheduling, better co-ordination needed, shut downs getting delayed.
- Lease rental indexation Pro-active request
- Training
- Tight Gas Need clarity on Federal/Provincial requirement. Want one window.
- Organizational model discussed during 2009 Policy, still awaited
- GoP using National Cos to influence JVs to tow GoP line. Not on merit but GoP intent. This is detrimental to minority stakeholders.
- JOA- include conflict of interest clause (on commercial aspects).
- No/low protection under JOA to smaller WIOs.
- Subsequent amendments in JOA to be done between partners W/O GoP involvement.
- Exploration activity/timing: leniency requested but with consistency across board
- Clarity deliberately missing?
- NAB aspect brings insecurity for regulator when taking decisions

- Capacity building. None available. Use the Indian example.
- Is financial impact of new policy determined at MPNR.
  - Planning commission or industry tie-up missing
- 3rd Party gas sale hampered
- Mistrust - acceptance of framework.
- Model PCA- local company definition
- Policy Ok, PCA translation not Ok.
- How will GoP clear conversion back-log for 2007 & 2009?
- Differential continues to build.
- Short fuse requests not ok.
- CMS- Concession Management System to be re-activated
- PCA ⟶ JOA (recommended to be delinked)
- Employment plan
- Tight Gas: Price to low
- regulator chairing meetings - remove this requirement

Meeting with DGPC for input on Policy/Rules

- Explanation not given by regulator to companies.
- 10% Incremental production
  - What should be the base
  - Is conversion required in to 2012 policy to attract this incentive?
  - Evergreen or not
  - Clarity on Sale or production
  - What to do if FDP comparison is not available
- Development of Economic model mutually agreed with industry
- Penalties could be in the following areas:
  - No Permissions obtained for well commencement, abandonment,
  - Production without lease
  - Drilling in Expired lease
  - Rentals not paid, or not paid on time
  - Late application for extensions
  - Sitting on lease after 90 days of non-production. Operator should surrender.
    i. Operator to pay daily or weekly or token penalty.
  - Delay in execution of financial obligations
- Exploration period.
  - Extension beyond first one where additional work commitment % is given should have some financial impact to JV if it is delayed.
- Over regulation
- CMS – timely info should be received
- Job for locals – clarity on expectation response
- Senate questions delayed from Companies/PPEPCA members. What should be the consequence?

- New bid round – what additional things to do.
    - Add experts
- Issue regarding payment of production bonus where we have more than once discovery in an area and the production bonus has already been paid to only one district. The districts with subsequent discoveries are then deprived of the benefits of the production bonus. Need to have a mechanism for better allocation in such cases.

ANNEXURE 3: LIST OF IDENTIFIED ISSUES

- E&P Companies suggested that effective date of D&PL should be date of application rather than the date of approval.
- Production bonus during EWT
- DGPC asking excessive info for FDP
- Definition of "local" is unclear
- Extension of D & PL after expiry. Companies want confirmation that they will get the renewal once they commit to the additional 15% payment (Rule 34, 'may' vs. 'shall' for extensions/renewals of lease). Also evaluate the need for updated Field Development Plan.
- G+G data should be available free of any charge other than copying costs and should be available in the public domain after three years.
- Evaluate the need to develop concept of deemed approval to overcome the excessive delays which are delaying activity, i.e. over regulation
- An effective appeal process is needed to avoid the courts or arbitration
- Unitization, rules not effective to resolve issue.
- 1994 Policy imposed heavy social obligations and these are now occupying too much management time. Flexibility for Operator to pay SW obligatory amount instead of implementation of SW schemes.
- Rent indexation issue in old rules needs to be resolved amicably.
- For provisional approval to allow early production, in-house certification should be sufficient.
- Rule 24(3) restricts DGPC approving flaring for more than 30 days. More flexibility is needed.
- Provision in the rules for penalties for minor offences is needed.
- Transfer of work commitment, rules should provide more flexibility for transfer by all JV partners to any area of choice.
- An option for Mining lease holder for conversion to DPL to permit access to current prices and incentives.
- No company should be exempted to pay production bonus including state companies. Rules to be modified accordingly.

- Extension of D&PL area rule 22. DGPC can revise co-ordinates but not clear what needs to be disclosed to prove this and why 10% limit. Amend rules

- Revisit rules requirement for submission of info for DoC / FDP to eliminate any unnecessary duplication

- Revisit the need/advantage for DGPC to Chair OCMs/TCMs/FCMs.

- Unable to farm-in with other E&P companies who are sitting on blocks for many years w/o executing committed work program. Rule to be modified to ensure that extension is granted on the basis of demonstrated activity to undertake WP or a material justification for non-delivery of WP.

- Third party access rules are intended only for gas. Provide clarity for both oil and gas along with recommendation on basis for access.

- Revisit rules to reduce over regulation

- PCA Article 28 refers to arbitration under ICSID Rules and only if ICSID declines jurisdiction then under ICC Rules. This applies also under the model JOA. ICSID is not appropriate. Check in rules for clarity

- Revisit force majeure provisions, should GOP be given right to terminate EL/PCA after a fixed period of FM.

- Revisit rules provision for reasonability of fees to be paid by E & P companies to the Regulator.

- Definition, clarity needed in the following definitions:
    - Commercial production
    - Crude Oil
    - Delivery point
    - Discovery
    - Exploration Well
    - Good international oilfield practices

- Rules provision for Performance guarantees to be revisited for clarity.

- Rules provision for Period of Licence and relinquishment of area to be revisited for clarity

- Rules provision for Appraisal, Evaluation and renewal to be revisited for clarity

- Rules provision for Extended Well testing to be revisited for clarity

- Rules provision for Retention of gas discovery to be revisited for clarity

- Rules provision for Work program and other obligations not fulfilled to be revisited for clarity
- Rules provision for Rent to be revisited for clarity
- Rules provision for Grant of development and production lease to be revisited for clarity
- Rules provision for Lease period to be revisited for clarity
- Rules provision for Re-grant of lease after expiry of lease term to be revisited for clarity
- Rules provision for Development plan to be revisited for clarity
- Rules provision for Royalty to be revisited for clarity
- Rules provision for Value of petroleum to be revisited for clarity
- Rules provision for Royalty administration to be revisited for clarity
- Rules provision for Yearly lease rent to be revisited for clarity
- Rules provision for Revocation of lease to be revisited for clarity
- Rules provision for Period of record keeping to be revisited for clarity
- Rules provision for Data to be property of the Federal Government to be revisited for clarity
- Rules provision for Occasional reports to be revisited for clarity
- Rules provision for Reports of discovery to be revisited for clarity
- Rules provision for Commencement, testing and abandonment of drilling operations to be revisited for clarity
- Rules provision for Employment and training to be revisited for clarity
- Rules provision for Joint exploration and development to be revisited for clarity
- Rules provision for Exploration and use of facilities by third party to be revisited for clarity
- Rules provision for Power of revocation to be revisited for clarity
- Rules provision for Right of Government upon termination of petroleum right to be revisited for clarity

- Rules provision for Tight Gas and Low BTU Gas to be revisited for clarity

  Rules provision for Repeal and savings to be revisited for clarity

ANNEXURE 4: PAKISTAN ONSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2013 (REDLINE VERSION)

Government of Pakistan
Ministry of Petroleum and Natural Resources

***

Islamabad, the March, 2013

NOTIFICATION

S.R.O. (I)/2013.- In exercise of the powers conferred by section 2 of the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948 (XXIV of 1948), the Federal Government is pleased to make the following rules, namely:-

THE PAKISTAN ONSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2013

PART I - GENERAL

1. **Short title, application and commencement.-**(1) These rules may be called the Pakistan Onshore Petroleum (Exploration and Production) Rules, 2013.

   (2) These rules shall apply to the onshore areas of Pakistan and shall regulate all petroleum rights except those relating to coal bed methane.

   (3) They shall come into force at once.

2. **Definitions.-** In these rules, unless there is anything repugnant in the subject or context,-

   (i) "allowed transportation cost" means actual cost incurred for moving the petroleum produced and saved from the field gate to the point of determination of value of the petroleum ~~as approved by the Authority~~;

   (ii) "annexure" means an annexure to these rules;

   (iii) "arm's length sales" means the sales made freely in the open market, in freely convertible currencies between willing and unrelated sellers and buyers having conflicting interests and in which such buyers and sellers have no contractual or other relationship, directly or indirectly, or any common or joint interest as is likely to influence selling prices but shall exclude the value of sales (whether direct or

2(i). Transport costs which are "allowed" should be whatever they actually are and not be subject to approval.

indirect, through brokers or otherwise) involving an affiliate, sale between Government to Government entities, counter trades, restricted or distress sales, sales involving barter arrangements and generally any transactions motivated in whole, or in part, by consideration other than normal commercial practices; (iv) "Authority" means the Directorate General Petroleum Concessions (DGPC) or any officer or authority appointed by the Federal Government to exercise the powers and perform the functions of the DGPC; (v) "coal bed methane" or "CBM" means gas produced by drilling wells within the coal seams, that is, methane physically associated with coal which includes methane absorbed, adsorbed, and contained in pores and fractures and produced within coal seams which has such distinct biomarker or footprint that conclusively proves to have been principally derived from a biogenetic source of adjacent coal seams;	
(vi) "commercial discovery" means a discovery of petroleum ~~duly evaluated by appraisal well~~ which ~~discovery~~, in the opinion of a holder of a licence or lease, ~~with the approval of the Authority, which shall not be unreasonably delayed, after submission of requisite information to the Authority,~~would, on the basis of one or more wells, justify, particularly by its quality, quantity, gravity, place and depth where found, its economic development and assures a continuous commercial production for a reasonable period~~. In the event that the discovery so made does not justify the drilling of an appraisal well, then such holder of a petroleum right, upon submitting detailed technical and economic justification, shall seek the approval of the Authority for declaration of commercial discovery on a one-well basis~~; (vii) "commercial production" means production of petroleum out of a commercial discovery which production ensures at least the recovery of all expenditure directly attributable to such commercial discovery within a reasonable time and earning of a reasonable profit;	2(vi). It should be the sole decision of the licensees whether a discovery is commercial or not. The DGPC will have an opportunity to approve at the time of receipt of the Development Plan for its approval. Also removed the additional layer of having to get separate approval if wished to declare commerciality without drilling a separate appraisal well.
(viii) "company" or "companies" means a body corporate or other entity established or authorized to do business under the laws of Pakistan which is engaged in, or seeking to engage in, petroleum operations and unless otherwise specified, the expression "companies" refer to both local and foreign companies;	2(viii). Strictly speaking, the definition of "company" should be changed so as to only apply to corporate bodies and not any "other entity". However, no change recommended now.
(ix) "crude oil" means all petroleum other than natural gas and which at standard atmospheric conditions of pressure and temperature	2(ix). "crude oil" definition: Strictly

is in a fluid phase including condensates and distillates.	speaking condensate is separately defined and used, so ought not to be part of the definition of "crude oil". No change recommended now.
(x) "delivery point" means a point, for the purpose of determination of royalty leviable on petroleum produced and saved from a licence or lease area as well as for the purpose of satisfying national market obligations pursuant to rule 43, which will be determined as follows: - (a) for the purpose of natural gas, the delivery point shall be the outlet flange of the production facility; (b) for the purpose of crude oil and condensate, the delivery point shall be deemed to be the nearest operating refinery; and (c) for the petroleum other than under sub-clauses (a) and (b), the delivery point shall be loading arm at the processing facility unless otherwise approved by the Authority;	2(x). For the future, suggest including at the end of sub-rule (c) the words "in the development plan". Intention of including reference to the FDP is to give greater attention to what is in the FDP. No change recommended now.
(xi) "discovery" means the finding of a deposit of petroleum from an exploration well not previously known to have existed within the area held by a holder of a petroleum right which produces a flow of petroleum at the surface and is measurable by the conventional petroleum industry testing methods;	
(xii) "discovery area" means an area within the area of a licence or lease which encompasses the accumulation of petroleum in a geological entity limited by lithological boundaries, structural boundaries, the contact zone between petroleum and the limiting water level, or a combination thereof, and so that the petroleum included everywhere is in pressure, fluid or gas communication;	
(xiii) "exploration well" means a well which tests clearly a separate geological entity, be it of structural, lithologic or facies of pressure nature, penetrating all prospective intervals at the particular location;	
(xiii-A) "extended well test" or "EWT" means the extended well testing or early production, as provided in rule 24;	2(xiii-A). Given the term "EWT" is used in the Rules it is appropriate to define.
(xiv) "Federal Government" means the Federal Government of the Islamic Republic of Pakistan.	
(xv) "good international oilfield practices" means generally the	

reasonable and prudent diligent use of policies, procedures, methods, equipment~~s~~ and material that results in effective and efficient exploration, appraisal and development of petroleum including optimum recovery of petroleum from a discovery area with minimal impact on the environment as permitted and use of efficient and effective practices for transforming produced petroleum into marketable form and delivering it to the market, having due regard for safety and other factors and means in particular, knowledge of and compliance with the latest standards developed by relevant professional institutions including but not limited to - (a) the American Gas Association (AGA); (b) the American Petroleum Institute (API); (c) the American Society of Mechanical Engineers (ASME); (d) the American Society for Testing and Materials (ASTM); (e) the British Standards Institute (BSI); (f) the International Organization for Standardization (ISO); or (g) any other organization deemed acceptable by the Authority; (xvi) "GHPL" means the Government Holdings (Private) Limited;	
(xvii) "lease" or "development and production lease" means an exclusive right to develop and produce petroleum from a designated portion of the onshore area under and pursuant to these rules, which shall be substantially in the form as set out in Part III of the Second Schedule; (xviii) "licence" or "exploration licence" means an exclusive right to explore for petroleum within a designated portion of the onshore area under and pursuant to these rules, which shall be substantially in the form as set out in Part II of the Second Schedule;	2(xvii)& (xviii). It is not clear why the words "designated portion of the onshore area" have been used. In future, should be revisited to "discovery area". No change recommended now.
(xix) "natural gas" means all hydrocarbons which at standard atmospheric conditions of pressure and temperature are in a gaseous phase, including non-hydrocarbon gas which is in association with and produced together with such gaseous hydrocarbons; (xx) "permit" or "reconnaissance permit" means a non-exclusive right to perform activities of reconnaissance and exploration within a designated portion of the onshore area under and pursuant to these rules, which shall be substantially in the form as set out in Part I of the	2(xix). In future may replace "hydrocarbons" with "petroleum" but no change recommended now.

Second Schedule; (xxi) "petroleum" means all liquid and gaseous hydrocarbons existing in their natural condition in the strata, as well as all substances including sulphur, produced in association with such hydrocarbons, but does not include basic sediments and water; (xxii) "petroleum concession agreement" or "PCA" means an onshore agreement entered into pursuant to these rules between the President and a company or companies for the purpose of exploration, development and production of petroleum other than CBM; (xxiii) "petroleum right~~s~~" means a permit, licence or ~~and~~ lease issued under these rules; (xxiv) "PHC" means the provincial government holding company of the Provincial Government; (xxv) [Omitted] ~~"Policy" means the Petroleum Exploration and Production Policy, 2012~~; (xxvi) "President" means the President of the Islamic Republic of Pakistan; (xxvii) "Provincial Government" means the Government of the relevant Province of the Islamic Republic of Pakistan in which a petroleum right, is to be or, has been granted, and in the event such a petroleum right extends over more than one Province then the Government of each such Province; (xxviii) "record" means all record pertaining to the activities of a holder of a petroleum right including but not limited to an account, book, return statement, report, chart, table, diagram, form, survey, image, invoice, letter, map, agreement, memorandum, plan, core, sample, voucher, financial and non-financial information, and anything containing information whether in writing or in electronic form or represented or produced by any other means and the result of recording of electronic data, its processing systems and programme to illustrate what the systems and programme do, and how they operate without compromising proprietary rights, if any, related to the hardware and software; (xxix) "Schedule" means a schedule to these rules; (xxx) "significant gas discovery" means a discovery of natural gas which has tested significant flow rates of natural gas ~~predominately methane~~ from one or more reservoirs and is estimated to be capable of	2(xxv). Policy should not be part of the Rules. 2(xxx). The composition of the gas would not appear relevant here. This

continuous production over a reasonable period which in the opinion of a holder of a petroleum right could be declared a commercial discovery in the future provided, *inter alia* that adequate gas pipeline transportation facilities are installed and gas markets have been sufficiently developed for sale of natural gas on commercial basis;	change was also suggested in the proposed changes to incorporate Low BTU Gas Policy.
(xxxi) "spill" means a discharge, emission or escape of petroleum, other than one that is authorized by applicable law ~~or approved by the Authority~~;	2(xxxi). As a defined term, a "spill" would be a spill and not cease to be a spill if approved. But DGPC could opt to do nothing about the spill (see rule 71).
(xxxii) "strategic partner" means a foreign state owned and controlled company allowed to explore for and develop petroleum within a given acreage following direct negotiations between the Federal Government and the government of the strategic partner;	
(xxxiii) "wellhead value" means the value of petroleum as defined in rule 39;	
(xxxiv) "waste" or "wasted" means waste as understood in the petroleum industry and shall include working methods which, in accordance with good international oilfield practices are considered wasteful;	
(xxxv) "working interest" means all or any undivided interest in the entirety of any petroleum right, rights and obligations and liabilities imposed by the rules, the licence and any lease granted pursuant to the rules and any PCA;	2(xxxvi). For the purposes of these Rules and PCA, a work unit should only be by reference to the PCA and not bid.
(xxxvi) "work unit" means a unit of work for the purpose of measuring the quantum of minimum work programme as ~~quoted in the bid or~~ contained in the respective PCA; and	
(xxxvii) "year" means a period of twelve consecutive months according to the Gregorian calendar.	
3. **Administration and regulation.-** The Authority shall be responsible for the administration and regulation of these rules and the execution of all duties imposed upon it by these rules, or pursuant to any agreement or any other function entrusted by the Federal Government ~~or Provincial Government~~. Notwithstanding anything to the contrary contained herein, in the administration and application of the rules, the Authority may give due consideration to relevant facts and grant such relaxation as is deemed necessary in larger public interest in terms of section 5 of the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948.	3. Deletion of "Provincial Government" as no apparent role of Provincial Government. To consider if power of relaxation should be with Government more generally and not DGPC (as the "Authority"). No change is

	recommended at this time.
4. **Division of area into blocks and zones.-** (1) Any area of Pakistan may be divided into blocks of such sizes and shapes as the Federal Government may determine from time to time. (2) The licensing zones shall be as per map attached as Annexure – I to these rules. 5. **Application for petroleum right.-**Any company may apply in accordance with these rules for,- (a) a reconnaissance permit; (b) an exploration licence; and (c) a development and production lease	4. The "licensing zones" referred to in sub-rule (2) may be revisited for the future, but no change recommended at this time.
6. **Manner in which application may be made for petroleum rights.-** (1) Every application shall be made in writing in the form set out in the First Schedule addressed to the Authority. Every application shall be entered in the register to be maintained by the Authority. (2) The applicant shall provide details of any changes in the status or experience of the company that has occurred since the company has applied for the petroleum right. (3) With every application there shall be deposited- (a) a fee of fifty thousand rupees if the application is for the grant, extension or renewal of a permit; (b) a fee of one hundred thousand rupees if the application is for the grant, extension or renewal of a licence; and (c) a fee of two hundred thousand rupees if the application is for the grant, extension or renewal of a lease. (4) There shall be attached to the application five copies of the map upon which shall be delineated by the boundaries of the areas in respect of which a petroleum right is applied for. The map shall be taken from the relevant Survey of Pakistan map of appropriate scale. If the area is identified by a block system notified under rule 4, a reference to the relevant block number is sufficient.	6(1). Strictly it ought to say "application for a petroleum right" but no change recommended now. 6(2). It should be made clear that the details of changes should only be before the grant of the petroleum right and for material changes, but no change recommended now. 6(3). Included that the fee would apply in the event of any application for an extension. Rationale being that with greater funds being received by the DGPC's office additional resources can be engaged for expeditious review. It is recommended that in the future the fee for grant of a lease is separated from

(5) The applicant shall furnish additional information as may be requested by the Authority within three months from the request thereof, failing which the application shall be rejected, unless the Authority determines otherwise. (6) Notwithstanding the above, the Federal Government may assign the status of strategic partner in accordance with the prevailing ~~P~~policy and these rules, however, they will be given privileged award of petroleum rights without following competitive bidding for certain blocks selected by the Authority on mutually acceptable terms and conditions.	renewal and the fee for a grant be substantially increased (perhaps Rs.1m) and the greater fee be used to enable the DGPC to justify engaging a technical officer to review development plans. 6(4). DGPC to advise if five copies required? 6(6). SOP's should be prepared, including that when awarding a licence/lease to a strategic partner that partner should not be allowed to assign to a party not designated as a strategic partner, at least not without conditions attached.
7. **Separate application for each area.-** (1) Where an applicant seeks a petroleum right over two or more areas which are not contiguous, the applicant shall apply for separate petroleum rights over each such area, unless otherwise permitted by the Authority. (2) Nothing in these rules shall prevent more than one petroleum right being granted to the same applicant. 8. **Several holders of a petroleum right.-** Where the petroleum right is held by two or more companies, they shall be liable jointly and severally towards the Federal Government for obligations and liabilities, resulting from their activities pursuant to the petroleum right. The companies shall, with the prior written approval of the Authority, appoint an operator from amongst them, except that such special arrangements as to the operatorship shall be applicable as may be approved by the Authority under rules 64 and 66. No change in such appointment shall be made without the Authority's prior approval. 9. **Petroleum right not assignable without approval.-** A petroleum right or any working interest therein shall not be assigned without the previous approval in writing of the Authority. 10. **Method of making applications for assignments.-** An application by a holder of a petroleum right for approval to the assignment of a petroleum right shall be made in writing addressed to the Authority,	8-10. See proposed new Rule 79, wherein SOPs are to be prepared for Rules 8-10. 8. Suggested change is so that operator may perform an obligation under a rule on behalf of right holders. 10. In future can consider different rate for assignment of licence and lease.

and shall be accompanied by a fee of one hundred thousand rupees for each assignee. With the application, the applicant shall furnish the like particulars in respect of the proposed assignee as are required to be furnished in the case of applicants for a petroleum right.	Note, para 8 of the Policy says assignment fee is Rs.50k.
11. **Power to grant or refuse petroleum right.-** Subject to rules 22, 23, 30 and 34, the grant of a petroleum right, extension or renewal thereof, shall be decided by the Authority. In the event of refusal to grant such petroleum right, extension or renewal thereof, the Authority shall provide the reasons thereof.	11. Recommended to add "extension" to avoid any suggestion that r.11 only applies to grant and renewals.
12. **Lapse of entitlement to petroleum right.-** Where a petroleum right is not executed within three months after approval of the application by the Authority has been conveyed to the applicant, the entitlement of the applicant to such petroleum right shall lapse unless, the Authority considers that the delay is not attributable to the fault of the applicant.	
13. **Surrender of petroleum right.-** (1) Subject to the terms of the PCA a~~A~~ holder of a petroleum right wishing to surrender his right shall give the Authority one month's notice of ~~his~~ its intention to do so, and if the holder of a Petroleum right fulfills all ~~his~~ its obligations under the petroleum right, including the obligations pursuant to rule 73 or if such holder of a petroleum right pays liquidated damages pursuant to rule 28, ~~he~~ it shall on the expiry of the notice subject to sub-rule (2) be entitled to surrender ~~his~~ its petroleum right~~ in whole or in part~~. On doing so the holder of a petroleum right shall not be obliged to pay rent for the remaining period of the petroleum right. (2) In case more than one company holds a petroleum right and less than all the companies wish to surrender the right, reasonable opportunity shall be provided to the other company or companies to acquire (as provided in sub-rule (3)) the interest from the company or companies wishing to surrender. Provided such opportunity is given and demonstrated to the Authority and subject to the terms of the relevant PCA and these rules, a licence/lease may be surrendered, in its entirety, by less than all the companies which hold such petroleum right, by giving notice as provided in sub-rule (1). In the event more than one company wishes to acquire the interest of a company which wishes to surrender its interest, such surrendered interest shall be offered to each on a *pro rata* basis. (3) Except as the companies may agree otherwise, any opportunity to be given to acquire an interest under sub-rule (2) shall be without charging for such interest and in the event there is any outstanding minimum work obligation, the transferring party, wishing to surrender, shall pay to the acquiring party or parties a proportionate share of liquidated damages which could then have been charged at that time pursuant to rule 28, based on its participating interest.	13(2) & (3). Objective to provide more clarity on an individual company surrendering. The Model PCA and JOA need to be improved such that where a Working Interest Owner opts to take an interest then there is a certain time within which such assignment must take place or else surrender will happen.

14. **Submission and publication.-**(1) Application for petroleum right may be submitted either-

(a) at the initiative of the applicant, or

(b) on the basis of an invitation from the Authority to submit competitive bids.

(2) In case of clause (b) of sub-rule (1), a notice for competitive bidding may be published in such national or foreign publications as the Authority may determine.

15. **Terms and conditions of a petroleum right.-** Every permit, licence and lease shall, subject to such modifications as may be made by the Authority in accordance with these rules, be in the form set out in Parts I, II and III, as the case may be, of the Second Schedule ~~and shall include such additional conditions relating to ancillary or incidental matters as the Authority may deem fit to insert~~.

16. **Performance guarantees.-** (1) The Authority shall require successful applicants for petroleum exploration licenses to furnish irrevocable and unconditional guarantee, in an acceptable form, with respect to the obligation and liabilities of the holder of a licence on or before the execution of the petroleum exploration licence.

(2) The Authority may, in its sole discretion, accept a guarantee in one or more of the following forms:-

(a) a bank guarantee equal to twenty five per cent of the minimum financial obligation from a bank of international repute acceptable to the Authority;

(b) parent company guarantee of a multinational exploration and production company of international repute with a proven track record;

(c) a corporate guarantee of a Pakistan registered exploration and production company having operatorship with majority working interest in producing fields within Pakistan;

(d) in case of local production, first and preferred ~~lien~~ charge on petroleum production equal to 100% of the minimum financial obligation;

(e) in case of other local assets, first and preferred ~~lien~~ charge on assets equal to 100% of the minimum financial obligation; and

15. Deleted the final part as inserted specifically at rules 18 and 30.

16. Guarantee provision should be rationalized based on DGPC's experience. The existing bank guarantee (25%) does not appear to provide a required deterrent for non-performance. And, the escrow and charges may not be as viable given the relevant escrow/charging documents would need to be legally reviewed each time.

16(2)(d) & (e). "lien" has restricted effectiveness in Pakistan as the subject of the lien can't be sold, whereas if there is a "charge" it could be sold, by leave of the court.

(f) deposit in an escrow account equal to 25% of the minimum financial obligation with a bank of international repute acceptable to the Authority.

In the event the successful applicant elects to provide any guarantee, other than a parent company guarantee, the guarantee so provided shall only be released in case all work obligations including but not limited to social welfare, training, data, rental etc. are fully discharged. The Authority shall have the right to recover the due amount for non-performance of all such obligations from the performance guarantee.

PART II - PERMIT FOR RECONNAISSANCE SURVEYS

17. **Grant of permit.-** The Authority may grant a permit, in the form prescribed in Part I of the Second Schedule, to any company to carry out reconnaissance surveys over such areas and on such terms and conditions as it may determine in each case and include the following conditions, namely:-

(i) the grant of the permit shall not imply that the holder of a petroleum right shall subsequently be entitled to the grant of a licence over the areas covered by the permit;

(ii) on the conclusion of the survey, the holder of a petroleum right may apply for a licence in accordance with these rules, but shall not be entitled to claim a relaxation of rules for the grant of a licence applied for by him. However, the Authority upon a request of the holder of a petroleum right, may allow adjustment of the work carried out or expenditure incurred, excluding any work or expenditure related to a multi-client arrangement unless otherwise agreed, against the minimum work or expenditure obligation under a licence covering the area of permit, if granted;

(iii) unless otherwise stipulated in the permit, the holder of a petroleum right shall have the non-exclusive right to undertake, within the designated areas, petroleum reconnaissance by such geophysical, geological, geo-chemical and geo-technical methods and such other related work including geological information bore-hole, as may be stipulated in the permit;

(iv) the holder of a petroleum right shall submit a copy of all the maps, plans, graphs and magnetic tapes and related data as and when these become available and a complete report of the survey not later than six month of the completion of the survey;

(v) the holder of a petroleum right shall comply with all instructions which the Authority may issue regarding the use of

maps, plans, graphs and other data generated or collected by the holder of a petroleum right in the course of the reconnaissance survey;

(vi) the permit shall be valid for a period of one year and may, at the discretion of the Authority be renewed for a period of up to one year;

(vii) a permit does not extend to areas already covered by a licence or a lease unless otherwise specified by the Authority pursuant to sub-rule (1) of rule 66;

(viii) the Authority may grant a licence, or a lease, to any person at any time for any part of an area covered by a permit except as provided therein;

(ix) the holder of the permit shall perform work stipulated in the permit with due diligence; and

(x) the holder of the permit shall for each square kilometer or part thereof comprised in the permit area pay to the Federal Government rent at the rate of five hundred rupees per year.

PART III - LICENCE FOR PETROLEUM EXPLORATION

18. **Grant of licence.-** The Authority may grant an exclusive petroleum licence for exploration over any area on such conditions as are specified in Part II of the Second Schedule including other terms and conditions relating to ancillary or incidental matters as the Authority may determine, which other terms and conditions, if any, shall be intimated no later than the invitation for bids.

19. **Size of area.-** A licence shall not be granted in respect of any area exceeding twenty-five hundred square kilometres.

20. **Shape of area.-**Each separate area in respect of which a licence is granted shall be, as far as possible, compact, bounded by straight lines and marked with permanent physical boundaries.

21. **Rights and obligations of licence holder.-** (1) Subject to the provisions of these rules, the licence gives a holder the exclusive right to undertake, within the licence area, all activities related to reconnaissance and exploration, including drilling for petroleum. The holder of the licence shall not be entitled to extract any petroleum from discoveries other than such test and early production as ~~the Authority may allow~~provided for in ~~under~~ rule 24 ~~provided that in no event, such test or early production shall cause loss of revenues to the Federal Government or the Provincial Government~~.

18. Bid documents should contain any desired additional terms.

The addition of "ancillary or incidental" is taken from r.15 where that part was deleted.

In practice it may only have the limited value of being persuasive to the Govt.

21(1). It is vague as to what "loss of revenues" means, hence deleted the highlighted part. Many things could be construed as a loss of revenue, e.g., a lower gas price would generate lower royalty

(2) A holder of a licence shall perform the work programme stipulated in the licence for initial term (phasesI or II, as set out in rule 22) and any extension or renewal~~as per schedule contained therein~~, along with other obligations as referred to in these rules.	and so a loss of revenue. 21(2). Widened the scope of sub-rule (2) to make r.28 more efficient.
22. **Period of licence~~, and~~ relinquishment and extension of area.-** (1) The initial term of a licence shall not exceed five years keeping in view the surface and geological condition of the licence area. The initial term of the licence shall comprise two phases with first three years period designated as phase-I and the next two years period as phase-II. Minimum work programme for phase-I shall be determined through competitive bidding whereas a firm exploration well will have to be committed for entering phase-II.	22. The word "extension" may be added to the heading as sub- rule (8) envisages the possibility of extending the area of a licence.
(2) The Authority may, subject to the terms of the licence, grant up to two renewals after the initial term. The term of each renewal shall be up to one year. However, to avail a renewal a reasonable work programme comprising at least an exploration well shall have to be offered keeping in view the surface and geological conditions of the licence area. A holder of a licence desiring to obtain such renewal shall make an application at least three months before the expiry of the licence, or such lesser period as the Authority may allow and the Authority shall process such application within one month of submission of the same.	22(3). The extension to complete the drilling of a well may be a right and not require DGPC approval. Being an "extension" it implies a continuation of the phase so there is no need to mention that. The extension should not form part of the next period/phase as that constrains the activity possible in the next period/phase.
(3) The initial term or renewal of a licence shall be extended by the Authority for drilling an exploration well in progress for ~~a~~ the period of drilling~~ as may be approved by the Authority on case to case basis~~. ~~This extended period shall be considered to be part of the initial term or renewal, as the case may be.~~ In the event of extension, granted for a well under drilling, the Authority may grant a further extension for up to three months for post well studies on the request of a holder of a licence.~~, and such extension in the licence shall be treated as part of any subsequent phase or renewal, where applicable~~.	
(4) A holder of a licence shall comply with the following part relinquishment schedule during the term of the licence namely:- (a) at the end of phase-I – thirty percent of the original licence area; (b) at the end of phase-II – twenty percent of the remaining licence area; and (c) on or before the start of the second renewal- ten percent of the remaining licence area.	22(4). For the future, it is recommended that instead of mandatory relinquishment, could have a requirement for additional work units. No change recommended at this stage.

(5) A holder of the licence shall be entitled to renewal if it-

(a) has complied with the work programme and all other obligations of preceding term of the licence; and

(b) has committed to drill during the ~~each~~ renewal period at least an exploration well ~~or wells as may be agreed with the Authority~~, prior to the ~~each~~ renewal~~, to the agreed objective and depth~~. ~~Decision to this effect shall be taken giving due consideration to surface and geological conditions of the licence area~~.

(6) In the case of several holders of petroleum rights, upon a written request of the operator, and in other cases on the request of petroleum right holder, the Authority may, on case to case basis, extend the term of the licence, or any year of a licence, on the following grounds:-

(a) if seismic and drilling services are not readily available to the right holder ~~in the country~~ for the timely discharge of minimum work obligation, a proof to this effect will be required before the Authority considers accepting or denying a request for extension of an exploration licence. Such a request for extension will be required to be made after the holder of the exploration licence has exhausted all other options including but not limited to pooling resources to undertake coordinated activities with other holders of the petroleum right, if possible;

(b) if a holder of an exploration licence commits to undertake additional work which is equivalent to at least 10% ~~more than~~of the minimum work obligation of the then current year, or if no specific separate work obligation for such year, then the current ~~subsequent~~ phase or renewal;

(c) if a holder of an exploration licence makes additional accelerated area relinquishment equivalent to 10% of the original licence area; or

~~if a holder of a licence was unable to perform work because of circumstances beyond its control such as law and order situation, or for any unforeseeable reason including but not limited to a flood or earthquake.~~Any technical considerations which hinder Petroleum operations

(7) Notwithstanding anything contained in this rule, in no circumstances will an extension or extensions, provided in sub-rule (6), cumulatively exceed two years during the currency of an exploration

22(5)(b). As long as it is an "exploration" well, which, by definition, requires a separate geological entity to be tested, it should not require any further approval of the Govt.

22(6). Although extensions have for years been given to specific years of a licence, the Rules have not clearly supported that, and hence the suggested addition.

22(6)(b). Recommend this whole sub-rule be deleted. However, if it is to be retained, the additional 10% commitment has to be linked with current work as there may be no subsequent work programme defined.

22(6)(d). This para is not appropriate here as it is force majeure and properly handled there. Also, in any future iteration, after "perform" add "or conclude". However, no change is recommended now.

22(7). The addition is to avoid EWT, significant gas discovery extensions & drilling in progress being caught by the 2 year limit.

licence. (8) Notwithstanding anything contained in these rules, upon a written request of a holder of a licence, the Authority may, on case to case basis, revise the co-ordinates of the area covered under the licence, provided, the geological structure extends into an adjoining free area and further provided that the revised area will not exceed the area stipulated in rule 19. (9) (a) In the event a holder of a licence has applied for an extension or a renewal, prior to the expiry of a licence, the licence shall be deemed extended until approval is given or denied. (b) If approval for the renewal or extension is granted, the renewal or extension applied for will be effective from the date of approval or the term was to expire, whichever is later, unless such application was made less than three months or, in the case of an extension under sub-rule (3), one month, prior to the expiry of the licence, in which case it will be effective from the date the term was to expire. (c) If a holder of a licence applies for an extension or renewal within three months after the licence has expired, the Authority may, on a case to case basis, still approve such application, provided the holder of a licence pays a penalty of five hundred thousand rupees per day after the expiry, without prejudice to any obligation to pay liquidated damages. Pending decision of the Authority to such an application the licence shall be deemed extended and if approval is given the renewal or extension shall be effective from the date the term was to expire. (d) Rent, as provided in rule 29, shall be payable for any deemed extended period provided in sub-rules (a) or (b), unless an application for renewal or extension is made at least three months or, in the case of an extension sought under sub-rule (3), one month, prior to the expiry of the licence, in which case no rent shall be payable for the deemed extended period. Any such rent for such period shall not be payable again on account of the renewal or extension being effective from the date the licence was to expire. Rent shall be payable on a *pro rata* basis for any part of the extended period not being a complete year.	22(8). The enlarged area should not be permitted to be greater than 2,500 sqkm as provided in r.19. 22(9)(a). Is to "legalise" the period when a licence may have expired but is awaiting approval to a renewal or extension application. 22(9)(b) & (d). Is to incentivise companies to make applications for extensions and renewals in a timely fashion. 22(9)(c). Is to facilitate late applications.
23. **Appraisal, evaluation and renewal.-** A holder of a licence having made a discovery of petroleum shall perform such additional work ~~as the Authority, after consultation with the holder of the licence, may specify,~~so as to enable the holder of the licence to make timely determination of a discovery as a commercial discovery. Subject to the ~~agreement on such additional work and the~~ holder of the licence having complied with the work programme and its other obligations, it shall be	23. Intention is to reduce the need for DGPC involvement on what is a commercial exercise, which the companies are best placed to manage.

entitled to renewal of the licence ~~not exceeding~~ for one year for the purpose of expeditious appraisal and evaluation of the discovery. The renewal shall only apply to the discovery area. The term of the appraisal renewal may be extended further for such period as may be approved by the Authority on case to case basis following a written request of the holder of the licence.

24. **Extended well testing.-** (1) ~~Subject to approval of the Authority, a~~ A holder of a licence may ~~be permitted to~~ undertake extended well testing or early production~~(hereinafter referred to as "EWT")~~, during the appraisal phase and before the grant of lease provided the Authority is informed in advance or if such EWT involves flaring of gas, requiring approval of the Authority, or such EWT is to exceed one month, approval of the Authority shall be obtained in advance. ~~Such approval shall be granted~~ The holder of the licence shall ~~provided that the operator *inter alia*~~complyies with the requisite royalty, tax, rentals of the discovery area and training and social welfare obligations as would be applicable under a lease.

(2) In the event a ~~A~~ request for approval of EWT is to be made under sub-rule (1), the request shall includeing associated temporary production facilities and shall be made to the Authority providing information with regard to,-

(a) technical justification for EWT;

(b) proposed duration for EWT; and

(c) a plan for disposal of natural gas during the proposed EWT period.

(3) If approval of the Authority is sought for EWT, it shall not be unreasonably withheld or delayed~~The duration of EWT shall be allowed keeping in view the reservoir uncertainty and the proposed investment outlay on EWT. The Authority shall not grant approval to undertake flaring of gas during EWT for a period longer than thirty days if the gas infrastructure is located within twenty-five kilometre radius of the discovery well, unless under exceptional circumstances~~.

(4) ~~During appraisal phase a holder of a licence may be allowed to produce petroleum based on EWT pricing terms and subject to the condition that the p~~Production during EWT and post declaration of commerciality would be considered as commercial production for the purpose of payment of production bonus, royalty and all other obligations as are applicable to lease. However, the first production bonus would be payable upon the earlier of commencement of commercial production subsequent to grant of lease or production reaching the first level that production bonus is payable on volume produced.

24 (1) & (2). EWT of a month or less and no flaring which requires DGPC approval, may be undertaken without DGPC approval.

24(3). First sentence seems unnecessarily detailed and second sentence is better covered by r.59(3). Hence all deleted and a more generalised provisions inserted.

24(4). EWT pricing terms are not for the Rules. Production bonus on the first tier should be payable at some point even if a lease is not granted, and suggestion here is that it would be payable along with the first tier of production bonus based on volume.
For future, wording may be inserted to clarify that the leniency on production bonus applies only if there is production bonus in the PCA (as that is a contractual matter).

24(5). Deleted as better to just have one rule dealing with standards and that is

~~(5) The facilities that are required to undertake EWT shall be constructed and operated in accordance with good international oilfield practices.~~	r.59.
25. **Retention of gas discovery.-** (1) In the case of a significant ~~natural~~ gas discovery in a licence in Zone I or Zone II as specified in Annexure I, the Authority may extend the ~~a retention~~ period of licence, to the extent of the discovery area, by up to five years ~~shall be considered~~, on a case to case basis, provided such discovery may be declared a commercial discovery when adequate gas pipeline transportation facilities are installed and gas markets have been sufficiently developed for sale of natural gas on a commercial basis. In case of a discovery of Low BTU Gas for which outlet is not readily available or gas infrastructure cannot be utilized, the Federal Government can consider extension in the afore mentioned retention period on a case to case basis.	25. It should be clear that the retention period is an extension of the licence. This was not clear by simply saying it was a "retention" period. The final sentence should also be altered in future, depending on any changes for Low BTU Gas.
(2) A discovery containing oil and gas or oil, gas and condensate is considered to be a gas discovery for the purposes of obtaining a retention period only when liquids production is not considered economic without marketing the gas stream.	26(1). DoC should not require approval and it should be possible to declare at any time.
26. **Declaration of commercial discovery.-** (1) Upon completion of its ~~the agreed appraisal,~~ evaluation ~~and commercialization work~~, the holder of a licence may submit a notice for declaration of commercial discovery to the Authority ~~for its approval~~along with a report in accordance with clause (d) of rule 55 and general plan for development.~~Subject to the approval of a commercial discovery~~ After issuing such a notice, the holder of the licence shall be entitled to apply for the grant of a lease in respect of discovery area in accordance with these rules.	Deletion of "agreed appraisal" is because it should be possible for DoC to be before the end of an agreed appraisal programme.
(2) The lease shall prevail over the licence within the area designated in the lease, but the licence continues to be valid outside such lease area without modifying the rights and obligations pursuant to the licence. In the event of a licence continuing to be valid beyond the term of a lease, or on any part of the area of a lease being reduced, the license shall automatically again extend over such lease area, provided such area or areas are contiguous with the remaining licence area and further provided that the total area of licence does not exceed the area provided in rule 19, less any reductions required under rule 22(4).	26(2). It may be (although unlikely) that a lease, or parts of a lease, could expire/be relinquished while a licence is continuing. In such an event, it should revert back to the licensee, provided the area is joined with the licence.
(3) Upon termination of the licence, a holder of a licence shall relinquish the licence area except the area covered by the lease or leases granted to him.	26(3). In future, the final word "him" may be replaced by "it", but no change is recommended now.
27. **Extension pending grant of lease.-** If a holder of a licence, before the expiry of the licence, has applied for a lease, the duration of the licence notwithstanding the provisions of sub-rule (7) of rule 22 shall be	27. For the future, add at the end *"but only in relation to the area for*

extended until the lease has been granted or refused.	*which the application for lease has been made"*, but no change is recommended now.
28. **Work programme and other obligations not fulfilled.-** (1) Where upon the surrender, revocation or the expiry of a licence, the obligations pursuant to rules 21,22 or 23 have not been fulfilled, holder of a licence shall-	
(a) pay to the Federal Government such sum by way of liquidated damages which correspond to the minimum expenditure of undischarged work obligations as set forth in the licence within a period of thirty days from the surrender, revocation or expiry of the licence; or	28(1)(b). Further clarity was required on transferring a work obligation.
(b) ~~request the Authority, to allow~~ transfer ~~of~~ undischarged work obligation committed under rules 21 and 22 to another area with the approval of the Authority if it is demonstrated to the satisfaction of the Authority that there is no drillable prospect in the licence area. ~~Such transfer shall be subject to such terms and conditions as may be specified by the Authority on case to case basis.~~ In the event that a petroleum right is held by more than one company, the undischarged work obligation shall be monetized, based on liquidated damages obligations and divided between the companies in accordance with their interests in the right. Any company not transferring a work obligation to an area of its choice shall pay its *pro rata* share of liquidated damages, without prejudice to rule 8.	28(2). For the future sub-rule (2) should be clarified but no recommendation to change now.
(2) Where a holder of a petroleum right has not fulfilled other obligations relating to social welfare, rent, data, training, etc., the guarantee(s) submitted by the holder of a petroleum right shall not be returned till the obligations are discharged first or the holder of a petroleum right of the remaining other obligations provides replacement guarantee equivalent to the value as determined by the Authority.	
(3) In case the liquidated damages payable pursuant to clause (a) of sub-rule (1) are not paid or the transfer of undischarged work obligation to any other area(s) pursuant to clause (b) thereof, is not approved, the Authority may, in addition to any other action or remedy including black listing of a holder of a licence, cancel a lease granted to the holder in respect of any area comprised within the area of the licence which has been surrendered, revoked or expired.	28(4). This sub-rule is to make it more specific to the issue which appears desired to be tackled
(4) Where a holder of a licence is ~~found to be~~ in default ~~or breach of the terms and conditions on which a petroleum right was granted or~~ of his work ~~or other~~ obligations and has paid liquidated damages as provided in sub-rule (1)(a) ~~remedied such default or breach to the satisfaction of the Authorityin accordance with sub-clause (a) of rule 72~~, the holder of the licence shall be deemed to have complied with such work obligation	

~~mitigated such default or breach~~ for the purpose of rules 21, 22 and 23.

29. **Rent.-** (1) A holder of a licence shall for each square kilometre or part thereof comprised in the licence area pay rent to the Federal Government at the following rates, namely:-

(a) in respect of initial term of five years of the licence under sub- rule (1) of rule 22,-

(i) three thousand five hundred rupees per square kilometre or part thereof for the whole term of five years; or

(ii) eight hundred rupees per square kilometre or part thereof in respect of each year of the initial term of five years of the licence; and

(b) in respect of each renewal or extension of the licence under sub-rule (2) or (6) of rule 22 or rules 23 or 25,-

~~five thousand rupees per square kilometre for part thereof for each renewal; or~~

~~(i)~~ two thousand seven hundred and fifty rupees for each year or pro rata in the case of part of a year~~of each renewal~~.

29(1)(b). As renewals are only for one year at a time this change is required.

(2) Notwithstanding any provision of a ~~The~~ licence, ~~may include a provision for annual adjustment of the~~ rent shall be adjusted as provided for in rule 75(2) and not by any adjustment clause in a licence, ~~due by reference to an appropriate index~~ so as to ensure that the rent retains its value in real terms.

(3) The rent shall be paid in advance of the period to which it relates.

29(2). It is recommended that all rents are harmonized, regardless of vintage of PCA. Obviously this could only apply if the Rule changes were opted for.

PART IV - LEASE FOR PETROLEUM DEVELOPMENT AND PRODUCTION

30. **Grant of development and production lease.-** (1) The Federal Government shall on being satisfied that a commercial discovery has been made and that the terms and conditions of a licence, including the work programme, have been duly observed and performed, or that a holder of the licence is in satisfactory progress with the work programme, and that the requirements of rule 36 have been duly complied with by the applicant, grant a lease in the form prescribed in Part III of the Second Schedule in respect of discovery area within the licence area granted to the applicant, including such other reasonable terms and conditions relating to ancillary and incidental matters as the Authority may determine.

30. This addition permits the Govt to introduce other terms which was deleted from r.15 and inserted in r.18 and this r.30 to be more specific to each.

(2) The Federal Government may grant a single lease covering more than one discovery area within the same licence area provided that such discovery areas are juxtaposed vertically in which case the lease shall be

30(2). It could be that one discovery area does not fall completely within the geographic boundaries of the other which is larger in extent. In that case the lease could only cover one

granted on the basis of the combined discovery area ~~which is larger in extent~~. (3) In the event that any part of a discovery area extends beyond the lease into an open acreage, the Federal Government may upon being satisfied that the discovery area extends into such open acreage and subject to such conditions as deemed necessary, readjust the subsisting boundaries of the lease so as to include such part of the open acreage on which the discovery area extends. 31. **Rights of lease holder.-** A holder of a lease shall have an exclusive right to perform activities in connection with the development and production of petroleum in the area covered by the lease, including the right to undertake transportation of petroleum, subject to approval pursuant to rule 37. 32. **Shape of discovery area.-** Each discovery area in respect of which a lease is granted shall be laid out in straight lines between well defined points as far as practically possible and must also be marked with permanent physical boundaries.	of the areas and some part of the discovery may be outside the lease boundaries. In order to capture the intention of the rule, a change has been suggested. 31.In the event approval is removed from r.37, approval required here may be removed.
33. **Survey expense.-** Before a lease is granted the applicant shall, if so required by the Authority, at his own expense cause a topographical survey of the land specified therein to be made to scale normally required for petroleum right purposes, and approved by the Survey of Pakistan, and submit six copies thereof to the Authority. 34. **Lease period.-** (1) A lease shall be for the period for which application has been made and supported by relevant technical and other information but shall not exceed twenty-five years. In the event the lease is initially granted for a period less than twenty-five years, the same may be extended from time to time, such that the total overall period of lease does not exceed 25 years, ~~for the remaining period~~ provided commercial production continues. (2) Upon application from a holder of a lease, the Authority may renew the lease for a period, not exceeding five years, if commercial production is continuing at the time of the application, subject to the following, namely:- (a) the request for a renewal along with revised development plan is submitted to the Authority not less than ~~three~~one year~~s~~ prior to expiry of initial term; and (b) the area has been producing on a regular commercial basis on the date of the request.	33. Govt to advise if a topographical map is always required and what would be Survey of Pakistan approval. 34(1). Making provision to extend a lease up to the initially permitted maximum. 34(2). To consider whether DGPC should be obliged to renew, should the certain conditions be satisfied. No change is currently proposed. 34(2)(a). The period needs to be less as production at the tail end of the life of the field may be hard to determine far in advance, especially for small fields. 34(2)(b). This would appear unnecessary as

35. **Further renewal or ~~R~~re-grant of lease after expiry of lease term.-**(1) Effective from the end ~~After the expiry~~ of a lease period, upon application from a holder of a lease, at least 90 days before the expiry of the lease term, the Authority may renew a ~~or re-grant, as the case may be, the~~lease for up to a further period of five years, provided at the time of application commercial production is continuing, an addendum to the development plan acceptable to the Authority is provided and the lease holder agrees, at leastone year prior to the expiry of the lease period, to pay~~,~~ 15% of wellhead value of petroleum producedto the Federal Government,after the effective date of such renewal. (2) If there is no such renewal, or following expiry of such a renewal, ~~agreement is not concluded~~ the Authority may invite bids from ~~prequalified~~companies for the re-grant of ~~a~~ the lease over the same, or substantially the same~~,~~ area as the expiring lease, for a term of ten years or such lesser period for which commercial production is expected to continue. The bids shall be evaluated on the basis of a development plan and signature bonus. The Authority may keep re-granting a lease, in a similar manner, as long as commercial production is continuing. (3) Each bidder shall provide a bid bond of ten per cent of the offered signature bonus at the time of bidding along with a development plan. (4~~2~~) The Authority shall be under no obligation to grant any extension.	mentioned earlier in sub-rule (2). 35. Heading is changed to make a distinction between the additional renewal and the re-grant. 35(1). For the future, the concept of paying 15% wellhead value should be examined by the Government in light of possible assertions that it is an additional royalty exceeding the limit in the 1948 Act (as amended in 1976) or is a tax and not properly levied. Or if it is a fee, is it tax deductible? How is it to be paid? No change is currently proposed.
36. **Development plan.-** (1) Together with the application for a lease shall be enclosed a development plan which shall contain such information as the Authority shall prescribe by way of procedures provided for in rule 79~~may reasonably deem necessary~~, including but not limited to the following, namely:- (a) proposals for the development and production of each discovery area including possible alternatives and proposals relating to the disposition of associated gas; (b) proposals relating to the spacing, drilling and completion of wells, the production and storage installations and transport and delivery facilities required for the petroleum production. Such proposal shall cover,- (i) the estimated number, size and production capacity of production facilitates and platforms, if any; (ii) estimated number of production wells; (iii) particulars of production equipment and storage	36(1). A framework for what is to go in to a Development Plan should be given as it will make the preparation easier for companies and review-process easier for the DGPC.

facilities; (iv) particulars of feasible alternatives for the transportation of petroleum including pipelines; and (v) particulars of equipment required for the operations; (c) the production and sales profiles for crude oil, condensate and natural gas and other products for the life of the field; (d) investment plans including cost estimates of capital and operating expenditure; (e) profitability estimates; (f) proposals related to the establishment of processing facilities and processing of petroleum in Pakistan; (g) safety measures to be adopted in the course of development and production operations including measures to deal with emergencies and protection of environment; (h) a description of the organization in Pakistan, pursuant to these rules; (i) contingency and abandonment plans; and (j) time schedule of all activities covered in the development plan clearly specifying the critical milestones proposed and measures to achieve such milestones. (2) The plan shall require the approval of the Authority. Such approval shall not be unreasonably delayed provided the requisite information has been provided to the Authority. (3) After approval of the plan, a holder of a lease shall carry out development and production in accordance with the plan, subject to such modifications as may be necessary and are approved by the Authority from time to time. 37. **Transportation of petroleum.-** (1) Subject to approval in accordance with this rule, a holder of a petroleum right has the right to lift and transport petroleum from the licence and lease area, either through transportation facilities owned wholly or partly by himself or through access to transportation facilities owned by a third party and such approval shall not be unreasonably withheld or delayed.	36(1)(c). Recommended that sales profiles also be provided.

(2) In case the holder of a petroleum right intends to construct its own transportation system for which tariff will be claimed, it shall submit to the regulator concerned, an application comprising the proposed organization and implementation of the transportation system. In case of pipeline transportation, the application shall also comprise the design, construction and route plans and any other information as required by the concerned regulator under the relevant laws.	
(3) The ~~Authority~~ regulator concerned may, on giving its approval, stipulate in accordance with the applicable policy such conditions as are reasonable and necessary to secure a rational system of transportation of petroleum and it may-	37(3). The entity to give approval for transport etc may not be the DGPC, hence the change here.
(a) require that several holders of petroleum right install jointly owned transportation facilities; and	
(b) grant to any third party access to transportation capacity at tariffs to be approved ~~by the Authority~~.	
38. **Royalty.-** (1) Royalty on petroleum produced and saved shall be payable at the rate of twelve and a half per cent of the wellhead value unless a higher rate for royalty is provided for in the relevant PCA between a holder of a petroleum right and the Federal Government.	38(2). Proposed change is to clarify that royalty is paid to the Fed Govt and that the companies' primary interaction will be with the Fed Govt. In future this clause should be revised more comprehensively.
(2) The royalty received by the Federal Government will be paid in cash or kind by the Federal Government to Provinces to the extent of their share of liquid and gaseous hydrocarbons (such as LPG, NGL, ~~S~~solvent oil, gasoline and others) as well as all substances including sulphur, produced in association with such hydrocarbon. The option to choose between 'cash' or 'kind' will rest with the Province however when the option of "kind" is to be exercised, the respective Province will consult with the Federal Government and the Federal Government shall inform the holder of the petroleum right. In case of royalty in kind, the holder of a petroleum right shall, at the request of the Federal Government and at allowed transportation cost, make arrangement for transportation of the royalty petroleum downstream of the field gate in the same manner as if it was its own petroleum.~~The lease rent paid during the year shall not be deductible from the royalty payment.~~	38(2). Final sentence moved further down as better placed there.
(3) Royalty shall be payable to the Federal Government on a monthly basis within a period not exceeding forty five days of the end of the month of production in question which if delayed beyond this stipulated period would attract fine at the rate of the London Inter Bank Offer Rate (LIBOR) plus two per cent as may be determined by the Authority. In the event royalty obligation remain un-discharged for two consecutive months following expiry of the month of production in question to which the payment of royalty relates, the Authority may take such action as it may	

deem appropriate in accordance with these rules, including but not limited to the exercise of powers of revocation pursuant to sub- rule (e) of rule 72. (4) The Federal Government or, if appropriate, the Provincial Government, shall lift or take royalty petroleum in a timely manner and in accordance with such lifting or sales agreement as may be mutually agreed with the holder of a lease. (5) A holder of a lease or licence shall be permitted to use petroleum produced from the lease or licence area for drilling, production, maintenance and processing of petroleum obtained from the said lease or licence free of cost, royalty and excise duty, provided that the holder of the lease or licence shall not be entitled to include any notional costs in claiming his business expenses for income tax purposes. (6) From the amount of royalties payable in respect of any one year of the term of a lease or licence, there shall be no deduction of any expenditure except allowed transportation cost. The rent paid during the year shall not be deductible from royalty payment. (7) The Federal Government may from time to time issue guidelines which shall *inter alia* cover procedure for administration and payment of royalty due from a holder of a licence or a lease. (8) Notwithstanding anything to the contrary contained in this rule, the election to take the royalty on natural gas in cash or kind shall be exercised only once within ninety days of the approval of development plan by the Authority and may not be exercised for production from a licence. 39. **Value of petroleum.-** For the purpose of calculating the amount due by way of royalty, the value of the petroleum produced and saved shall be determined at the delivery point by using actual selling price in the following manner, namely:- (a) If the petroleum is sold to the national market pursuant to rule 43, the actual selling price means the price determined in accordance with the relevant sale and purchase agreement between a holder of a petroleum right and the Federal Government or its designee less allowed transportation cost; and (b) In all other cases, the actual selling price means the greater of- (i) the price at which the petroleum is sold or otherwise disposed of less allowed transportation costs; or	38(5), (6). As royalty could be payable on EWT production, similar provisions on royalty management should apply during the licence phase. 38(8). It is recommended that royalty in kind should not be allowed prior to commercial production. 39(b)(iii). Deleted because royalty should only be paid on what is received, unless the fair market price is higher. If sub-rule (iii) remained it is conceivable that royalty could be paid on a price higher than

(ii) the fair market price received through arm's length sales of the petroleum less the allowed transportation costs.~~; or~~ ~~(iii) the price applicable to the sales made under clause (a).~~	that received or the fair market price.
40. **Royalty administration.-** (1) If there are two or more than two companies as holder of a lease or licence, they shall designate the operator to remit royalty on their behalf unless prior approval has been obtained from the Authority to remit royalty themselves. (2) Royalty shall be remitted with the supporting forms prescribed by the Authority with documents and information required.	40. Added reference to licensee as royalty could be payable on EWT.
(3) If the Authority determines that petroleum was avoidably lost or wasted, including consumed by the holder of a right for purposes not covered by rule 38(5), then royalty shall be payable on such lost or wasted petroleum in accordance with the direction issued by the Authority	40(3). Added the few words for clarity.
(4) If a holder of a lease or licence receives insurance compensation for unavoidably lost or wasted petroleum, royalty is due on the amount of the compensation in accordance with the direction issued by the Authority. (5) Ten percent of royalty will be utilised by the Provincial Government for infrastructure development in the district where petroleum is produced. (6) If a discovery area falls within the territorial jurisdiction of more than one Provincial Government, then the apportionment of royalty between such Provincial Governments shall be determined on the basis of the reserve potential of that discovery area with respect to each such Province. The Authority, upon being notified of such a discovery area, shall within thirty days appoint an independent third-party consultant of international repute to determine the reserve potential of each such Province with respect to the discovery area. The independent third-party consultant shall finalize its determination within thirty days of the appointment, such determination being final and binding on the Federal Government and Provincial Government. For the avoidance of doubt, the foregoing situation, including any determination, shall not prejudice the rights of the petroleum right holder in respect of the discovery area nor disrupt or impair any operations being carried out by the petroleum right holder in the area. 41. **Yearly lease rents.-** (1) A holder of a lease shall pay to the Federal Government annually in advance, rent at the rate of seven thousand five hundred rupees per square kilometer or part thereof covering the lease area during the initial period and rent at the rate of ~~Rupees~~ ten thousand rupees~~]~~ per square kilometre or part thereof	

covering the lease area during the renewal period of a lease and further lease term extension. (2) Notwithstanding any provision of a ~~A~~ lease, ~~may include provision for annual adjustment of the~~ rent shall be adjusted as provided for in rule 75(2) and not by any adjustment clause in a lease, ~~due by reference to an appropriate index~~ so as to ensure that the rent retains its value in real terms. 42. **Surface rent.-** A holder of a lease shall pay for all land which he may use or occupy for the purposes of the operations conducted under the lease, a surface rent at the rate assessable under the revenue and rent law in the district in which the land is situated and water rates, if any, ordinarily assessable under any relevant rules if the land has not been occupied for the winning of petroleum. 43. **National market deliveries.-** (1) The Federal Government may decide that a holder of a petroleum right shall deliver petroleum from his production to cover the requirements of the national market for petroleum. The national market for petroleum shall for this purpose means the total market requirements, less petroleum produced by or otherwise available to the Federal Government from indigenous sources. The holder of a lease shall deliver the petroleum at such place or places in Pakistan in accordance with terms and conditions of applicable agreement between the Federal Government and the holder of a lease at the Federal Government's cost unless otherwise provided in the PCA and subject to sub-rule (3). (2) Sub-rule (1) shall apply to all holders of the lease producing petroleum as far as practicable, *pro rata* to their production. Each holder's obligation may be fulfilled directly or by means of swap arrangements approved by the Federal Government. (3) The Federal Government may also decide that the holder of a lease shall arrange and pay for adequate transportation of crude oil, condensate and natural gas liquid which it has thus ordered to be delivered up to the distance to the nearest operating refinery in Pakistan. (4) The price to be paid for petroleum to be delivered pursuant to this rule shall be such price as may from time to time be determined in accordance with terms and conditions of applicable agreement between the Federal Government and the holder of a lease. 44. **Petroleum measurement.-** (1) A holder of a petroleum right shall measure or weigh all petroleum produced and saved from the licence or lease area by a method or methods customarily used in good international oilfield practices and approved by the Authority. The Authority, from time to time and as and when deemed necessary, may issue guidelines for	42. In future the basis for surface rent determination may be re-examined based on prevailing practices. No change recommended now.

installation, maintenance, inspection and other matters related to measurement of petroleum as per good international oilfield practices.

(2) The Authority, or any officer authorized by it, shall, at all times during the term of the licence or a lease or any renewal thereof, be entitled to inspect the measuring or weighing equipment and to be present whenever such a measurement or weighing takes place.

(3) A holder of a petroleum right shall install, operate and maintain all measuring and weighing equipment ensuring that such equipment records an accurate measurements as per good international oilfield practices and remains in good working condition at all times. If any such equipment shall at any time be found not to be accurate, the same shall, if the Authority, so determines after considering any representations in writing made by the holder, be deemed to have existed in that condition during the period of three months prior to the discovery thereof or the period elapsed since the last occasion upon which the same was examined or tested, whichever shall be the less. This restriction on time period shall not be applicable if the inaccuracy so discovered is found to be result of the holder's willful tampering or negligence in which case appropriate adjustment in royalties and imposition of fine shall be made as determined by the Authority. The royalties payable in respect of such period shall be adjusted accordingly.

(4) A holder of a petroleum right shall not make any alteration in the method or methods of measurement or weighing used by him or any equipment used for that purpose. The Authority, may require that no alteration shall be made save in the presence of an officer authorized by him.

45. **Revocation of lease**.- (1) The lease may be revoked if regular commercial production has not commenced within five years from the grant of the lease. The lease may also be revoked if production has terminated for more than ninety days without prior written approval of the Federal Government unless this is due to force majeure or any other reason beyond the control of a holder of a lease and acceptable to the Federal Government.

(2) In the event, a holder of a lease is found to have contravened sub-rule (1) the Federal Government may issue a ninety days notice requiring the holder of a lease to remedy the breach within the notice period failing which the Federal Government may impose a fine or revoke the lease, or both, unless a plausible justification is provided by the holder of a lease and accepted by the Authority.

PART V- ACCOUNTS, RECORDS, INSPECTION AND REPORTS

46. **Records and accounts.-** (1) A holder of a petroleum right shall maintain full and accurate records of accounts.

(2) Original copies of all records shall be kept in Pakistan unless otherwise approved by the Authority.

(3) A holder of petroleum right shall immediately comply with the demand of the Authority to submit the certified copy of any record.

47. **Period of record-keeping.-** (1) Subject to sub-rule (2), the records shall be kept and maintained for a period of six years following the end of the calendar year to which the information contained in the record relates or for a longer period as may be determined by the Authority. In case of any particular record, upon application by a holder of petroleum right, the Authority may consent in writing to the destruction of record before the end of the six years period or such other period as is required under the applicable laws as the case may be.

(2) If based on reasonable grounds, the Authority is of the opinion that it is necessary for the administration of any rules, to retain record for a longer period, it may direct the concerned holder of the petroleum right to do so specifying the reasons thereof.

48. **Well records.-** (1) Notwithstanding the generality of rule 47, a holder of a petroleum right shall always keep full and accurate record of the drilling, deepening, plugging, completion, re-completion, sidetracking, testing or abandonment of all wells containing particulars of the following matters with respect to each well namely:-

(a) the strata and sub-soil through which the well was drilled;

(b) the casing used in any well and any alteration to such casings;

(c) any petroleum and other reservoir fluids, or minerals encountered; and

(d) such other matters as the Authority may, from time to time, require.

(2) If required by the Authority, a holder of petroleum right shall deliver additional record to the Authority as and when these become available.

49. **Production records.-** A holder of a petroleum right shall always keep full and correct record of production which shall contain accurate entries of:-

(i) the gross quantity and quality of petroleum won and saved; (ii) the method and results of tests conducted; (iii) the quantity and quality of petroleum delivered in Pakistan and exported; (iv) the quantity and quality of petroleum used for re-injection, pressure maintenance, venting, flaring, drilling or other operational purposes; (v) the quantity and quality of petroleum sold, the name of the purchaser and the price at which it has been sold supported by necessary documents; (vi) the quantity and quality of natural gas treated and processed for the removal of impurities and inerts and natural gas liquids and liquefied petroleum gases and the quantity and quality of any liquids, gases or any solids obtained from it; and (vii) such further particulars as the Authority may from time to time, require.	
50. **Data to be property of the Federal Government.-** (1) All data including but not limited to well~~s~~ logs, maps, magnetic tapes, cores, samples and any other geological and geo-physical information obtained by a holder of a petroleum right as a result of his activities in a permit, licence or lease shall be the property of the Federal Government subject to the right of the holder to use such data for the purposes of the petroleum right. The holder of petroleum right shall submit all of the aforesaid data and information to the Authority as soon as it has become available. The holder of petroleum right may, during the subsistence of a permit, licence or lease, after prior intimation to the Authority , disclose all or any part of the aforesaid data to a third party, provided that before disclosure of the data, such party executes an appropriate confidentiality agreement drawn up in accordance with the good international oilfield practices. (2) All processed geo-physical and geological information referred to in this rule shall be submitted to the Authority on transparent, dimensionally stable material as well as in the digital format, as may be notified by the Authority from time to time. The Authority may disclose ~~certain~~ any data except seismic and drilling data to ~~the~~ a Provincial Government. (3) Information and data as mentioned in this rule shall be kept confidential by the Federal Government, Provincial Government and Authority for a period of three years from the date the data is acquired by the holder of petroleum right with the following exceptions namely:-	50(1). For the future, use of the word "his" in the Rules may be checked and as appropriate replaced by "its".

(a) information disclosed to other Pakistani authorities, or financial institutions or consultants of the Federal Government, Provincial Government and Authority who will be bound to keep the same confidential;

(b) information required for general statistical purposes;

(c) upon the earlier termination of a permit, licence or lease, or upon the date of relinquishment of the area to which the information relates; and

(d) all raw geo-physical, geological and well data including well logs may be disclosed by the Authority or the Federal Government to any interested party after two years of the activity to which such data relates. This however is not applicable to the data generated under multi-client arrangements.

(4) Notwithstanding anything contained in these rules, the data in the possession of the Federal Government or Authority in respect of a surrendered or relinquished area of a permit, licence or lease may be released by the same to a holder of petroleum right or to an organization engaged in petroleum exploration, production and research, on the ~~actual~~ reproduction ~~and other~~ costs of the data and on such terms and conditions as it may determine.

(5) Except as provided under these rules, a holder of petroleum right shall not disclose or cause to disclose any data except to a person who is ~~not~~ legally entitled to obtain, or where the holder is legally obliged to disclose, that data.

(6) Any other person who is permitted to receive the data shall hold the same subject to the same restrictions as are contained in sub-rule (3).

51. **Power to inspect plants, records and accounts etc.-** (1) The Authority or any authorized officer, may, at any reasonable time, after notice in writing, enter any place where any activities or business is carried out by a holder of petroleum right under these rules, for the purpose of auditing or inspection or examination of *inter alia* wells, record, plants, appliances, buildings, or any other works.

(2) A holder of petroleum right shall, for the purpose of an audit, or inspection or examination by the Authority of any of the records described in these rules, ~~shall~~

(a) provide access and all reasonable assistance to the Authority or the authorized officer to conduct the audit or inspection or

51(2). Looking to reduce the extent of the DGPC's power to inspect or examine to only those records described in these Rules.

examination without any hindrance; and

(b) promptly provide or make available the certified copies of records as required by the Authority or the authorized officer to perform inspection under these rules.

52. **Annual reports.-** (1) A holder of a petroleum right shall each year submit to the Authority annual reports containing the following particulars, namely;-

(a) a financial statement with an abstract of the accounts, prepared in accordance with accounting principles generally accepted in the petroleum industry and audited by a recognized firm of chartered accountants approved by the Authority;

(b) a description of all exploration, development, production and other work carried out by the holder during the year relating to the permit or licence or lease area;

(c) estimates of in place and recoverable reserves of petroleum at the end of each year classified on the basis of good international oilfield practices as per standard format notified by the Authority. If so desired by the Authority, the holder of petroleum rights shall be required to carry out reserves certification from an independent source ~~as approved by the Authority~~; and

(d) estimates of petroleum production and exports for each quarter of the next year.

(2) The report referred to in clause (a) of sub-rule (1) shall be submitted within six months and the other reports within forty-five days after the end of year to which they relate.

53. ~~**Monthly**~~ **Quarterly reports.-**Within ten days after the end of each quarter~~month~~, each holder of a petroleum right shall prepare and submit a ~~monthly~~ progress report to the Authority which shall contain a narrative report of activities with plans and maps showing the places where work was done. Such report shall also contain;-

(a) a summary of all geological and geo-physical work carried out;

(b) a summary of all drilling activity and results obtained;

(c) a list of maps, reports and other geological and geo-physical data prepared or acquired in connection with the activities; and

52 and 53. The necessity for the various reports, including annual and monthly reports, may be revisited by the DGPC. However, no change is proposed at this time, except perhaps to sub-rule 52(1)(c) and to 53 to make "Monthly" reports "Quarterly".

53. Rationale is to reduce the frequency by which all reports are given. Additional reports overburden contractor and unnecessarily have to be review and stored at the DGPC.

(d) a statement of expenditure incurred by the holder of petroleum right during the month on a format as may be prescribed by the Authority, from time to time.

54. **Daily reports.-**During drilling of a well, a holder of a petroleum right~~s~~ shall provide copies of the daily well reports on a prescribed format to the Authority.

55. **Occasional reports.-** A holder of a petroleum right shall submit to the Authority the following occasional reports~~,~~ namely:-

(a) within twenty-four hours, by email ~~telex~~ or fax with hand copy delivered within next twenty-four hours, if a well shows the presence of petroleum in significant measure or if a drill stem or any other test has been carried out on a well which produces petroleum;

(b) within seven days after the report under clause (a), a written report containing relevant geological information and chemical analysis in the case of a showing of the presence of petroleum, and in the case of a drill stem or any other test containing the following additional information, namely;-

(i) conditions and results of the drill stem or any other test, including but not limited to flow rates, flow periods, tested intervals, pressures, choke sizes, hole condition and stimulation measure;

(ii) physical analyses; and

(iii) any deductions there from as to the potential of the reservoir;

(c) within one month after the completion or abandonment of drilling operations, a comprehensive well completion report, which shall contain *inter alia* the lithological groups, stratigraphic boundaries, hydrocarbon zones, a copy of all well logs and tests and other relevant information including costs, provided that such information which cannot be obtained within this period shall be submitted as soon as possible;

(d) at the latest upon the issue of a commercial discovery notice, a report which shall substantiate such notice and contains,-

(i) all relevant geological information, including estimates of recoverable reserves and daily production;

54. DGPC to consider if reports need to be daily or if weekly would suffice (if required at all).

55(a). It is suggested to bring the Rules into the 21st century and dispense with telex and permit email.

(ii) a general plan for the development of the deposit, including possible alternatives, with a description of the main production and transportation installations envisaged, and the relevant cost estimates; and

(iii) calculations of the profitability estimates of the discovery;

(e) within forty-five days after the relinquishment or surrender of any part of the permit or licence or lease area, such maps, plans, reports, records interpretations, and data made or obtained by or for the holder of petroleum right relating to exploration, development, production abandoned, restriction of site and any other operations in the relinquished, surrendered or retained areas;

(f) report to the Authority about the particulars of any ~~fresh~~ material issues of capital which may be made by the holder of petroleum rights, or its parent company or any other company having a controlling share interest in it, from time to time and any alteration which may be made in the memorandum and articles of association or in the constitution of its parent company. Any fresh issues of capital shall at times be subject to clause (d) of rule 72; and

(g) such other plans and information as to the progress and results of the its operations as the Authority may require from time to time.

56. **General.-**The reports referred to in this Part shall be made in such form and manner as the Authority may determine.

57. **Reports of discovery.-** (1) No announcement or statement, direct or indirect, about a discovery of petroleum shall be made, except by the Authority in consultation with a holder of petroleum rights, or by a holder where required by the law, or otherwise with the consent of the Authority.

57(1). Purpose of this change to allow for announcements which a holder may be legally obliged to make.

(2) No statement shall be made by or with the consent of a holder of petroleum rights, claiming or suggesting, whether express or by implication, that any Government or any person or body acting on behalf of the Federal Government, Provincial Government and Authority has or have formed or expressed an opinion that the licence or lease area is likely to contain petroleum.

PART VI – STANDARD OF OPERATIONS

58. **Avoidance of harmful methods of working.-** (1) A holder of petroleum right shall undertake and execute all operations in a proper,

prudent and diligent manner, in accordance with good international oilfield practices and shall not unreasonably obstruct or interfere with other activities such as navigation, fisheries and agriculture. All reasonable precautions shall be taken to prevent pollution or damage to the environment and surroundings. (2) Without prejudice to the generality of the foregoing provision, a holder of petroleum right shall take all steps including, but not limited to the following, namely:- (a) prevent the escape or waste of petroleum discovered in the area; (b) to conserve the area for operations; (c) to prevent damage to adjoining petroleum bearing strata; (d) to prevent the entrance of water through wells to petroleum bearing strata, except when approved by the Authority for the purposes of secondary recovery; and (e) to prevent the escape of petroleum into any waters in or in the vicinity of the said area. (3) The Federal Government may establish safety zones around temporary and permanent installations as per good international oilfield practices. (4) The Federal Government may, from time to time, determine and notify the standards applicable to the operations under these rules in accordance with good international oilfield practices. 59. **Principles of sound operations.-** (1) All petroleum operations and activities shall be conducted diligently and in accordance with good international oilfield practices. The rate of production from each reservoir shall be the maximum efficient rate needed to achieve the maximum ultimate economic recovery of petroleum from various petroleum reservoirs unless otherwise approved by the Authority. (2) The Authority may specify measures at the time of approval of development plan that a holder of petroleum right shall take to conserve petroleum resource of Pakistan. These measures shall include, but not be limited to, notification of depletion policy, rate and flow of petroleum from the fields and the measures to achieve maximum ultimate economic recovery of petroleum from different reservoirs. (3) A holder of petroleum right shall not flare or vent any natural gas without the prior approval of the Federal Government in writing under these rules.	
60. **Commencement, testing and abandonment of drilling**	60. Changes made to

operations.- (1) A holder of a petroleum right shall not commence drilling, re-entry, sidetracking, hydraulic fracturing ~~testing and related operations~~or abandonment of any well without first having obtained the approval of the Authority in writing. (2) A holder of a petroleum right ~~and it~~ shall,- (a) as soon as possible make known to the Authority the proposal for testing a well; (b) test all potentially productive horizons indicated by wire-line recording ~~as may be finalized in consultation with the Authority~~; and (c) promptly undertake the technical evaluation of the well testing results and of all other relevant data and submit the same as soon as possible to the Authority. (3) For the purposes of sub-rule (1), approval of the Authority shall be deemed to have been given at the end of the notice period provided in sub-rule (4) unless within such period the Authority gives reasons why the operation applied for should be varied or stopped. Any approval given or deemed given under this rule shall be without prejudice to any other obligation of the holder of a petroleum right. (4) For the purposes of sub-rule (3), the "notice period" shall be (a) 14 days from the delivery of a request for approval, save for an exploration well, (b) for the drilling of an exploration well, it shall be 7 days after a reminder request which may not be delivered to the Authority in less than 14 days of the original request being delivered or (c) for an on-going operation, two working days from the request being delivered; provided in each case that if the holder of the petroleum right has failed to provide the required technical information for such operation in the standard format, any of the aforesaid periods shall commence from the provision of the required information. (5) After the completion of all operations, the well shall be safely plugged and the same shall be reported to the Authority within seven days of the well being plugged. (6) ~~and the d~~Drilling operations shall be conducted in accordance with good international oilfield practices. 61. **Shape of relinquished areas.-** Areas which are relinquished or surrendered shall be of sufficient size and shape so as to enable petroleum operations to be carried out therein. **PART VII - MISCELLANEOUS**	reduce the necessity of involving the DGPC in what ought to be operational matters and not regulatory matters.

62. **Use of Pakistani goods and services.-** (1) In all activities carried out pursuant to these rules, a holder of petroleum right shall ensure the use of qualified Pakistani goods and services referred to in sub-rule (2), to the extent that such goods and services are competitive with regard to price, quality, quantity and delivery schedule. ~~(2) Local producers who are qualified under the relevant Customs General Order (CGO) of supplying goods and services of type demanded shall be included in invitations to tenders.~~	62(2). This sub-rule is a repetition of sub-rule (1).
63. **Employment and training of Pakistani personnel.-** (1) A holder of petroleum right shall give preference to the nationals of Pakistan for employment in its organization at all levels and in all branches including technical, financial, commercial, legal and administrative units and to arrange for the training in Pakistan and abroad, of nationals of Pakistan to fill in the aforesaid positions. The number of Pakistani personnel to be employed and ~~or~~ trained shall be submitted to ~~determined in consultation with~~ the Authority in accordance with the guidelines that may be issued by the Authority from time to time. The operator and its contractor shall ensure the employment of unskilled workers amongst the locals of the area in which the exploration and production activities are in progress to the extent of at least fifty percent of their total strength of unskilled workers. The application for grant of a licence or a renewal or extension thereof and the development plan submitted with the application for grant of lease shall contain a description of the measures proposed to be taken by the applicant during exploration, appraisal, development and production phases so as to ensure compliance with this rule. (2) The Federal Government may require that a holder of petroleum rights shall provide training for ~~Federal Government and Provincial~~ Government personnel in order to develop the capability of such personnel to efficiently perform their duties related to the supervision of petroleum industry. Such training shall cover both technical and management disciplines including geology, geo-physics, engineering, project management, accounting, commercial, legal and shall also be in the form of on-the-job training and participation in in-house seminars.	63. It should be a requirement that the operator favour Pakistani employmt/training, and there should be no guidelines beyond that, except to set out how the report should be structured.
64. **Joint exploration and development.-** (1) If a petroleum deposit extends across more than one licence or lease area held by different holders of petroleum right, then such holders shall endeavor to agree to explore and exploit the deposit jointly in the most efficient manner. (2) The holders of the different petroleum rights shall endeavour to expeditiously agree a~~j~~joint exploration and development plan~~s~~ or, where one or more of the deposits have~~s~~ already been developed, a joint unitization plan, ~~together with agreement between them~~which shall be submitted expeditiously to the Authority for approval. (3) If ~~the~~ agreement on a joint exploration and development or	64. This rule has been revised in an effort to make it more robust in the eventuality of fields of different owners being in communication.

unitization plan as referred to in sub-rules (1) and (2), is not reached ~~at~~ within a reasonable period of time the Authority shall, on the request of ~~,~~ any of the involved holders of petroleum rights, or may itself~~the Federal Government may, in the public interest~~, by notice in writing to all concerned parties, direct that they ~~to~~ finalize and submit for approval of the Authority relevant plan within the period stipulated in the notice, which shall not exceed three months.

(4) In the event such plan is not submitted to the Authority within the stipulated period or such plan has not been approved by the Authority, either holder may request the Authority to ~~may~~ appoint an independent consultant to prepare such plan, or, if appropriate, decide first if a deposit does extend from the area of one right holder into that of another, which the Authority shall do without delay.

~~(4)~~(5) The cost of such consultant shall be at the joint cost of ~~a~~ the holders of the relevant petroleum rights to be paid as directed by the Authority. If a holder does not contribute, the cost shall be wholly borne by the other such holder. In such an event, if the reservoir does extend into areas held by the respective holder, the holder which did not contribute shall reimburse the other the whole cost of the consultant thus appointed.

~~(5)~~(6) The consultant shall be required to complete the plan within three months of receipt of the data and other information, with any extensions considered reasonable by the Authority which in any instance shall not exceed a cumulative period of six months. Both parties shall make available all data reasonably requested by the consultant which shall be obliged to enter into a confidentiality agreement. If a party fails to make such data available in a timely manner, the Authority shall direct such a party or parties to comply with this request, failing which such party shall be in breach of a material term and shall be subject to rule 72(a).

(7) The plan so prepared by the consultant shall be considered ~~and approved~~ by the Authority and the respective parties, each of whom shall have one month to make written submissions to the consultant. Thereafter, the plan shall be finalized by the consultant and accepted by the Authority and parties. ~~with appropriate changes for implementation as per approved schedule.~~ In the event of a manifest error, ~~T~~the Authority may, unilaterally or on the request of an affected party, impose ~~stipulate~~ such additional conditions as may reasonably be considered appropriate ~~in the interest of such plan~~. The final plan shall be binding on the concerned parties.

~~(6)~~(8) In the event the reservoir does extend into areas held by the different holders of petroleum rights, the respective reserves determinations shall be effective from the date when there was commercial production or EWT production from more than one such area and

consultant shall make recommendations for necessary adjustments on this account in the plan. (9) (a) The reference to "consultant" in rules 64(4), 65(2), 66(2) and 71(3), shall be to such third party appointed by competitive bidding from three consultants chosen by the Authority from the list of consultants, provided for in sub-rule (9)(b). (b) The said "list of consultants" shall comprise of six pre-qualified consultants maintained by the Authority. Each such consultant shall be independent and of an international caliber/repute. The list shall be readily available to any holder of a petroleum right, at any time, on request, which may make observations on any party contained in the list or recommend others for inclusion. Based on such observations and after giving other holders of petroleum rights an opportunity to comment, the list may be changed by the Authority from time to time. (c) In relation to any bidding process, the involved petroleum right holders shall be given an opportunity of providing input on the bid documents, including terms of reference, evaluation criteria, in any communication relating to the bids and the parties shall have the right to be present at the bid opening.	

65. **Petroleum exploration within lease area.-** (1) A holder of a lease shall have a preferential right to perform petroleum exploration activities on all horizons underlying the surface area of a lease above or below the sub-surface boundary of the lease ~~area granted to it~~ provided that, if the Authority receives a *bona fide* offer from a third party to undertake exploration within ~~such~~ the surface area of a lease ~~area~~(excluding the sub-surface boundaries of the lease), the lease- holder shall be given the opportunity ~~have to decide whether or not~~ to match such offer within six months of receiving a notice to this effect from the Authority.	65(1). To clarify that the exploration would be below the surface area and not below the lease granted (which would be horizon-specific).
(2) In case a holder of the lease decides not to match the offer and undertake exploration pursuant to sub-rule (1) and a third party is granted petroleum exploration rights over any of ~~or all~~ the horizons underlying the surface area of a lease ~~area~~ (excluding the sub-surface boundaries of the lease), then such third party and the existing holder of the lease shall within ninety days enter into an agreement setting forth the detailed terms and conditions of operating within the surface area of a lease ~~area~~ so that the activities can be coordinated in a just and equitable manner which does not prejudice the interests of the existing holder. In case such an agreement is not reached ~~at~~ between the respective holders ~~parties~~ within the specified time or such agreement has not been approved by the Authority, the Authority may appoint a~~nindependent~~ consultant to prepare ~~such~~ a~~nagreement~~ plan, at the joint and equal cost of the parties which will be binding on the holder and the third party and ~~holders of petroleum right.~~ rules 64(6), (7) and (9) shall apply *mutatis mutandis.* The plan so prepared by the consultant shall ~~be~~ enable activities to be coordinated in a just and equitable manner, without adversely affecting the interests of the existing lease holder. ~~considered and approved by the Authority with appropriate changes for implementation as per approved schedule. The Authority may, impose such additional conditions as may be reasonably considered appropriate in the interest of such an agreement.~~	(2) Further provisions in the event agreement is not reached.
(3) A licence granted over all or part of area within a lease shall, notwithstanding the terms and conditions of the licence, be deemed to be effective upon the parties concluding the agreement, or the conclusion of the plan, referred to in sub rule (2). If no agreement is reached or plan finalized within one year of the grant of such licence, at any time thereafter either the holder of the licence or the Federal Government may terminate the same without any liability or obligation.	65(3). There ought to be clarity that a licence cannot be effective until an agreement is reached or plan imposed as otherwise it could interfere with an existing lease holder.
(4) For the purpose of petroleum exploration within a lease area, the provisions of rules 23, 24, 25, 26, 30 and 36 shall *mutatis mutandis* apply provided that where an existing lease holder makes a new commercial discovery, on such leaseholder's request the provisions of rule 30 shall not be applicable and the existing lease shall be amended so as to bring the discovery area of such commercial discovery under the purview of the	

lease.

~~(4)~~(5) In case any discovery area covered under a lease appears to extend~~s~~ beyond the geographical limits of the lease area, the Authority may, upon request, allow a holder of the lease to undertake appraisal of such discovery area beyond the limits of the lease in an open area and revise the co-ordinates of the lease area if justified by the results of the appraisal pursuant to rule 23.

66. **Exploration and use of facilities by third party.-** (1) The Federal Government may allow a third party to undertake exploration in the area of a licence or ~~holder of a~~ lease as may be necessary to obtain sufficient knowledge as to the geological conditions in areas surrounding the area of such holder. The said exploration activities must not unreasonably interfere with the activities of such holder. After consultation with concerned parties, the Federal Government shall determine the manner in which such exploration is to be carried out including the determination of the type and duration of exploration in the area.

(2) The Authority may also decide that production, processing and transportation facilities owned by a holder of a lease shall be available for utilization by any other party~~ies~~ (in this sub-rule (2) referred to as "user"), if this is deemed to be desirable for the purpose of efficient operations, or if required in the public interest. Such utilization must not unreasonably interfere with the activities of the holder of the lease. The user shall pay compensation for such utilization as may be mutually agreed by the holder and the user ~~and approved by the Authority~~. If the holder of the lease and the ~~nominated~~ user fail to reach an agreement ~~on compensation~~ within hundred and eighty days~~or if the Authority does not approve the agreed compensation~~, the Authority may appoint a~~n~~ ~~independent~~ consultant to determine such compensation and other terms by way of a plan, at the cost of the user. ~~concerned parties. The compensation so determined by the consultant will be considered and approved by the Authority. The Authority may, impose such additional conditions as may be reasonably considered appropriate in the interest of such joint utilization plan.~~ Rules 64(6), (7) and (9) shall apply *mutatis mutandis*, and provided always that the consultant shall comply with any reasonable guidelines which the Authority may issue from time to time in this regard.

(3) Any well which has been abandoned may be used by any party, with the approval of the Federal Government, for any use, including use for geo thermal energy, provided if the well or wells are in the area of a petroleum right, the approval of the petroleum right holder must also be obtained.

67. **General right of holder of the lease to enter upon land.-** Subject to any required approval of the Federal Government and of any other authority which may be involved, and on such conditions as may be stipulated, a holder of a lease shall have the following rights, as required for the purpose of carrying out operations under the lease, namely :-

66(2). Efforts to harmonise mechanism with mechanism devised at rule 64.

DGPC to consider if 180 days too long.

66(3). For future purposes a provision has been included to make it clear that abandoned well may be used.

67. Govt approval should not be universally required, but only when "required".

(a) to enter upon and use land;

(b) to appropriate water;

(c) to store petroleum;

(d) to erect houses and machinery;

(e) to search for, dig and get gravel;

(f) to cut timber and clear undergrowth;

(g) to enclose with a fence areas for which surface rent is paid; and

(h) to carry out such other activities which the Federal Government considers necessary.

68. **General rights of the permit-holder or licence-holder to enter upon land.-**Subject to approval of the Federal Government and of any other authority which may be involved, a permit-holder or a licence-holder shall have the same rights as are stipulated in rule 67, provided that the houses and machinery referred to in clause (d) thereof shall be temporary.

69. **Restrictions on the holder of petroleum right.-** (1) The rights granted to a holder of petroleum right shall not prejudice the exercise of any of the following powers, namely:-

(a) **Work on minerals.**- The Federal Government or Provincial Government, as the case maybe, or any of its authorized persons may, within the area of the holders of petroleum right search for and produce any minerals or substances other than petroleum and make and maintain such installations and facilities as required for the said work provided such operations shall not disrupt or impair the operations or activities of the holders of the petroleum rights in the area.

(b) **Other activities**.- The Federal Government or Provincial Government, as the case maybe, or any authorized person may, within the area of the holder of petroleum right -

(i) make and maintain upon, over or through the said area such reservoirs, pumping stations, generating stations, waterways, roads, tramways, railways, telegraph and telephone lines, pipelines or such other installations and facilities as he shall deem necessary or expedient for any purpose;

(ii) obtain such stone, earth and other materials as may

be necessary or requisite for making, repairing or maintaining the said installations and facilities; (iii) draw water from the said area and have free access thereto; and (iv) pass and repass at all times over the said area for all such purposes as occasion shall require. (c) **Grant or demise lands to third parties subject to holder's rights.-** Liberty and power for the Federal Government or Provincial Government, as the case maybe, to grant or demise to any person all or any part of the said area for any purpose so that such grant or demise be made subject to the rights of the holder. (2) The powers under this rule 69 shall be exercised and enjoyed in such manner as not to unreasonably hinder or interfere with the rights of the holder of petroleum right. Fair, proper and adequate compensation shall be paid by the Federal Government or Provincial Government, as the case may be, for all loss, damage or injury, without including the value of any water, stones, earth or other materials taken, which the holder of petroleum right may have suffered as a consequence of the exercise of the said powers under this rule.	
70. **Power to execute works**.-If a holder of a petroleum right, at any time, fails to perform its obligation under these rules or under any agreement with the Federal Government, the Authority shall be entitled, after giving reasonable notice in writing of its intention, to execute any works which may be deemed necessary to secure the performance of the said obligations or any of them and to recover the costs and expenses of so doing from the holder of petroleum right. 71. **Power to control spill or waste.-** (1) A holder of petroleum right at all times, has obligation not to cause spill and waste. (2) Where the Authority, on reasonable grounds, is of the opinion that, with respect to any operation of a holder of petroleum right, spill or waste is required to be controlled or prevented, may order the holder of petroleum right to control or prevent spill and waste within a reasonable period of time, failing which the Authority may cause to take such necessary steps and measures to control or prevent the spill or waste as may be required and all cost thereof shall be borne by the holder of petroleum rights. (3) If there is any dispute, controversy or claim arising out of or in relation to the exercise of the powers by the Authority under sub-rule(2), the Authority and a holder of petroleum right shall make all reasonable	70. In future, may clarify Govt would not have this right if it had taken LD's. No change recommended now.

efforts to settle such dispute, controversy or claim within sixty days of the issuance of order by the Authority under sub-rule (2), failing which such dispute, controversy or claim shall be referred to an independent consultant who shall be appointed by the Federal Government at the cost of and with consent of the holder of petroleum right. The findings of such consultant shall be binding on the Authority and the holder of petroleum right. (4) Notwithstanding anything contained in this rule, the Authority or a holder of petroleum right may exercise the option of settling the dispute, controversy or claim in accordance with rule 77. 72. **Power of revocation.-** In addition to other grounds for revocation specified in these rules, the Authority may revoke a petroleum right after serving a thirty days show cause notice if,- (a) a holder of petroleum right has contravened any material terms and conditions on which the petroleum right was granted, under the provisions of these rules or any law applicable to the petroleum operations and has not, within a period of sixty days from the date on which a notice in that behalf was served on it by the Authority, remedied the default, or where the default cannot be remedied, has not, within such period offered reasonable compensation in respect thereof; (b) the petroleum right was found granted by reason of giving false information in a material respect; (c) a holder of petroleum right or its parent company makes an arrangement or composition with its creditors, and a receiver is appointed orthe holder of petroleum rights goes into liquidation whether compulsory or voluntary; (d) without the prior consent of the Authority there is a disposition of the share capital of itsor its parent company in consequence of which any person who prior to that disposition had effective control of or its parent company ceases to have such effective control; and (e) a holder of petroleum rights has failed to make payment (whether part or full) payable under the rules or the relevant agreement and such payment remains in arrears or unpaid for two subsequent months from the date on which the payment was due.	72(d). In future it to consider adding after the first reference to "company" the words "or any other company having a controlling share holding"; and prior to the final "or" insert "it". No change recommended now. 72(e). In future to consider deleting as sub-rule (a) may more reasonably handle it. No change recommended now.
73. Right of Government upon termination of a petroleum right.- (1) When a permit~~ or,~~ licence or lease has expired, or been revoked,~~ or has been~~ surrendered or area relinquished wholly or partly,	73(1) and (2). Modified wording as expiry, revocation and

except if otherwise provided in the PCA the area of permit or licence or lease or area relinquished shall, so far as practicable, be reinstated in its original condition and where this is not practicable, ~~it~~ the holder shall pay compensation to the Federal Government for damages suffered as a result thereof.	surrender cannot be partial. Only relinquishment could be in whole or part. Also some other reordering for greater clarity.
(2) When a petroleum right has expired, or been revoked, ~~or has been~~ surrendered or area relinquished wholly or partly~~, or the use of~~ any installations and facilities ~~including related equipment has come to an end, the Federal Government has the right to takeover~~ relating thereto, or ~~the~~ installations and facilities no longer required by the holder of the petroleum right for the area in question, may be taken over by the Federal Government, along with ~~including~~ related equipment~~s~~. This also comprises pipeline transportation and related facilities installed by a holder of petroleum right to secure shipment of petroleum.	
(3) Upon taking over the installations, facilities and equipment pursuant to sub-rule (2), a holder of petroleum right shall be required to hand over such installations, facilities and equipment~~s~~ in such condition as may be reasonably expected ~~required~~ under good international oilfield practices. No compensation shall be given for such takeover. Takeover involves an automatic cancellation of any security for debts or leasing arrangement related to such installations, facilities and equipment~~s~~ and title of the same shall be transferred to the Federal Government.	73(3). The standard of facilities etc to be handed over should be stated and not be left vague as "such condition as required". Does that mean the outgoing company has to upgrade facilities?
(4) If the Federal Government does not exercise its right to takeover the installations, facilities and equipment~~s~~, the Federal Government may demand that removal shall be carried out by a holder of the petroleum right at its expense, in which case sub-rule (1) shall apply.	
(5) At least one year prior to termination, a holder of the lease shall submit to the Authority a plan for the orderly closing down and abandonment of its operations, and for the removal of the facilities or their transfer to the Federal Government, as the case may be.	
74. Indemnity.- (1) The holder of a petroleum right shall effectively indemnify, defend and hold harmless the President, the Federal Government and each Provincial Government ~~the Authority~~ at all times against all proceedings, costs, charges, claims, losses, damages and demands whatsoever, including, without limitation, claims for loss or damage to property or injury or death to persons, caused by or resulting from work conducted by or on behalf of the holder of petroleum right, by any third party, or anything done or purporting to be done in pursuance thereof.	74(1). The "Authority" is part of the Government and there is no need to specifically identify it, hence deleted it.
(2) The holder of a petroleum right shall, if required to do so by the Federal Government, take out and maintain such insurance, as the Federal Government may approve, against any of its liability under these rules.	74(2). To consider in the future whether to replace "approve" with "direct". No change recommended now.

(3) No suit, prosecution or other proceedings shall be initiated against the President, ~~the Authority,~~ the Federal Government or Provincial Government (including any entity or agency of the Federal or Provincial Governments) ~~or any of its assigns~~ for anything done or purported to have been done in good faith under these rules.

74(3). As the "Authority" is part of the Federal Govt no need to specifically mention it, but for clarity have included a catch-all in brackets.

75. Miscellaneous obligations.- (1) A holder of petroleum right shall have an organization in Pakistan with sufficient competence and capacity to conduct all operations and activities pursuant to these rules and shall,-

(a) immediately after grant of petroleum right, but before commencing any operations in the relevant area, furnish to the Authority, the name and address of the manager, resident in Pakistan, under whose supervision operations are to be carried on in the permit, licence or lease area; and

(b) in writing, keep the Authority informed of the names, addresses and nationalities of sub-contractors employed by it from time to time.

(2) Any rent for a petroleum right under rules 29 or 41, maximum penalty under rule 80(3) or fee referred to in these rules, may be increased from time to time by reference to an appropriate consumer price index, which increase shall be effective prospectively after notification issued by the Government.

75(2). Rent should be the same regardless of when a licence or lease was awarded and should not be indexed in the licences/leases themselves. DGPC should decide what form the notification should be and if impractical to Gazette, should discuss whether wording here may require modification.

76. Force majeure.- (1) Failure on the part of a holder of petroleum right to fulfill any of the terms and conditions of the petroleum right shall not give the President, or the Federal Government any claim against the holder of petroleum right or be deemed a breach of his obligations insofar as such failure arises from *force majeure*.

Explanation.- The expression "*force majeure*" includes an act of God, war, insurrection, riot, civil commotion, flood, lightening, explosion, fire, earthquake and any other happening which the holder of petroleum right could not have reasonably prevented or controlled, and shall not include a circumstance existing at the time of the grant of the petroleum right.

(2) If the ability to fulfil the terms and conditions is affected by *force majeure*, a holder of petroleum rights shall without delay give notice to the Federal Government, stating the cause of such inability, ~~and his~~ its efforts to remove such causes and remedy its consequences and steps to be taken to prevent the circumstances reoccurring and mitigating the consequences thereof.

(3) In case of *force majeure*, the duration of the petroleum right shall be

77. Given the challenges of local arbitration it is recommended that

extended for the period of the *force majeure* situation and for such further period as is required to resume the operations. 77. **Arbitration.-** Except as otherwise agreed to or expressly provided for in these rules, any question or dispute regarding the petroleum right or any matter or thing connected therewith shall be resolved by arbitration in Pakistan and in accordance with Pakistani laws.	this rule is critically reviewed. No change is recommended at this stage.
78. **Tight Gas and Low BTU Gas.-** The provisions of the Tight Gas (Exploration and Production) Policy 2011 and the Low BTU Pricing Policy 2012 shall be deemed incorporated into these rules, as far as possible, and, in the event of any conflict with these rules, the relevant policy shall prevail. ~~79. **Exercise of optional working interest by GHPL and PHC**.- (1) Along withthe announcement of award of a licence to any company, the Authority shall notify the identity and share percentage entitlement of the relevant PHC.~~ ~~(2) Immediately upon the announcement of the award of a licence by the Authority, every company shall offer to GHPL and PHC, the option to acquire working interest in the licence in accordance with the Policy. GHPL and PHC shall exercise this option by accepting the offer of the company within thirty days of the receipt of the offer failing which this option shall be deemed to have been waived by GHPL or PHC as the case may be.~~ ~~(3) If a block falls within the territorial jurisdiction of more than one Provincial Government, the Authority shall, based on the surface area of the particular block within the territorial jurisdiction of each such Province, determine and notify the entitlement of the relevant PHC with respect to the optional working interest.~~	78. Recommend the deletion of r.78 in favour of more detailed changes to the Rules and PCAs, which has been separately handled. 79.Govt participation is a policy issue. If Policy is changed then the Rules would have to be changed as well, which is not desirable. In the past such carry has been in the PCA only.
78A. Decisions and review.- (1) All decisions to be made by the Federal Government, including the Authority under these rules or concerning a petroleum right, PCA or other agreement or plan, made in relation to a petroleum right shall be in writing, with reasons, made without undue delay. (2) The Authority may prepare procedures to be followed by a holder of a petroleum right seeking a decision under any rule which shall be readily available to any person on request. If there are such procedures and a holder of a petroleum right reasonably satisfies the criteria contained therein, then the Federal Government or Authority shall, unless the circumstances reasonably justify otherwise, make a decision favourable to the petroleum right holder. (3) The Authority shall prepare procedures as provided for in sub-rule (2) for, but not limited to, rules 9, 10, 22(8), 24, 28(1)(b), 36 and 60.	78A(1). All decisions should be recorded in writing with reasons. This helps keep consistency and transparency. For the future it is recommended that the DGPC be able to levy nominal fees for even routine applications *if* the proceeds can be directly used by the DGPC to improve capacity.

	78A(2). Having SOPs which can be made readily available to companies will make decision making/approvals easier for Govt and companies alike. 78A(3). Certain rules have greater need for SOPs and so are specifically identified here.
First option: (4) (a) If a holder of a petroleum right is aggrieved by a decision of the Authority or if the Authority does not respond to a request in a timely manner, the regulations contained in the Fourth Schedule hereto shall apply.; This will however be without prejudice to a party's rights under any provision of law or the PCA. (b) Such regulations maybe amended by the Authority from time to time to apply prospectively and any changes shall be duly notified in the official gazette and a copy sent to all petroleum right holders. ***Second option – an alternative to sub-rule (4), preceding, and the Fourth Schedule, have r.78B-*** **78B. Independent Appeal Forum:- (**1) Any holder of a petroleum right aggrieved either by a decision of the Authority or where the Authority has not responded to a request in a timely manner, may without undue delay, make a written representation to the Authority. The Authority shall arrange to convene a review meeting with the holder of a petroleum right within seven days of the receipt of written representation. (2) Within seven days of the review meeting, the Authority shall convey to the aggrieved party in writing its final decision with reasons and basis thereof. (3) If the holder of a petroleum right is still aggrieved by the decision/final decision of the Authority if the Authority has still not responded, the aggrieved holder may request the Secretary, Ministry of Petroleum & Natural Resources after 14 days of his representation or the final decision of the DGPC as the case may be, for the matter to be submitted to the Forum of Appeals (FOA).	78A(4). Regulations are required to resolve disputes quickly so as to foster confidence in the regulatory process.

(4) The FOA shall comprise of the following three members including the Chairperson: (i) A senior technical expert with at least 25 years' experience from the exploration and production industry who will be the member/Chairperson. (ii) A senior commercial/regulatory expert from the exploration and production industry with at least 20 years' experience as member. (iii) A senior legal expert with at least 15 years' experience in the exploration and production industry as member. (iv) The FOA shall develop its own procedures and protocols for the conduct of hearings and consultation with other experts from the industry out of the lists maintained by the Ministry of Petroleum& Natural Resources as deemed necessary. (5) The FOA shall convene no later than 25 days after the representation referred to in these rules and render its decision within thirty working days of such hearing or remand the matter back to the Authority to make, or revise, its decision within a specified period. The decision of the FOA shall contain detailed reasons and justifications in support thereof and will be sent to Secretary MPNR with a copy to the concerned parties. The decision shall be implemented by the Authority without delay unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions. (6) Secretary MPNR will review the decision and issue a speaking order in the matter within a fortnight. (7) The Government may issue suitable guidelines, from time to time, in relation to any aspect regarding FOA. Such guidelines may include appeal procedures, documents to be filed for the appeal and the payment of fees to the FOA. (8) Availing of the remedies under these rules are without prejudice to a party's rights under any other provision of law or the PCA. **79. Penalties.-** (1) Whosoever contravenes any provision of these rules shall, without prejudice to any other action that may be taken in relation to the contravention, be punishable as outlined in the Third Schedule. (2) In imposing any fine under these rules, the Authority shall keep in view the principle of proportionality of the fine to the type, gravity, duration, frequency and repetition of the breach or failure. Prior to	79. The Govt should have the ability to levy fines.

imposing a fine, the Authority shall, in writing, require the person liable to be affected to show cause, in writing, as to why the fine should not be imposed. (3) The Authority may, from time to time, modify the ~~s~~Schedule of Fines (Third Schedule), including the categories and scale of fines, to apply prospectively, and provided no individual fine may exceed [fifty] million rupees. (4) The imposition of a fine shall be without prejudice to any other legal right under these rules or legal and contractual rights of the Government.	80(3). The maximum ceiling may be considered. It is currently proposed as Rs.50m.
80. Repeal and savings.- (1) Except as provided in sub-rule (2), the Pakistan Petroleum (Exploration and Production) Rules, 2009 are hereby repealed. (2) Notwithstanding the repeal of the Pakistan Petroleum (Exploration and Production) Rules, 2009, ~~but subject to sub-rule (3),~~where any person holds any permit, licence or lease granted, regranted or renewed under the said rules, the provisions of the said rules shall continue to apply to such permit, licence or lease, as if the said rules have not been repealed. (3) Notwithstanding any provision to the contrary, rules34 and 35 shall also apply to petroleum rights as granted or renewed or applied for under, and defined in the Pakistan Petroleum (Exploration and Production) Rules, 1986 and Pakistan Petroleum (Exploration and Production) Rules, 2001. Explanation: The expression "applied for" used under this sub-rule include the applications to be made under process under the relevant rules for the extension of lease term subject to a maximum of twenty-five year lease period.	80(2). The cross reference with sub-rule (3) appears to be incorrect. 80(2). Added "regranted" to unequivocally capture any re-grant under r.35 of 2009 Rules. Arguably anyway covered, but to be clear. 80(3). In the event similar rules to rules 34 and 35 are included in earlier Rules, this sub-rule (3) may be deleted. In future could consider including a clause along the following lines: "In the event these rules conflict with any rules in force prior to these rules, the earlier rules will prevail to the extent of their application to a party subject to the earlier rules." Point being that rules (particularly

	rr.64, 65 and 66) regulating licences or leases of different vintages may come into conflict.
FIRST SCHEDULE **(See rule 6)** **APPLICATION FOR A RECONNAISSANCE PERMIT OR EXPLORATION LICENCE OR ~~WHERE APPLICABLE,~~ DEVELOPMENT AND PRODUCTION LEASE**[1] [1] In the case of using this Schedule for an assignment under rule 10, references herein to "applicant" shall be replaced with "proposed assignee", including the execution block at the end. The application shall be made by the proposed assignor.	First Schedule, footnote to be added to give clarity to companies for assignments. Map of Licensing Zone may be reconsidered in light of experience.
THIRD SCHEDULE **FINES** a) Table of fines and related offences is outlined below. b) Before the imposition of a fine, a show cause notice shall be issued by the Authority to the offending petroleum right holder giving not less than 14 days from date of receipt of the notice to explain as to why a fine should not be imposed. This will be without prejudice to any other remedy available to the Government and the obligation for the default to be rectified, if possible. c) If, in response to the notice, a reasonable written justification is given and the offence has been rectified as far as possible, no fine shall be imposed, or the fine shall be substantially reduced by the Authority. d) Immediately following receipt of a response from a petroleum right holder, referred to in paragraph (c) or, if no response is received within the time stipulated in paragraph (a) the Authority shall inform the petroleum right holder in writing either that no fine shall be imposed or the amount of fine to be imposed, as the case may be. e) Where it is possible to rectify an offence and it has not been rectified, an additional fine may be imposed within 14 days from the receipt of the notice referred to in paragraph (d), above, at the rate of up to 1% per day of the fine stipulated therein until the offence is rectified, or the petroleum right to which the fine relates has terminated or the total of the additional fine is equal to the fine stipulated under paragraph (d), above. Upon the additional fine no longer accruing, the Authority will intimate to the holder the total fine imposed, revising the notice referred to in paragraph (d), above. f) The fine stipulated in the notice/intimation referred to in paragraph (d)	There are certain requirements in the various E&P Rules, but there is no provision to impose a penalty if the petroleum right holder fails to comply with those requirements, even though the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act, 1948 permits the imposition of fines. The only provision in the Rules for violation is revocation of petroleum rights, where the offence is material. This creates a challenging situation for the regulator, in terms of enforcement of the Rules, particularly when the offence is of a relatively minor nature. Hence, to give the DGPC

or (e), as applicable, shall be payable within 14 days of receipt of the relevant communication. Failure to do so in itself, can be construed by the Authority as a material breach under rule 72(a).

g) In the event a letter communicating the imposition of a fine is not accepted for receipt, it shall be deemed to have been delivered under this Schedule on the working day immediately after the day it was sent by a recognised courier to the last address provided to the Authority, provided also sent on the same day by either facsimile machine or registered post.

h) In each case where any data, reports or information is to be provided by a right holder to the Government in a desired format, the Authority will give the right holder a reasonable opportunity to correct the completed format before issuing a show cause notice for the imposition of a fine.

i) Any fine levied shall be independent of, and without prejudice to, the Government's rights under rule 72 (Power of revocation), rule 70 (Power to execute works), for breach of contract, or any other legal recourse. Furthermore, the payment of a fine will not extinguish the requirement to comply with the obligation in the rule, for which the fine was imposed, as far as possible.

j) Whilst fines are expressed in US$, these should be paid in Pakistan Rupees (PKR), determined at the prevailing exchange rate on the date of payment.

k) Each fine shall be imposed on the holders of a petroleum right collectively through the operator, with ultimate liability being joint and several (pursuant to rule 8).

l) A fine which remains unpaid following the date of the Authority's communication referred to in paragraph (d) and, if applicable, paragraph (e) it will result in a late payment surcharge of 1% per month (or part thereof) of delay beyond 14 days of receipt of the relevant notice or communication.

m) Fines for any one offence, including any additional fines due to delays thereto, may not exceed the cap prescribed in the Rules.

Table of offences attracting fines and the stipulated fines:

2013 Rules	**Rule title**	**Offence**	**Fine**
Rule 16(1)	Performance guarantees	Failure to provide acceptable performance guarantee(s)	10% of work unit value or $50,000, whichever is higher without prejudice to right of the DGPC to cancel a licence awarded.

greater powers to control this Schedule has been proposed.

Rule 21(1)	Rights and obligations of licence holder.	Production without approval	US$50,000, except, if the offence is for continuing EWT production beyond an approved EWT period would be US$25,000, without prejudice to the royalty due.
Rule 22(4)	Relinquishment.	Failure to relinquish when obliged to do so.	US$100,000.
Rule 28(3)	Work programme and other obligations not fulfilled.	Failure to pay liquidated damages or transfer of undischarged work obligation not approved.	US$200,000 in addition to the minimum expenditure obligation of undischarged work obligation.
Rules 29 and 41	Licence and Lease Rent.	Failure to pay rent.	The higher of US$5,000 or 50% of the rent due without prejudice to the rent due.
Rule 33	Survey expense.	Failure to undertake a survey when requested.	US$10,000.
Rule 36(3)	Development plan.	If development and production not carried out as per approved Development Plan and revision not approved or not sought.	If a material change (being 20% change from what was stated in the Development Plan in capital expenditure or rates or change in number of wells): - US$5,000 for seeking modification within six months of the modification being effective or US$25,000 thereafter. - If modification is not sought and is discovered by the Government then US$25,000 plus US$5,000 per complete month after the unapproved modification having been effective till discovered.
Rule 44	Petroleum measurement.	Failure to measure or weigh using the method agreed and/or failure to comply with any guidelines in that regard and/or failure to permit inspection of such equipment.	US$100,000.
Rule 45	Revocation of lease.	Failure to produce within required time limits.	US$250 per day for the first three months and US$1,000 thereafter, without prejudice

			to rights of revocation at any point.
Rules 46, 48, 49 & 52-55	Accounts Records and Reports.	Reports not kept/maintained or provided to DGPC/Government, as required.	US$10,000.
Rule 47	Period of record-keeping	Failure to maintain records as required.	US$25,000.
Rule 50	Data property of the Federal Government.	Data and information not submitted as required.	US$10,000.
Rule 50(5)		Disclosure of data to unauthorized party.	US$50,000.
Rule 51(2)	Power to inspect plants, records and accounts etc.	Refusal or delay in access of data to the Authority and non-provision of certified copies of record.	US$50,000.
Rule 57	Reports of discovery.	Making an impermissible announcement or statement.	US$50,000.
Rules 24(3) & 59(3) *[nb – r.24(3) is proposed to be deleted, if not deleted then include here]*	Flaring.	Unauthorized flaring of gas.	100% of the value of the unauthorized flared gas, determined on the basis of the price applicable to the block in $/MMBTU. Any show cause notice or intimation of fine may provide that the exact fine is to be calculated.
Rule 60	Commencement, testing and abandonment of drilling operations.	Development well included in the Development Plan spud without approval.	$10,000 (in addition to any fine under rule 36(3)).
		Exploration/appraisal/development well not included in a Development Plan spud without approval	US$50,000.
		Re-entry, side-tracking or hydraulic fracturing commenced without approval.	US$10,000.
		Abandonment of well (Exploration/Appraisal/Depleted/Unsafe) and abandonment of producing zone without approval.	US$50,000.

Rule 63	Employment and training of Pakistani personnel.	Failure to submit report of number of Pakistani personnel to be employed and trained.	US$10,000.
Rule 64(6)	Joint exploration and development.	Failure to comply with direction to provide data following a request by DGPC.	US$25,000.
Rule 73(1)	Right of Government upon termination of a petroleum right.	Failure to reinstate where re-instatement is practicable. (note, if reinstatement not practicable, r.73(1) provides for damages to be paid.)	US$50,000 plus cost incurred by the Government to re-instate the area.
Rule 73(5)		Plan for abandonment/removal of facilities not submitted when required.	US$10,000 per month (or part thereof) of delay in submission of plan/informing the DGPC.
Rule 74(2)	Insurance	Failure to take out required insurance.	US$25,000.
Rule 75	Miscellaneous obligations.	Failure to set up an organization in Pakistan.	US$10,000 if the organisation is not set up in the first six months after the grant of a petroleum right.
Rule 79(2) *[r.79 proposed to be deleted.]*	Exercise of optional working interest by GHPL/PHC.	Did not offer working interest to GHPL/PHC.	US$10,000.
General.	Any other obligations provided in the 2013 Rules which are not fulfilled by the holder of a petroleum right and not expressly referred to above, penalty of up to US$1,000.		
Legal costs.	In addition to the fines stipulated herein or elsewhere in the Rules, any of the Government's legal fees (including lawyers and court/arbitration fees) incurred and documented for recovery of any of the fines as a result of non-payment following a show cause notice shall be separately recovered as a further fine, provided if the matter has been taken to court or arbitration, fine shall only be payable if it has not been struck down as not payable.		
PCA.	If there is a provision in a PCA or petroleum right whereby something has to be done, applied for or requested in a certain time by the right holder and DGPC has discretion to extend such time the DGPC may impose a fine of US$5,000 to consider a late application, without prejudice to its contractual rights or implying any obligation to accept or approve whatever is to be done, applied for or requested.		

	If the DGPC ultimately accepts such delay it may do so on condition of an additional fine for the delay, of up to US$1,000 per day from the day something had to be done, applied for or requested.

Fourth Schedule

Regulations for Reviews and Appeals

1. Any holder of a petroleum right aggrieved either by a decision of the Authority or if the Authority has not responded to a request within a timely manner may, without undue delay, make a written representation to the Authority. Such representation shall be provided in duplicate.

2. The Authority shall convene a review meeting within 14 days of receipt of such representation. At such meeting the aggrieved party shall have the opportunity of being heard and the Authority shall ensure that the holder has received such notice at least three working days prior to the meeting.

3. At the review meeting the Authority shall either explain the basis for the decision, change the decision, make a decision or agree to make a decision promptly after the meeting, as appropriate. Within seven days of the meeting, the Authority shall write to the aggrieved party setting out its final decision with reasons and basis thereof.

~~1.~~4. The Authority and/or any official he considers necessary and the officer concerned with the subject matter shall be present at the review meeting.

5. If within 14 days of either (i) if the holder of the petroleum right is still aggrieved by the final decision or (ii) the date of the review meeting, if no final decision was conveyed after the review meeting or (iii) the date of the written representation to the Authority, and the Authority failed to convene a review meeting, the aggrieved holder may request the Authority that the matter to be referred to a special tribunal as provided in regulation 6, below.

6. The special tribunal shall be comprised of the following three officers:

   (i) [Director General (Oil) or Director General (Gas), to be rotated on an annual basis, initially being the Director General (Oil);

   (ii) Senior officer of the rank of a Joint Secretary from the Ministry of Law, Justice and Human Rights;

(iii) an officer, not less than the grade of an Additional Secretary, of the Ministry of Petroleum and Natural Resources who shall be the chairperson.][1]

(iv) In the event any of the appointed officers are not in a position to attend such special tribunal hearing on a given date, such officer may appoint any other senior officer who directly reports to him to attend. The special tribunal may develop its own procedures and protocols for the conduct of hearings before it.

7. The special tribunal shall convene in the offices of the Ministry of Petroleum and Natural Resources, no later than 25 days after the request referred to in sub-regulation 5 and the Authority shall have ensured the holder received notice of the meeting at least seven days prior to the meeting.

8. Within seven days of such hearing the special tribunal shall either affirm a decision, change a decision, make a decision or remand the matter back to the Authority to make, or revise, its decision.

9. The decision of the tribunal shall be with reasons and copied to the concerned parties. The decision shall be implemented by the Authority within 14 days, or up to 21 days, to be justified in writing, unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions.

10. In the event of a failure, within the prescribed time, (i) to convene a review meeting, or a special tribunal hearing, or (ii) to ensure the aggrieved party has received notice sufficiently in advance of such meeting or special tribunal hearing or (iii) for the review meeting or special tribunal to give its response, the Federal Government shall be liable to the penalty provided in regulation 11.

11. The penalty referred to in regulation 10, shall be an entitlement of a holder of a petroleum right to deduct from any rent payable under these rules ten thousand rupees per day of delay, up to a maximum of one hundred thousand rupees. In the event the grievance relates to more than one petroleum right the said penalty shall be equally divided amongst the holders of such petroleum rights. A summary of any such penalties arising in a quarter shall be sent by the Authority to the Ministry of Finance and be made available, on a non-confidential basis, to any party on request, on payment of a reasonable fee.

[1] To fix the positions after discussion with the DGPC.

12. The Government may issue guidelines, to be reviewed from time to time, in relation to any aspect of these regulations. Such guidelines may include procedures, such (a) as the format of documents to be filed for the appeal or (b) provision for nominal costs of appealing to the special tribunal or (c) costs for abuse of the review and appeal process. 13. Availing of the remedies under these regulations are without prejudice to a party's rights under any other provision of law or contract.	
General note: In making any amendments to the 2013 Rules, it may be also provided that such amendments would be prospective and any right, benefit, obligation or burden arising prior to the amendments would have vested and not be liable to change.	

ANNEXURE 5: PAKISTAN ONSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2009 (REDLINE VERSION)

Government of Pakistan Ministry of Petroleum and Natural Resources *** Islamabad, the June, 2009 **NOTIFICATION** S.R.O. (I)/2009,- In exercise of the powers conferred by section 2 of the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948 (XXIV of 1948), the Federal Government is pleased to make the following rules, namely:- **THE PAKISTAN ONSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2009** **PART I - GENERAL** 1. **Short title, application and commencement.-** (1) These rules may be called the Pakistan Onshore Petroleum (Exploration and Production) Rules, 2009. (2) These rules shall be applicable to the onshore areas of Pakistan and shall regulate all petroleum rights except those relating to Coal Bed Methane. (3) They shall come into force at once.	
2. **Definitions.-** In these rules, unless there is anything repugnant in the subject or context,- (i) "allowed transportation cost" means actual cost incurred for moving the petroleum produced and saved from the field gate to the point of determination of value of the petroleum ~~as approved by the Authority~~; (ii) "arms length sales" means the sales made freely in the open market, in freely convertible currencies between willing and unrelated sellers and buyers having conflicting interests and in which such buyers and sellers have no contractual or other relationship, directly or indirectly, or any common or joint interest as is likely to influence selling prices but shall exclude the value of sales (whether direct or indirect, through brokers or otherwise) involving an affiliate, sale between Government to Government entities, counter	2(i). Transport costs which are "allowed" should be whatever they actually are and not be subject to approval.

	trades, restricted or distress sales, sales involving barter arrangements and generally any transactions motivated in whole, or in part, by consideration other than normal commercial practices;	
(iii)	"Authority" means the Director General Petroleum Concessions (DGPC) or any officer or authority appointed by the Authority to exercise the powers and perform the functions of the DGPC ~~under these rules~~.	
(iv)	"coal bed methane (CBM)" means gas produced by drilling wells within the coal seams, that is, methane physically associated with coal which includes methane absorbed, adsorbed, and contained in pores and fractures and produced within coal seams which has such distinct biomarker or foot print that conclusively proves to have been principally derived from a biogenetic source of adjacent coal seams;	
(v)	"commercial discovery" means a discovery of petroleum ~~duly evaluated by appraisal well~~ which ~~discovery~~, in the opinion of a holder of a licence or lease, ~~with the approval of the Authority, which shall not be unreasonably delayed, after submission of requisite information to the Authority,~~ would, on the basis of one or more wells, justify, particularly by its quality, quantity, gravity, place and depth where found, its economic development and assures a continuous commercial production for a reasonable period. ~~In the event that the discovery so made does not justify the drilling of an appraisal well, then such holder of a Petroleum right upon submitting detailed technical and economic justification shall, seek the approval of the Authority or declaration of commercial discovery on one-well basis;~~	2(v). It should be the sole decision of the licensees whether a discovery is commercial or not. The DGPC will have an opportunity to approve at the time of receipt of the Development Plan for its approval. Also removed the additional layer of having to get separate approval if wished to declare commerciality without drilling a separate appraisal well.
(vi)	"commercial production" means production of petroleum out of a commercial discovery which production ensures at least the recovery of all expenditure directly attributable to such commercial discovery within a reasonable time and earning of a reasonable profit;	
(vii)	"company" or "companies" means a body corporate or other entity established or authorized to do business under the laws of Pakistan, which is engaged in or seeking to engage in petroleum operations and unless otherwise specified, the expression "companies" refer to both local and foreign companies;	
(viii)	"discovery" means the finding of a deposit of petroleum from an exploration well not previously known to have existed within the area held by a holder of a petroleum right which produces a flow of petroleum at the surface and is measurable by the conventional petroleum	

industry testing methods; (ix) "discovery area" means an area, within the area of a licence or lease which encompasses the accumulation of petroleum in a geological entity limited by lithological boundaries, structural boundaries, the contact zone between petroleum and the limiting water level, or a combination thereof, and so that the petroleum included everywhere is in pressure, fluid or gas communication; (x) "environmental management and protection plan" means an environmental management and protection plan submitted to and approved by the concerned authority under applicable law; (xi) "exploration well" means a well which tests clearly a separate geological entity, be it of structural, lithologic or facies of pressure nature, penetrating all prospective intervals at the particular location;	
(xi-A) "extended well test" or "EWT" means the extended well testing or early production, as provided in rule 24; (xii) "field gate" means a point, for the purpose of determination of royalty leviable on petroleum produced and saved from a licence or lease area as well as for the purpose of satisfying national market obligations pursuant to rule 43, which will be determined as follows; (a) for the purpose of natural gas, the field gate shall be located at a distance not exceeding twenty-five kilometers from the outlet flange of the production facility unless a longer distance is agreed by the licensee or lessee; (b) for the purpose of crude oil and condensate, the field gate shall be deemed to be the nearest operating refinery; and (c) for the petroleum other than sub-clauses (a) and (b) the field gate shall be loading arm at the production processing facility unless otherwise approved by the Authority; (xiii) "good international oilfield practices" means generally the reasonable and prudent diligent use of policies, procedures, methods, equipments and material that results in effective and efficient exploration, appraisal and development of petroleum including optimum recovery of petroleum from a discovery area with minimal impact on the environment as permitted and use of efficient and effective practices for transforming produced petroleum into marketable form	2(xi-A). Given the term "EWT" is used in the Rules it is appropriate to define.

and delivering it to the market, having due regard for safety and other factors and means in particular, knowledge of and compliance with the latest standards developed by relevant professional institutions including but not limited to:-

(a) the American Gas Association (AGA);

(b) the American Petroleum Institute (API);

(c) the American Society of Mechanical Engineers (ASME);

(d) the American Society for Testing and Materials (ASTM);

(e) the British Standards Institute (BSI);

(f) the International Organization for Standardization (ISO); or

(g) any other organization deemed acceptable by the Authority.

(xiv) "licence" means an exclusive right to explore for petroleum within a designated portion of the onshore area under and pursuant to these rules, which shall be substantially in the form as set out in Part II of the Second Schedule;

(xv) "petroleum" means all liquid and gaseous hydrocarbons existing in their natural condition in the strata, as well as all substances including sulphur, produced in association with such hydrocarbons, but does not include basic sediments and water;

(xvi) "petroleum concession agreement (PCA)" means an onshore agreement entered into pursuant to these rules between the President of the Islamic Republic of Pakistan and a company or companies for the purpose of exploration, development and production of petroleum other than CBM;

(xvii) "petroleum right~~s~~" means a permit, licence ~~and~~ or lease issued under these rules;.

(xviii) [Omitted] ~~"policy" means the Petroleum Exploration and Production Policy, 2009~~;

(xix) "President" means the President of the Islamic Republic of Pakistan;

(xx) "record" means all record pertaining to the activities of a holder of a petroleum right including but not limited to an account, book, return statement, report, chart, table,

diagram, form, survey, image, invoice, letter, map, agreement, memorandum, plan, core, sample, voucher, financial and non-financial information, and anything containing information whether in writing or in electronic form or represented or produced by any other means and the result of recording of electronic data, its processing systems and programme to illustrate what the systems and programme do, and how they operate without compromising proprietary rights, if any, related to the hardware and software; (xxi) "Schedule" means the schedule to these rules	
(xxii) "significant gas discovery" means a discovery of natural gas which has tested significant flow rates of natural gas ~~predominately methane~~ from one or more reservoirs and is estimated to be capable of continuous production over a reasonable period which in the opinion of a holder of a petroleum right could be declared a commercial discovery in the future provided, *inter alia* that adequate gas pipeline transportation facilities are installed and gas markets have been sufficiently developed for sale of natural gas on commercial basis; (xxiii) "spill" means a discharge, emission or escape of petroleum, other than one that is authorized by applicable law ~~or approved by the Federal Government~~; (xxiv) "strategic partner" means a foreign state owned and controlled company allowed to explore for and develop petroleum within a given acreage following direct negotiations between the Federal Government and the government of the strategic partner; (xxv) "wellhead value or value" means the value of Petroleum as defined in rule 39; (xxvi) "waste" or "wasted" means waste as understood in the petroleum industry and shall include working methods which, in accordance with good international oilfield practices are considered wasteful; (xxvii) "work unit" means a unit of work for the purpose of measuring the quantum of Minimum Work Programme ~~as quoted in the bid~~ or contained in the respective PCA; and (xxviii) "year" means a period of twelve consecutive months according to the Gregorian calendar.	2(xxii). The composition of the gas would not appear relevant here. This change was also suggested in the proposed changes to incorporate Low BTU Gas Policy. 2(xxiii). As a defined term, a "spill" would be a spill and not cease to be a spill if approved. But DGPC could opt to do nothing about the spill (see rule 71). 2(xxvii). For the purposes of these Rules and PCA, a work unit should only be by reference to the PCA and not bid.
3. **Administration and regulation.-** The Authority shall be responsible for the administration and regulation of these rules and the execution of all duties imposed upon it by these rules, or pursuant to any agreement or any other function entrusted by the	

Federal Government. Notwithstanding anything to the contrary contained herein, in the administration and application of the rules, the Authority may give due consideration to relevant facts and grant such relaxation as is deemed necessary in larger public interest in terms of section 5 of the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948 (Act xxiv of 1948).	
4. **Division of area into blocks and zones.-** (1) Any area of Pakistan may be divided into blocks of such sizes and shapes as the Federal Government may determine from time to time; (2) The licensing zones shall be as per map attached as Annexure –I to these rules.	
5. **Application for petroleum right.-** (1) Any company whether incorporated in Pakistan or abroad may apply in accordance with these rules for,- (a) a reconnaissance permit hereinafter referred to as the permit; (b) an exploration licence hereinafter referred to as the licence; and (c) a development and production lease hereinafter referred to as the lease	
6. **Manner in which application may be made for petroleum rights.-** (1) Every application shall be made in writing in the form set out in the First Schedule, addressed to the Authority. Every application shall be entered in the register to be maintained by the Authority. (2) The applicant shall provide details of any changes in the status or experience of the company that has occurred since the company has applied for the petroleum right. (3) With every application there shall be deposited - (a) a fee of fifty thousand rupees if the application is for the grant, extension or renewal of a permit; (b) a fee of one hundred thousand rupees if the application is for the grant, extension or renewal of a licence; and (c) a fee of two hundred thousand rupees if the application is for the grant, extension or renewal of a lease. (4) To the application there shall be attached five copies of the map upon which shall be delineated by the boundaries of the areas in respect of which a petroleum right is applied for. The map shall be taken from the relevant Survey of Pakistan map of appropriate scale. If the area is identified by a block system notified under rule 4, a	6(3). Included that the fee would apply in the event of any application for an extension. Rationale being that with greater funds being received by the DGPCs office additional resources can be engaged for expeditious review. It is recommended that in the future the fee for grant of a lease is separated from renewal and the fee for a grant be substantially increased (perhaps Rs.1m) and the greater fee be used to enable the DGPC to justify engaging a technical officers to review development plans.

reference to the relevant block number is sufficient. (5) The applicant shall furnish additional information as may be requested by the Authority within three months from the request thereof, failing which the application shall be rejected, unless the Authority determines otherwise. (6) Notwithstanding the above, the Federal Government may assign the status of strategic partner in accordance with the prevailing policy and these rules, however, they will be given privileged award of petroleum rights without following competitive bidding for certain blocks selected by the Authority on mutually acceptable terms and conditions.	6(4). DGPC to advise if five copies required? 6(6). SOP's should be prepared, including that when awarding a licence/lease to a strategic partner that partner should not be allowed to assign to a party not designated as a strategic partner, at least not without conditions attached.
7. **Separate application for each area.-** (1) Where an applicant seeks a petroleum right over two or more areas which are not contiguous, the applicant shall apply for separate petroleum rights over each such area, unless otherwise permitted by the Authority. (2) Nothing in these rules shall prevent more than one petroleum right being granted to the same applicant.	
8. **Several holders of a petroleum right.-** Where the petroleum right is held by two or more companies, they shall be liable jointly and severally towards the Federal Government for obligations and liabilities, resulting from their activities pursuant to the petroleum right. The companies shall, with the prior written approval of the Federal Government, appoint an operator from amongst them, except that such special arrangements as to the operatorship shall be applicable as may be approved by the Federal Government under rules 64 and 66. No change in such appointment shall be made without the Federal Government's prior approval.	8-10. See proposed new Rule 77A, wherein SOPs are to be prepared for Rules 8-10. 8. Suggested change is so that operator may perform an obligation under a rule on behalf of right holders.
9. **Petroleum right not assignable without approval.-**A petroleum right or any working interest therein shall not be assigned without the previous approval in writing of the Government .	
10. **Method of making applications for assignments.-**An application by a holder of a petroleum right for approval to the assignment of a petroleum right shall be made in writing addressed to the Authority, and shall be accompanied by a fee of fifty thousand rupees for each assignee. With the application, the applicant shall furnish the like particulars in respect of the proposed assignee as are required to be furnished in the case of applicants for a petroleum right.	10. In future can consider different rate for assignment of licence and lease.
11. **Power to grant or refuse petroleum right.-** Subject to rules 17, 21, 22, 23, 30 and 34, the grant of a petroleum right, extension or renewal thereof, shall be decided by the Authority. In the event of refusal to grant such petroleum right, extension or renewal thereof,	11. Recommended to add "extension" to avoid any suggestion that r.11 only applies to grant and

the Authority shall provide the reasons thereof.	renewals.
12. **Lapse of entitlement to petroleum right.-** Where a petroleum right is not executed within three months after approval of the application by the Authorityhas been conveyed to the applicant, the entitlement of the applicant to such petroleum right shall be deemed to have been lapsed, unless, the Authority considers that the delay is not attributable to the fault of the applicant.	
13. **Surrender of petroleum right.-** (1) Subject to the terms of the PCA, ~~A~~a holder of a petroleum right wishing to surrender ~~his~~ its right shall give the Authority one month's notice of ~~his~~ its intention to do so, and if the holder of a Petroleum right fulfills all ~~his~~ its obligations under the petroleum right, including the obligations pursuant to rule 73 or if such holder of a petroleum right pays liquidated damages pursuant to rule 28, ~~he~~ it shall on the expiry of the notice subject to sub-rule (2) be entitled to surrender ~~his~~ its petroleum right ~~in whole or in part~~. On doing so the holder of a petroleum right shall not be obliged to pay rent for the remaining period of the petroleum right. (2) In case more than one company holds a petroleum right and less than all the companies wish to surrender the right, reasonable opportunity shall be provided to the other company or companies to acquire (as provided in sub-rule (3)) the interest from the company or companies wishing to surrender. Provided such opportunity is given and demonstrated to the Authority and subject to the terms of the relevant PCA and these rules, a licence/lease may be surrendered, in its entirety, by less than all the companies which hold such petroleum right by giving notice as provided in sub-rule (1). In the event more than one company wishes to acquire the interest of a company which wishes to surrender its interest, such surrendered interest shall be offered to each on a *pro rata* basis. (3) Except as the companies may agree otherwise, any opportunity to be given to acquire an interest under sub-rule (2) shall be without charging for such interest and in the event there is any outstanding minimum work obligation, the transferring party, wishing to surrender, shall pay to the acquiring party or parties a proportionate share of liquidated damages which could then have been charged at that time pursuant to rule 28, based on its participating interest.	13. Objective to provide more clarity on an individual company surrendering. The Model PCA and JOA need to be improved such that where a Working Interest Owner opts to take an interest then there is a certain time within which such assignment must take place or else surrender will happen.
14. **Submission and publication.-** (1) Application for petroleum right may be submitted, either:- (a) at the initiative of the applicant, or (b) on the basis of an invitation from the Authority to submit competitive bids. (2) In case of clause (b) of sub-rule (1), a notice for competitive bidding may be published in such national or foreign publications as the	

Federal Government may determine.	
15. **Terms and conditions of a petroleum right.-** Every permit, licence and lease shall, subject to such modifications as may be made by the Authority, be in the form set out in Parts I,II and III, as the case may be, of the Second Schedule and shall include such additional conditions relating to ancillary or incidental matters as the Authority may deem fit to insert.	
16. **Performance guarantees.-** (1) The Authority shall require successful applicants for petroleum exploration licences to furnish an irrevocable and unconditional, and in an acceptable form, a guarantee or guarantees, with respect to the obligation and liabilities of the holder of a licence on or before the execution of the petroleum exploration licence. (2) The Authority shall notify as the requirement of the guarantee which may include the following namely:- (a) a bank guarantee equal to twenty five per cent of the minimum financial obligation from a bank of international repute acceptable to the Authority; (b) parent company guarantee from a company of international repute; (c) in case of local production, first and preferred ~~lien~~ charge on petroleum production; (d) in case of other local assets, first and preferred ~~lien~~ charge on assets; and (e) deposit in an escrow account. (3) In the event the successful applicant elects to provide any guarantee other than a parent company guarantee, the guarantee so provided shall only be released in case all work obligations including but not limited to social welfare, training, data, rental etc. are fully discharged. The Authority shall have the right to recover the due amount for non-performance of all such obligations from the performance guarantee.	16. Guarantee provision should be rationalized based on DGPC's experience. The existing bank guarantee (25%) does not appear to provide a required deterrent for non-performance. And, the escrow and charges may not be as viable given the relevant escrow/charging documents would need to be legally reviewed each time. 16(2)(c) & (d). "lien" has restricted effectiveness in Pakistan as the subject of the lien can't be sold, whereas if there is a "charge" it could be sold, by leave of the court.
PART II - PERMIT FOR RECONNAISSANCE SURVEYS 17. **Grant of permit.-** The Authority may grant a permit, in the form prescribed in Part I of the Second Schedule, to any company to carry out reconnaissance surveys over such areas and on such terms and conditions as it may determine in each case and include the following conditions, namely:- (i) the grant of the permit shall not imply that the holder of a petroleum right shall subsequently be entitled to the grant of	

a licence over the areas covered by the permit; (ii) On the conclusion of the survey, the holder of a petroleum right may apply for a licence in accordance with these rules, but shall not be entitled to claim a relaxation of rules for the grant of a licence applied for by him. However, the Authority upon a request of the holder of a petroleum right , may allow adjustment of the work carried out or expenditure incurred, excluding any work or expenditure related to a multi-client arrangement unless otherwise agreed, against the minimum work or expenditure obligation under a licence covering the area of permit, if granted; (iii) unless otherwise stipulated in the permit, the holder of a petroleum right shall have the non-exclusive right to undertake, within the designated areas, petroleum reconnaissance by such geophysical, geological, geo-chemical and geo-technical methods and such other related work including geological information bore-hole, as may be stipulated in the permit; (iv) the holder of a petroleum right shall submit a copy of all the maps, plans, graphs and magnetic tapes and related data as and when these become available and a complete report of the survey not later than six month of the completion of the survey; (v) the holder of a petroleum right shall comply with all instructions which the Authority may issue regarding the use of maps, plans, graphs and other data generated or collected by the holder of a petroleum right in the course of the reconnaissance survey; (vi) the permit shall be valid for a period of one year and may, at the discretion of the Authority be renewed for a period of up to one year; (vii) a permit does not extend to areas already covered by a licence or a lease unless otherwise specified by the Authority pursuant to sub-rule (1) of rule 66 ; (viii) the Authority may grant a licence, or a lease, to any person at any time for any part of an area covered by a permit except as provided therein; (ix) the holder of the permit shall perform work stipulated in the permit with due diligence; and (x) the holder of the permit shall for each square kilometer or part thereof comprised in the permit area pay to the Federal Government rent at the rate of two hundred rupees per year.	

PART III - LICENCE FOR PETROLEUM EXPLORATION 18. **Grant of licence.-** The Authority may grant an exclusive petroleum licence for exploration over any area on such conditions as are specified in Part II of the Second Schedule including other terms and conditions as the Authority may determine.	
19. **Size of area.-** A licence shall not be granted in respect of any area exceeding twenty-five hundreds square kilometers.	
20. **Shape of area.-** Each separate area in respect of which a licence is granted shall be, as far as possible, compact, bounded by straight lines and marked with permanent physical boundaries.	
21. **Rights and obligations of licence holder.-** (1) Subject to the provisions of these rules, the licence gives a holder the exclusive right to undertake, within the licence area, all activities related to reconnaissance and exploration, including drilling for petroleum. The holder of the licence shall not be entitled to extract any petroleum from discoveries other than such test and early production ~~as the Authority may allow under rule 24 provided, that in no event, such test or early production shall cause loss of revenues to the Federal Government~~ as provided for in rule 24. (2) A holder of a licence shall perform the work programme stipulated in the licence for initial term (phases I or II, as set out in rule 22) and any extension or renewal ~~as per schedule contained therein~~, along with other obligations as referred to in these rules.	21(1). It is vague as to what "loss of revenues" means, hence deleted the highlighted part. Many things could be construed as a loss of revenue, e.g., a lower gas price would generate lower royalty and so a loss of revenue. 21(2). Widened the scope of sub-rule (2) to make r.28 more efficient.
22. **Period of licence, ~~and~~ relinquishment and extension of area.-** (1) The initial term of a licence shall not exceed five years keeping in view the surface and geological condition of the licence area. The initial term of the licence shall comprise two phases with first three years period designated as "phase-I" and the next two years period as "phase-II". Minimum work programme for phase-I shall be determined through competitive bidding whereas a firm exploration well will have to be committed for entering phase-II. (2) The Authority may, subject to the terms of the licence, grant up to two renewals after the initial term. The term of each renewal shall be up to two years. However, to avail the renewal of maximum term of two years a reasonable work programme comprising at least an exploration well shall have to be offered keeping in view the surface and geological conditions of the licence area. A holder of a licence desiring to obtain such renewal shall make an application at least three months before the expiry of the licence or such lesser period as the Authority may allow. (3) The initial term or renewal of a licence shall be extended by the Authority for drilling an exploration well in progress for ~~a~~ the period of drilling ~~as may be approved by the Authority on case to case basis.~~	22. The word "extension" may be added to the heading as sub- rule (8) envisages the possibility of extending the area of a licence. 22(3). The extension to complete the drilling of a well may be a right and not require DGPC approval. Being an "extension" it implies a continuation of the phase so there is no need to mention that. The extension should not form part of the next

~~This extended period shall be considered to be part of the initial term or renewal, as the case may be~~. In the event of extension, granted for a well under drilling the Authority may grant a further extension for up to three months for post well studies on the request of a holder of a licence~~, and such extension in the licence shall be treated as part of any subsequent phase or renewal, where applicable and granted~~.	period/phase as that constrains the activity possible in the next period/phase.
(4) A holder of a licence shall comply with the following part relinquishment schedule during the term of the licence namely:- (a) at the end of phase-I – thirty per cent of the original licence area; (b) at the end of phase-II – twenty per cent of the remaining licence area; and (c) on or before the second renewal- ten per cent of the remaining licence area.	22(4). For the future, it is recommended that instead of mandatory relinquishment, could have a requirement for additional work units. No change recommended at this stage.
(5) A holder of the licence shall be entitled to renewal if it- (a) has complied with the work programme and all other obligations of preceding term of the licence; and (b) has committed to drill during ~~each~~ the renewal period at least an exploration well~~ or wells as may be agreed with the Authority,~~ prior to ~~each~~ the renewal~~, to the agreed objective and depth. Decision to this effect shall be taken giving due consideration to surface and geological conditions of the licence area~~.	22(5)(b). As long as it is an "exploration" well, which, by definition, requires a separate geological entity to be tested, it should not require any further approval of the Govt.
(6) In the case of several holders of petroleum rights, upon a written request of the operator, and in other cases on the request of petroleum right holder, the Authority may, on case to case basis, extend the term of the licence, or any year of a licence on the following grounds:- (a) if seismic and drilling services are not readily available ~~in the country~~ for the timely discharge of minimum work obligation, a proof to this effect will be required before the Authority considers accepting or denying a request for extension of an exploration licence. Such a request for extension will be required to be made after the holder of the exploration licence has exhausted all other options including but not limited to pooling resources to undertake coordinated activities with other holders of the petroleum right, if possible; (b) if a holder of an exploration licence commits to undertake additional work which is equivalent to at least twenty per cent ~~more than~~ of the minimum work obligation of the then current year, or if no specific separate work obligation for such year, then	22(6)(b). Recommend this whole sub-rule be deleted. However, if it is to be retained, the additional 20% commitment has to be linked with current work as there may be no subsequent work programme defined.

the current ~~subsequent~~ phase or renewal;	
(c) if a holder of an exploration licence makes additional accelerated area relinquishment equivalent to twenty per cent of the original licence area; or	22(7). The addition is to avoid EWT, significant gas discovery extensions & drilling in progress being caught by the 2 year limit.
(d) ~~if a holder of a licence was unable to perform work because of circumstances beyond its control such as law and order situation, or for any unforeseeable reason including but not limited to a flood or earthquake.~~ Any technical considerations which hinder petroleum operations.	22(8). The enlarged area should not be permitted to be greater than 2,500 sqkm as provided in r.19.
(7) Notwithstanding anything contained in this rule, in no circumstances will an extension or extensions provided in sub-rule (6), cumulatively ~~shall not~~ exceed ~~from~~three years during the currency of an exploration licence.	22(9)(a). Is to "legalise" the period when a licence may have expired but is awaiting approval to a renewal or extension application.
(8) Notwithstanding anything contained in these rules, upon a written request of a holder of a licence, the Authority may, on case to case basis, revise the co-ordinates of the area covered under the licence, provided, the geological structure extends into an adjoining free area, and further provided that the revised area will not exceed the area stipulated in rule 19.	
(9) (a) In the event a holder of a licence has applied for an extension or a renewal, prior to the expiry of a licence, the licence shall be deemed extended until approval is given or denied.	22(9)(b) & (d). Is to incentivise companies to make applications for extensions and renewals in a timely fashion.
(b) If approval for the renewal or extension is granted, the renewal or extension applied for will be effective from the date of approval or the term was to expire, whichever is later, unless such application was made less than three months or, in the case of an extension under sub-rule (3), one month, prior to the expiry of the licence, in which case it will be effective from the date the term was to expire.	(9)(c). Is to facilitate late applications.
(c) If a holder of a licence applies for an extension or renewal within three months after the licence has expired, the Authority may, on a case to case basis, still approve such application, provided the holder of a licence pays a penalty of five hundred thousand rupees per day after the expiry, without prejudice to any obligation to pay liquidated damages. Pending decision of the Authority to such an application the licence shall be deemed extended and if approval is given the renewal or extension shall be effective from the date the term was to expire.	
(d) Rent, as provided in rule 29, shall be payable for any deemed extended period provided in sub-rules (a) or (b), unless an application for renewal or extension is made at least three months or, in the case of an extension sought under sub-rule (3), one month, prior to the expiry of the licence, in which case no rent shall	

	be payable for the deemed extended period. Any such rent for such period shall not be payable again on account of the renewal or extension being effective from the date the licence was to expire. Rent shall be payable on a *pro rata* basis for any part of the extended period not being a complete year.	
23.	**Appraisal, evaluation and renewal.-** A holder of a licence having made a discovery of petroleum shall perform such additional work ~~as the Authority , after consultation with the holder of the licence, may specify,~~ so as to enable the holder of the licence to make timely determination of a discovery as a commercial discovery. Subject to the ~~agreement on such additional work and the~~ holder of the licence having complied with the work programme and his other obligations shall be entitled to renewal of the licence ~~not exceeding~~ for two years for the purpose of expeditious appraisal and evaluation of the discovery. The renewal shall only apply to the discovery area. The term of the appraisal renewal may be extended further for such period as may be approved by the Authority on case to case basis following a written request of the holder of the licence.	23. Intention is to reduce the need for DGPC involvement on what is a commercial exercise, which the companies are best placed to manage.
24.	**Extended well testing.-** (1) ~~Subject to approval of the Authority, a~~A holder of a licence may ~~be permitted to~~ undertake extended well testing or early production ~~hereinafter referred to as EWT~~, during the appraisal phase and before grant of lease ~~declaration of commercial discovery and approval of the development plan~~provided the Authority is informed in advance or if such EWT involves flaring of gas, requiring approval of the Authority, or such EWT is to exceed one month, approval of the Authority shall be obtained in advance. ~~Such approval shall be granted provided that the operator *inter alia*~~ The holder of the licence shall comply~~ies~~ with the requisite royalty, tax, rentals of the discovery area and training and social welfare obligations as applicable under the lease.	24 (1) & (2). EWT of a month or less and no flaring which requires DGPC approval, may be undertaken without DGPC approval.
(2)	In the event a~~A~~ request for approval of EWT is to be made under sub-rule (1), the request shall include~~ing~~ associated temporary production facilities and shall be made to the Authority providing information with regard to,- (a) technical justification for EWT; (b) proposed duration for EWT; and (c) a plan for disposal of gas during the proposed EWT period.	24(3). First sentence seems unnecessarily detailed and second sentence is better covered by r.59(3). Hence all deleted and a more generalised provisions inserted.
(3)	If approval of the Authority is sought for EWT, it shall not be unreasonably withheld or delayed.~~The duration of EWT shall be allowed keeping in view the reservoir uncertainty and the proposed investment outlay on EWT. The Authority shall not grant approval to undertake flaring of gas during EWT for a period longer than thirty days if the gas infrastructure is located within twenty-five kilometer radius of the discovery well, unless under exceptional~~	24(4). EWT pricing terms are not for the Rules. Production bonus on the first tier should be payable at some point even if a lease is not granted, and suggestion here is that it would be

~~circumstances.~~ (4) ~~During appraisal phase a holder of a licence may be allowed to produce petroleum based on EWT pricing terms and subject to the condition that the p~~Production during EWT and post declaration of commerciality, would be considered as commercial production for the purpose of payment of production bonus, royalty and all other obligations as are applicable to lease. However, the first production bonus would be applicable upon the earlier of commencement of commercial production subsequent to grant of lease or production reaching the first level that production bonus is payable on volume produced. ~~(5) The facilities that are required to undertake EWT shall be constructed and operated in accordance with good international oilfield practices.~~	payable along with the first tier of production bonus based on volume. For future, wording may be inserted to clarify that the leniency on production bonus applies only if there is production bonus in the PCA (as that is a contractual matter). 24(5). Deleted as better to just have one rule dealing with standards and that is r.59.
25. **Retention of gas discovery.-** (1) In the case of a significant gas discovery in a licence in Zone I or Zone II as specified in annexure I, ~~a retention~~ the Authority may extend the period of licence, to the extent of the discovery area, by up to five years ~~shall be considered~~ for onshore licences, on a case to case basis, provided such discovery may be declared a commercial discovery when adequate gas pipeline transportation facilities are installed and gas markets have been sufficiently developed for sale of natural gas on commercial basis. (2) A discovery containing oil and gas or oil, gas and condensate is considered to be a gas discovery for the purposes of obtaining a retention period only when liquids production is not considered economic without marketing the gas stream.	25. It should be clear that the retention period is an extension of the licence. This was not clear by simply saying it was a "retention" period.
26. **Declaration of commercial discovery.-** (1) Upon completion of ~~the agreed appraisal,~~its evaluation ~~and commercialization work~~, the holder of a licence may submit a notice for declaration of commercial discovery to the Authority ~~for its approval~~ along with a report in accordance with clause (d) of rule 55 and general plan for development. ~~Subject to the approval of commercial discovery~~After issuing such a notice, the holder of the licence shall be entitled to apply for the grant of a lease in respect of discovery area in accordance with these rules. (2) The lease shall prevail over the licence within the area designated in the lease, but the licence continues to be valid outside such lease area without modifying the rights and obligations pursuant to the licence. In the event of a licence continuing to be valid beyond the term of a lease, or on any part of the area of a lease being reduced, the license shall automatically again extend over such lease area, provided such area or areas are contiguous with the remaining licence area and further provided that the total area of licence does not exceed the area provided in rule 19, less any reductions	26(1). DoC should not require approval and it should be possible to declare at any time. Deletion of "agreed appraisal" is because it should be possible for DoC to be before the end of an agreed appraisal programme. 26(2). It may be (although unlikely) that a lease, or parts of a lease, could expire/be relinquished while a licence is continuing. In such an event, it should revert back to the

required under rule 22(4). (3) Upon termination of the licence, a holder of a Licence shall relinquish the licence area except the area covered by the lease or leases granted to him.	licensee, provided the area is joined with the licence.
27. **Extension pending grant of lease.-** If a holder of a licence, before the expiry of the licence, has applied for a lease, the duration of the licence notwithstanding the provisions of sub-rule (7) of rule 22 shall be extended until the lease has been granted or refused ~~or the period of three years as provided in the rule whichever is later.~~	27. There should be no time limit for this extension as it is in the Government's control.
28. **Work programme and other obligations not fulfilled.-** (1) Where upon the surrender, revocation or the expiry of a licence, the obligations pursuant to rules 21,and 22 have not been fulfilled, holder of a licence shall;- (a) pay to the Government such sum by way of liquidated damages which correspond to the minimum expenditure of undischarged work obligations as set forth in the licence within a period of thirty days from the surrender, revocation or expiry of the licence; or (b) ~~request the Authority , to allow~~ transfer ~~of~~ undischarged work obligation committed under rules 21 and 22 to another area with the approval of the Authority if it is demonstrated to the satisfaction of the Authority that there is no drillable prospect in the licence area. ~~Such transfer shall be subject to such terms and conditions as may be specified by the Authority on case to case basis;~~ In the event that a petroleum right is held by more than one company, the undischarged work obligation shall be monetized, based on liquidated damages obligations and divided between the companies in accordance with their interests in the right. Any company not transferring a work obligation to an area of its choice shall pay its *pro rata* share of liquidated damages, without prejudice to rule 8. (2) Where a holder of a petroleum right has not fulfilled other obligations relating to social welfare, rent, data, training, etc., the guarantees submitted by the holder of a petroleum right shall not be returned till the obligations are discharged first or the holder of a petroleum right of the remaining other obligations provides replacement guarantee(s) equivalent to the value, as determined by the Authority. (3) In case the liquidated damages payable pursuant to clause (a) of sub-rule (1) are not paid or the transfer of undischarged work obligation to any other area(s) pursuant to clause (b) thereof, is not approved, the Authority may, in addition to any other action or remedy including black listing of a holder of a licence, cancel a lease granted to the holder in respect of any area comprised within the area of the	28(1)(b).Further clarity was required on transferring a work obligation. 28(4). This sub-rule is to

licence which has been surrendered, revoked or expired. (4) Where a holder of a licence is ~~found to be~~ in default ~~or breach of the terms and conditions on which a petroleum right was granted or~~ of his work or other obligations and has paid liquidated damages as provided in sub-rule(1)(a) ~~remedied such default or breach to the satisfaction of the Authority in accordance with sub-clause (a) of rule 72~~, the holder of the licence shall be deemed to have complied with such work obligation ~~mitigated such default or breach~~ for the purpose of rules 21and 22.	make it more specific to the issue which appears desired to be tackled
29. **Rent.-** (1) A holder of a licence shall for each square kilometer or part thereof comprised in the licence area pay rent to the Federal Government at the following rates, namely:- (a) in respect of initial term of five years of the licence under sub-rule (1) of rule 22,- (i) thirty-five hundred rupees for the whole term of five years; or (ii) eight hundred rupees in respect of each year of the initial term of five years of the licence; and (b) in respect of each renewal or extension of the licence under sub-rule (2) or (6) of rule 22 or rules 23 or 25,- (i) five thousand rupees for each renewal; or (ii) two thousand seven hundred and fifty rupees for each year or pro rata in the case of part of a year of each renewal or extension. (2) Notwithstanding any provision of a licence, rent shall be adjusted as provided for in rule 75(2) and not by any adjustment clause in a licence, ~~The licence may include a provision for annual adjustment of the rent due by reference to an appropriate index~~ so as to ensure that the rent retains its value in real terms. (3) The rent shall be paid in advance of the period to which it relates.	29(1)(b). Widened the scope of this to include rents for extensions. 29(2). It is recommended that all rents are harmonized, regardless of vintage of PCA. This could only apply if the Rule changes were opted for.
PART IV - LEASE FOR PETROLEUM DEVELOPMENT AND PRODUCTION 30. **Grant of development and production lease.-** (1) The Federal Government shall on being satisfied that a commercial discovery has been made and that the terms and conditions of a licence, including the work programme, have been duly observed and performed, or that a holder of the licence is in satisfactory progress with the work programme, and that the requirements of rule 36 have been duly complied with by the applicant, grant a lease in the form prescribed in Part III of the Second Schedule in respect of discovery area within	30(2). It could be that one discovery area does not fall completely within

the licence area granted to the applicant. (2) The Federal Government may grant a single lease covering more than one discovery area within the same licence area provided that such discovery areas are juxtaposed vertically in which case the lease shall be granted on the basis of the combined discovery area ~~which is larger in extent.~~ (3) In the event that any part of a discovery area extends beyond the lease into an open acreage, the Federal Government may upon being satisfied that the discovery area extends into such open acreage and subject to such conditions as deemed necessary, readjust the subsisting boundaries of the lease so as to include such part of the open acreage on which the discovery area extends.	the geographic boundaries of the other which is larger in extent. In that case the lease could only cover one of the areas and some part of the discovery may be outside the lease boundaries. In order to capture the intention of the rule, a change has been suggested.
31. **Rights of lease holder.-** A holder of a lease shall have an exclusive right to perform activities in connection with the development and production of petroleum in the area covered by the lease, including the right to undertake transportation of petroleum, subject to approval pursuant to rule 37.	31. In the event approval is removed from r.37, approval required here may be removed.
32. **Shape of discovery area.-** Each discovery area in respect of which a lease is granted shall be laid out in straight lines between well defined points as far as practically possible and must also be marked with permanent physical boundaries.	
33. **Survey expense.-** Before a lease is granted by the Authority the applicant shall, if so required by the Authority, at his own expense cause a topographical survey of the land specified therein to be made to scale normally required for petroleum right purposes, and approved by the Survey of Pakistan, and submit six copies thereof to the Authority.	33. Govt to advise if a topographical map is always required and what would be Survey of Pakistan approval.
34. **Lease period.-** (1) A lease shall be for the period for which application has been made and supported by relevant technical and other information but shall not exceed twenty-five years. In the event the lease is initially granted for a period less than twenty-five years, the same may be extended from time to time, such that the total overall period of lease does not exceed 25 years ~~for the remaining period~~ provided commercial production continues. (2) Upon application from a holder of a lease, the Authoritymay renew the lease for a period, not exceeding five years, if commercial production is continuing at the time of the application, subject to the following, namely:- (a) the request for a renewal along with revised development plan is submitted to the Authority not less than ~~three~~ one year~~s~~ prior to expiry of initial term; and (b) the area has been producing on a regular commercial basis on	34(1). Making provision to extend a lease up to the initially permitted maximum. 34(2)(a). The period needs to be less as production at the tail end of the life of the field may be hard to determine far in advance, especially for small fields. 34(2)(b). This would appear unnecessary as mentioned earlier in sub-rule (2).

the date of the request.	
35. **Re-grant of lease after expiry of lease term.-** (1) For grant of petroleum rights after the expiry of lease period, the Authority shall invite bids one year before the end of the lease period from the companies participating in the bidding over the lease area, in relation to any producing field for an additional ten years or such lesser period for which commercial production is expected to continue. The bids shall be evaluated on the basis of a development plan and signature bonus. The Authority may keep re-granting a lease, in a similar manner, as long as production is continuing. (2) Each bidder shall provide a bid bond of ten percent of the offered signature bonus at the time of bidding along with a development plan. (3) The existing lease holder can match the highest signature bonus bid by increasing 25% value thereon as allowed by the Federal Government on case to case basis, however, this shall not be claimed as a matter of right. (4) The Authority shall be under no obligation to grant any extension.	
36. **Development plan.-** (1) Together with the application for initial lease term, a holder of a petroleum right shall enclose a development plan which shall contain such information as the Federal Government shall prescribe by way of procedures provided in rule 77A ~~may reasonably deem necessary,~~ including but not limited to the following, namely:- (a) proposals for the development and production of each discovery area including possible alternatives and proposals relating to the disposition of associated gas; (b) proposals relating to the spacing, drilling and completion of wells, the production and storage installations and transport and delivery facilities required for the petroleum production. Such proposal shall cover,- (i) the estimated number, size and production capacity of production facilitates and platforms, if any; (ii) estimated number of production wells; (iii) particulars of production equipment and storage facilities; (iv) particulars of feasible alternatives for the transportation of petroleum including pipelines; and (v) particulars of equipment required for the operations; (c) the production and sales profiles for crude oil, condensate and	36(1). A framework for what is to go in to a Development Plan should be given as it will make the preparation easier for companies and review-process easier for the DGPC. 36(1)(c). Recommended that sales profiles also be provided.

natural gas and other products for the life of the field; (d) investment plans including cost estimates of capital and operating expenditure; (e) profitability estimates; (f) proposals related to the establishment of processing facilities and processing of petroleum in Pakistan; (g) safety measures to be adopted in the course of development and production operations including measures to deal with emergencies and protection of environment; (h) a description of the organization in Pakistan, pursuant to these rules; (i) contingency and abandonment plans; and (j) time schedule of all activities covered in the development plan clearly specifying the critical milestones proposed and measures to achieve such milestones. (2) The plan requires the approval of the Federal Government. Such approval shall not be unreasonably delayed provided the requisite information has been provided to the Federal Government. (3) After approval of the plan, a holder of a Lease shall carry out development and production in accordance with the plan, subject to such modifications as may be necessary and are approved by the Authority from time to time.	
37. **Transportation of petroleum.-** (1) Subject to approval in accordance with this rule, a holder of a petroleum right has the right to lift and transport petroleum from the licence and lease area, either through transportation facilities owned wholly or partly by himself or through access to transportation facilities owned by a third party and such approval shall not be unreasonably withheld or delayed. (2) In case the holder of a petroleum right intends to construct its own transportation system for which tariff will be claimed, it shall submit to the regulator concerned, an application comprising the proposed organization and implementation of the transportation system. In case of pipeline transportation, the application shall also comprise the design, construction and route plans and any other information as required by the concerned regulator under the relevant laws. (3) The regulator concerned may, on giving its approval, stipulate in accordance with the applicable policy such conditions as are reasonable and necessary to secure a rational system of transportation of petroleum and it may-	

(a) require that several holders of petroleum right install jointly owned transportation facilities; and (b) grant to any third party access to transportation capacity at tariffs to be approved by the regulator concerned.	
38. **Royalty.-** (1) Royalty on petroleum produced and saved shall be payable at the rate of twelve and a half per cent of the value unless a higher rate for royalty is provided for in the relevant PCA between a holder of a petroleum right and the Federal Government. (2) Royalty shall be paid in cash unless the Federal Government elects to take the delivery of royalty (wholly or partially) in kind at field gate upon six months advance notice. In case of royalty in kind, the holder of a petroleum right shall at the request of the Federal Government and at allowed transportation cost, make arrangement for transportation of the royalty petroleum downstream of the field gate in the same manner as if it was its own petroleum. (3) Royalty shall be payable monthly within a period not exceeding forty five days of the end of the month of production in question which if delayed beyond this stipulated period would attract fine at the rate of the London Inter Bank Offer Rate (LIBOR) plus two per cent as may be determined by the Authority. In the event royalty obligation remain un-discharged for two consecutive months following expiry of the month of production in question to which the payment of royalty relates, the Authority may take such action as it may deem appropriate in accordance with these rules, including but not limited to the exercise of powers of revocation pursuant to sub-rule (e~~5~~) of rule 72. (4) The Federal Government shall lift or take royalty petroleum in a timely manner and in accordance with such lifting or sales agreement as may be mutually agreed with the holder of a lease. (5) A holder of a lease or licence shall be permitted to use petroleum produced from the lease or licence area for drilling, production, maintenance and processing of petroleum obtained from the said lease or licence free of cost, royalty and excise duty, provided that the holder of the lease or licence shall not be entitled to include any notional costs in claiming his business expenses for income tax purposes. (6) From the amount of royalties payable in respect of any one year of the term of a lease or licence, there shall be no deduction of any expenditure except allowed transportation cost. (7) The Federal Government may from time to time issue guidelines which shall *inter alia* cover procedure for administration and payment of royalty due from a holder of a licence or a lease. (8) Notwithstanding anything to the contrary contained in these rules, the election to take the royalty on natural gas in cash or kind shall be	38(5), (6). As royalty could be payable on EWT production, similar provisions on royalty management should apply during the licence phase. 38(8). It is recommended that royalty in kind should not be allowed prior to commercial production.

exercised only once within ninety days of the approval of development plan by the Authority and may not be exercised for production from a licence.	
39. **Value of petroleum.-** For the purpose of calculating the amount due by way of royalty, the value of the petroleum produced and saved shall be determined at the field gate by using actual selling price in the following manner, namely:- (a) If the petroleum is sold to the national market pursuant to rule 43, the actual selling price means the price determined in accordance with the relevant sale and purchase agreement between a holder of a petroleum right and the Federal Government or its designee less allowed transportation cost; and (b) In all other cases, the actual selling price means the greater of- (i) the price at which the petroleum is sold or otherwise disposed of less allowed transportation costs; or (ii) the fair market price received through arm's length sales of the petroleum less the allowed transportation costs.~~; or~~ ~~the price applicable to the sales made under sub-clause (a).~~	39(b)(iii). Deleted because royalty should only be paid on what is received, unless the fair market price is higher. If sub-rule (iii) remained it is conceivable that royalty could be paid on a price higher than that received or the fair market price.
40. **Royalty administration.-** (1) If there are two or more than two companies as holder of a lease or licence, they shall designate the operator to remit royalty on their behalf unless prior approval has been obtained from the Authority to remit royalty themselves. (2) Royalty shall be remitted with the supporting forms prescribed by the Authority with documents and information required. (3) If the Authority determines that petroleum was avoidably lost or wasted, including consumed by the holder of a right for purposes not covered by rule38(5), then royalty shall be payable on such lost or wasted petroleum in accordance with the direction issued by the Authority (4) If a holder of a lease or licence receives insurance compensation for unavoidably lost or wasted petroleum, royalty is due on the amount of the compensation in accordance with the direction issued by the Authority.	40. Added reference to licensee as royalty could be payable on EWT. 40(3). Added the few words for clarity.
41. **Yearly lease rents.-** (1) A holder of a lease shall pay to the Federal Government annually in advance, rent at the rate of seven thousand and five hundred rupees per square kilometer or part thereof covering the lease area during the initial period and rent at the rate of ten thousand rupees per square kilometer or part thereof covering the lease area during the renewal period of a lease and	41(2). It is

further lease term extension. (2) Notwithstanding any provision of a lease, rent shall be adjusted as provided for in rule 75(2) and not by any adjustment clause in a lease, ~~A lease may include provision for annual adjustment of the rent due by reference to an appropriate~~ index so as to ensure that the rent retains its value in real terms.	recommended that all rents are harmonized, regardless of vintage of PCA. This could only apply if the Rule changes were opted for.
42. **Surface rent.-** A holder of a lease shall pay for all land which he may use or occupy for the purposes of the operations conducted under the lease, a surface rent at the rate assessable under the revenue and rent law in the district in which the land is situated and water rates, if any, ordinarily assessable under any relevant rules if the land has not been occupied for the winning of petroleum.	
43. **National market deliveries.-** (1) The Federal Government may decide that a holder of a petroleum right shall deliver petroleum from his production to cover the requirements of the national market for petroleum. The national market for petroleum shall for this purpose means the total market requirements, less petroleum produced by or otherwise available to the Government from indigenous sources. The holder of a lease shall deliver the petroleum at such place or places in Pakistan in accordance with terms and conditions of applicable agreement between the Federal Government and the holder of a lease at the Federal Government's cost unless otherwise agreed and subject to sub-rule (3). (2) Sub-rule (1) shall apply to all holders of the lease producing petroleum as far as practicable, *pro rata* to their production. Each holder's obligation may be fulfilled directly or by means of swap arrangements approved by the Federal Government. (3) The Federal Government may also decide that the holder of a Lease shall arrange and pay for adequate transportation of crude oil condensate and natural gas liquid which it has thus ordered to be delivered up to the distance to the nearest operating refinery in Pakistan. (4) The price to be paid for petroleum to be delivered pursuant to this rule shall be such price as may from time to time be determined in accordance with terms and conditions of applicable agreement between the Government and the holder of a Lease.	
44. **Petroleum measurement.-** (1) A holder of a petroleum right shall measure or weigh all petroleum produced and saved from the licence or lease area by a method or methods customarily used in good international oilfield practices and approved by the Authority. The Authority, from time to time and as and when deemed necessary, may issue guidelines for installation, maintenance, inspection and other matters related to measurement of petroleum as per good international oilfield practices.	

(2) The Authority, or any officer authorized by it, shall, at all times during the term of the licence or a lease or any renewal thereof, be entitled to inspect the measuring or weighing equipment and to be present whenever such a measurement or weighing takes place. (3) A holder of a petroleum right shall install, operate and maintain all measuring and weighing equipment ensuring that such equipment records an accurate measurements as per good international oilfield practices and remains in good working condition at all times. If any such equipment shall at any time be found not to be accurate, the same shall, if the Authority, so determines after considering any representations in writing made by the holder, be deemed to have existed in that condition during the period of three months prior to the discovery thereof or the period elapsed since the last occasion upon which the same was examined or tested, whichever shall be the less. This restriction on time period shall not be applicable if the inaccuracy so discovered is found to be result of the holder's wilful tampering or negligence in which case appropriate adjustment in royalties and imposition of fine shall be made as determined by the Authority. The royalties payable in respect of such period shall be adjusted accordingly. (4) A holder of a petroleum right shall not make any alteration in the method or methods of measurement or weighing used by him or any equipment used for that purpose. The Authority, may require that no alteration shall be made save in the presence of an officer authorized by him.	
45. **Revocation of lease**.- (1) The lease may be revoked if regular commercial production has not commenced within five years from the grant of the lease. The lease may also be revoked if production has terminated for more than ninety days without prior written approval of the Federal Government unless this is due to force majeure or any other reason beyond the control of a holder of a lease and acceptable to the Federal Government. (2) In the event, a holder of a lease is found to have contravened sub-rule (1) the Federal Government may issue a ninety days notice requiring the holder of a lease to remedy the breach within the notice period failing which the Federal Government may impose a fine or revoke the lease, or both, unless a plausible justification is provided by the holder of a lease and accepted by the Authority.	
PART V- ACCOUNTS, RECORDS, INSPECTION AND REPORTS 46. **Records and accounts.-** (1) A holder of a petroleum right shall maintain full and accurate records ~~of accounts~~. (2) Original copies of all records shall be kept in Pakistan unless otherwise approved by the Authority.	

(3) A holder of petroleum right shall immediately comply with the demand of the Authority to submit the certified copy of any record.	
47. **Period of record-keeping.-** (1) The records shall be kept and maintained for a period of six years following the end of the calendar year to which the information contained in the record relates or for a longer period as may be determined by the Authority. In case of any particular record, upon application by a holder of petroleum right, the Authority may consent in writing to the destruction of record before the end of the six years period or such other period as is required under the applicable laws as the case may be. (2) Notwithstanding anything contained in sub-rule (1), if based on reasonable grounds, the Authority is of the opinion that it is necessary for the administration of any rules, to retain record for a longer period, he may direct the concerned holder of the petroleum right to do so specifying the reasons thereof.	
48. **Well records.-** (1) Notwithstanding the generality of rule 47, a holder of a petroleum right shall always keep full and accurate record of the drilling, deepening, plugging, completion, re-completion, sidetracking, testing or abandonment of all wells containing particulars of the following matters with respect to each well namely:- (a) the strata and sub-soil through which the well was drilled; (b) the casing used in any well and any alteration to such casings; (c) any petroleum and other reservoir fluids, or minerals encountered; and (d) such other matters as the Authority may, from time to time, require. (2) If required by the Authority, a holder of petroleum right shall deliver additional record to the Authority as and when these become available.	
49. **Production records.-** A holder of a petroleum right shall always keep full and correct record of production which shall contain accurate entries of:- (i) the gross quantity and quality of petroleum won and saved; (ii) the method and results of tests conducted; (iii) the quantity and quality of petroleum delivered in Pakistan and exported; (iv) the quantity and quality of petroleum used for re-injection, pressure maintenance, venting, flaring, drilling or other	

operational purposes; (v) the quantity and quality of petroleum sold, the name of the purchaser and the price at which it has been sold supported by necessary documents; (vi) the quantity and quality of natural gas treated and processed for the removal of impurities and inerts and natural gas liquids and liquefied petroleum gases and the quantity and quality of any liquids, gases or any solids obtained from it; and (vii) such further particulars as the Authority may from time to time, require.	
50. **Data to be property of the Federal Government.-** (1) All data including but not limited to wells logs, maps, magnetic tapes, cores, samples and any other geological and geo-physical information obtained by a holder of a petroleum right as a result of his activities in a permit, licence or lease shall be the property of the Federal Government subject to the right of the holder to use such data for the purposes of the petroleum right. The holder of petroleum right shall submit all of the aforesaid data and information to the Authority as soon as it has become available. The holder of petroleum right may, during the subsistence of a permit, licence or lease, after prior intimation to the Authority, disclose all or any part of the aforesaid data to a third party, provided that before disclosure of the data, such party executes an appropriate confidentiality agreement drawn up in accordance with the good international oilfields practices. (2) All processed geo-physical and geological information referred to in this rule shall be submitted to the Authority on transparent, dimensionally stable material as well as in the digital format, as may be notified by the Authority from time to time. (3) Information and data as mentioned in this rule shall be kept confidential by the Federal Government for a period of three years from the date the data is acquired by the holder of petroleum right with the following exceptions namely :- (a) information disclosed to other Pakistani authorities, or financial institutions or consultants of the Federal Government who will be bound to keep the same confidential; (b) information required for general statistical purposes; (c) upon the earlier termination of a permit, licence or lease, or upon the date of relinquishment of the area to which the information relates; and (d) all raw geo-physical, geological and well data including well logs may be disclosed by the Authority or the Federal Government to any interested party after two years of the activity to which	

such data relates. This however is not applicable to the data generated under multi-client arrangements. (4) Notwithstanding anything contained in these rules, the data in the possession of the Government in respect of a surrendered or relinquished area of a permit, licence or lease may be released by the Government to a holder of petroleum right or to an organization engaged in petroleum exploration, production and research, on the ~~actual~~ reproduction ~~and other~~ costs of the data and on such terms and conditions as it may determine. (5) Except as provided under these rules, a holder of petroleum right shall not disclose or cause to disclose any data except to a person who is ~~not~~ legally entitled to obtain, or where the holder is legally obliged to disclose that data. (6) Any other person who is permitted to receive the data shall hold the same subject to the same restrictions as are contained in sub-rule (3).	
51. **Power to inspect plants, records and accounts etc.-** (1)The Authority or any authorized officer, may, at any reasonable time, after notice in writing, enter any place where any activities or business is carried out by a holder of petroleum right under these rules, for the purpose of auditing or inspection or examination of *inter alia* wells, record, plants, appliances, buildings, or any other works. (2) A holder of petroleum right shall, for the purpose of an audit, or inspection or examination by the Authority of any of the records described in these rules ~~shall~~ ;- (a) provide access and all reasonable assistance to the Authority or the authorized officer to conduct the audit or inspection or examination without any hindrance; and (b) promptly provide or make available the certified copies of records as required by the Authority or the authorized officer to perform inspection under these rules.	51(2). Looking to reduce the extent of the DGPC's power to inspect or examine to only those records described in these Rules.
52. **Annual reports.-** (1) A holder of a petroleum right shall each year submit to the Authority annual reports containing the following particulars, namely ;- (a) a financial statement with an abstract of the accounts, prepared in accordance with accounting principles generally accepted in the petroleum industry and audited by a recognized firm of chartered accountants approved by the Authority; (b) a description of all exploration, development, production and other work carried out by the holder during the year relating to	52 and 53. The necessity for the various reports, including annual and monthly reports, may be revisited by the DGPC. However, no change is proposed at this time, except perhaps to sub-rule 52(1)(c) and to 53 to make "Monthly" reports "Quarterly".

the permit or licence or lease area; (c) estimates of in place and recoverable reserves of petroleum at the end of each year classified on the basis of good international oilfield practices as per standard format notified by the Authority. If so desired by the Authority, the holder of petroleum rights shall be required to carry out reserves certification from an independent source ~~as approved by the Authority~~; and (d) estimates of petroleum production and exports for each quarter of the next year. (2) The report referred to in clause (a) of sub-rule (1) shall be submitted within six months and the other reports within forty-five days after the end of year to which they relate.	
53. **~~Monthly~~ Quarterly reports.-** Within ten days after the end of each ~~month~~ quarter, each holder of a petroleum right shall prepare and submit a ~~monthly~~ progress report to the Authority which shall contain a narrative report of activities with plans and maps showing the places where work was done. Such report shall also contain;- (a) a summary of all geological and geo-physical work carried out; (b) a summary of all drilling activity and results obtained; (c) a list of maps, reports and other geological and geo-physical data prepared or acquired in connection with the activities; and (d) a statement of expenditure incurred by the holder of petroleum right during the month on a format as may be prescribed by the Authority, from time to time.	53. Rationale is to reduce the frequency by which all reports are given. Additional reports overburden contractor and unnecessarily have to be reviewed and stored at the DGPC.
54. **Daily reports.-** During drilling of a well, a holder of a petroleum right~~s~~ shall provide copies of the daily well reports on a prescribed format to the Authority.	54. DGPC to consider if reports need to be daily or if weekly would suffice (if required at all).
55. **Occasional reports.-** A holder of a petroleum right shall submit to the Authority the following occasional reports namely:- (a) within twenty-four hours, by ~~telex~~ email or fax with hand copy delivered within next twenty-four hours, if a well shows the presence of petroleum in significant measure or if a drill stem or any other test has been carried out on a well which produces petroleum; (b) within seven days after thereport under clause (a), a written report containing relevant geological information and chemical analysis in the case of a showing of the presence of petroleum, and in the case of a drill stem or any other test containing the	55(a). It is suggested to bring the Rules into the 21st century and dispense with telex and permit email.

following additional information, namely;-

(i) conditions and results of the drill stem or any other test, including but not limited to flow rates, flow periods, tested intervals, pressures, choke sizes, hole condition and stimulation measure;

(ii) physical analyses; and

(iii) any deductions there from as to the potential of the reservoir;

(c) within one month after the completion or abandonment of drilling operations, a comprehensive well completion report, which shall contain *inter alia* the lithological groups, stratigraphic boundaries, hydrocarbon zones, a copy of all well logs and tests and other relevant information including costs, provided that such information which cannot be obtained within this period shall be submitted as soon as possible;

(d) at the latest upon the issue of a commercial discovery notice, a report which shall substantiate such notice and contains,-

(i) all relevant geological information, including estimates of recoverable reserves and daily production;

(ii) a general plan for the development of the deposit, including possible alternatives, with a description of the main production and transportation installations envisaged, and the relevant cost estimates; and

(iii) calculations of the profitability estimates of the discovery;

(e) within forty-five days after the relinquishment or surrender of any part of the permit or licence or lease area, such maps, plans, reports, records interpretations, and data made or obtained by or for the holder of petroleum right relating to exploration, development, production abandoned, restriction of site and any other operations in the relinquished, surrendered or retained areas;

(f) report to the Authority about the particulars of any ~~fresh~~ material issues of capital which may be made by the holder of petroleum rights, or its parent company or any other company having a controlling share interest in it, from time to time and any alteration which may be made in the memorandum and articles of association or in the constitution of its parent company. Any fresh issues of capital shall at times be subject to clause (d)of rule 72; and

(g) such other plans and information as to the progress and results of the its operations as the Authority may require from time to

time.	
56. **General.-** The reports referred to in this Part shall be made in such form and manner as the Authority may determine.	
57. **Reports of discovery.-** (1) No announcement or statement, direct or indirect, about a discovery of petroleum shall be made, except by the Federal Government in consultation with a holder of petroleum rights, or by a holder where required by the law or otherwise with the consent of the Authority. (2) No statement shall be made by or with the consent of a holder of petroleum rights, claiming or suggesting, whether express or by implication, that any Government or any person or body acting on behalf of the Federal Government has or have formed or expressed an opinion that the licence or lease area is likely to contain petroleum.	57(1). Purpose of this change to allow for announcements which a holder may be legally obliged to make.
PART VI - STANDARD OF OPERATIONS 58. **Avoidance of harmful methods of working.-** (1)A holder of petroleum right shall undertake and execute all operations in a proper, prudent and diligent manner, in accordance with good international oilfields practices and shall not unreasonably obstruct or interfere with other activities such as navigation, fisheries and agriculture. All reasonable precautions shall be taken to prevent pollution or damage to the environment and surroundings. (2) Without prejudice to the generality of the foregoing provision, a holder of petroleum right shall take all steps including, but not limited to the following namely:- (a) prevent the escape or waste of petroleum discovered in the area; (b) to conserve the area for operations; (c) to prevent damage to adjoining petroleum bearing strata; (d) to prevent the entrance of water through wells to petroleum bearing strata, except when approved by the Federal Government for the purposes of secondary recovery; and (e) to prevent the escape of petroleum into any waters in or in the vicinity of the said area. (3) The Federal Government may establish safety zones around temporary and permanent installations as per good international oilfield practices. (4) The Federal Government may, from time to time, determine and notify the standards applicable to the operations under these rules in	**Formatted:** Font: G Bold, Not Expanded

	accordance with good international oilfield practices.	
59.	**Principles of sound operations.-** (1) All petroleum operations and activities shall be conducted diligently and in accordance with good international oilfields practices. The rate of production from each reservoir shall be the maximum efficient rate needed to achieve the maximum ultimate economic recovery of petroleum from various petroleum reservoirs unless otherwise approved by the Authority. (2) The Federal Government may specify measures at the time of approval of development plan that a holder of petroleum right shall take to conserve petroleum resource of Pakistan. These measures shall include, but not be limited to, notification of depletion policy, rate and flow of petroleum from the fields and the measures to achieve maximum ultimate economic recovery of petroleum from different reservoirs. (3) A holder of petroleum right shall not flare or vent any natural gas without the prior approval of the Federal Government in writing under these rules.	
60.	**Commencement, testing and abandonment of drilling operations.-** (1) A holder of a petroleum right shall not commence drilling, re-entry, sidetracking, hydraulic fracturing ~~testing and related operations~~ or abandonment of any well without first having obtained the approval of the Authority in writing.~~and it -~~ (2) A holder of a petroleum right shall,- (a) as soon as possible make known to the Authority the proposal for testing a well; (b) test all potentially productive horizons indicated by wire-line recording~~ as may be finalized in consultation with the Authority~~; and (c) promptly undertake the technical evaluation of the well testing results and of all other relevant data and submit the same as soon as possible to the Authority. (3) For the purposes of sub-rule (1), approval of the Authority shall be deemed to have been given at the end of the notice period provided in sub-rule (4) unless within such period the Authority gives reasons why the operation applied for should be varied or stopped. Any approval given or deemed given under this rule shall be without prejudice to any other obligation of the holder of a petroleum right. (4) For the purposes of sub-rule (3), the "notice period" shall be (a) 14 days from the delivery of a request for approval, save for an exploration well, (b) for the drilling of an exploration well, it shall be 7 days after a reminder request which may not be delivered to the	60. Changes made to reduce the necessity of involving the DGPC in what ought to be operational matters and not regulatory matters.

Authority in less than 14 days of the original request being delivered or (c) for an on-going operation, two working days from the request being delivered; provided in each case that if the holder of the petroleum right has failed to provide the required technical information for such operation in the standard format, any of the aforesaid periods shall commence from the provision of the required information. ~~(2)~~ (5) After the completion of all operations, the well shall be safely plugged and the same shall be reported to the Authority within seven days of the well being plugged. (6) ~~d~~Drilling operations shall be conducted in accordance with good international oilfield practices.	
61. **Shape of relinquished areas.-** Areas which are relinquished or surrendered shall be of sufficient size and shape so as to enable petroleum operations to be carried out therein.	
PART VII - MISCELLANEOUS 62. **Use of Pakistani goods and services.-** (1) In all activities carried out pursuant to these rules, a holder of petroleum right shall ensure the use of qualified Pakistani goods and services referred to in sub-rule (2), to the extent that such goods and services are competitive with regard to price, quality, quantity and delivery schedule. ~~(2) Local producers who are qualified under the relevant Customs General Order (CGO) of supplying goods and services of type demanded shall be included in invitations to tenders.~~	62(2). This sub-rule is a repetition of sub-rule (1).
63. **Employment and training of Pakistani personnel.-** (1) A holder of petroleum right shall give preference to the nationals of Pakistan for employment in its organization at all levels and in all branches including technical, financial, commercial, legal and administrative units and to arrange for the training in Pakistan and abroad, of nationals of Pakistan to fill in the aforesaid positions. The number of Pakistani personnel to be employed ~~or~~ and trained shall be submitted to ~~determined in consultation with~~ the Authority in accordance with the guidelines that may be issued by the Authority from time to time. The operator and its contractor shall ensure the employment of unskilled workers amongst the locals of the area in which the exploration and production activities are in progress to the extent of at least fifty per cent of their total strength of unskilled workers. The application for grant of a licence or a renewal or extension thereof and the development plan submitted with the application for grant of lease shall contain a description of the measures proposed to be taken by the applicant during exploration, appraisal, development and production phases so as to ensure compliance with this rule. (2) The Federal Government may require that a holder of petroleum	63. It should be a requirement that the operator favour Pakistani employmt/training, and there should be no guidelines beyond that, except to set out how the report should be structured.

rights shall provide training for Federal Government personnel in order to develop the capability of such personnel to efficiently perform their duties related to the supervision of petroleum industry. Such training shall cover both technical and management disciplines including geology, geo-physics, engineering, project management, accounting, commercial, legal and shall also be in the form of on-the-job training and participation in in-house seminars.	
64. **Joint exploration and development.-** (1) If a petroleum deposit extends across more than one licence or lease area held by different holders of petroleum right, then such holders shall endeavor to agree to explore and exploit the deposit jointly in the most efficient manner. (2) The holders of the different petroleum rights shall endeavor to expeditiously agree a ~~J~~joint exploration and development plan~~s~~ or where one or more of the deposits have~~s~~ already been developed, a joint unitization plan, ~~together with agreement between them~~ which shall be submitted expeditiously to the Authority for approval. (3) If ~~the~~ agreement on a joint exploration and development or unitization plan as referred to in sub-rules (1) and (2), is not reached ~~at~~ within a reasonable period of time, the ~~Federal Government may, in the public interest,~~Authority shall, on the request of any of the involved holders of petroleum rights, or may itself by notice in writing to all concerned parties, direct that they ~~to~~ finalize and submit for approval of the Authority relevant plan within the period stipulated in the notice, which shall not exceed three months. (4) In the event such plan is not submitted to the Authority within the stipulated period or such plan has not been approved by the Authority, either holder may request the Authority ~~may~~ to appoint an independent consultant to prepare such plan, or, if appropriate, decide first if a deposit does extend from the area of one right holder into that of another, which the Authority shall do without delay. (5) The cost of such consultant shall be at the joint cost of ~~a~~ the holders of the relevant petroleum rights to be paid as directed by the Authority. If a holder does not contribute, the cost shall be wholly borne by the other such holder. In such an event, if the reservoir does extend into areas held by the respective holder, the holder which did not contribute shall reimburse the other the whole cost of the consultant thus appointed. (6) The consultant shall be required to complete the plan within three months of receipt of the data and other information, with any extensions considered reasonable by the Authority which in any instance shall not exceed a cumulative period of six months. Both parties shall make available all data reasonably requested by the consultant which shall be obliged to enter into a confidentiality agreement. If a party fails to make such data available in a timely	64. This rule has been revised in an effort to make it more robust in the eventuality of fields of different owners being in communication.

	manner, the Authority shall direct such a party or parties to comply with this request, failing which such party shall be in breach of a material term and shall be subject to rule 72(a). (7) The plan so prepared by the consultant shall be considered ~~and approved~~ by the Authority and the respective holders, each of whom shall have one month to make written submissions to the consultant. Thereafter, the plan shall be finalized by the consultant and accepted by the Authority and parties. ~~with appropriate changes for implementation as per approved schedule.~~ In the event of a manifest error, ~~T~~the Authority may, unilaterally or on the request of an affected party, impose ~~stipulate~~ such additional conditions as may reasonably be considered appropriate ~~in the interest of such plan~~. The final plan shall be binding on the concerned parties. (8) In the event the reservoir does extend into areas held by the different holders of petroleum rights, the respective reserves determinations shall be effective from the date when there was commercial production or EWT production from more than one such area, and consultant shall make recommendations for necessary adjustments on this account in the plan. (9) (a) The reference to "consultant" in rules 64(4), 65(2), 66(2) and 71(3), shall be to such third party appointed by competitive bidding from three consultants chosen by the Authority from the list of consultants, provided for in sub-rule (9)(b). (b) The said "list of consultants" shall comprise of six pre-qualified consultants maintained by the Authority. Each such consultant shall be independent and of an international caliber/repute. The list shall be readily available to any holder of a petroleum right, at any time, on request, which may make observations on any party contained in the list or recommend others for inclusion. Based on such observations and after giving other holders of petroleum rights an opportunity to comment, the list may be changed by the Authority from time to time. (c) In relation to any bidding process, the involved petroleum right holders shall be given an opportunity of providing input on the bid documents, including terms of reference, evaluation criteria, in any communication relating to the bids and the parties shall have the right to be present at the bid opening.	
65.	**Petroleum exploration within lease area.-** (1) A holder of a lease shall have a preferential right to perform petroleum exploration activities on all horizons underlying the surface area of a lease above or below the sub-surface boundary of the lease ~~area granted to it~~ provided that, if the Authority receives a *bona fide* offer from a third party to undertake exploration within ~~such~~ the surface area of a lease ~~area~~ (excluding the sub-surface boundaries of the lease), the lease- holder shall be given the opportunity ~~have to decide whether or not~~ to match such offer within six months of	65(1). To clarify that the exploration would be below the surface area and not below the lease granted (which would be horizon-specific).

receiving a notice to this effect from the Authority. (2) In case a holder of the lease decides not to match the offer and undertake exploration pursuant to sub-rule (1) and a third party is granted petroleum exploration rights over any of ~~or all~~ the horizons underlying the surface area of a lease ~~area~~ (excluding the sub-surface boundaries of the lease), then such third party and the existing holder of the lease shall within ninety days enter into an agreement setting forth the detailed terms and conditions of operating within the surface area of a lease ~~area~~ so that the activities can be coordinated in a just and equitable manner which does not prejudice the interests of the existing holder. In case such an agreement is not reached ~~at~~ between the ~~parties~~ respective holders within the specified time or such agreement has not been approved by the Authority, the Authority may appoint a~~n independent~~ consultant to prepare a plan~~such an agreement~~ at the joint and equal cost of the parties, which will be binding on the holder and the third party and~~holders of petroleum rights~~. rules 64(6), (7) and (9) shall apply *mutatis mutandis*. The plan so prepared by the consultant shall ~~be~~ enable activities to be coordinated in a just and equitable manner, without adversely affecting the interests of the existing lease holder. ~~considered and approved by the Authority with appropriate changes for implementation as per approved schedule. The Federal Government may, impose such additional conditions as may be reasonably considered appropriate in the interest of such an agreement.~~ (3) A licence granted over all or part of the area within a lease shall, notwithstanding the terms and conditions of the licence, be deemed to be effective upon the parties concluding the agreement referred to in sub rule (2). If no agreement is reached within one year of the grant of such licence, at any time thereafter either the holder of the licence or the Federal Government may terminate the same without any liability or obligation. (4) For the purpose of petroleum exploration within a lease area, the provisions of rules 23, 24, 25, 26, 30 and 36 shall *mutatis mutandis* apply provided that where an existing lease holder makes a new commercial discovery, on such lease holder's request the provisions of rule 30 shall not be applicable and the existing lease shall be amended so as to bring the discovery area of such commercial discovery under the purview of the lease. ~~(3)~~(5) In case any discovery area covered under a lease appears to extend~~s~~ beyond the geographical limits of the lease area, the Authority may, upon request, allow a holder of the lease to undertake appraisal of such discovery area beyond the limits of the lease in an open area and revise the co-ordinates of the lease area if justified by the results of the appraisal pursuant to rule 23.	65(2). Further provisions in the event agreement is not reached. 65(3). There ought to be clarity that a licence cannot be effective until an agreement is reached or plan imposed as otherwise it could interfere with an existing lease holder.
66. **Exploration and use of facilities by third party.-** (1) The Federal Government may allow a third party to undertake	

exploration in the area of a licence ~~or holder of a~~ lease as may be necessary to obtain sufficient knowledge as to the geological conditions in areas surrounding the area of such holder. The said exploration activities must not unreasonably interfere with the activities of such holder. After consultation with concerned parties, the Federal Government shall determine the manner in which such exploration is to be carried out including the determination of the type and duration of exploration in the area. (2) The Authority may also decide that production, processing and transportation facilities owned by a holder of a lease shall be available for utilization by any other party~~ies~~ (in this sub-rule (2) referred to as "user"), if this is deemed to be desirable for the purpose of efficient operations, or if required in the public interest. Such utilization must not unreasonably interfere with the activities of the holder of the lease. The user shall pay compensation for such utilization as may be mutually agreed by the holder and the user~~and approved by the Authority~~. If the holder of the lease and the ~~nominated~~ user fail to reach an agreement ~~on compensation~~ within hundred and eighty days ~~or if the Authority does not approve the agreed compensation~~, the Authority may appoint a~~n independent~~ consultant to determine such compensation and other terms by way of a plan, at the cost of the user. ~~concerned parties. The compensation so determined by the consultant will be considered and approved by the Authority . The Authority may, impose such additional conditions as may be reasonably considered appropriate in the interest of such joint utilization plan.~~ Rules 64(6), (7) and (9) shall apply *mutatis mutandis*, and provided always that the consultant shall comply with any reasonable guidelines which the Authority may issue from time to time in this regard. (3) Any well which has been abandoned may be used by any party, with the approval of the Government, for any use, including use for geo thermal energy, provided if the well or wells are in the area of a petroleum right, the approval of the petroleum right holder must also be obtained.	66(3). For future purposes a provision has been included to make it clear that abandoned well may be used.
67. **General right of holder of the lease to enter upon land.-** Subject to any required approval of the Federal Government and of any other authority which may be involved, and on such conditions as may be stipulated, a holder of a lease shall have the following rights, as required for the purpose of carrying out operations under the lease, namely :- (a) to enter upon and use land; (b) to appropriate water; (c) to store petroleum; (d) to erect houses and machinery;	67. Govt approval should not be universally required, but only when "required".

(e) to search for, dig and get gravel; (e) to cut timber and clear undergrowth; (f) to enclose with a fence areas for which surface rent is paid; and (g) to carry out such other activities which the Federal Government considers necessary.	
68. **General rights of the permit-holder or licence-holder to enter upon land.-** Subject to approval of the Federal Government and of any other authority which may be involved, a permit-holder or a licence-holder shall have the same rights as are stipulated in rule 67, provided that the houses and machinery referred to in clause (d) thereof shall be temporary.	
69. **Restrictions on the holder of petroleum right.-** (1) The rights granted to a holder of petroleum right shall not prejudice the exercise of any of the following powers, namely:- (a) **President may work on minerals.**- The President or any of his authorized persons may, within the area of the holders of petroleum right search for and produce any minerals or substances other than petroleum and make and maintain such installations and facilities as required for the said work. (b) **President may permit other activities**.- The President or any authorized person may, within the area of the holder of petroleum right: (i) make and maintain upon, over or through the said area such reservoirs, pumping stations, generating stations, waterways, roads, tramways, railways, telegraph and telephone lines, pipelines or such other installations and facilities as he shall deem necessary or expedient for any purpose; (ii) obtain such stone, earth and other materials as may be necessary or requisite for making, repairing or maintaining the said installations and facilities; (iii) draw water from the said area and have free access thereto; and (iv) pass and repass at all times over the said area for all such purposes as occasion shall require. (c) **President may grant or demise said lands to third parties subject to holder's rights.** Liberty and power for the President to grant or demise to any person all or any part of the said area for any purpose so that such grant or demise be made subject to the rights of the holder.	

(2) The President's powers under this rule shall be exercised and enjoyed in such manner as not to unreasonably hinder or interfere with the rights of the holder of petroleum right. Fair, proper and adequate compensation shall be paid by the President for all loss, damage or injury, without including the value of any water, stones, earth or other materials taken, which the holder of petroleum right may have suffered as a consequence of the exercise of the said powers under this rule.	
70. **Power to execute works**.- If a holder of a petroleum right, at any time, fails to perform its obligations under these rules or under any agreement with the Federal Government, the Authority shall be entitled, after giving reasonable notice in writing of its intention, to execute any works which may be deemed necessary to secure the performance of the said obligations or any of them and to recover the costs and expenses of so doing from the holder of petroleum right.	
71. **Power to control spill or waste.-** (1) A holder of petroleum right at all times, has obligation not to cause spill and waste. (2) Where the Authority, on reasonable grounds, is of the opinion that, with respect to any operation of a holder of petroleum right, spill or waste is required to be controlled or prevented, may order the holder of petroleum right to control or prevent spill and waste within a reasonable period of time, failing which the Authority may cause to take such necessary steps and measures to control or prevent the spill or waste as may be required and all cost thereof shall be borne by the holder of petroleum rights. (3) If there is any dispute, controversy or claim arising out of or in relation to the exercise of the powers by the Authority under sub-rule(2), the Authority and a holder of petroleum right shall make all reasonable efforts to settle such dispute, controversy or claim within sixty days of the issuance of order by the Authority under sub-rule (2), failing which such dispute, controversy or claim shall be referred to an independent consultant who shall be appointed by the Federal Government at the cost of and with consent of the holder of petroleum right. The findings of such consultant shall be binding on the Authority and the holder of petroleum right. (4) Notwithstanding anything contained in this rule, the Authority or a holder of petroleum right may exercise the option of settling the dispute, controversy or claim in accordance with rule 77.	
72. **Power of revocation.-**In addition to other grounds for revocation specified in these rules, the Authority may revoke a petroleum right after serving a thirty days show cause notice if~~I~~,- (a) a holder of petroleum right has contravened any material terms and conditions on which the petroleum right was granted, under the provisions of these rules or of any law applicable to the	

petroleum operations and has not, within a period of sixty days from the date on which a notice in that behalf was served on it by the Authority, remedied the default, or where the default cannot be remedied, has not, within such period offered reasonable compensation in respect thereof; (b) the petroleum right was found ~~materially~~ granted by reason of giving materially false information by a holder of petroleum right; (c) a holder of petroleum right or its parent company makes an arrangement or composition with its creditors, and a receiver is appointed or the holder of petroleum rights goes into liquidation whether compulsory or voluntary; (d) without the prior consent of the Authority, there is a disposition of the share capital of its or its parent company in consequence of which any person who prior to that disposition had effective control of or its parent company ceases to have such effective control; and (e) a holder of petroleum rights has failed to make payment (whether part or full) payable under the rules or the relevant agreement and such payment remains in arrears or unpaid for two subsequent months from the date on which the payment was due.	
73. **Right of Government upon termination of a petroleum right**.- (1) When a permit, ~~or~~ licence or lease has expired, or been revoked, ~~or has been~~ surrendered or area relinquished, wholly or partly, except if otherwise provided in the PCA, the area of permit or licence or lease or area relinquished shall, so far as practicable, be reinstated in its original condition and where this is not practicable, ~~it~~ the holder shall pay compensation to the Federal Government for damages suffered as a result thereof. (2) When a petroleum right has expired or ~~has~~ been revoked, surrendered or area relinquished, wholly or partly, ~~or the use of~~ any installations and facilities ~~including related equipment has come to an end, the Federal Government has the right to takeover~~ relating thereto, or ~~the~~ installations and facilities no longer required by the holder of the petroleum right for the area, may be taken over by the Federal Government through GHPL, along with ~~including~~ related equipment~~s~~. This also comprises pipeline transportation and related facilities installed by a holder of petroleum right to secure shipment of petroleum. (3) Upon taking over the installations, facilities and equipment pursuant to sub-rule (2), a holder of petroleum right shall be required to hand over such installations, facilities and equipment~~s~~ in such condition as may be reasonably expected~~required~~ under good international	73(1) & (2). Modified wording as expiry, revocation and surrender cannot be partial. Only relinquishment could be in whole or part. Also some other reordering for greater clarity. 73(3). The standard of facilities etc to be handed over should be stated and not be left vague as

oilfield~~s~~ practices. No compensation shall be given for such takeover. Takeover involves an automatic cancellation of any security for debts or leasing arrangement related to such installations, facilities and equipment~~s~~ and title of the same shall be transferred to the Government. (4) If the Federal Government does not exercise its right to takeover the installations, facilities and equipment~~s~~, the Federal Government may demand, within three months from the expiry the time permitted in sub-rule (2), that removal shall be carried out by a holder of the petroleum right at its expense, in which case sub-rule (1) shall apply. (5) At least one year prior to termination, a holder of the lease shall submit to the Authority a plan for the orderly closing down and abandonment of its operations, and for the removal of the facilities or their transfer to the Federal Government, as the case may be.	"such condition as required". Does that mean the outgoing company has to upgrade facilities?
74. **Indemnity.-** (1) The holder of a petroleum right shall effectively indemnify, defend and hold harmless the President, and the Federal Government ~~and the Authority~~ at all times against all proceedings, costs, charges, claims, losses, damages and demands whatsoever, including, without limitation, claims for loss or damage to property or injury or death to persons, caused by or resulting from work conducted by or on behalf of the holder of petroleum right, by any third party, or anything done or purporting to be done in pursuance thereof; (2) The holder of a petroleum right shall, if required to do so by the Government, take out and maintain such insurance, as the Government may approve, against any of its liability under these rules. (3) No suit, prosecution or other proceedings shall be initiated against ~~Authority/~~the Government (including any entity or agency of the Government) ~~or its assign~~ for anything done or purported to have been done in good faith under these rules. 75. **Miscellaneous obligations.-** (1) A holder of petroleum right shall have an organization in Pakistan with sufficient competence and capacity to conduct all operations and activities pursuant to these rules and shall,- (a) immediately after grant of petroleum right, but before commencing any operations in the relevant area, furnish to the Authority, the name and address of the manager, resident in Pakistan, under whose supervision operations are to be carried on in the permit, licence or lease area; and (b) in writing, keep the Authority informed of the names, addresses and nationalities of sub-contractors employed by it from time to time.	74(1). The "Authority" is part of the Government and there is no need to specifically identify it, hence deleted it. 74(3). As the "Authority" is part of the Federal Govt no need to specifically mention it, but for clarity have included a catch-all in brackets. 75(2). Rent should be the same regardless of when a licence or lease was awarded and should not be indexed in the licences/leases themselves. DGPC should decide what form the notification should be and if impractical to

(2) Any rent for a petroleum right under rules 29 or 41, maximum penalty under rules 80(3), or fee referred to in these rules may be increased from time to time by reference to an appropriate consumer price index, which increase shall be effective prospectively after notification.	Gazette, should discuss whether wording here may require modification.
76. **Force Majeure.-** (1) Failure on the part of a holder of petroleum right to fulfil any of the terms and conditions of the petroleum right shall not give the President, or the Government, any claim against the holder of petroleum right or be deemed a breach of his obligations insofar as such failure arises from force majeure. **Explanation.-** The expression "*force majeure*" includes an act of God, war, insurrection, riot, civil commotion, flood, lightening, explosion, fire, earthquake and any other happening which the holder of petroleum right could not have reasonably prevented or controlled, and shall not include a circumstance existing at the time of the grant of the petroleum right.	
(2) If the ability to fulfill the terms and conditions is affected by force majeure, a holder of petroleum rights shall without delay give notice to the Government, stating the cause of such inability, ~~and his~~ its efforts to remove such causes and remedy its consequences and steps to be taken to prevent the circumstances reoccurring and mitigating the consequences thereof.	
(3) In case of *force majeure*, the duration of the petroleum right shall be extended for the period of the *force majeure* situation and for such further period as is required to resume the operations.	
77. **Arbitration.-** Except as otherwise agreed to or expressly provided for in these rules, any question or dispute regarding the petroleum right or any matter or thing connected therewith shall be resolved by arbitration in Pakistan and in accordance with Pakistani laws.	
77A. **Decisions and review.-** (1) All decisions to be made by the Government, including the Authority, under these rules or concerning a petroleum right, PCA or other agreement or plan made in relation to a petroleum right shall be in writing, with reasons, made without undue delay.	77A(1). All decisions should be recorded in writing with reasons. This helps keep consistency and transparency.
(2) The Authority may prepare procedures to be followed by a holder of a petroleum right seeking a decision under any rule which shall be readily available to any person on request. If there are such procedures and a holder of a petroleum right reasonably satisfies the criteria contained therein, then the Government or the Authority shall, unless the circumstances reasonably justify otherwise make a decision favourable to the petroleum right holder.	77A(2). Having SOPs which can be made readily available to companies will make decision making/approvals easier for Govt and companies alike.
(3) The Authority shall prepare procedures as provided for in sub-rule	77A(3). Certain rules

(2) for, but not limited to, rules 9, 10, 22(8), 24, 28(1)(b), 36 and 60. ***First option:*** (4) (a) If a holder of a petroleum right is aggrieved by a decision of the Authority or if the Authority does not respond to a request in a timely manner, the regulations contained in the Fourth Schedule hereto shall apply. This will however be without prejudice to a party's rights under any provision of law or the PCA. (b) Such regulations may be amended by the Authority from time to time to apply prospectively and any changes shall be duly notified in the official gazette and a copy sent to all petroleum right holders. ***Second option – an alternative to sub-rule (4), preceding, and the Fourth Schedule, have r.77B:*** 77B. **Independent Appeal Forum:-** (1) Any holder of a petroleum right or contractor aggrieved either by a decision of the Authority or where the Authority has not responded to a request in a timely manner, may without undue delay, make a written representation to the Authority. The Authority shall arrange to convene a review meeting with the holder of a petroleum right or contractor within seven days of the receipt of written representation. (2) Within seven days of the review meeting, the Authority shall convey to the aggrieved party in writing its final decision with reasons and basis thereof. (3) If the holder of a petroleum right or contractor is still aggrieved of the decision/final decision of the Authority or if the Authority has still not responded, the aggrieved party may request the Secretary, Ministry of Petroleum & Natural Resources after 14 days of his representation or the final decision of DGPC as the case may be, for the matter to be submitted to the Forum of Appeals (FOA). (4) The FOA shall comprise of the following three members including the Chairperson: (i) A senior technical expert with at least25 years' experience from the exploration and production industry who will be the member/Chairperson. (ii) A senior commercial/regulatory expert from the exploration and production industry with at least 20 years' experience as member. (iii) A senior legal expert with at least 15 years' experience in the	have greater need for SOPs and so are specifically identified here. 77A(4)/ 77B. Regulations are required to resolve disputes quickly so as to foster confidence in the regulatory process.

exploration and production industry as member. (iv) The FOA shall develop its own procedures and protocols for the conduct of hearings and consultation with other experts from the industry out of the lists maintained by the Ministry of Petroleum & Natural Resources as deemed necessary. (5) The FOA shall convene no later than 25 days after the representation referred to in these rules and render its decision within thirty working days of such hearing or remand the matter back to the Authority to make, or revise, its decision within a specified period. The decision of the FOA shall contain detailed reasons and justifications in support thereof and will be sent to Secretary MPNR with a copy to the concerned parties. The decision shall be implemented by the Authority without delay unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions. (6) Secretary MPNR will review the decision and issue a speaking order in the matter within a fortnight. (7) The Government may issue suitable guidelines, from time to time, in relation to any aspect regarding FOA. Such guidelines may include appeal procedures, documents to be filed for the appeal and the payment of fees to the FOA. (8) Availing of the remedies under these rules are without prejudice to a party's rights under any other provision of law or the PCA.	
77C. **Penalties.-** (1) Whosoever contravenes any provision of these rules shall, without prejudice to any other action that may be taken in relation to the contravention, be punishable as outlined in the Third Schedule. (2) In imposing any fine under these rules, the Authority shall keep in view the principle of proportionality of the fine to the type, gravity, duration, frequency and repetition of the breach or failure. Prior to imposing a fine, the Authority shall, in writing, require the person liable to be affected to show cause, in writing, as to why the fine should not be imposed. (3) The Authority may, from to time, modify the Schedule of Fines (Third Schedule), including the categories and scale of fines, to apply prospectively, and provided no individual fine may exceed [50] million rupees. (4) The imposition of a fine shall be without prejudice to any other legal	77C. The Govt should have the ability to levy fines. 77C(3). The maximum ceiling may be considered. It is currently proposed as Rs.50m.

right under these rules or legal and contractual rights of the Government.	
78. Repeal and savings.- (1) Except as provided in sub-rule (2), the Pakistan Petroleum (Exploration and Production) Rules, 2001 are hereby repealed. (2) Notwithstanding the repeal of the Pakistan Petroleum (Exploration and Production) Rules, 2001, hereinafter referred to as the said rules, where any person holds any permit, licence or lease granted, regranted or renewed under the said rules, the provisions of the said rules shall continue to apply to such permit, licence or lease, as if the said rules have not been repealed.	9(2). Added "regranted" to unequivocally capture any re-grant under r.32A of 2001 Rules. Arguably anyway covered, but to be clear.
FIRST SCHEDULE **(See rule 6)** **APPLICATION FOR A RECONNAISSANCE PERMIT OR EXPLORATION LICENCE OR ~~WHERE APPLICABLE,~~ DEVELOPMENT AND PRODUCTION LEASE**[1] [1] In the case of using this Schedule for an assignment under rule 10, references herein to "applicant" shall be replaced with "proposed assignee", including the execution block at the end. The application shall be made by the proposed assignor.	First Schedule, footnote to be added to give clarity to companies for assignments. The Map of Licensing Zone may be reconsidered in light experience.
THIRD SCHEDULE **FINES** a) Table of fines and related offences is outlined below. b) Before the imposition of a fine, a show cause notice shall be issued by the Authority to the offending petroleum right holder giving not less than 14 days from date of receipt of the notice to explain as to why a fine should not be imposed. This will be without prejudice to any other remedy available to the Government and the obligation for the default to be rectified, if possible. c) If, in response to the notice, a reasonable written justification is given and the offence has been rectified as far as possible, no fine shall be imposed, or the fine shall be substantially reduced by the Authority. d) Immediately following receipt of a response from the party, referred to in paragraph (c) or, if no response is received within the time stipulated in paragraph (a), the Authority shall inform the petroleum right holder in writing either that no fine shall be imposed or the amount of fine to be imposed, as the case may be. e) Where it is possible to rectify an offence and it has not been rectified, an additional fine may be imposed within 14 days of the receipt of the notice referred to in paragraph (d), above, at the rate of up to 1% per day of the fine stipulated therein until the offence is rectified, or the petroleum right/agreement to which the fine relates has terminated	There are certain requirements in the various E&P Rules, but there is no provision to impose a penalty if the petroleum right holder fails to comply with those requirements, even though the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act, 1948 permits the imposition of fines. The only provision in the Rules for violation is revocation of petroleum rights, where the offence is material. This creates a challenging situation for the regulator, in terms of enforcement of the Rules, particularly when the offence is of a

	or the total of the additional fine is equal to the fine stipulated under paragraph (d), above. Upon the additional fine no longer accruing, the Authority will intimate to the holder the total fine imposed, revising the notice referred to in paragraph (d), above. f) The fine stipulated in the notice/intimation referred to in paragraph (d) or (e), as applicable, shall be payable within 14 days of receipt of the relevant communication. Failure to do so, in itself, can be construed by the Authority as a material breach under rule 72(a). g) In the event a letter communicating the imposition of a fine is not accepted for receipt, it shall be deemed to have been delivered under this Schedule on the working day immediately after the day it was sent by a recognised courier to the last address provided to the Authority, provided also sent on the same day by either facsimile machine or registered post. h) In each case where any data, reports or information is to be provided by a right holder to the Government in a desired format, the Authority will give such right holder a reasonable opportunity to correct the completed format before issuing a show cause notice for the imposition of a fine. i) Any fine levied shall be independent of, and without prejudice to, the Government's rights under rule 72 (Power of revocation), rule 70 (Power to execute works), for breach of contract, or any other legal recourse. Furthermore, the payment of a fine will not extinguish the requirement to comply with the obligation in the rule, for which the fine was imposed, as far as possible. j) Whilst fines are expressed in US$, these should be paid in Pakistan Rupees (PKR), determined at the prevailing exchange rate on the date of payment. k) Each fine shall be imposed on the holders of a petroleum right through the operator, with ultimate liability being joint and several (pursuant to rule 8). l) A fine which remains unpaid following the date of the Authority's communication referred to in paragraph (d) and, if applicable, paragraph (e) it will result in a late payment surcharge of 1% per month (or part thereof) of delay beyond 14 days of receipt of the relevant notice or communication. m) Fines for any one offence, including any additional fines due to delays thereto, may not exceed the cap prescribed in the Rules.	relatively minor nature. Hence, to give the DGPC greater powers to control this Schedule has been proposed.

2009 Rules	Rule title	Offence	Fine
Rule 16(1)	Performance guarantees	Failure to provide acceptable performance guarantee(s)	10% of work unit value or $50,000, whichever is higher without prejudice to right of the DGPC to cancel a licence awarded.

	Rule 21(1)	Rights and obligations of licence holder.	Production without approval	US$50,000, except, if the offence is for continuing EWT production beyond an approved EWT period would be US$25,000, without prejudice to the royalty due.
	Rule 22(4)	Relinquishment.	Failure to relinquish when obliged to do so.	US$100,000.
	Rule 28(3)	Work programme and other obligations not fulfilled.	Failure to pay liquidated damages or transfer of undischarged work obligation not approved.	US$200,000 in addition to the minimum expenditure obligation of undischarged work obligation.
	Rules 29 and 41	Licence and Lease Rent.	Failure to pay rent.	The higher of US$5,000 or 50% of the rent due without prejudice to the rent due.
	Rule 33	Survey expense.	Failure to undertake a survey when requested.	US$10,000.
	Rule 36(3)	Development plan.	If development and production not carried out as per approved Development Plan and revision not approved or not sought.	If a material change (being 20% change from what was stated in the Development Plan in capital expenditure or rates or change in number of wells): - US$5,000 for seeking modification within six months of the modification being effective or US$25,000 thereafter. - If modification is not sought and is discovered by the Government then US$25,000 plus US$5,000 per complete month after the unapproved modification having been effective till discovered.
	Rule 44	Petroleum measurement.	Failure to measure or weigh using the method agreed and/or failure to comply with any guidelines in that regard and/or failure to permit inspection of such equipment.	US$100,000.
	Rule 45	Revocation of lease.	Failure to produce within required time limits.	US$250 per day for the first three months and US$1,000 thereafter, without prejudice to rights of revocation at any point.
	Rules 46, 48, 49 & 52-55	Accounts Records and Reports.	Reports not kept/maintained or provided to	US$10,000.

		DGPC/Government, as required.	
Rule 47	Period of record-keeping	Failure to maintain records as required.	US$25,000.
Rule 50	Data property of the Federal Government.	Data and information not submitted as required.	US$10,000.
Rule 50(5)		Disclosure of data to unauthorized party.	US$50,000.
Rule 51(2)	Power to inspect plants, records and accounts etc.	Refusal or delay in access of data to the Authority and non-provision of certified copies of record.	US$50,000.
Rule 57	Reports of discovery.	Making an impermissible announcement or statement.	US$50,000.
Rules 24(3) & 59(3) *[nb – r.24(3) is proposed to be deleted, if not deleted then include here]*	Flaring.	Unauthorized flaring of gas.	100% of the value of the unauthorized flared gas, determined on the basis of the price applicable to the block in $/MMBTU. Any show cause notice or intimation of fine may provide that the exact fine is to be calculated.
Rule 60	Commencement, testing and abandonment of drilling operations.	Development well included in the Development Plan spud without approval.	$10,000 (in addition to any fine under rule 36(3)).
		Exploration/appraisal/development well not included in a Development Plan spud without approval	US$50,000.
		Re-entry, side-tracking or hydraulic fracturing commenced without approval.	US$10,000.
		Abandonment of well (Exploration/Appraisal/Depleted/Unsafe) and abandonment of producing zone without approval.	US$50,000.
Rule 63	Employment and training of Pakistani personnel.	Failure to submit report of number of Pakistani personnel to be employed and trained.	US$10,000.

Rule 64(6)	Joint exploration and development.	Failure to comply with direction to provide data following a request by DGPC.	US$25,000.
Rule 73(1)	Right of Government upon termination of a petroleum right.	Failure to reinstate where re-instatement is practicable. (note, if reinstatement not practicable, r.73(1) provides for damages to be paid.)	US$50,000 plus cost incurred by the Government to re-instate the area.
Rule 73(5)		Plan for abandonment/removal of facilities not submitted when required.	US$10,000 per month (or part thereof) of delay in submission of plan/informing the DGPC.
Rule 74(2)	Insurance	Failure to take out required insurance.	US$25,000.
Rule 75	Miscellaneous obligations.	Failure to set up an organization in Pakistan.	US$10,000 if the organisation is not set up in the first six months after the grant of a petroleum right.
General.	Any other obligations provided in the 2009 Rules which are not fulfilled by the holder of a petroleum right and not expressly referred to above, penalty of up to US$1,000.		
Legal costs.	In addition to the fines stipulated herein or elsewhere in the Rules, any of the Government's legal fees (including lawyers and court/arbitration fees) incurred and documented for recovery of any of the fines as a result of non-payment following a show cause notice shall be separately recovered as a further fine, provided if the matter has been taken to court or arbitration, fine shall only be payable if it has not been struck down as not payable.		
PCA.	If there is a provision in a PCA or petroleum right whereby something has to be done, applied for or requested in a certain time by the right holder and DGPC has discretion to extend such time the DGPC may impose a fine of US$5,000 to consider a late application, without prejudice to its contractual rights or implying any obligation to accept or approve whatever is to be done, applied for or requested. If the DGPC ultimately accepts such delay it may do so on condition of an additional fine for the delay, of up to US$1,000 per day from the day something had to be done, applied for or requested.		

FOURTH SCHEDULE

REGULATIONS FOR REVIEWS AND APPEALS

1. Any holder of a petroleum right aggrieved either by a decision of the Authority or if the Authority has not responded to a request within a timely manner may, without undue delay, make a written representation to the Authority. Such representation shall be

provided in duplicate.

2. The Authority shall convene a review meeting within 14 days of receipt of such representation. At such meeting the aggrieved party shall have the opportunity of being heard and the Authority shall ensure that the holder has received such notice at least three working days prior to the meeting.

3. At the review meeting the Authority shall either explain the basis for the decision, change the decision, make a decision or agree to make a decision promptly after the meeting, as appropriate. Within seven days of the meeting, the Authority shall write to the aggrieved party setting out its final decision with reasons and basis thereof.

4. The Authority and/or any official he considers necessary and the officer concerned with the subject matter shall be present at the review meeting.

5. If within 14 days of either (i) if the holder is still aggrieved by the final decision or (ii) the date of the review meeting, if no final decision was conveyed after the review meeting or (iii) the date of the written representation to the Authority, and the Authority failed to convene a review meeting, the aggrieved holder may request the Authority that the matter be referred to a special tribunal for hearing as provided in regulation 6, below.

6. The special tribunal shall be comprised of the following three officers:

   (i) [Director General (Oil) or Director General (Gas), to be rotated on an annual basis, initially being the Director General (Oil);

   (ii) Senior officer of the rank of a Joint Secretary from the Ministry of Law, Justice and Human Rights;

   (iii) an officer, not less than the grade of an Additional Secretary, of the Ministry of Petroleum and Natural Resources who shall be the chairperson.][2]

   (iv) In the event any of the appointed officers are not in a position to attend such special tribunal hearing on a given date, such officer may appoint any other senior officer who directly reports to him to attend. The special tribunal may develop its own procedures and protocols for the conduct of hearings before it.

7. The special tribunal shall convene in the offices of the Ministry of

[2] To fix the positions after discussion with the DGPC.

	Petroleum and Natural Resources, no later than 25 days after the request referred to in sub-regulation 5 and the Authority shall have ensured the holder received notice of the meeting at least seven days prior to the meeting. 8. Within seven days of such hearing the special tribunal shall either affirm a decision, change a decision, make a decision or remand the matter back to the Authority to make, or revise, its decision. 9. The decision of the tribunal shall be with reasons and copied to the concerned parties. The decision shall be implemented by the Authority within 14 days, or up to 21 days, to be justified in writing, unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions. 10. In the event of a failure, within the prescribed time, (i) to convene a review meeting, or a special tribunal hearing, or (ii) to ensure the aggrieved party has received notice sufficiently in advance of such meeting or special tribunal hearing or (iii) for the review meeting or special tribunal to give its response, the Federal Government shall be liable to the penalty provided in regulation 11. 11. The penalty referred to in regulation 10, shall be an entitlement of a holder of a petroleum right to deduct from any rent payable under these rules ten thousand rupees per day of delay, up to a maximum of one hundred thousand rupees. In the event the grievance relates to more than one petroleum right the said penalty shall be equally divided amongst the holders of such petroleum rights. A summary of any such penalties arising in a quarter shall be sent by the Authority to the Ministry of Finance and be made available, on a non-confidential basis, to any party on request, on payment of a reasonable fee. 12. The Government may issue guidelines, to be reviewed from time to time, in relation to any aspect of these regulations. Such guidelines may include procedures, such (a) as the format of documents to be filed for the appeal or (b) provision for nominal costs of appealing to the special tribunal or (c) costs for abuse of the review and appeal process. 13. Availing of the remedies under these regulations are without prejudice to a party's rights under any other provision of law or contract.	
General note: In making any amendments to the 2009 Rules, it may be also provided		

	that such amendments would be prospective and any right, benefit, obligation or burden arising prior to the amendments would have vested and not be liable to change.	

ANNEXURE 6: PAKISTAN OFFSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2003 (REDLINE VERSION)

GOVERNMENT OF PAKISTAN
MINISTRY OF PETROLEUM AND NATURAL RESOURCES

Islamabad, the 18th June, 2003.

NOTIFICATION

S.R.O. 611(I)/2003.- In exercise of the powers conferred by section 2 of the Regulation of Mines Oilfields and Mineral Development (Government Control) Act, 1948 (XXIV of 1948), and by section 14 of the Territorial Waters and Maritime Zones Act, 1976 (LXXXII of 1976), the Federal Government is pleased to make the following rules, namely:-

PART I - GENERAL

1. **Short title, application and commencement.-**

(1) These rules may be called the Pakistan Offshore Petroleum (Exploration and Production) Rules, 2003.

(2) These shall apply to offshore area.

(3) They shall come into force at once.

2. **Definitions.-** In these rules, and in every permit, licence and lease issued hereunder and every agreement executed pursuant to these rules, unless there is anything repugnant in the subject or context,-

(i) "actual loss or damage" means all proceedings, expenses, costs, charges, claims, losses, damages, penalties and demands whatsoever including without limitation claims for loss or damage to property or injury or death to any person caused by or resulting from any petroleum operations conducted by or on behalf of contractor or anything done or purporting to be done in pursuance thereof;

(ii) "agreement" means an offshore petroleum production sharing agreement entered into pursuant to these rules between the President of the Islamic Republic of Pakistan, GHPL, and a contractor for the purpose of exploration for or development and production of petroleum from within the offshore area;

2(iii). Transport costs which are "allowed" should be whatever they actually are and not be subject to

(iii)	"allowed transportation cost" means the actual cost incurred for moving the petroleum produced and saved from the field gate within the lease area to the point of determination of value of the petroleum ~~as approved by DGPC~~;	approval.
(iv)	"approved" or "approval" means approval in writing by DGPC, except in the case of an environmental management and protection plan or a safety plan, in which case it means approval in accordance with the procedures of the concerned authority under applicable law;	
(v)	"arm's length sales" means the sales made freely in the open market, in freely convertible currencies, between willing and unrelated sellers and buyers having conflicting interests and in which such buyers and sellers have no contractual or other relationship, directly or indirectly, or any common or joint interest as is reasonably likely to influence selling prices and shall, *inter alia*, exclude the value of sales (whether direct or indirect, through brokers or otherwise) involving an affiliate, sale between Government to Government entities, counter trades, restricted or distress sales, sales involving barter arrangements and generally any transactions motivated in whole, or in part, by consideration other than normal commercial practices and arm's length sales value, accordingly, means the value of such sales;	
(vi)	"certifying authority" means such certifying authorities as are approved by DGPC, including but not limited to the American Bureau of Shipping, Bureau Veritas, Det Norske Veritas Classification A/S and Lloyd's Register of Shipping;	
(vii)	"commercial discovery" means a discovery ~~by one or more appraisal wells~~ which, in the opinion of a contractor ~~with the consent of GHPL which shall not be unreasonably delayed,~~ would yield a reasonable profit on the funds invested in petroleum operations and which has been declared a commercial discovery after consideration of all pertinent operating and financial data such as recoverable reserves, sustainable production levels, estimated development and production expenditure, prevailing prices and other technical and economic factors according to good international petroleum industry practices and would justify its economic development and commercial production;	2(vii). It should be the sole decision of the contractors whether a discovery is commercial or not. The DGPC will have an opportunity to approve at the time of receipt of the Development Plan for its approval. Also removed the additional layer of having to get separate approval if wished to declare commerciality without drilling a separate appraisal well.

(viii) "commercial production" means production of petroleum out of a commercial discovery which production allows at least the recovery of all expenditure directly attributable to such commercial discovery within a reasonable time and earning of a reasonable profit; (ix) "contractor" means a petroleum exploration and production company or companies ~~who~~ that has entered into an agreement or reconnaissance agreement as the case may be, to perform the functions and assume the rights and liabilities of a contractor pursuant to the terms of an agreement or reconnaissance agreement as the case may be~~.~~; (x) "debris" means any material that has broken away or been jettisoned or displaced in the course of any petroleum operations by a contractor; (xi) "DGPC" means the Director General, Petroleum Concessions and includes any officer or authority appointed by the Federal Government to exercise the powers and perform the functions of the Director General, Petroleum Concessions, under these rules;	
(xii) "discovery area" means an area, within the area of a licence or lease, which encompasses the accumulation of petroleum in a geological entity limited by lithological boundaries, structural boundaries, the contact zone between petroleum and the limiting water level, or a combination thereof, and so that the petroleum included everywhere is in pressure, fluid or gas communication~~ and demarcation of which shall be made by a contractor with the consent of GHPL as development area in accordance with the provisions of an agreement~~; (xiii) "discovery" means the finding of a deposit of petroleum from an exploration well not previously known to have existed within the area held by a contractor which produces a flow of petroleum at the surface which is measurable by the conventional petroleum industry testing methods; (xiv) "environmental management and protection plan" means an environmental management and protection plan submitted to and approved by the concerned authority under applicable law; (xv) "exploration well" means a well which tests clearly a separate geological entity, be it of structural, lithologic or facies of pressure nature, penetrating all	2(xii). An area would be a discovery area before refining it to be a "development area", hence the deletion of the last few lines. 2(xv-A). Given the "EWT"

	prospective intervals at the particular location;	is used in the Rules it is appropriate to define.
(xv-A)	"extended well test" or "EWT" means the extended well testing or early production, as provided in rule 27A.	
(xvi)	"good international petroleum industry practices" means, generally, the reasonable and prudent diligent use of policies, procedures, practices, methods, equipment~~s~~ and material that results in effective and efficient exploration, appraisal and development of petroleum including optimum recovery of petroleum from a discovery area with minimal impact on the environment as permitted and use of efficient and effective practices for transforming produced petroleum into marketable form and delivering it to the market, always having due regard for safety and other factors and means, in particular, knowledge of and compliance with the standards that may be developed by relevant professional institutions and adopted by the Government from time to time;	
(xvii)	"Government Holdings (Private) Limited" or "GHPL" means the State owned corporate body established under the laws of Pakistan to perform certain functions as are specifically described in these rules and which is a party to an agreement or reconnaissance agreement as the case may be, and includes its successors and assigns;	
(xviii)	"Government" means the Federal Government;	
(xix)	"laws" means laws, rules and regulations of the Government, and includes where applicable, laws of a Province of Pakistan;	2(xx) and 2(xxi). It is not clear why the words "designated portion of the offshore area" have been used. For leases, in future, should be revisited to "discovery area". No change recommended now.
(xx)	"lease" means an exclusive right to develop and produce petroleum within a designated portion of a licence in offshore area, which has been granted under a lease issued in the name of GHPL pursuant to these rules which shall be substantially in the form as set out in Part III of the Second Schedule, so as to enable it to enter into an agreement with a contractor;	
(xxi)	"licence" means an exclusive right to explore for petroleum within a designated portion of offshore area, which has been granted under a licence issued in the name of GHPL pursuant to these rules which shall be substantially in the form as set out in Part II of the Second Schedule, so as to enable it to enter into an agreement with a contractor;	2(xxiii). In future may replace "hydrocarbons" with "petroleum" but no change recommended now.
(xxii)	"Ministry" means the Ministry for the time being in charge of petroleum affairs;	

(xxiii) "natural gas" means petroleum which at standard atmospheric conditions of pressure and temperature is in a gaseous phase, including non-hydrocarbon gas which is in association with and produced at the surface together with such gaseous hydrocarbons;

(xxiv) "offshore area" means all the areas that lies completely seaward from the high water mark within the jurisdiction of Pakistan, and includes all areas within the territorial waters, the historic waters, the contiguous zone, the continental shelf and the exclusive economic zone, as are defined in the Territorial Waters and Maritime Zones Act, 1976 (LXXXII of 1976);

(xxv) "operator" means, unless otherwise specified in these rules, any one of the companies comprising a contractor who is designated and approved as operator pursuant to these rules to carry out petroleum operations under an agreement on behalf of the contractor;

(xxvi) "permit" means a non-exclusive right to carry out preliminary reconnaissance work for exploration of petroleum in a designated portion of offshore area, which has been granted under a permit issued in the name of GHPL pursuant to these rules which shall be substantially in the form as set out in Part I of the Second Schedule, so as to enable it to enter into a reconnaissance agreement with a contractor;

(xxvii) "person" means any natural person or body corporate, and includes a partnership or other entity constituted under the laws of, or authorized to do business in Pakistan;

(xxviii) "petroleum" means all liquid and gaseous hydrocarbons existing in their natural condition in the strata, as well as all substances, including sulphur, produced in association with such hydrocarbons, but does not include basic sediments and water;

(xxix) "petroleum operations" means all activities conducted by a contractor under an agreement or reconnaissance agreement, related to petroleum exploration, appraisal, development and production activities and any ancillary activities reasonably related thereto and may include any gas processing, pipeline and other transportation storage or other ancillary activities necessary to facilitate the production, processing, storage, transportation and disposal of petroleum as specified in an agreement;

(xxx) "petroleum right" includes a permit, licence and lease

issued under these rules;	
(xxxi) "President" means the President of the Islamic Republic of Pakistan;	
(xxxii) "record" means all record pertaining to petroleum operations conducted by a contractor including but not limited to an account, book, return, statement, report, chart, table, diagram, form, survey, image, invoice, letter, map, agreement, memorandum, plan, core, data, sample, voucher, financial and non-financial information, and anything containing information whether in writing or in electronic form or represented or reproduced by any other means and the result of recording of electronic data, its processing systems and programmes to illustrate what the systems and programmes do, and how they operate without compromising proprietary rights, if any, related to hardware and software;	
(xxxiii) "reconnaissance agreement" means a reconnaissance agreement entered into between the President, GHPL, and a contractor for the purpose of carrying out reconnaissance work under a permit;	
(xxxiv) "safety plan" means a safety plan submitted to and approved by the concerned authority under applicable law;	
(xxxv) "Schedule" means the Schedule to these rules;	
(xxxvi) "security interest" means any charge or lien on right in relation to an agreement or any asset in respect thereof, that, pursuant to a written instrument, secures any payment or performance of an obligation, including (a) the payment of an indebtedness arising from an existing or future loan or advance of money; (b) a bond, debenture or other security of a corporation; or (c) the performance of the obligations of a guarantor under a guarantee given in respect of all or any part of an indebtedness liability referred to above;	
(xxxvii) "ship" means any form of vessel, boat or craft designed, used or capable of being used solely or partly for marine navigation and transportation, without regard to method or lack of propulsion which shall include without limitation floating production storage and operation (FPSO) ship;	
(xxxviii) "significant gas discovery" means, a discovery of natural gas from an exploration well in a licence which has tested significant flow rates of natural gas ~~(predominantly methane)~~ from one or more	2(xxxviii). The composition of the gas would not appear relevant here. This change was also suggested in the proposed

	reservoirs, and which is estimated to be capable of continuous production from the said reservoir(s), over a reasonable period and which in the opinion of a contractor could be declared a commercial discovery in the future, provided, inter alia, that, (a) adequate gas pipeline transportation facilities are installed; or (b) markets have been sufficiently developed for sale of natural gas on commercial basis, or the requirements of both (a) and (b) have been met;	changes to incorporate Low BTU Gas Policy.
	(xxxix) "spill" means a discharge, emission or escape of petroleum, other than one that is authorized by applicable law ~~or approved by the Government~~;	2(xxxix). As a defined term, a "spill" would be a spill and not cease to be a spill if approved. But DGPC could opt to do nothing about the spill (see rule 75).
	(xl) "waste" or "wasted" means waste as understood in the petroleum industry and shall include working methods which, in accordance with good international petroleum industry practices are considered wasteful; and	
	(xli) "value" means the wellhead value of the petroleum produced and saved less allowed transportation costs as approved by DGPC under these rules.	
3.	**Director General, Petroleum Concessions.-**The Director General, Petroleum Concessions, shall be responsible for the administration of these rules and the execution of all duties imposed upon him by these rules, or pursuant to any agreement.	
4.	**Role of Government Holdings (Private) Limited.-** GHPL shall ~~be established to~~ secure petroleum rights over the area(s) designated by an interested exploration and production company and to enter into an agreement or reconnaissance agreement, as the case may be, in its capacity as contracting party with such company, as per the faculty conferred upon it by the Government from time to time.	4. GHPL is already established, hence the modification here. GHPL's capacity should be enhanced to act as a more effective "licensee".
5.	**Division of offshore area.-** Any portion of offshore area may be divided into blocks of size and shape by the Government as it may, from time to time, by notification in the official Gazette, determine.	
6.	**By whom applications may be made.-** Any company whether incorporated in Pakistan or abroad may file an application for entering into an agreement or reconnaissance	

agreement with respect to any area located in the offshore area to carry out either petroleum exploration or production activities, or both.

7. **Manner in which application may be made.-**

(1) Every application shall be made in writing in the form set out in the First Schedule or as otherwise directed by the Government, addressed to DGPC. Every application shall be entered in the register to be maintained by DGPC. The register shall be in such form as may be specified by the Ministry and shall be open to public inspection.

(2) The application shall state the nature of and the principal place of business of the company showing interest, the authorized, subscribed and paid-up capital of such company, the names and nationality of the directors thereof and the names and holdings of the principal shareholders.

(3) With every application there shall be deposited-

(a) a fee of ~~twenty~~ fifty thousand rupees if the application is for a reconnaissance agreement related to the grant, extension or renewal of a permit;

(b) a fee of ~~forty~~ hundred thousand rupees if the application is for an agreement related to the grant, extension or renewal of a licence; and

(c) a fee of ~~eighty~~ two hundred thousand rupees if the application is for an agreement related to the grant, extension or renewal of a lease.

(4) There shall be attached with an application five copies of the map upon which shall be delineated the boundaries of the areas in respect of which the application has been made. The map shall be taken from the relevant Survey of Pakistan map of appropriate scale. If the area is identified by a block system notified under rule 3, a reference to the relevant block number shall be sufficient.

(5) The applicant shall furnish evidence as to his financial and technical qualifications and as to his ability to conduct the activities under a reconnaissance agreement or an agreement, as the case may be, in accordance with the good international petroleum industry practices. Such applicant shall furnish further evidence relating to such matters, as may be requested for, by DGPC and failure to provide such evidence to the satisfaction of DGPC, within three months of the request thereof, shall, unless DGPC determines otherwise, render the application void.

(6) The applicant shall furnish an undertaking that he will abstain from all political activities whatsoever affecting the

7(1). Strictly it ought to say "application for a petroleum right" but no change recommended now.

7(3). Increasing the fees to bring in line with what is provided in the 2012 Policy (para 6.2).

Included that the fee would apply in the event of any application for an extension. Rationale being that with greater funds being received by the DGPCs office additional resources can be engaged for expeditious review.

It is recommended that in the future the fee for grant of a lease is separated from renewal and the fee for a grant be substantially increased (perhaps Rs.2m) and the greater fee be used to enable the DGPC to justify engaging a technical officers to review development plans.

7(4). DGPC to advise if five copies required?

sovereignty or security of Pakistan or such as may be tantamount to interference in its internal affairs and that especially he will eschew all espionage. (7) The applicant shall furnish such other information as the Government may, ~~from time to time,~~ specify till the grant of the right.	
8. **Separate application to be made for each area.-** (1) Where an applicant shows interest over two or more areas which are not contiguous, separate applications for executing reconnaissance agreements or agreements, as the case may be,– for each such areas shall be filed, unless otherwise permitted by the Government. (2) Nothing in these rules shall prevent any applicant to file applications for more than one area.	
9. **Several companies.-** Where a contractor comprises two or more companies, each ~~of the~~ company shall be liable jointly and severally towards the Government and GHPL, as the case may be, for obligations and liabilities, resulting from petroleum operations under an agreement or reconnaissance agreement. The contractor shall, with the prior written approval of the Government, appoint an operator from amongst them, except that such special arrangements as to the operatorship will be applicable as may be approved by the Government under rules 67 and 69. No change in such appointment shall be made without the prior approval of the Government.	9-11. See proposed new Rule 82A, wherein SOPs are to be prepared for Rules 9-10.
10. **Interest not assignable without consent.-** A contractor or any company forming part of the contractor shall not transfer, assign, convey or otherwise dispose of its interest in the agreement or reconnaissance agreement without the previous consent in writing of the Government ~~as specified in the agreement~~.	10. Government approval required regardless of what is in agreement and should also apply to reconnaissance agreement.
11. **Method for seeking assignments.-** An application by a contractor for consent to the assignment, transfer or otherwise disposal of its interest in the agreement or reconnaissance agreement shall be made in writing to DGPC, and shall be accompanied by a fee of ~~ten~~ fifty thousand rupees. With the application, such contractor shall furnish	11. In future can consider different rate for assignment of licence and lease. Changed sum to bring in line with 2012 Policy (para

	the like particulars in respect of the proposed assignee as are required to be furnished in the case of a fresh application for entering into an agreement or reconnaissance agreement.	8.3).
12.	**Power to grant or refuse an application.-** Subject to rules 26, 27 and 33, an application for execution of an agreement, or reconnaissance agreement, as the case may be, or renewal or extension thereof, shall always be decided by the Government. In the event of refusal to such application, the Government shall as ~~for~~ far as possible provide the reasons therefor.	
13.	**Lapse of entitlement to petroleum right.-** Where an agreement or reconnaissance agreement, as the case may be, is not executed within three months or such longer period as may be mutually agreed, after approval of the application by the Government has been conveyed to the applicant, the entitlement of the applicant to execute such agreement or reconnaissance agreement shall be deemed to have lapsed, unless the Government considers that the delay is not attributable to the fault of the concerned applicant.	
14.	**Surrender of an agreement.-** (1) Subject to the terms of the agreement, ~~A~~a contractor may surrender his right under these rules by giving one months' notice to DGPC and GHPL of ~~his~~its intention to do so, and if such contractor fulfills all its ~~his~~ obligations under the rules as well as the agreement or reconnaissance agreement, including the obligations pursuant to rule 77 or if such contractor pays liquidated damages pursuant to rule 31, it ~~he~~ shall on the expiry of the notice subject to sub-rule (2) be entitled to surrender its ~~his~~ interest ~~in whole or in part~~. By so doing, the rent for the remaining period of the agreement or reconnaissance agreement would not be payable. (2) In case more than one company comprises the contractor, and less than all the companies wish to surrender its interest in the agreement or reconnaissance agreement, pursuant to a right, reasonable opportunity shall be provided to the other company or companies to acquire (as provided in sub-rule (3)) the interest from the company or companies wishing to surrender. Provided such opportunity is given and demonstrated to the DGPC and subject to the terms of the relevant agreement and these rules, the agreement or reconnaissance agreement may be surrendered, in its entirety, by one company notwithstanding	14(1). PSA says 3 months notice to be given to DGPC. 14(2) & (3). Objective to provide more clarity on an individual company surrendering. It is recommended that the Model PSA is changed so that relinquishment during Phase I is not permitted.

more than one company comprises the contractor, on giving notice as provided in sub-rule (1). In the event more than one company wishes to acquire the interest of a company which wishes to surrender its interest, such surrendered interest shall be offered to each on a *pro rata* basis. (3) Except as the companies may agree otherwise, any opportunity to be given to acquire an interest under sub-rule (2) shall be without charging for such interest and in the event there is any outstanding minimum work obligation, the transferring party, wishing to surrender, shall pay to the acquiring party or parties a proportionate share of liquidated damages which could then have been charged at that time pursuant to rule 31, based on its participating interest.	
15. **Submission and publication.-** (1) Application for entering into an agreement or reconnaissance agreement may be submitted, either- (a) at the initiative of an interested applicant; or (b) on the basis of an invitation from the Government to submit competitive bids. (2) In the case as specified in clause (b) of sub-rule (1), a notice for competitive bidding may be published in such national or foreign publications as the Government may determine. (3) A notice of the grant, renewal, extension, surrender, termination and assignment of an agreement or reconnaissance agreement shall be published in the official Gazette, by the Government.	
16. **Terms and conditions of a petroleum right.-** (1) Every permit, licence and lease shall~~, subject to such modifications as may be made by the Government,~~ be in the form as set out in Parts I, II and III, as the case may be, of the Second Schedule and shall include such additional clauses relating to ancillary or incidental matters as the Government may deem fit to insert, which additional clauses in the case of a licences shall be intimated no later than the invitation for bids. (2) Once a petroleum right has been granted, it shall not be modified, amended, altered, or terminated, surrendered or relinquished, in whole or part, except in accordance with these rules and a reconnaissance agreement or an agreement, as the case may be, or the prior written consent of the Government, GHPL and the contractor.	16(1). Edited and made specific provision as to scope of changes in the definition of "licence" and "lease".

17. **Guarantees.-** The Government may require any company seeking to enter into an agreement to furnish, in form and substance acceptable to the Government, a guarantee or guarantees, which, if the Government so agrees, may be a parent company guarantee, in respect of the obligations and liabilities of a contractor.	
18. **Agreements.-** (1) Following approval of an application, the Government shall ~~may~~ cause GHPL to enter into an agreement or reconnaissance agreement, as the case may be, with a contractor to enable such contractor to carry out reconnaissance, exploration, development and production activities under relevant petroleum right. (2) An agreement or reconnaissance agreement, as the case may be, shall remain valid for the applicable term of relevant petroleum right and may be extended or renewed for such additional period that corresponds with the term of renewal or extension of relevant petroleum right in accordance with these rules. On the expiry or early termination of petroleum right, the agreement or reconnaissance agreement, as the case may be, shall cease to be valid provided that the agreement or reconnaissance agreement, as the case may be, shall survive expiry or early termination in respect of the matters specifically covered thereunder. (3) In the event of any conflict between the agreement or reconnaissance agreement, as the case may be, and these rules, the latter shall prevail.	18(1). It should be mandatory to ensure GHPL enter into an agreement, if an application is approved, hence replaced "may" with "shall".
PART II - PERMIT FOR RECONNAISSANCE SURVEYS 19. **Permit.-** (1) The Government may allow GHPL to carry out through a contractor under a reconnaissance agreement, preliminary surveys including geophysical, geological, geo-chemical and geo-technical surveys and drilling of geological information bore hole over such area under a permit and on such terms and conditions as it may determine in each case. (2) Subject to the terms of the permit, the Government may grant a licence or a lease to any other person at any time over any part of the area covered under a reconnaissance agreement. (3) A contractor shall submit a copy of all the maps, plans,	19. In future Govt could directly give reconnaissance permits to companies and remove the requirement for GHPL in the middle. Currently no change is recommended.

	graphs and magnetic tapes and related data as and when these become available and a complete report of a survey no later than six months of the completion of the survey; (4) A contractor shall comply with all instructions which DGPC may issue regarding the use of maps, plans, graphs and other data generated or collected by the contractor in the course of the reconnaissance survey. (5) A permit and reconnaissance agreement shall not extend to areas already covered by a licence or a lease unless otherwise specified by the Government pursuant to sub-rule (1) of rule 69. (6) A contractor of GHPL under a permit shall perform work stipulated in the reconnaissance agreement with due diligence. (7) A contractor shall for each square kilometre or part thereof comprised in the permit area pay to the Government rent at the rate of one hundred rupees per year.	
20.	**Period of a permit.-** (1) The initial term of a permit shall be one year. The work programme to be performed by a contractor during the term of the permit will be set out in the reconnaissance agreement. (2) The permit shall, at the discretion of the Government, be subject to one renewal of one year. An application for renewal shall be made in writing by the contractor on behalf of GHPL at least thirty days before the expiry of the permit or such lesser period as the DGPC allows. (3) On receipt of an application in accordance with sub-rule (2), the Government shall renew the permit if the contractor has - (a) complied with the work programme and all other obligations under the reconnaissance agreement; and (b) agreed with the Government the minimum work programme for the renewal period.	
21.	**No implied rights under a permit.-** (1) The reconnaissance agreement pursuant to a permit shall not imply that a contractor shall be entitled to seek subsequently execution of an agreement over all or any part of the area covered under the reconnaissance agreement. (2) On the expiry of the reconnaissance agreement, a contractor may apply to DGPC for entering into an agreement in accordance with these rules but shall not be entitled to claim a relaxation of these rules. However, the Government, upon	

a request of such contractor, may allow adjustment of the work carried out or expenditure incurred, excluding any work or expenditure related to a multi-client arrangement unless otherwise agreed, against the minimum work or expenditure obligation under an agreement covering the area of a permit, if executed.	
PART III - LICENCE FOR PETROLEUM EXPLORATION 22. **Grant of licence.-** The Government may grant an exclusive petroleum licence to GHPL to enable it to carry out exploration over any area through a contractor under an agreement on such conditions as are specified in the licence and the agreement.	
23. **Size of area.-** A licence shall not be granted in respect of any area of more than two thousand five hundred square kilometres. In special circumstances, the Government may decide to grant an area of up to seven thousand five hundred square kilometres provided that the applicant offers a work programme commensurate with the size of the area.	23. 2012 Policy says maximum of 2,500 sq km, so should there be option of 7,500? No change recommended now.
24. **Shape of area.-** Each separate area in respect of which a licence is granted shall be, as far as possible, compact, bounded by straight lines.	
25. **Rights and obligations of licence holder and contractor.-** (1) Subject to the provisions of these rules, a licence shall give the exclusive right to GHPL to undertake, within the licence area, all activities through contractor under an agreement related to reconnaissance and exploration~~, including drilling for petroleum~~. A contractor or GHPL shall not be entitled to extract any petroleum from discoveries other than such test and early production, as provided for in rule 27A. ~~as the Government may allow upon a written request submitted by the contractor provided that in no event, such test or early production shall cause loss of revenues for the Government~~. (2) A contractor shall perform the work programme stipulated in the agreement for initial term and any extension or renewal along with other obligations referred to in these rules.	25(1). It is vague as to what "loss of revenues" means, hence deleted the highlighted part. Many things could be construed as a loss of revenue, e.g., a lower gas price would generate lower royalty and so a loss of revenue. 25(2). Widened the scope of sub-rule (2) to make r.31 more efficient.

26. **Period of licence, ~~and~~ relinquishment and extension of area.-** (1) The initial term of a licence shall not exceed five years keeping in view the geological condition of the licence area. The initial term may be subdivided in phases as specified in the agreement. (2) The Government may, subject to the terms of the licence, grant up to two renewals. The term of each renewal shall be up to ~~two~~ one year~~s~~. However, to avail ~~the~~ a renewal ~~of maximum term of two years~~, a contractor shall offer adequate work programme keeping in view the geological conditions of the licence area. A contractor desiring such renewal shall make an application on behalf of GHPL at least three months before the expiry of the licence or such lesser period as the DGPC may allow and the DGPC shall process such application within one month of submission of the same. Upon grant of such renewal to GHPL, the term of the agreement shall stand extended for the corresponding period. (3) The initial term or renewal thereof of a licence ~~may~~ shall be extended by the Government for drilling an exploration well in progress for ~~a~~ the period of drilling ~~not exceeding one hundred and eighty days, which shall be considered to be part of the initial term or renewal, as the case may be, and such extension in the licence shall be treated as part of any subsequent phase or renewal, where applicable and granted~~. In the event of extension~~,~~ granted for a well under drilling, the DGPC may grant a further extension for up to three months for post well studies on the request of the contractor. (4) A contractor shall comply with obligation of partial area relinquishment during the term of a licence on behalf of GHPL as specified in the agreement. (5) A contractor desiring renewal of a licence pursuant to sub-rule (3), shall be entitled to a ~~seeking~~ renewal on behalf of GHPL if ~~he~~it- (a) has complied with the work programme and all other obligations of preceding term of the licence; and (b) has committed to minimum work programme as is acceptable to the Government for the forthcoming renewal as specified in the agreement ~~or, if there is no such programme in the agreement, as is acceptable to the Government.~~	26. The word "extension" may be added to the heading as sub- rule (8) envisages the possibility of extending the area of a licence. 26(1) & (2). In future to consider and discuss with stakeholders whether additional time may be appropriate. 26(2). The 2012 Policy (para 3.1) says each renewal of one year. 26(3). The extension to complete the drilling of a well may be a right and not require DGPC approval. Being an "extension" it implies a continuation of the phase so there is no need to mention that. The extension should not form part of the next period/phase as that constrains the activity possible in the next period/phase. 26(4). For the future, it is recommended that instead of mandatory relinquishment, could have a requirement for additional work units. No change recommended at this stage. 26(5)(b). Included provision that if commit to drill a well can be certain of a renewal.
(6) Upon a written request of contractor, the DGPC may, on	26(6). Added to bring in

case to case basis, extend the term of the licence, or any year of a licence, on the following grounds: (a) If seismic and drilling services are not readily available to the contractor for the timely discharge of minimum work obligation, a proof to this effect will be required before the Government considers accepting or denying a request for extension of an exploration licence. Such a request for extension will be required to be made after the contractor has exhausted all other options including but not limited to pooling resources to undertake coordinated activities with other contractors, if possible; (b) If a contractor commits to undertake additional work which is equivalent to at least 20% more than the minimum work obligation of the then current year, or if no specific separate work obligation for such year, then the current phase or renewal; (c) If a contractor makes additional accelerated area relinquishment equivalent to 20% of the original licence area; (d) Any technical considerations which hinder Petroleum operations. ~~(6)~~(7) Notwithstanding anything contained in this rule, in no circumstances will an extension or extensions, provided in sub-rule (6), cumulatively exceed 24 months during the currency of an exploration licence.	line with 2012 Policy (para 5.11). Added "or any year of a licence" for clarity that individual years may be extended, which has anyway been the practice for years. 26(6)(d). This para is not appropriate here as it is force majeure and properly handled there. Also, in any future iteration, after "perform" add "or conclude". However, no change is recommended now. 26(6)(d). Moved this aspect from subrule (8) here as appropriate for all reasons for extensions to be in one place. 26(7). It is proposed that the permitted extension be up to 36 months.
~~(7)~~(8) Notwithstanding anything contained in these rules, upon a written request of a contractor on behalf and with the consent of GHPL, the Government may, on a case to case basis, ~~extend the term of the licence based on technical considerations or~~ revise the co-ordinate of the area covered under the licence provided that the geological structure extends into an adjoining free area, and further provided that the revised area will not exceed the area stipulated in rule 23. (9) (a) In the event a contractor has applied for an extension or a renewal, prior to the expiry of a licence, the licence shall be deemed extended until approval is given or denied. (b) For any such deemed extended period, as provided in	26(8). The enlarged area should not be permitted to be greater than 2,500 or 7,500 sq km as provided in r.23. Moved the basis for extending the term to sub rule (6)(e) above. 26(9)(a). Is to "legalise" the period when a licence may have expired but is awaiting approval to a renewal or extension application.

	sub-rule (a), no additional rent shall be due, provided such application is made at least three months or, in the case of an extension sought under sub-rule (3), one month, prior to the expiry of the licence, otherwise rent shall be payable for such deemed extended period, payable at the end of any such deemed extended period, based on the rental rate for the renewal or extension applied for, applied on a *pro rata* basis for any part of the extended period not being a complete year. (c) If approval for the renewal or extension is granted, the renewal or extension applied for will be effective from the later of the date of approval or when the term was to expire, whichever is later, provided such application was made at least three months or, in the case of an extension under sub-rule (3), one month, prior to the expiry of the licence.~~,~~ (d) In case the application for renewal is not made within three months, prior to the expiry of licence, or one month prior to the expiry of licence, in case of an extension under sub-rule (3), the approval for the renewal or extension shall be effective from the date the term was to expire. (e) If a contractor applies for an extension or renewal within three months after the licence has expired, the Government may, on a case to case basis, still approve such application, provided the contractor pays a penalty of five hundred thousand rupees per day after the expiry of the licence, without prejudice to any obligation to pay liquidated damages~~.~~ Pending decision of the DGPC to such an application the licence shall be deemed extended and if approval is given the renewal or extension shall be effective from the date the term was to expire.	26(9)(b) & (c). Is to incentivize companies to make applications for extensions and renewals in a timely fashion. 26(9)(e). Is to facilitate late applications.
27.	**Appraisal and evaluation of a discovery and renewal therefor.-** A contractor having made a discovery of petroleum shall perform such additional work ~~as the Government, after consultation with GHPL and the contractor, may specify,~~ so as to enable the contractor to make timely determination of a discovery as a commercial discovery. Subject to ~~agreement on such additional work and~~ the contractor having complied with the minimum work	27. Intention is to reduce the need for DGPC involvement on what is a commercial exercise, which the companies are best placed to manage. Notwithstanding the Policy,

programme and other obligations shall be entitled to seek renewal of the licence on behalf of GHPL not exceeding two years for the purpose of expeditious appraisal, evaluation and commercialization of the discovery. The renewal shall only apply to the discovery area.	which says appraisal for one year, have left it as two years here.
27A Extended well testing. – (1) Subject to approval of the Government, a contractor may undertake extended well testing or early production, during the appraisal phase and before the grant of lease. The contractor shall comply with the requisite royalty, tax, rentals of the discovery area, marine research and coastal development fee and training and social welfare obligations as would be applicable under a lease. (2) In the event a request for approval of EWT is to be made under sub-rule (1), the request shall include associated temporary production facilities and shall be made to the Government providing information with regard to, - (a) technical justification for EWT; (b) proposed duration for EWT; and (c) a plan for disposal of natural gas during the proposed EWT period. (3) Any request for EWT sought from the Government shall not be unreasonably withheld or delayed. (4) Production during EWT and post declaration of commerciality would be considered as commercial production for the purpose of payment of production bonus, royalty and all other obligations as are applicable to the lease. However, the first production bonus would be payable upon the earlier of commencement of commercial production subsequent to grant of lease or production reaching the first level that production bonus is payable on volume produced.	27A. Included provision for EWT to endeavor to give more precise coverage.
28. **Retention of significant gas discovery.-** Upon a request of a contractor, in the case of a ~~the Government may allow retention of a~~ significant gas discovery under the licence, the Government may extend the period of the licence for ~~a period of~~ up to five ~~ten~~ years covering the area of discovery. A further period of up to five years extension may be allowed by the Government upon the expiry off the initial retention period or justification being given that is acceptable to the Government. Before the expiry of allowed retention period, the contractor shall make determination as to commercial discovery and submit an application for grant of	28. It should be clear that the retention period is an extension of the licence. This was not clear by simply saying it was a "retention" period. Change to bring in line with 2012 Policy (para 5.13.1).

	a lease along with the proposed development plan providing detailed assessment of gas market potential and a plan for infrastructure development.	
29.	**Declaration of commercial discovery.-**	29(1). DoC should not require approval and it should be possible to declare at any time. Deletion of "agreed appraisal" is because it should be possible for DoC to be before the end of an agreed appraisal programme. 29(2). It may be (although unlikely) that a lease, or parts of a lease, could expire/be relinquished while a licence is continuing. In such an event, it should revert back to the licensee, provided the area is joined with the licence.
(1)	Upon completion of the ~~agreed appraisal,~~ evaluation of a discovery ~~and commercialization work,~~ a contractor may submit a notice for declaration of commercial discovery to the Government ~~for its approval~~ along with a report in accordance with clause (d) of rule 58 and general plan for development. ~~Subject to the approval of commercial discovery~~ After issuing such a notice, the contractor shall be entitled to apply for the grant of a lease on behalf of GHPL in respect of discovery area in accordance with these rules.	
(2)	The grant of a lease shall prevail over the licence within the area designated in the lease, but the licence shall continue to be valid outside such lease area without modifying the right and obligations pursuant to the licence. In the event of a licence continuing to be valid beyond the term of a lease, or on any part of the area of a lease being reduced, the license shall automatically again extend over such lease area, provided such area or areas are contiguous with the remaining licence area and further provided that the total area of licence does not exceed the area provided in rule 23, less any reductions required under rule 26(4).	
(3)	Upon termination of the licence, GHPL shall relinquish the licence area except the area covered by a lease or leases granted to it.	
30.	**Extension pending grant of lease.-** If a contractor, before the expiry of the licence, has applied for grant of a lease on behalf of GHPL and such application is registered with the Government, the duration of the licence shall be extended until the lease has been granted or refused.	30. For the future, add at the end "*but only in relation to the area for which the application for lease has been made*", but no change is recommended now.
31.	**Work programme and other obligations not fulfilled.-**	
(1)	Where upon the surrender, revocation or the expiry of a licence, the obligations pursuant to rule 25, 26 or 27 have not been fulfilled, a contractor shall either-	
	(a) pay to GHPL such sum by way of liquidated damages for undischarged work obligations as set forth in the agreement within a period of thirty days from the	

surrender, revocation or expiry of the licence; or (b) ~~require GHPL to request the Government to allow~~ transfer ~~of~~ undischarged work obligation committed under rule 25 or rule 26 to another area with the approval of Government if it is demonstrated to the satisfaction of the Government that there is no drillable prospect in the licence area. ~~Such transfer shall be subject to such terms and conditions as may be specified by the Government on a case to case basis.~~ In the event that the contractor comprises more than one company, the undischarged work obligation shall be monetized, based on liquidated damages obligations and divided between the companies in accordance with their interests in the right. Any company not transferring a work obligation to an area of its choice shall pay its *pro rata* share of liquidated damages, without prejudice to rule 9.	31(1)(b). Further clarity was required on transferring a work obligation.
(2) In case the liquidated damages payable pursuant to clause (a) of sub-rule (1) are not paid or the transfer of undischarged work obligation to any other area(s) pursuant to clause (b) of sub-rule (1), is not approved, the Government may, in addition to any other action or remedy, cancel a lease granted to GHPL in respect of any area comprised within the area of the licence which has been surrendered, revoked or expired. (3) Where a contractor is ~~found to be~~ in default ~~or breach of these rules or the terms and conditions on which an agreement was executed or~~ of his work ~~or other~~ obligations and has paid liquidated damages as provided in sub-rule (1)(a) ~~remedied such default or breach to the satisfaction of the Government in accordance with clause (a) of rule 76,~~ the contractor shall be deemed to have complied with such work obligation ~~mitigated such default or breach~~ for the purposes of rules 25, 26 and 33.	31(3). This sub-rule is to make it more specific to the issue which appears desired to be tackled
32. **Rent.-** (1) A contractor shall on behalf of GHPL ~~for each square kilometres or part thereof comprising the licence area~~ pay rent annually to the Government at the rate of five million rupees plus one thousand rupees per square kilometre or part thereof ~~specified in the licence~~. ~~(2) The licence may include a provision for annual adjustment of the rent due by reference to an appropriate index so as to ensure that the rent retains its value in real terms.~~ ~~(3)~~(2) The rent shall be paid in advance of the period to which it relates.	33(1). As rent has been provided for in Policy, also included here. There it is expressed in USD in the Policy, but been changes to equivalent Rupees here. 33(2). Adjustment is provided in r.79(2).

PART IV - LEASE FOR PETROLEUM DEVELOPMENT AND PRODUCTION 33. **Grant of development and production lease.-** (1) Following an application from a contractor on behalf of GHPL, the Government shall on being satisfied that a commercial discovery has been made and that the terms and conditions of the licence, including the work programme, have been duly observed and performed, or that the contractor is in satisfactory progress with the work programme, and that the requirements of rule 38 have been duly ~~compiled~~ complied with by the contractor, grant a lease in the name of GHPL in respect of discovery area within the licence area granted to GHPL to enable the contractor to carry out development and production activities related to the commercial discovery under an agreement. (2) The Government may grant a single lease covering more than one discovery area within the same licence area provided that such discovery areas are juxtaposed vertically in which case the lease shall be granted on the basis of the combined discovery area ~~which is larger in extent~~. (3) In the event that any part of a discovery area extends beyond the lease into an open acreage, the Government may upon being satisfied that the discovery area extends into such open acreage and subject to such conditions as deemed necessary, readjust the subsisting boundaries of the lease so as to include such part of the open acreage on which the discovery area extends.	33(2). It could be that one discovery area does not fall completely within the geographic boundaries of the other which is larger in extent. In that case the lease could only cover one of the areas and some part of the discovery may be outside the lease boundaries. In order to capture the intention of the rule, a change has been suggested.
34. **Rights of a contractor pursuant to a lease granted to GHPL.-** A contractor shall, subject to these rules and terms of the agreement have the exclusive right to carry out development and production operations for GHPL in respect of the commercial discovery within the area of lease including the right to undertake transportation of petroleum, subject to approval pursuant to rule 40.	
35. **Shape of discovery area.-** Each discovery area in respect of which a lease is granted shall be laid out in straight lines ~~between well defined points~~ as far as practically possible.	
36. **Survey expense of a contractor.-** Before a lease is granted by the Government a contractor shall, if so required	36. Govt to advise if a bathyorographical map is

by the Government, at his own expense cause a bathyorographical and site survey of the sea-land specified therein to be made to scale normally required for petroleum operations purposes, and approved by the National Oceanographic Institute, and submit a report thereof to the Government.	always required and what would be National Oceanographic Institute approval.
37. **Period of lease.-** (1) A lease shall be for the period for which application has been made supported by relevant technical and other information but not exceeding twenty-five years. In the event the lease is initially granted for a period less than twenty-five years, the same may be extended from time to time, such that the total overall period of lease does not exceed 25 years provided commercial production continues. ~~(1)~~(2) Upon application from a contractor on behalf of GHPL, the Government may renew the lease for a period, not exceeding five years, if commercial production is continuing at the time of the application, provided the request for renewal along with revised development plan is submitted to the Government not less than one year prior to expiry of initial term.	37(1). Out of fairness, the ultimate permitted lease length should be 25 years, regardless of what was originally stated in the lease. This change is to provide for that. 37(2). To consider whether DGPC should be obliged to renew, should the certain conditions be satisfied. No change is currently proposed.
37A. Further renewal or re-grant of lease after expiry of lease term.- (1) Effective from the end of a lease period, upon application from a contractor, at least 90 days before the expiry of the lease term, the Government may renew a lease for up to a further period of five years, provided at the time of application commercial production is continuing, an addendum to the development plan acceptable to the Government is provided and the contractor agrees, on behalf of GHPL, at least one year prior to the expiry of the lease period, to pay 15% of wellhead value of petroleum produced to the Government after the effective date of renewal. (2) If there is no such renewal, or following expiry of such a renewal, the Government may invite bids from companies for the re-grant of the lease over the same, or substantially the same area as the expiring lease, for a term of ten years or such lesser period for which commercial production is expected to continue. The bids shall be evaluated on the basis of a development plan and signature bonus. The Government may keep re-granting a lease, in a similar manner, as long is commercial production is continuing.	37A. To include provisions provided in 2012 Policy (para 5.16).

(3) Each bidder shall provide a bid bond of ten per cent of the offered signature bonus at the time of bidding along with a development plan.	
38. **Development plan.-** (1) Together with the application for a lease, a contractor shall enclose a development plan which shall contain ~~all~~ such information as the DGPC may prescribe by way of procedures provided for in rule 82A(3) in respect of the construction, establishment of all facilities, operation, safety, environment management and services for and incidental to the recovery, storage and transportation of petroleum as the Government may reasonably deem necessary which shall include but not be limited to such information as is specified in an agreement. (2) The plan shall require the approval of the Government. Such approval shall not be unreasonably delayed provided the requisite information has been provided to the Government. (3) After approval of the plan, a contractor shall carry out development and production in accordance with the plan, subject to such modifications as may be necessary and are approved by the Government from time to time.	38(1). A framework for what is to go in to a Development Plan should be given as it will make the preparation easier for companies and review-process easier for the DGPC.
39. **Other plans.-** (1) Prior to commencement of petroleum operations under an agreement pursuant to a lease, a contractor shall also submit an environmental management and protection plan and a safety plan or any amendment thereto for approval by the appropriate authority. If such authority is not the DGPC, a copy of such approved plan shall be promptly submitted to the DGPC. (2) Each environmental management and protection plan shall be prepared in accordance with applicable law and good international petroleum industry practices, which shall ensure that petroleum operations are conducted in environmentally safe manner as per the highest principles of good international petroleum industry practices and shall provide for the protection of the natural environment. Such plan shall include without limitation- (a) a description of the program established by the contractor to monitor the effect of routine operations on the natural environment and the measures adopted to minimize or mitigate the same; (b) all contingency plans including without limitation response to, and mitigation of, the accidental spill of	

petroleum or hazardous substances;

(c) a description of equipment and procedures for treatment, handling and disposal of waste material;

(d) compliance monitoring programs to ensure that the composition of spilled waste material is in accordance with the limits specified in the environmental management and protection plan;

(e) a summary of the chemical substances intended for use in petroleum operations; and

(f) plans for abandonment, including without limitation removal of all structures and environmental restoration of the production site following termination of commercial production.

(3) An environmental management and protection plan, if so required by the Government, shall be accompanied by a review completed by a third party approved by the appropriate authority certifying that the environmental management and protection plan, the equipment proposed, the risks assessed, the practices and procedures identified, and all other necessary documents, have been reviewed and are reasonable and efficient and are consistent with good international petroleum industry practices, for the protection of the environment.

(4) If so required by the Government, the third party referred to in sub-rule 3 or any other competent person approved by the appropriate authority shall annually review or audit the environmental management and protection plan and having conducted such review or audit as they deem necessary, provide the appropriate authority with its professional opinion that the plan remains valid as specified in sub-rule (2) or that the plan requires some amendments for which the contractor shall take appropriate steps immediately to update the plan and ensure its immediate implementation.

(5) Each safety plan shall be prepared in accordance with applicable law and good international petroleum industry practices and shall include but not be limited to-

(a) details of the contractor's safety management policy and a description of the procedures established to ensure its effectiveness including demarcation of safety zones which shall conform to good international petroleum industry practices;

(b) a summary of the results of all studies undertaken to identify hazards and to assess risks and means to mitigate those risks;

(c) a description of the features incorporated in the design of any installation and of the equipment provided to eliminate hazards and reduce risks to personnel;

(d) a description of the procedures established for the safe operation and maintenance of the installation; (e) the standards adopted for the training and qualification of personnel; (f) a description of the command structure on any installation and onshore base, and their relationship to each other; (g) contingency plans for response to and mitigation of accidental events affecting the safety of persons, or the integrity of the installation; (h) a description of the physical environmental monitoring equipment; and (i) the distance from the production installation, at which a ship, if any, shall remain during normal operations. (6) The safety plan, submitted to the appropriate authority, shall be accompanied by a review by the certifying authority, certifying that the equipment proposed for use, the practices and procedures identified, and all other necessary elements, have been reviewed by the certifying authority and are reasonable and efficient and are consistent with good international petroleum industry practices for safe operations. (7) The certificate issued by a certifying authority, shall state that the equipment or installation in question- (a) is fit for the purposes for which it is to be used and may be operated safely in the relevant area, without posing a threat to persons or to the environment in the location and for the time set out in the certificate; and (b) is in conformity with all of the requirements and conditions that are imposed for the purposes of this rule (8) The certificate referred to in sub-rule (7) shall remain in force for so long as the equipment or installation to which the certificate relates is used in the work or activity, and shall be renewed, if so decided by the Government, annually by a certifying authority. (9) A certificate of fitness from a certifying authority which has previously been involved in any element of the fabrication, installation or construction shall not be acceptable.	
40. **Transportation of petroleum. –** (1) Subject to approval in accordance with this rule, a contractor under an agreement shall have the right to lift	

and transport petroleum from the area of lease, either through transportation facilities owned wholly or partly by himself or through access to transportation facilities owned by a third party and such approval shall not be unreasonably withheld or delayed. (2) A contractor under an agreement shall submit an application comprising the proposed organization and implementation of the transportation system. In case of pipeline transportation, the application shall also comprise the design, construction and route plans. (3) The Government may, on giving its approval, stipulate such conditions as are reasonable and necessary to secure a rational system of transportation of petroleum and the Government may- (a) require that several contractors or leaseholders install jointly-owned transportation facilities; and (b) grant to any third party access to transportation capacity at tariffs to be negotiated between contractors or lease holders and approved by the Government.	
41. **Royalty.-** (1) Royalty on petroleum produced and saved shall be payable by a contractor to the Government at the rate of twelve and half per cent of the value unless a different rate for royalty is provided for in the agreement. (2) Royalty shall be paid in cash unless the Government elects to take the delivery of royalty, whether wholly or partially, in kind at field gate on a six months advance notice. In such a case the contractor shall at the request and at the costs of the Government make arrangement for transportation of the royalty petroleum in the same manner as if it was his own petroleum. (3) Royalty shall be payable monthly within a period not exceeding forty-five days of the end of the month of production in question which if delayed beyond this stipulated period would attract fine at rate of London Inter Bank Offer Rate ("LIBOR") plus one and half per cent as may be determined by the Government. In the event royalty obligation remain un-discharged for two consecutive months following expiry of the month of production in question to which the payment of royalty relates, the Government may take such action as it may deem appropriate in accordance with these rules. (4) The Government shall lift or take royalty petroleum in a	41(4). It may be that the lifting agreement will be outside the PSA.

timely manner and in accordance with such lifting agreement as may be mutually agreed with a contractor~~ under an agreement~~. (5) A contractor shall be permitted to use petroleum produced from area of the lease or licence for drilling, production, maintenance and processing of petroleum obtained from the area of the lease or licence free of cost, royalty and excise duty provided that he shall not be entitled to include any notional costs in claiming his business expenses for income tax purposes. (6) From the amount of royalties payable in respect of any one year of the term of a lease or licence, there shall be ~~deducted the amount of yearly lease rent actually paid in respect of that year pursuant to rule 44~~no deduction of any expenditure except allowed transportation cost. The rent paid during the year shall not be deductible from royalty payment. (7) The Government may from time to time issue guidelines which will *inter-alia* cover procedure for administration and payment of royalty due from the contractor of GHPL under a lease or licence. (8) Notwithstanding anything to the contrary contained in these rules, the election to take the royalty on natural gas in cash or kind shall be exercised only once within ninety days of the approval of development plan by the Government and may not be exercised for production from a licence.	41(5), (6). As royalty could be payable on EWT production, similar provisions on royalty management should apply during the licence phase. 41(8). It is recommended that royalty in kind should not be allowed prior to commercial production.
42. **Value of petroleum.-** (1) For the purpose of calculating the amount due by way of royalty, the value of the petroleum produced and saved shall be determined by using the monthly weighted actual selling price of the various transactions in the following manner, namely:- (a) For the petroleum sold to the national market pursuant to rule 46, the actual selling price means the price determined in accordance with the relevant sale and purchase agreement between the contractor and the Government or its designee less allowed transportation cost; and (b) in all other cases, the actual selling price means the greater of- (i) the price at which the petroleum is sold or otherwise disposed of less allowed transportation costs; or (ii) the fair market price received through arm's	42(b)(iii). Deleted because royalty should only be paid on what is received, unless the fair market price is higher. If sub-rule (iii) remained it is conceivable that royalty could be paid on a price higher than that

length sales of the petroleum less the allowed transportation costs.~~; or~~ ~~(iii) the price applicable to the sales made under clause (a).~~ (2) For the purpose of calculating the cost recovery and production sharing, the value of the petroleum shall be determined by using the monthly weighted actual selling price of the various transactions in the following manner, namely:- (a) For the petroleum sold to the national market pursuant to rule 46, the actual selling price means the price determined in accordance with the relevant sale and purchase agreement between a contractor and the Government or its designee less allowed transportation cost; and (b) in all other cases, the actual selling price shall be the price realized through a competitive process for which the Government may issue guidelines from time to time.	received or the fair market price.
43. **Royalty administration.-** (1) If a contractor comprises two or more companies, they shall designate the operator to remit royalty on their behalf unless prior approval has been obtained from DGPC to remit royalty themselves. (2) Royalty shall be remitted with the supporting forms specified by DGPC with documents and information required. (3) If DGPC determines that petroleum was avoidably lost or wasted, including consumed by the contractor for purposes not covered by rule 41(5) then royalty shall be payable on such lost or wasted petroleum in accordance with the direction issued by DGPC. (4) If a contractor receives insurance compensation for unavoidably lost or wasted petroleum, royalty shall be due on the amount of the compensation in accordance with the direction issued by DGPC.	43(3). Added the few words for clarity.
44. **Yearly lease rents.-** (1) A contractor shall on behalf of GHPL ~~for each square kilometres or part thereof comprising the lease area~~ pay rent annually to the Government at the rate of five million rupees plus one thousand rupees per square kilometre or part thereof ~~specified in the lease~~. ~~(2) A lease may include provision for annual adjustment of the~~	

~~rent due by reference to an appropriate index so as to ensure that the rent retains its value in real terms.~~ (2) The rent shall be paid in advance of the period to which it relates	
45. **Surface rent.-** A contractor shall pay for all land which he may use or occupy for the purposes of the operations conducted under the agreement, a surface rent at the rate assessable under the applicable laws and water rates as assessable under any relevant rules.	
46. **Deliveries to the national market.-** (1) The Government may decide that a contractor under an agreement shall deliver petroleum from his production to cover the requirements of the national market for petroleum. The national market for petroleum shall for this purpose means the total market requirements, less petroleum produced by or otherwise available to the Government from indigenous sources. The contractor shall deliver the petroleum at such place or places in Pakistan as the Government may direct~~.~~ at the Government's cost unless otherwise provided in the agreement and subject to sub-rule (3). (2) The provisions of sub-rule (1) shall apply to all companies producing petroleum as far as practicable, *pro rata* to their production. Each contractor's obligation may be fulfilled directly or by means of swap arrangements approved by the Government. (3) The Government may direct ~~also decide~~ that a contractor shall ~~arrange and~~ pay for ~~adequate~~ transportation of crude oil, condensate and natural gas liquid which it has thus ordered to be delivered up to the distance to the nearest operating refinery in Pakistan. (4) The price to be paid for petroleum to be delivered pursuant to this rule shall be such price as may from time to time be determined in accordance with terms and conditions of applicable agreement between the Government and a contractor.	
47. **Measurement of petroleum.-** (1) A contractor shall measure or weigh all petroleum produced and saved from the licence or lease area by a method or methods customarily used in good international petroleum	

industry practices and approved by DGPC who may, from time to time and as and when deemed necessary, issue guidelines for installation, maintenance, inspection and other matters related to measurement of petroleum as per good international petroleum industry practices. (2) DGPC or any officer authorized by him shall, at all times during the term of an agreement or any renewal thereof, be entitled to inspect the measuring or weighing equipment and to be present whenever such a measurement or weighing takes place. (3) A contractor shall install, operate and maintain all measuring and weighing equipment ensuring that such equipment remains in good working condition at all times. If any such equipment shall at any time be found not to be accurate, the same shall, if DGPC, so determines after considering any representations in writing made by the contractor, be deemed to have existed in that condition during the period of three months prior to the discovery thereof or the period elapsed since the last occasion upon which the same was examined or tested, whichever shall be the less. This restriction on time period shall not be applicable if the inaccuracy so discovered is found to be result of the contractor's wilful tampering or negligence in which case appropriate adjustment in royalties, and production share together with imposition of fine will be made as determined by DGPC. The royalties and production share payable in respect of such period shall be adjusted accordingly. (4) A contractor shall not make any alteration in the method or methods of measurement or weighing used by him or any equipment used for that purpose unless approved by the DGPC and ~~.~~ DGPC~~,~~ may require that no alteration shall be made save in the presence of a~~n~~ person ~~officer~~ authorized by him.	
48. **Revocation of lease.-** (1) The lease may be revoked and the agreement may be terminated if regular commercial production has not commenced within seven years from the grant of the lease. The lease may also be revoked and the agreement may be terminated if production has ceased for more than ninety days without prior written approval of the Government, unless this is due to *force majeure*. (2) In the event, a contractor is found to have contravened sub-rule (1), the Government may issue a ninety days' notice requiring the contractor to remedy the breach within the notice period failing which the Government may impose a fine or revoke the lease and terminate the agreement unless	48(2). Included the words as present in the 2013 Rules and appear reasonable.

a plausible justification is provided.	
PART V.- ACCOUNTS, RECORD, INSPECTION AND REPORTS 49. **Keeping of records and accounts.-** (1) A contractor shall maintain full and accurate records. (2) Original copies of all records shall be kept in Pakistan unless otherwise approved by DGPC. (3) A contractor shall immediately comply with the demand of DGPC or GHPL, as the case may be, to submit the certified copy of any record.	
50. **Period of record-keeping.-** (1) The records shall be kept and maintained for a period of six years or for a longer period as is required under the applicable law following the end of the calendar year to which the information contained in the record relates. In case of any particular record, upon application by a contractor, DGPC may consent in writing to the destruction of record before the end of the six years period or such other period as is required under the applicable laws as the case may be. (2) Notwithstanding the provision of sub-rule (1), if based on reasonable grounds, DGPC is of the opinion that it is necessary for the administration of any rule, to retain record for a longer period, he may direct the concerned contractor to do so specifying the reasons therefor.	
51. **Well records.-** (1) Notwithstanding the generality of rule 49, a contractor shall always keep full and accurate record of the drilling, deepening, plugging, completion, re-completion, sidetracking, testing or abandonment of all wells containing particulars of the following matters with respect to each well, namely:- (a) The strata and subsoil through which the well was drilled; (b) the casing used in any well and any alteration to such casings; (c) any petroleum and other reservoir fluids, or minerals encountered; and (d) such other matters as DGPC may, from time to	

time, require. (2) A contractor shall deliver copies of the said record to DGPC within a period of six months of ~~as and when these~~ becomin~~ge~~ available ~~or are required by him~~.	
52. **Production records.-** A contractor shall always keep full and correct record which shall contain accurate entries of- (a) the gross quantity and quality of petroleum won and saved; (b) the method and results of tests conducted; (c) the quantity and quality of petroleum delivered in Pakistan and exported; (d) the quantity and quality of petroleum used for re-injection, pressure maintenance, venting, flaring, drilling or other operational purposes; (e) the quantity and quality of petroleum sold, the name of the purchaser and the price at which it has been sold supported by necessary documents; (f) the quantity and quality of natural gas treated and processed for the removal of impurities and inerts and natural gas liquids and liquefied petroleum gases and the quantity and quality of any liquids, gases or any solids obtained from it; and (g) such further particulars as DGPC may from time to time, require.	
53. **Data to be property of the Government.-** (1) All data including but not limited to, well logs, maps, magnetic tapes, cores, samples and any other geological and geophysical information obtained by a contractor as a result of his activities under an agreement or reconnaissance agreement shall be the property of the Government, subject to the right of the contractor to use such data for the purposes of the petroleum right. The contractor shall submit all of the aforesaid data and information as soon as it has become available to him. The contractor may, during the subsistence of an agreement or reconnaissance agreement, after prior intimation to the Government, disclose all or any part of the aforesaid data to a third party, provided that before disclosure of the data, such party executes an appropriate confidentiality agreement drawn up in accordance with good international petroleum industry practices.	53(1). As a general point, for the future, use of the word "his" in the Rules may be checked and as appropriate replaced by "its" throughout the Rules.

(2) All raw and processed geophysical and geological information referred to in sub-rule (1) shall be submitted to DGPC in the format including but not limited to digital format and on material as agreed by DGPC. (3) Information and data as mentioned in this rule shall be kept confidential by the Government and GHPL for a period of five years from the date the data is acquired by a contractor with the following exceptions, namely:- (a) Information disclosed to other Pakistani authorities, or financial institutions or consultants of the Government who will be bound to keep the same confidential; (b) information required for general statistical purposes; (c) upon the earlier termination of a permit, licence or lease, or upon the date of relinquishment of the area to which the information relates; and (d) all raw geophysical, geological and well data including well logs may be disclosed by the Government or GHPL to any interested party after two years of the activity to which such data relates. This however shall not be applicable to the data generated under multi-client arrangements. (4) Notwithstanding anything contained in these rules, the data in the possession of the Government in respect of a surrendered or relinquished area of a permit, licence or lease or agreement may be released by the Government to any company or to an organization engaged in petroleum exploration, production and research, on the ~~actual~~ reproduction ~~and other~~ costs of the data and on such terms and conditions as it may determine. (5) Except as provided under these rules, a contractor shall not disclose or cause to disclose any data except to a person who is ~~not~~ legally entitled to obtain, or where the contractor is legally obliged to disclose, that data. (6) Any other person who is permitted to receive the data shall hold the same subject to the same restrictions as are contained in sub-rule (5).	
54. **Power to inspect plants, records and accounts, etc.-** (1) DGPC or a person designated by him may, at any reasonable time after notice in writing enter any place where any activities or business is carried out by a contractor under the rules for the purpose of auditing or inspection or examination of *inter alia* wells, record, plants, appliances, buildings, or any other works.	54(2). Looking to reduce the extent of the DGPC's

(2) A contractor shall, for the purpose of an audit, or inspection or examination by the DGPC of any of the records described in these rules,~~shall~~ (a) provide access to DGPC or a person designated by him to conduct the audit or inspection or examination on his behalf to perform his duties without any hindrance; (b) provide all reasonable assistance to DGPC or a person designated by him to perform his duties without any hindrance; (c) promptly provide or make available the certified copies of records required by DGPC or to any person designated by him to perform his duties without any hindrance.	power to inspect or examine to only those records described in these Rules.
55. **Annual reports.-** (1) A contractor shall each year submit to DGPC annual reports containing the following particulars, namely:- (a) A financial statement with an abstract of the accounts, prepared in accordance with accounting principles generally accepted in the petroleum industry and audited by a recognized firm of chartered accountants approved by DGPC; (b) a description of all exploration, development, production and other work carried out by the contractor during the year relating to the permit or licence or lease area; (c) estimates of in place and– recoverable reserves of petroleum at the end of each year classified on the basis of good international petroleum industry practices as per standard format notified by DGPC. If so desired by the Government, the contractor shall be required to carry out reserves certification from an independent source ~~as approved by DGPC~~; and (d) estimates of petroleum production and exports for each quarter of the next year. (2) The report referred to in clause (a) of sub-rule (1) shall be submitted within six months and the other reports within forty-five days after the end of year to which they relate.	55 and 56. The necessity for the various reports, including annual and monthly reports, may be revisited by the DGPC. However, no change is proposed at this time, except perhaps to sub-rule 55(1)(c) and to 56 to make "Monthly" reports "Quarterly".
56. ~~Monthly~~ **Quarterly reports.-** Within ten days after the end of each ~~month~~quarter, a contractor shall prepare and deliver a ~~monthly~~ progress report to DGPC, which shall contain a narrative report of activities with plans and maps	56. Rationale is to reduce the frequency by which all reports are given.

showing the places where work was done. Such report shall also contain- (a) a summary of all geological and geophysical work carried out; (b) a summary of all drilling activity and results obtained; (c) a list of maps, reports and other geological and geophysical data prepared or acquired in connection with the activities; and (d) a statement of expenditure incurred by the contractor during the month on a format as may be specified by DGPC from time to time.	Additional reports overburden contractor and unnecessarily have to be reviewed and stored at the DGPC.
57. **Daily reports.-** During drilling of a well, a contractor shall provide to DGPC, copies of his daily well reports on a format as may be specified by DGPC from time to time.	57. DGPC to consider if reports need to be daily or if weekly would suffice (if required at all).
58. **Occasional reports.-** A contractor shall submit to DGPC, the following reports, namely:- (a) Within twenty-four hours, by email or fax with hand copy delivered within next twenty-four hours, if a well shows the presence of petroleum in significant measure or if a drill_stem or any other test has been carried out on a well which produces petroleum; (b) within seven days after the above-mentioned report, a written report containing relevant geological information and chemical analysis in the case of a showing of the presence of petroleum, and in the case of a drill_stem or any other test containing the following additional information, namely:- (i) Conditions and results of the drill_stem or any other test, including but not limited to flow rates, flow periods, tested intervals, pressures, choke sizes, hole condition and stimulation measure; (ii) physical analyses; and (iii) any deductions therefrom as to the potential of the reservoir. (c) within one month after the completion or abandonment of drilling operations, a comprehensive well completion report, which shall contain, *inter alia*, the lithological groups, stratigraphic boundaries, hydrocarbon zones, a copy of all well logs and tests and other relevant information including costs,	58(a). It is suggested to keep up with modern technology and permit email.

	provided that such information which cannot be obtained within this period shall be submitted as soon as possible; (d) at the latest upon the issue of a commercial discovery notice, a report which shall substantiate such notice and contains- (i) all relevant geological information, including estimates of recoverable reserves and daily production; (ii) a general plan for the development of the deposit, including possible alternatives, with a description of the main production and transportation installations envisaged, and the relevant cost estimates; and (iii) calculations of the profitability estimates of the discovery; (e) within forty-five days after the relinquishment or surrender of any part of the permit or licence or lease area and expiry or early termination of agreement all such maps, plans, reports, records, interpretations, and data that had been made or obtained by or for the contractor relating to exploration, development, production, abandonment, restoration of site and any other operations in the relinquished, surrendered or retained areas; (f) report to DGPC particulars of any ~~fresh~~ material issues of capital which may be made by ~~him~~ it or its~~his~~ parent company or any other company having a controlling share interest in it, from time to time and any alteration which may be made in the memorandum and articles of association or in the constitution of the contractor or his parent company. Any fresh issues of capital shall at all times be subject to clause (d) of rule 76; and (g) from time to time, such other plans and information as to the progress and results of the contractor's operations as DGPC may reasonably require.	
59.	**General.-** The reports referred to in this Part V shall be made in such form and contain such further particulars as DGPC may specify. A contractor's obligations under this Part V shall comprise reports whether prepared inside or outside Pakistan and whether prepared by himself or by others.	

60. **Reports of discovery.-** (1) No announcement or statement, whether direct or implied, with respect to a discovery of petroleum shall be made by a contractor except by the Government in consultation with the contractor, or by a company where required by law or otherwise with the consent of the DGPC. (2) No statement shall be made by or with the consent of a contractor claiming or suggesting, whether express or by implication, that any Government authority or any person or body active on behalf of the Government has or have formed or expressed an opinion that the licence or lease area is likely to contain petroleum.	60(1). Purpose of this change is to allow for announcements which a holder may be legally obliged to make.
PART VI – STANDARD OF OPERATIONS 61. **Avoidance of harmful methods of working.-** (1) A contractor of GHPL under a petroleum right shall undertake and execute all operations in a proper, prudent and workmanlike manner in accordance with these rules, an agreement or a reconnaissance agreement and good international petroleum industry practices. The contractor shall not unreasonably obstruct or interfere with other activities such as navigation and fishing. (2) Without prejudice to the generality of the foregoing provision, a contractor shall take all steps including but not limited to the following, namely:- (a) Prevent the escape or waste of petroleum discovered in the area; (b) conserve the area for operations; (c) prevent damage to adjoining petroleum bearing strata; (d) prevent the entrance of water through wells to petroleum bearing strata, except when approved by the Government for the purposes of secondary recovery; and (e) prevent the escape of petroleum into any waters in or in the vicinity of the area. (3) A contractor shall undertake petroleum operations in such a manner that avoids causing debris, which if caused shall be sole responsibility of the contractor. (4) The Government may establish safety zones around temporary and permanent installations as per good international petroleum industry practices. (5) The Government may, from time to time, determine and	

notify the standards applicable to the operations under these rules in accordance with good international petroleum industry practices.	
62. **Principles of sound operations.-** (1) All petroleum operations and activities shall be conducted diligently and in accordance with good international petroleum industry practices. The rate of production from each reservoir shall be the maximum efficient rate needed to achieve the maximum ultimate economic recovery of petroleum from various petroleum reservoirs unless otherwise approved by the Government. (2) The Government may specify measures at the time of approval of development plan that a contractor shall take to conserve petroleum resource of Pakistan. These measures shall include, but not be limited to, notification of depletion policy, rate and flow of petroleum from the fields and the measures to achieve maximum ultimate economic recovery of petroleum from different reservoirs. (3) A contractor shall not flare or vent any natural gas without the prior approval of the Government in writing.	
63. **Commencement, testing and abandonment of drilling operations.-** (1) If a contractor of GHPL under a licence or lease wishes to get a well approved as an exploration well such approval may be obtained from DGPC prior to the commencement of drilling, after submitting all relevant data and interpretation in support thereof. (2) A contractor shall not commence drilling, re-entry, sidetracking, hydraulic fracturing ~~testing and related operations~~ or abandonment of any well without first having obtained the approval of DGPC in writing. ~~(2)~~(3) A ~~and the~~ contractor shall- (a) as soon as possible make known to DGPC the proposal for testing a well; (b) test all potentially productive horizons indicated by wire-line recording ~~as may be finalized in consultation with DGPC~~; and (c) promptly undertake the technical evaluation of the well testing results and of all other relevant data and submit the same to DGPC as soon as possible. (4) For the purposes of sub-rule (2), the approval of the DGPC	63. Changes made to reduce the necessity of involving the DGPC in what ought to be operational matters and not regulatory matters.

	shall be deemed to have been given at the end of the notice period provided in sub-rule (5) unless within such period the DGPC gives reasons why the operation applied for should be varied or stopped. Any approval given or deemed given under this rule shall be without prejudice to any other obligation of the contractor/GHPL. (5) For the purposes of sub-rule (4), the "notice period" shall be (a) 21 days from the delivery of a request for approval, save for an exploration well, (b) for the drilling of an exploration well, it shall be 14 days after a reminder request which may not be delivered to the DGPC in less than 14 days of the original request being delivered or (c) for an on-going operation, two working days from the request being delivered; provided in each case that if the contractor/GHPL has failed to provide the required technical information for such operation in the standard format, any of the aforesaid periods shall commence from the provision of the required information. (6) After the completion of all operations, the well shall be safely plugged as per applicable regulations and the same shall be reported to the DGPC within seven days of the well being plugged. ~~(3)~~(7) ~~and the d~~Drilling operations shall be conducted in accordance with the applicable regulations and good international petroleum industry practices.	
64.	**Shape of relinquished areas.** Areas which are relinquished or surrendered shall be of sufficient size and shape to enable petroleum operations to be carried out thereon.	

PART VII - MISCELLANEOUS 65. **Use of Pakistani goods and services.-** (1) In all activities carried out pursuant to these rules, a contractor shall ensure the use of Pakistani goods and services, to the extent that such goods and services are competitive with regard to price, quality and schedule of delivery~~ provided that the price is reasonable~~. ~~(2) Local producers who are capable of supplying goods and services of type demanded shall always be included in invitations to tenders and shall be chosen if competitive.~~	65(1). The only relevant factor should be that the local goods are competitive, not reasonableness of price. 65(2). This sub-rule is a repetition of sub-rule (1).
66. **Employment and training of Pakistani personnel.-** (1) The Government may require a contractor to employ nationals of Pakistan in his organization at all levels and in all branches including technical and administrative units and to arrange for the training in Pakistan and abroad, of nationals of Pakistan to fill the aforesaid positions.~~–~~ The number of Pakistani personnel to be employed ~~or~~ and trained shall be ~~determined in consultation with~~submitted to the DGPC in accordance with the guidelines that may be issued by him from time to time. An application for execution of an agreement or a renewal or extension thereof and the development plan submitted with the application for grant of lease on behalf of GHPL shall contain a description of the measures proposed to be taken by an applicant during exploration, appraisal, development and production phases so as to ensure compliance with this rule. (2) The Government may require that a contractor shall provide training for Government personnel in order to develop the capability of such personnel to efficiently perform their duties related to the supervision of petroleum industry. Such training shall cover both technical and management disciplines for example geology, geophysics, engineering, project management, accounting, legal, and shall also be in the form of on-the-job training and participation in in-house seminars.	66(1). It should be a requirement that the operator favour Pakistani employmt/training, and there should be no guidelines beyond that, except to set out how the report should be structured.
67. **Joint exploration and development.-** (1) If a petroleum deposit extends across more than~~–~~ one licence or lease area with ~~held by~~ different ~~companies~~contractors, such ~~companies~~ contractors shall endeavour to agree to explore and exploit the deposit jointly in the most efficient manner. (2) The contractors shall endeavor to expeditiously agree to a	67. This rule has been revised in an effort to make it more robust in the eventuality of fields of different owners being in communication.

Jjoint exploration, and/or joint development plans or in case one of the deposits has already been developed, a joint unitization plan, together with agreement between the companieswhich shall be submitted to the Government for approval.

(3) If the companies contractors fail to reach an agreement within a reasonable period of time on a joint exploration, joint development or joint unitization plan as referred to in sub-rules (1) and (2), the DGPC shall, on the request of any of the contractors, or may itself the Government may, in the public interest, by notice in writing to all concerned companies, direct to that they finalize and submit for approval of the Government relevant plan within the period stipulated in the notice which shall not exceed three months.

(4) In the event such plan is not submitted to the Government within the stipulated period or such plan has not been approved by the Government, either contractor may request the Government may to appoint an independent consultant to prepare such a plan, or if appropriate, decide first if a deposit does extend from the area of one contractor into that of another, which the Government shall do without delay.

(5) The cost of such consultant shall be at the joint cost of the contractors concerned to be paid as directed by the Government. If a contractor does not contribute, the cost shall be wholly borne by the other such contractor. In such an event, if the reservoir does extend into areas held by the respective contractor, the contractor which did not contribute shall reimburse the other the whole cost of the consultant thus appointed.

(6) The consultant shall be required to complete the plan within three months of receipt of the data and other information, with any extensions considered reasonable by the Government, which in any instance shall not exceed a cumulative period of six months. Both parties shall make available all data reasonably requested by the consultant which shall be obliged to enter into a confidentiality agreement. If a party fails to make such data available in a timely manner, the Government shall direct such a party or parties to comply with this request, failing which such party shall be in breach of a material term and shall be subject to rule 76(a).

(7) The plan so prepared by the consultant shall be considered and approved by the Government and the respective contractors, each of whom shall have one month to make written submissions to the consultant. Thereafter the plan shall be finalized by the consultant and accepted by the Government and parties. with appropriate changes for implementation as per approved schedule. In the event of a

manifest error, ~~T~~the Government may, unilaterally or on the request of an affected party, impose ~~however, stipulate~~ such additional conditions as may reasonably be considered appropriate ~~in the interest of such plan~~. The final plan shall be binding on the concerned parties. (8) In the event the reservoir does extend into areas held by the different contractors, the respective reserves determinations shall be effective from the date when there was commercial production or EWT production from more than one such area, and consultant shall make recommendations for necessary adjustments on this account in the plan. (9) (a) The reference to "consultant" in rules 67(4), 68(2), 69(2) and 75(3) , shall be to such third party consultant appointed by competitive bidding from three consultants chosen by the DGPC from the list of consultants provided for in sub-rule (9)(b). (b) The said "list of consultants" shall comprise of six pre-qualified consultants maintained by the DGPC. Each such consultant shall be independent and of an international caliber/repute. The list shall be readily available to any contractor, at any time, on request, which may make observations on any party contained in the list or recommend others for inclusion. Based on such observations and after giving other contractor an opportunity to comment, the list may be changed by the DGPC from time to time. (c) In relation to any bidding process, the concerned contractors shall be given an opportunity of providing input on the bid documents including the terms of reference, evaluation criteria, in any communication relating to the bids and the parties shall have the right to be present at the bid opening.	
68. **Petroleum exploration within a lease area.-** (1) A contractor shall have a preferential right to perform petroleum exploration activities on all horizons underlying the surface area of a lease above or below the sub--surface boundary of the lease ~~area~~ provided that, if the Government receives a bona fide offer from a third party to undertake exploration within ~~such~~ the surface area of a lease ~~area~~(excluding the sub-surface boundaries of the lease), the contractor shall be given the opportunity ~~have to decide whether or not~~ to match such offer within six months of receiving a notice to this effect from the Government. (2) In case a contractor decides not to match the offer and undertake exploration pursuant to sub-rule (1) and a third	68(1). To clarify that the exploration would be below the surface area and not below the lease granted (which would be horizon-specific).

party obtains rights under a ~~is granted~~ petroleum exploration licence ~~rights~~ granted over any of ~~or all~~ the horizons underlying the surface area of a lease ~~area~~(excluding the sub-surface ~~geological~~ boundaries of the lease), then such a third party and the existing contractor shall within ninety days enter into an agreement setting forth the detailed terms and conditions of operating within the surface area of a lease ~~area~~ so that the activities can be coordinated in a just and equitable manner which does not prejudice the interests of the existing contractor. In case such an agreement is not reached between the ~~parties~~ respective contractors within the specified time or such agreement has not been approved by the Government, the Government may appoint a~~n~~ ~~independent~~ consultant to prepare such a~~n~~ plan ~~agreement~~, at the joint and equal cost of the contractors concerned, which will be binding on the holder/contractor and the third party and rules 67(6), (7) and (9) shall apply *mutatis mutandis.* The plan so prepared by the consultant shall ~~be to~~ enable activities to be coordinated in a just and equitable manner, without adversely affecting the interests of the existing lease holder.~~considered and approved by the Government with appropriate~~ and contractors ~~changes for implementation as per approved schedule. The Government may, however, stipulate such additional conditions as may be reasonably considered appropriate in the interest of such an agreement.~~

68(2). Further provisions in the event agreement is not reached.

~~(2)~~(3) A licence granted over all or part of the lease area to a third party shall, notwithstanding the terms and conditions of the licence, be deemed to be effective upon the parties concluding the agreement, or conclusion of the plan, referred to in sub rule (2). If no agreement is reached or plan finalized within one year of the grant of such licence, at any time thereafter either the holder of the licence or the Government may terminate the same without any liability or obligation.

68(3). There ought to be clarity that a licence cannot be effective until an agreement is reached or plan imposed as otherwise it could interfere with an existing lease holder.

(4) For the purpose of petroleum exploration within a lease area, the provisions of rules 27, 28, 29 and 33 shall apply, *mutatis mutandis,* provided that where an existing contractor makes a new commercial discovery, on such contractor's request the provisions of rule 33 shall not be applicable and the existing lease shall be amended to bring the discovery area of such commercial discovery under the purview of the lease.

~~(3)~~(5) In case any discovery area covered under a lease appears to extend~~s~~ beyond the geographical limits of the lease area, the Government may upon request allow the contractor, subject to such conditions as it deems necessary, to undertake appraisal of such discovery area beyond the limits of the lease in an open area and revise the co-ordinates of the lease area if justified by the results of the appraisal pursuant to rule

27.	
69. **Exploration and use of facilities by a third party.-** (1) The Government may allow a third party to undertake exploration in the area of a licence or lease as may be necessary to obtain sufficient knowledge as to the geological conditions in areas surrounding such area. The said exploration activities must not unreasonably interfere with the activities of a contractor. After consultation with the contractor concerned the Government shall determine the manner in which such exploration is to be carried out e.g., type, duration and exploration area, provided in any case that such third party shall not be given any rights whatsoever in the licence or lease area.	
(2) The Government may decide that production, processing and transportation facilities owned by GHPL or a contractor shall be available for utilization by other~~s~~ party (in this sub-rule (2) referred to as "user"), if this is deemed to be desirable for the purpose of efficient operations, or if required ~~by~~ in the public interest. Such utilization shall be with respect to the capacity of such facilities that is in excess to the existing or reasonably anticipated future needs of the contractor and GHPL and shall not adversely interfere with the activities and the rights of the contractor and GHPL. The user shall pay compensation for such utilization as may be mutually agreed by the contractor or GHPL and the user~~and approved by the Government~~. If GHPL or the contractor and the ~~nominated~~ user fail to reach an agreement ~~on compensation~~ within hundred and eighty days ~~or if the Government does not approve the agreed compensation,~~ the Government may appoint a~~n independent~~ consultant to determine such compensation and other terms by way of a plan, at the cost of the user. ~~GHPL or the contractor concerned or the nominated user, as the case may be. The compensation so determined by the consultant shall be considered and approved by the Government. The Government may, however, stipulate such additional conditions as may be reasonably considered appropriate in the interest of such joint utilization plan.~~ Rules 67(6), (7) and (9) shall apply *mutatis mutandis*, and provided always that the consultant shall comply with any guidelines which the DGPC may issue from time to time in this regard.	69(2). Efforts to harmonise mechanism with mechanism devised at rule 67.
~~(2)~~(3) Any well which has been abandoned may be used by any party, with the approval of the Government, for any use, including use for geo thermal energy, provided that if the well or wells fall within a granted petroleum right, the approval of the petroleum right holder must also be obtained.	69(3). For future purposes a provision has been included to make it clear that abandoned well may be used other uses.

70.	**Security interest.-** Subject to these rules, and with the prior approval of the Government, a contractor or any company comprising contractor may create security interest for obtaining financing for petroleum operations. The Government may cause GHPL to execute all reasonable acknowledgements to formalize arrangements related to creation of such security interest provided that in no event the Government or GHPL shall be liable for any indebtedness or liability of the contractor or any company comprising contractor.	
71.	**General right of contractor under a lease to enter the area~~land~~.-** Subject to any required approval of the Government and of any other authority which may be involved, and on such conditions as may be stipulated, a contractor shall have the right, as required for the purpose of carrying out operations under the lease, to- (a) enter upon and use land and water~~ as well as the permit, licence or lease area~~; (b) appropriate water; (c) store petroleum; (d) erect houses, floating/fixed platforms and machinery; (e) search for, dig and get gravel; (f) cut timber and clear undergrowth; (g) enclose with a fence areas for which it ~~he~~ is paying surface rent; and (h) carry out such other activities which the Government considers necessary.	71. Govt approval should not be universally required, but only when "required".
72.	**General rights of a contractor under permit or licence to enter land.-** Subject to approval of the Government and of any other authority which may be involved, a contractor or GHPL under a permit or licence shall have the rights stipulated in clauses (a), (b), (d), (f) and (h) of rule 71 provided that houses and machinery referred to in clause (d) must be of temporary nature.	
73.	**Restrictions on a contractor's rights.-**	
(1)	The rights granted to a contractor/GHPL shall not prejudice or affect the exercise of any of the following powers,	

namely:- (a) The Federal Government or any person authorized by it ~~him~~ may within the contractor's area search for and produce any minerals or substances other than petroleum and make and maintain such installations and facilities as required for the said purpose; (b) the Federal Government or any other persons authorized by it ~~him~~ may within area of the contractor- (i) make and maintain upon, over or through the said area such reservoirs, pumping stations, generating stations, waterways, roads, tramways, railways, telegraph and telephone lines, pipelines or such other installations and facilities as it shall deem necessary or expedient for any purpose; (ii) obtain such stone, earth and other materials as may be necessary or requisite for making, repairing or maintaining the said installations and facilities; (iii) draw water from the said area and have free access thereto; and (iv) pass and repass at all times over the said area for all such purposes as occasion shall require; and (c) the Federal Government shall have the liberty and power to grant or demise to any person all or any part of the said area for any purpose so that such grant or demise be made subject to the rights of the contractor. (2) The Federal Government's powers pursuant to clauses (a) and (b) of sub-rule (1) shall be exercised and enjoyed in such a manner as not to unreasonably hinder or interfere with the rights of a contractor. Fair and proper compensation shall be paid by the Federal Government for all loss, damage or injury (not, however, including the value of any water, stones, earth or other materials taken) which the contractor may sustain or be put to by reason or in consequence of the exercise of the said powers.	
74. **Power to execute works.-** In case a contractor at any time fails to perform its ~~his~~ obligations under these rules or under an agreement, the DGPC shall be entitled after giving to the contractor reasonable notice in writing of his intention to execute any works which in his opinion may be necessary to secure the performance of the said obligations	74. In future, may clarify Govt would not have the right to perform minimum work obligations if it had taken LD's. No change recommended now.

or any of them and to recover the costs and expenses of so doing from the contractor.	
75. **Power to control spill or waste.-** (1) A contractor, ~~shall~~ at all times, has an obligation not to cause spill and waste. (2) Where DGPC, on reasonable grounds, is of the opinion that, with respect to any operation of a contractor, spill or waste is required to be controlled or prevented, he may order the contractor to control or prevent spill and waste within a reasonable period of time, failing which he may take such necessary steps and measures to control or prevent the spill or waste as may be required and all cost thereof shall be borne by the contractor. (3) If there is any dispute, controversy or claim arising out of or in relation to the exercise of the powers by DGPC under sub-rule (2) then DGPC and a contractor shall make all reasonable ~~best~~ efforts to settle such dispute, controversy or claim within sixty days of the issuance of order by DGPC under sub-rule (2) failing which such dispute, controversy or claim shall be referred to an independent consultant which shall be appointed by the Government at the cost of and with consent of the contractor. The findings of such consultant shall be binding on DGPC and the contractor. (4) ~~Notwithstanding anything in sub-rules (1), (2) and (3),~~ DGPC or a contractor may exercise the option not to refer such matter to an independent consultant, in which event such dispute, controversy or claim shall be settled through arbitration in accordance with laws in force in Pakistan or as otherwise specified in the agreement.	
76. **Power to revoke.-** In addition to other grounds for revocation stated in these rules, the Government may revoke a petroleum right after serving a thirty days show cause notice and according to the procedure specified in the agreement if- (a) a contractor thereof is~~, in a material respect,~~ in breach of any of the material terms and conditions on which an agreement or reconnaissance agreement was executed, of the provisions of these rules or of any other written law applicable to the petroleum operations and has not, within a period of sixty days from the date on which a notice in that behalf was served on it ~~him~~ by DGPC, remedied the breach, or where the breach is not capable of remedy, has not,	76. The change is made because the term being breached should be "material", not the extent of the breach.

	within such period offered reasonable compensation in respect thereof; (b) the agreement or reconnaissance agreement was executed by reason of information given by the contractor which was false in a material respect; (c) any company comprising the contractor or ~~his~~ its parent company makes an arrangement or composition with its creditors, a receiver is appointed or the contractor goes into liquidation whether compulsory or voluntary; (d) without the prior consent of the Government, there is a disposition of the share capital of any company comprising the contractor or its parent company in consequence of which any person who prior to that disposition had effective control of the ~~contractor~~ company or its parent company ceases to have such effective control; and (e) the contractor has failed to make payment to the Government or GHPL, whether fully ~~full~~ or partially ~~part~~, in accordance with ~~payable under~~ these rules or an agreement or reconnaissance agreement and such payment remains in arrears or unpaid for two subsequent months ~~next~~ after any due date of payment.~~of the day on which the same was ought to be paid.~~	76(d). In future to consider adding after the first reference to "company" the words "or any other company having a controlling share holding"; and prior to the final "or" insert "it". No change recommended now. 76(e). In future to consider deleting as sub-rule (a) may more reasonably handle it. No change recommended now.
77.	**Right of the Government upon termination of a petroleum right**.- (1) When a permit, licence or lease has expired, or been revoked, surrendered or area relinquished, wholly or partly, except if otherwise provided in an~~d~~ agreement or reconnaissance agreement ~~has terminated or has been surrendered, wholly or partly,~~ the area of permit, licence or lease or relinquished shall so far as practicable be reinstated in its original condition by a contractor and where this is not practicable, the contractor shall pay compensation to the Government for damages suffered as a result thereof. (2) When a petroleum right has expired or been revoked ~~and agreement or reconnaissance agreement, has terminated or have been~~ surrendered or area relinquished, wholly or partly~~,~~ any installations and facilities relating thereto, or ~~the use of~~ installations and facilities ~~including related equipment~~ no longer required by the contractor for the area in question ~~has come to an end~~, may be taken over by the Government through GHPL, along with ~~shall have the right to takeover such installations and facilities including~~ related	77(1) & (2). Modified wording as expiry, revocation and surrender cannot be partial. Only relinquishment could be in whole or part. Also some other reordering for greater clarity.

	equipment. ~~An~~ The agreement may provide details regarding the same. This shall also include pipeline transportation and related facilities installed by a contractor to secure shipment of petroleum. (3) At takeover of the installations and facilities including equipment pursuant to sub-rule (2), a contractor shall be required to hand over such installations and facilities including equipment in such condition as ~~required~~ may be reasonably expected under good international petroleum industry practices. No compensation shall be given to the contractor in case of such takeover. Takeover shall involve an automatic cancellation of any security for debts or leasing arrangement related to such installations and facilities including equipment and title of the same shall be transferred to the Government. (4) If the Government does not wish to exercise its right to takeover the installations and facilities including equipment, the Government may demand that removal shall be carried out by a contractor at his expense, in which case the provisions of sub-rule (1) shall apply. (5) Unless otherwise stipulated in an agreement, at least one year prior to termination, a contractor shall submit to the Government a plan for the orderly closing down and abandonment of his operations, and for the removal of the facilities or their transfer to the Government, as the case may be.	77(3). The standard of facilities etc to be handed over should be stated and not be left vague as "such condition as required". Does that mean the outgoing company has to upgrade facilities?
78.	**Indemnity.-** A contractor shall be responsible and liable for actual loss or damage and the consequences of his activities under the agreement. The contractor under the agreement shall- (a) effectively indemnify, defend and hold harmless the President, the Government and GHPL at all times against all proceedings, costs, charges, claims, losses, damages and demands whatsoever, including, without limitation, claims for loss or damage to property or injury or death to persons, caused by or resulting from work conducted by or on behalf of contractor, by any third party, or any thing done or purporting to be done in pursuance thereof, provided that contractor shall not be held responsible to the Government and GHPL for any indirect or consequential damages or loss, including loss of profit and any loss, claim, damage or injury caused by or resulting from any negligent action of any concerned personnel of the Government or GHPL; and (b) if required to do so by the Government, take out and maintain such insurance as the Government may	

approve against any liability of the contractor under these rules and the agreement.	
79. **Miscellaneous obligations.-** (1) A contractor shall establish an organization in Pakistan with sufficient competence and capacity to conduct all operations and activities pursuant to these rules and shall- (a) immediately after execution of an agreement or reconnaissance agreement but before commencing any petroleum operations in the relevant area, furnish to DGPC, the name and address of the manager, resident in Pakistan, under whose supervision petroleum operations are to be carried out; and (b) in writing, keep DGPC informed of the names, addresses and nationalities of sub-contractors employed by him from time to time. (2) Any rent for a petroleum right, fee, or maximum penalty referred to in these rules may be increased from time to time by reference to an appropriate consumer price index, which increase shall be effective prospectively after notification.	79(2). DGPC should decide what form the notification should be and if impractical to Gazette, should discuss whether wording here may require modification.
~~79.~~80. **Force majeure.-** (1) Failure on the part of a contractor to fulfil any of the terms and conditions of these rules, an agreement or reconnaissance agreement shall not give the President, or the Government, any claim against the contractor or be deemed a breach of his obligations insofar as such failure arises from *force majeure*. (2) In this rule the expression "*force majeure*" includes the act of God, war, insurrection, riot, civil commotion, blockade, strike, lockout or other industrial disturbances, flood, lightening, explosion, fire, earthquake and any other happening which a contractor could not reasonably prevent or control, and shall not include a circumstance existing at the time of the grant of the petroleum right or execution of an agreement. (3) If the ability to fulfil the terms and conditions, is affected by *force majeure*, a contractor shall without delay give notice to the Government, stating the cause of such inability, ~~and his~~ its efforts to remove such causes and remedy its consequences and steps to be taken to prevent the circumstances reoccurring and mitigating the consequences thereof.	

(4) The term of a petroleum right granted to GHPL and an agreement or reconnaissance agreement, as the case may be, shall be extended for the duration of the *force majeure* situation and for such further period as is required to resume a contractor's operations.	
~~80.~~81. **Arbitration.-** Except as otherwise agreed in a reconnaissance agreement or an agreement, as the case may be, or expressly provided for in these rules, any question or dispute regarding a petroleum right or an agreement or reconnaissance agreement or any matter or thing connected therewith shall be resolved by arbitration in Pakistan and in accordance with Pakistan laws.	81. Given the challenges of local arbitration it is recommended that this rule is critically reviewed. No change is recommended at this stage.
82A. Decisions and review.- (1) All decisions to be made by the Government, including the DGPC, under these rules or concerning a petroleum right, PSA or other agreement or plan made in relation to a petroleum right shall be in writing, with reasons, made without undue delay. (2) DGPC may prepare procedures to be followed by a contractor/holder of a petroleum right seeking a decision under any rule which shall be readily available to any person on request. If there are such procedures and a holder of a petroleum right reasonably satisfies the criteria contained therein, then the Government or DGPC shall, unless the circumstances reasonably justify otherwise make a decision favourable to the petroleum right holder. (3) The DPGC shall prepare procedures as provided for in sub-rule (2) for, but not limited to rules 9, 10, 26(8), 27A, 31(1)(b), 38 and 63.	82A(1). All decisions should be recorded in writing with reasons. This helps keep consistency and transparency. For the future it is recommended that the DGPC be able to levy nominal fees for even routine applications if the proceeds can be directly used by the DGPC to improve capacity. 82A(2). Having SOPs which can be made readily available to companies will make decision making/approvals easier for Govt and companies alike. 82A(3). Certain rules have greater need for SOPs and so are specifically identified here.
First option: (4) (a) If a holder of a petroleum right or a contractor is aggrieved by a decision of the DGPC or if the DGPC does not respond to a request in a timely manner, the regulations contained in the Fourth Schedule hereto shall apply. This will however be without prejudice to a party's rights under	82(4). Regulations are required to resolve disputes quickly so as to foster confidence in the regulatory process.

any provision of law or the agreement. (b) Such regulations may be amended by the DGPC from time to time to apply prospectively and any changes shall be duly notified in the official gazette and a copy sent to all petroleum right holders and contractors.	
Second option – an alternative to sub-rule (4), preceding, and the Fourth Schedule, have r.82B: **82B. Independent Appeal Forum: -** (1) Any holder of a petroleum right or contractor aggrieved either by a decision of the DGPC or where the DGPC has not responded to a request in a timely manner, may~~,~~ without undue delay, make a written representation to the DGPC. The DGPC shall arrange to convene a review meeting with the holder of a petroleum right or contractor within seven days of the receipt of written representation. (2) Within seven days of the review meeting, the DGPC shall convey to the aggrieved party in writing its final decision with reasons and basis thereof. (3) If the holder of a petroleum right or contractor is still aggrieved of the decision/final decision of the DGPC or if DGPC has still not responded, the aggrieved party may request the Secretary, Ministry of Petroleum & Natural Resources after 14 days of his representation or the final decision of DGPC as the case may be, for the matter to be submitted to the Forum of Appeals (FOA). (4) The FOA shall comprise of the following three members including the Chairperson: (i) A senior technical expert with at least 25 years' experience from the exploration and production industry who will be the member/Chairperson. (ii) A senior commercial/regulatory expert from the exploration and production industry with at least 20 years' experience as member. (iii) A senior legal expert with at least 15 years' experience in the exploration and production industry as member. ~~(i)~~(iv) The FOA shall develop its own procedures and protocols for the conduct of hearings and consultation with other experts from the industry out of the lists maintained by the Ministry of Petroleum & Natural Resources as deemed	

necessary. ~~(4)~~(5) The FOA shall convene no later than 25 days after the representation referred to in these rules and render its decision within thirty working days of such hearing or remand the matter back to the DGPC to make, or revise, its decision within a specified period. The decision of the FOA shall contain detailed reasons and justifications in support thereof and will be sent to Secretary MPNR with a copy to the concerned parties. The decision shall be implemented by the DGPC without delay unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions. ~~(5)~~(6) Secretary MPNR will review the decision and issue a speaking order in the matter within a fortnight. ~~(6)~~(7) The Government may issue suitable guidelines, from time to time, in relation to any aspect regarding FOA. Such guidelines may include appeal procedures, documents to be filed for the appeal and the payment of fees to the FOA. (8) Availing of the remedies under these rules are without prejudice to a party's rights under any other provision of law or- the agreement.	
83. Penalties: (1) Whosoever contravenes any provision of these rules shall, without prejudice to any other action that may be in relation to the contravention, be punishable as outlined in the Third Schedule. (2) In imposing any fine under these rules, the DGPC shall keep in view the principle of proportionality of the fine to the type, gravity, duration, frequency and repetition of the breach or failure. Prior to imposing a fine, the DGPC shall, in writing, require the person liable to be affected to show cause, in writing, as to why the fine should not be imposed. (3) The DGPC may, from time to time, modify the Schedule of Fines (Third Schedule), including the categories and scale of fines to apply prospectively, and provided no individual fine may exceed [50] million rupees. (4) The imposition of a fine shall be without prejudice to any	83. The Govt should have the ability to levy fines.

other legal right under these rules or legal and contractual rights of the Government.	
84. **Applicable laws, rules and regulations.-** (1) Except as otherwise provided for in these rules, all laws, rules and regulations of Pakistan including any guidelines, orders and instructions issued by the Government from time to time as are applicable to petroleum exploration and production activities in onshore area shall deem to be applicable *mutatis mutandis* to such activities in offshore area.	84. For the future it is recommended that this either be deleted or more precisely stated, but no further change recommended now.
THE FIRST SCHEDULE **APPLICATION FOR CONTRACTORSHIP UNDER A RECONNAISSANCE PERMIT, EXPLORATION LICENCE OR DEVELOPMENT AND PRODUCTION LEASE** [1]In the case of using this Schedule for an assignment under rule 10, references herein to "applicant" shall be replaced with "proposed assignee", including the execution block at the end. The application shall be made by the proposed assignor.	First Schedule, footnote to be added to give clarity to companies for assignments.
THIRD SCHEDULE **FINES** a) Table of fines and related offences is outlined below. b) Before the imposition of a fine, a show cause notice shall be issued by the DGPC to the offending petroleum right holder/contractor giving not less than 14 days from date of receipt of the notice to explain as to why a fine should not be imposed. This will be without prejudice to any other remedy available to the Government and the obligation for the default to be rectified, if possible. c) If, in response to the notice, a reasonable written justification is given and the offence has been rectified as far as possible, no fine shall be imposed, or the fine shall be substantially reduced by the DGPC. d) Immediately following receipt of a response from the party, referred to in paragraph (c) or, if no response is received within the time stipulated in paragraph (a), the DGPC shall inform the petroleum right holder/contractor in writing either that no fine shall be imposed or the amount of fine to be imposed, as the case may be. e) Where it is possible to rectify an offence and it has not been rectified, an additional fine may be imposed within 14 days of the receipt of the notice referred to in paragraph (d), above, at the	There are certain requirements in the various E&P Rules, but there is no provision to impose a penalty if the petroleum right holder fails to comply with those requirements, even though the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act, 1948 permits the imposition of fines. The only provision in the Rules for violation is revocation of petroleum rights, where the offence is material. This creates a challenging situation for the regulator, in terms of enforcement of the Rules, particularly when the offence is of a relatively minor nature. Hence, to give the DGPC greater powers to control this Schedule has been proposed.

rate of up to 1% per day of the fine stipulated therein until the offence is rectified, or the petroleum right/agreement to which the fine relates has terminated or the total of the additional fine is equal to the fine stipulated under paragraph (d), above. Upon the additional fine no longer accruing, the DGPC will intimate to the contractor the total fine imposed, revising the notice referred to in paragraph (d), above.

f) The fine stipulated in the notice/intimation referred to in paragraph (d) or (e), as applicable, shall be payable within 14 days of receipt of the relevant communication. Failure to do so, in itself, can be construed by the DGPC as a material breach under rule 76(a).

g) In the event a letter communicating the imposition of a fine is not accepted for receipt, it shall be deemed to have been delivered under this Schedule on the working day immediately after the day it was sent by a recognised courier to the last address provided to the DGPC, provided also sent on the same day by either facsimile machine or registered post.

h) In each case where any data, reports or information is to be provided by a right holder or the contractor to the Government in a desired format, the DGPC will give such right holder/contractor a reasonable opportunity to correct the completed format before issuing a show cause notice for the imposition of a fine.

i) Any fine levied shall be independent of, and without prejudice to, the Government's rights under rule 76 (Power of revocation), rule 74 (Power to execute works), for breach of contract, or any other legal recourse. Furthermore, the payment of a fine will not extinguish the requirement to comply with the obligation in the rule, for which the fine was imposed, as far as possible.

~~a)~~j) Whilst fines are expressed in US$, these should be paid in Pakistan Rupees (PKR), determined at the prevailing exchange rate on the date of payment.

k) Each fine shall be imposed on the holder of a petroleum right or the contractor as the case may be collectively through the operator, with ultimate liability being joint and several (pursuant to rule 9).

l) A fine which remains unpaid following the date of the DGPC's communication referred to in paragraph (d) and, if applicable, paragraph (e) it will result in a late payment surcharge of 1% per month (or part thereof) of delay beyond 14 days of receipt of the relevant notice or communication.

m) Fines for any one offence, including any additional fines due to delays thereto, may not exceed the cap prescribed in the Rules.

2003 Rules	Rule title	Offence	Fine
Rule 17	Guarantees	Failure to provide acceptable performance guarantee(s)	10% of work unit value or $50,000, whichever is higher without prejudice to right of the DGPC to cancel a licence awarded.
Rule 25 (1)	Rights and obligations of licence holder and contractor.	Production without approval	US$50,000, except, if the offence is for continuing EWT production beyond an approved EWT period would be US$25,000, without prejudice to the royalty due.
Rule 26(4)	Relinquishment.	Failure to relinquish when obliged to do so.	US$100,000.
Rule 31(2)	Work programme and other obligations not fulfilled.	Failure to pay liquidated damages or transfer of undischarged work obligation not approved.	US$200,000 in addition to the minimum expenditure obligation of undischarged work obligation.
Rules 32 and 44	Licence and Lease Rent.	Failure to pay rent.	The higher of US$5,000 or 50% of the rent due without prejudice to the rent due.
Rule 36	Survey expense.	Failure to undertake a survey when requested.	US$10,000.
Rule 38(3)	Development plan.	If development and production not carried out as per approved Development Plan and revision not approved or not sought.	If a material change (being 20% change from what was stated in the Development Plan in capital expenditure or rates or change in number of wells): - US$5,000 for seeking modification within six months of

			the modification being effective or US$25,000 thereafter. - If modification is not sought and is discovered by the Government then US$25,000 plus US$5,000 per complete month after the unapproved modification having been effective till discovered.
Rule 47	Petroleum measurement.	Failure to measure or weigh using the method agreed and/or failure to comply with any guidelines in that regard and/or failure to permit inspection of such equipment.	US$100,000.
Rule 48	Revocation of lease.	Failure to produce within required time limits.	US$250 per day for the first three months and US$1,000 thereafter, without prejudice to rights of revocation at any point.
Rules 49, 51, 52 & 55-58	Accounts Records and Reports.	Reports not kept/maintained or provided to DGPC/Government, as required.	US$10,000.
Rule 50	Period of record-keeping	Failure to maintain records as required.	US$25,000.
Rule 53	Data property of the Federal Government.	Data and information not submitted as required.	US$10,000.
Rule 53(5)		Disclosure of data to unauthorized party.	US$50,000.
Rule 54(2)	Power to inspect plants, records and accounts etc.	Refusal or delay in access of data to the DGPC and non-provision of certified copies of record.	US$50,000.
Rule 60	Reports of discovery.	Making an impermissible announcement or statement.	US$50,000.
Rules 62(3)	Flaring.	Unauthorized flaring of gas.	100% of the value of the unauthorized

			flared gas, determined on the basis of the price applicable to the block in $/MMBTU. Any show cause notice or intimation of fine may provide that the exact fine is to be calculated.
Rule 63	Commencement, testing and abandonment of drilling operations.	Development well included in the Development Plan spud without approval.	$10,000 (in addition to any fine under rule 38(3)).
		Exploration/appraisal/development well not included in a Development Plan spud without approval	US$50,000.
		Re-entry, side-tracking or hydraulic fracturing commenced without approval.	US$10,000.
		Abandonment of well (Exploration/Appraisal/Depleted/Unsafe) and abandonment of producing zone without approval.	US$50,000.
Rule 66	Employment and training of Pakistani personnel.	Failure to submit report of number of Pakistani personnel to be employed and trained.	US$10,000.
Rule 67(6)	Joint exploration and development.	Failure to comply with direction to provide data following a request by DGPC.	US$25,000.
Rule 77(1)	Right of Government upon termination of a petroleum right.	Failure to reinstate where re-instatement is practicable. (note, if reinstatement not practicable, r.77(1) provides for damages to be paid.)	US$50,000 plus cost incurred by the Government to re-instate the area.
Rule 77(5)		Plan for abandonment/removal of facilities not submitted when required.	US$10,000 per month (or part thereof) of delay in submission of plan/informing the DGPC.
Rule 78(2)	Indemnity	Failure to take out required insurance.	US$25,000.

Rule 79	Miscellaneous obligations.	Failure to set up an organization in Pakistan.	US$10,000 if the organisation is not set up in the first six months after the grant of a petroleum right.
General.	Any other obligations provided in the 2003 Rules which are not fulfilled by the holder of a petroleum right and not expressly referred to above, penalty of up to US$1,000.		
Legal costs.	In addition to the fines stipulated herein or elsewhere in the Rules, any of the Government's legal fees (including lawyers and court/arbitration fees) incurred and documented for recovery of any of the fines as a result of non-payment following a show cause notice shall be separately recovered as a further fine, provided if the matter has been taken to court or arbitration, fine shall only be payable if it has not been struck down as not payable.		
PSA.	If there is a provision in a PSA or petroleum right whereby something has to be done, applied for or requested in a certain time by the right holder and DGPC has discretion to extend such time the DGPC may impose a fine of US$5,000 to consider a late application, without prejudice to its contractual rights or implying any obligation to accept or approve whatever is to be done, applied for or requested. If the DGPC ultimately accepts such delay it may do so on condition of an additional fine for the delay, of up to US$1,000 per day from the day something had to be done, applied for or requested.		

FOURTH SCHEDULE

REGULATIONS FOR REVIEWS AND APPEALS

1. Any holder of a petroleum right or contractor aggrieved either by a decision of the DGPC or if the DGPC has not responded to a request within a timely manner may, without undue delay, make a written representation to the DGPC. Such representation shall be provided in duplicate.

2. The DGPC shall convene a review meeting within 14 days of receipt of such representation. At such meeting the aggrieved party shall have the opportunity of being heard and the DGPC shall ensure that the holder/contractor has received such notice at least three working days prior to the meeting.

3. At the review meeting the DGPC shall either explain the basis for the decision, change the decision, make a decision or agree to make a decision promptly after the meeting, as

appropriate. Within seven days of the meeting, the DGPC shall write to the aggrieved party setting out its final decision with reasons and basis thereof.

~~1.~~4. The DGPC and/or any official he considers necessary and the officer concerned with the subject matter shall be present at the review meeting.

5. If within 14 days of either (i) if the holder/contractor is still aggrieved by the final decision or (ii) the date of the review meeting, if no final decision was conveyed after the review meeting or (iii) the date of the written representation to DGPC, and the DGPC failed to convene a review meeting, the aggrieved holder/contractor may request the DGPC that the matter be referred to a special tribunal for hearing as provided in regulation 6, below.

6. The special tribunal shall be comprised of the following three officers:

(v) [Director General (Oil) or Director General (Gas), to be rotated on an annual basis, initially being the Director General (Oil);

(vi) Senior officer of the rank of a Joint Secretary from the Ministry of Law, Justice and Hum an Rights;

(vii) an officer, not less than the grade of an Additional Secretary, of the Ministry of Petroleum and Natural Resources who shall be the chairperson.][3]

(viii) In the event any of the appointed officers are not in a position to attend such special tribunal hearing on a given date, such officer may appoint any other senior officer who directly reports to him to attend. The special tribunal may develop its own procedures and protocols for the conduct of hearings before it.

7. The special tribunal shall convene in the offices of the Ministry of Petroleum and Natural Resources, no later than 25 days after the request referred to in sub-regulation 5 and the DGPC shall have ensured the holder/contractor received notice of the meeting at least seven days prior to the meeting.

8. Within seven days of such hearing the special tribunal shall either affirm a decision, change a decision, make a decision or

[3] To fix the positions after discussion with the DGPC.

remand the matter back to the DGPC to make, or revise, its decision.

9. The decision of the tribunal shall be with reasons and copied to the concerned parties. The decision shall be implemented by the DGPC within 14 days, or up to 21 days, to be justified in writing, unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions.

10. In the event of a failure, within the prescribed time, (i) to convene a review meeting, or a special tribunal hearing, or (ii) to ensure the aggrieved party has received notice sufficiently in advance of such meeting or special tribunal hearing or (iii) for the review meeting or special tribunal to give its response, the Federal Government shall be liable to the penalty provided in regulation 11.

11. The penalty referred to in regulation 10, shall be an entitlement of a holder of a petroleum right/contractor to deduct from any rent payable under these rules ten thousand rupees per day of delay, up to a maximum of one hundred thousand rupees. In the event the grievance relates to more than one petroleum right the said penalty shall be equally divided amongst the contractors/holders of such petroleum rights. A summary of any such penalties arising in a quarter shall be sent by the DGPC to the Ministry of Finance and be made available, on a non-confidential basis, to any party on request, on payment of a reasonable fee.

~~2.~~12. The Government may issue guidelines, to be reviewed from time to time, in relation to any aspect of these regulations. Such guidelines may include procedures, such (a) as the format of documents to be filed for the appeal or (b) provision for nominal costs of appealing to the special tribunal or (c) costs for abuse of the review and appeal process.

~~3.~~13. Availing of the remedies under these regulations are without prejudice to a party's rights under any other provision of law or contract.

General note:

In making any amendments to the 2003 Rules, it may be also provided that such amendments would be prospective and any right, benefit, obligation or burden arising prior to the amendments would have vested and not be liable to change.

ANNEXURE 7: PAKISTAN PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2001 (REDLINE VERSION)

Statutory Notifications (S.R.O.) GOVERNMENT OF PAKISTAN MINISTRY OF PETROLEUM AND NATURAL RESOURCES *Islamabad, the September, 2001*	
NOTIFICATION	
S.R.O. I/2001. In exercise of the powers conferred by section 2 of the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948 (XXIV of 1948), the Federal Government is pleased to make the following rules, namely:-	
THE PAKISTAN PETROLEUM **(EXPLORATION AND PRODUCTION) RULES, 2001**	
PART I GENERAL	
1. **Short title and commencement. -**	
(1) These Rules may be called the Pakistan Petroleum (Exploration and Production) Rules, 2001.	
(2) They shall come into force at once.	
2. **Definitions.-** In these rules, and in every permit, licence and lease issued hereunder, unless there is anything repugnant in the subject or context,	
(a) "allowed transportation cost" means the reasonable actual cost incurred for moving the petroleum produced and saved from the field gate within the lease area to the point of determination of value of the petroleum ~~as approved by DGPC~~;	2(a). Transport costs which are "allowed" should be whatever they actually are and not be subject to approval.
(b) "arm's length sales" means the sales made freely in the open market, in freely convertible currencies, between	

willing and unrelated sellers and buyers having conflicting interests and in which such buyers and sellers have no contractual or other relationship, directly or indirectly, or any common or joint interest as is reasonably likely to influence selling prices and shall, *inter alia*, exclude the value of sales (whether direct or indirect, through brokers or otherwise) involving an affiliate, sale between Government to Government entities, counter trades, restricted or distress sales, sales involving barter arrangements and generally any transactions motivated in whole, or in part, by consideration other than normal commercial practices;

(c) "commercial discovery" means a discovery of petroleum ~~duly evaluated by appraisal well~~ which ~~discovery,~~ in the opinion of the holder of a licence or lease, ~~with the approval of the Government which shall not be unreasonably delayed, after submission of requisite information to the Government,~~ would, on the basis of one or more wells, justify, particularly by its quality, quantity, gravity, place and depth where found, its economic development, and assures a continuous commercial production for a reasonable period~~. In the event that the discovery so made does not justify the drilling of an appraisal well, then such holder upon submitting detailed technical and economic justification shall, seek the approval of the Government for declaration of commercial discovery on one-well basis~~;

(d) "commercial production" means production of petroleum out of a commercial discovery which production ensures at least the recovery of all expenditure directly attributable to such commercial discovery within a reasonable time and earning of a reasonable profit;

(e) "DGPC" means the Director General, Petroleum Concessions and includes any officer or authority appointed by the Federal Government to exercise the powers and perform the functions of the Director General, Petroleum Concessions, under these rules;

(f) "discovery area" means an area, within the area of a licence or lease, which encompasses the accumulation of petroleum in a geological entity limited by lithological boundaries, structural boundaries, the contact zone between petroleum and the limiting water level, or a combination thereof, and so that the petroleum included everywhere is in pressure, fluid or gas communication;

(g) "discovery" means the finding of a deposit of petroleum from an exploration well not previously known to have existed within the area held by petroleum right holder which produces a flow of petroleum at the surface which

2(c). It should be the sole decision of the licensees whether a discovery is commercial or not. The DGPC will have an opportunity to approve at the time of receipt of the Development Plan for its approval. Also removed the additional layer of having to get separate approval if wished to declare commerciality without drilling a separate appraisal well.

is measurable by the conventional petroleum industry testing methods;	
(h) "exploration well" means a well which tests clearly a separate geological entity, be it of structural, lithologic or facies of pressure nature, penetrating all prospective intervals at the particular location. If the holder of a licence or lease wishes to get a well approved as an exploration well such approval may be obtained from the DGPC prior to the commencement of drilling, after submitting all relevant data and interpretation in support thereof;	2(h-A). Given the term "EWT" is used in the Rules, it is appropriate to define.
(h-A) "extended well test" or "EWT" means the extended well testing or early production, as provided in rule 22-A;	
(i) "good oilfield practices" means generally the reasonable and prudent diligent use of policies, procedures, methods, equipments and material that results in effective and efficient exploration, appraisal and development of petroleum including optimum recovery of petroleum from a discovery area with minimal impact on the environment as permitted and use of efficient and effective practices for transforming produced petroleum into marketable form and delivering it to the market, always having due regard for safety and other factors and means in particular, knowledge of and compliance with the standards that may be developed by relevant professional institutions and adopted by the Government from time to time;	2(k-A). Given the term PCA is used in the Rules it is appropriate to define.
(j) "Government" means the Federal Government;	
(k) "Ministry" means the Ministry for the time being in charge of petroleum affairs;	
(k-A) "petroleum concession agreement" or "PCA" means an agreement entered into pursuant to these rules between the President and a company or companies for the purpose of exploration and development and production of petroleum;	
(l) "petroleum" means all liquid and gaseous hydrocarbons existing in their natural condition in the strata, as well as all substances, including sulphur, produced in association with such hydrocarbons, but does not include basic sediments and water;	
(m) "petroleum right" includes a permit, licence and lease issued under these rules;	
(n) "President" means the President of Pakistan;	
(o) "record" means all record pertaining to the activities of a petroleum right holder including but not limited to an	

account, book, return, statement, report, chart, table, diagram, form, survey, image, invoice, letter, map, agreement, memorandum, plan, core, sample, voucher, financial and non-financial information, and anything containing information whether in writing or in electronic form or represented or reproduced by any other means and the result of recording of electronic data, its processing systems and programmes to illustrate what the systems and programmes do, and how they operate without compromising proprietary rights, if any, related to hardware and software; (p) "significant gas discovery" means, a discovery of natural gas which has tested significant flow rates of natural gas ~~predominately methane~~ from one or more reservoirs and which is estimated to be capable of continuous production over a reasonable period which in the opinion of the holder could be declared a commercial discovery in the future provided *inter alia* that adequate gas pipeline transportation facilities are installed and gas markets have been sufficiently developed for sale of natural gas on commercial basis; (q) "spill" means a discharge, emission or escape of petroleum, other than one that is authorized by applicable law ~~or approved by the Government~~; (r) "waste or wasted" means waste as understood in the petroleum industry and shall include working methods which, in accordance with good oilfield practices are considered wasteful; and (s) "wellhead value" means the value of the petroleum produced and saved less allowed transportation costs as determined by DGPC under these rules. 3. **Division of area.-** Any area of Pakistan, may be divided into blocks of size and shapes the Government may from time to time, by notification in the official Gazette, determine. 4. **By whom applications may be made.-** Any petroleum company whether incorporated in Pakistan or abroad may apply in accordance with these rules for- (a) a reconnaissance permit hereinafter referred to as permit; (b) an exploration licence hereinafter referred to as the licence; and	2(p). The composition of the gas would not appear relevant here. This change was also suggested in the proposed changes to incorporate Low BTU Gas Policy. 2(q). As a defined term, a "spill" would be a spill and not cease to be a spill if approved. But DGPC could opt to do nothing about the spill (see rule 68).

(c) a development and production lease hereinafter referred to as the lease.	
5. **Manner in which application may be made:**	
(1) Every application shall be made in writing in the form set out in the First Schedule hereto or as otherwise directed by the Government, addressed to DGPC. Every application shall be entered in the register to be maintained by DGPC. The register shall be in such form as may be prescribed by the Ministry and shall be open to public inspection.	
(2) The application shall state the nature of and the principal place of business of the company, the authorized, subscribed and paid-up capital of the company, the names and nationality of the directors thereof and the names and holdings of the principal shareholders.	
(3) With every application there shall be deposited-	5(3). Included that the fee would apply in the event of any application for an extension. Rationale being that with greater funds being received by the DGPCs office additional resources can be engaged for expeditious review.
(a) a fee of twenty thousand rupees if the application is for the grant, extension or renewal of a permit;	
(b) a fee of forty thousand rupees if the application is for the grant, extension or renewal of a licence; and	It is recommended that in the future the fee for grant of a lease is separated from renewal and the fee for a grant be substantially increased (perhaps Rs.1m) and the greater fee be used to enable the DGPC to justify engaging a technical officers to review development plans.
(c) a fee of eighty thousand rupees if the application is for the grant, extension or renewal of a lease.	
(4) To the application there shall be attached five copies of the map upon which shall be delineated the boundaries of the areas in respect of which a petroleum right is applied for. The map shall be taken from the relevant Survey of Pakistan map of appropriate scale. If the area is identified by a block system notified under rule 3, a reference to the relevant block number is sufficient.	5(4). DGPC to advise if five copies required?
(5) The applicant shall, with his application, furnish evidence as to his financial and technical qualifications and as to his ability to conduct the activities under the relevant petroleum right in accordance with the good oilfield practices. The applicant shall furnish further evidences relating to such matters, as may be requested for, by DGPC and failure to provide such evidences to the satisfaction of DGPC, within three months of the request thereof, shall, unless DGPC determines otherwise, render the application void.	
(6) The applicant shall, with his application, furnish an undertaking that he will abstain from all political activities whatsoever affecting the sovereignty or security of Pakistan or such as may be tantamount to interference in its internal affairs and that	

especially he will eschew all espionage. (7) The applicant shall furnish such other information as the Government may~~, from time to time,~~ specify till the grant of the right.	
6. **Separate application to be made for each area.-** (1) Where an applicant seeks a petroleum right over two or more areas which are not contiguous, the applicant shall apply for separate petroleum rights over each such area, unless otherwise permitted by the Government. (2) Nothing in these rules shall prevent more than one petroleum right being granted to the same applicant.	
7. **Several holders.-** Where a Petroleum Right is held by two or more companies, they shall be liable jointly and severally towards the Government for obligations and liabilities, resulting from their activities pursuant to the petroleum right. The companies shall, with the prior written approval of the Government, appoint an operator from amongst them, except that such special arrangements as to the operatorship will be applicable as may be approved by the Government under rules 61 and 63. No change in such appointment shall be made without the Government's prior approval.	7-9. See proposed new Rule 74A, wherein SOPs are to be prepared for Rules 7-9. 7. Suggested change is so that operator may perform an obligation under a rule on behalf of right holders.
8. **Petroleum right not assignable without consent.-** A petroleum right or any working interest therein shall not be assigned without the previous consent in writing of the Government.	
9. **Method of making applications for assignments.-** An application by the holder of a petroleum right for consent to the assignment of a petroleum right shall be made in writing addressed to DGPC, and shall be accompanied by a fee of ten thousand rupees. With the application, the applicant shall furnish the like particulars in respect of the proposed assignee as are required to be furnished in the case of applicants for a petroleum right.	
10. **Power to grant or refuse petroleum right.-** Subject to rules 21, 22 and 28, the grant of a petroleum right, extension or renewal thereof, shall always be decided by the Government. In the event of refusal to grant such petroleum right, extension or renewal thereof, the Government shall as for as possible provide	10. Recommended to add "extension" to avoid any suggestion that r.10 only applies to grant and renewals.

the reasons therefor.

11. **Lapse of entitlement to petroleum right.-** Where a petroleum right is not executed within three months after approval of the application by the Government has been conveyed to the applicant, the entitlement of the applicant to such petroleum right shall be deemed to have lapsed, unless the Government considers that the delay is not attributable to the fault of the applicant.

12. **Surrender of petroleum right.-**

(1) Subject to the terms of the PCA, a~~A~~ holder of a petroleum right wishing to surrender ~~his~~ its right under these rules shall give the DGPC, one months' notice of ~~his~~ its intention to do so, and if the holder fulfills all ~~his~~ its obligations under the petroleum right, including the obligations pursuant to rule 70 or if holder of petroleum right pays liquidated damages pursuant to rule 26, ~~he~~ it shall on the expiry of the notice subject to sub-rule (2) be entitled to surrender ~~his~~ its petroleum right ~~in whole or in part~~. On so doing a holder of a petroleum right shall not be obliged to pay rent for the remaining period of the petroleum right.

(2) In case more than one company holds a petroleum right and less than all the companies wish to surrender the right, reasonable opportunity shall be provided to the other company or companies to acquire (as provided in sub-rule (3)) the interest from the company or companies wishing to surrender. Provided such opportunity is given and demonstrated to the DGPC and subject to the terms of the relevant PCA and these rules, a licence/lease may be surrendered, in its entirety, by less than all the companies which hold such petroleum right by giving notice as provided in sub-rule (1). In the event more than one company wishes to acquire the interest of a company which wishes to surrender its interest, such surrendered interest shall be offered to each on a *pro rata* basis.

(3) Except as the companies may agree otherwise, any opportunity to be given to acquire an interest under sub-rule (2) shall be without charging for such interest and in the event there is any outstanding minimum work obligation, the transferring party, wishing to surrender, shall pay to the acquiring party or parties a proportionate share of liquidated damages which could then have been charged at that time pursuant to rule 26, based on its participating interest.

13. **Submission and publication.-**

(1) Application for a petroleum right may be submitted, either-

12(2) & (3). Objective to provide more clarity on an individual company surrendering.

The Model PCA and JOA need to be improved such that where a Working Interest Owner opts to take an interest then there is a certain time within which such assignment must take place or else surrender will happen.

(a) at the initiative of the applicant, or

(b) on the basis of an invitation from the Government to submit competitive bids.

(2) In the latter case, a notice for competitive bidding may be published in such national or foreign publications as the Government may determine.

(3) Notice of the grant, renewal, extension, surrender, termination and assignment of a petroleum right shall be published in the Gazette of Pakistan.

14. **Terms and conditions of a petroleum right.-** Every permit, licence and lease shall, subject to such modifications as may be made by the Government, be in the form set out in Parts I, II and III, as the case may be, of the Second Schedule hereto and shall include such additional clauses relating to ancillary or incidental matters as the Government may deem fit to insert.

15. **Guarantees.-** The Government may require the holder of a petroleum right to furnish, in form and substance acceptable to the Government, a guarantee or guarantees, which, if the Government so agrees, may be a parent company guarantee, in respect of the obligations and liabilities of the holder. The Government may also consider accepting the deposits in escrow accounts on a case to case basis. For a company incorporated in Pakistan, the Government may also consider accepting suitable security such as first and preferred lien on their assets, and oil and gas production in Pakistan, in respect of the obligations and liabilities of the holder.

PART II PERMIT FOR RECONNAISSANCE SURVEYS

16. **Grant of permit.-** The Government may grant a permit to any company to carry out reconnaissance surveys over such areas and on such terms and conditions as it may determine in each case but always upon the following conditions, namely:-

(a) the grant of the permit does not imply that the holder shall be entitled to the grant subsequently of a licence over the areas covered by the permit;

(b) on the conclusion of the survey, the holder may apply for a licence in accordance with these rules, but shall not be entitled to claim a relaxation of rules for the grant of a licence applied for by him. However, the Government, upon a request of holder, may allow adjustment of the work carried out or expenditure incurred, excluding any work or expenditure related to a multi-client arrangement

unless otherwise agreed, against the minimum work or expenditure obligation under a licence covering the area of permit, if granted;

(c) unless otherwise stipulated in the permit, the holder shall have the non-exclusive right to undertake, within the designated areas, petroleum reconnaissance by such geophysical, geological, geo-chemical and geo-technical methods and such other related work including geological information bore-hole, as are stipulated in the permit;

(d) the holder shall submit a copy of all the maps, plans, graphs and magnetic tapes and related data as and when these become available and a complete report of the survey no later than six month of the completion of the survey;

(e) the holder shall comply with all instructions which DGPC may issue regarding the use of maps, plans, graphs and other data generated or collected by the holder in the course of the reconnaissance survey;

(f) the permit shall be valid for a period of one year and may, at the discretion of the Government, be renewed for a period of up to one year;

(g) a permit does not extend to areas already covered by a licence or a lease unless otherwise specified by the Government pursuant to rule sub rule (1) of rule 63;

(h) the Government may grant a licence, or a lease, to any person at any time for any part of an area covered by a permit except as provided therein;

(i) the holder of the permit shall perform work stipulated in the permit with due diligence;

(j) the holder of the permit shall for each square kilometre or part thereof comprised in the permit area pay to the Government rent at the rate of one hundred rupees per year.

PART III LICENCE FOR PETROLEUM EXPLORATION

17. **Grant of licence.-** The Government may grant an exclusive petroleum licence for exploration over any area and on such conditions as are specified therein.

18. **Size of area.-** A licence shall not be granted in respect of any area of more than 2,500 sq.km. In special circumstances, the Government may decide to grant an area of up to 7,500 sq. km. provided that the applicant offers a work programme

commensurate with the size of the area.	
19. **Shape of area.-** Each separate area in respect of which a licence is granted shall be, as far as possible, compact, bounded by straight lines and marked with permanent physical boundaries.	
20. **Rights and obligations of licence holder**.-	
(1) Subject to the provisions of these rules, the licence gives the holder the exclusive right to undertake, within the licence area, all activities related to reconnaissance and exploration, including drilling for petroleum. The holder of the licence shall not be entitled to extract any petroleum from discoveries other than such test and early production~~ as the Government may allow upon a written request submitted by the holder of a licence provided however, that in no event, such test or early production shall cause loss of revenues for the Government~~, as provided for in rule 22A.	20(1). It is vague as to what "loss of revenues" means, hence deleted the highlighted part. Many things could be construed as a loss of revenue, e.g., a lower gas price would generate lower royalty and so a loss of revenue.
(2) The holder shall perform the work programme stipulated in the licence for the initial term (Phases I and II) and any extension or renewal~~as per schedule contained therein~~. The work programme shall contain the number of exploration wells to be drilled, the depth and time within which they must be drilled, and, where appropriate, the seismic work to be performed, as well as any other matter that may be relevant.	20(2). Widened the scope of sub-rule (2) to make r.26 more efficient.
21. **Period of licence, ~~and~~ relinquishment and extension of area.-**	21. The word "extension" may be added to the heading as sub- rule (6) envisages the possibility of extending the area of a licence.
(1) The initial term of a licence shall not exceed five years keeping in view the surface and geological condition of the licence area. The initial term shall comprise two phases with first three years period designated as "Phase-I" and the next two years period as "Phase-II" respectively. Minimum work programme for phase-I shall be determined through competitive bidding whereas a firm exploration well will have to be committed for phase-II.	
(2) The Government may, subject to the terms of the licence, grant up to two renewals. The term of each renewal shall be up to two years. However, to avail the renewal of maximum term of two years a reasonable work programme comprising at least an exploration well shall have to be offered keeping in view the surface and geological conditions of the licence area. A holder desiring to obtain such renewal shall make an application at least three months before the expiry of the licence or such lesser period as the DGPC may allow.	21(3). The extension to complete the drilling of a well may be a right and not require DGPC approval. Being an "extension" it implies a continuation of the phase so there is no

(3) The initial term or renewal thereof of a licence shall ~~may~~be extended by the Government for drilling an exploration well in progress for ~~a~~ the period of drilling. ~~not exceeding one hundred and eighty days, which shall be considered to be part of the initial term or renewal, as the case may be, and such extension in the licence shall be treated as part of any subsequent phase or renewal, where applicable and granted.~~	need to mention that. The extension should not form part of the next period/phase as that constrains the activity possible in the next period/phase.
(4) The holder of a licence shall comply with following part relinquishment schedule during the term of the licence namely:- (a) at the end of Phase-I -30% of the original licence area; (b) at the end of Phase-II -20% of the original licence area; and (c) at the end of first renewal-10% of the original licence area	
(5) A holder shall be entitled to renewal as aforesaid if he- (a) has complied with the work programme and all other obligations of preceding term of the licence; and (b) has committed to drill during ~~each~~ the renewal period at least an exploration well ~~or wells as may be agreed with the Government~~ prior to each renewal~~, to the agreed objective and depth. Decision to this effect shall be taken giving due consideration to surface and geological conditions of the licence area~~.	21(5)(b). As long as it is an "exploration" well, which, by definition, requires a separate geological entity to be tested, it should not require any further approval of the Govt.
(6) Notwithstanding anything contained in these rules, upon a written request of a holder, the Government may, on a case to case basis, extend the term of the licence, or any year of a licence based on technical considerations or revise the co-ordinate of the area covered under the licence provided that the geological structure extends into an adjoining free area, and further provided that the revised area will not exceed the area stipulated in rule 18.	21(6). Although extensions have for years been given to specific years of a licence, the Rules have not clearly supported that, and hence the suggested addition. The enlarged area should not be permitted to be greater than 2,500 sqkm as provided in r.18.
(7) (a) In the event a holder of a licence has applied for an extension or a renewal, prior to the expiry of a licence, the licence shall be deemed extended until approval is given or denied, (b) If approval for the renewal or extension is granted, the renewal or extension applied for will be effective from the date of approval or the term was to expire, whichever is later, unless such application was made less than three months or, in the case of an extension under sub-rule (3), one month, prior to the expiry of the licence, in which case it will be effective from the date the term was to expire. (c) If a holder of a licence applies for an extension or renewal within three months after the licence has expired, the Authority	21(7)(a). Is to "legalise" the period when a licence may have expired but is awaiting approval to a renewal or extension application. 21(7)(b) & (d). Is to incentivise companies to make applications for extensions and renewals in a timely fashion. 21(7)(c). Is to facilitate late applications.

may, on a case to case basis, still approve such application, provided the holder of a licence pays a penalty of five hundred thousand rupees per day after the expiry, without prejudice to any obligation to pay liquidated damages. Pending decision of the DGPC to such an application the licence shall be deemed extended and if approval is given the renewal or extension shall be effective from the date the term was to expire. (d) Rent, as provided in rule 27, shall be payable for any deemed extended period provided in sub-rules (a) or (b), unless an application for renewal or extension is made at least three months or, in the case of an extension sought under sub-rule (3), one month, prior to the expiry of the licence, in which case no rent shall be payable for the deemed extended period. Any such rent for such period shall not be payable again on account of the renewal or extension being effective from the date the licence was to expire. Rent shall be payable on a *pro rata* basis for any part of the extended period not being a complete year.	
22. **Appraisal and evaluation of a Discovery and renewal therefor.-** A holder of a licence having made a discovery of petroleum shall perform such additional work ~~as the Government, after consultation with the holder, may specify,~~ so as to enable the holder to make timely determination of a discovery as a commercial discovery. Subject to ~~agreement on such additional work and~~ the holder of the licence having complied with the work programme and ~~his~~ its other obligations, it shall be entitled to renewal of the licence ~~not exceeding~~ for two years for the purpose of expeditious appraisal and evaluation of the discovery. The renewal shall only apply to the discovery area.	22. Intention is to reduce the need for DGPC involvement on what is a commercial exercise, which the companies are best placed to manage.
22-A Extended well testing.- (1) A holder of a licence may undertake extended well testing or early production, during the appraisal phase and before grant of lease provided the DGPC is informed in advance or if such EWT involves flaring of gas, requiring approval of the DGPC, or such EWT is to exceed one month, approval of the DGPC shall be obtained in advance. The holder of the licence shall comply with the requisite royalty, tax, rentals of the discovery area and training and social welfare obligations as applicable under the lease.	22-A. Rule included to specifically cover EWT.

(2) In the event a request for approval of EWT is to be made under sub-rule (1), the request shall include associated temporary production facilities and shall be made to the DGPC providing information with regard to,-

(a) technical justification for EWT;

(b) proposed duration for EWT; and

(c) a plan for disposal of gas during the proposed EWT period.

(3) If approval of the DGPC is sought for EWT, it shall not be unreasonably withheld or delayed.

(4) Production during EWT and post declaration of commerciality, would be considered as commercial production for the purpose of payment of production bonus, royalty and all other obligations as are applicable to lease. However, the first production bonus would be applicable upon the earlier of commencement of commercial production subsequent to grant of lease or production reaching the first level that production bonus is payable on volume produced.

23. **Retention of significant gas discovery.-** Upon a request of a holder of a licence, the Government may allow retention of a significant gas discovery under the licence for a period of up to five years covering the area of Discovery. Before the expiry of allowed retention period, the holder shall make determination as to commercial discovery and submit an application for grant of a lease along with the proposed development plan providing detailed assessment of gas market potential and a plan for infrastructure development.

24. **Declaration of Commercial Discovery.-**

(1) Upon completion of its~~the agreed appraisal,~~ evaluation ~~and commercialization work,~~ the holder of a licence may submit a notice for declaration of commercial discovery to the Government ~~for its approval~~ along with a report in accordance with clause (d) of rule 52 and general plan for development.~~Subject to the approval of commercial discovery,~~ After issuing such a notice, the holder shall be entitled to apply for the grant of a lease in respect of discovery area in accordance with these rules.

(2) The grant of a lease prevails over the licence within the area designated in the lease, but the licence continues to be valid

24(1). DoC should not require approval and it should be possible to declare at any time.

Deletion of "agreed appraisal" is because it should be possible for DoC to be before the end of an agreed appraisal programme.

24(2). It may be (although unlikely) that a lease, or

outside such lease area without modifying the rights and obligations pursuant to the licence. In the event of a licence continuing to be valid beyond the term of a lease, or on any part of the area of a lease being reduced, the license shall automatically again extend over such lease area, provided such area or areas are contiguous with the remaining licence area and further provided that the total area of licence does not exceed the area provided in rule 18, less any reductions required under rule 21(4). (3) Upon termination of the licence, the holder shall relinquish the licence area except the area covered by a lease or leases granted to him. 25. **Extension pending grant of lease.-** If the holder, before the expiry of the licence, has applied for a lease,the duration of the licence shall be extended until the lease has been granted or refused. 26. **Work programme and other obligations not fulfilled.-** (1) Where upon the surrender, revocation or the expiry of a licence, the obligations pursuant to rules 20 or 22 have not been fulfilled, the holder shall either:- (a) pay to the Government such sum by way of liquidated damages which correspond to the minimum expenditure of undischarged work obligations as set forth in the licence within a period of thirty days from the surrender, revocation or expiry of the licence; or (b) transfer ~~of~~ undischarged work obligation committed under rule 20 to another area with the approval of Government if it is demonstrated to the satisfaction of the Government that there is no drillable prospect in the licence area. ~~Such transfer shall be subject to such terms and conditions as may be specified by the Government on a case to case basis.~~In the event that a petroleum right is held by more than one company, the undischarged work obligation shall be monetized, based on liquidated damages obligations and divided between the companies in accordance with their interests in the right. Any company not transferring a work obligation to an area of its choice shall pay its *pro rata* share of liquidated damages, without prejudice to rule 7. (4) In case the liquidated damages payable pursuant to clause (a) of sub-rule (1) are not paid or the transfer of undischarged work	parts of a lease, could expire/be relinquished while a licence is continuing. In such an event, it should revert back to the licensee, provided the area is joined with the licence. 26(1)(b). Further clarity was required on transferring a work obligation.

obligation to another area pursuant to clause (b) of sub-rule (1), is not approved, the Government may, in addition to any other action or remedy including black listing of the holder, cancel a lease granted to the holder in respect of any area comprised within the area of the licence which has been surrendered, revoked or expired.	26(3). This sub-rule is to make it more specific to the issue which appears desired to be tackled
(3) Where a holder of a licence is ~~found to be~~ in default ~~or breach of the terms and conditions on which a petroleum right was granted or~~ of his work ~~or other~~ obligations and has paid liquidated damages as provided in sub-rule (1)(a) ~~remedied such default or breach to the satisfaction of the Government in accordance with clause (a) of rule 69,~~ the holder shall be deemed to have complied with such work obligation ~~mitigated such default or breach~~ for the purpose of rules 21, 22 and 28.	
27. **Rent**	
(1) The holder of a licence shall for each square kilometre or part thereof comprised in the licence area pay rent to the Government at the following rates, namely:-	
(a) (i) in respect of 5 years initial term of the licence~~;~~ Rs.3000; or	27(1)(b)(ii). Included "extension" to include rent rate for extensions.
(ii) in respect of each year of initial term of the licence~~;~~ Rs.650;	
(b) (i) in respect of each renewal of the licence Rs.5000; or	27(2). It is recommended that all rents are harmonized, regardless of vintage of PCA. Obviously this could only apply if the Rule changes were opted for.
(ii) in respect of each year of the renewal or extension of licence~~;~~ Rs.2750.	
(2) Notwithstanding any provision of ~~T~~the licence, ~~may include a provision for annual adjustment of the~~ rent shall be adjusted as provided for in rule 72(2) and not by any adjustment clause in a licence ~~due by reference to an appropriate index~~ so as to ensure that the rent retains its value in real terms.	
(3) The rent shall be paid in advance of the period to which it relates.	
PART IV LEASE FOR PETROLEUM DEVELOPMENT AND PRODUCTION	
28. **Grant of development and production lease.-**	
(1) The Government shall on being satisfied that a commercial discovery has been made and that the terms and conditions of the licence, including the work programme, have been duly	28(2). It could be that one discovery area does not fall completely within the

observed and performed, or that the holder is in satisfactory progress with the work programme, and that the requirements of rule 33 have been duly compiled with by the applicant, grant a lease in respect of discovery area within the licence area granted to the applicant. (2) The Government may grant a single lease covering more than one discovery area within the same licence area provided that such discovery areas are juxtaposed vertically in which case the lease shall be granted on the basis of the combined discovery area ~~which is larger in extent~~. (3) In the event that any part of a discovery area extends beyond the lease into an open acreage, the Government may upon being satisfied that the discovery area extends into such open acreage and subject to such conditions as deemed necessary, readjust the subsisting boundaries of the lease so as to include such part of the open acreage on which the discovery area extends.	geographic boundaries of the other which is larger in extent. In that case the lease could only cover one of the areas and some part of the discovery may be outside the lease boundaries. In order to capture the intention of the rule, a change has been suggested.
29. **Rights of lease holder.-** The holder of lease shall have an exclusive right to perform activities in connection with the development and production of petroleum in the area covered by the lease, including the right to undertake transportation of petroleum, subject to approval pursuant to rule 34.	29. In the event approval is removed from r.34, approval required here may be removed.
30. **Shape of discovery area.-** Each discovery area in respect of which a lease is granted shall be laid out in straight lines between well defined points as far as practically possible and must also be marked with permanent physical boundaries.	
31. **Survey expense of applicant.-** Before a lease is granted by the Government the applicant shall, if so required by the Government, at his own expense cause a topographical survey of the land specified therein to be made to scale normally required for petroleum right purposes, and approved by the Survey of Pakistan, and submit 6 copies thereof to the Government.	31. Govt to advise if a topographical map is always required and what would be Survey of Pakistan approval.
32. **Period.-** The lease shall be for the period for which application has been made supported by relevant technical and other information but not exceeding twenty-five years. In the event the lease is initially granted for a period less than twenty-five years, the same may be extended from time to time, such that the total overall period of lease does not exceed 25 years provided commercial production continues. Upon application from the holder, the Government may renew the lease for a period, not exceeding five years, if commercial production is continuing at	32. Making provision to extend a lease up to the initially permitted maximum.

the time of the application.	
32-A. Further renewal or re-grant of lease after expiry of lease term.- (1) Effective from the end of a lease period, upon application from a holder of a lease, at least 90 days before the expiry of the lease term, the DGPC may renew a lease for up to a further period of five years, provided at the time of application commercial production is continuing, an addendum to the development plan acceptable to the DGPC is provided and the lease holder agrees, at least one year prior to the expiry of the lease period, to pay 15% of wellhead value of petroleum produced to the Government, after the effective date of such renewal. (2) If there is no such renewal, or following expiry of such a renewal, the DGPC may invite bids from companies for the re-grant of the lease over the same, or substantially the same area as the expiring lease, for a term of ten years or such lesser period for which commercial production is expected to continue. The bids shall be evaluated on the basis of a development plan and signature bonus. The DGPC may keep re-granting a lease, in a similar manner, as long as commercial production is continuing. (3) Each bidder shall provide a bid bond of ten per cent of the offered signature bonus at the time of bidding along with a development plan.	32-A. Making provision for regrant and renewal.
33. **Development plan.-** (1) Together with the application for a lease, the holder shall enclose a development plan which shall contain such information as the Government ~~may reasonably deem necessary~~shall prescribe by way of procedures provided for in rule 74A, including but not limited to the following namely:- (a) proposals for the development and production of the each discovery area including possible alternatives and proposals relating to the disposition of associated gas; (b) proposals relating to the spacing, drilling and completion of wells, the production and storage installations and transport and delivery facilities required for the petroleum production.	33(1). A framework for what is to go in to a Development Plan should be given as it will make the preparation easier for companies and review-process easier for the DGPC.

Such proposal shall cover- (i) the estimated number, size and production capacity of production facilitates and platforms, if any; (ii) estimated number of production wells; (iii) particulars of production equipment and storage facilities; (iv) particulars of feasible alternatives for the transportation of petroleum including pipelines and (v) particulars of equipment required for the operations (c) the production and sales profiles for crude oil, condensate and natural gas and other products for the life of the field; (d) investment plans including cost estimates of capital and operating expenditure; (e) profitability estimates; (f) proposals related to the establishment of processing facilities and processing of petroleum in Pakistan. (g) safety measures to be adopted in the course of development and production operations including measures to deal with emergencies and protection of environmental; (h) a description of the organization in Pakistan, pursuant to these rules; (i) contingency and abandonment plans; (j) time schedule of all activities covered in the development plan clearly specifying the critical milestones and proposed measures to achieve such milestones. (2) The plan requires the approval of the Government. Such approval shall not be unreasonably delayed provided the requisite information has been provided to the Government. (3) After approval of the plan, the lease holder shall carry out development and production in accordance with the plan, subject to such modifications as may be necessary and are approved by the Government from time to time. 34. **Transportation of petroleum.-** (1) Subject to approval in accordance with this rule, the holder of a lease has the right to lift and transport petroleum from the lease area, either through transportation facilities owned wholly or partly by himself or through access to transportation facilities owned by a third party and such approval shall not be	33(1)(c). Recommended that sales profiles also be provided.

unreasonably withheld or delayed. (2) The holder shall submit an application comprising the proposed organization and implementation of the transportation system. In case of pipeline transportation, the application shall also comprise the design, construction and route plans. (3) The Government may, on giving its approval, stipulate such conditions as are reasonable and necessary to secure a rational system of transportation of petroleum and the Government may- (a) require that several lease holders install jointly-owned transportation facilities; and (b) grant to any third party access to transportation capacity at tariffs to be approved by the Government.	
35. **Royalty.-** (1) Royalty on petroleum produced and saved shall be at the rate of twelve and half percentage (12.5%) of wellhead value unless a higher rate for royalty is provided for in any agreement between the petroleum right holder and the Government. (2) Royalty shall be paid in cash unless the Government elects to take the delivery of royalty (wholly or partially) in kind at field gate on a six months advance notice. In such a case the holder shall at the request and at the costs of the Government make arrangement for transportation of the royalty petroleum in the same manner as if it was his own on petroleum. (3) Royalty shall be payable monthly within a period not exceeding forty five days of the end of the month of production in question which if delayed beyond this stipulated period would attract fine at rate of Libor plus two per cent as may be determined by the Government. In the event royalty obligation remain un-discharged for two consecutive months following expiry of the month of production in question to which the payment of royalty relates, the Government may take such action as it may deem appropriate in accordance with these rules. (4) The Government shall lift or take royalty petroleum in a timely manner and in accordance with such lifting or sales agreement as may be mutually agreed with the holder of a lease. (5) The holder of a lease or licence shall be permitted to use petroleum produced from the lease or licence area for drilling, production, maintenance and processing of petroleum obtained from the said lease or licence free of cost, royalty and excise duty provided that the holder of the lease or licence shall not be entitled to include	35(5), (6). As royalty could be payable on EWT production, similar provisions on royalty management should apply during the licence phase.

any notional costs in claiming his business expenses for income tax purposes. (6) From the amount of royalties payable in respect of any one year of the term of a lease or licence, there shall be deducted the amount of yearly lease rent actually paid in respect of that year puersuant to rule 38. (7) Government may from time to time issue guidelines which will inter-alia cover procedure for administration and payment of royalty due from the holder of a licence or a lease. (8) Notwithstanding anything to the contrary contained in these rules, the election to take the royalty on natural gas in cash or kind shall be exercised only once within ninety days of the approval of development plan by the Government and may not be exercised for production from a licence.	35(8). It is recommended that royalty in kind should not be allowed prior to commercial production.
36. **Value of petroleum.-** For the purpose of calculating the amount due by way of royalty, the value of the petroleum produced and saved shall be determined by using actual selling price in the following manner, namely:- (a) If the petroleum is sold to the national market pursuant to rule 40, the actual selling price means the price determined in accordance with the relevant sale and purchase agreement between the petroleum right holder and the Government or its designee less allowed transportation cost. (b) In all other cases, the actual selling price means the greater of- (i) the price at which the petroleum is sold or otherwise disposed of less allowed transportation costs; or (ii) the fair market price received through arm's length sales of the petroleum less the allowed transportation costs.~~; or~~ ~~the price applicable to the sales made under sub-rule (a) above.~~	36(b)(iii). Deleted because royalty should only be paid on what is received, unless the fair market price is higher. If sub-rule (iii) remained it is conceivable that royalty could be paid on a price higher than that received or the fair market price.
37. **Royalty administration.-** (1) If there are two or more than two companies as holder of a lease or licence, they shall designate the operator to remit royalty on their behalf unless prior approval has been obtained from the DGPC to remit royalty themselves.	37(1). Added reference to licensee as royalty could be payable on EWT.

(2) Royalty shall be remitted with the supporting forms prescribed by the DGPC with documents and information required.	
(3) If DGPC determines that petroleum was avoidably lost or wasted, including consumed by the holder of a right for purposes not covered by rule 35(5), then royalty shall be payable on such lost or wasted petroleum in accordance with the direction issued by DGPC.	37(3). Added the few words for clarity.
(4) If the holder of a ~~L~~lease or licence receives insurance compensation for unavoidably lost or wasted petroleum, royalty is due on the amount of the compensation in accordance with the direction issued by the DGPC.	
38. **Yearly lease rents.-**	
(1) The lease holder shall pay to the Government annually in advance, rent at the rate of Rs.7,500 per square kilometre or part thereof covering the lease area.	
(2) Notwithstanding any provision of a lease, rent shall be adjusted as provided for in rule 72(2) and not by any adjustment clause in a lease. ~~A lease may include provision for annual adjustment of the rent due by reference to an appropriate index~~ so as to ensure that the rent retains its value in real terms.	38(2). It is recommended that all rents are harmonized, regardless of vintage of PCA. Obviously this could only apply if the Rule changes were opted for.
39. **Surface rent.-** The holder of a lease shall pay for all land which he may use or occupy for the purposes of the operations conducted under the lease, a surface rent at the rate assessable under the revenue and rent law in the district in which the land is situated and water rates, if any, ordinarily assessable under any relevant rules if the land has not been occupied for the winning of petroleum.	
40. **Deliveries to the national market.-**	
(1) The Government may decide that the holder of a petroleum right shall deliver petroleum from his production to cover the requirements of the national market for petroleum. The national market for petroleum shall for this purpose means the total market requirements, less petroleum produced by or otherwise available to the Government from indigenous sources. The lease holder shall deliver the petroleum at such place or places in Pakistan as the Government may direct at the Government's cost unless otherwise agreed and subject to sub-rule (3).	
(2) The foregoing provision shall apply to all holders producing	

petroleum as far as practicable, *pro rata* to their production. Each holder's obligation may be fulfilled directly or by means of swap arrangements approved by the Government.

(3) The Government may also decide that the holder shall arrange and pay for adequate transportation of crude oil condensate and natural gas liquid which it has thus ordered to be delivered up to the distance to the nearest operating refinery in Pakistan.

(4) The price to be paid for petroleum to be delivered pursuant to this rule shall be such price as may from time to time be determined in accordance with terms and conditions of applicable agreement between the Government and the holder.

41. **Measurement of petroleum.-**

(1) The holder of a petroleum right shall measure or weigh all petroleum produced and saved from the licence or lease area by a method or methods customarily used in good oilfield practices and approved by DGPC. The DGPC, from time to time and as and when deemed necessary, may issue guidelines for installation, maintenance, inspection and other matters related to measurement of petroleum as per good oilfield practices.

(2) DGPC, or any officer authorized by him, shall, at all times during the term of the licence or a lease or any renewal thereof, be entitled to inspect the measuring or weighing equipment and to be present whenever such a measurement or weighing takes place.

(3) The holder of a petroleum right shall install, operate and maintain all measuring and weighing equipment ensuring that such equipment remains in good working condition at all times. If any such equipment shall at any time be found not to be accurate, the same shall, if the DGPC, so determines after considering any representations in writing made by the holder, be deemed to have existed in that condition during the period of three months prior to the discovery thereof or the period elapsed since the last occasion upon which the same was examined or tested, whichever shall be the less. This restriction on time period shall not be applicable if the inaccuracy so discovered is found to be result of the holder's ~~W~~wilful tampering or negligence in which case appropriate adjustment in royalties and imposition of fine will be made as determined by DGPC. The royalties payable in respect of such period shall be adjusted accordingly.

(4) The holder shall not make any alteration in the method or methods of measurement or weighing used by him or any equipment used for that purpose. The DGPC, may require that no alteration shall be made save in the presence of an officer

authorized by him.

42. **Revocation of lease.-**

(1) The lease may be revoked if regular commercial production has not commenced within five years from the grant of a lease. The lease may also be revoked if production has terminated for more than ninety days without prior written approval of the Government, unless this is due to *force majeure*.

(2) In the event, the holder of a lease is found to have contravened sub-rule (1) above, the Government may issue a ninety days notice requiring the holder of the lease to remedy the breach within the notice period failing which the Government may revoke the lease or impose a fine, or both.

PART V ACCOUNTS, RECORD, INSPECTION AND REPORTS

43. **Keeping of records and accounts.-**

(1) The petroleum right holder shall maintain full and accurate records.

(2) Original copies of all record shall be kept in Pakistan unless otherwise approved by the DGPC.

(3) The petroleum right holder shall immediately comply with the demand of the DGPC to submit the certified copy of any record;

44. **Period of record-keeping.-**

(1) The record shall be kept and maintained for a period of six years or for a longer period as is required under the applicable law following the end of the calendar year to which the information contained in the record relates. In case of any particular record, upon application by the holder of petroleum right, the DGPC may consent in writing to the destruction of record before the end of the six years period or such other period as is required under the applicable laws as the case may be.

(2) Notwithstanding the provision of sub-rule (1), if based on reasonable grounds, the DGPC is of the opinion that it is necessary for the administration of any rules, to retain record for a longer period, he may direct the concerned holder of the petroleum right to do so specifying the reasons therefor.

45. **Well records.-**

(1) Notwithstanding the generality of rule 43, the holder of a petroleum right shall always keep full and accurate record of the drilling, deepening, plugging, completion, re-completion, sidetracking, testing or abandonment of all wells containing particulars of the following matters with respect to each well:-

(a) the strata and subsoil through which the well was drilled;

(b) the casing used in any well and any alteration to such casings;

(c) any petroleum and other reservoir fluids, or minerals encountered; and

(d) such other matters as the DGPC may, from time to time, require.

(2) The holder shall deliver copies of the said record to the DGPC as and when these become available or are required by him.

46. **Production records.-** The holder of a petroleum right shall always keep full and correct record which shall contain accurate entries of:

(a) the gross quantity and quality of petroleum won and saved;

(b) the method and results of tests conducted;

(c) the quantity and quality of petroleum delivered in Pakistan and exported;

(d) the quantity and quality of petroleum used for re-injection, pressure maintenance, venting, flaring, drilling or other operational purposes;

(e) the quantity and quality of petroleum sold, the name of the purchaser and the price at which it has been sold supported by necessary documents;

(f) the quantity and quality of natural gas treated and processed for the removal of impurities and inerts and natural gas liquids and liquefied petroleum gases and the quantity and quality of any liquids, gases or any solids obtained from it; and

(g) such further particulars as the DGPC may from time to time, require.

47. **Data to be property of Government.-**

(1) All data including but not limited to, well~~s~~ logs, maps, magnetic

tapes, cores, samples and any other geological and geophysical information obtained by the holder of a petroleum right as a result of his activities in a permit, licence or lease shall be the property of the Government subject to the right of the holder to use such data for the purposes of the petroleum right. The holder shall submit all of the aforesaid data and information as soon as it has become available to him. The holder may, during the subsistence of a permit, licence or lease, after prior intimation to the Government, disclose all or any part of the aforesaid data to a third party, provided that before disclosure of the data, such party executes an appropriate confidentiality agreement drawn up in accordance good oilfields practices.

(2) All processed geophysical and geological information referred to in sub-rule (1) shall be submitted to the DGPC, on transparent, dimensionally stable material as well as in the digital format, as may be notified by the DGPC from time to time.

(3) Information and data as mentioned in this rule shall be kept confidential by the Government for a period of three years from the date the data is acquired by the holder with the following exceptions:

(a) information disclosed to other Pakistani authorities, or financial institutions or consultants of the Government who will be bound to keep the same confidential;

(b) information required for general statistical purposes;

(c) upon the earlier termination of a permit, licence or lease, or upon the date of relinquishment of the area to which the information relates; and

(d) all raw geophysical, geological and well data including well logs may be disclosed by the Government to any interested party after two years of the activity to which such data relates. This however is not applicable to the data generated under multi-client arrangements.

(4) Notwithstanding anything contained in these rules, the data in the possession of the Government in respect of a surrendered or relinquished area of a permit, licence or lease may be released by the Government to a holder or to an organization engaged in petroleum exploration, production and research, on the ~~actual~~ reproduction ~~and other~~ costs of the data and on such terms and conditions as it may determine.

(5) Except as provided under these rules, a holder of petroleum right shall not disclose or cause to disclose any data except to a person who is ~~not~~ legally entitled to obtain, or where the holder is legally obliged to disclose, that data.

(6) Any other person who is permitted to receive the data shall hold the same subject to the same restrictions as are contained

in sub-rule (5).	
48. **Power to inspect plants, record and accounts, etc.-** (1) The DGPC or, a person designated by him, may, at any reasonable time after notice in writing enter any place where any activities or business is carried out by a petroleum right holder under the rules for the purpose of auditing or inspection or examination of *inter alia* wells, record, plants, appliances, buildings, or any other works. (2) The petroleum right holder shall, for the purpose of an audit, or inspection or examination by the DGPC of any of the records described in these rules,~~shall~~ (a) provide access to the DGPC or the person designated by the DGPC to conduct the audit or inspection or examination on his behalf to perform his duties without any hindrance; (b) provide all reasonable assistance to the DGPC and persons designated by the DGPC to perform his duties without any hindrance; (c) promptly provide or make available the certified copies of Records required by the DGPC or to any person designated by the DGPC to perform his duties without any hindrance.	48(2). Looking to reduce the extent of the DGPC's power to inspect or examine to only those records described in these Rules.
49. **Annual reports.-** (1) The holder of a petroleum right shall each year submit to the DGPC, annual reports containing the following particulars namely:- (a) a financial statement with an abstract of the accounts, prepared in accordance with accounting principles generally accepted in the petroleum industry and audited by a recognized firm of chartered accountants approved by the DGPC; (b) a description of all exploration, development, production and other work carried out by the holder during the year relating to the permit or licence or lease area. (c) estimates of in place and recoverable reserves of petroleum at the end of each year classified on the basis of good oilfield practices as per standard format notified by DGPC. If so desired by the Government, the holder shall be required to carry out reserves certification from an independent source ~~as approved by the DGPC~~; and	49 and 50. The necessity for the various reports, including annual and monthly reports, may be revisited by the DGPC. However, no change is proposed at this time, except perhaps to sub-rule 49(1)(c) and to 50 to make "Monthly" reports "Quarterly".

(d) estimates of petroleum production and exports for each quarter of the next year. (2) The report referred to in clause (a) of sub-rule (1) shall be submitted within six months and the other reports within forty-five days after the end of year to which they relate.	
50. ~~**Monthly**~~ **Quarterly reports.-** Within ten days after the end of each ~~month~~ quarter each holder of a petroleum right shall prepare and deliver a ~~monthly~~ progress report to the DGPC, which shall contain a narrative report of activities with plans and maps showing the places where work was done. Such report shall also contain- (a) a summary of all geological and geophysical work carried out; (b) a summary of all drilling activity and results obtained; (c) a list of maps, reports and other geological and geophysical data prepared or acquired in connection with the activities; and (d) a statement of expenditure incurred by a holder of petroleum right during the month on a format as may be prescribed by the DGPC from time to time.	50. Rationale is to reduce the frequency by which all reports are given. Additional reports overburden contractor and unnecessarily have to be reviewed and stored at the DGPC.
51. **Daily reports.-** During drilling of a well, each holder of a licence or lease shall provide to DGPC, copies of his daily well reports on a prescribed format.	51. DGPC to consider if reports need to be daily or if weekly would suffice (if required at all).
52. **Occasional reports.-** The holder of a petroleum right shall submit to the DGPC, the following reports namely:- (a) within twenty-four hours, by ~~telex~~ email or fax with hand copy delivered within next twenty-four hours, if a well shows the presence of petroleum in significant measure or if a drillstem or any other test has been carried out on a well which produces petroleum; (b) within seven days after the above-mentioned report, a written report containing relevant geological information and chemical analysis in the case of a showing of the presence of petroleum, and in the case of a drillstem or any other test containing the following additional information namely:- (i) conditions and results of the drillstem or any other test, including but not limited to flow rates, flow periods, tested intervals, pressures, choke sizes, hole	52(a). It is suggested to bring the Rules into the 21st century and dispense with telex and permit email.

condition and stimulation measure;

(ii) physical analyses; and

(iii) any deductions therefrom as to the potential of the reservoir;

(c) within one month after the completion or abandonment of drilling operations, a comprehensive well completion report, which shall contain, *inter alia*, the lithological groups, stratigraphic boundaries, hydrocarbon zones, a copy of all well logs and tests and other relevant information including costs, provided that such information which cannot be obtained within this period shall be submitted as soon as possible;

(d) at the latest upon the issue of a commercial discovery notice, a report which shall substantiate such notice and contains-

(i) all relevant geological information, including estimates of recoverable reserves and daily production;

(ii) a general plan for the development of the deposit, including possible alternatives, with a description of the main production and transportation installations envisaged, and the relevant cost estimates; and

(iii) calculations of the profitability estimates of the discovery;

(e) within forty-five days after the relinquishment or surrender of any part of the permit or licence or lease area such maps, plans, reports, records interpretations, and data made or obtained by or for the holder relating to exploration, development, production abandoned, restriction of site and any other operations in the relinquished, surrendered or retained areas;

(f) report to the DGPC particulars of any ~~fresh~~ material issues of capital which may be made by him or his parent company or any other company having a controlling share interest in it, from time to time and any alteration which may be made in the memorandum and articles of association or in the constitution of the holder or his parent company. Any fresh issues of capital shall at times be subject to clause (d) of rule 69;

(g) from time to time, such other plans and information as to the progress and results of the holder's operation as the DGPC may require.

53. **General.-** The reports referred to in this Part V shall be made

in such form and contain such further particulars as the DGPC may prescribe. The holder's obligations under this Part V comprise reports whether prepared inside or outside Pakistan and whether prepared by himself or by others.	
54. **Reports of discovery.-**	
(1) No announcement or statement (whether direct or implied) with respect to a discovery of petroleum shall be made, except by the Government in consultation with the licence or lease holder, or by a holder where required by the law or otherwise with the consent of the DGPC.	54(1). Purpose of this change to allow for announcements which a holder may be legally obliged to make.
(2) No statement shall be made by or with the consent of a holder claiming or suggesting, whether express or by implication, that any Government authority or any person or body active on behalf of the Government has or have formed or expressed an opinion that the licence or lease area is likely to contain petroleum.	
PART VI STANDARD OF OPERATIONS	
55. **Avoidance of harmful methods of working.-**	
(1) The petroleum right holder shall undertake and execute all operations in a proper, prudent and workmanlike manner in accordance with good oilfields practices and shall not unreasonably obstruct or interfere with other activities each as navigation, fisheries and agriculture. All reasonable precautions shall be taken to prevent pollution or damage to the environment and surrounding;	
(2) Without prejudice to the generality of the foregoing provision, the petroleum right holder shall take all steps including but not limited to the following namely:-	
(a) prevent the escape or waste of petroleum discovered in the area;	
(b) to conserve the area for operations;	
(c) to prevent damage to adjoining petroleum bearing strata;	
(d) to prevent the entrance of water through wells to petroleum bearing strata, except when approved by the Government for the purposes of secondary recovery: and	
(e) to prevent the escape of petroleum into any waters in or in the vicinity of the said area;	
(3) The Government may establish safety zones around temporary and permanent installations as per good oilfield practices.	

(4) The Government may from time to time, determine and notify the standards applicable to the operations under these rules in accordance with good oilfield practices.	
56. **Principles of Sound operations.-**	
(1) All petroleum operations and activities shall be conducted diligently and in accordance good oilfields practices. The rate of production from each reservoir shall be the maximum efficient rate needed to achieve the maximum ultimate economic recovery of petroleum from various petroleum reservoirs unless otherwise approved by the Government.	
(2) The Government may specify measures at the time of approval of development plan that a holder of a lease shall take to conserve petroleum resource of Pakistan. These measures shall include, but not be limited to, notification of depletion policy, rate and flow of petroleum from the fields and the measures to achieve maximum ultimate economic recovery of petroleum from different reservoirs.	
(3) The holder shall not flare or vent any natural gas without the prior approval of the Government in writing under these rules.	
57. **Commencement, testing and abandonment of drilling operations.-**	57. Changes made to reduce the necessity of involving the DGPC in what ought to be operational matters and not regulatory matters.
(1) The holder of a petroleum right shall not commence drilling, re-entry, sidetracking, hydraulic fracturing ~~testing and related operations~~ or abandonment of any well without first having obtained the approval of the DGPC in writing.	
(2) ~~and the~~A holder of a petroleum right shall-	
(a) as soon as possible make known to the DGPC the proposal for testing a well;	
(b) test all potentially productive horizons indicated by wire-line recording ~~as may be finalized in consultation with DGPC~~; and	
(c) promptly undertake the technical evaluation of the well testing results and of all other relevant data and submit the same to the DGPC as soon as possible.	
(3) For the purposes of sub-rule (1), approval of the DGPC shall be deemed to have been given at the end of the notice period provided in sub-rule (4) unless within such period the DGPC gives reasons why the operation applied for should be varied or stopped. Any approval given or deemed given under this rule shall be without prejudice to any other obligation of the holder	

of a petroleum right.

(4) For the purposes of sub-rule (3), the "notice period" shall be (a) 14 days from the delivery of a request for approval, save for an exploration well, (b) for the drilling of an exploration well, it shall be 7 days after a reminder request which may not be delivered to the DGPC in less than 14 days of the original request being delivered or (c) for an on-going operation, two working days from the request being delivered; provided in each case that if the holder of the petroleum right has failed to provide the required technical information for such operation in the standard format, any of the aforesaid periods shall commence from the provision of the required information.

~~(2)~~(5) After the completion of all operations, the well shall be safely plugged and the same shall be reported to the DGPC within seven days of the well being plugged.

(6) ~~the d~~Drilling operations shall be conducted in accordance with good oilfield practices.

58. **Shape of relinquished areas.** Areas which are relinquished or surrendered shall be of sufficient size and shape to enable petroleum operations to be carried out thereon.

PART VII MISCELLANEOUS

59. **Use of Pakistani goods and services.-**

(1) In all activities carried out pursuant to these rules, the holder shall ensure the use of Pakistani goods and services, to the extent that such goods and services are competitive with regard to price, quality and schedule of delivery ~~provided that the price is reasonable~~.

~~(2) Local producers who are capable of supplying goods and services of type demanded shall always be to included in invitations to tenders and shall be chosen if competitive.~~

59(1). The only relevant factor should be that the local goods are competitive, not reasonableness of price.

59(2). This sub-rule is a repetition of sub-rule (1).

60. **Employment and training of Pakistani personnel.-**

(1) The Government may require the holder of a petroleum right employ nationals of Pakistan in his organization at all levels and in all branches including technical and administrative units and to arrange for the training in Pakistan and abroad, of nationals of Pakistan to fill the aforesaid positions. The number of Pakistani personnel to be employed and ~~or~~ trained shall be submitted to~~determined in consultation with~~ the DGPC in accordance with the guidelines that may be issued by him from time to time. The application for grant of a licence or a renewal or extension

60. It should be a requirement that the operator favour Pakistani employmt/training, and there should be no guidelines beyond that, except to set out how the report should be structured.

thereof and the development plan submitted with the application for grant of lease shall contain a description of the measures proposed to be taken by the applicant during exploration, appraisal, development and production phases so as to ensure compliance with this rule.

(2) The Government may require that the holder shall provide training for Government personnel in order to develop the capability of such personnel to efficiently perform their duties related to the supervision of petroleum industry. Such training shall cover both technical and management disciplines (e.g. geology, geophysics, engineering, project management, accounting, legal) and shall also be in the form of on-the-job training and participation in in-house seminars.

61. **Joint exploration and development**.-

(1) If a petroleum deposit extends across more than one licence or lease area held by different holders, such holders shall endeavour to agree to explore and exploit the deposit jointly in the most efficient manner.

(2) The holders of the different petroleum rights shall endeavor to expeditiously agree a ~~J~~joint exploration and development plan~~s~~ or, in case one or more of the deposits has already been developed, a joint unitization plan, ~~together with agreement between the holders~~which shall be submitted to the Government for approval.

(3) If the holders fail to reach an agreement on joint exploration and development or unitization plan as referred to in sub-rules (1) and (2) within a reasonable period of time, the DGPC shall, on the request of any of the involved holders of petroleum rights, or may itself~~the Government may, in the public interest~~, by notice in writing to all concerned holders, direct ~~to~~ that they finalize and submit for approval of the Government relevant plan within the period stipulated in the notice which shall not exceed three months.

(4) In the event such plan is not submitted to the Government within the stipulated period or such plan has not been approved by the Government, either holder may request the Government ~~may~~ to appoint a~~n independent~~ consultant to prepare such a plan, or, if appropriate, decide first if a deposit does extend from the area of one right holder into that of another, which the Government shall do without delay.

(5) The cost of such consultant shall be at the joint cost of the holders ~~concerned~~ of the relevant petroleum rights to be paid as directed by the DGPC. If a holder does not contribute, the cost shall be wholly borne by the other such holder. In such an event, if the reservoir does extend into areas held by the respective

61. This rule has been revised in an effort to make it more robust in the eventuality of fields of different owners being in communication.

holder, the holder which did not contribute shall reimburse the other the whole cost of the consultant thus appointed.

(6) The consultant shall be required to complete the plan within three months of receipt of the data and other information, with any extensions considered reasonable by the Government which in any instance shall not exceed a cumulative period of six months. Both parties shall make available all data reasonably requested by the consultant which shall be obliged to enter into a confidentiality agreement. ~~i~~If a party fails to makes such data available in a timely manner the Government shall direct such a party or parties to comply with this request, failing which such party shall be in breach of a material term and shall be subject to rule 69(a).

(7) The plan so prepared by the consultant will be considered ~~and approved~~ by the Government and the respective holders, each of whom shall have one month to make written submissions to the consultant. Thereafter, the plan shall be finalized by the consultant and accepted by the DGPC and parties. ~~with appropriate changes for implementation as per approved schedule.~~ In the event of a manifest error, t~~T~~he Government may, unilaterally or on the request of an affected party, impose ~~however, stipulate~~ such additional conditions as may reasonably be considered appropriate ~~in the interest of such plan~~. The final plan shall be binding on the concerned parties.

(8) In the event the reservoir does extend into areas held by the different holders of petroleum rights, the respective reserves determinations shall be effective from the date when there was commercial production or EWT production from more than one such area, and consultant shall make recommendations for necessary adjustments on this account in the plan.

(9) (a) The reference to "consultant" in rules 61(4), 62(2), 63(2) and 68(3), shall be to such third party appointed by competitive bidding from three consultants chosen by the DGPC from the list of consultants, provided for in sub-rule (9)(b).

(b) The said "list of consultants" shall comprise of six pre-qualified consultants maintained by the DGPC. Each such consultant shall be independent and of an international caliber/repute. The list shall be readily available to any holder of a petroleum right, at any time, on request, which may make observations on any party contained in the list or recommend others for inclusion. Based on such observations and after giving other holders of petroleum rights an opportunity to comment, the list may be changed by the DGPC from time to time.

(c) In relation to any bidding process, the involved petroleum right holders shall be given an opportunity of providing input on the bid documents, including terms of reference, evaluation criteria in any communication relating to the bids and the parties

shall have the right to be present at the bid opening.

62. **Petroleum exploration within a lease area.-**

(1) A lease-holder shall have a preferential right to perform petroleum exploration activities on all horizons underlying the surface area of a lease above or below the sub-surface boundary of the lease~~area granted to him~~ provided that, if the Government receives a bona fide offer from a third party to undertake exploration within ~~such~~ the surface area of a lease ~~area~~ (excluding the sub-surface boundaries of the lease), the lease-holder shall be given the opportunity ~~have to decide whether or not~~ to match such offer within six months of receiving a notice to this effect from the Government.

62(1). To clarify that the exploration would be below the surface area and not below the lease granted (which would be horizon-specific).

(2) In case the lease-holder decides not to match the offer and undertake exploration pursuant to sub-rule (1) and a third party is granted petroleum exploration rights over any of ~~or all~~ the horizons underlying the surface area of a lease ~~area~~ (excluding the sub-surface boundaries of the lease), then such a third party and the existing lease holder shall within ninety days enter into an agreement setting forth the detailed terms and conditions of operating within the surface area of a lease ~~area~~ so that the activities can be coordinated in a just and equitable manner which does not prejudice the interest of the existing holder. In case such an agreement is not reached between the ~~parties~~ respective holders within the specified time or such agreement has not been approved by the Government, the Government may appoint a~~n independent~~ consultant to prepare such a~~n agreement~~ plan at the joint and equal cost of the parties which will be binding on the holder and the third party and~~holders concerned.~~ rules 61(6), (7) and (9) shall apply *mutatis mutandis.* The plan so prepared by the consultant shall enable activities to be coordinated in a just and equitable manner, without adversely affecting the interests of the existing lease holder~~will be considered and approved by the Government with appropriate changes for implementation as per approved schedule. The Government may, however, stipulate such additional conditions as may be reasonably considered appropriate in the interest of such an agreement.~~

(3) A licence granted over all or part of the area within a lease shall, notwithstanding the terms and conditions of the licence, be deemed to be effective upon the parties concluding the agreement, or the conclusion of the plan, referred to in sub rule (2). If no agreement is reached or plan finalized within one year of the grant of such licence, at any time thereafter either the holder of the licence or the Government may terminate the same without any liability or obligation.

62(3). There ought to be clarity that a licence cannot be effective until an agreement is reached or plan imposed as otherwise it could interfere with an existing lease holder.

(4) For the purpose of petroleum exploration within a lease area,

the provisions of rules 22, 24, 25 and 28 shall apply, *mutatis mutandis* provided that where an existing lease holder makes a new commercial discovery, on such leaseholder's request the provisions of rule 25 shall not be applicable and the existing lease shall be amended to bring the discovery area of such commercial discovery under the purview of the lease.

(5) In case any discovery area covered under a lease appears to extend~~s~~ beyond the geographical limits of the lease area, the Government may upon request allow the lease holder to undertake appraisal of such discovery area beyond the limits of the lease in an open area and revise the co-ordinates of the lease area if justified by the results of the appraisal pursuant to rule 22.

63. **Exploration and use of facilities by a third party.-**

(1) The Government may allow a third party to undertake exploration in the area of a licence or lease holder as may be necessary to obtain sufficient knowledge as to the geological conditions in areas surrounding the area of such holder. The said exploration activities must not unreasonably interfere with the activities of the holder. After consultation with holders concerned the Government shall determine the manner in which such exploration is to be carried out e.g., type, duration and exploration area.

(2) The Government may decide that production, processing and transportation facilities owned by the holder of a lease shall be available for utilization by any other~~s~~ party (in this sub-rule (2) referred to as "user"), if this is deemed to be desirable for the purpose of efficient operations, or if required by the public interest. Such utilization must not unreasonably interfere with the activities of the holder of the lease. The user shall pay compensation for such utilization as may be mutually agreed by the holder and the user ~~and approved by the Government~~. If the holder of the lease and the ~~nominated~~ user fail to reach an agreement ~~on compensation~~ within hundred and eight~~y~~ days ~~or if the Government does not approve the agreed compensation~~, the Government may appoint a~~n independent~~ consultant to determine such compensation and other terms by way of a plan, at the cost of the user. ~~holders' concerned. The compensation so determined by the consultant will be considered and approved by the Government. The Government may, however, stipulate such additional conditions as may be reasonably considered appropriate in the interest of such joint utilization plan.~~ Rules 61(6), (7) and (9) shall apply *mutatis mutandis*, provided always that the consultant shall comply with any reasonable guidelines which the DGPC may issue from time to time in this regard.

63(2). Efforts to harmonise mechanism with mechanism devised at rule 64.

DGPC to consider if 180 days too long.

63(3). For future purposes a provision has been included to make it clear that abandoned well may be used.

(3) Any well which has been abandoned may be used by any party, with the approval of the Government, for any use, including use for geo thermal energy, provided if the well or wells are in the area of a petroleum right, the approval of the petroleum right holder must also be obtained.	
64. **General right of holder of lease to enter land.-** Subject to any required approval of the Government and of any other authority which may be involved, and on such conditions as may be stipulated, the holder of a lease shall have the right, as required for the purpose of carrying out operations under the lease, to- (a) enter upon and use land; (b) appropriate water; (c) store petroleum; (d) erect houses and machinery; (e) search for, dig and get gravel; (f) cut timber and clear undergrowth; (g) enclose with a fence areas for which he is paying surface rent; and (i) carry out such other activities which the Government considers necessary.	64. Govt approval should not be universally required, but only when "required".
65. **General rights of the holder of permit or licence to enter land.-** Subject to approval of the Government and of any other authority which may be involved, the holder of a permit or licence shall have the rights stipulated in clauses (a), (b), (d), (f) and (h) of rule 64 provided that houses and machinery referred to in clause (d) must be temporary.	
66. **Restrictions on the holder's rights.-** (1) The rights granted to the holder of a petroleum right shall not prejudice or affect the exercise of any of the following powers:- (a) **President may work other minerals, etc**. The President or any person authorized by him may within the holder's area search for and produce any minerals or substances other than petroleum and make and maintain such installations and facilities as required for the said purpose; (b) **President may permit other activities**. The President	

or any other persons authorized by him may within this holder's area: (i) make and maintain upon, over or through the said area such reservoirs, pumping stations, generating stations, waterways, roads, tramways, railways, telegraph and telephone lines, pipelines or such other installations and facilities as he shall deem necessary or expedient for any purpose; (ii) obtain such stone, earth and other materials as may be necessary or requisite for making, repairing or maintaining the said installations and facilities; (iii) draw water from the said area and have free access thereto; and (iv) pass and repass at all times over the said area for all such purposes as occasion shall require; and (c) **President may grant or demise said lands to third parties subject to holder's rights.** Liberty and power for the President to grant or demise to any person all or any part of the said area for any purpose so that such grant or demise be made subject to the rights of the holder. (2) The President's powers pursuant to clauses (a) and (b) of sub-rule (1) above shall be exercised and enjoyed in such a manner as not to unreasonably hinder or interfere with the rights of the holder. Fair and proper compensation shall be paid by the President for all loss, damage or injury (not, however, including the value of any water , stones, earth or other materials taken) which the holder may sustain or be put to by reason or in consequence of the exercise of the said powers. 67. **Power to execute works.-** If the holder of a petroleum right shall at any time fail to perform his obligations under these rules or under any agreement with the Government, the DGPC shall be entitled after giving to the holder reasonable notice in writing of his intention to execute any works which in his opinion may be necessary to secure the performance of the said obligations or any of them and to recover the costs and expenses of so doing from the holder. 68. **Power to control spill or waste.-** (1) A holder of petroleum right shall at all times, has obligation not to cause spill and waste. (2) Where DGPC, on reasonable grounds, is of the opinion that, with respect to any operation of the holder of petroleum rights,	

spill or waste is required to be controlled or prevented, he may order to the holder of petroleum right to control or prevent spill and waste within a reasonable period of time, failing which he may take such necessary steps and measures to control or prevent the spill or waste as may be required and all cost thereof shall be borne by the holder of petroleum rights.

(3) If there is any dispute, controversy or claim arising out of or in relation to the exercise of the powers by the DGPC under sub-rule (2) then the DGPC and the holder of petroleum right shall make all reasonable best efforts to settle such dispute, controversy or claim within sixty days of the issuance of order by the DGPC under sub-rule (2) failing which such dispute, controversy or claim shall be referred to an independent consultant which shall be appointed by the Government at the cost of and with consent of the holder of petroleum right. The findings of such consultant shall be binding on the DGPC and the holder of petroleum right.

(4) Notwithstanding anything in subrules (1) to (3) the DGPC or the holder of petroleum right may exercise the option not to refer such matter to the independent consultant, in which event such dispute, controversy or claim shall be settled through arbitration in accordance with laws in force in Pakistan.

69. **Power of revocation.-** In addition to other grounds for revocation stated in these rules, the Government may revoke a petroleum right after serving a thirty days show cause notice if-

(a) the holder thereof is in a material respect in breach of the terms and conditions on which the petroleum right was granted, of the provisions of these rules or of any other written law applicable to the petroleum operations and has not, within a period of sixty days from the date on which a notice in that behalf was served on him by the DGPC, remedied the breach, or where the breach is not capable of remedy, has not, within such period offered reasonable compensation in respect thereof;

(b) the petroleum right was granted by reason of information given by the holder which was false in a material respect;

(c) the holder or his parent company makes an arrangement or composition with its creditors, a receiver is appointed or the holder goes into liquidation whether compulsory or voluntary;

(d) without the prior consent of the Government there is a disposition of the share capital of the holder or its parent company in consequence of which any person who prior to that disposition had effective control of the holder or its parent company ceases to have such effective control;

and (e) the holder thereof has failed to make payment (whether part or full) payable under the rules or the relevant agreement and such payment remains in arrears or unpaid for two subsequent months next after any of the day on which the same was ought to be paid.	
70. **Right of Government upon termination of a petroleum right -** (1) When a permit or licence or lease has expired or ~~has~~ been revoked, surrendered or area relinquished wholly or partly, except if otherwise provided in the PCA, the area of permit or licence or lease or area relinquished shall so far as practicable be reinstated in its original condition and where this is not practicable, the holder shall pay compensation to the Government for damages suffered as a result thereof. (2) When a petroleum right has expired, or been revoked, ~~or has been~~ surrendered or area relinquished wholly or partly~~, or the use of~~ any installations and facilities relating thereto, or ~~including related equipment has come to an end, the Government has the right to take over the~~ installations and facilities no longer required by the holder of the petroleum right for the area in question, may be taken over by the Government through GHPL, along with ~~including~~ related equipment. This also comprises pipeline transportation and related facilities installed by the holder to secure shipment of petroleum. (3) At takeover, the installations and facilities including equipment pursuant to sub-rule (2), the holder shall be required to hand over such installations and facilities including equipment in such condition as ~~required~~ may be reasonably expected under good oilfields practices. No compensation shall be given to the holder in case of such takeover. Takeover involves an automatic cancellation of any security for debts or leasing arrangement related to such installations and facilities including equipment and title of the same shall be transferred to the Government. (4) If the Government does not wish to exercise its right to takeover the installations and facilities including equipment, the Government may demand that removal shall be carried out by the holder of the petroleum right at the holder's expense, in which case sub-rule (1) hereof shall apply. (5) At least one year prior to termination, the holder of a lease shall submit to the Government a plan for the orderly closing down and abandonment of his operations, and for the removal of the facilities or their transfer to the Government as the case may be.	70(1) & (2). Modified wording as expiry, revocation and surrender cannot be partial. Only relinquishment could be in whole or part. Also some other reordering for greater clarity. 70(3). The standard of facilities etc to be handed over should be stated and not be left vague as "such condition as required". Does that mean the outgoing company has to upgrade facilities?

71. **Indemnity.-** The holder of a petroleum right shall;

(a) effectively indemnify, defend and hold harmless the President and the Government at all times against all proceedings, costs, charges, claims, losses, damages and demands whatsoever, including, without limitation, claims for loss or damage to property or injury or death to persons, caused by or resulting from work conducted by or on behalf of petroleum right holder, by any third party, or anything done or purporting to be done in pursuance thereof.

(b) if required to do so by the Government, take out and maintain such insurance as the Government may approve against any liability of holder under these rules.

72. **Miscellaneous obligations.-**

(1) The holder of a petroleum right shall have an organization in Pakistan with sufficient competence and capacity to conduct all operations and activities pursuant to these rules and shall-

(a) immediately after grant of petroleum right but before commencing any operations in the relevant area, furnish to the DGPC, the name and address of the manager, resident in Pakistan, under whose supervision operations are to be carried on in the permit, licence or lease; and

(b) in writing, keep the DGPC informed of the names, addresses and nationalities of sub-contractors employed by him from time to time.

(2) Any rent for a petroleum right, fee, or maximum penalty referred to in these rules may be increased from time to time by reference to an appropriate consumer price index, which increase shall be effective prospectively after due notification to all concerned.

72(2). Rent should be the same regardless of when a licence or lease was awarded and should not be indexed in the licences/leases themselves. DGPC should decide what form the notification should be and if impractical to Gazette, should discuss whether wording here may require modification. An explanatory provision may be included in the rules which would amend these rules that the first increase could be substantial as it would be covering about a 15 year period (i.e. 2001 to 2016).

73. **Force majeure.-**

(1) Failure on the part of the holder to fulfil any of the terms and conditions of the petroleum right shall not give the President, or the Government, any claim against the holder or be deemed a breach of his obligations insofar as such failure arises from *force majeure*.

(2) In this rule the expression "*force majeure*" includes the act of God, war, insurrection, riot, civil commotion, flood, lightening, explosion, fire, earthquake and any other happening which the holder could not reasonably prevent or control, and shall not

include a circumstance existing at the time of the grant of the petroleum right.

(3) If the ability to fulfil the terms and conditions, is affected by *force majeure*, the holder shall without delay give notice to the Government, stating the cause of such inability, ~~and his~~ its efforts to remove such causes and remedy its consequences and steps to be taken to prevent the circumstances reoccurring and mitigating the consequences thereof.

(4) The term of the holder's petroleum right shall be extended for the duration of the *force majeure* situation and for such further period as is required to resume the holder's operations.

74. **Arbitration.-** Except as otherwise agreed or expressly provided for in these rules, any question or dispute regarding a petroleum right or any matter or thing connected therewith shall be resolved by arbitration in Pakistan and in accordance with Pakistan laws.

74A. **Decisions and review.-**

(1) All decisions to be made by the Government, including the DGPC, under these rules or concerning a petroleum right, PSA or other agreement or plan made in relation to a petroleum right shall be in writing, with reasons, made without undue delay.

(2) DGPC may prepare procedures to be followed by a holder of a petroleum right seeking a decision under any rule which shall be readily available to any person on request. If there are such procedures and a holder of a petroleum right reasonably satisfies the criteria contained therein, then the Government or DGPC shall, unless the circumstances reasonably justify otherwise make a decision favourable to the petroleum right holder.

(3) The DGPC shall prepare procedures as provided for in sub-rule (3) for, but not limited to, rules 8, 9, 10, 22(8), 24, 25, 28(1)(b), 36 and 60.

First option:

(4) (a) If a holder of a petroleum right is aggrieved by a decision of the DGPC or if the DGPC does not respond to a request in a timely manner, the regulations contained in the Fourth Schedule hereto shall apply. This will however be without prejudice to a party's rights under any provision of law or the PCA.

(b) Such regulations may be amended by the DGPC from time to time to apply prospectively and any changes shall be duly notified in the official gazette and a copy sent to all petroleum right holders.

74A(1). All decisions should be recorded in writing with reasons. This helps keep consistency and transparency.

74A(2). Having SOPs which can be made readily available to companies will make decision making/approvals easier for Govt and companies alike.

74A(3). Certain rules have greater need for SOPs and so are specifically identified here.

74A(4)/74B. Regulations are required to resolve disputes quickly so as to foster confidence in the regulatory process.

Second option – an alternative to sub-rule (4), preceding, and the Fourth Schedule, have r.74B-

74B. **Independent Appeal Forum:- (**1) Any holder of a petroleum right aggrieved either by a decision of the DGPC or where the DGPC has not responded to a request in a timely manner, may without undue delay, make a written representation to the DGPC. The DGPC shall arrange to convene a review meeting with the holder of a petroleum right within seven days of the receipt of written representation.

(2) Within seven days of the review meeting, the DGPC shall convey to the aggrieved party in writing its final decision with reasons and basis thereof.

(3) If the holder of a petroleum right is still aggrieved of the decision/final decision of the DGPC or if DGPC has still not responded, the aggrieved party may request the Secretary, Ministry of Petroleum & Natural Resources after 14 days of his representation or the final decision of DGPC as the case may be, for the matter to be submitted to the Forum of Appeals (FOA).

(4) The FOA shall comprise of the following three members including the Chairperson:

(i) A senior technical expert with at least 25 years' experience from the exploration and production industry who will be the member/Chairperson.

(ii) A senior commercial/regulatory expert from the exploration and production industry with at least 20 years' experience as member.

(iii) A senior legal expert with at least 15 years' experience in the exploration and production industry as member.

(iv) The FOA shall develop its own procedures and protocols for the conduct of hearings and consultation with other experts from the industry out of the lists maintained by the Ministry of Petroleum & Natural Resources as deemed necessary.

(5) The FOA shall convene no later than 25 days after the representation referred to in these rules and render its decision within thirty working days of such hearing or remand the matter back to the DGPC to make, or revise, its decision within a specified period. The decision of the FOA shall contain detailed reasons and justifications in support thereof and will be sent to Secretary MPNR

with a copy to the concerned parties. The decision shall be implemented by the DGPC without delay unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions. (6) Secretary MPNR will review the decision and issue a speaking order in the matter within a fortnight. (7) The Government may issue suitable guidelines, from time to time, in relation to any aspect regarding FOA. Such guidelines may include appeal procedures, documents to be filed for the appeal and the payment of fees to the FOA. (8) Availing of the remedies under these rules are without prejudice to a party's rights under any other provision of law or the PCA.	
74C. **Penalties.-** (1) Whosoever contravenes any provision of these rules shall, without prejudice to any other action that may be taken in relation to the contravention, be punishable as outlined in the Third Schedule. (2) In imposing any fine under these rules, the DGPC shall keep in view the principle of proportionality of the fine to the type, gravity, duration, frequency and repetition of the breach or failure. Prior to imposing a fine, the DGPC shall, in writing, require the person liable to be affected to show cause, in writing, as to why the fine should not be imposed. (3) The DGPC may, from time to time, modify the Schedule of Fines (Third Schedule), including the categories and scale of fines to apply prospectively, and provided no individual fine may exceed [50] million rupees. (4) The imposition of a fine shall be without prejudice to any other legal right under these rules or legal and contractual rights of the Government.	74C. The Govt should have the ability to levy fines. 74C(3). The maximum ceiling may be considered. It is currently proposed as Rs.50m.
75. **Transitional.-** (1) The Pakistan Petroleum (Exploration and Production) Rules, 1986 are hereby repealed. (2) Notwithstanding the repeal of the Pakistan Petroleum (Exploration and Production) Rules, 1986, hereinafter referred to as the said rules, where any person holds any permit, licence	75(2). Added "regranted" to unequivocally capture any re-grant under r.32A of 1986 Rules. Arguably anyway covered, but to be

Formatted: Font: (D MT, 11.5 pt

or lease granted or regranted or renewed under the said rules the provisions of the said rules shall continue to apply to such permit, licence or lease, as if the said rules have not been repealed.	clear.
FIRST SCHEDULE **APPLICATION FOR A RECONNAISSANCE PERMIT, EXPLORATION LICENCE OR DEVELOPMENT AND PRODUCTION LEASE**[1] [1] In the case of using this Schedule for an assignment under rule 9, references herein to "applicant" shall be replaced with "proposed assignee", including the execution block at the end. The application shall be made by the proposed assignor.	First Schedule, footnote to be added to give clarity to companies for assignments.
THIRD SCHEDULE **FINES** a) Table of fines and related offences is outlined below. b) Before the imposition of a fine, a show cause notice shall be issued by the DGPC to the offending petroleum right holder giving not less than 14 days from date of receipt of the notice to explain as to why a fine should not be imposed. This will be without prejudice to any other remedy available to the Government and the obligation for the default to be rectified, if possible. c) If, in response to the notice, a reasonable written justification is given and the offence has been rectified as far as possible, no fine shall be imposed, or the fine shall be substantially reduced by the DGPC. d) Immediately following receipt of a response from the party, referred to in paragraph (c) or, if no response is received within the time stipulated in paragraph (a), the DGPC shall inform the petroleum right holder in writing either that no fine shall be imposed or the amount of fine to be imposed, as the case may be. e) Where it is possible to rectify an offence and it has not been rectified, an additional fine may be imposed within 14 days of the receipt of the notice referred to in paragraph (d), above, at the rate of up to 1% per day of the fine stipulated therein until the offence is rectified, or the petroleum right/agreement to which the fine relates has terminated or the total of the additional fine is equal to the fine stipulated under paragraph (d), above. Upon the additional fine no longer accruing, the DGPC will intimate to the holder the total fine imposed, revising the notice referred to in	There are certain requirements in the various E&P Rules, but there is no provision to impose a penalty if the petroleum right holder fails to comply with those requirements, even though the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act, 1948 permits the imposition of fines. The only provision in the Rules for violation is revocation of petroleum rights, where the offence is material. This creates a challenging situation for the regulator, in terms of enforcement of the Rules, particularly when the offence is of a relatively minor nature. Hence, to give the DGPC greater powers to control this Schedule has been proposed.

paragraph (d), above.

f) The fine stipulated in the notice/intimation referred to in paragraph (d) or (e), as applicable, shall be payable within 14 days of receipt of the relevant communication. Failure to do so, in itself, can be construed by the DGPC as a material breach under rule 69(a).

g) In the event a letter communicating the imposition of a fine is not accepted for receipt, it shall be deemed to have been delivered under this Schedule on the working day immediately after the day it was sent by a recognised courier to the last address provided to the DGPC, provided also sent on the same day by either facsimile machine or registered post.

h) In each case where any data, reports or information is to be provided by a right holder or the contractor to the Government in a desired format, the DGPC will give such right holder a reasonable opportunity to correct the completed format before issuing a show cause notice for the imposition of a fine.

i) Any fine levied shall be independent of, and without prejudice to, the Government's rights under rule 69 (Power of revocation), rule 67 (Power to execute works), for breach of contract, or any other legal recourse. Furthermore, the payment of a fine will not extinguish the requirement to comply with the obligation in the rule, for which the fine was imposed, as far as possible.

j) Whilst fines are expressed in US$, these should be paid in Pakistan Rupees (PKR), determined at the prevailing exchange rate on the date of payment.

k) Each fine shall be imposed on the holders of a petroleum right collectively through the operator, with ultimate liability being joint and several (pursuant to rule 7).

l) A fine which remains unpaid following the date of the DGPC's communication referred to in paragraph (d) and, if applicable, paragraph (e) it will result in a late payment surcharge of 1% per month (or part thereof) of delay beyond 14 days of receipt of the relevant notice or communication.

m) Fines for any one offence, including any additional fines due to delays thereto, may not exceed the cap prescribed in the Rules.

Table of offences attracting fines and the stipulated fines:

2001 Rules	**Rule title**	**Offence**	**Fine**
Rule 15	Performance guarantees	Failure to provide acceptable performance guarantee(s)	10% of work unit value or $50,000, whichever is higher without prejudice to right of the DGPC to cancel a licence awarded.

Rule 20(1)	Rights and obligations of licence holder.	Production without approval	US$50,000, except, if the offence is for continuing EWT production beyond an approved EWT period would be US$25,000, without prejudice to the royalty due.
Rule 21(4)	Relinquishment.	Failure to relinquish when obliged to do so.	US$100,000.
Rule 26(2)	Work programme and other obligations not fulfilled.	Failure to pay liquidated damages or transfer of undischarged work obligation not approved.	US$200,000 in addition to the minimum expenditure obligation of undischarged work obligation.
Rules 27 and 38	Licence and Lease Rent.	Failure to pay rent.	The higher of US$5,000 or 50% of the rent due without prejudice to the rent due.
Rule 31	Survey expense.	Failure to undertake a survey when requested.	US$10,000.
Rule 33(3)	Development plan.	If development and production not carried out as per approved Development Plan and revision not approved or not sought.	If a material change (being 20% change from what was stated in the Development Plan in capital expenditure or rates or change in number of wells): - US$5,000 for seeking modification within six months of the modification being effective or US$25,000 thereafter. - If modification is not sought and is discovered by the Government then US$25,000 plus US$5,000 per complete month after the unapproved modification having been effective till discovered.
Rule 41	Measurement of petroleum.	Failure to measure or weigh using the method agreed and/or failure to comply with any guidelines in that regard and/or failure to permit inspection of such equipment.	US$100,000.
Rule 42	Revocation of lease.	Failure to produce within required time limits.	US$250 per day for the first three months and US$1,000

			thereafter, without prejudice to rights of revocation at any point.
Rules 43, 45, 46 & 49-52	Accounts Records and Reports.	Reports not kept/maintained or provided to DGPC/Government, as required.	US$10,000.
Rule 44	Period of record-keeping	Failure to maintain records as required.	US$25,000.
Rule 47	Data property of the Federal Government.	Data and information not submitted as required.	US$10,000.
Rule 47(4)		Disclosure of data to unauthorized party.	US$50,000.
Rule 48(2)	Power to inspect plants, records and accounts etc.	Refusal or delay in access of data to the Authority and non-provision of certified copies of record.	US$50,000.
Rule 54	Reports of discovery.	Making an impermissible announcement or statement.	US$50,000.
Rules 56(3)	Flaring.	Unauthorized flaring of gas.	100% of the value of the unauthorized flared gas, determined on the basis of the price applicable to the block in $/MMBTU. Any show cause notice or intimation of fine may provide that the exact fine is to be calculated.
Rule 57	Commencement, testing and abandonment of drilling operations.	Development well included in the Development Plan spud without approval.	$10,000 (in addition to any fine under rule 33(3)).
		Exploration/appraisal/development well not included in a Development Plan spud without approval	US$50,000.
		Re-entry, side-tracking or hydraulic fracturing commenced without approval.	US$10,000.
		Abandonment of well (Exploration/Appraisal/Dep	US$50,000.

		leted/Unsafe) and abandonment of producing zone without approval.	
Rule 60	Employment and training of Pakistani personnel.	Failure to submit report of number of Pakistani personnel to be employed and trained.	US$10,000.
Rule 61(6)	Joint exploration and development.	Failure to comply with direction to provide data following a request by DGPC.	US$25,000.
Rule 70(1)	Right of Government upon termination of a petroleum right.	Failure to reinstate where re-instatement is practicable. (note, if reinstatement not practicable, r.70(1) provides for damages to be paid.)	US$50,000 plus cost incurred by the Government to re-instate the area.
Rule 70(5)		Plan for abandonment/removal of facilities not submitted when required.	US$10,000 per month (or part thereof) of delay in submission of plan/informing the DGPC.
Rule 71(b)	Insurance	Failure to take out required insurance.	US$25,000.
Rule 72(1)	Miscellaneous obligations.	Failure to set up an organization in Pakistan.	US$10,000 if the organisation is not set up in the first six months after the grant of a petroleum right.
General.	Any other obligations provided in the 2001 Rules which are not fulfilled by the holder of a petroleum right and not expressly referred to above, penalty of up to US$1,000.		
Legal costs.	In addition to the fines stipulated herein or elsewhere in the Rules, any of the Government's legal fees (including lawyers and court/arbitration fees) incurred and documented for recovery of any of the fines as a result of non-payment following a show cause notice shall be separately recovered as a further fine, provided if the matter has been taken to court or arbitration, fine shall only be payable if it has not been struck down as not payable.		
PCA.	If there is a provision in a PCA or petroleum right whereby something has to be done, applied for or requested in a certain time by the right holder and DGPC has discretion to extend such time the DGPC may impose a fine of US$5,000 to consider a late application, without prejudice to its contractual rights or implying any obligation to accept or approve whatever is to be done, applied for or requested.		

	If the DGPC ultimately accepts such delay it may do so on condition of an additional fine for the delay, of up to US$1,000 per day from the day something had to be done, applied for or requested.

FOURTH SCHEDULE

REGULATIONS FOR REVIEWS AND APPEALS

1. Any holder of a petroleum right aggrieved either by a decision of the DGPC or if the DGPC has not responded to a request within a timely manner may, without undue delay, make a written representation to the DGPC. Such representation shall be provided in duplicate.

2. The DGPC shall convene a review meeting within 14 days of receipt of such representation. At such meeting the aggrieved party shall have the opportunity of being heard and the DGPC shall ensure that the holder has received such notice at least three working days prior to the meeting.

3. At the review meeting the DGPC shall either explain the basis for the decision, change the decision, make a decision or agree to make a decision promptly after the meeting, as appropriate. Within seven days of the meeting, the DGPC shall write to the aggrieved party setting out its final decision with reasons and basis thereof.

4. The DGPC and/or any official he considers necessary and the officer concerned with the subject matter shall be present at the review meeting.

5. If within 14 days of either (i) if the holder is still aggrieved by the final decision or (ii) the date of the review meeting, if no final decision was conveyed after the review meeting or (iii) the date of the written representation to DGPC, and the DGPC failed to convene a review meeting, the aggrieved holder may request the DGPC that the matter be referred to a special tribunal for hearing as provided in regulation 6, below.

6. The special tribunal shall be comprised of the following three officers:

   (i) [Director General (Oil) or Director General (Gas), to be rotated on an annual basis, initially being the Director

General (Oil);

(ii) Senior officer of the rank of a Joint Secretary from the Ministry of Law, Justice and Human Rights;

(iii) an officer, not less than the grade of an Additional Secretary, of the Ministry of Petroleum and Natural Resources who shall be the chairperson.][4]

(iv) In the event any of the appointed officers are not in a position to attend such special tribunal hearing on a given date, such officer may appoint any other senior officer who directly reports to him to attend. The special tribunal may develop its own procedures and protocols for the conduct of hearings before it.

7. The special tribunal shall convene in the offices of the Ministry of Petroleum and Natural Resources, no later than 25 days after the request referred to in sub-regulation 5 and the Authority shall have ensured the holder received notice of the meeting at least seven days prior to the meeting.

8. Within seven days of such hearing the special tribunal shall either affirm a decision, change a decision, make a decision or remand the matter back to the DGPC to make, or revise, its decision.

9. The decision of the tribunal shall be with reasons and copied to the concerned parties. The decision shall be implemented by the DGPC within 14 days, or up to 21 days, to be justified in writing, unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions.

10. In the event of a failure, within the prescribed time, (i) to convene a review meeting, or a special tribunal hearing, or (ii) to ensure the aggrieved party has received notice sufficiently in advance of such meeting or special tribunal hearing or (iii) for the review meeting or special tribunal to give its response, the Government shall be liable to the penalty provided in regulation 11.

11. The penalty referred to in regulation 10, shall be an entitlement of a holder of a petroleum right to deduct from any rent payable under these rules ten thousand rupees per

[4] To fix the positions after discussion with the DGPC.

day of delay, up to a maximum of one hundred thousand rupees. In the event the grievance relates to more than one petroleum right the said penalty shall be equally divided amongst the holders of such petroleum rights. A summary of any such penalties arising in a quarter shall be sent by the DGPC to the Ministry of Finance and be made available, on a non-confidential basis, to any party on request, on payment of a reasonable fee. 12. The Government may issue guidelines, to be reviewed from time to time, in relation to any aspect of these regulations. Such guidelines may include procedures, such (a) as the format of documents to be filed for the appeal or (b) provision for nominal costs of appealing to the special tribunal or (c) costs for abuse of the review and appeal process. Availing of the remedies under these regulations are without prejudice to a party's rights under any other provision of law or contract.	
General note: In making any amendments to the 2001 Rules, it may be also provided that such amendments would be prospective and any right, benefit, obligation or burden arising prior to the amendments would have vested and not be liable to change.	

ANNEXURE 8: PAKISTAN PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 1986 (REDLINE VERSION)

The Gazette of Pakistan

EXTRAORDINARY
PUBLISHED BY AUTHORITY

ISLAMABAD, Saturday, September 20, 1986

PART II

Statutory Notifications (S.R.O.)

GOVERNMENT OF PAKISTAN

MINISTRY OF PETROLEUM AND NATURAL RESOURCES

NOTIFICATION

Islamabad, the 14th September, 1986

S.R.O. 865 (I)/86. In exercise of the powers conferred by Section 2 of the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act 1948 (XXIV of 1948) the Federal Government is pleased to make the following rules, namely:

PART I

GENERAL

1. **Title and commencement.-** These Rules may be called the Pakistan Petroleum (Exploration and Production) Rules, 1986, and shall come into force on the **14th September, 1986.**

2. **Interpretation.-** In these Rules and in every permit, licence and lease issued hereunder unless there is anything repugnant in the subject or context:

   (a) "Director General, Petroleum Concessions" means any officer or authority appointed by the Government to exercise the powers and perform the functions of the Director General, Petroleum Concessions, under these Rules.

   (b) "Discovery area" means an area, within the area of a holder's

Petroleum right, which encompasses the accumulation of Petroleum in a geological entity limited by lithological boundaries, structural boundaries, the contact zone between Petroleum and the limiting water level, or a combination thereof, and so that the Petroleum included everywhere is in pressure, fluid or gas communication.

(c) "Government" means the Federal Government of Pakistan.

(d) "Market value" means the value of the Petroleum as determined pursuant to rule 38.

(e) "Ministry" means the Ministry for the time being in charge of Petroleum affairs.

(f) "Petroleum" means all liquid and gaseous hydrocarbons existing in their natural condition in the strata, as well as all substances, including sulphur, produced in association with such hydrocarbons, but does not include basic sediments and water.

(f-A) "petroleum concession agreement" or "PCA" means an agreement entered into pursuant to these rules between the President and a company or companies for the purpose of exploration and development and production of petroleum;

(g) "Petroleum right" includes a permit, licence ~~and~~ or lease issued under these Rules.

(h) "PRESIDENT" means the PRESIDENT of Pakistan.

(i) "Wellhead value" means the market value of the Petroleum less gathering, processing, treatment and transportation costs from the wellhead to the place at which the market value is determined, and in the case of natural gas shall also include compression, dehydration and liquefaction costs.

3. **Division of area.-** Any area of Pakistan, including its territorial waters, exclusive economic zone and historic waters, may be divided into blocks of size and shapes determined by the Government.

4. **By whom applications may be made.-** Any company whether incorporated inside or outside of Pakistan may apply in accordance with the Rules for:

(a) a reconnaissance permit hereinafter referred to as permit;

(b) an exploration licence hereinafter referred to as the

licence;

(c) a development and production lease hereinafter referred to as the lease.

5. **Manner in which application may be made.-** (1) Every application shall be made in writing in the form set out in the first schedule hereto or as otherwise directed by the Government, addressed to the Director General, Petroleum Concessions. Every application shall be entered in the register to be maintained by the Director General, Petroleum Concessions. The register shall be in such form as may be prescribed by the Ministry and shall be open to inspection.

(2) The application shall state the nature of and the principal place of business of the company, the authorized, subscribed and paid-up capital of the company, the names and nationality of the directors thereof and the names and holdings of the principal shareholders.

(3) With every application there shall be deposited:

(a) a fee of Rs.10,000 if the application is for the grant, extension or renewal of a permit;

(b) a fee of Rs.20,000 if the application is for the grant, extension or renewal of a licence; and

(c) a fee of Rs.40,000 if the application is for the grant, extension or renewal of a lease.

(4) To the application there shall be attached 15 copies of the map upon which shall be delineated the boundaries of the areas in respect of which a Petroleum right is applied for. The map shall be taken from the relevant Survey of Pakistan map of appropriate scale. If the area is identified by a block system as referred to in rule 3, a reference to the relevant block number is sufficient.

(5) The applicant shall with his application furnish evidence as to his financial and technical qualifications and as to his ability to conduct the activities under the relevant Petroleum right in accordance with the highest standards of the international Petroleum industry. The applicant shall forth with upon request furnish further evidence relating to such matters and if such further evidence shall not have been furnished to the satisfaction of the Director General, Petroleum Concessions within three months of the request therefor, the application shall unless the Director General, Petroleum Concessions otherwise determines, be deemed void.

5(3). Included that the fee would apply in the event of any application for an extension. Rationale being that with greater funds being received by the DGPCs office additional resources can be engaged for expeditious review.

It is recommended that in the future the fee for grant of a lease is separated from renewal and the fee for a grant be substantially increased (perhaps Rs.1m) and the greater fee be used to enable the DGPC to justify engaging a technical officers to review development plans.

5(4). DGPC to advise if fifteen copies required?

	(6) The applicant shall with his application furnish an undertaking that he will abstain from all political activities whatsoever affecting the sovereignty or security of Pakistan or such as may be tantamount to interference in its internal affairs and that especially he will eschew all espionage. (7) The applicant shall furnish such other information as the Government may specify till the grant of the right.	
6.	**Separate application to be made for each area.-**(1) If an applicant seeks a Petroleum right over two or more areas which are not contiguous, the applicant shall apply for separate Petroleum rights over each such area, unless otherwise permitted by the Government. (2) Nothing in these Rules shall prevent more than one Petroleum right being granted to the same applicant.	
7.	**Several holders.-** If a Petroleum right is held by two or more companies, they shall be liable jointly and severally towards the Government for obligations and liabilities, resulting from their activities pursuant to the Petroleum right. The companies shall, subject to the approval of the Government, appoint one of them to be the operator on behalf of the companies. No change in such appointment shall be made without the Government's approval.	7. Suggested change is so that operator may perform an obligation under a rule on behalf of right holders. 7-9. See proposed new Rule 74A, wherein SOPs are to be prepared for Rules 7-9.
8.	**Petroleum right not assignable without consent.-** A Petroleum right or any participating share therein shall not be assigned without the previous consent in writing of the Government.	
9.	**Method of making applications for assignments.-** An application by the holder of a Petroleum right for consent to the assignment of a Petroleum right shall be made in writing addressed to the Director General, Petroleum Concessions, and shall be accompanied by a fee of Rs. 5,000. With the application, the applicant shall furnish the like particulars in respect of the proposed assignee as are required to be furnished in the case of applicants for a Petroleum right.	
10.	**Discretionary grant of Petroleum right.-** Subject to rules 21, 22 and 27, the grant of a Petroleum right, extension or renewal thereof is always at the discretion of the Government.~~,which shall never be obliged to give any reason for the grant of, or refusal to grant a Petroleum right.~~	10. Recommended to add "extension" to avoid any suggestion that r.10 only applies to grant and renewals.

Delete latter part of rule as r.74 introduces requirement to give reasons.

11. **Lapse of entitlement to Petroleum right.-** If a Petroleum right is not executed within three months after approval of the application by the Government has been conveyed to the applicant, the entitlement of the applicant to such Petroleum right shall be deemed to have lapsed, unless the Government considers that the delay is not attributable to the fault of the applicant.

12. **Surrender of Petroleum right.-** (1) Subject to the terms of the PCA, ~~A~~a holder of a Petroleum right wishing to surrender ~~his~~ its right shall give the Director General, Petroleum Concessions, three months' notice of ~~his~~ its intention to do so, and if the holder fulfills all ~~his~~ its obligations under the Petroleum right, including the obligations pursuant to rule 69 or if applicable pays liquidated damages pursuant to in rule 25, ~~he~~ it shall on the expiry of the notice subject to sub-rule (2) be entitled to surrender the ~~his~~ Petroleum right ~~in whole or in part~~. On so doing a holder of a ~~lease~~ petroleum right shall not be obliged to pay rent for the remaining period of the lease.

(2) In case more than one company holds a petroleum right and less than all the companies wish to surrender the right, reasonable opportunity shall be provided to the other company or companies to acquire (as provided in sub-rule (3)) the interest from the company or companies wishing to surrender. Provided such opportunity is given and demonstrated to the DGPC and subject to the terms of the relevant PCA and these rules, a licence/lease may be surrendered in its entirety by less than all the companies which hold such petroleum right by giving notice as provided in sub-rule (1). In the event more than one company wishes to acquire the interest of a company which wishes to surrender its interest, such surrendered interest shall be offered to each on a *pro rata* basis.

(3) Except as the companies may agree otherwise, any opportunity to be given to acquire an interest under sub-rule (2) shall be without charging for such interest and in the event there is any outstanding minimum work obligation, the transferring party, wishing to surrender, shall pay to the acquiring party or parties a proportionate share of liquidated damages which could then have been charged at that time pursuant to rule 25, based on its participating interest.

12. Objective to provide more clarity on an individual company surrendering.

The Model PCA and JOA need to be improved such that where a Working Interest Owner opts to take an interest then there is a certain time within which such assignment must take place or else surrender will happen.

13. **Submission and publication.-**

(1) Application for a Petroleum right may be submitted, either:

(a) at the initiative of the applicant, or

(b) on the basis of an invitation from the Government to submit competitive bids.

(2) In the latter case, a notice containing the terms for competitive bidding may be published in such national or foreign publications as the Government may determine.

(3) Notice of the grant, surrender, termination and assignment of a Petroleum right shall be published in the Gazette of Pakistan.

14. **Terms and conditions of a Petroleum right.-** Every permit, licence and lease shall, subject to such modifications as may be made by the Government, be in the form set out in Parts I, II and III, as the case may be, of the Second Schedule hereto and shall include such additional clauses relating to ancillary matters as the Government may deem fit to insert.

15. **Guarantees.-** The Government may require the holder of a Petroleum right to furnish, in form and substance acceptable to the Government, a guarantee or guarantees (which, if the Government so agrees, may be a parent company guarantee) in respect of the obligations and liabilities of the holder.

PART II

RECONNAISSANCE SURVEYS

16. **Reconnaissance survey.-** The Government may grant a permit to any company to carry out reconnaissance surveys over such areas and on such terms and conditions as it may determine in each case but always upon the following conditions, namely:

(a) the grant of the permit does not imply that the holder shall be entitled to the grant subsequently of a licence over the areas covered by the permit;

(b) at the conclusion of the survey, the holder may apply for a licence in accordance with the Rules, but shall not be entitled to claim a relaxation of any rules laid down in these Rules for the grant of licence applied for by him;

(c) unless otherwise stipulated in the permit, the holder shall

have the non-exclusive right to undertake, within the designated areas, Petroleum reconnaissance by such geophysical, geological, geochemical and geotechnical methods and such other related work including shallow drilling (i.e. not more than 200 meters) as are stipulated in the permit;

(d) within six months of the date of the completion of the survey, the holder shall make available to the Director General, Petroleum Concessions, a complete report of the survey together with a copy of all the maps, plans, graphs and magnetic tapes and related data as well as any other data made or collected in the course of the survey;

(e) the holder shall abide by all instructions which the Director General, Petroleum Concessions, may issue regarding the use of maps, plans, graphs and other data made or collected by the holder in the course of the reconnaissance survey;

(f) the permit is valid for a period of one year and may at the discretion of the Government be renewed for a period of up to one year;

(g) a permit does not extend to areas already covered by a licence or a lease unless otherwise specified by the Government pursuant to rule 63(1);

(h) a licence or a lease may be granted at any time for any part of an area covered by a permit;

(i) the holder of the permit shall perform the programme of work stipulated in the permit with due diligence.

PART III

LICENCE FOR PETROLEUM EXPLORATION

17. **Grant of licence.-** The Government may grant an exclusive Petroleum exploration licence over any area and on such conditions as are specified therein, including other terms and conditions as the Government may determine.

18. **Size of area.-** A licence shall not be granted in respect of any area more than 2,500 sq.km. In special circumstances, the Government may, at its discretion, grant an area up to 7,500 sq. km. in case of offshore or onshore area provided that the Licensee offers a work programme commensurate with the size of the area.

19.	**Shape of area.-** Each separate area in respect of which a licence is granted shall be, so far as possible, compact and bounded by straight lines. In the case of on-shore areas, they shall be marked with permanent physical boundaries.	
20.	**Rights and obligations of licence holder**.- (1) Subject to the provisions of rule 63(1) the licence gives the holder the exclusive right to undertake, within the licence area, all activities related to reconnaissance and exploration, including drilling, for Petroleum. The holder of the licence is not entitled to extract any Petroleum from discoveries other than such test production as the Government may in its discretion permit.	
	(2) The holder must perform the work programme stipulated in the licence for initial term and any extension or renewal. The work programme will contain the number of wells to be drilled, the depth and time within which they must be drilled, and, where appropriate, the seismic work to be performed, as well as any other matter that may be relevant.	20(2). Widened the scope of sub-rule (2) to make r.25 more efficient.
21.	**Period.-** (1) The initial term of a licence shall not exceed three years.	
	(2) The Government may, subject to the terms of the licence, grant up to three renewals in on-shore areas and up to five renewals in offshore areas. The term of each renewal shall be one year. Prior to the first renewal the holder of a licence shall relinquish at least 50 per cent of the initial licence area, unless otherwise stipulated in the licence. A holder desiring to obtain such renewal must make an application at least three months before the expiry of the licence.	
	(3) A holder shall be entitled to renewal as aforesaid if he:	
	(a) has complied with the work programme and all other obligations under the licence; and	
	(c) has committed himself to drill the well or wells specified in the licence during the renewal period to the depth specified therein.	
	(4) Notwithstanding anything contained in sub-rule (1) or (2), upon a written request of a holder, the government may, on a case to case basis, extend the term of the licence based on technical considerations or revise the co-ordinate of the area covered under the licence provided that the geological structure extends into a free area.	21(4). The enlarged area should not be permitted to be greater than what is provided in r.18.

	(5) (a) In the event a holder of a licence has applied for an extension or a renewal, prior to the expiry of a licence, the licence shall be deemed extended until approval is given or denied, (b) If approval for the renewal or extension is granted, the renewal or extension applied for will be effective from the date of approval or the term was to expire, whichever is later, unless such application was made less than three months prior to the expiry of the licence, in which case it will be effective from the date the term was to expire. (c) If a holder of a licence applies for an extension or renewal within three months after the licence has expired, the Government may, on a case to case basis, still approve such application, provided the holder of a licence pays a penalty of five hundred thousand rupees per day after the expiry, without prejudice to any obligation to pay liquidated damages. Pending decision of the Government to such an application the licence shall be deemed extended and if approval is given the renewal or extension shall be effective from the date the term was to expire. (d) Rent, as provided in rule 26, shall be payable for any deemed extended period provided in sub-rules (a) or (b), unless an application for renewal or extension is made at least three months prior to the expiry of the licence, in which case no rent shall be payable for such deemed extended period. Any such rent for such period shall not be payable again on account of the renewal or extension being effective from the date the licence was to expire. Rent shall be payable on a *pro rata* basis for any part of the extended period not being a complete year.	21(5)(a). Is to "legalise" the period when a licence may have expired but is awaiting approval to a renewal or extension application. 21(5)(b) & (d). Is to incentivise companies to make applications for extensions and renewals in a timely fashion. 21(5)(c). Is to facilitate late applications
22.	**Renewal for appraisal and evaluation.-** (1) A holder of a licence having made a discovery of Petroleum and having complied with the work programme and his other obligations shall be entitled to renewal of the licence for the purpose of appraising the discovery. The renewal shall only apply to the discovery area~~. The holder shall perform such additional work as the Government, after consultation with the holder, may specify.~~ (2) The renewal period shall be: (a) One year, in the case of discoveries on land; (b) up to a maximum of two renewals, one year each time, in the case of offshore discoveries in waters of less than 200m depth; or	22. Intention is to reduce the need for DGPC involvement on what is a commercial exercise, which the companies are best placed to manage.

(c) up to a maximum of three renewals, one year each time, in the case offshore discoveries in waters of 200m depth or more.

23. **Extension pending grant of lease.-** If the holder of a licence before the expiry of the licence has applied for a lease, the duration of the licence shall be extended until the lease has been granted or refused.

24. **Declaration of commerciality-relinquishment.-** (1) After having finalized the necessary appraisal and delineation work, the holder of a licence may issue a declaration to the Government stating that he considers a deposit as commercial. Prior to or upon issuing the declaration, the holder must submit a report in accordance with rule 52(d). Upon issuing such a declaration, the holder is obliged to apply for the grant of a lease in respect of the discovery area.

(2) The grant of a lease prevails over the licence within the area designated in the lease, but the licence continues to be valid outside such lease area without modifying the rights and obligations pursuant to the licence. In the event of a licence continuing to be valid beyond the term of a lease, or on any part of the area of a lease being reduced, the licence shall automatically again extend over such lease area, provided such area or areas are contiguous with the remaining licence area and further provided that the total area of licence does not exceed the area provided in rule 18, less any reduction required under rule 21(2).

24(2). It may be (although unlikely) that a lease, or parts of a lease, could expire/be relinquished while a licence is continuing. In such an event, it should revert back to the licensee, provided the area is joined with the licence.

(3) Upon termination of the licence, the holder must relinquish all areas of the licence except those areas covered by a lease issued to him.

25. **Work Programme not fulfilled.-** (1) If, upon the surrender, revocation or the expiry of a licence, the obligations pursuant to sub- rule (2) of rule 20 or rule 22 are not fulfilled, the holder shall either:-

(a) pay to the Government such sum by way of liquidated damages which correspond to the minimum expenditure of undischarged work obligation as set forth in the licence within a period of thirty days from the surrender, revocation or expiry of the licence; or

(b) ~~request the Government, to allow~~ transfer ~~of~~ undischarged work obligation committed under rule 20 to another area with the approval of the Government if it is demonstrated

25(1)(b). Further clarity was required on transferring a work

to the satisfaction of the Government that there is no drillable prospect in the licence area. ~~Such transfer shall be subject to such terms and conditions as may be specified by the Government on a case to case basis.~~ In the event that a petroleum right is held by more than one company, the undischarged work obligation shall be monetized, based on liquidated damages obligations and divided between the companies in accordance with their interests in the right. Any company not transferring a work obligation to an area of its shall pay its pro rata share of liquidated damages, without prejudice to rule 7.	obligation.
(2) In case the liquidated damages payable pursuant to clause (a) of sub-rule (1) are not paid or the transfer of undischarged work obligation to any other area(s) pursuant to clause (b) of sub-rule (1), is not approved, the Government may, in addition to any other action or remedy including black listing of the holder, cancel a lease granted to the holder in respect of any area comprised within the area of the licence which has been surrendered, revoked or expired.	
26. **Rent.-** (1) The holder of a licence shall for each square kilometer or part thereof comprised in the licence area pay to the Government rent at the following rates:	
(a) in respect of the initial term of the licence Rs.1250	
(b) in respect of each renewal or year of extension Rs.2500	26(1)(b). Widened to include rent for extensions.
(2) The rent shall be paid in advance of the period to which it relates; provided that for the initial term, the rent may be paid annually in which case the rate for each square kilometer or part thereof shall be four hundred and seventeen rupees.	
(3) Notwithstanding any provision of ~~A~~a licence, ~~may include provision for annual adjustment of the~~ rent shall be adjusted as provided for in rule 71(2) and not any adjustment clause in a licence ~~due by reference to an appropriate index~~ so as to ensure that the rent retains its value in real terms.	26(3). It is recommended that all rents are harmonized, regardless of vintage of PCA. Obviously this could only apply if the Rule changes were opted for.
PART IV	
LEASE FOR PETROLEUM DEVELOPMENT AND PRODUCTION	
27. **Grant of development and production lease.-**	
(1) The Government shall on being satisfied that the deposit	

	can be commercially produced, and that the terms and conditions of the licence, including the work programme, have been duly observed and performed, or that the holder is in satisfactory progress with the work programme, grant a leasein respect of discovery area within the licence area granted to the applicant under these rules.	
	(2) In the event that any part of a discovery area extends beyond the lease into an open acreage, the Government may upon being satisfied that the discovery area extends into such open acreage and subject to such conditions as deemed necessary, readjust the subsisting boundaries of the lease so as to include such part of the open acreage on which the discovery area extends.	27(2). Including provision to permit changes to lease area.
28.	**Rights of lease holder.-** The lease gives the holder an exclusive right to perform activities in connection with the development and production of Petroleum in the area covered by the lease, including the right to undertake transportation of Petroleum, subject to approval pursuant to rule 34.	
29.	**Size of development area.-** The size of any development area shall be sufficient to efficiently develop and produce all Petroleum within the discovery area, but shall not exceed an area of more than 125 sq. kilometers save in cases where special exemption is granted by the Government.	
30.	**Shape of development area.-** Each separate area in respect of which a lease is granted shall be laid out in a block or blocks bounded by straight lines between well defined points. In the case of on-shore areas, they must also be marked with permanent physical boundaries.	
31.	**Survey expense of applicant.-** Before a lease on land is granted by the Government the applicant shall, if so requested by the Government, at his own expense cause a topographical survey of the land specified therein to be made to scale normally required for Petroleum exploration purposes, and approved by the Survey of Pakistan, and submit 6 copies thereof to the Government.	31. Govt to advise if a topographical map is always required and what would be Survey of Pakistan approval.
32.	**Period.-** (1) The lease shall be for the period for which application has been made but not exceeding twenty five years in respect of the on-shore areas of Pakistan and up to thirty years in respect of the offshore areas. Upon application from the holder,	

the Government may renew the lease for a period, not exceeding five years, if commercial production is continuing at the time of the application. (2) In the event the lease is initially granted for a period of less than 25 years in respect of on-shore areas or 30 years in respect of offshore areas, the same may be extended from time to time, such that the total overall period of lease does not exceed 25 or 30 years, respectively, provided commercial production continues.	32(2). Making provision to extend a lease up to the initially permitted maximum.
32A. **Further renewal or re-grant of lease after expiry of lease term.-** (1) Effective from the end of a lease period, the DGPC may renew a lease for up to a further five years, provided commercial production is continuing, an addendum to the development plan acceptable to the DGPC is provided and the lease holder agrees, at least one year prior to the expiry of the lease period, to pay 15% of wellhead value of petroleum produced to the Government, after the effective date of such renewal. (2) If there is no such renewal, or following expiry of such a renewal, the DGPC may invite bids from companies for the re-grant of the lease over the same, or substantially the same area as the expiring lease, for a term of ten years or such lesser period for which commercial production is expected to continue. The bids shall be evaluated on the basis of a development plan and signature bonus. The DGPC may keep re-granting a lease, in a similar manner as long as production is continuing. (3) Each bidder shall provide a bid bond of ten per cent of the offered signature bonus at the time of bidding along with a development plan.	32A. Provision to further extend leases.
33. **Development plan.-** (1) Together with the application for a lease, the holder shall enclose a general plan for development and production of the Petroleum deposit or deposits. The application shall contain such information as the Government shall prescribe by way of procedures provided for in rule 73A ~~may deem necessary~~, including: (a) a development plan comprising the design and location of production and transportation facilities and installations, including pipelines and storage installations as well as plans for the progress of the work; (b) investment plans; (c) a projected production and sales profile for the life of the deposit(s);	33(1). A framework for what is to go in to a Development Plan should be given as it will make the preparation easier for companies and review-process easier for the DGPC. 33(1)(c). Recommended that sales profiles also be provided.

(d) a description of the organization which the holder has available for the fulfillment of his obligations, pursuant to rule 35; and

(e) a report on the measures proposed to be taken in the interests of safety of the operations and protection of the environment.

(2) In the case of a discovery on land, the plan shall include, as a minimum, the drilling of one well per year to the reservoir depth until the field is fully developed.

(3) The plan requires the approval of the Government. Such approval will not be unreasonably withheld or delayed.

(4) After approval of the plan, the lease holder shall carry out development and production substantially in accordance with the plan, subject to such modifications which may be necessary from time to time.

34. **Transportation of Petroleum.-** (1) Subject to approval in accordance with this rule, the holder of a lease has the right to lift and transport Petroleum from the lease area, either through transportation facilities owned wholly or partly by himself or through access to transportation facilities owned by a third party. Such approval will not be unreasonably withheld or delayed.

(2) The holder must submit an application comprising the proposed organization and/or implementation of the transportation system. In case of pipeline transportation, the application shall also comprise the design, construction and route plans.

(3) The Government may, on giving its approval, stipulate such conditions as are reasonable and necessary to secure a rational transportation of Petroleum. The Government may, for example:

(a) require that several lease holders install jointly-owned transportation facilities; and

(b) grant to any third party access to transportation capacity at tariffs to be approved by the Government.

35. **Organization of lease holder in Pakistan.-** An operator performing activities pursuant to these Rules shall have an organization in Pakistan with sufficient competence and capacity to conduct the activities. After approval of the development plan, development and production activities pursuant to the lease shall

be performed from a base in Pakistan.

36. **Royalty.-** (1) Subject to the payment of such additional amount by way of royalty as may be specified in any agreement with the Government to which the holder of the lease is a party, the holder shall pay a royalty at the rate of 12.5 per cent of the wellhead value of the Petroleum produced and saved.

(2) Royalty is payable monthly within 10 days of the expiry of the calendar month in question.

(3) From the amount of royalties payable in respect of any one year of the term of a lease, there shall be deducted the amount of yearly lease rent actually paid in respect of that year pursuant to rule 39.

37. **Royalty in kind.-** (1) The Government may, with six months' notice, decide that royalty according to rule 36 shall, wholly or partly, be satisfied in kind. In such case the holder shall at the request and at the cost of the Government arrange for transportation, treatment, storage of the royalty Petroleum and such other activities related thereof as the Government may reasonably require, in the same manner as if it were his own Petroleum.

(2) The Government shall lift or take royalty Petroleum in a timely manner and in accordance with such lifting or sales agreement as may have been agreed.

38. **Value of Petroleum.-** For the purpose of calculating the amount due by way of royalty, the value of Petroleum shall be:

(a) in the case of Petroleum delivered to the national market pursuant to rule 41 the price actually realized in such sales;

(b) in the case of Petroleum not sold pursuant to rule 41 the international market price determined in such manner as the Government, subject to the terms and conditions of any agreement between the PRESIDENT and the lessee, may, from time to time, determine.

39. **Yearly lease rents.-** (1) The lease holder shall pay to the Government annually in advance, rent at the rate of Rs.6250 per square kilometer or part thereof of the lease area.

(2) Notwithstanding any provision of a ~~A~~ lease,~~may include provision for annual adjustment of the~~ rent shall be adjusted as

39(2). It is recommended that all rents are harmonized, regardless of vintage of PCA. Obviously this could only apply if the

	provided for in rule 71(2) and not by any adjustment clause in a lease ~~due by reference to an appropriate index~~ so as to ensure that the rent retains its value in real terms.	Rule changes were opted for.
40.	**Surface rent.-** The holder of a lease shall pay for all land which he may use or occupy for the purposes of the operations conducted under the lease, a surface rent at the rate assessable under the revenue and rent law in the district in which the land is situated and water rates, if any, ordinarily assessable under any irrigation rules if the land has not been occupied for the winning of Petroleum. If no such rent is assessable under the laws of the district, the rate may be fixed by the Government subject to a maximum of Rs.2000 per sq. kilometer.	
41.	**Deliveries to the national market.-** (1) the Government may decide that the holder shall deliver Petroleum from the production to cover the requirements of the national market for Petroleum. The national market for Petroleum shall for this purpose mean the total market requirements, less Petroleum produced by or otherwise available to the ~~Oil and Gas Development Corporation~~ Government from Pakistani Petroleum fields~~, and less Petroleum which the Government may take as royalty in kind~~. The holder shall deliver the Petroleum at such place or places in Pakistan as the Government may reasonably direct at the Government's cost unless otherwise agreed and subject to sub-rule (3). (2) The foregoing provision shall apply to all holders producing Petroleum as far as practicable, pro-rata to their production. Each holder's obligation may be fulfilled directly or by means of swap arrangements approved by the Government. (3) The Government may also decide that the holder shall arrange and pay for adequate transportation of crude oil which it has thus ordered to be delivered up to the distance to the nearest operating refinery in Pakistan. (4) Unless otherwise agreed between the President and the lessee, the price to be paid for Petroleum to be delivered pursuant to this rule shall be such price as may from time to time be determined by the Government.	
42.	**Measurement of Petroleum:-** (1) The lease holder shall measure or weigh by a method or methods customarily used in good Petroleum industry practice and from time to time approved by the Director General, Petroleum Concessions, all Petroleum won and saved from the lease area. (2) The Director General, Petroleum Concessions, or any	

Officer authorized by him, shall, at all time during the terms of the lease or any renewal thereof, be entitled to inspect the measuring or weighing appliances and to be present whenever such a measurement or weighing takes place.

(3) If any measuring or weighing appliances shall at any time be found not to be correct, the same shall, if the Director General, Petroleum Concessions, so determines after considering any representations in writing made by the holder, be deemed to have existed in that condition during the period of three months prior to the discovery thereof or the period elapsed since the last occasion upon which the same was examined or tested, whichever shall be the less. The royalties payable in respect of such period shall be adjusted accordingly.

(4) The holder shall not make any alteration in the method or methods of measurement or weighing used by him or any appliances used for that purpose without first informing the Director General, Petroleum Concessions. The Director General, Petroleum Concessions, may in any case require that no alteration shall be made save in the presence of an officer authorized by him.

43. **Revocation of lease.-** (1) The lease may be revoked if regular, commercial production has not commenced within five years from the grant of the lease, or within seven years in the case of an offshore field. The lease may also be revoked if production has terminated for more than 90 days, unless this is due to force majeure.

(2) In the event, a holder of a lease is found to have contravened sub-rule (1) the Government may issue a ninety days' notice requiring the holder of a lease to remedy the breach within the notice period failing which the Government may impose a fine or revoke the lease, or both, unless a plausible justification is provided by the holder of a lease and accepted by the DGPC.

43(2). Intention is to ensure the right holder receives due notice and also the Government is given an additional option to impose a fine and not just revoke.

PART V

ACCOUNTS, RECORDS, INSPECTION, REPORTS

44. **Keeping of accounts.-** The holder of a licence or lease shall maintain full and accurate accounts. Original copies of all financial books, records and registers shall be kept in Pakistan, unless otherwise agreed by the Director General, Petroleum Concessions. The Director General, Petroleum Concessions, and other Pakistani authorities concerned shall have the right to receive a certified copy of any such books, records and registers, whether the original is kept inside or outside Pakistan.

45. **Well records.-** (1) The holder of a licence or lease shall keep accurate records of the drilling, deepening, plugging, completion, recompletion, sidetracking, testing or abandonment of all wells containing particulars of the following matters with respect to each well:

(a) the strata and subsoil through which the well was drilled;

(b) the casing inserted in any well and any alteration to such casing;

(c) any Petroleum and other reservoir fluids, or workable minerals encountered; and

(d) such other matters as the Director General Petroleum Concessions may from time to time require.

(2) The holder shall deliver copies of the said records to the Director General, Petroleum Concessions, as and when required by him.

46. **Production records.-** The holder of a lease shall keep full and correct records which shall contain accurate entries of:

(a) the gross quantity of Petroleum won and saved from the lease area;

(b) the method and results of tests made on the Petroleum;

(c) the quantity of Petroleum delivered in Pakistan and/or exported;

(d) the quantity of Petroleum used for reinjection, flaring, drilling or other operational purposes;

(e) the quantity of Petroleum sold, the name of the purchaser and the price at which it has been sold;

(f) the quantity of natural gas treated in Pakistan for the removal of natural gas liquids and liquefied Petroleum gases and the quantity of any liquids or gases or any solids obtained from it; and

(g) such further particulars and statistics as the Director General, Petroleum Concessions, may from time to time reasonably require.

47. **Data to be property of Government.-**(1) All data, wells logs, maps, magnetic tapes, cores, samples and any other geological and geophysical information obtained by the holder of a licence or lease as a result of his activities under the licence or lease shall be the property of the Government subject to the right of the holder to use such data for the purposes of the petroleum right. The holder shall submit all of the aforesaid data and information as soon as it has become available to him. The holder may, during the subsistence of the licence or lease, after prior intimation to the Government, disclose all or any part of the aforesaid data to a third party, provided that before disclosure of the data, such party executes an appropriate confidentiality agreement drawn up in accordance with the standard international industry practice.

(2) All data and information referred to in sub-rule (1) obtained by the holder of a permit, as a result of his activities under the permit, shall be his property, but the Director General, Petroleum Concessions, shall be entitled to receive a copy thereof as soon as it has become available to the holder.

(3) All processed geophysical information referred to in sub-rule (1) and (2) above shall be submitted to the Director General, Petroleum Concessions, on transparent, dimensionally stable material.

(4) Information and data as mentioned in this rule shall be kept confidential by the Government for a period of three years from the date the data is submitted to it under sub rule (1), with the following exceptions:

(a) information disclosed to other Pakistani authorities, to financial institutions or to consultants of the Ministry if they are bound to keep it confidential;

(b) information required for general statistical purposes;

(c) upon the earlier termination of a permit or lease, or upon the date of relinquishment of the area to which the information relates; and

(d) all raw well data including well logs may be disclosed by the Government to any interested party after two years of completion of a well to which such data relates.; and

(5) Notwithstanding anything contained in these rules, the data in the possession of the Government in respect of a surrendered or relinquished area of a permit, licence, lease and any free adjoining area may be released by the Government to a holder or

	to an organization engaged in Petroleum exploration and research, on the ~~actual~~ reproduction ~~and other~~ costs of the data and on such terms and conditions as it may determine.	
48.	**Power to inspect plants, records, accounts etc.-** (1) Any person or persons authorized by the Director General, Petroleum Concessions, or by any other competent authority in Pakistan shall be entitled at all times: (a) to examine the wells, plants, appliances, buildings and works made or executed by the holder of a Petroleum right and the state of repair and condition thereof; (b) to inspect, check and make abstracts or copies of any logs, records, measurements, plans, maps or accounts which the holder of a Petroleum right is required to keep or make; (c) to inspect the samples of strata, Petroleum or water which the holder of a Petroleum right is required to keep; and (d) to execute any works to which the Director General, Petroleum Concessions, may be entitled. (2) The holder of a Petroleum right shall grant access for such inspectors to all temporary and fixed installations or other facilities or sites. Further, such inspectors shall have access to all information and data concerning the operations and shall in the case of offshore operations be provided by the holder with free transportation to and lodging in the offshore area as required to carry out their duties efficiently.	
49.	**Annual reports.-** (1)The holder of a licence or lease shall each year submit to the Director General, Petroleum Concessions, reports containing the following particulars; (a) a financial statement with an abstract of the accounts, prepared in accordance with accounting principles generally accepted in the Petroleum industry and audited by a recognized firm of chartered accountants approved by the Director General, Petroleum Concessions; (b) a description of all exploration, development, production and other work carried out by the holder during the year relating to the licence or lease area; (c) estimates of economically recoverable reserves of	49. and 50. The necessity for the various reports, including annual and monthly reports, may be revisited by the DGPC. However, no change is proposed at this time, except perhaps to rule 50 to make "Monthly" reports "Quarterly".

Petroleum at the end of that year, classified on the basis of good international petroleum industry practices~~.~~ as per standard format notified by DGPC; and (d) estimates of Petroleum production and exports for each quarter of the next two years. (2) The report referred to in sub-paragraph (a) above shall be submitted within three months and the other reports within 45 days after the year to which they relate.	
50. **~~Monthly~~Quarterly reports.-** Within five days after the end of each ~~month~~ quarter each holder of a Petroleum right shall prepare and deliver ~~a monthly~~ progress report to the Director General, Petroleum Concessions, which shall contain a narrative report of activities with plans and maps showing the places where work was done. Such report shall also contain: (a) a summary of all geological and geophysical work carried out; (b) a summary of all drilling activity and results obtained; and (c) a list of maps, a list of reports and a list of other geological and geophysical data prepared in connection with the activities.	50. Rationale is to reduce the frequency by which all reports are given. Additional reports overburden contractor and unnecessarily have to be reviewed and stored at the DGPC.
51. **Daily reports.-** During drilling of a well, each holder of a licence or lease shall provide to the Director General, Petroleum Concessions, copies of his daily well report.	51. DGPC to consider if reports need to be daily or if weekly would suffice (if required at all).
52. **Occasional reports.-** The holder of a licence or lease shall submit to the Director General, Petroleum Concessions, the following reports: (a) within 24 hours, by email~~telex~~, if a well shows the presence of Petroleum in significant measure or if a drillstem test has been carried out on a well which produces Petroleum; (b) within seven days after the above-mentioned ~~telex~~ report, a written report containing relevant geological information and chemical analysis in the case of a showing of the presence of Petroleum, and in the case of a drillstem test containing the following additional information:	52(a) & (b). It is suggested to bring the Rules into the 21st century and dispense with telex and permit email.

(i) conditions and results of the drillstem test, including but not limited to flow rates, flow periods, tested intervals, pressures, choke sizes, hole condition and stimulation measure;

(ii) physical analyses; and

(iii) any deductions therefrom as to the potential of the reservoir;

(c) within one month after the completion or abandonment of drilling operations, a comprehensive well completion report, which shall contain, inter alia, the lithological groups, stratigraphic boundaries, hydrocarbon zones, a copy of all well logs and tests and other relevant information, provided that such information which cannot be obtained within this period shall be submitted as soon as possible;

(d) at the latest upon the issue of a commerciality declaration, a report which shall substantiate the declaration and contain:

(i) all relevant geological information, including estimates of recoverable reserves and daily production;

(ii) a program for the development of the deposit, including possible alternatives, with a description of the main production and transportation installations envisaged, and the relevant cost estimates;

(iii) calculations of the profitability of the discovery;

(e) within 45 days after the relinquishment or surrender of any part of the licence or lease area such maps, plans, reports, records interpretations, and data made or obtained by or for the holder relating to exploration, development, production and any other operations in the relinquished, surrendered or retained areas, as the Director General, Petroleum Concessions, may require.

(f) from time to time, such other plans and information as to the progress and results of the holder's operation as the Director General, Petroleum Concessions, may reasonably require.

53. **General.-** The reports referred to in this Part V shall be made in such form and contain such further particulars as the Director

General, Petroleum Concessions, may reasonably prescribe. The holder's obligations under this Part V comprise reports whether prepared inside or outside Pakistan, and whether prepared by himself or by others.

54. **Reports of discovery.-** (1) No announcement with respect to a discovery of Petroleum shall be made except by the Government in consultation with the licence or lease holder, or by a holder where required by the law or otherwise with the consent of the DGPC.

54(1). Purpose of this change to allow for announcements which a holder may be legally obliged to make.

(2) No statement shall be made by or with the consent of a holder claiming or suggesting, whether express or by implication, that any Government authority or any person or body active on behalf of the Government has or have formed or expressed an opinion that the licence or lease area is from its geological formation or otherwise likely to contain Petroleum.

PART VI

STANDARD OF OPERATIONS

55. **Safety in operations.-** (1) The activities pursuant to these Rules shall be conducted in a prudent manner and shall not unreasonably obstruct or interfere with other activities such as navigation, fisheries and agriculture. All reasonable precautions shall be taken to prevent pollution or accumulation of trash and to prevent damage to the environment and surroundings.

(2) The Government may establish safety zones around temporary and permanent installations.

56. **Sound production principles.-** (1) All Petroleum development and production activities shall be conducted diligently and in accordance with modern internationally accepted, good oil industry practices. The rate of production from each reservoir shall be the maximum efficient rate needed to achieve the maximum ultimate economic recovery of Petroleum and the various Petroleum reservoirs unless otherwise approved by the Government.

(2) The holder shall not flare any natural gas or use it to create or increase the pressure in the reservoir without the Government's approval.

57. **Prevention of damage to installations and reservoirs.-** All installations and facilities and all wells in the area covered by a licence or lease which have not been abandoned shall be

maintained in good working condition. The holder of the licence or lease shall carry out all operations in accordance with good oil field practice, and shall in particular take all steps practicable in order:

(a) to control the flow and prevent the waste of Petroleum;

(b) to prevent damage to adjoining Petroleum bearing strata;

(c) to prevent the entrance of water through wells to Petroleum bearing strata, except when approved by the Government for the purposes of secondary recovery.

58. **Commencement and abandonment of drilling operations.-** (1) The holder of a Petroleum right shall not commence or abandon the drilling, re-entry, sidetracking, hydraulic fracturing or abandonment of any well without first having obtained the approval of the Director General, Petroleum Concessions. ~~After abandonment, the well shall be safely plugged. The drilling operations shall be conducted in accordance with such instructions as may be given by the Director General, Petroleum Concessions.~~

(2) A holder of a petroleum right shall,-

(a) as soon as possible make known to the DGPC the proposal for testing a well;

(b) test all potentially productive horizons indicated by wire-line recording; and

(c) promptly undertake the technical evaluation of the well testing results and of all other relevant data and submit the same as soon as possible to the DGPC.

(3) For the purposes of sub-rule (1), approval of the DGPC shall be deemed to have been given at the end of the notice period provided in sub-rule (4) unless within such period the DGPC gives reasons why the operation applied for should be varied or stopped. Any approval given or deemed given under this rule shall be without prejudice to any other obligation of the holder of a petroleum right.

(4) For the purposes of sub-rule (3), the "notice period" shall be (a) 14 days from the delivery of a request for approval, save for an exploration well, (b) for the drilling of an exploration well, it shall be 7 days after a reminder request which may not be delivered to the DGPC in less than 14 days of the original request being delivered or (c) for an on-going operation, two working days

58. Changes made to reduce the necessity of involving the DGPC in what ought to be operational matters and not regulatory matters.

from the request being delivered; provided in each case that if the holder of the petroleum right has failed to provide the required technical information for such operation in the standard format, any of the aforesaid periods shall commence from the provision of the required information.

(5) After the completion of all operations, the well shall be safely plugged and the same shall be reported to the DGPC within seven days of the well being plugged.

59. **Shape of relinquished areas.** Areas which are relinquished or surrendered shall be of sufficient size and shape to enable Petroleum operations to be carried out thereon.

PART VII

MISCELLANEOUS

60. **Use of Pakistani goods and services.-** In all activities pursuant to these Rules the holder must ensure the use of Pakistani goods and services to the extent such goods and services are competitive with regard to price, quality, services and schedule of delivery. ~~National producers who are capable of supplying goods and services of the type demanded shall always be included in invitations for tenders and shall be chosen if competitive.~~

60. Second sentence is a repetition of the first.

61. **Employment and training of Pakistani personnel.-** (1) The Government may require the operator of a Licence or a lease employ nationals of Pakistan in his organization at all levels and in all branches including technical and administrative units and to arrange for the training in Pakistan and abroad, of nationals of Pakistan to fill the aforesaid positions. The number of Pakistani personnel to be employed and ~~or~~ trained shall be submitted to ~~will be determined in consultation with~~ the Director General, Petroleum Concessions in accordance with the guidelines that may be issued by the DGPC from time to time. The application for a Licence and the development plan shall contain a description of the measures proposed to be taken by the operator to ensure compliance with this rule, respectively, before and after the implementation of the development plan.

(2) the government may require that the holder shall provide training for Government personnel in order to develop the capability of such personnel to efficiently perform their duties related to the supervision of Petroleum industry. Such training shall cover both technical and management disciplines (e.g.

61. It should be a requirement that the operator favour Pakistani employmt/training, and there should be no guidelines beyond that, except to set out how the report should be structured.

geology, geophysics, engineering, project management, accounting, legal) and shall be in the form of on-the-job training and participation in in-house seminars.

62. **Joint exploration and development.-**(1) If a Petroleum deposit extends across more than one licence or lease area with different holders, the holders shall endeavor to explore and exploit the deposit jointly in the most efficient manner.

(2) The holders of the different petroleum rights shall endeavor to expeditiously agree a ~~j~~joint exploration and development plan~~s~~ or, in case one, or more, of the deposits have~~s~~ already been developed, a joint utilization plan, ~~together with agreements between the holders~~ which shall be submitted to the Government for approval. If the holders fail to reach agreement on such joint plan~~s~~ within a reasonable period, the Government may stipulate the conditions which shall be applied.

(3) If agreement on a joint exploration and development or unitization plan as referred to in sub-rules (1) and (2), is not reached within a reasonable period of time the DGPC shall, on the request of any of the involved holders of petroleum rights, or may itself, by notice in writing to all concerned parties, direct that they finalize and submit for approval of the DGPC a plan within the period stipulated in the notice, which shall not exceed three months.

(4) In the event such plan is not submitted to the DGPC within the stipulated period or such plan has not been approved by the DGPC, either holder may request the DGPC to appoint a consultant to prepare such plan, or, if appropriate, decide first if a deposit does extend from the area of one right holder into that of another, which the DGPC shall do without delay.

(5) The cost of such consultant shall be at the joint cost of the holders of the relevant petroleum rights to be paid as directed by the DGPC. If a holder does not contribute, the cost shall be wholly borne by the other such holder. In such an event, if the reservoir does extend into areas held by the respective holder, the holder which did not contribute shall reimburse the other the whole cost of the consultant thus appointed.

(6) The consultant shall be required to complete the plan within three months of receipt of the data and other information, with any extensions considered reasonable by the DGPC which in any instance shall not exceed a cumulative period of six months. Both parties shall make available all data reasonably requested by the consultant which shall be obliged to enter into a confidentiality

62. This rule has been revised in an effort to make it more robust in the eventuality of fields of different owners being in communication.

	agreement. If a party fails to make such data available in a timely manner, the DGPC shall direct such a party or parties to comply with this request, failing which such party shall be in breach of a material term and shall be subject to rule 68(1)(a). (7) The plan so prepared by the consultant shall be considered by the DGPC and the respective holders, each of whom shall have one month to make written submissions to the consultant. Thereafter, the plan shall be finalized by the consultant and accepted by the DGPC and parties. In the event of a manifest error, the DGPC may, unilaterally or on the request of an affected party, impose such additional conditions as may reasonably be considered appropriate. The final plan shall be binding on the concerned parties. (8) In the event the reservoir does extend into areas held by the different holders of petroleum rights, the respective reserves determinations shall be effective from the date when there was commercial production or EWT production from more than one such area, and consultant shall make recommendations for necessary adjustments on this account in the plan. (9) (a) The reference to "consultant" in rules 62(4), 62(A)(2) and 63(2) shall be to such third party appointed by competitive bidding from three consultants chosen by the DGPC from the list of consultants, provided for in sub-rule (9)(b). (b) The said "list of consultants" shall comprise of six pre-qualified consultants maintained by the DGPC. Each such consultants shall be independent and of an international caliber/repute. The list shall be readily available to any holder of a petroleum right, at any time, on request, which may make observations on any party contained in the list or recommend others for inclusion. Based on such observations and after giving other holders of petroleum rights an opportunity to comment, the list may be changed by the DGPC from time to time. (c) In relation to any bidding process, the involved petroleum right holders shall be given an opportunity of providing input on the bid documents, including terms of reference, evaluation criteria in any communication relating to the bids and the parties shall have the right to be present at the bid opening.	
62(A)	**Petroleum exploration within a lease area:-** (1) A lease holder shall have a preferential right to perform petroleum exploration activities on all horizons underlying the surface area of a lease above or below the sub-surface boundary of the lease ~~area~~	62A(1). To clarify that the exploration would be below the surface area and not below the

~~granted to him~~ provided that, if the Government receives a bona fide offer from a third party to undertake exploration within ~~such~~ the surface area of a lease ~~area~~, (excluding the sub-surface boundaries of the lease), the lease holder shall be given the opportunity ~~have to decide whether or not~~ to match such offer within six months of receiving a notice to this effect from the Government.

lease granted (which would be horizon-specific).

(2) In case the lease holder decides not to match the offer and undertake exploration pursuant to sub-rule (1), and a third party is granted petroleum exploration rights over any of ~~or all~~ the horizons underlying the surface area of a lease ~~area,~~(excluding the sub-surface boundaries of the lease), then such a third party and the existing lease holder shall within ninety days enter into an agreement setting forth the detailed terms and conditions of operating within the surface area of a lease ~~area~~ so that the activities can be coordinated in a just and equitable manner which does not prejudice the interests of the existing holder. In case such an agreement is not reached between the respective holders ~~parties~~ within the time specifie~~s~~d by the Government or such agreement has not been approved by the DGPC, ~~then such items and conditions shall be applicable as may be stipulated by~~ the Government may appoint a consultant to prepare a plan at the joint and equal cost of the parties, which will be binding on the holder and the third party and rules 62(6) and (9) shall apply *mutatis mutandis*. The plan so prepared by the consultant shall enable activities to be coordinated in a just and equitable manner, without adversely affecting the interests of the existing lease holder.

62A(2) Further provisions in the event agreement is not reached.

(3) A licence granted over all or part of area within a lease shall, notwithstanding the terms and conditions of the licence, be deemed to be effective upon the parties concluding the agreement, or the conclusion of the plan referred to in sub rule (2). If no agreement is reached or plan finalized within one year of the grant of such licence, at any time thereafter either the holder of the licence or the Government may terminate the same without any liability or obligation.

62A(3). There ought to be clarity that a licence cannot be effective until an agreement is reached or plan imposed as otherwise it could interfere with an existing lease holder.

~~(3)~~(4) For the purpose of petroleum exploration within a lease area, the provisions of rules 22, 24 and 27 shall apply mutatis mutandis provided that where an existing lease holder makes a new discovery, on such leaseholder's request the provisions of rule 27 shall not be applicable and the existing lease shall be amended to bring the discovery area of such a discovery under the purview of the lease.

~~(4)~~(5) In case any discovery area covered under a lease appears to extend~~s~~ beyond the geographical limits of the lease area, the Government may upon request allow the lease holder to

undertake appraisal of such discovery area beyond the limits of the lease in an open area and revise the co-ordinates of the lease area if justified by the results of the appraisal.

63. **Exploration and use of facilities by a third party.-** (1) If required for the purpose of utilization of the Government's own resource mapping or in other special circumstances, the Government may give a third party the right to undertake such exploration in the area of a licence or lease holder as may be necessary to obtain sufficient knowledge as to the geological conditions in areas surrounding the area of such holder. The said exploration activities must not unreasonably interfere with the activities of the holder. After consultation with holders concerned the Government shall determine the manner in which such exploration is to be carried out e.g., type, duration and exploration area.

(2) The Government may decide that production and transportation facilities owned by the holders of a lease shall be available for utilization by any other~~s~~ party (in this sub-rule (2) referred to as "user"), if this is deemed to be desirable for the purpose of efficient operations, or if required by the national interest. Such utilization must not unreasonably interfere with the activities of the holder. The user shall pay compensation for such utilization as may be mutually agreed by the holder and the user~~, the amount of which, failing agreement between the parties, will be settled by arbitration pursuant to rule 73 of these Rules~~. If the holder of the lease and the user fail to reach an agreement within 180 days, the DGPC may appoint a consultant to determine such compensation and other terms by way of a plan, at the cost of the user. Rules 62(6), (7) and (9) shall apply *mutatis mutandis*, provided always that the consultant shall comply with any reasonable guidelines which the DGPC may issue from time to time in this regard.

(3) Any well which has been abandoned may be used by any party, with the approval of the Government, for any use, including use for geo thermal energy, provided if the well or wells are in the area of a petroleum right, the approval of the petroleum right holder must also be obtained.

64. **General right of holder of lease to enter land.-** Subject to any required approval of the Government and of any other authority which may be involved, and on such conditions as may be stipulated, the holder of a lease shall have the right, as required for the purpose of carrying out operations under the lease, to:

(a) enter upon and use land;

63(2). Efforts to harmonise mechanism with mechanism devised at rule 62.

DGPC to consider if 180 days too long.

63(3). For future purposes a provision has been included to make it clear that abandoned well may be used.

64. Govt approval should not be universally required, but only when "required".

(b) appropriate water;

(c) store Petroleum

(d) erect houses and machinery;

(e) search for, dig and get gravel;

(f) cut timber and clear undergrowth;

(g) enclose with a fence areas for which he is paying surface rent; and

(h) carry out such other activities which the Government considers necessary.

65. **General rights of the holder of permit or licence to enter land.-** Subject to approval of the Government and of any other authority which may be involved, the holder of a permit or licence shall have the rights referred to in rule 64(a), (b), (d), (f) and (h) provided that houses and machinery referred to in clause (d) must be temporary.

66. **Restrictions on the holder's rights.-** (1) the rights granted to the holder of a Petroleum right shall not prejudice or affect the exercise of any of the following powers, that is to say:

(a) PRESIDENT may work other minerals, etc. The PRESIDENT or any other person authorized by him may within the holder's area search for and produce any minerals or substances other than Petroleum and make and maintain such installations and facilities as required for the said purpose;

(b) PRESIDENT may permit other activities. The PRESIDENT or any other person authorized by him may within the holder's area:

(i) make and maintain upon, over or through the said area such reservoirs, pumping stations, generating stations, waterways, roads, tramways, railways, telegraph and telephone lines, pipelines or such other installations and facilities as he shall deem necessary or expedient for any purpose;

(ii) obtain such stone, earth and other materials as may be necessary or requisite for making, repairing or maintaining the said installations and facilities;

(iii) draw water from the said area and have free access thereto; and (iv) pass and repass at all times over the said area for all such purposes as occasion shall require; and (c) PRESIDENT may grant or demise said lands to third parties subject to the holder's rights. Liberty and power for the PRESIDENT to grant or demise to any person all or any part of the said area for any purpose so that such grant or demise be made subject to the rights of the holder. (2) The PRESIDENT's powers pursuant to paragraphs (a) and (b) above shall be exercised and enjoyed in such a manner as not to unreasonably hinder or interfere with the rights of the holder. Fair and proper compensation shall be paid by the PRESIDENT for all loss, damage or injury (not, however, including the value of any water, stones, earth or other materials taken) which the holder may sustain or be put to by reason or inconsequence of the exercise of the said powers.	
67. **Power to execute works.-** If the holder of a Petroleum right shall at any time fail to perform his obligations the Director General, Petroleum Concessions, shall be entitled after giving to the holder reasonable notice in writing of his intention to execute any works which in the opinion of the Director General, Petroleum Concessions, or his agents may be necessary to secure the performance of the said obligations or any of them and to recover the costs and expenses of so doing from the holder.	
68. **Power of revocation.-** In addition to other grounds for revocation stated in these Rules, the government any revoke a Petroleum right if: (a) the holder thereof is in a material respect in breach of the terms and conditions on which the Petroleum right was granted, of the provisions of these Rules or of any other written law applicable to the Petroleum operations and has not, within a period of 60 days from the date on which a notice in that behalf was served on him by the Director General, remedied the breach, or where the breach is not capable of remedy, has not, within such period offered reasonable compensation in respect thereof; (b) the Petroleum right was granted by reason of information given by the holder which was false in a material respect; (c) the holder makes an arrangement or composition with its	68(d). In future it to consider adding after the first reference to "company" the words

creditors, a receiver is appointed or the holder goes into liquidation whether compulsory or voluntary;

(d) without the prior consent of the Government there is a disposition of the share capital of the holder in consequence of which any person who prior to that disposition had affective control of the holder ceases to have such effective control.

"or any other company having a controlling share holding"; and prior to the final "or" insert "it". No change recommended now.

69. **Right of Government upon termination of a Petroleum right.-**(1) When a permit, ~~or~~ licence or lease has expired or ~~has~~ been revoked, surrendered or area relinquished wholly or partly, except if otherwise provided in the PCA, the permit, ~~or~~ licence, lease or relinquished area shall so far as practicable be reinstated in its original condition and where this is not practicable, the holder shall pay compensation to the Government for damages suffered as a result thereof.

69(1) & (2). Modified wording as expiry, revocation and surrender cannot be partial. Only relinquishment could be in whole or part. Also some other reordering for greater clarity.

(2) When a ~~lease~~ petroleum right has expired, or ~~has~~ been revoked, surrendered or area relinquished, wholly or partly, ~~or the use of~~ any installations and facilities relating thereto, or installations and facilities no longer required by the petroleum right holder for the area in question, may be taken over by the Government, along with related equipment~~has come to an end, the Government has the right to take over the permanent installations including related equipment in the lease area which are necessary for the production of Petroleum~~. This also comprises pipeline transportation and related facilities installed by the holder to secure shipment of Petroleum.

(3) At takeover, the installations, including equipment in the lease area, shall be in such condition as good oil industry practices indicate. No compensation will be given to the holder in case of such takeover. Takeover involves an automatic cancellation of any security for debts related to such installations including equipment.

(4) If the Government does not wish to exercise its right to takeover the installations including equipment, the Government may demand, that removal shall be carried out by the holder of the lease at the holder's expense, in which case sub-rule (1) hereof shall apply correspondingly.

(5) At least one year prior to termination, the holder of a lease shall submit to the Government a plan for the orderly closing down of his operations, and for the removal of the facilities or their transfer to the Government as the case may be .

70. **Indemnity.-** The holder of a Petroleum right shall:

(a) at all times keep the Government effectually indemnified against all proceedings, costs, charges, claims and demands whatsoever which may be made or brought against the Government by any third party in relation to or in connection with his Petroleum right or anything done in or purporting to be done pursuance thereof; and

(b) if required to do so by the Government, take out and maintain such insurance as the Government may approve against any liability which the holder may incur under this rule.

70(b). To consider in the future whether to replace "approve" with "direct". No change recommended now.

71. **Miscellaneous obligations.-** (1) The holder of a Petroleum right shall:

(a) before commencing any operations in the relevant area, furnish to the Director General, Petroleum Concessions, the name and address of the manager, resident in Pakistan, under whose supervision such operations are to be carried on;

(b) currently and in writing, keep the Director General, Petroleum Concessions, informed of the names, addresses and nationalities of sub-contractors employed him; and

(c) report to the Director General, Petroleum Concessions, particulars of any fresh issues of capital which may be made by him from time to time and any alteration which may be made in the memorandum or articles of association or in the constitution of the holder.

(2) Any rent for a petroleum right under rules 26 or 39, maximum penalty under rule 73C or fee referred to in these rules may be increased from time to time by reference to an appropriate consumer price index, which increase shall be effective prospectively after notification issued by the Government.

71(2). Rent should be the same regardless of when a licence or lease was awarded and should not be indexed in the licences/leases themselves. DGPC should decide what form the notification should be and if impractical to Gazette, should discuss whether wording here may require modification. An explanatory provision may be included in the rules which would amend these rules that the first increase could be substantial as it would be covering about a 30 year period (i.e. 1986 to 2016).

72. **Force majeure.-** (1) Failure on the part of the holder to fulfill any of the terms and conditions of the Petroleum right shall not give the PRESIDENT any claim against the holder or be deemed a breach of his obligations insofar as such failure arises from force majeure.

(2) In this clause the expression "force majeure" includes the act of God, war, insurrection, riot, civil commotion, flood, lightning, explosion, fire, earthquake and any other happening which the holder could not reasonably prevent or control and shall not include a circumstance existing at the time of the grant of the petroleum right.

(3) If the ability to fulfill is affected by force majeure, the holder shall

without delay give notice to the Government, stating the cause of such inability and his efforts to remove such causes and remedy its consequences and steps to be taken to prevent the circumstance reoccurring and mitigating the consequences thereof. (4) The term of the holder's Petroleum right shall be extended for the duration of the force majeure situation and such further period as is required to resume the holder's operations. 73. **Arbitration.-** Except as otherwise agreed or expressly provided for in these rules, any question or dispute regarding a Petroleum right or any matter or thing connected therewith shall be resolved by arbitration in Pakistan, and in accordance with Pakistani laws.	
73A. Decisions and review.- (1) All decisions to be made by the Government, including the DGPC under these rules or, concerning a petroleum right, PCA or any other agreement or plan, pursuant to these rules, shall be in writing, with reasons, without undue delay. (2) DGPC may prepare procedures to be followed by a holder of a petroleum right seeking a decision under any rule which shall be readily available to any person on request. If there are such procedures and a holder of a petroleum right reasonably satisfies the criteria contained therein, then the Government or DGPC shall, unless the circumstances reasonably justify otherwise make a decision favourable to the petroleum right holder. (3) The DGPC shall prepare procedures as provided for in sub-rule (2) for, but not limited to, rules 8, 9, 21(4), 25(1)(b), 33 and 58. ***First option:*** (4) (a) If a holder of a petroleum right is aggrieved by a decision of the DGPC or if the DGPC does not respond to a request in a timely manner, the regulations contained in the Fourth Schedule hereto shall apply. This will however be without prejudice to a party's rights under any provision of law or the PCA. (b) Such regulations may be amended by the DGPC from time to time to apply prospectively and any changes shall be duly notified in the official gazette and a copy sent to all petroleum right holders. ***Second option – an alternative to sub-rule (4), preceding, and the Fourth Schedule, have r.73B-***	73A(1). All decisions should be recorded in writing with reasons. This helps keep consistency and transparency. 73A(2). Having SOPs which can be made readily available to companies will make decision making/approvals easier for Govt and companies alike. 73A(3). Certain rules have greater need for SOPs and so are specifically identified here. 73A(4)/73B. Regulations are required to resolve disputes quickly so as to foster confidence in the regulatory process.

73B. Independent Appeal Forum:- (1) Any holder of a petroleum right aggrieved either by a decision of the DGPC or where the DGPC has not responded to a request in a timely manner, may without undue delay, make a written representation to the DGPC. The DGPC shall arrange to convene a review meeting with the holder of a petroleum right within seven days of the receipt of written representation.

(2) Within seven days of the review meeting, the DGPC shall convey to the aggrieved party in writing its final decision with reasons and basis thereof.

(3) If the holder of a petroleum right is still aggrieved of the decision/final decision of the DGPC or if DGPC has still not responded, the aggrieved party may request the Secretary, Ministry of Petroleum & Natural Resources after 14 days of his representation or the final decision of DGPC as the case may be, for the matter to be submitted to the Forum of Appeals (FOA).

(4) The FOA shall comprise of the following three members including the Chairperson:

(i) A senior technical expert with at least 25 years' experience from the exploration and production industry who will be the member/Chairperson.

(ii) A senior commercial/regulatory expert from the exploration and production industry with at least 20 years' experience as member.

(iii) A senior legal expert with at least 15 years' experience in the exploration and production industry as member.

(iv) The FOA shall develop its own procedures and protocols for the conduct of hearings and consultation with other experts from the industry out of the lists maintained by the Ministry of Petroleum& Natural Resources as deemed necessary.

(5) The FOA shall convene no later than 25 days after the representation referred to in these rules and render its decision within thirty working days of such hearing or remand the matter back to the DGPC to make, or revise, its decision within a specified period. The decision of the FOA shall contain detailed reasons and justifications in support thereof and will be sent to Secretary MPNR with a copy to the concerned parties. The decision shall be implemented by the DGPC without delay unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions.

(6) Secretary MPNR will review the decision and issue a speaking order in the matter within a fortnight. (7) The Government may issue suitable guidelines, from time to time, in relation to any aspect regarding FOA. Such guidelines may include appeal procedures, documents to be filed for the appeal and the payment of fees to the FOA. (8) Availing of the remedies under these rules are without prejudice to a party's rights under any other provision of law or the PCA.	
73C. Penalties.- (1) Whosoever contravenes any provision of these rules shall, without prejudice to any other action that may be taken in relation to the contravention, be punishable as outlined in the Third Schedule. (2) In imposing any fine under these rules, the DGPC shall keep in view the principle of proportionality of the fine to the type, gravity, duration, frequency and repetition of the breach or failure. Prior to imposing a fine, the DGPC shall, in writing, require the person liable to be affected to show cause, in writing, as to why the fine should not be imposed. (3) The DGPC may, from time to time, modify the Schedule of Fines (Third Schedule), including the categories and scale of fines, to apply prospectively, and provided no individual fine may exceed [50] million rupees. (4) The imposition of a fine shall be without prejudice to any other legal right under these rules or legal and contractual rights of the Government.	73C. The Govt should have the ability to levy fines. 73C(3). The maximum ceiling may be considered. It is currently proposed as Rs.50m.
74. Transitional.- (1) The Pakistan Petroleum (Production) Rules 1949 are hereby repealed. (2) Notwithstanding the repeal of the Pakistan Petroleum (Production) Rules, 1949, hereinafter referred to as the said rules, where any person holds any permit, licence or lease granted or renewed under the said rules the provisions of the said rules shall continue to apply to such licence or lease as if the said rules have not been repealed.	
FIRST SCHEDULE **APPLICATION FOR A RECONNAISSANCE PERMIT,**	First Schedule, footnote to be added to give clarity to companies for assignments.

EXPLORATION LICENCE OR DEVELOPMENT AND PRODUCTION LEASE[1]

[1] In the case of using this Schedule for an assignment under rule 9, references herein to "applicant" shall be replaced with "proposed assignee", including the execution block at the end. The application shall be made by the proposed assignor.

THIRD SCHEDULE

FINES

a) Table of fines and related offences is outlined below.

b) Before the imposition of a fine, a show cause notice shall be issued by the DGPC to the offending petroleum right holder giving not less than 14 days from date of receipt of the notice to explain as why a fine should not be imposed. This will be without prejudice to any other remedy available to the Government and the obligation for the default to be rectified, if possible.

c) If, in response to the notice, a reasonable written justification is given and the offence has been rectified as far as possible, no fine shall be imposed, or the fine shall be substantially reduced by the DGPC.

d) Immediately following receipt of a response from a petroleum right holder, referred to in paragraph (c) or, if no response is received, within the time stipulated in paragraph (a) the DGPC shall inform the petroleum right holder in writing either that no fine shall be imposed or the amount of fine to be imposed, as the case may be.

e) Where it is possible to rectify an offence and it has not been rectified, an additional fine may be imposed within 14 days of the receipt of the notice referred to in paragraph (d), above, at the rate of up to 1% per day of the fine stipulated therein until the offence is rectified, or the petroleum right to which the fine relates has terminated or the total of the additional fine is equal to the fine stipulated under paragraph (d), above. Upon the additional fine no longer accruing, the DGPC will intimate to the holder the total fine imposed, revising the notice referred to in paragraph (d), above.

f) The fine stipulated in the notice/intimation referred to in paragraph (d) or (e), as applicable, shall be payable within 14 days of receipt of the relevant communication. Failure to do so, in itself, can be construed by the DGPC as a material breach under rule 68(a).

g) In the event a letter communicating the imposition of a fine is not accepted for receipt, it shall be deemed to have been delivered under this Schedule on the working day immediately after the day it was sent by a recognised courier to the last address provided to the DGPC,

provided also sent on the same day by either facsimile machine or registered post.

h) In each case where any data, reports or information is to be provided by a right holder to the Government in a desired format, the DGPC will give such right holder a reasonable opportunity to correct the completed format before issuing a show cause notice for the imposition of a fine.

i) Any fine levied shall be independent of, and without prejudice to, the Government's rights under rule 68 (Power of revocation), rule 67 (Power to execute works), for breach of contract, or any other legal recourse. Furthermore, the payment of a fine will not extinguish the requirement to comply with the obligation in the rule, for which the fine was imposed, as far as possible.

j) Whilst fines are expressed in US$, these should be paid in Pakistan Rupees (PKR), determined at the prevailing exchange rate on the date of payment.

k) Each fine shall be imposed on the holder of a petroleum right as the case may be collectively through the operator, with ultimate liability being joint and several (pursuant to rule 7).

l) A fine which remains unpaid following the date of the DGPC's communication referred to in paragraph (d) and, if applicable, paragraph (e) it will result in a late payment surcharge of 1% per month (or part thereof) of delay beyond 14 days of receipt of the relevant notice or communication.

m) Fines for any one offence, including any additional fines due to delays thereto, may not exceed the cap prescribed in the Rules.

Table of offences attracting fines and the stipulated fines:

1986 Rules	**Rule title**	**Offence**	**Fine**
Rule 15	Guarantees	Failure to provide acceptable performance guarantee(s)	10% of work unit value or $50,000, whichever is higher without prejudice to right of the DGPC to cancel a licence awarded.

Rule 20(1)	Rights and obligations of licence holder.	Production without approval	US$50,000, except, if the offence is for continuing EWT production beyond an approved EWT period would be US$25,000, without prejudice to the royalty due.
Rule 21(2)	Relinquishment.	Failure to relinquish when obliged to do so.	US$100,000.
Rule 25	Work programme not fulfilled.	Failure to pay liquidated damages or transfer of undischarged work obligation not approved.	US$200,000 in addition to the minimum expenditure obligation of undischarged work obligation.
Rules 26 and 39	Licence and Lease Rent.	Failure to pay rent.	The higher of US$5,000 or 50% of the rent due without prejudice to the rent due.
Rule 31	Survey expense.	Failure to undertake a survey when requested.	US$10,000.
Rule 33(4)	Development plan.	If development and production not carried out as per approved Development Plan and revision not approved or not sought.	If a material change (being 20% change from what was stated in the Development Plan in capital expenditure or rates or change in number of wells): - US$5,000 for seeking modification within six months of the modification being effective or US$25,000 thereafter. - If modification is not sought and is discovered by the Government then US$25,000 plus US$5,000 per complete month after the unapproved modification having

			been effective till discovered.
Rule 42	Petroleum measurement.	Failure to measure or weigh using the method agreed and/or failure to comply with any guidelines in that regard and/or failure to permit inspection of such equipment.	US$100,000.
Rule 43	Revocation of lease.	Failure to produce within required time limits.	US$250 per day for the first three months and US$1,000 thereafter, without prejudice to rights of revocation at any point.
Rules 44, 45, 46 & 49-52	Accounts Records and Reports.	Reports not kept/maintained or provided to DGPC/Government, as required.	US$10,000.
Rule 47	Data property of the Government.	Data and information not submitted as required.	US$10,000.
Rule 48(2)	Power to inspect plants, records and accounts etc.	Refusal or delay in access of data to the DGPC and non-provision of certified copies of record.	US$50,000.
Rule 54	Reports of discovery.	Making an impermissible announcement or statement.	US$50,000.
Rule 56(2)	Flaring.	Unauthorized flaring of gas.	100% of the value of the unauthorized flared gas, determined on the basis of the price applicable to the block in $/MMBTU. Any show cause notice or intimation of fine may provide that the exact fine is to be calculated.
Rule 58	Commencement, testing and	Development well included in the Development Plan spud	$10,000 (in addition to any fine under rule 33(4)).

	abandonment of drilling operations.	without approval.	
		Exploration/appraisal/development well not included in a Development Plan spud without approval	US$50,000.
		Re-entry, side-tracking or hydraulic fracturing commenced without approval.	US$10,000.
		Abandonment of well (Exploration/Appraisal/Depleted /Unsafe) and abandonment of producing zone without approval.	US$50,000.
Rule 61	Employment and training of Pakistani personnel.	Failure to submit report of number of Pakistani personnel to be employed and trained.	US$10,000.
Rule 62(6)	Joint exploration and development.	Failure to comply with direction to provide data following a request by DGPC.	US$25,000.
Rule 69(1)	Right of Government upon termination of a petroleum right.	Failure to reinstate where re-instatement is practicable. (note, if reinstatement not practicable, r.69(1) provides for damages to be paid.)	US$50,000 plus cost incurred by the Government to re-instate the area.
Rule 69(5)		Plan for abandonment/removal of facilities not submitted when required.	US$10,000 per month (or part thereof) of delay in submission of plan/informing the DGPC.

Rule 70(b)	Indemnity	Failure to take out required insurance.	US$25,000.
Rule 71	Miscellaneous obligations.	Failure to set up an organization in Pakistan.	US$10,000 if the organisation is not set up in the first six months after the grant of a petroleum right.
General.	Any other obligations provided in the 1986 Rules which are not fulfilled by the holder of a petroleum right and not expressly referred to above, penalty of up to US$1,000.		
Legal costs.	In addition to the fines stipulated herein or elsewhere in the Rules, any of the Government's legal fees (including lawyers and court/arbitration fees) incurred and documented for recovery of any of the fines as a result of non-payment following a show cause notice shall be separately recovered as a further fine, provided if the matter has been taken to court or arbitration, fine shall only be payable if it has not been struck down as not payable.		
PCA.	If there is a provision in a PCA or petroleum right whereby something has to be done, applied for or requested in a certain time by the right holder and DGPC has discretion to extend such time the DGPC may impose a fine of US$5,000 to consider a late application, without prejudice to its contractual rights or implying any obligation to accept or approve whatever is to be done, applied for or requested. If the DGPC ultimately accepts such delay it may do so on condition of an additional fine for the delay, of up to US$1,000 per day from the day something had to be done, applied for or requested.		

FOURTH SCHEDULE

REGULATIONS FOR REVIEWS AND APPEALS

1. Any holder of a petroleum right aggrieved either by a decision of the DGPC or if the DGPC has not responded to a request within a timely manner may, without undue delay, make a written representation to the DGPC. Such representation shall be provided in duplicate.

2. The DGPC shall convene a review meeting within 14 days of receipt of such representation. At such meeting the aggrieved party shall

have the opportunity of being heard and the DGPC shall ensure that the holder/contractor has received such notice at least three working days prior to the meeting.

3. At the review meeting the DGPC shall either explain the basis for the decision, change the decision, make a decision or agree to make a decision promptly after the meeting, as appropriate. Within seven days of the meeting, the DGPC shall write to the aggrieved party setting out its final decision with reasons and basis thereof.

4. The DGPC and/or any official he considers necessary and the officer concerned with the subject matter shall be present at the review meeting.

5. If within 14 days of either (i) if the holder is still aggrieved by the final decision or (ii) the date of the review meeting, if no final decision was conveyed after the review meeting or (iii) the date of the written representation to DGPC, and the DGPC failed to convene a review meeting, the aggrieved holder may request the DGPC that the matter be referred to a special tribunal for hearing as provided in regulation 6, below.

6. The special tribunal shall be comprised of the following three officers:

(i) [Director General (Oil) or Director General (Gas), to be rotated on an annual basis, initially being the Director General (Oil);

(ii) Senior officer of the rank of a Joint Secretary from the Ministry of Law, Justice and Human Rights;

(iii) an officer, not less than the grade of an Additional Secretary, of the Ministry of Petroleum and Natural Resources who shall be the chairperson.][5]

(iv) In the event any of the appointed officers are not in a position to attend such special tribunal hearing on a given date, such officer may appoint any other senior officer who directly reports to him to attend. The special tribunal may develop its own procedures and protocols for the conduct of hearings before it.

7. The special tribunal shall convene in the offices of the Ministry of Petroleum and Natural Resources, no later than 25 days after the request referred to in sub-regulation 5 and the DGPC shall have ensured the holder received notice of the meeting at least seven days prior to the meeting.

8. Within seven days of such hearing the special tribunal shall either affirm a decision, change a decision, make a decision or remand the

[5] To fix the positions after discussion with the DGPC.

matter back to the DGPC to make, or revise, its decision.

9. The decision of the tribunal shall be with reasons and copied to the concerned parties. The decision shall be implemented the DGPC within 14 days, or up to 21 days, to be justified in writing, unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions.

10. In the event of a failure, within the prescribed time, (i) to convene a review meeting, or a special tribunal hearing, or (ii) to ensure the aggrieved party has received notice sufficiently in advance of such meeting or special tribunal hearing or (iii) for the review meeting or special tribunal to give its response, the Government shall be liable to the penalty provided in regulation 11.

11. The penalty referred to in regulation 10, shall be an entitlement of a holder of a petroleum right to deduct from any rent payable under these rules ten thousand rupees per day of delay, up to a maximum of one hundred thousand rupees. In the event the grievance relates to more than one petroleum right the said penalty shall be equally divided amongst the holders of such petroleum rights. A summary of any such penalties arising in a quarter shall be sent by the DGPC to the Ministry of Finance and be made available, on a non-confidential basis, to any party on request, on payment of a reasonable fee.

12. The Government may issue guidelines, to be reviewed from time to time, in relation to any aspect of these regulations. Such guidelines may include procedures, such (a) as the format of documents to be filed for the appeal or (b) provision for nominal costs of appealing to the special tribunal or (c) costs for abuse of the review and appeal process.

13. Availing of the remedies under these regulations are without prejudice to a party's rights under any other provision of law or contract.

General note:

In making any amendments to the 1986 Rules, it may be also provided that such amendments would be prospective and any right, benefit, obligation or burden arising prior to the amendments would have vested and not be liable to change.

ANNEXURE 9: PAKISTAN ONSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2013

Government of Pakistan

Ministry of Petroleum and Natural Resources

***

Islamabad, the March, 2013

NOTIFICATION

S.R.O. (I)/2013.- In exercise of the powers conferred by section 2 of the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948 (XXIV of 1948), the Federal Government is pleased to make the following rules, namely:-

THE PAKISTAN ONSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2013

PART I - GENERAL

1. **Short title, application and commencement.-** (1) These rules may be called the Pakistan Onshore Petroleum (Exploration and Production) Rules, 2013.

   (2) These rules shall apply to the onshore areas of Pakistan and shall regulate all petroleum rights except those relating to coal bed methane.

   (3) They shall come into force at once.

2. **Definitions**.- In these rules, unless there is anything repugnant in the subject or context,-

   (i) "allowed transportation cost" means actual cost incurred for moving the petroleum produced and saved from the field gate to the point of determination of value of the petroleum;

   (ii) "annexure" means an annexure to these rules;

   (iii) "arm's length sales" means the sales made freely in the open market, in freely convertible currencies between willing and unrelated sellers and buyers having conflicting interests and in which such buyers and sellers have no contractual or other relationship, directly or indirectly, or any common or joint interest as is likely to influence selling prices but shall exclude

the value of sales (whether direct or indirect, through brokers or otherwise) involving an affiliate, sale between Government to Government entities, counter trades, restricted or distress sales, sales involving barter arrangements and generally any transactions motivated in whole, or in part, by consideration other than normal commercial practices;

(iv) "Authority" means the Directorate General Petroleum Concessions (DGPC) or any officer or authority appointed by the Federal Government to exercise the powers and perform the functions of the DGPC;

(v) "coal bed methane" or "CBM" means gas produced by drilling wells within the coal seams, that is, methane physically associated with coal which includes methane absorbed, adsorbed, and contained in pores and fractures and produced within coal seams which has such distinct biomarker or footprint that conclusively proves to have been principally derived from a biogenetic source of adjacent coal seams;

(vi) "commercial discovery" means a discovery of petroleum which, in the opinion of a holder of a licence or lease, would, on the basis of one or more wells, justify, particularly by its quality, quantity, gravity, place and depth where found, its economic development and assures a continuous commercial production for a reasonable period;

(vii) "commercial production" means production of petroleum out of a commercial discovery which production ensures at least the recovery of all expenditure directly attributable to such commercial discovery within a reasonable time and earning of a reasonable profit;

(viii) "company" or "companies" means a body corporate or other entity established or authorized to do business under the laws of Pakistan which is engaged in, or seeking to engage in, petroleum operations and unless otherwise specified, the expression "companies" refer to both local and foreign companies;

(ix) "crude oil" means all petroleum other than natural gas and which at standard atmospheric conditions of pressure and temperature is in a fluid phase including condensates and distillates.

(x) "delivery point" means a point, for the purpose of determination of royalty leviable on petroleum produced and saved from a licence or lease area as well as for the purpose

of satisfying national market obligations pursuant to rule 43, which will be determined as follows: -

(a) for the purpose of natural gas, the delivery point shall be the outlet flange of the production facility;

(b) for the purpose of crude oil and condensate, the delivery point shall be deemed to be the nearest operating refinery; and

(c) for the petroleum other than under sub-clauses (a) and (b), the delivery point shall be loading arm at the processing facility unless otherwise approved by the Authority;

(xi) "discovery" means the finding of a deposit of petroleum from an exploration well not previously known to have existed within the area held by a holder of a petroleum right which produces a flow of petroleum at the surface and is measurable by the conventional petroleum industry testing methods;

(xii) "discovery area" means an area within the area of a licence or lease which encompasses the accumulation of petroleum in a geological entity limited by lithological boundaries, structural boundaries, the contact zone between petroleum and the limiting water level, or a combination thereof, and so that the petroleum included everywhere is in pressure, fluid or gas communication;

(xiii) "exploration well" means a well which tests clearly a separate geological entity, be it of structural, lithologic or facies of pressure nature, penetrating all prospective intervals at the particular location;

(xiii-A) "extended well test" or "EWT" means the extended well testing or early production, as provided in rule 24;

(xiv) "Federal Government" means the Federal Government of the Islamic Republic of Pakistan.

(xv) "good international oilfield practices" means generally the reasonable and prudent diligent use of policies, procedures, methods, equipment and material that results in effective and efficient exploration, appraisal and development of petroleum including optimum recovery of petroleum from a discovery area with minimal impact on the environment as permitted

and use of efficient and effective practices for transforming produced petroleum into marketable form and delivering it to the market, having due regard for safety and other factors and means in particular, knowledge of and compliance with the latest standards developed by relevant professional institutions including but not limited to -

(a) the American Gas Association (AGA);

(b) the American Petroleum Institute (API);

(c) the American Society of Mechanical Engineers (ASME);

(d) the American Society for Testing and Materials (ASTM);

(e) the British Standards Institute (BSI);

(f) the International Organization for Standardization (ISO); or

(g) any other organization deemed acceptable by the Authority;

(xvi) "GHPL" means the Government Holdings (Private) Limited;

(xvii) "lease" or "development and production lease" means an exclusive right to develop and produce petroleum from a designated portion of the onshore area under and pursuant to these rules, which shall be substantially in the form as set out in Part III of the Second Schedule;

(xviii) "licence" or "exploration licence" means an exclusive right to explore for petroleum within a designated portion of the onshore area under and pursuant to these rules, which shall be substantially in the form as set out in Part II of the Second Schedule;

(xix) "natural gas" means all hydrocarbons which at standard atmospheric conditions of pressure and temperature are in a gaseous phase, including non-hydrocarbon gas which is in association with and produced together with such gaseous hydrocarbons;

(xx) "permit" or "reconnaissance permit" means a non-exclusive right to perform activities of reconnaissance and exploration within a designated portion of the onshore area under and pursuant to these rules, which shall be substantially in the form as set out in Part I of the Second Schedule;

(xxi) "petroleum" means all liquid and gaseous hydrocarbons existing in their natural condition in the strata, as well as all substances including sulphur, produced in association with such hydrocarbons, but does not include basic sediments and water;

(xxii) "petroleum concession agreement" or "PCA" means an onshore agreement entered into pursuant to these rules between the President and a company or companies for the purpose of exploration, development and production of petroleum other than CBM;

(xxiii) "petroleum right" means a permit, licence or lease issued under these rules;

(xxiv) "PHC" means the provincial government holding company of the Provincial Government;

(xxv) [Omitted] ;

(xxvi) "President" means the President of the Islamic Republic of Pakistan;

(xxvii) "Provincial Government" means the Government of the relevant Province of the Islamic Republic of Pakistan in which a petroleum right, is to be or, has been granted, and in the event such a petroleum right extends over more than one Province then the Government of each such Province;

(xxviii) "record" means all record pertaining to the activities of a holder of a petroleum right including but not limited to an account, book, return statement, report, chart, table, diagram, form, survey, image, invoice, letter, map, agreement, memorandum, plan, core, sample, voucher, financial and non-financial information, and anything containing information whether in writing or in electronic form or represented or produced by any other means and the result of recording of electronic data, its processing systems and programme to illustrate what the systems and programme do, and how they operate without compromising proprietary rights, if any, related to the hardware and software;

(xxix) "Schedule" means a schedule to these rules;

(xxx) "significant gas discovery" means a discovery of natural gas which has tested significant flow rates of natural gas from one or more reservoirs and is estimated to be capable of

continuous production over a reasonable period which in the opinion of a holder of a petroleum right could be declared a commercial discovery in the future provided, inter alia that adequate gas pipeline transportation facilities are installed and gas markets have been sufficiently developed for sale of natural gas on commercial basis;

(xxxi) "spill" means a discharge, emission or escape of petroleum, other than one that is authorized by applicable law;

(xxxii) "strategic partner" means a foreign state owned and controlled company allowed to explore for and develop petroleum within a given acreage following direct negotiations between the Federal Government and the government of the strategic partner;

(xxxiii) "wellhead value" means the value of petroleum as defined in rule 39;

(xxxiv) "waste" or "wasted" means waste as understood in the petroleum industry and shall include working methods which, in accordance with good international oilfield practices are considered wasteful;

(xxxv) "working interest" means all or any undivided interest in the entirety of any petroleum right, rights and obligations and liabilities imposed by the rules, the licence and any lease granted pursuant to the rules and any PCA;

(xxxvi) "work unit" means a unit of work for the purpose of measuring the quantum of minimum work programme as contained in the respective PCA; and

(xxxvii) "year" means a period of twelve consecutive months according to the Gregorian calendar.

3. **Administration and regulation.-** The Authority shall be responsible for the administration and regulation of these rules and the execution of all duties imposed upon it by these rules, or pursuant to any agreement or any other function entrusted by the

Federal Government. Notwithstanding anything to the contrary contained herein, in the administration and application of the rules, the Authority may give due consideration to relevant facts and grant such relaxation as is deemed necessary in larger public interest in terms of section 5 of the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948.

4. **Division of area into blocks and zones.-** (1) Any area of Pakistan may be divided into blocks of such sizes and shapes as the Federal Government may determine from time to time.

(2) The licensing zones shall be as per map attached as Annexure – I to these rules.

5. **Application for petroleum right.-**Any company may apply in accordance with these rules for,-

(a) a reconnaissance permit;

(b) an exploration licence; and

(c) a development and production lease

6. **Manner in which application may be made for petroleum rights.-** (1) Every application shall be made in writing in the form set out in the First Schedule addressed to the Authority. Every application shall be entered in the register to be maintained by the Authority.

(2) The applicant shall provide details of any changes in the status or experience of the company that has occurred since the company has applied for the petroleum right.

(3) With every application there shall be deposited-

(a) a fee of fifty thousand rupees if the application is for the grant, extension or renewal of a permit;

(b) a fee of one hundred thousand rupees if the application is for the grant, extension or renewal of a licence; and

(c) a fee of two hundred thousand rupees if the application is for the grant, extension or renewal of a lease.

(4) There shall be attached to the application five copies of the map upon which shall be delineated by the boundaries of the areas in respect of which a petroleum right is applied for. The map shall be taken from the relevant Survey of Pakistan map of appropriate scale. If the area is identified by a block system notified under rule 4, a reference to the relevant block

number is sufficient.

(5) The applicant shall furnish additional information as may be requested by the Authority within three months from the request thereof, failing which the application shall be rejected, unless the Authority determines otherwise.

(6) Notwithstanding the above, the Federal Government may assign the status of strategic partner in accordance with the prevailing policy and these rules, however, they will be given privileged award of petroleum rights without following competitive bidding for certain blocks selected by the Authority on mutually acceptable terms and conditions.

7. **Separate application for each area.-** (1) Where an applicant seeks a petroleum right over two or more areas which are not contiguous, the applicant shall apply for separate petroleum rights over each such area, unless otherwise permitted by the Authority.

(2) Nothing in these rules shall prevent more than one petroleum right being granted to the same applicant.

8. **Several holders of a petroleum right.-** Where the petroleum right is held by two or more companies, they shall be liable jointly and severally towards the Federal Government for obligations and liabilities, resulting from their activities pursuant to the petroleum right. The companies shall, with the prior written approval of the Authority, appoint an operator from amongst them, except that such special arrangements as to the operatorship shall be applicable as may be approved by the Authority under rules 64 and 66. No change in such appointment shall be made without the Authority's prior approval.

9. **Petroleum right not assignable without approval.-** A petroleum right or any working interest therein shall not be assigned without the previous approval in writing of the Authority.

10. **Method of making applications for assignments.-** An application by a holder of a petroleum right for approval to the assignment of a petroleum right shall be made in writing addressed to the Authority, and shall be accompanied by a fee of one hundred thousand rupees for each assignee. With the application, the applicant shall furnish the like particulars in respect of the proposed assignee as are required to be furnished in the case of applicants for a petroleum

right.

11. **Power to grant or refuse petroleum right.-** Subject to rules 22, 23, 30 and 34, the grant of a petroleum right, extension or renewal thereof, shall be decided by the Authority. In the event of refusal to grant such petroleum right, extension or renewal thereof, the Authority shall provide the reasons thereof.

12. **Lapse of entitlement to petroleum right.-** Where a petroleum right is not executed within three months after approval of the application by the Authority has been conveyed to the applicant, the entitlement of the applicant to such petroleum right shall lapse unless, the Authority considers that the delay is not attributable to the fault of the applicant.

13. **Surrender of petroleum right.-** (1) Subject to the terms of the PCA a holder of a petroleum right wishing to surrender his right shall give the Authority one month's notice of its intention to do so, and if the holder of a Petroleum right fulfills all its obligations under the petroleum right, including the obligations pursuant to rule 73 or if such holder of a petroleum right pays liquidated damages pursuant to rule 28, it shall on the expiry of the notice subject to sub-rule (2) be entitled to surrender its petroleum right. On doing so the holder of a petroleum right shall not be obliged to pay rent for the remaining period of the petroleum right.

(2) In case more than one company holds a petroleum right and less than all the companies wish to surrender the right, reasonable opportunity shall be provided to the other company or companies to acquire (as provided in sub-rule (3)) the interest from the company or companies wishing to surrender. Provided such opportunity is given and demonstrated to the Authority and subject to the terms of the relevant PCA and these rules, a licence/lease may be surrendered, in its entirety, by less than all the companies which hold such petroleum right, by giving notice as provided in sub-rule (1). In the event more than one company wishes to acquire the interest of a company which wishes to surrender its interest, such surrendered interest shall be offered to each on a pro rata basis.

(3) Except as the companies may agree otherwise, any opportunity to be given to acquire an interest under sub-rule (2) shall be without charging for such interest and in the event there is any outstanding minimum work obligation, the transferring party, wishing to surrender, shall pay to the acquiring party or parties a proportionate share of liquidated damages which could then have been charged at that time pursuant to rule 28, based on its participating interest.

14. **Submission and publication.-(**1) Application for petroleum right may be submitted either-

(a) at the initiative of the applicant, or

(b) on the basis of an invitation from the Authority to submit competitive bids.

(2) In case of clause (b) of sub-rule (1), a notice for competitive bidding may be published in such national or foreign publications as the Authority may determine.

15. **Terms and conditions of a petroleum right.-** Every permit, licence and lease shall, subject to such modifications as may be made by the Authority in accordance with these rules, be in the form set out in Parts I, II and III, as the case may be, of the Second Schedule.

16. **Performance guarantees.-** (1) The Authority shall require successful applicants for petroleum exploration licenses to furnish irrevocable and unconditional guarantee, in an acceptable form, with respect to the obligation and liabilities of the holder of a licence on or before the execution of the petroleum exploration licence.

(2) The Authority may, in its sole discretion, accept a guarantee in one or more of the following forms:-

(a) a bank guarantee equal to twenty five per cent of the minimum financial obligation from a bank of international repute acceptable to the Authority;

(b) parent company guarantee of a multinational exploration and production company of international repute with a proven track record;

(c) a corporate guarantee of a Pakistan registered exploration and production company having operatorship with majority working interest in producing fields within Pakistan;

(d) in case of local production, first and preferred charge on petroleum production equal to 100% of the minimum financial obligation;

(e) in case of other local assets, first and preferred charge on assets equal to 100% of the minimum financial obligation; and

(f) deposit in an escrow account equal to 25% of the

minimum financial obligation with a bank of international repute acceptable to the Authority.

In the event the successful applicant elects to provide any guarantee, other than a parent company guarantee, the guarantee so provided shall only be released in case all work obligations including but not limited to social welfare, training, data, rental etc. are fully discharged. The Authority shall have the right to recover the due amount for non-performance of all such obligations from the performance guarantee.

PART II - PERMIT FOR RECONNAISSANCE SURVEYS

17. **Grant of permit.-** The Authority may grant a permit, in the form prescribed in Part I of the Second Schedule, to any company to carry out reconnaissance surveys over such areas and on such terms and conditions as it may determine in each case and include the following conditions, namely:-

(i) the grant of the permit shall not imply that the holder of a petroleum right shall subsequently be entitled to the grant of a licence over the areas covered by the permit;

(ii) on the conclusion of the survey, the holder of a petroleum right may apply for a licence in accordance with these rules, but shall not be entitled to claim a relaxation of rules for the grant of a licence applied for by him. However, the Authority upon a request of the holder of a petroleum right, may allow adjustment of the work carried out or expenditure incurred, excluding any work or expenditure related to a multi-client arrangement unless otherwise agreed, against the minimum work or expenditure obligation under a licence covering the area of permit, if granted;

(iii) unless otherwise stipulated in the permit, the holder of a petroleum right shall have the non-exclusive right to undertake, within the designated areas, petroleum reconnaissance by such geophysical, geological, geo-chemical and geo-technical methods and such other related work including geological information bore-hole, as may be stipulated in the permit;

(iv) the holder of a petroleum right shall submit a copy of all the maps, plans, graphs and magnetic tapes and related data as and when these become available and a complete report of the survey not later than six month of the completion of the

survey;

(v) the holder of a petroleum right shall comply with all instructions which the Authority may issue regarding the use of maps, plans, graphs and other data generated or collected by the holder of a petroleum right in the course of the reconnaissance survey;

(vi) the permit shall be valid for a period of one year and may, at the discretion of the Authority be renewed for a period of up to one year;

(vii) a permit does not extend to areas already covered by a licence or a lease unless otherwise specified by the Authority pursuant to sub-rule (1) of rule 66;

(viii) the Authority may grant a licence, or a lease, to any person at any time for any part of an area covered by a permit except as provided therein;

(ix) the holder of the permit shall perform work stipulated in the permit with due diligence; and

(x) the holder of the permit shall for each square kilometer or part thereof comprised in the permit area pay to the Federal Government rent at the rate of five hundred rupees per year.

PART III - LICENCE FOR PETROLEUM EXPLORATION

18. **Grant of licence.-** The Authority may grant an exclusive petroleum licence for exploration over any area on such conditions as are specified in Part II of the Second Schedule including other terms and conditions relating to ancillary or incidental matters as the Authority may determine, which other terms and conditions, if any, shall be intimated no later than the invitation for bids.

19. **Size of area.-** A licence shall not be granted in respect of any area exceeding twenty-five hundred square kilometres.

20. **Shape of area.-**Each separate area in respect of which a licence is granted shall be, as far as possible, compact, bounded by straight lines and marked with permanent physical boundaries.

21. **Rights and obligations of licence holder.-** (1) Subject to the provisions of these rules, the licence gives a holder the exclusive right to undertake, within the licence area, all activities related to reconnaissance and exploration, including drilling for petroleum. The

holder of the licence shall not be entitled to extract any petroleum from discoveries other than such test and early production as provided for in rule 24.

(2) A holder of a licence shall perform the work programme stipulated in the licence for initial term (phasesI or II, as set out in rule 22) and any extension or renewal, along with other obligations as referred to in these rules.

22. **Period of licence, relinquishment and extension of area.-** (1) The initial term of a licence shall not exceed five years keeping in view the surface and geological condition of the licence area. The initial term of the licence shall comprise two phases with first three years period designated as phase-I and the next two years period as phase-II. Minimum work programme for phase-I shall be determined through competitive bidding whereas a firm exploration well will have to be committed for entering phase-II.

(2) The Authority may, subject to the terms of the licence, grant up to two renewals after the initial term. The term of each renewal shall be up to one year. However, to avail a renewal a reasonable work programme comprising at least an exploration well shall have to be offered keeping in view the surface and geological conditions of the licence area. A holder of a licence desiring to obtain such renewal shall make an application at least three months before the expiry of the licence, or such lesser period as the Authority may allow and the Authority shall process such application within one month of submission of the same.

(3) The initial term or renewal of a licence shall be extended by the Authority for drilling an exploration well in progress for the period of drilling. In the event of extension, granted for a well under drilling, the Authority may grant a further extension for up to three months for post well studies on the request of a holder of a licence.

(4) A holder of a licence shall comply with the following part relinquishment schedule during the term of the licence namely:-

(a) at the end of phase-I – thirty percent of the original licence area;

(b) at the end of phase-II – twenty percent of the remaining licence area; and

(c) on or before the start of the second renewal- ten percent of the remaining licence area.

(5) A holder of the licence shall be entitled to renewal if it-

(a) has complied with the work programme and all other obligations of preceding term of the licence; and

(b) has committed to drill during the renewal period at least an exploration well , prior to the renewal..

(6) In the case of several holders of petroleum rights, upon a written request of the operator, and in other cases on the request of petroleum right holder, the Authority may, on case to case basis, extend the term of the licence, or any year of a licence, on the following grounds:-

(a) if seismic and drilling services are not readily available to the right holder for the timely discharge of minimum work obligation, a proof to this effect will be required before the Authority considers accepting or denying a request for extension of an exploration licence. Such a request for extension will be required to be made after the holder of the exploration licence has exhausted all other options including but not limited to pooling resources to undertake coordinated activities with other holders of the petroleum right, if possible;

(b) if a holder of an exploration licence commits to undertake additional work which is equivalent to at least 10% of the minimum work obligation of the then current year, or if no specific separate work obligation for such year, then the current phase or renewal;

(c) if a holder of an exploration licence makes additional accelerated area relinquishment equivalent to 10% of the original licence area; or

Any technical considerations which hinder Petroleum operations

(7) Notwithstanding anything contained in this rule, in no circumstances will an extension or extensions, provided in sub-rule (6), cumulatively exceed two years during the currency of an exploration licence.

(8) Notwithstanding anything contained in these rules, upon a written request of a holder of a licence, the Authority may, on case to case basis, revise the co-ordinates of the area covered under the licence, provided, the geological structure extends into an adjoining free area and further provided that the revised area will not exceed the area stipulated in rule 19.

(9) (a) In the event a holder of a licence has applied for an extension or a renewal, prior to the expiry of a licence, the licence shall be deemed extended until approval is given or denied.

(b) If approval for the renewal or extension is granted, the renewal or extension applied for will be effective from the date of approval or the term was to expire, whichever is later, unless such application was made less than three months or, in the case of an extension under sub-rule (3), one month, prior to the expiry of the licence, in which case it will be effective from the date the term was to expire.

c) If a holder of a licence applies for an extension or renewal within three months after the licence has expired, the Authority may, on a case to case basis, still approve such application, provided the holder of a licence pays a penalty of five hundred thousand rupees per day after the expiry, without prejudice to any obligation to pay liquidated damages. Pending decision of the Authority to such an application the licence shall be deemed extended and if approval is given the renewal or extension shall be effective from the date the term was to expire.

(d) Rent, as provided in rule 29, shall be payable for any deemed extended period provided in sub-rules (a) or (b), unless an application for renewal or extension is made at least three months or, in the case of an extension sought under sub-rule (3), one month, prior to the expiry of the licence, in which case no rent shall be payable for the deemed extended period. Any such rent for such period shall not be payable again on account of the renewal or extension being effective from the date the licence was to expire. Rent shall be payable on a pro rata basis for any part of the extended period not being a complete year.

23. **Appraisal, evaluation and renewal.-** A holder of a licence having made a discovery of petroleum shall perform such additional work so as to enable the holder of the licence to make timely determination of a discovery as a commercial discovery. Subject to the holder of the licence having complied with the work programme and its other obligations, it shall be entitled to renewal of the licence for one year for the purpose of expeditious appraisal and evaluation of the discovery. The renewal shall only apply to the discovery area. The term of the appraisal renewal may be extended further for such period as may be approved by the Authority on case to case basis following a written request of the holder of the licence.

24. **Extended well testing.-** (1) A holder of a licence may undertake extended well testing or early production, during the appraisal phase and before the grant of lease provided the Authority is informed in advance or if such EWT involves flaring of gas, requiring approval of the Authority, or such EWT is to exceed one month, approval of the Authority shall be obtained in advance. The holder of the licence shall comply with the requisite royalty, tax, rentals of the discovery area and training and social welfare obligations as would be applicable under a lease.

(2) In the event a request for approval of EWT is to be made under sub-rule (1), the request shall include associated temporary production facilities and shall be made to the Authority providing information with regard to,-

(a) technical justification for EWT;

(b) proposed duration for EWT; and

(c) a plan for disposal of natural gas during the proposed EWT period.

(3) If approval of the Authority is sought for EWT, it shall not be unreasonably withheld or delayed.

(4) Production during EWT and post declaration of commerciality would be considered as commercial production for the purpose of payment of production bonus, royalty and all other obligations as are applicable to lease. However, the first production bonus would be payable upon the earlier of commencement of commercial production subsequent to grant of lease or production reaching the first level that production bonus is payable on volume produced.

25. **Retention of gas discovery.-** (1) In the case of a significant gas discovery in a licence in Zone I or Zone II as specified in Annexure I, the Authority may extend the period of licence, to the extent of the discovery area, by up to five years , on a case to case basis, provided such discovery may be declared a commercial discovery when adequate gas pipeline transportation facilities are installed and gas markets have been sufficiently developed for sale of natural gas on a commercial basis. In case of a discovery of Low BTU Gas for which outlet is not readily available or gas infrastructure cannot be utilized, the Federal Government can consider extension in the afore mentioned retention period on a case to case basis.

(2) A discovery containing oil and gas or oil, gas and condensate is

considered to be a gas discovery for the purposes of obtaining a retention period only when liquids production is not considered economic without marketing the gas stream.

26. **Declaration of commercial discovery.-** (1) Upon completion of its evaluation, the holder of a licence may submit a notice for declaration of commercial discovery to the Authority along with a report in accordance with clause (d) of rule 55 and general plan for development. After issuing such a notice, the holder of the licence shall be entitled to apply for the grant of a lease in respect of discovery area in accordance with these rules.

(2) The lease shall prevail over the licence within the area designated in the lease, but the licence continues to be valid outside such lease area without modifying the rights and obligations pursuant to the licence. In the event of a licence continuing to be valid beyond the term of a lease, or on any part of the area of a lease being reduced, the license shall automatically again extend over such lease area, provided such area or areas are contiguous with the remaining licence area and further provided that the total area of licence does not exceed the area provided in rule 19, less any reductions required under rule 22(4).

(3) Upon termination of the licence, a holder of a licence shall relinquish the licence area except the area covered by the lease or leases granted to him.

27. **Extension pending grant of lease.-** If a holder of a licence, before the expiry of the licence, has applied for a lease, the duration of the licence notwithstanding the provisions of sub-rule (7) of rule 22 shall be extended until the lease has been granted or refused.

28. **Work programme and other obligations not fulfilled.-** (1) Where upon the surrender, revocation or the expiry of a licence, the obligations pursuant to rules 21,22 or 23 have not been fulfilled, holder of a licence shall-

(a) pay to the Federal Government such sum by way of liquidated damages which correspond to the minimum expenditure of undischarged work obligations as set forth in the licence within a period of thirty days from the surrender, revocation or expiry of the licence; or

(b) transfer undischarged work obligation committed under rules 21 and 22 to another area with the approval of the Authority if it is demonstrated to the satisfaction of the Authority that there is no drillable prospect in the licence area. In the event that a petroleum right is held by more than one company, the

undischarged work obligation shall be monetized, based on liquidated damages obligations and divided between the companies in accordance with their interests in the right. Any company not transferring a work obligation to an area of its choice shall pay its pro rata share of liquidated damages, without prejudice to rule 8.

(2) Where a holder of a petroleum right has not fulfilled other obligations relating to social welfare, rent, data, training, etc., the guarantee(s) submitted by the holder of a petroleum right shall not be returned till the obligations are discharged first or the holder of a petroleum right of the remaining other obligations provides replacement guarantee equivalent to the value as determined by the Authority.

(3) In case the liquidated damages payable pursuant to clause (a) of sub-rule (1) are not paid or the transfer of undischarged work obligation to any other area(s) pursuant to clause (b) thereof, is not approved, the Authority may, in addition to any other action or remedy including black listing of a holder of a licence, cancel a lease granted to the holder in respect of any area comprised within the area of the licence which has been surrendered, revoked or expired.

(4) Where a holder of a licence is in default of his work obligations and has paid liquidated damages as provided in sub-rule (1)(a) , the holder of the licence shall be deemed to have complied with such work obligation for the purpose of rules 21, 22 and 23.

29. **Rent.-** (1) A holder of a licence shall for each square kilometre or part thereof comprised in the licence area pay rent to the Federal Government at the following rates, namely:-

(a) in respect of initial term of five years of the licence under sub-rule (1) of rule 22,-

(i) three thousand five hundred rupees per square kilometre or part thereof for the whole term of five years; or

(ii) eight hundred rupees per square kilometre or part thereof in respect of each year of the initial term of five years of the licence; and

(b) in respect of each renewal or extension of the licence under sub-rule (2) or (6) of rule 22 or rules 23 or 25, two thousand seven hundred and fifty rupees for each year or pro rata in the case of part of a year.

(2) Notwithstanding any provision of a licence, rent shall be adjusted as provided for in rule 75(2) and not by any adjustment clause in a licence, so as to ensure that the rent retains its value in real terms.

(3) The rent shall be paid in advance of the period to which it relates.

PART IV - LEASE FOR PETROLEUM DEVELOPMENT AND PRODUCTION

30. **Grant of development and production lease.-** (1) The Federal Government shall on being satisfied that a commercial discovery has been made and that the terms and conditions of a licence, including the work programme, have been duly observed and performed, or that a holder of the licence is in satisfactory progress with the work programme, and that the requirements of rule 36 have been duly complied with by the applicant, grant a lease in the form prescribed in Part III of the Second Schedule in respect of discovery area within the licence area granted to the applicant, including such other reasonable terms and conditions relating to ancillary and incidental matters as the Authority may determine.

(2) The Federal Government may grant a single lease covering more than one discovery area within the same licence area provided that such discovery areas are juxtaposed vertically in which case the lease shall be granted on the basis of the combined discovery area.

(3) In the event that any part of a discovery area extends beyond the lease into an open acreage, the Federal Government may upon being satisfied that the discovery area extends into such open acreage and subject to such conditions as deemed necessary, readjust the subsisting boundaries of the lease so as to include such part of the open acreage on which the discovery area extends.

31. **Rights of lease holder.-** A holder of a lease shall have an exclusive right to perform activities in connection with the development and production of petroleum in the area covered by the lease, including the right to undertake transportation of petroleum, subject to approval pursuant to rule 37.

32. **Shape of discovery area.-** Each discovery area in respect of which a lease is granted shall be laid out in straight lines between well defined points as far as practically possible and must also be marked with permanent physical boundaries.

33. **Survey expense.-** Before a lease is granted the applicant shall, if so required by the Authority, at his own expense cause a topographical survey of the land specified therein to be made to scale normally required for petroleum right purposes, and approved by the Survey of Pakistan, and submit six copies thereof to the Authority.

34. **Lease period.-** (1) A lease shall be for the period for which application has been made and supported by relevant technical and other information but shall not exceed twenty-five years. In the event the lease is initially granted for a period less than twenty-five years, the same may be extended from time to time, such that the total overall period of lease does not exceed 25 years, provided commercial production continues.

(2) Upon application from a holder of a lease, the Authority may renew the lease for a period, not exceeding five years, if commercial production is continuing at the time of the application, subject to the following, namely:-

(a) the request for a renewal along with revised development plan is submitted to the Authority not less than one year prior to expiry of initial term; and

(b) the area has been producing on a regular commercial basis on the date of the request.

35. **Further renewal or re-grant of lease after expiry of lease term.-(**1) Effective from the end of a lease period, upon application from a holder of a lease, at least 90 days before the expiry of the lease term, the Authority may renew a lease for up to a further period of five years, provided at the time of application commercial production is continuing, an addendum to the development plan acceptable to the Authority is provided and the lease holder agrees, at least one year prior to the expiry of the lease period, to pay 15% of wellhead value of petroleum produced to the Federal Government, after the effective date of such renewal.

(2) If there is no such renewal, or following expiry of such a renewal, the Authority may invite bids from companies for the re-grant of the lease over the same, or substantially the same area as the expiring lease, for a term of ten years or such lesser period for which commercial production is expected to continue. The bids shall be evaluated on the basis of a development plan and signature bonus. The Authority may keep re-granting a lease, in a similar manner, as long as commercial production is continuing.

(3) Each bidder shall provide a bid bond of ten per cent of the offered signature bonus at the time of bidding along with a

development plan.

(4) The Authority shall be under no obligation to grant any extension.

36. **Development plan.-** (1) Together with the application for a lease shall be enclosed a development plan which shall contain such information as the Authority shall prescribe by way of procedures provided for in rule 79, including but not limited to the following, namely:-

(a) proposals for the development and production of each discovery area including possible alternatives and proposals relating to the disposition of associated gas;

(b) proposals relating to the spacing, drilling and completion of wells, the production and storage installations and transport and delivery facilities required for the petroleum production. Such proposal shall cover,-

(i) the estimated number, size and production capacity of production facilitates and platforms, if any;

(ii) estimated number of production wells;

(iii) particulars of production equipment and storage facilities;

(iv) particulars of feasible alternatives for the transportation of petroleum including pipelines; and

(v) particulars of equipment required for the operations;

(c) the production and sales profiles for crude oil, condensate and natural gas and other products for the life of the field;

(d) investment plans including cost estimates of capital and operating expenditure;

(e) profitability estimates;

(f) proposals related to the establishment of processing facilities and processing of petroleum in Pakistan;

(g) safety measures to be adopted in the course of development and production operations including measures to deal with emergencies and protection of environment;

(h) a description of the organization in Pakistan, pursuant to these rules;

(i) contingency and abandonment plans; and

(j) time schedule of all activities covered in the development plan clearly specifying the critical milestones proposed and measures to achieve such milestones.

(2) The plan shall require the approval of the Authority. Such approval shall not be unreasonably delayed provided the requisite information has been provided to the Authority.

(3) After approval of the plan, a holder of a lease shall carry out development and production in accordance with the plan, subject to such modifications as may be necessary and are approved by the Authority from time to time.

37. **Transportation of petroleum.-** (1) Subject to approval in accordance with this rule, a holder of a petroleum right has the right to lift and transport petroleum from the licence and lease area, either through transportation facilities owned wholly or partly by himself or through access to transportation facilities owned by a third party and such approval shall not be unreasonably withheld or delayed.

(2) In case the holder of a petroleum right intends to construct its own transportation system for which tariff will be claimed, it shall submit to the regulator concerned, an application comprising the proposed organization and implementation of the transportation system. In case of pipeline transportation, the application shall also comprise the design, construction and route plans and any other information as required by the concerned regulator under the relevant laws.

(3) The regulator concerned may, on giving its approval, stipulate in accordance with the applicable policy such conditions as are reasonable and necessary to secure a rational system of transportation of petroleum and it may-

(a) require that several holders of petroleum right install jointly owned transportation facilities; and

(b) grant to any third party access to transportation capacity at tariffs to be approved.

38. **Royalty.-** (1) Royalty on petroleum produced and saved shall be payable at the rate of twelve and a half per cent of the wellhead value unless a higher rate for royalty is provided for in the relevant PCA between a holder of a petroleum right and the Federal Government.

(2) The royalty received by the Federal Government will be paid in cash or kind by the Federal Government to Provinces to the extent

of their share of liquid and gaseous hydrocarbons (such as LPG, NGL, solvent oil, gasoline and others) as well as all substances including sulphur, produced in association with such hydrocarbon. The option to choose between 'cash' or 'kind' will rest with the Province however when the option of "kind" is to be exercised, the respective Province will consult with the Federal Government and the Federal Government shall inform the holder of the petroleum right. In case of royalty in kind, the holder of a petroleum right shall, at the request of the Federal Government and at allowed transportation cost, make arrangement for transportation of the royalty petroleum downstream of the field gate in the same manner as if it was its own petroleum.

(3) Royalty shall be payable to the Federal Government on a monthly basis within a period not exceeding forty five days of the end of the month of production in question which if delayed beyond this stipulated period would attract fine at the rate of the London Inter Bank Offer Rate (LIBOR) plus two per cent as may be determined by the Authority. In the event royalty obligation remain un-discharged for two consecutive months following expiry of the month of production in question to which the payment of royalty relates, the Authority may take such action as it may deem appropriate in accordance with these rules, including but not limited to the exercise of powers of revocation pursuant to sub- rule (e) of rule 72.

(4) The Federal Government or, if appropriate, the Provincial Government, shall lift or take royalty petroleum in a timely manner and in accordance with such lifting or sales agreement as may be mutually agreed with the holder of a lease.

(5) A holder of a lease or licence shall be permitted to use petroleum produced from the lease or licence area for drilling, production, maintenance and processing of petroleum obtained from the said lease or licence free of cost, royalty and excise duty, provided that the holder of the lease or licence shall not be entitled to include any notional costs in claiming his business expenses for income tax purposes.

(6) From the amount of royalties payable in respect of any one year of the term of a lease or licence, there shall be no deduction of any expenditure except allowed transportation cost. The rent paid during the year shall not be deductible from royalty payment.

(7) The Federal Government may from time to time issue guidelines which shall inter alia cover procedure for administration and payment of royalty due from a holder of a licence or a lease.

(8) Notwithstanding anything to the contrary contained in this

rule, the election to take the royalty on natural gas in cash or kind shall be exercised only once within ninety days of the approval of development plan by the Authority and may not be exercised for production from a licence.

39. **Value of petroleum.-** For the purpose of calculating the amount due by way of royalty, the value of the petroleum produced and saved shall be determined at the delivery point by using actual selling price in the following manner, namely:-

(a) If the petroleum is sold to the national market pursuant to rule 43, the actual selling price means the price determined in accordance with the relevant sale and purchase agreement between a holder of a petroleum right and the Federal Government or its designee less allowed transportation cost; and

(b) In all other cases, the actual selling price means the greater of-

(i) the price at which the petroleum is sold or otherwise disposed of less allowed transportation costs; or

(ii) the fair market price received through arm's length sales of the petroleum less the allowed transportation costs.

40. **Royalty administration.-** (1) If there are two or more than two companies as holder of a lease or licence, they shall designate the operator to remit royalty on their behalf unless prior approval has been obtained from the Authority to remit royalty themselves.

(2) Royalty shall be remitted with the supporting forms prescribed by the Authority with documents and information required.

(3) If the Authority determines that petroleum was avoidably lost or wasted, including consumed by the holder of a right for purposes not covered by rule 38(5), then royalty shall be payable on such lost or wasted petroleum in accordance with the direction issued by the Authority

(4) If a holder of a lease or licence receives insurance compensation for unavoidably lost or wasted petroleum, royalty is due on the amount of the compensation in accordance with the direction issued by the Authority.

(5) Ten percent of royalty will be utilised by the Provincial Government for infrastructure development in the district where petroleum is produced.

(6) If a discovery area falls within the territorial jurisdiction of more than one Provincial Government, then the apportionment of royalty between such Provincial Governments shall be determined on the basis of the reserve potential of that discovery area with respect to each such Province. The Authority, upon being notified of such a discovery area, shall within thirty days appoint an independent third-party consultant of international repute to determine the reserve potential of each such Province with respect to the discovery area. The independent third-party consultant shall finalize its determination within thirty days of the appointment, such determination being final and binding on the Federal Government and Provincial Government. For the avoidance of doubt, the foregoing situation, including any determination, shall not prejudice the rights of the petroleum right holder in respect of the discovery area nor disrupt or impair any operations being carried out by the petroleum right holder in the area.

41. **Yearly lease rents.-** (1) A holder of a lease shall pay to the Federal Government annually in advance, rent at the rate of seven thousand five hundred rupees per square kilometer or part thereof covering the lease area during the initial period and rent at the rate of ten thousand rupees per square kilometre or part thereof covering the lease area during the renewal period of a lease and further lease term extension.

(2) Notwithstanding any provision of a lease, rent shall be adjusted as provided for in rule 75(2) and not by any adjustment clause in a lease, so as to ensure that the rent retains its value in real terms.

42. **Surface rent.-** A holder of a lease shall pay for all land which he may use or occupy for the purposes of the operations conducted under the lease, a surface rent at the rate assessable under the revenue and rent law in the district in which the land is situated and water rates, if any, ordinarily assessable under any relevant rules if the land has not been occupied for the winning of petroleum.

43. **National market deliveries.-** (1) The Federal Government may decide that a holder of a petroleum right shall deliver petroleum from his production to cover the requirements of the national market for petroleum. The national market for petroleum shall for this purpose means the total market requirements, less petroleum produced by or otherwise available to the Federal Government from indigenous sources. The holder of a lease shall deliver the petroleum at such place or places in Pakistan in accordance with terms and conditions of applicable agreement between the Federal Government and the holder of a lease at the Federal Government's cost unless otherwise

provided in the PCA and subject to sub-rule (3).

(2) Sub-rule (1) shall apply to all holders of the lease producing petroleum as far as practicable, pro rata to their production. Each holder's obligation may be fulfilled directly or by means of swap arrangements approved by the Federal Government.

(3) The Federal Government may also decide that the holder of a lease shall arrange and pay for adequate transportation of crude oil, condensate and natural gas liquid which it has thus ordered to be delivered up to the distance to the nearest operating refinery in Pakistan.

(4) The price to be paid for petroleum to be delivered pursuant to this rule shall be such price as may from time to time be determined in accordance with terms and conditions of applicable agreement between the Federal Government and the holder of a lease.

44. **Petroleum measurement.-** (1) A holder of a petroleum right shall measure or weigh all petroleum produced and saved from the licence or lease area by a method or methods customarily used in good international oilfield practices and approved by the Authority. The Authority, from time to time and as and when deemed necessary, may issue guidelines for installation, maintenance, inspection and other matters related to measurement of petroleum as per good international oilfield practices.

(2) The Authority, or any officer authorized by it, shall, at all times during the term of the licence or a lease or any renewal thereof, be entitled to inspect the measuring or weighing equipment and to be present whenever such a measurement or weighing takes place.

(3) A holder of a petroleum right shall install, operate and maintain all measuring and weighing equipment ensuring that such equipment records an accurate measurements as per good international oilfield practices and remains in good working condition at all times. If any such equipment shall at any time be found not to be accurate, the same shall, if the Authority, so determines after considering any representations in writing made by the holder, be deemed to have existed in that condition during the period of three months prior to the discovery thereof or the period elapsed since the last occasion upon which the same was examined or tested, whichever shall be the less. This restriction on time period shall not be applicable if the inaccuracy so discovered is found to be result of the holder's willful tampering or negligence in which case appropriate adjustment in royalties and imposition of fine shall be made as

determined by the Authority. The royalties payable in respect of such period shall be adjusted accordingly.

(4) A holder of a petroleum right shall not make any alteration in the method or methods of measurement or weighing used by him or any equipment used for that purpose. The Authority, may require that no alteration shall be made save in the presence of an officer authorized by him.

45. **Revocation of lease.-** (1) The lease may be revoked if regular commercial production has not commenced within five years from the grant of the lease. The lease may also be revoked if production has terminated for more than ninety days without prior written approval of the Federal Government unless this is due to force majeure or any other reason beyond the control of a holder of a lease and acceptable to the Federal Government.

(2) In the event, a holder of a lease is found to have contravened sub-rule (1) the Federal Government may issue a ninety days notice requiring the holder of a lease to remedy the breach within the notice period failing which the Federal Government may impose a fine or revoke the lease, or both, unless a plausible justification is provided by the holder of a lease and accepted by the Authority.

PART V- ACCOUNTS, RECORDS, INSPECTION AND REPORTS

46. **Records and accounts.-** (1) A holder of a petroleum right shall maintain full and accurate records of accounts.

(2) Original copies of all records shall be kept in Pakistan unless otherwise approved by the Authority.

(3) A holder of petroleum right shall immediately comply with the demand of the Authority to submit the certified copy of any record.

47. **Period of record-keeping.-** (1) Subject to sub-rule (2), the records shall be kept and maintained for a period of six years following the end of the calendar year to which the information contained in the record relates or for a longer period as may be determined by the Authority. In case of any particular record, upon application by a holder of petroleum right, the Authority may consent in writing to the destruction of record before the end of the six years period or such other period as is required under the applicable laws as the case

may be.

(2) If based on reasonable grounds, the Authority is of the opinion that it is necessary for the administration of any rules, to retain record for a longer period, it may direct the concerned holder of the petroleum right to do so specifying the reasons thereof.

48. **Well records**.- (1) Notwithstanding the generality of rule 47, a holder of a petroleum right shall always keep full and accurate record of the drilling, deepening, plugging, completion, re-completion, sidetracking, testing or abandonment of all wells containing particulars of the following matters with respect to each well namely:-

(a) the strata and sub-soil through which the well was drilled;

(b) the casing used in any well and any alteration to such casings;

(c) any petroleum and other reservoir fluids, or minerals encountered; and

(d) such other matters as the Authority may, from time to time, require.

(2) If required by the Authority, a holder of petroleum right shall deliver additional record to the Authority as and when these become available.

49. **Production records.-** A holder of a petroleum right shall always keep full and correct record of production which shall contain accurate entries of:-

(i) the gross quantity and quality of petroleum won and saved;

(ii) the method and results of tests conducted;

(iii) the quantity and quality of petroleum delivered in Pakistan and exported;

(iv) the quantity and quality of petroleum used for re-injection, pressure maintenance, venting, flaring, drilling or other operational purposes;

(v) the quantity and quality of petroleum sold, the name of the purchaser and the price at which it has been sold supported by necessary documents;

(vi) the quantity and quality of natural gas treated and processed for the removal of impurities and inerts and natural gas liquids and liquefied petroleum gases and the quantity and quality of any liquids, gases or any solids obtained from it; and

(vii) such further particulars as the Authority may from time to time, require.

50. **Data to be property of the Federal Government.-** (1) All data including but not limited to well logs, maps, magnetic tapes, cores, samples and any other geological and geo-physical information obtained by a holder of a petroleum right as a result of his activities in a permit, licence or lease shall be the property of the Federal Government subject to the right of the holder to use such data for the purposes of the petroleum right. The holder of petroleum right shall submit all of the aforesaid data and information to the Authority as soon as it has become available. The holder of petroleum right may, during the subsistence of a permit, licence or lease, after prior intimation to the Authority , disclose all or any part of the aforesaid data to a third party, provided that before disclosure of the data, such party executes an appropriate confidentiality agreement drawn up in accordance with the good international oilfield practices.

(2) All processed geo-physical and geological information referred to in this rule shall be submitted to the Authority on transparent, dimensionally stable material as well as in the digital format, as may be notified by the Authority from time to time. The Authority may disclose any data except seismic and drilling data to a Provincial Government.

(3) Information and data as mentioned in this rule shall be kept confidential by the Federal Government, Provincial Government and Authority for a period of three years from the date the data is acquired by the holder of petroleum right with the following exceptions namely:-

(a) information disclosed to other Pakistani authorities, or financial institutions or consultants of the Federal Government, Provincial Government and Authority who will be bound to keep the same confidential;

(b) information required for general statistical purposes;

(c) upon the earlier termination of a permit, licence or lease, or upon the date of relinquishment of the area to which the information relates; and

(d) all raw geo-physical, geological and well data including well logs may be disclosed by the Authority or the Federal Government to any interested party after two years of the activity to which such data relates. This however is not applicable to the data generated under multi-client arrangements.

(4) Notwithstanding anything contained in these rules, the data in the possession of the Federal Government or Authority in respect of a surrendered or relinquished area of a permit, licence or lease may be released by the same to a holder of petroleum right or to an organization engaged in petroleum exploration, production and research, on the reproduction costs of the data and on such terms and conditions as it may determine.

(5) Except as provided under these rules, a holder of petroleum right shall not disclose or cause to disclose any data except to a person who is legally entitled to obtain, or where the holder is legally obliged to disclose, that data.

(6) Any other person who is permitted to receive the data shall hold the same subject to the same restrictions as are contained in sub-rule (3).

51. **Power to inspect plants, records and accounts etc.-** (1) The Authority or any authorized officer, may, at any reasonable time, after notice in writing, enter any place where any activities or business is carried out by a holder of petroleum right under these rules, for the purpose of auditing or inspection or examination of inter alia wells, record, plants, appliances, buildings, or any other works.

(2) A holder of petroleum right shall, for the purpose of an audit, or inspection or examination by the Authority of any of the records described in these rules,

(a) provide access and all reasonable assistance to the Authority or the authorized officer to conduct the audit or inspection or examination without any hindrance; and

(b) promptly provide or make available the certified copies of records as required by the Authority or the authorized officer to perform inspection under these rules.

52. **Annual reports.-** (1) A holder of a petroleum right shall each year submit to the Authority annual reports containing the following particulars, namely;-

(a) a financial statement with an abstract of the accounts, prepared in accordance with accounting principles generally accepted in the petroleum industry and audited by a recognized firm of chartered accountants approved by the Authority;

(b) a description of all exploration, development, production and other work carried out by the holder during the year relating

to the permit or licence or lease area;

(c) estimates of in place and recoverable reserves of petroleum at the end of each year classified on the basis of good international oilfield practices as per standard format notified by the Authority. If so desired by the Authority, the holder of petroleum rights shall be required to carry out reserves certification from an independent source ; and

(d) estimates of petroleum production and exports for each quarter of the next year.

(2) The report referred to in clause (a) of sub-rule (1) shall be submitted within six months and the other reports within forty-five days after the end of year to which they relate.

53. **Quarterly reports.-**Within ten days after the end of each quarter, each holder of a petroleum right shall prepare and submit a progress report to the Authority which shall contain a narrative report of activities with plans and maps showing the places where work was done. Such report shall also contain;-

(a) a summary of all geological and geo-physical work carried out;

(b) a summary of all drilling activity and results obtained;

(c) a list of maps, reports and other geological and geo-physical data prepared or acquired in connection with the activities; and

(d) a statement of expenditure incurred by the holder of petroleum right during the month on a format as may be prescribed by the Authority, from time to time.

54. **Daily reports.-** During drilling of a well, a holder of a petroleum right shall provide copies of the daily well reports on a prescribed format to the Authority.

55. **Occasional reports.-** A holder of a petroleum right shall submit to the Authority the following occasional reports namely:-

(a) within twenty-four hours, by email or fax with hand copy delivered within next twenty-four hours, if a well shows the presence of petroleum in significant measure or if a drill stem or any other test has been carried out on a well which produces petroleum;

(b) within seven days after the report under clause (a), a written report containing relevant geological information and chemical

analysis in the case of a showing of the presence of petroleum, and in the case of a drill stem or any other test containing the following additional information, namely;-

(i) conditions and results of the drill stem or any other test, including but not limited to flow rates, flow periods, tested intervals, pressures, choke sizes, hole condition and stimulation measure;

(ii) physical analyses; and

(iii) any deductions there from as to the potential of the reservoir;

(c) within one month after the completion or abandonment of drilling operations, a comprehensive well completion report, which shall contain inter alia the lithological groups, stratigraphic boundaries, hydrocarbon zones, a copy of all well logs and tests and other relevant information including costs, provided that such information which cannot be obtained within this period shall be submitted as soon as possible;

(d) at the latest upon the issue of a commercial discovery notice, a report which shall substantiate such notice and contains,-

(i) all relevant geological information, including estimates of recoverable reserves and daily production;

(ii) a general plan for the development of the deposit, including possible alternatives, with a description of the main production and transportation installations envisaged, and the relevant cost estimates; and

(iii) calculations of the profitability estimates of the discovery;

(e) within forty-five days after the relinquishment or surrender of any part of the permit or licence or lease area, such maps, plans, reports, records interpretations, and data made or obtained by or for the holder of petroleum right relating to exploration, development, production abandoned, restriction of site and any other operations in the relinquished, surrendered or retained areas;

(f) report to the Authority about the particulars of any material issues of capital which may be made by the holder of petroleum rights, or its parent company or any other company having a controlling share interest in it, from time to time and any alteration which may be made in the

memorandum and articles of association or in the constitution of its parent company. Any fresh issues of capital shall at times be subject to clause (d) of rule 72; and

(g) such other plans and information as to the progress and results of the its operations as the Authority may require from time to time.

58. **General.-**The reports referred to in this Part shall be made in such form and manner as the Authority may determine.

59. **Reports of discovery.-** (1) No announcement or statement, direct or indirect, about a discovery of petroleum shall be made, except by the Authority in consultation with a holder of petroleum rights, or by a holder where required by the law, or otherwise with the consent of the Authority.

(2) No statement shall be made by or with the consent of a holder of petroleum rights, claiming or suggesting, whether express or by implication, that any Government or any person or body acting on behalf of the Federal Government, Provincial Government and Authority has or have formed or expressed an opinion that the licence or lease area is likely to contain petroleum.

PART VI – STANDARD OF OPERATIONS

58. **Avoidance of harmful methods of working.-** (1) A holder of petroleum right shall undertake and execute all operations in a proper, prudent and diligent manner, in accordance with good international oilfield practices and shall not unreasonably obstruct or interfere with other activities such as navigation, fisheries and agriculture. All reasonable precautions shall be taken to prevent pollution or damage to the environment and surroundings.

(2) Without prejudice to the generality of the foregoing provision, a holder of petroleum right shall take all steps including, but not limited to the following, namely:-

(a) prevent the escape or waste of petroleum discovered in the area;

(b) to conserve the area for operations;

(c) to prevent damage to adjoining petroleum bearing strata;

(d) to prevent the entrance of water through wells to

petroleum bearing strata, except when approved by the Authority for the purposes of secondary recovery; and

(e) to prevent the escape of petroleum into any waters in or in the vicinity of the said area.

(3) The Federal Government may establish safety zones around temporary and permanent installations as per good international oilfield practices.

(4) The Federal Government may, from time to time, determine and notify the standards applicable to the operations under these rules in accordance with good international oilfield practices.

59. **Principles of sound operations.-** (1) All petroleum operations and activities shall be conducted diligently and in accordance with good international oilfield practices. The rate of production from each reservoir shall be the maximum efficient rate needed to achieve the maximum ultimate economic recovery of petroleum from various petroleum reservoirs unless otherwise approved by the Authority.

(2) The Authority may specify measures at the time of approval of development plan that a holder of petroleum right shall take to conserve petroleum resource of Pakistan. These measures shall include, but not be limited to, notification of depletion policy, rate and flow of petroleum from the fields and the measures to achieve maximum ultimate economic recovery of petroleum from different reservoirs.

(3) A holder of petroleum right shall not flare or vent any natural gas without the prior approval of the Federal Government in writing under these rules.

60. **Commencement, testing and abandonment of drilling operations.-** (1) A holder of a petroleum right shall not commence drilling, re-entry, sidetracking, hydraulic fracturing or abandonment of any well without first having obtained the approval of the Authority in writing.

(2) A holder of a petroleum right shall,-

(c) as soon as possible make known to the Authority the proposal for testing a well;

(d) test all potentially productive horizons indicated by wire-line recording; and

(c) promptly undertake the technical evaluation of the well

testing results and of all other relevant data and submit the same as soon as possible to the Authority.

(3) For the purposes of sub-rule (1), approval of the Authority shall be deemed to have been given at the end of the notice period provided in sub-rule (4) unless within such period the Authority gives reasons why the operation applied for should be varied or stopped. Any approval given or deemed given under this rule shall be without prejudice to any other obligation of the holder of a petroleum right.

(4) For the purposes of sub-rule (3), the "notice period" shall be (a) 14 days from the delivery of a request for approval, save for an exploration well, (b) for the drilling of an exploration well, it shall be 7 days after a reminder request which may not be delivered to the Authority in less than 14 days of the original request being delivered or (c) for an on-going operation, two working days from the request being delivered; provided in each case that if the holder of the petroleum right has failed to provide the required technical information for such operation in the standard format, any of the aforesaid periods shall commence from the provision of the required information.

(5) After the completion of all operations, the well shall be safely plugged and the same shall be reported to the Authority within seven days of the well being plugged.

(6) Drilling operations shall be conducted in accordance with good international oilfield practices.

61. **Shape of relinquished areas.-** Areas which are relinquished or surrendered shall be of sufficient size and shape so as to enable petroleum operations to be carried out therein.

PART VII - MISCELLANEOUS

62. **Use of Pakistani goods and services.-** (1) In all activities carried out pursuant to these rules, a holder of petroleum right shall ensure the use of qualified Pakistani goods and services referred to in sub-rule (2), to the extent that such goods and services are competitive with regard to price, quality, quantity and delivery schedule.

63. **Employment and training of Pakistani personnel.-** (1) A holder of petroleum right shall give preference to the nationals of Pakistan for employment in its organization at all levels and in all branches including technical, financial, commercial, legal and administrative units

and to arrange for the training in Pakistan and abroad, of nationals of Pakistan to fill in the aforesaid positions. The number of Pakistani personnel to be employed and trained shall be submitted to the Authority in accordance with the guidelines that may be issued by the Authority from time to time. The operator and its contractor shall ensure the employment of unskilled workers amongst the locals of the area in which the exploration and production activities are in progress to the extent of at least fifty percent of their total strength of unskilled workers. The application for grant of a licence or a renewal or extension thereof and the development plan submitted with the application for grant of lease shall contain a description of the measures proposed to be taken by the applicant during exploration, appraisal, development and production phases so as to ensure compliance with this rule.

(2) The Federal Government may require that a holder of petroleum rights shall provide training for Government personnel in order to develop the capability of such personnel to efficiently perform their duties related to the supervision of petroleum industry. Such training shall cover both technical and management disciplines including geology, geo-physics, engineering, project management, accounting, commercial, legal and shall also be in the form of on-the-job training and participation in in-house seminars.

64. **Joint exploration and development.-** (1) If a petroleum deposit extends across more than one licence or lease area held by different holders of petroleum right, then such holders shall endeavor to agree to explore and exploit the deposit jointly in the most efficient manner.

(2) The holders of the different petroleum rights shall endeavour to expeditiously agree ajoint exploration and development plan or, where one or more of the deposits have already been developed, a joint unitization plan, which shall be submitted expeditiously to the Authority for approval.

(3) If agreement on a joint exploration and development or unitization plan as referred to in sub-rules (1) and (2), is not reached within a reasonable period of time the Authority shall, on the request of any of the involved holders of petroleum rights, or may itself, by notice in writing to all concerned parties, direct that they finalize and submit for approval of the Authority relevant plan within the period stipulated in the notice, which shall not exceed three months.

(4) In the event such plan is not submitted to the Authority within the stipulated period or such plan has not been approved by the Authority, either holder may request the Authority to appoint an

independent consultant to prepare such plan, or, if appropriate, decide first if a deposit does extend from the area of one right holder into that of another, which the Authority shall do without delay.

(5) The cost of such consultant shall be at the joint cost of the holders of the relevant petroleum rights to be paid as directed by the Authority. If a holder does not contribute, the cost shall be wholly borne by the other such holder. In such an event, if the reservoir does extend into areas held by the respective holder, the holder which did not contribute shall reimburse the other the whole cost of the consultant thus appointed.

(6) The consultant shall be required to complete the plan within three months of receipt of the data and other information, with any extensions considered reasonable by the Authority which in any instance shall not exceed a cumulative period of six months. Both parties shall make available all data reasonably requested by the consultant which shall be obliged to enter into a confidentiality agreement. If a party fails to make such data available in a timely manner, the Authority shall direct such a party or parties to comply with this request, failing which such party shall be in breach of a material term and shall be subject to rule 72(a).

(7) The plan so prepared by the consultant shall be considered by the Authority and the respective parties, each of whom shall have one month to make written submissions to the consultant. Thereafter, the plan shall be finalized by the consultant and accepted by the Authority and parties. In the event of a manifest error, the Authority may, unilaterally or on the request of an affected party, impose such additional conditions as may reasonably be considered appropriate. The final plan shall be binding on the concerned parties.

(8) In the event the reservoir does extend into areas held by the different holders of petroleum rights, the respective reserves determinations shall be effective from the date when there was commercial production or EWT production from more than one such area and consultant shall make recommendations for necessary adjustments on this account in the plan.

(9) (a) The reference to "consultant" in rules 64(4), 65(2), 66(2) and 71(3), shall be to such third party appointed by competitive bidding from three consultants chosen by the Authority from the list of consultants, provided for in sub-rule (9)(b).

(b) The said "list of consultants" shall comprise of six pre-qualified consultants maintained by the Authority. Each such consultant shall be independent and of an international caliber/repute. The list shall

be readily available to any holder of a petroleum right, at any time, on request, which may make observations on any party contained in the list or recommend others for inclusion. Based on such observations and after giving other holders of petroleum rights an opportunity to comment, the list may be changed by the Authority from time to time.

(c) In relation to any bidding process, the involved petroleum right holders shall be given an opportunity of providing input on the bid documents, including terms of reference, evaluation criteria, in any communication relating to the bids and the parties shall have the right to be present at the bid opening.

65. **Petroleum exploration within lease area.-** (1) A holder of a lease shall have a preferential right to perform petroleum exploration activities on all horizons underlying the surface area of a lease above or below the sub-surface boundary of the lease provided that, if the Authority receives a bona fide offer from a third party to undertake exploration within the surface area of a lease(excluding the sub-surface boundaries of the lease), the lease- holder shall be given the opportunity to match such offer within six months of receiving a notice to this effect from the Authority.

(2) In case a holder of the lease decides not to match the offer and undertake exploration pursuant to sub-rule (1) and a third party is granted petroleum exploration rights over any of the horizons underlying the surface area of a lease (excluding the sub-surface boundaries of the lease), then such third party and the existing holder of the lease shall within ninety days enter into an agreement setting forth the detailed terms and conditions of operating within the surface area of a lease so that the activities can be coordinated in a just and equitable manner which does not prejudice the interests of the existing holder. In case such an agreement is not reached between the respective holders within the specified time or such agreement has not been approved by the Authority, the Authority may appoint a consultant to prepare a plan, at the joint and equal cost of the parties which will be binding on the holder and the third party and rules 64(6), (7) and (9) shall apply mutatis mutandis. The plan so prepared by the consultant shall enable activities to be coordinated in a just and equitable manner, without adversely affecting the interests of the existing lease holder.

(3) A licence granted over all or part of area within a lease shall, notwithstanding the terms and conditions of the licence, be deemed to be effective upon the parties concluding the agreement, or the

conclusion of the plan, referred to in sub rule (2). If no agreement is reached or plan finalized within one year of the grant of such licence, at any time thereafter either the holder of the licence or the Federal Government may terminate the same without any liability or obligation.

(4) For the purpose of petroleum exploration within a lease area, the provisions of rules 23, 24, 25, 26, 30 and 36 shall mutatis mutandis apply provided that where an existing lease holder makes a new commercial discovery, on such leaseholder's request the provisions of rule 30 shall not be applicable and the existing lease shall be amended so as to bring the discovery area of such commercial discovery under the purview of the lease.

(5) In case any discovery area covered under a lease appears to extend beyond the geographical limits of the lease area, the Authority may, upon request, allow a holder of the lease to undertake appraisal of such discovery area beyond the limits of the lease in an open area and revise the co-ordinates of the lease area if justified by the results of the appraisal pursuant to rule 23.

66. **Exploration and use of facilities by third party.-** (1) The Federal Government may allow a third party to undertake exploration in the area of a licence or lease as may be necessary to obtain sufficient knowledge as to the geological conditions in areas surrounding the area of such holder. The said exploration activities must not unreasonably interfere with the activities of such holder. After consultation with concerned parties, the Federal Government shall determine the manner in which such exploration is to be carried out including the determination of the type and duration of exploration in the area.

(2) The Authority may also decide that production, processing and transportation facilities owned by a holder of a lease shall be available for utilization by any other party (in this sub-rule (2) referred to as "user"), if this is deemed to be desirable for the purpose of efficient operations, or if required in the public interest. Such utilization must not unreasonably interfere with the activities of the holder of the lease. The user shall pay compensation for such utilization as may be mutually agreed by the holder and the user. If the holder of the lease and the user fail to reach an agreement within hundred and eighty days, the Authority may appoint a consultant to determine such compensation and other terms by way of a plan, at the cost of the user. Rules 64(6), (7) and (9) shall apply mutatis mutandis, and provided always that the consultant shall comply with any reasonable guidelines which the Authority may issue from time to time in this regard.

(3) Any well which has been abandoned may be used by any party, with the approval of the Federal Government, for any use, including use for geo thermal energy, provided if the well or wells are in the area of a petroleum right, the approval of the petroleum right holder must also be obtained.

67. **General right of holder of the lease to enter upon land.-** Subject to any required approval of the Federal Government and of any other authority which may be involved, and on such conditions as may be stipulated, a holder of a lease shall have the following rights, as required for the purpose of carrying out operations under the lease, namely :-

(a) to enter upon and use land;

(b) to appropriate water;

(c) to store petroleum;

(d) to erect houses and machinery;

(e) to search for, dig and get gravel;

(f) to cut timber and clear undergrowth;

(g) to enclose with a fence areas for which surface rent is paid; and

(h) to carry out such other activities which the Federal Government considers necessary.

68. **General rights of the permit-holder or licence-holder to enter upon land.-**Subject to approval of the Federal Government and of any other authority which may be involved, a permit-holder or a licence-holder shall have the same rights as are stipulated in rule 67, provided that the houses and machinery referred to in clause (d) thereof shall be temporary.

69. **Restrictions on the holder of petroleum right.-** (1) The rights granted to a holder of petroleum right shall not prejudice the exercise of any of the following powers, namely:-

(a) Work on minerals.- The Federal Government or Provincial Government, as the case maybe, or any of its authorized persons may, within the area of the holders of petroleum right search for and produce any minerals or substances other than petroleum and make and maintain such installations and facilities as required for the said work provided such operations shall not disrupt or impair the operations or

activities of the holders of the petroleum rights in the area.

(b) Other activities.- The Federal Government or Provincial Government, as the case maybe, or any authorized person may, within the area of the holder of petroleum right -

(i) make and maintain upon, over or through the said area such reservoirs, pumping stations, generating stations, waterways, roads, tramways, railways, telegraph and telephone lines, pipelines or such other installations and facilities as he shall deem necessary or expedient for any purpose;

(ii) obtain such stone, earth and other materials as may be necessary or requisite for making, repairing or maintaining the said installations and facilities;

(iii) draw water from the said area and have free access thereto; and

(iv) pass and repass at all times over the said area for all such purposes as occasion shall require.

(c) Grant or demise lands to third parties subject to holder's rights.- Liberty and power for the Federal Government or Provincial Government, as the case maybe, to grant or demise to any person all or any part of the said area for any purpose so that such grant or demise be made subject to the rights of the holder.

(2) The powers under this rule 69 shall be exercised and enjoyed in such manner as not to unreasonably hinder or interfere with the rights of the holder of petroleum right. Fair, proper and adequate compensation shall be paid by the Federal Government or Provincial Government, as the case may be, for all loss, damage or injury, without including the value of any water, stones, earth or other materials taken, which the holder of petroleum right may have suffered as a consequence of the exercise of the said powers under this rule.

70. Power to execute works.-If a holder of a petroleum right, at any time, fails to perform its obligation under these rules or under any agreement with the Federal Government, the Authority shall be entitled, after giving reasonable notice in writing of its intention, to execute any works which may be deemed necessary to secure the performance of the said obligations or any of them and to recover the costs and expenses of so doing from the holder of petroleum right.

71. Power to control spill or waste.- (1) A holder of petroleum right at all times, has obligation not to cause spill and waste.

(2) Where the Authority, on reasonable grounds, is of the opinion that, with respect to any operation of a holder of petroleum right, spill or waste is required to be controlled or prevented, may order the holder of petroleum right to control or prevent spill and waste within a reasonable period of time, failing which the Authority may cause to take such necessary steps and measures to control or prevent the spill or waste as may be required and all cost thereof shall be borne by the holder of petroleum rights.

(3) If there is any dispute, controversy or claim arising out of or in relation to the exercise of the powers by the Authority under sub-rule(2), the Authority and a holder of petroleum right shall make all reasonable efforts to settle such dispute, controversy or claim within sixty days of the issuance of order by the Authority under sub-rule (2), failing which such dispute, controversy or claim shall be referred to an independent consultant who shall be appointed by the Federal Government at the cost of and with consent of the holder of petroleum right. The findings of such consultant shall be binding on the Authority and the holder of petroleum right.

(4) Notwithstanding anything contained in this rule, the Authority or a holder of petroleum right may exercise the option of settling the dispute, controversy or claim in accordance with rule 77.

72. Power of revocation.- In addition to other grounds for revocation specified in these rules, the Authority may revoke a petroleum right after serving a thirty days show cause notice if,-

(a) a holder of petroleum right has contravened any material terms and conditions on which the petroleum right was granted, under the provisions of these rules or any law applicable to the petroleum operations and has not, within a period of sixty days from the date on which a notice in that behalf was served on it by the Authority, remedied the default, or where the default cannot be remedied, has not, within such period offered reasonable compensation in respect thereof;

(b) the petroleum right was found granted by reason of giving false information in a material respect;

(c) a holder of petroleum right or its parent company makes an arrangement or composition with its creditors, and a receiver is appointed or the holder of petroleum rights goes into liquidation whether compulsory or voluntary;

(d) without the prior consent of the Authority there is a disposition of the share capital of its or its parent company in consequence of which any person who prior to that disposition had effective control of or its parent company ceases to have such effective control; and

(e) a holder of petroleum rights has failed to make payment (whether part or full) payable under the rules or the relevant agreement and such payment remains in arrears or unpaid for two subsequent months from the date on which the payment was due.

73. **Right of Government upon termination of a petroleum right.-** (1) When a permit, licence or lease has expired, or been revoked, surrendered or area relinquished wholly or partly, except if otherwise provided in the PCA the area of permit or licence or lease or area relinquished shall, so far as practicable, be reinstated in its original condition and where this is not practicable, the holder shall pay compensation to the Federal Government for damages suffered as a result thereof.

(2) When a petroleum right has expired, or been revoked, surrendered or area relinquished wholly or partly any installations and facilities relating thereto, or installations and facilities no longer required by the holder of the petroleum right for the area in question, may be taken over by the Federal Government, along with related equipment. This also comprises pipeline transportation and related facilities installed by a holder of petroleum right to secure shipment of petroleum.

(3) Upon taking over the installations, facilities and equipment pursuant to sub-rule (2), a holder of petroleum right shall be required to hand over such installations, facilities and equipment in such condition as may be reasonably expected under good international oilfield practices. No compensation shall be given for such takeover. Takeover involves an automatic cancellation of any security for debts or leasing arrangement related to such installations, facilities and equipment and title of the same shall be transferred to the Federal Government.

(4) If the Federal Government does not exercise its right to takeover the installations, facilities and equipment, the Federal Government may demand that removal shall be carried out by a holder of the petroleum right at its expense, in which case sub-rule (1) shall apply.

(5) At least one year prior to termination, a holder of the lease

shall submit to the Authority a plan for the orderly closing down and abandonment of its operations, and for the removal of the facilities or their transfer to the Federal Government, as the case may be.

74. **Indemnity.-** (1) The holder of a petroleum right shall effectively indemnify, defend and hold harmless the President, the Federal Government and each Provincial Government at all times against all proceedings, costs, charges, claims, losses, damages and demands whatsoever, including, without limitation, claims for loss or damage to property or injury or death to persons, caused by or resulting from work conducted by or on behalf of the holder of petroleum right, by any third party, or anything done or purporting to be done in pursuance thereof.

(2) The holder of a petroleum right shall, if required to do so by the Federal Government, take out and maintain such insurance, as the Federal Government may approve, against any of its liability under these rules.

(3) No suit, prosecution or other proceedings shall be initiated against the President, the Federal Government or Provincial Government (including any entity or agency of the Federal or Provincial Governments) for anything done or purported to have been done in good faith under these rules.

75. **Miscellaneous obligations.-** (1) A holder of petroleum right shall have an organization in Pakistan with sufficient competence and capacity to conduct all operations and activities pursuant to these rules and shall,-

(a) immediately after grant of petroleum right, but before commencing any operations in the relevant area, furnish to the Authority, the name and address of the manager, resident in Pakistan, under whose supervision operations are to be carried on in the permit, licence or lease area; and

(b) in writing, keep the Authority informed of the names, addresses and nationalities of sub-contractors employed by it from time to time.

(2) Any rent for a petroleum right under rules 29 or 41, maximum penalty under rule 80(3) or fee referred to in these rules, may be increased from time to time by reference to an appropriate consumer price index, which increase shall be effective prospectively after notification issued by the Government.

76. **Force majeure.-** (1) Failure on the part of a holder of petroleum right to fulfill any of the terms and conditions of the petroleum right

shall not give the President, or the Federal Government any claim against the holder of petroleum right or be deemed a breach of his obligations insofar as such failure arises from force majeure.

Explanation.- The expression "force majeure" includes an act of God, war, insurrection, riot, civil commotion, flood, lightening, explosion, fire, earthquake and any other happening which the holder of petroleum right could not have reasonably prevented or controlled, and shall not include a circumstance existing at the time of the grant of the petroleum right.

(2) If the ability to fulfil the terms and conditions is affected by force majeure, a holder of petroleum rights shall without delay give notice to the Federal Government, stating the cause of such inability, its efforts to remove such causes and remedy its consequences and steps to be taken to prevent the circumstances reoccurring and mitigating the consequences thereof.

(3) In case of force majeure, the duration of the petroleum right shall be extended for the period of the force majeure situation and for such further period as is required to resume the operations.

77. **Arbitration.-** Except as otherwise agreed to or expressly provided for in these rules, any question or dispute regarding the petroleum right or any matter or thing connected therewith shall be resolved by arbitration in Pakistan and in accordance with Pakistani laws.

78. **Tight Gas and Low BTU Gas.-** The provisions of the Tight Gas (Exploration and Production) Policy 2011 and the Low BTU Pricing Policy 2012 shall be deemed incorporated into these rules, as far as possible, and, in the event of any conflict with these rules, the relevant policy shall prevail.

78A. **Decisions and review.-** (1) All decisions to be made by the Federal Government, including the Authority under these rules or concerning a petroleum right, PCA or other agreement or plan, made in relation to a petroleum right shall be in writing, with reasons, made without undue delay.

(2) The Authority may prepare procedures to be followed by a holder of a petroleum right seeking a decision under any rule which shall be readily available to any person on request. If there are such procedures and a holder of a petroleum right reasonably satisfies the criteria contained therein, then the Federal Government or Authority shall, unless the circumstances reasonably justify otherwise, make a decision favourable to the petroleum right holder.

(3) The Authority shall prepare procedures as provided for in sub-rule (2) for, but not limited to, rules 9, 10, 22(8), 24, 28(1)(b), 36 and 60.

First option:

(4) (a) If a holder of a petroleum right is aggrieved by a decision of the Authority or if the Authority does not respond to a request in a timely manner, the regulations contained in the Fourth Schedule hereto shall apply. This will however be without prejudice to a party's rights under any provision of law or the PCA.

(b) Such regulations maybe amended by the Authority from time to time to apply prospectively and any changes shall be duly notified in the official gazette and a copy sent to all petroleum right holders.

Second option – an alternative to sub-rule (4), preceding, and the Fourth Schedule, have r.78B-

78B. **Independent Appeal Forum:-** (1) Any holder of a petroleum right aggrieved either by a decision of the Authority or where the Authority has not responded to a request in a timely manner, may without undue delay, make a written representation to the Authority. The Authority shall arrange to convene a review meeting with the holder of a petroleum right within seven days of the receipt of written representation.

(2) Within seven days of the review meeting, the Authority shall convey to the aggrieved party in writing its final decision with reasons and basis thereof.

(3) If the holder of a petroleum right is still aggrieved by the decision/final decision of the Authority if the Authority has still not responded, the aggrieved holder may request the Secretary, Ministry of Petroleum & Natural Resources after 14 days of his representation or the final decision of the DGPC as the case may be, for the matter to be submitted to the Forum of Appeals (FOA).

(4) The FOA shall comprise of the following three members including the Chairperson:

(i) A senior technical expert with at least 25 years' experience from the exploration and production industry who will be the member/Chairperson.

(ii) A senior commercial/regulatory expert from the exploration and production industry with at least 20 years' experience as member.

(iii) A senior legal expert with at least 15 years' experience in the exploration and production industry as member.

(iv) The FOA shall develop its own procedures and protocols for the conduct of hearings and consultation with other experts from the industry out of the lists maintained by the Ministry of Petroleum& Natural Resources as deemed necessary.

(5) The FOA shall convene no later than 25 days after the representation referred to in these rules and render its decision within thirty working days of such hearing or remand the matter back to the Authority to make, or revise, its decision within a specified period. The decision of the FOA shall contain detailed reasons and justifications in support thereof and will be sent to Secretary MPNR with a copy to the concerned parties. The decision shall be implemented by the Authority without delay unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions.

(6) Secretary MPNR will review the decision and issue a speaking order in the matter within a fortnight.

(7) The Government may issue suitable guidelines, from time to time, in relation to any aspect regarding FOA. Such guidelines may include appeal procedures, documents to be filed for the appeal and the payment of fees to the FOA.

(8) Availing of the remedies under these rules are without prejudice to a party's rights under any other provision of law or the PCA.

79. **Penalties.-** (1) Whosoever contravenes any provision of these rules shall, without prejudice to any other action that may be taken in relation to the contravention, be punishable as outlined in the Third Schedule.

(2) In imposing any fine under these rules, the Authority shall keep in view the principle of proportionality of the fine to the type, gravity, duration, frequency and repetition of the breach or failure. Prior to imposing a fine, the Authority shall, in writing, require the person liable to be affected to show cause, in writing, as to why the fine should not be imposed.

(3) The Authority may, from time to time, modify the Schedule of Fines (Third Schedule), including the categories and scale of fines, to apply prospectively, and provided no individual fine may exceed [fifty] million rupees.

(4) The imposition of a fine shall be without prejudice to any other legal right under these rules or legal and contractual rights of the Government.

80. **Repeal and savings.-** (1) Except as provided in sub-rule (2), the Pakistan Petroleum (Exploration and Production) Rules, 2009 are hereby repealed.

(2) Notwithstanding the repeal of the Pakistan Petroleum (Exploration and Production) Rules, 2009, where any person holds any permit, licence or lease granted, regranted or renewed under the said rules, the provisions of the said rules shall continue to apply to such permit, licence or lease, as if the said rules have not been repealed.

(3) Notwithstanding any provision to the contrary, rules34 and 35 shall also apply to petroleum rights as granted or renewed or applied for under, and defined in the Pakistan Petroleum (Exploration and Production) Rules, 1986 and Pakistan Petroleum (Exploration and Production) Rules, 2001.

Explanation: The expression "applied for" used under this sub-rule include the applications to be made under process under the relevant rules for the extension of lease term subject to a maximum of twenty-five year lease period.

FIRST SCHEDULE

(See rule 6)

APPLICATION FOR A RECONNAISSANCE PERMIT OR EXPLORATION LICENCE OR DEVELOPMENT AND PRODUCTION LEASE1

1 In the case of using this Schedule for an assignment under rule 10, references herein to "applicant" shall be replaced with "proposed assignee", including the execution block at the end. The application shall be made by the proposed assignor.

THIRD SCHEDULE

FINES

a) Table of fines and related offences is outlined below.

b) Before the imposition of a fine, a show cause notice shall be issued by the Authority to the offending petroleum right holder giving not less than 14 days from date of receipt of the notice to explain as to why a fine should not be imposed. This will be without prejudice to any other remedy available to the Government and the obligation for the default to be rectified, if possible.

c) If, in response to the notice, a reasonable written justification is given and the offence has been rectified as far as possible, no fine shall be imposed, or the fine shall be substantially reduced by the Authority.

d) Immediately following receipt of a response from a petroleum right holder, referred to in paragraph (c) or, if no response is received within the time stipulated in paragraph (a) the Authority shall inform the petroleum right holder in writing either that no fine shall be imposed or the amount of fine to be imposed, as the case may be.

e) Where it is possible to rectify an offence and it has not been rectified, an additional fine may be imposed within 14 days from the receipt of the notice referred to in paragraph (d), above, at the rate of up to 1% per day of the fine stipulated therein until the offence is rectified, or the petroleum right to which the fine relates has terminated or the total of the additional fine is equal to the fine stipulated under paragraph (d), above. Upon the additional fine no longer accruing, the Authority will intimate to the holder the total fine imposed, revising the notice referred to in paragraph (d), above.

f) The fine stipulated in the notice/intimation referred to in paragraph (d) or (e), as applicable, shall be payable within 14 days of receipt of the relevant communication. Failure to do so in itself, can be construed by the Authority as a material breach under rule 72(a).

g) In the event a letter communicating the imposition of a fine is not accepted for receipt, it shall be deemed to have been delivered under this Schedule on the working day immediately after the day it was sent by a recognised courier to the last address provided to the Authority, provided also sent on the same day by either facsimile machine or registered post.

h) In each case where any data, reports or information is to be provided by a right holder to the Government in a desired format, the Authority will give the right holder a reasonable opportunity to correct the completed format before issuing a show cause notice for the imposition of a fine.

i) Any fine levied shall be independent of, and without prejudice to, the

Government's rights under rule 72 (Power of revocation), rule 70 (Power to execute works), for breach of contract, or any other legal recourse. Furthermore, the payment of a fine will not extinguish the requirement to comply with the obligation in the rule, for which the fine was imposed, as far as possible.

j) Whilst fines are expressed in US$, these should be paid in Pakistan Rupees (PKR), determined at the prevailing exchange rate on the date of payment.

k) Each fine shall be imposed on the holders of a petroleum right collectively through the operator, with ultimate liability being joint and several (pursuant to rule 8).

l) A fine which remains unpaid following the date of the Authority's communication referred to in paragraph (d) and, if applicable, paragraph (e) it will result in a late payment surcharge of 1% per month (or part thereof) of delay beyond 14 days of receipt of the relevant notice or communication.

m) Fines for any one offence, including any additional fines due to delays thereto, may not exceed the cap prescribed in the Rules.

Table of offences attracting fines and the stipulated fines:

2013 Rules	**Rule title**	**Offence**	**Fine**
Rule 16(1)	Performance guarantees	Failure to provide acceptable performance guarantee(s)	10% of work unit value or $50,000, whichever is higher without prejudice to right of the DGPC to cancel a licence awarded.
Rule 21(1)	Rights and obligations of licence holder.	Production without approval	US$50,000, except, if the offence is for continuing EWT production beyond an approved EWT period would be US$25,000, without prejudice to the royalty due.
Rule 22(4)	Relinquishment.	Failure to relinquish when obliged to do so.	US$100,000.
Rule 28(3)	Work programme and other obligations not fulfilled.	Failure to pay liquidated damages or transfer of undischarged work obligation not approved.	US$200,000 in addition to the minimum expenditure obligation of undischarged work obligation.

Rules 29 and 41	Licence and Lease Rent.	Failure to pay rent.	The higher of US$5,000 or 50% of the rent due without prejudice to the rent due.
Rule 33	Survey expense.	Failure to undertake a survey when requested.	US$10,000.
Rule 36(3)	Development plan.	If development and production not carried out as per approved Development Plan and revision not approved or not sought.	If a material change (being 20% change from what was stated in the Development Plan in capital expenditure or rates or change in number of wells): - US$5,000 for seeking modification within six months of the modification being effective or US$25,000 thereafter. - If modification is not sought and is discovered by the Government then US$25,000 plus US$5,000 per complete month after the unapproved modification having been effective till discovered.
Rule 44	Petroleum measurement.	Failure to measure or weigh using the method agreed and/or failure to comply with any guidelines in that regard and/or failure to permit inspection of such equipment.	US$100,000.
Rule 45	Revocation of lease.	Failure to produce within required time limits.	US$250 per day for the first three months and US$1,000 thereafter, without prejudice to rights of revocation at any point.
Rules 46, 48, 49 & 52-55	Accounts Records and Reports.	Reports not kept/maintained or provided to DGPC/Government, as required.	US$10,000.

Rule 47	Period of record-keeping	Failure to maintain records as required.	US$25,000.
Rule 50	Data property of the Federal Government.	Data and information not submitted as required.	US$10,000.
Rule 50(5)		Disclosure of data to unauthorized party.	US$50,000.
Rule 51(2)	Power to inspect plants, records and accounts etc.	Refusal or delay in access of data to the Authority and non-provision of certified copies of record.	US$50,000.
Rule 57	Reports of discovery.	Making an impermissible announcement or statement.	US$50,000.
Rules 24(3) & 59(3) *[nb – r.24(3) is proposed to be deleted, if not deleted then include here]*	Flaring.	Unauthorized flaring of gas.	100% of the value of the unauthorized flared gas, determined on the basis of the price applicable to the block in $/MMBTU. Any show cause notice or intimation of fine may provide that the exact fine is to be calculated.
Rule 60	Commencement, testing and abandonment of drilling operations.	Development well included in the Development Plan spud without approval.	$10,000 (in addition to any fine under rule 36(3)).
		Exploration/appraisal/development well not included in a Development Plan spud without approval	US$50,000.
		Re-entry, side-tracking or hydraulic fracturing commenced without approval.	US$10,000.
		Abandonment of well (Exploration/Appraisal/Depleted/Unsafe) and abandonment of producing	US$50,000.

		zone without approval.	
Rule 63	Employment and training of Pakistani personnel.	Failure to submit report of number of Pakistani personnel to be employed and trained.	US$10,000.
Rule 64(6)	Joint exploration and development.	Failure to comply with direction to provide data following a request by DGPC.	US$25,000.
Rule 73(1)	Right of Government upon termination of a petroleum right.	Failure to reinstate where re-instatement is practicable. (note, if reinstatement not practicable, r.73(1) provides for damages to be paid.)	US$50,000 plus cost incurred by the Government to re-instate the area.
Rule 73(5)		Plan for abandonment/removal of facilities not submitted when required.	US$10,000 per month (or part thereof) of delay in submission of plan/informing the DGPC.
Rule 74(2)	Insurance	Failure to take out required insurance.	US$25,000.
Rule 75	Miscellaneous obligations.	Failure to set up an organization in Pakistan.	US$10,000 if the organisation is not set up in the first six months after the grant of a petroleum right.
Rule 79(2) *[r.79 proposed to be deleted.]*	Exercise of optional working interest by GHPL/PHC.	Did not offer working interest to GHPL/PHC.	US$10,000.
General.	Any other obligations provided in the 2013 Rules which are not fulfilled by the holder of a petroleum right and not expressly referred to above, penalty of up to US$1,000.		
Legal costs.	In addition to the fines stipulated herein or elsewhere in the Rules, any of the Government's legal fees (including lawyers and court/arbitration fees) incurred and documented for recovery of any of the fines as a result of non-payment following a show cause notice shall be separately recovered as a further fine, provided if the matter has been taken to court or arbitration, fine shall only be		

	payable if it has not been struck down as not payable.
PCA.	If there is a provision in a PCA or petroleum right whereby something has to be done, applied for or requested in a certain time by the right holder and DGPC has discretion to extend such time the DGPC may impose a fine of US$5,000 to consider a late application, without prejudice to its contractual rights or implying any obligation to accept or approve whatever is to be done, applied for or requested. If the DGPC ultimately accepts such delay it may do so on condition of an additional fine for the delay, of up to US$1,000 per day from the day something had to be done, applied for or requested.

FOURTH SCHEDULE

REGULATIONS FOR REVIEWS AND APPEALS

1. Any holder of a petroleum right aggrieved either by a decision of the Authority or if the Authority has not responded to a request within a timely manner may, without undue delay, make a written representation to the Authority. Such representation shall be provided in duplicate.

2. The Authority shall convene a review meeting within 14 days of receipt of such representation. At such meeting the aggrieved party shall have the opportunity of being heard and the Authority shall ensure that the holder has received such notice at least three working days prior to the meeting.

3. At the review meeting the Authority shall either explain the basis for the decision, change the decision, make a decision or agree to make a decision promptly after the meeting, as appropriate. Within seven days of the meeting, the Authority shall write to the aggrieved party setting out its final decision with reasons and basis thereof.

4. The Authority and/or any official he considers necessary and the officer concerned with the subject matter shall be present at the review meeting.

5. If within 14 days of either (i) if the holder of the petroleum right is still aggrieved by the final decision or (ii) the date of the review meeting, if no final decision was conveyed after the review meeting or (iii) the date of the written representation to the Authority, and the Authority failed to convene a review meeting, the aggrieved holder may request the Authority that the matter to be referred to a special tribunal as provided in regulation 6, below.

6. The special tribunal shall be comprised of the following three officers:

   (i) [Director General (Oil) or Director General (Gas), to be rotated on an annual basis, initially being the Director General (Oil);

   (ii) Senior officer of the rank of a Joint Secretary from the Ministry of Law, Justice and Human Rights;

   (iii) an officer, not less than the grade of an Additional Secretary, of the Ministry of Petroleum and Natural Resources who shall be the chairperson.]

   (iv) In the event any of the appointed officers are not in a position to attend such special tribunal hearing on a given date, such officer may appoint any other senior officer who directly reports to him to attend. The special tribunal may develop its own procedures and protocols for the conduct of hearings before it.

7. The special tribunal shall convene in the offices of the Ministry of Petroleum and Natural Resources, no later than 25 days after the request referred to in sub-regulation 5 and the Authority shall have ensured the holder received notice of the meeting at least seven days prior to the meeting.

8. Within seven days of such hearing the special tribunal shall either affirm a decision, change a decision, make a decision or remand the matter back to the Authority to make, or revise, its decision.

9. The decision of the tribunal shall be with reasons and copied to the concerned parties. The decision shall be implemented by the Authority within 14 days, or up to 21 days, to be justified in writing, unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions.

10. In the event of a failure, within the prescribed time, (i) to convene a review meeting, or a special tribunal hearing, or (ii) to ensure the aggrieved party has received notice sufficiently in advance of such meeting or special tribunal hearing or (iii) for the review meeting or special tribunal to give its response, the Federal Government shall be liable to the penalty provided in regulation 11.

11. The penalty referred to in regulation 10, shall be an entitlement of a holder of a petroleum right to deduct from any rent payable under these rules ten thousand rupees per day of delay, up to a maximum of

one hundred thousand rupees. In the event the grievance relates to more than one petroleum right the said penalty shall be equally divided amongst the holders of such petroleum rights. A summary of any such penalties arising in a quarter shall be sent by the Authority to the Ministry of Finance and be made available, on a non-confidential basis, to any party on request, on payment of a reasonable fee.

12. The Government may issue guidelines, to be reviewed from time to time, in relation to any aspect of these regulations. Such guidelines may include procedures, such (a) as the format of documents to be filed for the appeal or (b) provision for nominal costs of appealing to the special tribunal or (c) costs for abuse of the review and appeal process.

13. Availing of the remedies under these regulations are without prejudice to a party's rights under any other provision of law or contract.

ANNEXURE 10: PAKISTAN ONSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2009

Government of Pakistan

Ministry of Petroleum and Natural Resources

***

Islamabad, the June, 2009

NOTIFICATION

S.R.O. (I)/2009,- In exercise of the powers conferred by section 2 of the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948 (XXIV of 1948), the Federal Government is pleased to make the following rules, namely:-

THE PAKISTAN ONSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2009

PART I - GENERAL

1. **Short title, application and commencement.-** (1) These rules may be called the Pakistan Onshore Petroleum (Exploration and Production) Rules, 2009.

   (2) These rules shall be applicable to the onshore areas of Pakistan and shall regulate all petroleum rights except those relating to Coal Bed Methane.

   (3) They shall come into force at once.

2. **Definitions.-** In these rules, unless there is anything repugnant in the subject or context,-

   (i) "allowed transportation cost" means actual cost incurred for moving the petroleum produced and saved from the field gate to the point of determination of value of the petroleum;

   (ii) "arms length sales" means the sales made freely in the open market, in freely convertible currencies between willing and

unrelated sellers and buyers having conflicting interests and in which such buyers and sellers have no contractual or other relationship, directly or indirectly, or any common or joint interest as is likely to influence selling prices but shall exclude the value of sales (whether direct or indirect, through brokers or otherwise) involving an affiliate, sale between Government to Government entities, counter trades, restricted or distress sales, sales involving barter arrangements and generally any transactions motivated in whole, or in part, by consideration other than normal commercial practices;

(iii) "Authority" means the Director General Petroleum Concessions (DGPC) or any officer or authority appointed by the Authority to exercise the powers and perform the functions of the DGPC.

(iv) "coal bed methane (CBM)" means gas produced by drilling wells within the coal seams, that is, methane physically associated with coal which includes methane absorbed, adsorbed, and contained in pores and fractures and produced within coal seams which has such distinct biomarker or foot print that conclusively proves to have been principally derived from a biogenetic source of adjacent coal seams;

(v) "commercial discovery" means a discovery of petroleum which, in the opinion of a holder of a licence or lease, would, on the basis of one or more wells, justify, particularly by its quality, quantity, gravity, place and depth where found, its economic development and assures a continuous commercial production for a reasonable period.

(vi) "commercial production" means production of petroleum out of a commercial discovery which production ensures at least the recovery of all expenditure directly attributable to such commercial discovery within a reasonable time and earning of a reasonable profit;

(vii) "company" or "companies" means a body corporate or other entity established or authorized to do business under the laws of Pakistan, which is engaged in or seeking to engage in petroleum operations and unless otherwise specified, the expression "companies" refer to both local and foreign companies;

(viii) "discovery" means the finding of a deposit of petroleum from an exploration well not previously known to have existed within the area held by a holder of a petroleum right which produces a flow of petroleum at the surface and is measurable by the conventional petroleum industry testing methods;

(ix) "discovery area" means an area, within the area of a licence or lease which encompasses the accumulation of petroleum in a geological entity limited by lithological boundaries, structural boundaries, the contact zone between petroleum and the limiting water level, or a combination thereof, and so that the petroleum included everywhere is in pressure, fluid or gas communication;

(x) "environmental management and protection plan" means an environmental management and protection plan submitted to and approved by the concerned authority under applicable law;

(xi) "exploration well" means a well which tests clearly a separate geological entity, be it of structural, lithologic or facies of pressure nature, penetrating all prospective intervals at the particular location;

(xi-A) "extended well test" or "EWT" means the extended well testing or early production, as provided in rule 24;

(xii) "field gate" means a point, for the purpose of determination of royalty leviable on petroleum produced and saved from a licence or lease area as well as for the purpose of satisfying national market obligations pursuant to rule 43, which will be determined as follows;

(a) for the purpose of natural gas, the field gate shall be located at a distance not exceeding twenty-five kilometers from the outlet flange of the production facility unless a longer distance is agreed by the licensee or lessee;

(b) for the purpose of crude oil and condensate, the field gate shall be deemed to be the nearest operating refinery; and

(c) for the petroleum other than sub-clauses (a) and (b) the field gate shall be loading arm at the production

processing facility unless otherwise approved by the Authority;

(xiii) "good international oilfield practices" means generally the reasonable and prudent diligent use of policies, procedures, methods, equipments and material that results in effective and efficient exploration, appraisal and development of petroleum including optimum recovery of petroleum from a discovery area with minimal impact on the environment as permitted and use of efficient and effective practices for transforming produced petroleum into marketable form and delivering it to the market, having due regard for safety and other factors and means in particular, knowledge of and compliance with the latest standards developed by relevant professional institutions including but not limited to:-

(a) the American Gas Association (AGA);

(b) the American Petroleum Institute (API);

(c) the American Society of Mechanical Engineers (ASME);

(d) the American Society for Testing and Materials (ASTM);

(e) the British Standards Institute (BSI);

(f) the International Organization for Standardization (ISO); or

(g) any other organization deemed acceptable by the Authority.

(xiv) "licence" means an exclusive right to explore for petroleum within a designated portion of the onshore area under and pursuant to these rules, which shall be substantially in the form as set out in Part II of the Second Schedule;

(xv) "petroleum" means all liquid and gaseous hydrocarbons existing in their natural condition in the strata, as well as all substances including sulphur, produced in association with such hydrocarbons, but does not include basic sediments and water;

(xvi) "petroleum concession agreement (PCA)" means an onshore agreement entered into pursuant to these rules between the President of the Islamic Republic of Pakistan and a company or

companies for the purpose of exploration, development and production of petroleum other than CBM;

(xvii) "petroleum right" means a permit, licence or lease issued under these rules;.

(xviii) [Omitted] ;

(xix) "President" means the President of the Islamic Republic of Pakistan;

(xx) "record" means all record pertaining to the activities of a holder of a petroleum right including but not limited to an account, book, return statement, report, chart, table, diagram, form, survey, image, invoice, letter, map, agreement, memorandum, plan, core, sample, voucher, financial and non-financial information, and anything containing information whether in writing or in electronic form or represented or produced by any other means and the result of recording of electronic data, its processing systems and programme to illustrate what the systems and programme do, and how they operate without compromising proprietary rights, if any, related to the hardware and software;

(xxi) "Schedule" means the schedule to these rules

(xxii) "significant gas discovery" means a discovery of natural gas which has tested significant flow rates of natural gas from one or more reservoirs and is estimated to be capable of continuous production over a reasonable period which in the opinion of a holder of a petroleum right could be declared a commercial discovery in the future provided, inter alia that adequate gas pipeline transportation facilities are installed and gas markets have been sufficiently developed for sale of natural gas on commercial basis;

(xxiii) "spill" means a discharge, emission or escape of petroleum, other than one that is authorized by applicable law;

(xxiv) "strategic partner" means a foreign state owned and controlled company allowed to explore for and develop petroleum within a given acreage following direct negotiations between the Federal Government and the government of the strategic partner;

(xxv) "wellhead value or value" means the value of Petroleum as defined in rule 39;

(xxvi) "waste" or "wasted" means waste as understood in the petroleum industry and shall include working methods which, in accordance with good international oilfield practices are considered wasteful;

(xxvii) "work unit" means a unit of work for the purpose of measuring the quantum of Minimum Work Programme or contained in the respective PCA; and

(xxviii) "year" means a period of twelve consecutive months according to the Gregorian calendar.

3. **Administration and regulation.-** The Authority shall be responsible for the administration and regulation of these rules and the execution of all duties imposed upon it by these rules, or pursuant to any agreement or any other function entrusted by the Federal Government. Notwithstanding anything to the contrary contained herein, in the administration and application of the rules, the Authority may give due consideration to relevant facts and grant such relaxation as is deemed necessary in larger public interest in terms of section 5 of the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948 (Act xxiv of 1948).

4. **Division of area into blocks and zones.-** (1) Any area of Pakistan may be divided into blocks of such sizes and shapes as the Federal Government may determine from time to time;

(2) The licensing zones shall be as per map attached as Annexure –I to these rules.

5. **Application for petroleum right.-** (1) Any company whether incorporated in Pakistan or abroad may apply in accordance with these rules for,-

(a) a reconnaissance permit hereinafter referred to as the permit;

(b) an exploration licence hereinafter referred to as the licence; and

(c) a development and production lease hereinafter referred to as the lease

6. **Manner in which application may be made for petroleum rights.- (**1) Every application shall be made in writing in the form set out in the First Schedule, addressed to the Authority. Every

application shall be entered in the register to be maintained by the Authority.

(2) The applicant shall provide details of any changes in the status or experience of the company that has occurred since the company has applied for the petroleum right.

(3) With every application there shall be deposited -

(a) a fee of fifty thousand rupees if the application is for the grant, extension or renewal of a permit;

(b) a fee of one hundred thousand rupees if the application is for the grant, extension or renewal of a licence; and

(c) a fee of two hundred thousand rupees if the application is for the grant, extension or renewal of a lease.

(4) To the application there shall be attached five copies of the map upon which shall be delineated by the boundaries of the areas in respect of which a petroleum right is applied for. The map shall be taken from the relevant Survey of Pakistan map of appropriate scale. If the area is identified by a block system notified under rule 4, a reference to the relevant block number is sufficient.

(5) The applicant shall furnish additional information as may be requested by the Authority within three months from the request thereof, failing which the application shall be rejected, unless the Authority determines otherwise.

(6) Notwithstanding the above, the Federal Government may assign the status of strategic partner in accordance with the prevailing policy and these rules, however, they will be given privileged award of petroleum rights without following competitive bidding for certain blocks selected by the Authority on mutually acceptable terms and conditions.

7. **Separate application for each area.-** (1) Where an applicant seeks a petroleum right over two or more areas which are not contiguous, the applicant shall apply for separate petroleum rights over each such area, unless otherwise permitted by the Authority.

(2) Nothing in these rules shall prevent more than one petroleum right being granted to the same applicant.

8. **Several holders of a petroleum right.-** Where the petroleum right is held by two or more companies, they shall be liable jointly and

severally towards the Federal Government for obligations and liabilities, resulting from their activities pursuant to the petroleum right. The companies shall, with the prior written approval of the Federal Government, appoint an operator from amongst them, except that such special arrangements as to the operatorship shall be applicable as may be approved by the Federal Government under rules 64 and 66. No change in such appointment shall be made without the Federal Government's prior approval.

9. **Petroleum right not assignable without approval.-**A petroleum right or any working interest therein shall not be assigned without the previous approval in writing of the Government .

10. **Method of making applications for assignments.-**An application by a holder of a petroleum right for approval to the assignment of a petroleum right shall be made in writing addressed to the Authority, and shall be accompanied by a fee of fifty thousand rupees for each assignee. With the application, the applicant shall furnish the like particulars in respect of the proposed assignee as are required to be furnished in the case of applicants for a petroleum right.

11. **Power to grant or refuse petroleum right.-** Subject to rules 17, 21, 22, 23, 30 and 34, the grant of a petroleum right, extension or renewal thereof, shall be decided by the Authority. In the event of refusal to grant such petroleum right, extension or renewal thereof, the Authority shall provide the reasons thereof.

12. **Lapse of entitlement to petroleum right.-** Where a petroleum right is not executed within three months after approval of the application by the Authorityhas been conveyed to the applicant, the entitlement of the applicant to such petroleum right shall be deemed to have been lapsed, unless, the Authority considers that the delay is not attributable to the fault of the applicant.

13. **Surrender of petroleum right.-** (1) Subject to the terms of the PCA, a holder of a petroleum right wishing to surrender its right shall give the Authority one month's notice of its intention to do so, and if the holder of a Petroleum right fulfills all its obligations under the petroleum right, including the obligations pursuant to rule 73 or if such holder of a petroleum right pays liquidated damages pursuant to rule 28, it shall on the expiry of the notice subject to sub-rule (2) be entitled to surrender its petroleum right. On doing so the holder of a petroleum right shall not be obliged to pay rent for the remaining period of the petroleum right.

(2) In case more than one company holds a petroleum right and less than all the companies wish to surrender the right, reasonable opportunity shall be provided to the other company or companies to acquire (as provided in sub-rule (3)) the interest from the company or companies wishing to surrender. Provided such opportunity is given and demonstrated to the Authority and subject to the terms of the relevant PCA and these rules, a licence/lease may be surrendered, in its entirety, by less than all the companies which hold such petroleum right by giving notice as provided in sub-rule (1). In the event more than one company wishes to acquire the interest of a company which wishes to surrender its interest, such surrendered interest shall be offered to each on a pro rata basis.

(3) Except as the companies may agree otherwise, any opportunity to be given to acquire an interest under sub-rule (2) shall be without charging for such interest and in the event there is any outstanding minimum work obligation, the transferring party, wishing to surrender, shall pay to the acquiring party or parties a proportionate share of liquidated damages which could then have been charged at that time pursuant to rule 28, based on its participating interest.

14. **Submission and publication.-** (1) Application for petroleum right may be submitted, either:-

(a) at the initiative of the applicant, or

(b) on the basis of an invitation from the Authority to submit competitive bids.

(2) In case of clause (b) of sub-rule (1), a notice for competitive bidding may be published in such national or foreign publications as the Federal Government may determine.

15. **Terms and conditions of a petroleum right.-** Every permit, licence and lease shall, subject to such modifications as may be made by the Authority, be in the form set out in Parts I,II and III, as the case may be, of the Second Schedule and shall include such additional conditions relating to ancillary or incidental matters as the Authority may deem fit to insert.

16. **Performance guarantees.-** (1) The Authority shall require successful applicants for petroleum exploration licences to furnish an irrevocable and unconditional, and in an acceptable form, a guarantee or guarantees, with respect to the obligation and liabilities of the holder of a licence on or before the execution of the petroleum exploration licence.

(2) The Authority shall notify as the requirement of the guarantee which may include the following namely:-

(a) a bank guarantee equal to twenty five per cent of the minimum financial obligation from a bank of international repute acceptable to the Authority;

(b) parent company guarantee from a company of international repute;

(c) in case of local production, first and preferred charge on petroleum production;

(d) in case of other local assets, first and preferred charge on assets; and

(e) deposit in an escrow account.

(3) In the event the successful applicant elects to provide any guarantee other than a parent company guarantee, the guarantee so provided shall only be released in case all work obligations including but not limited to social welfare, training, data, rental etc. are fully discharged. The Authority shall have the right to recover the due amount for non-performance of all such obligations from the performance guarantee.

PART II - PERMIT FOR RECONNAISSANCE SURVEYS

17. **Grant of permit.-** The Authority may grant a permit, in the form prescribed in Part I of the Second Schedule, to any company to carry out reconnaissance surveys over such areas and on such terms and conditions as it may determine in each case and include the following conditions, namely:-

(i) the grant of the permit shall not imply that the holder of a petroleum right shall subsequently be entitled to the grant of a licence over the areas covered by the permit;

(ii) On the conclusion of the survey, the holder of a petroleum right may apply for a licence in accordance with these rules, but shall not be entitled to claim a relaxation of rules for the grant of a licence applied for by him. However, the Authority upon a request of the holder of a petroleum right , may allow adjustment of the work carried out or expenditure incurred, excluding any work or expenditure related to a multi-client arrangement unless otherwise agreed, against the minimum

work or expenditure obligation under a licence covering the area of permit, if granted;

(iii) unless otherwise stipulated in the permit, the holder of a petroleum right shall have the non-exclusive right to undertake, within the designated areas, petroleum reconnaissance by such geophysical, geological, geo-chemical and geo-technical methods and such other related work including geological information bore-hole, as may be stipulated in the permit;

(iv) the holder of a petroleum right shall submit a copy of all the maps, plans, graphs and magnetic tapes and related data as and when these become available and a complete report of the survey not later than six month of the completion of the survey;

(v) the holder of a petroleum right shall comply with all instructions which the Authority may issue regarding the use of maps, plans, graphs and other data generated or collected by the holder of a petroleum right in the course of the reconnaissance survey;

(vi) the permit shall be valid for a period of one year and may, at the discretion of the Authority be renewed for a period of up to one year;

(vii) a permit does not extend to areas already covered by a licence or a lease unless otherwise specified by the Authority pursuant to sub-rule (1) of rule 66 ;

(viii) the Authority may grant a licence, or a lease, to any person at any time for any part of an area covered by a permit except as provided therein;

(ix) the holder of the permit shall perform work stipulated in the permit with due diligence; and

(x) the holder of the permit shall for each square kilometer or part thereof comprised in the permit area pay to the Federal Government rent at the rate of two hundred rupees per year.

PART III - LICENCE FOR PETROLEUM EXPLORATION

18. **Grant of licence.-** The Authority may grant an exclusive petroleum licence for exploration over any area on such conditions as are

specified in Part II of the Second Schedule including other terms and conditions as the Authority may determine.

19. Size of area.- A licence shall not be granted in respect of any area exceeding twenty-five hundreds square kilometers.

20. **Shape of area.-** Each separate area in respect of which a licence is granted shall be, as far as possible, compact, bounded by straight lines and marked with permanent physical boundaries.

21. **Rights and obligations of licence holder.-** (1) Subject to the provisions of these rules, the licence gives a holder the exclusive right to undertake, within the licence area, all activities related to reconnaissance and exploration, including drilling for petroleum. The holder of the licence shall not be entitled to extract any petroleum from discoveries other than such test and early production as provided for in rule 24.

(2) A holder of a licence shall perform the work programme stipulated in the licence for initial term (phases I or II, as set out in rule 22) and any extension or renewal, along with other obligations as referred to in these rules.

22. **Period of licence, relinquishment and extension of area.-** (1) The initial term of a licence shall not exceed five years keeping in view the surface and geological condition of the licence area. The initial term of the licence shall comprise two phases with first three years period designated as "phase-I" and the next two years period as "phase-II". Minimum work programme for phase-I shall be determined through competitive bidding whereas a firm exploration well will have to be committed for entering phase-II.

(2) The Authority may, subject to the terms of the licence, grant up to two renewals after the initial term. The term of each renewal shall be up to two years. However, to avail the renewal of maximum term of two years a reasonable work programme comprising at least an exploration well shall have to be offered keeping in view the surface and geological conditions of the licence area. A holder of a licence desiring to obtain such renewal shall make an application at least three months before the expiry of the licence or such lesser period as the Authority may allow.

(3) The initial term or renewal of a licence shall be extended by the Authority for drilling an exploration well in progress for the period of drilling. In the event of extension, granted for a well under

drilling the Authority may grant a further extension for up to three months for post well studies on the request of a holder of a licence.

(4) A holder of a licence shall comply with the following part relinquishment schedule during the term of the licence namely:-

(a) at the end of phase-I – thirty per cent of the original licence area;

(b) at the end of phase-II – twenty per cent of the remaining licence area; and

(c) on or before the second renewal- ten per cent of the remaining licence area.

(5) A holder of the licence shall be entitled to renewal if it-

(a) has complied with the work programme and all other obligations of preceding term of the licence; and

(b) has committed to drill during the renewal period at least an exploration well prior to the renewal.

(6) In the case of several holders of petroleum rights, upon a written request of the operator, and in other cases on the request of petroleum right holder, the Authority may, on case to case basis, extend the term of the licence, or any year of a licence on the following grounds:-

(a) if seismic and drilling services are not readily available for the timely discharge of minimum work obligation, a proof to this effect will be required before the Authority considers accepting or denying a request for extension of an exploration licence. Such a request for extension will be required to be made after the holder of the exploration licence has exhausted all other options including but not limited to pooling resources to undertake coordinated activities with other holders of the petroleum right, if possible;

(b) if a holder of an exploration licence commits to undertake additional work which is equivalent to at least twenty per cent of the minimum work obligation of the then current year, or if no specific separate work obligation for such year, then the current phase or renewal;

(c) if a holder of an exploration licence makes additional accelerated area relinquishment equivalent to twenty per cent of the original licence area; or

(d) Any technical considerations which hinder petroleum operations.

(7) Notwithstanding anything contained in this rule, in no circumstances will an extension or extensions provided in sub-rule (6), cumulatively exceed three years during the currency of an exploration licence.

(8) Notwithstanding anything contained in these rules, upon a written request of a holder of a licence, the Authority may, on case to case basis, revise the co-ordinates of the area covered under the licence, provided, the geological structure extends into an adjoining free area, and further provided that the revised area will not exceed the area stipulated in rule 19.

(9) (a) In the event a holder of a licence has applied for an extension or a renewal, prior to the expiry of a licence, the licence shall be deemed extended until approval is given or denied.

(b) If approval for the renewal or extension is granted, the renewal or extension applied for will be effective from the date of approval or the term was to expire, whichever is later, unless such application was made less than three months or, in the case of an extension under sub-rule (3), one month, prior to the expiry of the licence, in which case it will be effective from the date the term was to expire.

(c) If a holder of a licence applies for an extension or renewal within three months after the licence has expired, the Authority may, on a case to case basis, still approve such application, provided the holder of a licence pays a penalty of five hundred thousand rupees per day after the expiry, without prejudice to any obligation to pay liquidated damages. Pending decision of the Authority to such an application the licence shall be deemed extended and if approval is given the renewal or extension shall be effective from the date the term was to expire.

(d) Rent, as provided in rule 29, shall be payable for any deemed extended period provided in sub-rules (a) or (b), unless an application for renewal or extension is made at least three months or, in the case of an extension sought under sub-rule (3), one month, prior to the expiry of the licence, in which case no rent shall be payable for the deemed extended period. Any such rent for such period shall not be payable again on account of the renewal or extension being effective

from the date the licence was to expire. Rent shall be payable on a pro rata basis for any part of the extended period not being a complete year.

23. **Appraisal, evaluation and renewal.-** A holder of a licence having made a discovery of petroleum shall perform such additional work so as to enable the holder of the licence to make timely determination of a discovery as a commercial discovery. Subject to the holder of the licence having complied with the work programme and his other obligations shall be entitled to renewal of the licence for two years for the purpose of expeditious appraisal and evaluation of the discovery. The renewal shall only apply to the discovery area. The term of the appraisal renewal may be extended further for such period as may be approved by the Authority on case to case basis following a written request of the holder of the licence.

24. **Extended well testing.-** (1) A holder of a licence may undertake extended well testing or early production, during the appraisal phase and before grant of lease provided the Authority is informed in advance or if such EWT involves flaring of gas, requiring approval of the Authority, or such EWT is to exceed one month, approval of the Authority shall be obtained in advance. The holder of the licence shall comply with the requisite royalty, tax, rentals of the discovery area and training and social welfare obligations as applicable under the lease.

(2) In the event a request for approval of EWT is to be made under sub-rule (1), the request shall include associated temporary production facilities and shall be made to the Authority providing information with regard to,-

(a) technical justification for EWT;

(b) proposed duration for EWT; and

(c) a plan for disposal of gas during the proposed EWT period.

(3) If approval of the Authority is sought for EWT, it shall not be unreasonably withheld or delayed.

(4) Production during EWT and post declaration of commerciality, would be considered as commercial production for the purpose of payment of production bonus, royalty and all other obligations as are applicable to lease. However, the first production bonus would be applicable upon the earlier of commencement of

commercial production subsequent to grant of lease or production reaching the first level that production bonus is payable on volume produced.

25. **Retention of gas discovery.-** (1) In the case of a significant gas discovery in a licence in Zone I or Zone II as specified in annexure I, the Authority may extend the period of licence, to the extent of the discovery area, by up to five years for onshore licences, on a case to case basis, provided such discovery may be declared a commercial discovery when adequate gas pipeline transportation facilities are installed and gas markets have been sufficiently developed for sale of natural gas on commercial basis.

(2) A discovery containing oil and gas or oil, gas and condensate is considered to be a gas discovery for the purposes of obtaining a retention period only when liquids production is not considered economic without marketing the gas stream.

26. **Declaration of commercial discovery.-** (1) Upon completion of its evaluation, the holder of a licence may submit a notice for declaration of commercial discovery to the Authority along with a report in accordance with clause (d) of rule 55 and general plan for development. After issuing such a notice, the holder of the licence shall be entitled to apply for the grant of a lease in respect of discovery area in accordance with these rules.

(2) The lease shall prevail over the licence within the area designated in the lease, but the licence continues to be valid outside such lease area without modifying the rights and obligations pursuant to the licence. In the event of a licence continuing to be valid beyond the term of a lease, or on any part of the area of a lease being reduced, the license shall automatically again extend over such lease area, provided such area or areas are contiguous with the remaining licence area and further provided that the total area of licence does not exceed the area provided in rule 19, less any reductions required under rule 22(4).

(3) Upon termination of the licence, a holder of a Licence shall relinquish the licence area except the area covered by the lease or leases granted to him.

27. **Extension pending grant of lease.-** If a holder of a licence, before the expiry of the licence, has applied for a lease, the duration of the licence notwithstanding the provisions of sub-rule (7) of rule 22 shall be extended until the lease has been granted or refused

28. **Work programme and other obligations not fulfilled.-** (1) Where upon the surrender, revocation or the expiry of a licence, the obligations pursuant to rules 21,and 22 have not been fulfilled, holder of a licence shall;-

(a) pay to the Government such sum by way of liquidated damages which correspond to the minimum expenditure of undischarged work obligations as set forth in the licence within a period of thirty days from the surrender, revocation or expiry of the licence; or

(b) transfer undischarged work obligation committed under rules 21 and 22 to another area with the approval of the Authority if it is demonstrated to the satisfaction of the Authority that there is no drillable prospect in the licence area. In the event that a petroleum right is held by more than one company, the undischarged work obligation shall be monetized, based on liquidated damages obligations and divided between the companies in accordance with their interests in the right. Any company not transferring a work obligation to an area of its choice shall pay its pro rata share of liquidated damages, without prejudice to rule 8.

(2) Where a holder of a petroleum right has not fulfilled other obligations relating to social welfare, rent, data, training, etc., the guarantees submitted by the holder of a petroleum right shall not be returned till the obligations are discharged first or the holder of a petroleum right of the remaining other obligations provides replacement guarantee(s) equivalent to the value, as determined by the Authority.

(3) In case the liquidated damages payable pursuant to clause (a) of sub-rule (1) are not paid or the transfer of undischarged work obligation to any other area(s) pursuant to clause (b) thereof, is not approved, the Authority may, in addition to any other action or remedy including black listing of a holder of a licence, cancel a lease granted to the holder in respect of any area comprised within the area of the licence which has been surrendered, revoked or expired.

(4) Where a holder of a licence is in default of his work or other obligations and has paid liquidated damages as provided in sub-rule(1)(a), the holder of the licence shall be deemed to have complied with such work obligation for the purpose of rules 21and 22.

29. **Rent.-** (1) A holder of a licence shall for each square kilometer or part thereof comprised in the licence area pay rent to the Federal Government at the following rates, namely:-

(a) in respect of initial term of five years of the licence under sub-rule (1) of rule 22,

(i) thirty-five hundred rupees for the whole term of five years; or

(ii) eight hundred rupees in respect of each year of the initial term of five years of the licence; and

(b) in respect of each renewal or extension of the licence under sub-rule (2) or (6) of rule 22 or rules 23 or 25,-

(i) five thousand rupees for each renewal; or

(ii) two thousand seven hundred and fifty rupees for each year or pro rata in the case of part of a year of each renewal or extension.

(2) Notwithstanding any provision of a licence, rent shall be adjusted as provided for in rule 75(2) and not by any adjustment clause in a licence, so as to ensure that the rent retains its value in real terms.

(3) The rent shall be paid in advance of the period to which it relates.

PART IV - LEASE FOR PETROLEUM DEVELOPMENT AND PRODUCTION

30. **Grant of development and production lease.-** (1) The Federal Government shall on being satisfied that a commercial discovery has been made and that the terms and conditions of a licence, including the work programme, have been duly observed and performed, or that a holder of the licence is in satisfactory progress with the work programme, and that the requirements of rule 36 have been duly complied with by the applicant, grant a lease in the form prescribed in Part III of the Second Schedule in respect of discovery area within the licence area granted to the applicant.

(2) The Federal Government may grant a single lease covering more than one discovery area within the same licence area provided

that such discovery areas are juxtaposed vertically in which case the lease shall be granted on the basis of the combined discovery area

(3) In the event that any part of a discovery area extends beyond the lease into an open acreage, the Federal Government may upon being satisfied that the discovery area extends into such open acreage and subject to such conditions as deemed necessary, readjust the subsisting boundaries of the lease so as to include such part of the open acreage on which the discovery area extends.

31. **Rights of lease holder.-** A holder of a lease shall have an exclusive right to perform activities in connection with the development and production of petroleum in the area covered by the lease, including the right to undertake transportation of petroleum, subject to approval pursuant to rule 37.

32. **Shape of discovery area.-** Each discovery area in respect of which a lease is granted shall be laid out in straight lines between well defined points as far as practically possible and must also be marked with permanent physical boundaries.

33. **Survey expense.-** Before a lease is granted by the Authority the applicant shall, if so required by the Authority, at his own expense cause a topographical survey of the land specified therein to be made to scale normally required for petroleum right purposes, and approved by the Survey of Pakistan, and submit six copies thereof to the Authority.

34. **Lease period.-** (1) A lease shall be for the period for which application has been made and supported by relevant technical and other information but shall not exceed twenty-five years. In the event the lease is initially granted for a period less than twenty-five years, the same may be extended from time to time, such that the total overall period of lease does not exceed 25 years provided commercial production continues.

(2) Upon application from a holder of a lease, the Authoritymay renew the lease for a period, not exceeding five years, if commercial production is continuing at the time of the application, subject to the following, namely:-

(a) the request for a renewal along with revised development plan is submitted to the Authority not less than one year prior to expiry of initial term; and

(b) the area has been producing on a regular commercial basis on the date of the request.

35. **Re-grant of lease after expiry of lease term.-** (1) For grant of petroleum rights after the expiry of lease period, the Authority shall invite bids one year before the end of the lease period from the companies participating in the bidding over the lease area, in relation to any producing field for an additional ten years or such lesser period for which commercial production is expected to continue. The bids shall be evaluated on the basis of a development plan and signature bonus. The Authority may keep re-granting a lease, in a similar manner, as long as production is continuing.

(2) Each bidder shall provide a bid bond of ten percent of the offered signature bonus at the time of bidding along with a development plan.

(3) The existing lease holder can match the highest signature bonus bid by increasing 25% value thereon as allowed by the Federal Government on case to case basis, however, this shall not be claimed as a matter of right.

(4) The Authority shall be under no obligation to grant any extension.

36. **Development plan.-** (1) Together with the application for initial lease term, a holder of a petroleum right shall enclose a development plan which shall contain such information as the Federal Government shall prescribe by way of procedures provided in rule 77A including but not limited to the following, namely:-

(a) proposals for the development and production of each discovery area including possible alternatives and proposals relating to the disposition of associated gas;

(b) proposals relating to the spacing, drilling and completion of wells, the production and storage installations and transport and delivery facilities required for the petroleum production. Such proposal shall cover,-

(i) the estimated number, size and production capacity of production facilitates and platforms, if any;

(ii) estimated number of production wells;

(iii) particulars of production equipment and storage facilities;

(iv) particulars of feasible alternatives for the transportation of petroleum including pipelines; and

(v) particulars of equipment required for the operations;

(c) the production and sales profiles for crude oil, condensate and natural gas and other products for the life of the field;

(d) investment plans including cost estimates of capital and operating expenditure;

(e) profitability estimates;

(f) proposals related to the establishment of processing facilities and processing of petroleum in Pakistan;

(g) safety measures to be adopted in the course of development and production operations including measures to deal with emergencies and protection of environment;

(h) a description of the organization in Pakistan, pursuant to these rules;

(i) contingency and abandonment plans; and

(j) time schedule of all activities covered in the development plan clearly specifying the critical milestones proposed and measures to achieve such milestones.

(2) The plan requires the approval of the Federal Government. Such approval shall not be unreasonably delayed provided the requisite information has been provided to the Federal Government.

(3) After approval of the plan, a holder of a Lease shall carry out development and production in accordance with the plan, subject to such modifications as may be necessary and are approved by the Authority from time to time.

37. **Transportation of petroleum.-** (1) Subject to approval in accordance with this rule, a holder of a petroleum right has the right to lift and transport petroleum from the licence and lease area, either through transportation facilities owned wholly or partly by himself or through access to transportation facilities owned by a third party and such approval shall not be unreasonably withheld or delayed.

(2) In case the holder of a petroleum right intends to construct its own transportation system for which tariff will be claimed, it shall submit to the regulator concerned, an application comprising the

proposed organization and implementation of the transportation system. In case of pipeline transportation, the application shall also comprise the design, construction and route plans and any other information as required by the concerned regulator under the relevant laws.

(3) The regulator concerned may, on giving its approval, stipulate in accordance with the applicable policy such conditions as are reasonable and necessary to secure a rational system of transportation of petroleum and it may-

(a) require that several holders of petroleum right install jointly owned transportation facilities; and

(b) grant to any third party access to transportation capacity at tariffs to be approved by the regulator concerned.

38. **Royalty.-** (1) Royalty on petroleum produced and saved shall be payable at the rate of twelve and a half per cent of the value unless a higher rate for royalty is provided for in the relevant PCA between a holder of a petroleum right and the Federal Government.

(2) Royalty shall be paid in cash unless the Federal Government elects to take the delivery of royalty (wholly or partially) in kind at field gate upon six months advance notice. In case of royalty in kind, the holder of a petroleum right shall at the request of the Federal Government and at allowed transportation cost, make arrangement for transportation of the royalty petroleum downstream of the field gate in the same manner as if it was its own petroleum.

(3) Royalty shall be payable monthly within a period not exceeding forty five days of the end of the month of production in question which if delayed beyond this stipulated period would attract fine at the rate of the London Inter Bank Offer Rate (LIBOR) plus two per cent as may be determined by the Authority. In the event royalty obligation remain un-discharged for two consecutive months following expiry of the month of production in question to which the payment of royalty relates, the Authority may take such action as it may deem appropriate in accordance with these rules, including but not limited to the exercise of powers of revocation pursuant to sub-rule (e) of rule 72.

(4) The Federal Government shall lift or take royalty petroleum in a timely manner and in accordance with such lifting or sales agreement as may be mutually agreed with the holder of a lease.

(5) A holder of a lease or licence shall be permitted to use petroleum produced from the lease or licence area for drilling, production, maintenance and processing of petroleum obtained from the said lease or licence free of cost, royalty and excise duty, provided that the holder of the lease or licence shall not be entitled to include any notional costs in claiming his business expenses for income tax purposes.

(6) From the amount of royalties payable in respect of any one year of the term of a lease or licence, there shall be no deduction of any expenditure except allowed transportation cost.

(7) The Federal Government may from time to time issue guidelines which shall inter alia cover procedure for administration and payment of royalty due from a holder of a licence or a lease.

(8) Notwithstanding anything to the contrary contained in these rules, the election to take the royalty on natural gas in cash or kind shall be exercised only once within ninety days of the approval of development plan by the Authority and may not be exercised for production from a licence.

39. **Value of petroleum.-** For the purpose of calculating the amount due by way of royalty, the value of the petroleum produced and saved shall be determined at the field gate by using actual selling price in the following manner, namely:-

(a) If the petroleum is sold to the national market pursuant to rule 43, the actual selling price means the price determined in accordance with the relevant sale and purchase agreement between a holder of a petroleum right and the Federal Government or its designee less allowed transportation cost; and

(b) In all other cases, the actual selling price means the greater of-

(i) the price at which the petroleum is sold or otherwise disposed of less allowed transportation costs; or

(ii) the fair market price received through arm's length sales of the petroleum less the allowed transportation costs.

40. **Royalty administration.-** (1) If there are two or more than two companies as holder of a lease or licence, they shall designate the operator to remit royalty on their behalf unless prior approval has been obtained from the Authority to remit royalty themselves.

(2) Royalty shall be remitted with the supporting forms prescribed by the Authority with documents and information required.

(3) If the Authority determines that petroleum was avoidably lost or wasted, including consumed by the holder of a right for purposes not covered by rule38(5), then royalty shall be payable on such lost or wasted petroleum in accordance with the direction issued by the Authority

(4) If a holder of a lease or licence receives insurance compensation for unavoidably lost or wasted petroleum, royalty is due on the amount of the compensation in accordance with the direction issued by the Authority.

41. **Yearly lease rents.-** (1) A holder of a lease shall pay to the Federal Government annually in advance, rent at the rate of seven thousand and five hundred rupees per square kilometer or part thereof covering the lease area during the initial period and rent at the rate of ten thousand rupees per square kilometer or part thereof covering the lease area during the renewal period of a lease and further lease term extension.

(2) Notwithstanding any provision of a lease, rent shall be adjusted as provided for in rule 75(2) and not by any adjustment clause in a lease, index so as to ensure that the rent retains its value in real terms.

42. **Surface rent.-** A holder of a lease shall pay for all land which he may use or occupy for the purposes of the operations conducted under the lease, a surface rent at the rate assessable under the revenue and rent law in the district in which the land is situated and water rates, if any, ordinarily assessable under any relevant rules if the land has not been occupied for the winning of petroleum.

43. **National market deliveries.-** (1) The Federal Government may decide that a holder of a petroleum right shall deliver petroleum from his production to cover the requirements of the national market for petroleum. The national market for petroleum shall for this purpose means the total market requirements, less petroleum produced by or otherwise available to the Government from indigenous sources. The holder of a lease shall deliver the petroleum at such place or places in Pakistan in accordance with terms and conditions of applicable agreement between the Federal Government and the holder of a lease at the Federal Government's cost unless otherwise agreed and subject to sub-rule (3).

(2) Sub-rule (1) shall apply to all holders of the lease producing petroleum as far as practicable, pro rata to their production. Each holder's obligation may be fulfilled directly or by means of swap arrangements approved by the Federal Government.

(3) The Federal Government may also decide that the holder of a Lease shall arrange and pay for adequate transportation of crude oil condensate and natural gas liquid which it has thus ordered to be delivered up to the distance to the nearest operating refinery in Pakistan.

(4) The price to be paid for petroleum to be delivered pursuant to this rule shall be such price as may from time to time be determined in accordance with terms and conditions of applicable agreement between the Government and the holder of a Lease.

44. **Petroleum measurement.-** (1) A holder of a petroleum right shall measure or weigh all petroleum produced and saved from the licence or lease area by a method or methods customarily used in good international oilfield practices and approved by the Authority. The Authority, from time to time and as and when deemed necessary, may issue guidelines for installation, maintenance, inspection and other matters related to measurement of petroleum as per good international oilfield practices.

(2) The Authority, or any officer authorized by it, shall, at all times during the term of the licence or a lease or any renewal thereof, be entitled to inspect the measuring or weighing equipment and to be present whenever such a measurement or weighing takes place.

(3) A holder of a petroleum right shall install, operate and maintain all measuring and weighing equipment ensuring that such equipment records an accurate measurements as per good international oilfield practices and remains in good working condition at all times. If any such equipment shall at any time be found not to be accurate, the same shall, if the Authority, so determines after considering any representations in writing made by the holder, be deemed to have existed in that condition during the period of three months prior to the discovery thereof or the period elapsed since the last occasion upon which the same was examined or tested, whichever shall be the less. This restriction on time period shall not be applicable if the inaccuracy so discovered is found to be result of the holder's wilful tampering or negligence in which case appropriate adjustment in royalties and imposition of fine shall be made as

determined by the Authority. The royalties payable in respect of such period shall be adjusted accordingly.

(4) A holder of a petroleum right shall not make any alteration in the method or methods of measurement or weighing used by him or any equipment used for that purpose. The Authority, may require that no alteration shall be made save in the presence of an officer authorized by him.

45. **Revocation of lease.-** (1) The lease may be revoked if regular commercial production has not commenced within five years from the grant of the lease. The lease may also be revoked if production has terminated for more than ninety days without prior written approval of the Federal Government unless this is due to force majeure or any other reason beyond the control of a holder of a lease and acceptable to the Federal Government.

(2) In the event, a holder of a lease is found to have contravened sub-rule (1) the Federal Government may issue a ninety days notice requiring the holder of a lease to remedy the breach within the notice period failing which the Federal Government may impose a fine or revoke the lease, or both, unless a plausible justification is provided by the holder of a lease and accepted by the Authority.

PART V- ACCOUNTS, RECORDS, INSPECTION AND REPORTS

46. **Records and accounts.-** (1) A holder of a petroleum right shall maintain full and accurate records.

(2) Original copies of all records shall be kept in Pakistan unless otherwise approved by the Authority.

(3) A holder of petroleum right shall immediately comply with the demand of the Authority to submit the certified copy of any record.

47. **Period of record-keeping.-** (1) The records shall be kept and maintained for a period of six years following the end of the calendar year to which the information contained in the record relates or for a longer period as may be determined by the Authority. In case of any particular record, upon application by a holder of petroleum right, the Authority may consent in writing to the destruction of record before the end of the six years period or such other period as is required under the applicable laws as the case may be.

(2) Notwithstanding anything contained in sub-rule (1), if based on reasonable grounds, the Authority is of the opinion that it is necessary for the administration of any rules, to retain record for a longer period, he may direct the concerned holder of the petroleum right to do so specifying the reasons thereof.

48. **Well records.-** (1) Notwithstanding the generality of rule 47, a holder of a petroleum right shall always keep full and accurate record of the drilling, deepening, plugging, completion, re-completion, sidetracking, testing or abandonment of all wells containing particulars of the following matters with respect to each well namely:-

(a) the strata and sub-soil through which the well was drilled;

(b) the casing used in any well and any alteration to such casings;

(c) any petroleum and other reservoir fluids, or minerals encountered; and

(d) such other matters as the Authority may, from time to time, require.

(2) If required by the Authority, a holder of petroleum right shall deliver additional record to the Authority as and when these become available.

49. **Production records.-** A holder of a petroleum right shall always keep full and correct record of production which shall contain accurate entries of:-

(i) the gross quantity and quality of petroleum won and saved;

(ii) the method and results of tests conducted;

(iii) the quantity and quality of petroleum delivered in Pakistan and exported;

(iv) the quantity and quality of petroleum used for re-injection, pressure maintenance, venting, flaring, drilling or other operational purposes;

(v) the quantity and quality of petroleum sold, the name of the purchaser and the price at which it has been sold supported by necessary documents;

(vi) the quantity and quality of natural gas treated and processed for the removal of impurities and inerts and natural gas liquids

and liquefied petroleum gases and the quantity and quality of any liquids, gases or any solids obtained from it; and

(vii) such further particulars as the Authority may from time to time, require.

50. **Data to be property of the Federal Government.-** (1) All data including but not limited to wells logs, maps, magnetic tapes, cores, samples and any other geological and geo-physical information obtained by a holder of a petroleum right as a result of his activities in a permit, licence or lease shall be the property of the Federal Government subject to the right of the holder to use such data for the purposes of the petroleum right. The holder of petroleum right shall submit all of the aforesaid data and information to the Authority as soon as it has become available. The holder of petroleum right may, during the subsistence of a permit, licence or lease, after prior intimation to the Authority, disclose all or any part of the aforesaid data to a third party, provided that before disclosure of the data, such party executes an appropriate confidentiality agreement drawn up in accordance with the good international oilfields practices.

(2) All processed geo-physical and geological information referred to in this rule shall be submitted to the Authority on transparent, dimensionally stable material as well as in the digital format, as may be notified by the Authority from time to time.

(3) Information and data as mentioned in this rule shall be kept confidential by the Federal Government for a period of three years from the date the data is acquired by the holder of petroleum right with the following exceptions namely :-

(a) information disclosed to other Pakistani authorities, or financial institutions or consultants of the Federal Government who will be bound to keep the same confidential;

(b) information required for general statistical purposes;

(c) upon the earlier termination of a permit, licence or lease, or upon the date of relinquishment of the area to which the information relates; and

(d) all raw geo-physical, geological and well data including well logs may be disclosed by the Authority or the Federal Government to any interested party after two years of the activity to which such data relates. This

however is not applicable to the data generated under multi-client arrangements.

(4) Notwithstanding anything contained in these rules, the data in the possession of the Government in respect of a surrendered or relinquished area of a permit, licence or lease may be released by the Government to a holder of petroleum right or to an organization engaged in petroleum exploration, production and research, on the reproduction costs of the data and on such terms and conditions as it may determine.

(5) Except as provided under these rules, a holder of petroleum right shall not disclose or cause to disclose any data except to a person who is legally entitled to obtain, or where the holder is legally obliged to disclose that data.

(6) Any other person who is permitted to receive the data shall hold the same subject to the same restrictions as are contained in sub-rule (3).

51. **Power to inspect plants, records and accounts etc.-** (1)The Authority or any authorized officer, may, at any reasonable time, after notice in writing, enter any place where any activities or business is carried out by a holder of petroleum right under these rules, for the purpose of auditing or inspection or examination of inter alia wells, record, plants, appliances, buildings, or any other works.

(2) A holder of petroleum right shall, for the purpose of an audit, or inspection or examination by the Authority of any of the records described in these rules;-

(a) provide access and all reasonable assistance to the Authority or the authorized officer to conduct the audit or inspection or examination without any hindrance; and

(b) promptly provide or make available the certified copies of records as required by the Authority or the authorized officer to perform inspection under these rules.

52. **Annual reports.-** (1) A holder of a petroleum right shall each year submit to the Authority annual reports containing the following particulars, namely ;-

(a) a financial statement with an abstract of the accounts, prepared in accordance with accounting principles generally

accepted in the petroleum industry and audited by a recognized firm of chartered accountants approved by the Authority;

(b) a description of all exploration, development, production and other work carried out by the holder during the year relating to the permit or licence or lease area;

(c) estimates of in place and recoverable reserves of petroleum at the end of each year classified on the basis of good international oilfield practices as per standard format notified by the Authority. If so desired by the Authority, the holder of petroleum rights shall be required to carry out reserves certification from an independent source; and

(d) estimates of petroleum production and exports for each quarter of the next year.

(2) The report referred to in clause (a) of sub-rule (1) shall be submitted within six months and the other reports within forty-five days after the end of year to which they relate.

53. **Quarterly reports.-** Within ten days after the end of each quarter, each holder of a petroleum right shall prepare and submit a progress report to the Authority which shall contain a narrative report of activities with plans and maps showing the places where work was done. Such report shall also contain;-

(a) a summary of all geological and geo-physical work carried out;

(b) a summary of all drilling activity and results obtained;

(c) a list of maps, reports and other geological and geo-physical data prepared or acquired in connection with the activities; and

(d) a statement of expenditure incurred by the holder of petroleum right during the month on a format as may be prescribed by the Authority, from time to time.

54. **Daily reports.-** During drilling of a well, a holder of a petroleum right shall provide copies of the daily well reports on a prescribed format to the Authority.

55. **Occasional reports.-** A holder of a petroleum right shall submit to the Authority the following occasional reports namely:-

(a) within twenty-four hours, by email or fax with hand copy delivered within next twenty-four hours, if a well shows the presence of petroleum in significant measure or if a drill stem or any other test has been carried out on a well which produces petroleum;

(b) within seven days after thereport under clause (a), a written report containing relevant geological information and chemical analysis in the case of a showing of the presence of petroleum, and in the case of a drill stem or any other test containing the following additional information, namely;-

(i) conditions and results of the drill stem or any other test, Including but not limited to flow rates, flow periods, tested intervals, pressures, choke sizes, hole condition and stimulation measure;

(ii) physical analyses; and

(iii) any deductions there from as to the potential of the reservoir;

(c) within one month after the completion or abandonment of drilling operations, a comprehensive well completion report, which shall contain inter alia the lithological groups, stratigraphic boundaries, hydrocarbon zones, a copy of all well logs and tests and other relevant information including costs, provided that such information which cannot be obtained within this period shall be submitted as soon as possible;

(d) at the latest upon the issue of a commercial discovery notice, a report which shall substantiate such notice and contains,-

(i) all relevant geological information, including estimates of recoverable reserves and daily production;

(ii) a general plan for the development of the deposit, including possible alternatives, with a description of the main production and transportation installations envisaged, and the relevant cost estimates; and

(iii) calculations of the profitability estimates of the discovery;

(e) within forty-five days after the relinquishment or surrender of any part of the permit or licence or lease area, such maps, plans, reports, records interpretations, and data made or

obtained by or for the holder of petroleum right relating to exploration, development, production abandoned, restriction of site and any other operations in the relinquished, surrendered or retained areas;

(f) report to the Authority about the particulars of any material issues of capital which may be made by the holder of petroleum rights, or its parent company or any other company having a controlling share interest in it, from time to time and any alteration which may be made in the memorandum and articles of association or in the constitution of its parent company. Any fresh issues of capital shall at times be subject to clause (d)of rule 72; and

(g) such other plans and information as to the progress and results of the its operations as the Authority may require from time to time.

56. **General.-** The reports referred to in this Part shall be made in such form and manner as the Authority may determine.

57. **Reports of discovery.-** (1) No announcement or statement, direct or indirect, about a discovery of petroleum shall be made, except by the Federal Government in consultation with a holder of petroleum rights, or by a holder where required by the law or otherwise with the consent of the Authority.

(2) No statement shall be made by or with the consent of a holder of petroleum rights, claiming or suggesting, whether express or by implication, that any Government or any person or body acting on behalf of the Federal Government has or have formed or expressed an opinion that the licence or lease area is likely to contain petroleum.

PART VI - STANDARD OF OPERATIONS

58. **Avoidance of harmful methods of working.-** (1)A holder of petroleum right shall undertake and execute all operations in a proper, prudent and diligent manner, in accordance with good international oilfields practices and shall not unreasonably obstruct or interfere with other activities such as navigation, fisheries and agriculture. All reasonable precautions shall be taken to prevent pollution or damage to the environment and surroundings.

(2) Without prejudice to the generality of the foregoing provision, a holder of petroleum right shall take all steps including, but not limited to the following namely:-

(a) prevent the escape or waste of petroleum discovered in the area;

(b) to conserve the area for operations;

(c) to prevent damage to adjoining petroleum bearing strata;

(d) to prevent the entrance of water through wells to petroleum bearing strata, except when approved by the Federal Government for the purposes of secondary recovery; and

(e) to prevent the escape of petroleum into any waters in or in the vicinity of the said area.

(3) The Federal Government may establish safety zones around temporary and permanent installations as per good international oilfield practices.

(4) The Federal Government may, from time to time, determine and notify the standards applicable to the operations under these rules in accordance with good international oilfield practices.

59. **Principles of sound operations.-** (1) All petroleum operations and activities shall be conducted diligently and in accordance with good international oilfields practices. The rate of production from each reservoir shall be the maximum efficient rate needed to achieve the maximum ultimate economic recovery of petroleum from various petroleum reservoirs unless otherwise approved by the Authority.

(2) The Federal Government may specify measures at the time of approval of development plan that a holder of petroleum right shall take to conserve petroleum resource of Pakistan. These measures shall include, but not be limited to, notification of depletion policy, rate and flow of petroleum from the fields and the measures to achieve maximum ultimate economic recovery of petroleum from different reservoirs.

(3) A holder of petroleum right shall not flare or vent any natural gas without the prior approval of the Federal Government in writing under these rules.

60. **Commencement, testing and abandonment of drilling operations.-** (1) A holder of a petroleum right shall not commence drilling, re-entry, sidetracking, hydraulic fracturing or abandonment of any well without first having obtained the approval of the Authority in writing.

(2) A holder of a petroleum right shall,-

(a) as soon as possible make known to the Authority the proposal for testing a well;

(b) test all potentially productive horizons indicated by wire-line recording; and

(c) promptly undertake the technical evaluation of the well testing results and of all other relevant data and submit the same as soon as possible to the Authority.

(3) For the purposes of sub-rule (1), approval of the Authority shall be deemed to have been given at the end of the notice period provided in sub-rule (4) unless within such period the Authority gives reasons why the operation applied for should be varied or stopped. Any approval given or deemed given under this rule shall be without prejudice to any other obligation of the holder of a petroleum right.

(4) For the purposes of sub-rule (3), the "notice period" shall be (a) 14 days from the delivery of a request for approval, save for an exploration well, (b) for the drilling of an exploration well, it shall be 7 days after a reminder request which may not be delivered to the Authority in less than 14 days of the original request being delivered or (c) for an on-going operation, two working days from the request being delivered; provided in each case that if the holder of the petroleum right has failed to provide the required technical information for such operation in the standard format, any of the aforesaid periods shall commence from the provision of the required information.

(5) After the completion of all operations, the well shall be safely plugged and the same shall be reported to the Authority within seven days of the well being plugged.

(6) Drilling operations shall be conducted in accordance with good international oilfield practices.

61. **Shape of relinquished areas.-** Areas which are relinquished or surrendered shall be of sufficient size and shape so as to enable petroleum operations to be carried out therein.

PART VII - MISCELLANEOUS

62. **Use of Pakistani goods and services.-** (1) In all activities carried out pursuant to these rules, a holder of petroleum right shall ensure the use of qualified Pakistani goods and services referred to in sub-rule (2), to the extent that such goods and services are competitive with regard to price, quality, quantity and delivery schedule.

63. **Employment and training of Pakistani personnel.-** (1) A holder of petroleum right shall give preference to the nationals of Pakistan for employment in its organization at all levels and in all branches including technical, financial, commercial, legal and administrative units and to arrange for the training in Pakistan and abroad, of nationals of Pakistan to fill in the aforesaid positions. The number of Pakistani personnel to be employed and trained shall be submitted to the Authority in accordance with the guidelines that may be issued by the Authority from time to time. The operator and its contractor shall ensure the employment of unskilled workers amongst the locals of the area in which the exploration and production activities are in progress to the extent of at least fifty per cent of their total strength of unskilled workers. The application for grant of a licence or a renewal or extension thereof and the development plan submitted with the application for grant of lease shall contain a description of the measures proposed to be taken by the applicant during exploration, appraisal, development and production phases so as to ensure compliance with this rule.

(2) The Federal Government may require that a holder of petroleum rights shall provide training for Federal Government personnel in order to develop the capability of such personnel to efficiently perform their duties related to the supervision of petroleum industry. Such training shall cover both technical and management disciplines including geology, geo-physics, engineering, project management, accounting, commercial, legal and shall also be in the form of on-the-job training and participation in in-house seminars.

64. **Joint exploration and development.-** (1) If a petroleum deposit extends across more than one licence or lease area held by different holders of petroleum right, then such holders shall endeavor to agree to explore and exploit the deposit jointly in the most efficient manner.

(2) The holders of the different petroleum rights shall endeavor to expeditiously agree a joint exploration and development plan or where one or more of the deposits have already been developed, a joint unitization plan, which shall be submitted expeditiously to the Authority for approval.

(3) If agreement on a joint exploration and development or unitization plan as referred to in sub-rules (1) and (2), is not reached within a reasonable period of time, the Authority shall, on the request of any of the involved holders of petroleum rights, or may itself by notice in writing to all concerned parties, direct that they finalize and submit for approval of the Authority relevant plan within the period stipulated in the notice, which shall not exceed three months.

(4) In the event such plan is not submitted to the Authority within the stipulated period or such plan has not been approved by the Authority, either holder may request the Authority to appoint an independent consultant to prepare such plan, or, if appropriate, decide first if a deposit does extend from the area of one right holder into that of another, which the Authority shall do without delay.

(5) The cost of such consultant shall be at the joint cost of the holders of the relevant petroleum rights to be paid as directed by the Authority. If a holder does not contribute, the cost shall be wholly borne by the other such holder. In such an event, if the reservoir does extend into areas held by the respective holder, the holder which did not contribute shall reimburse the other the whole cost of the consultant thus appointed.

(6) The consultant shall be required to complete the plan within three months of receipt of the data and other information, with any extensions considered reasonable by the Authority which in any instance shall not exceed a cumulative period of six months. Both parties shall make available all data reasonably requested by the consultant which shall be obliged to enter into a confidentiality agreement. If a party fails to make such data available in a timely manner, the Authority shall direct such a party or parties to comply with this request, failing which such party shall be in breach of a material term and shall be subject to rule 72(a).

(7) The plan so prepared by the consultant shall be considered by the Authority and the respective holders, each of whom shall have one month to make written submissions to the consultant. Thereafter, the plan shall be finalized by the consultant and accepted by the Authority and parties. In the event of a manifest error, the

Authority may, unilaterally or on the request of an affected party, impose such additional conditions as may reasonably be considered appropriate. The final plan shall be binding on the concerned parties.

(8) In the event the reservoir does extend into areas held by the different holders of petroleum rights, the respective reserves determinations shall be effective from the date when there was commercial production or EWT production from more than one such area, and consultant shall make recommendations for necessary adjustments on this account in the plan.

(9) (a) The reference to "consultant" in rules 64(4), 65(2), 66(2) and 71(3), shall be to such third party appointed by competitive bidding from three consultants chosen by the Authority from the list of consultants, provided for in sub-rule (9)(b).

(b) The said "list of consultants" shall comprise of six pre-qualified consultants maintained by the Authority. Each such consultant shall be independent and of an international caliber/repute. The list shall be readily available to any holder of a petroleum right, at any time, on request, which may make observations on any party contained in the list or recommend others for inclusion. Based on such observations and after giving other holders of petroleum rights an opportunity to comment, the list may be changed by the Authority from time to time.

(c) In relation to any bidding process, the involved petroleum right holders shall be given an opportunity of providing input on the bid documents, including terms of reference, evaluation criteria, in any communication relating to the bids and the parties shall have the right to be present at the bid opening.

65. **Petroleum exploration within lease area.-** (1) A holder of a lease shall have a preferential right to perform petroleum exploration activities on all horizons underlying the surface area of a lease above or below the sub-surface boundary of the lease provided that, if the Authority receives a bona fide offer from a third party to undertake exploration within the surface area of a lease (excluding the sub-surface boundaries of the lease), the lease- holder shall be given the opportunity to match such offer within six months of receiving a notice to this effect from the Authority.

(2) In case a holder of the lease decides not to match the offer and undertake exploration pursuant to sub-rule (1) and a third party is granted petroleum exploration rights over any of the horizons

underlying the surface area of a lease (excluding the sub-surface boundaries of the lease), then such third party and the existing holder of the lease shall within ninety days enter into an agreement setting forth the detailed terms and conditions of operating within the surface area of a lease so that the activities can be coordinated in a just and equitable manner which does not prejudice the interests of the existing holder. In case such an agreement is not reached between the respective holders within the specified time or such agreement has not been approved by the Authority, the Authority may appoint a consultant to prepare a plan at the joint and equal cost of the parties, which will be binding on the holder and the third party and rules 64(6), (7) and (9) shall apply mutatis mutandis. The plan so prepared by the consultant shall enable activities to be coordinated in a just and equitable manner, without adversely affecting the interests of the existing lease holder.

(3) A licence granted over all or part of the area within a lease shall, notwithstanding the terms and conditions of the licence, be deemed to be effective upon the parties concluding the agreement referred to in sub rule (2). If no agreement is reached within one year of the grant of such licence, at any time thereafter either the holder of the licence or the Federal Government may terminate the same without any liability or obligation.

(4) For the purpose of petroleum exploration within a lease area, the provisions of rules 23, 24, 25, 26, 30 and 36 shall mutatis mutandis apply provided that where an existing lease holder makes a new commercial discovery, on such lease holder's request the provisions of rule 30 shall not be applicable and the existing lease shall be amended so as to bring the discovery area of such commercial discovery under the purview of the lease.

(5) In case any discovery area covered under a lease appears to extend beyond the geographical limits of the lease area, the Authority may, upon request, allow a holder of the lease to undertake appraisal of such discovery area beyond the limits of the lease in an open area and revise the co-ordinates of the lease area if justified by the results of the appraisal pursuant to rule 23.

66. **Exploration and use of facilities by third party.-** (1) The Federal Government may allow a third party to undertake exploration in the area of a licence lease as may be necessary to obtain sufficient knowledge as to the geological conditions in areas surrounding the area of such holder. The said exploration activities must not unreasonably interfere with the activities of such holder. After

consultation with concerned parties, the Federal Government shall determine the manner in which such exploration is to be carried out including the determination of the type and duration of exploration in the area.

(2) The Authority may also decide that production, processing and transportation facilities owned by a holder of a lease shall be available for utilization by any other party (in this sub-rule (2) referred to as "user"), if this is deemed to be desirable for the purpose of efficient operations, or if required in the public interest. Such utilization must not unreasonably interfere with the activities of the holder of the lease. The user shall pay compensation for such utilization as may be mutually agreed by the holder and the user. If the holder of the lease and the user fail to reach an agreement within hundred and eighty days, the Authority may appoint a consultant to determine such compensation and other terms by way of a plan, at the cost of the user. Rules 64(6), (7) and (9) shall apply mutatis mutandis, and provided always that the consultant shall comply with any reasonable guidelines which the Authority may issue from time to time in this regard.

(3) Any well which has been abandoned may be used by any party, with the approval of the Government, for any use, including use for geo thermal energy, provided if the well or wells are in the area of a petroleum right, the approval of the petroleum right holder must also be obtained.

67. **General right of holder of the lease to enter upon land.-** Subject to any required approval of the Federal Government and of any other authority which may be involved, and on such conditions as may be stipulated, a holder of a lease shall have the following rights, as required for the purpose of carrying out operations under the lease, namely :-

(a) to enter upon and use land;

(b) to appropriate water;

(c) to store petroleum;

(d) to erect houses and machinery;

(e) to search for, dig and get gravel;

(e) to cut timber and clear undergrowth;

(f) to enclose with a fence areas for which surface rent is paid; and

(g) to carry out such other activities which the Federal Government considers necessary.

68. **General rights of the permit-holder or licence-holder to enter upon land.-** Subject to approval of the Federal Government and of any other authority which may be involved, a permit-holder or a licence-holder shall have the same rights as are stipulated in rule 67, provided that the houses and machinery referred to in clause (d) thereof shall be temporary.

69. **Restrictions on the holder of petroleum right.-** (1) The rights granted to a holder of petroleum right shall not prejudice the exercise of any of the following powers, namely:-

(a) President may work on minerals.- The President or any of his authorized persons may, within the area of the holders of petroleum right search for and produce any minerals or substances other than petroleum and make and maintain such installations and facilities as required for the said work.

(b) President may permit other activities.- The President or any authorized person may, within the area of the holder of petroleum right:

(i) make and maintain upon, over or through the said area such reservoirs, pumping stations, generating stations, waterways, roads, tramways, railways, telegraph and telephone lines, pipelines or such other installations and facilities as he shall deem necessary or expedient for any purpose;

(ii) obtain such stone, earth and other materials as may be necessary or requisite for making, repairing or maintaining the said installations and facilities;

(iii) draw water from the said area and have free access thereto; and

(iv) pass and repass at all times over the said area for all such purposes as occasion shall require.

(c) President may grant or demise said lands to third parties subject to holder's rights. Liberty and power for the President to grant or demise to any person all or any part of

the said area for any purpose so that such grant or demise be made subject to the rights of the holder.

(2) The President's powers under this rule shall be exercised and enjoyed in such manner as not to unreasonably hinder or interfere with the rights of the holder of petroleum right. Fair, proper and adequate compensation shall be paid by the President for all loss, damage or injury, without including the value of any water, stones, earth or other materials taken, which the holder of petroleum right may have suffered as a consequence of the exercise of the said powers under this rule.

70. **Power to execute works.-** If a holder of a petroleum right, at any time, fails to perform its obligations under these rules or under any agreement with the Federal Government, the Authority shall be entitled, after giving reasonable notice in writing of its intention, to execute any works which may be deemed necessary to secure the performance of the said obligations or any of them and to recover the costs and expenses of so doing from the holder of petroleum right.

71. **Power to control spill or waste.-** (1) A holder of petroleum right at all times, has obligation not to cause spill and waste.

(2) Where the Authority, on reasonable grounds, is of the opinion that, with respect to any operation of a holder of petroleum right, spill or waste is required to be controlled or prevented, may order the holder of petroleum right to control or prevent spill and waste within a reasonable period of time, failing which the Authority may cause to take such necessary steps and measures to control or prevent the spill or waste as may be required and all cost thereof shall be borne by the holder of petroleum rights.

(3) If there is any dispute, controversy or claim arising out of or in relation to the exercise of the powers by the Authority under sub-rule(2), the Authority and a holder of petroleum right shall make all reasonable efforts to settle such dispute, controversy or claim within sixty days of the issuance of order by the Authority under sub-rule (2), failing which such dispute, controversy or claim shall be referred to an independent consultant who shall be appointed by the Federal Government at the cost of and with consent of the holder of petroleum right. The findings of such consultant shall be binding on the Authority and the holder of petroleum right.

(4) Notwithstanding anything contained in this rule, the Authority or a holder of petroleum right may exercise the option of settling the dispute, controversy or claim in accordance with rule 77.

72. **Power of revocation.-**In addition to other grounds for revocation specified in these rules, the Authority may revoke a petroleum right after serving a thirty days show cause notice if,-

(a) a holder of petroleum right has contravened any material terms and conditions on which the petroleum right was granted, under the provisions of these rules or of any law applicable to the petroleum operations and has not, within a period of sixty days from the date on which a notice in that behalf was served on it by the Authority, remedied the default, or where the default cannot be remedied, has not, within such period offered reasonable compensation in respect thereof;

(b) the petroleum right was found granted by reason of giving materially false information by a holder of petroleum right;

(c) a holder of petroleum right or its parent company makes an arrangement or composition with its creditors, and a receiver is appointed or the holder of petroleum rights goes into liquidation whether compulsory or voluntary;

(d) without the prior consent of the Authority, there is a disposition of the share capital of its or its parent company in consequence of which any person who prior to that disposition had effective control of or its parent company ceases to have such effective control; and

(e) a holder of petroleum rights has failed to make payment (whether part or full) payable under the rules or the relevant agreement and such payment remains in arrears or unpaid for two subsequent months from the date on which the payment was due.

73. **Right of Government upon termination of a petroleum right.-** (1) When a permit, licence or lease has expired, or been revoked, surrendered or area relinquished, wholly or partly, except if otherwise provided in the PCA, the area of permit or licence or lease or area relinquished shall, so far as practicable, be reinstated in its original condition and where this is not practicable, the holder shall pay compensation to the Federal Government for damages suffered as a result thereof.

(2) When a petroleum right has expired or been revoked, surrendered or area relinquished, wholly or partly, any installations and facilities relating thereto, or installations and facilities no longer required by the holder of the petroleum right for the area, may be taken over by the Federal Government through GHPL, along with related equipment. This also comprises pipeline transportation and related facilities installed by a holder of petroleum right to secure shipment of petroleum.

(3) Upon taking over the installations, facilities and equipment pursuant to sub-rule (2), a holder of petroleum right shall be required to hand over such installations, facilities and equipment in such condition as may be reasonably expected under good international oilfield practices. No compensation shall be given for such takeover. Takeover involves an automatic cancellation of any security for debts or leasing arrangement related to such installations, facilities and equipment and title of the same shall be transferred to the Government.

(4) If the Federal Government does not exercise its right to takeover the installations, facilities and equipment, the Federal Government may demand, within three months from the expiry the time permitted in sub-rule (2), that removal shall be carried out by a holder of the petroleum right at its expense, in which case sub-rule (1) shall apply.

(5) At least one year prior to termination, a holder of the lease shall submit to the Authority a plan for the orderly closing down and abandonment of its operations, and for the removal of the facilities or their transfer to the Federal Government, as the case may be.

74. **Indemnity.-** (1) The holder of a petroleum right shall effectively indemnify, defend and hold harmless the President, and the Federal Government at all times against all proceedings, costs, charges, claims, losses, damages and demands whatsoever, including, without limitation, claims for loss or damage to property or injury or death to persons, caused by or resulting from work conducted by or on behalf of the holder of petroleum right, by any third party, or anything done or purporting to be done in pursuance thereof;

(2) The holder of a petroleum right shall, if required to do so by the Government, take out and maintain such insurance, as the Government may approve, against any of its liability under these rules.

(3) No suit, prosecution or other proceedings shall be initiated against the Government (including any entity or agency of the Government) for anything done or purported to have been done in good faith under these rules.

75. **Miscellaneous obligations.-** (1) A holder of petroleum right shall have an organization in Pakistan with sufficient competence and capacity to conduct all operations and activities pursuant to these rules and shall,-

(a) immediately after grant of petroleum right, but before commencing any operations in the relevant area, furnish to the Authority, the name and address of the manager, resident in Pakistan, under whose supervision operations are to be carried on in the permit, licence or lease area; and

(b) in writing, keep the Authority informed of the names, addresses and nationalities of sub-contractors employed by it from time to time.

(2) Any rent for a petroleum right under rules 29 or 41, maximum penalty under rules 80(3), or fee referred to in these rules may be increased from time to time by reference to an appropriate consumer price index, which increase shall be effective prospectively after notification.

76. **Force Majeure.-** (1) Failure on the part of a holder of petroleum right to fulfil any of the terms and conditions of the petroleum right shall not give the President, or the Government, any claim against the holder of petroleum right or be deemed a breach of his obligations insofar as such failure arises from force majeure.

Explanation.- The expression "force majeure" includes an act of God, war, insurrection, riot, civil commotion, flood, lightening, explosion, fire, earthquake and any other happening which the holder of petroleum right could not have reasonably prevented or controlled, and shall not include a circumstance existing at the time of the grant of the petroleum right.

(2) If the ability to fulfill the terms and conditions is affected by force majeure, a holder of petroleum rights shall without delay give notice to the Government, stating the cause of such inability, its efforts to remove such causes and remedy its consequences and steps to be taken to prevent the circumstances reoccurring and mitigating the consequences thereof.

(3) In case of force majeure, the duration of the petroleum right shall be extended for the period of the force majeure situation and for such further period as is required to resume the operations.

77. **Arbitration.-** Except as otherwise agreed to or expressly provided for in these rules, any question or dispute regarding the petroleum right or any matter or thing connected therewith shall be resolved by arbitration in Pakistan and in accordance with Pakistani laws.

77A. **Decisions and review.-** (1) All decisions to be made by the Government, including the Authority, under these rules or concerning a petroleum right, PCA or other agreement or plan made in relation to a petroleum right shall be in writing, with reasons, made without undue delay.

(2) The Authority may prepare procedures to be followed by a holder of a petroleum right seeking a decision under any rule which shall be readily available to any person on request. If there are such procedures and a holder of a petroleum right reasonably satisfies the criteria contained therein, then the Government or the Authority shall, unless the circumstances reasonably justify otherwise make a decision favourable to the petroleum right holder.

(3) The Authority shall prepare procedures as provided for in sub-rule (2) for, but not limited to, rules 9, 10, 22(8), 24, 28(1)(b), 36 and 60.

First option:

(4) (a) If a holder of a petroleum right is aggrieved by a decision of the Authority or if the Authority does not respond to a request in a timely manner, the regulations contained in the Fourth Schedule hereto shall apply. This will however be without prejudice to a party's rights under any provision of law or the PCA.

(b) Such regulations may be amended by the Authority from time to time to apply prospectively and any changes shall be duly notified in the official gazette and a copy sent to all petroleum right holders.

Second option – an alternative to sub-rule (4), preceding, and the Fourth Schedule, have r.77B:

77B. **Independent Appeal Forum:-** (1) Any holder of a petroleum right or contractor aggrieved either by a decision of the Authority or where the Authority has not responded to a request in a timely manner, may without undue delay, make a written representation to the Authority. The Authority shall arrange to convene a review

meeting with the holder of a petroleum right or contractor within seven days of the receipt of written representation.

(2) Within seven days of the review meeting, the Authority shall convey to the aggrieved party in writing its final decision with reasons and basis thereof.

(3) If the holder of a petroleum right or contractor is still aggrieved of the decision/final decision of the Authority or if the Authority has still not responded, the aggrieved party may request the Secretary, Ministry of Petroleum & Natural Resources after 14 days of his representation or the final decision of DGPC as the case may be, for the matter to be submitted to the Forum of Appeals (FOA).

(4) The FOA shall comprise of the following three members including the Chairperson:

(i) A senior technical expert with at least25 years' experience from the exploration and production industry who will be the member/Chairperson.

(ii) A senior commercial/regulatory expert from the exploration and production industry with at least 20 years' experience as member.

(iii) A senior legal expert with at least 15 years' experience in the exploration and production industry as member.

(iv) The FOA shall develop its own procedures and protocols for the conduct of hearings and consultation with other experts from the industry out of the lists maintained by the Ministry of Petroleum & Natural Resources as deemed necessary.

(5) The FOA shall convene no later than 25 days after the representation referred to in these rules and render its decision within thirty working days of such hearing or remand the matter back to the Authority to make, or revise, its decision within a specified period. The decision of the FOA shall contain detailed reasons and justifications in support thereof and will be sent to Secretary MPNR with a copy to the concerned parties. The decision shall be implemented by the Authority without delay unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions.

(6) Secretary MPNR will review the decision and issue a speaking order in the matter within a fortnight.

(7) The Government may issue suitable guidelines, from time to time, in relation to any aspect regarding FOA. Such guidelines may include appeal procedures, documents to be filed for the appeal and the payment of fees to the FOA.

(8) Availing of the remedies under these rules are without prejudice to a party's rights under any other provision of law or the PCA.

77C. **Penalties.-** (1) Whosoever contravenes any provision of these rules shall, without prejudice to any other action that may be taken in relation to the contravention, be punishable as outlined in the Third Schedule.

(2) In imposing any fine under these rules, the Authority shall keep in view the principle of proportionality of the fine to the type, gravity, duration, frequency and repetition of the breach or failure. Prior to imposing a fine, the Authority shall, in writing, require the person liable to be affected to show cause, in writing, as to why the fine should not be imposed.

(3) The Authority may, from to time, modify the Schedule of Fines (Third Schedule), including the categories and scale of fines, to apply prospectively, and provided no individual fine may exceed [50] million rupees.

(4) The imposition of a fine shall be without prejudice to any other legal right under these rules or legal and contractual rights of the Government.

78. **Repeal and savings.-** (1) Except as provided in sub-rule (2), the Pakistan Petroleum (Exploration and Production) Rules, 2001 are hereby repealed.

(2) Notwithstanding the repeal of the Pakistan Petroleum (Exploration and Production) Rules, 2001, hereinafter referred to as the said rules, where any person holds any permit, licence or lease granted, regranted or renewed under the said rules, the provisions of the said rules shall continue to apply to such permit, licence or lease, as if the said rules have not been repealed.

FIRST SCHEDULE

(See rule 6)

APPLICATION FOR A RECONNAISSANCE PERMIT OR EXPLORATION LICENCE OR DEVELOPMENT AND PRODUCTION LEASE1

In the case of using this Schedule for an assignment under rule 10, references herein to "applicant" shall be replaced with "proposed assignee", including the execution block at the end. The application shall be made by the proposed assignor.

THIRD SCHEDULE

FINES

a) Table of fines and related offences is outlined below.

b) Before the imposition of a fine, a show cause notice shall be issued by the Authority to the offending petroleum right holder giving not less than 14 days from date of receipt of the notice to explain as to why a fine should not be imposed. This will be without prejudice to any other remedy available to the Government and the obligation for the default to be rectified, if possible.

c) If, in response to the notice, a reasonable written justification is given and the offence has been rectified as far as possible, no fine shall be imposed, or the fine shall be substantially reduced by the Authority.

d) Immediately following receipt of a response from the party, referred to in paragraph (c) or, if no response is received within the time stipulated in paragraph (a), the Authority shall inform the petroleum right holder in writing either that no fine shall be imposed or the amount of fine to be imposed, as the case may be.

e) Where it is possible to rectify an offence and it has not been rectified, an additional fine may be imposed within 14 days of the receipt of the notice referred to in paragraph (d), above, at the rate of up to 1% per day of the fine stipulated therein until the offence is rectified, or the petroleum right/agreement to which the fine relates has terminated or the total of the additional fine is equal to the fine stipulated under paragraph (d), above. Upon the additional fine no longer accruing, the Authority will intimate to the holder the total fine imposed, revising the notice referred to in paragraph (d), above.

f) The fine stipulated in the notice/intimation referred to in paragraph (d) or (e), as applicable, shall be payable within 14 days of receipt of the relevant communication. Failure to do so, in itself, can be construed by the Authority as a material breach under rule 72(a).

g) In the event a letter communicating the imposition of a fine is not accepted for receipt, it shall be deemed to have been delivered under this Schedule on the working day immediately after the day it was sent by a recognised courier to the last address provided to the Authority, provided also sent on the same day by either facsimile machine or registered post.

h) In each case where any data, reports or information is to be provided by a right holder to the Government in a desired format, the Authority will give such right holder a reasonable opportunity to correct the completed format before issuing a show cause notice for the imposition of a fine.

i) Any fine levied shall be independent of, and without prejudice to, the Government's rights under rule 72 (Power of revocation), rule 70 (Power to execute works), for breach of contract, or any other legal recourse. Furthermore, the payment of a fine will not extinguish the requirement to comply with the obligation in the rule, for which the fine was imposed, as far as possible.

j) Whilst fines are expressed in US$, these should be paid in Pakistan Rupees (PKR), determined at the prevailing exchange rate on the date of payment.

k) Each fine shall be imposed on the holders of a petroleum right through the operator, with ultimate liability being joint and several (pursuant to rule 8).

l) A fine which remains unpaid following the date of the Authority's communication referred to in paragraph (d) and, if applicable, paragraph (e) it will result in a late payment surcharge of 1% per month (or part thereof) of delay beyond 14 days of receipt of the relevant notice or communication.

m) Fines for any one offence, including any additional fines due to delays thereto, may not exceed the cap prescribed in the Rules.

Table of offences attracting fines and the stipulated fines:

2009 Rules	**Rule title**	**Offence**	**Fine**
Rule 16(1)	Performance guarantees	Failure to provide acceptable performance guarantee(s)	10% of work unit value or $50,000, whichever is higher without prejudice to right of the DGPC to cancel a licence awarded.
Rule 21(1)	Rights and obligations of licence holder.	Production without approval	US$50,000, except, if the offence is for continuing EWT production beyond an approved EWT period would be US$25,000, without prejudice to the royalty due.
Rule 22(4)	Relinquishment.	Failure to relinquish when obliged to do so.	US$100,000.
Rule 28(3)	Work programme and other obligations not fulfilled.	Failure to pay liquidated damages or transfer of undischarged work obligation not approved.	US$200,000 in addition to the minimum expenditure obligation of undischarged work obligation.
Rules 29 and 41	Licence and Lease Rent.	Failure to pay rent.	The higher of US$5,000 or 50% of the rent due without prejudice to the rent due.
Rule 33	Survey expense.	Failure to undertake a survey when requested.	US$10,000.
Rule 36(3)	Development plan.	If development and production not carried out as per approved Development Plan and revision not approved or not sought.	If a material change (being 20% change from what was stated in the Development Plan in capital expenditure or rates or change in number of wells): - US$5,000 for seeking modification within six months of the modification being effective or US$25,000 thereafter. - If modification is not sought and is discovered by the Government then US$25,000 plus US$5,000 per complete month after the unapproved modification having been effective till discovered.

Rule 44	Petroleum measurement.	Failure to measure or weigh using the method agreed and/or failure to comply with any guidelines in that regard and/or failure to permit inspection of such equipment.	US$100,000.
Rule 45	Revocation of lease.	Failure to produce within required time limits.	US$250 per day for the first three months and US$1,000 thereafter, without prejudice to rights of revocation at any point.
Rules 46, 48, 49 & 52-55	Accounts Records and Reports.	Reports not kept/maintained or provided to DGPC/Government, as required.	US$10,000.
Rule 47	Period of record-keeping	Failure to maintain records as required.	US$25,000.
Rule 50	Data property of the Federal Government.	Data and information not submitted as required.	US$10,000.
Rule 50(5)		Disclosure of data to unauthorized party.	US$50,000.
Rule 51(2)	Power to inspect plants, records and accounts etc.	Refusal or delay in access of data to the Authority and non-provision of certified copies of record.	US$50,000.
Rule 57	Reports of discovery.	Making an impermissible announcement or statement.	US$50,000.
Rules 24(3) & 59(3) *[nb – r.24(3) is proposed to be deleted, if not deleted then*	Flaring.	Unauthorized flaring of gas.	100% of the value of the unauthorized flared gas, determined on the basis of the price applicable to the block in $/MMBTU. Any show cause notice or intimation of fine may provide that the exact fine is to be calculated.

include here]			
Rule 60	Commencement, testing and abandonment of drilling operations.	Development well included in the Development Plan spud without approval.	$10,000 (in addition to any fine under rule 36(3)).
		Exploration/appraisal/development well not included in a Development Plan spud without approval	US$50,000.
		Re-entry, side-tracking or hydraulic fracturing commenced without approval.	US$10,000.
		Abandonment of well (Exploration/Appraisal/Depleted/Unsafe) and abandonment of producing zone without approval.	US$50,000.
Rule 63	Employment and training of Pakistani personnel.	Failure to submit report of number of Pakistani personnel to be employed and trained.	US$10,000.
Rule 64(6)	Joint exploration and development.	Failure to comply with direction to provide data following a request by DGPC.	US$25,000.
Rule 73(1)	Right of Government upon termination of a petroleum right.	Failure to reinstate where re-instatement is practicable. (note, if reinstatement not practicable, r.73(1) provides for damages to be paid.)	US$50,000 plus cost incurred by the Government to re-instate the area.
Rule 73(5)		Plan for abandonment/removal of facilities not submitted when required.	US$10,000 per month (or part thereof) of delay in submission of plan/informing the DGPC.
Rule 74(2)	Insurance	Failure to take out required insurance.	US$25,000.

Rule 75	Miscellaneous obligations.	Failure to set up an organization in Pakistan.	US$10,000 if the organisation is not set up in the first six months after the grant of a petroleum right.
General.	Any other obligations provided in the 2009 Rules which are not fulfilled by the holder of a petroleum right and not expressly referred to above, penalty of up to US$1,000.		
Legal costs.	In addition to the fines stipulated herein or elsewhere in the Rules, any of the Government's legal fees (including lawyers and court/arbitration fees) incurred and documented for recovery of any of the fines as a result of non-payment following a show cause notice shall be separately recovered as a further fine, provided if the matter has been taken to court or arbitration, fine shall only be payable if it has not been struck down as not payable.		
PCA.	If there is a provision in a PCA or petroleum right whereby something has to be done, applied for or requested in a certain time by the right holder and DGPC has discretion to extend such time the DGPC may impose a fine of US$5,000 to consider a late application, without prejudice to its contractual rights or implying any obligation to accept or approve whatever is to be done, applied for or requested. If the DGPC ultimately accepts such delay it may do so on condition of an additional fine for the delay, of up to US$1,000 per day from the day something had to be done, applied for or requested.		

FOURTH SCHEDULE

REGULATIONS FOR REVIEWS AND APPEALS

1. Any holder of a petroleum right aggrieved either by a decision of the Authority or if the Authority has not responded to a request within a timely manner may, without undue delay, make a written representation to the Authority. Such representation shall be provided in duplicate.

2. The Authority shall convene a review meeting within 14 days of receipt of such representation. At such meeting the aggrieved party shall have the opportunity of being heard and the Authority shall ensure that the holder has received such notice at least three working days prior to the meeting.

3. At the review meeting the Authority shall either explain the basis for the decision, change the decision, make a decision or agree to make a

decision promptly after the meeting, as appropriate. Within seven days of the meeting, the Authority shall write to the aggrieved party setting out its final decision with reasons and basis thereof.

4. The Authority and/or any official he considers necessary and the officer concerned with the subject matter shall be present at the review meeting.

5. If within 14 days of either (i) if the holder is still aggrieved by the final decision or (ii) the date of the review meeting, if no final decision was conveyed after the review meeting or (iii) the date of the written representation to the Authority, and the Authority failed to convene a review meeting, the aggrieved holder may request the Authority that the matter be referred to a special tribunal for hearing as provided in regulation 6, below.

6. The special tribunal shall be comprised of the following three officers:

   (i) [Director General (Oil) or Director General (Gas), to be rotated on an annual basis, initially being the Director General (Oil);

   (ii) Senior officer of the rank of a Joint Secretary from the Ministry of Law, Justice and Human Rights;

   (iii) an officer, not less than the grade of an Additional Secretary, of the Ministry of Petroleum and Natural Resources who shall be the chairperson.]

   (iv) In the event any of the appointed officers are not in a position to attend such special tribunal hearing on a given date, such officer may appoint any other senior officer who directly reports to him to attend. The special tribunal may develop its own procedures and protocols for the conduct of hearings before it.

7. The special tribunal shall convene in the offices of the Ministry of Petroleum and Natural Resources, no later than 25 days after the request referred to in sub-regulation 5 and the Authority shall have ensured the holder received notice of the meeting at least seven days prior to the meeting.

8. Within seven days of such hearing the special tribunal shall either affirm a decision, change a decision, make a decision or remand the matter back to the Authority to make, or revise, its decision.

9. The decision of the tribunal shall be with reasons and copied to the concerned parties. The decision shall be implemented by the Authority within 14 days, or up to 21 days, to be justified in writing, unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions.

10. In the event of a failure, within the prescribed time, (i) to convene a review meeting, or a special tribunal hearing, or (ii) to ensure the aggrieved party has received notice sufficiently in advance of such meeting or special tribunal hearing or (iii) for the review meeting or special tribunal to give its response, the Federal Government shall be liable to the penalty provided in regulation 11.

11. The penalty referred to in regulation 10, shall be an entitlement of a holder of a petroleum right to deduct from any rent payable under these rules ten thousand rupees per day of delay, up to a maximum of one hundred thousand rupees. In the event the grievance relates to more than one petroleum right the said penalty shall be equally divided amongst the holders of such petroleum rights. A summary of any such penalties arising in a quarter shall be sent by the Authority to the Ministry of Finance and be made available, on a non-confidential basis, to any party on request, on payment of a reasonable fee.

12. The Government may issue guidelines, to be reviewed from time to time, in relation to any aspect of these regulations. Such guidelines may include procedures, such (a) as the format of documents to be filed for the appeal or (b) provision for nominal costs of appealing to the special tribunal or (c) costs for abuse of the review and appeal process.

13. Availing of the remedies under these regulations are without prejudice to a party's rights under any other provision of law or contract.

General note:

In making any amendments to the 2009 Rules, it may be also provided that such amendments would be prospective and any right, benefit, obligation or burden arising prior to the amendments would have vested and not be liable to change.

ANNEXURE 11: PAKISTAN OFFSHORE PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2003

GOVERNMENT OF PAKISTAN

MINISTRY OF PETROLEUM AND NATURAL RESOURCES

Islamabad, the 18th June, 2003.

NOTIFICATION

S.R.O. 611(I)/2003.- In exercise of the powers conferred by section 2 of the Regulation of Mines Oilfields and Mineral Development (Government Control) Act, 1948 (XXIV of 1948), and by section 14 of the Territorial Waters and Maritime Zones Act, 1976 (LXXXII of 1976), the Federal Government is pleased to make the following rules, namely:-

PART I - GENERAL

1. **Short title, application and commencement.-**

(1) These rules may be called the Pakistan Offshore Petroleum (Exploration and Production) Rules, 2003.

(2) These shall apply to offshore area.

(3) They shall come into force at once.

2. **Definitions.-** In these rules, and in every permit, licence and lease issued hereunder and every agreement executed pursuant to these rules, unless there is anything repugnant in the subject or context,-

(i) "actual loss or damage" means all proceedings, expenses, costs, charges, claims, losses, damages, penalties and demands whatsoever including without limitation claims for loss or damage to property or injury or death to any person caused by or resulting from any petroleum operations conducted by

or on behalf of contractor or anything done or purporting to be done in pursuance thereof;

(ii) "agreement" means an offshore petroleum production sharing agreement entered into pursuant to these rules between the President of the Islamic Republic of Pakistan, GHPL, and a contractor for the purpose of exploration for or development and production of petroleum from within the offshore area;

(iii) "allowed transportation cost" means the actual cost incurred for moving the petroleum produced and saved from the field gate within the lease area to the point of determination of value of the petroleum;

(iv) "approved" or "approval" means approval in writing by DGPC, except in the case of an environmental management and protection plan or a safety plan, in which case it means approval in accordance with the procedures of the concerned authority under applicable law;

(v) "arm's length sales" means the sales made freely in the open market, in freely convertible currencies, between willing and unrelated sellers and buyers having conflicting interests and in which such buyers and sellers have no contractual or other relationship, directly or indirectly, or any common or joint interest as is reasonably likely to influence selling prices and shall, inter alia, exclude the value of sales (whether direct or indirect, through brokers or otherwise) involving an affiliate, sale between Government to Government entities, counter trades, restricted or distress sales, sales involving barter arrangements and generally any transactions motivated in whole, or in part, by consideration other than normal commercial practices and arm's length sales value, accordingly, means the value of such sales;

(vi) "certifying authority" means such certifying authorities as are approved by DGPC, including but not limited to the American Bureau of Shipping, Bureau Veritas, Det Norske Veritas Classification A/S and Lloyd's Register of Shipping;

(vii) "commercial discovery" means a discovery which, in the opinion of a contractor would yield a reasonable profit on the funds invested in petroleum operations and which has been declared a commercial discovery after consideration of all

pertinent operating and financial data such as recoverable reserves, sustainable production levels, estimated development and production expenditure, prevailing prices and other technical and economic factors according to good international petroleum industry practices and would justify its economic development and commercial production;

(viii) "commercial production" means production of petroleum out of a commercial discovery which production allows at least the recovery of all expenditure directly attributable to such commercial discovery within a reasonable time and earning of a reasonable profit;

(ix) "contractor" means a petroleum exploration and production company or companies that has entered into an agreement or reconnaissance agreement as the case may be, to perform the functions and assume the rights and liabilities of a contractor pursuant to the terms of an agreement or reconnaissance agreement as the case may be;

(x) "debris" means any material that has broken away or been jettisoned or displaced in the course of any petroleum operations by a contractor;

(xi) "DGPC" means the Director General, Petroleum Concessions and includes any officer or authority appointed by the Federal Government to exercise the powers and perform the functions of the Director General, Petroleum Concessions, under these rules;

(xii) "discovery area" means an area, within the area of a licence or lease, which encompasses the accumulation of petroleum in a geological entity limited by lithological boundaries, structural boundaries, the contact zone between petroleum and the limiting water level, or a combination thereof, and so that the petroleum included everywhere is in pressure, fluid or gas communication;

(xiii) "discovery" means the finding of a deposit of petroleum from an exploration well not previously known to have existed within the area held by a contractor which produces a flow of petroleum at the surface which is measurable by the conventional petroleum industry testing methods;

(xiv) "environmental management and protection plan" means an environmental management and protection plan submitted to

and approved by the concerned authority under applicable law;

(xv) "exploration well" means a well which tests clearly a separate geological entity, be it of structural, lithologic or facies of pressure nature, penetrating all prospective intervals at the particular location;

(xv-A) "extended well test" or "EWT" means the extended well testing or early production, as provided in rule 27A.

(xvi) "good international petroleum industry practices" means, generally, the reasonable and prudent diligent use of policies, procedures, practices, methods, equipment and material that results in effective and efficient exploration, appraisal and development of petroleum including optimum recovery of petroleum from a discovery area with minimal impact on the environment as permitted and use of efficient and effective practices for transforming produced petroleum into marketable form and delivering it to the market, always having due regard for safety and other factors and means, in particular, knowledge of and compliance with the standards that may be developed by relevant professional institutions and adopted by the Government from time to time;

(xvii) "Government Holdings (Private) Limited" or "GHPL" means the State owned corporate body established under the laws of Pakistan to perform certain functions as are specifically described in these rules and which is a party to an agreement or reconnaissance agreement as the case may be, and includes its successors and assigns;

(xviii) "Government" means the Federal Government;

(xix) "laws" means laws, rules and regulations of the Government, and includes where applicable, laws of a Province of Pakistan;

(xx) "lease" means an exclusive right to develop and produce petroleum within a designated portion of a licence in offshore area, which has been granted under a lease issued in the name of GHPL pursuant to these rules which shall be substantially in the form as set out in Part III of the Second Schedule, so as to enable it to enter into an agreement with a contractor;

(xxi) "licence" means an exclusive right to explore for petroleum within a designated portion of offshore area, which has been

granted under a licence issued in the name of GHPL pursuant to these rules which shall be substantially in the form as set out in Part II of the Second Schedule, so as to enable it to enter into an agreement with a contractor;

(xxii) "Ministry" means the Ministry for the time being in charge of petroleum affairs;

(xxiii) "natural gas" means petroleum which at standard atmospheric conditions of pressure and temperature is in a gaseous phase, including non-hydrocarbon gas which is in association with and produced at the surface together with such gaseous hydrocarbons;

(xxiv) "offshore area" means all the areas that lie completely seaward from the high water mark within the jurisdiction of Pakistan, and includes all areas within the territorial waters, the historic waters, the contiguous zone, the continental shelf and the exclusive economic zone, as are defined in the Territorial Waters and Maritime Zones Act, 1976 (LXXXII of 1976);

(xxv) "operator" means, unless otherwise specified in these rules, any one of the companies comprising a contractor who is designated and approved as operator pursuant to these rules to carry out petroleum operations under an agreement on behalf of the contractor;

(xxvi) "permit" means a non-exclusive right to carry out preliminary reconnaissance work for exploration of petroleum in a designated portion of offshore area, which has been granted under a permit issued in the name of GHPL pursuant to these rules which shall be substantially in the form as set out in Part I of the Second Schedule, so as to enable it to enter into a reconnaissance agreement with a contractor;

(xxvii) "person" means any natural person or body corporate, and includes a partnership or other entity constituted under the laws of, or authorized to do business in Pakistan;

(xxviii) "petroleum" means all liquid and gaseous hydrocarbons existing in their natural condition in the strata, as well as all substances, including sulphur, produced in association with such hydrocarbons, but does not include basic sediments and water;

(xxix) "petroleum operations" means all activities conducted by a contractor under an agreement or reconnaissance agreement, related to petroleum exploration, appraisal, development and production activities and any ancillary activities reasonably related thereto and may include any gas processing, pipeline and other transportation storage or other ancillary activities necessary to facilitate the production, processing, storage, transportation and disposal of petroleum as specified in an agreement;

(xxx) "petroleum right" includes a permit, licence and lease issued under these rules;

(xxxi) "President" means the President of the Islamic Republic of Pakistan;

(xxxii) "record" means all record pertaining to petroleum operations conducted by a contractor including but not limited to an account, book, return, statement, report, chart, table, diagram, form, survey, image, invoice, letter, map, agreement, memorandum, plan, core, data, sample, voucher, financial and non-financial information, and anything containing information whether in writing or in electronic form or represented or reproduced by any other means and the result of recording of electronic data, its processing systems and programmes to illustrate what the systems and programmes do, and how they operate without compromising proprietary rights, if any, related to hardware and software;

(xxxiii) "reconnaissance agreement" means a reconnaissance agreement entered into between the President, GHPL, and a contractor for the purpose of carrying out reconnaissance work under a permit;

(xxxiv) "safety plan" means a safety plan submitted to and approved by the concerned authority under applicable law;

(xxxv) "Schedule" means the Schedule to these rules;

(xxxvi) "security interest" means any charge or lien on right in relation to an agreement or any asset in respect thereof, that, pursuant to a written instrument, secures any payment or performance of an obligation, including (a) the payment of an indebtedness arising from an existing or future loan or advance of money; (b) a bond, debenture or other security of a corporation; or (c) the performance of the obligations of a

guarantor under a guarantee given in respect of all or any part of an indebtedness liability referred to above;

(xxxvii) "ship" means any form of vessel, boat or craft designed, used or capable of being used solely or partly for marine navigation and transportation, without regard to method or lack of propulsion which shall include without limitation floating production storage and operation (FPSO) ship;

(xxxviii) "significant gas discovery" means, a discovery of natural gas from an exploration well in a licence which has tested significant flow rates of natural gas from one or more reservoirs, and which is estimated to be capable of continuous production from the said reservoir(s), over a reasonable period and which in the opinion of a contractor could be declared a commercial discovery in the future, provided, inter alia, that, (a) adequate gas pipeline transportation facilities are installed; or (b) markets have been sufficiently developed for sale of natural gas on commercial basis, or the requirements of both (a) and (b) have been met;

(xxxix) "spill" means a discharge, emission or escape of petroleum, other than one that is authorized by applicable law;

(xl) "waste" or "wasted" means waste as understood in the petroleum industry and shall include working methods which, in accordance with good international petroleum industry practices are considered wasteful; and

(xli) "value" means the wellhead value of the petroleum produced and saved less allowed transportation costs as approved by DGPC under these rules.

3. **Director General, Petroleum Concessions.** The Director General, Petroleum Concessions, shall be responsible for the administration of these rules and the execution of all duties imposed upon him by these rules, or pursuant to any agreement.

4. **Role of Government Holdings (Private) Limited.-** GHPL shall secure petroleum rights over the area(s) designated by an interested exploration and production company and to enter into an agreement or reconnaissance agreement, as the case may be, in its capacity as contracting party with such company, as per the faculty conferred upon it by the Government from time to time.

5. **Division of offshore area.-** Any portion of offshore area may be divided into blocks of size and shape by the Government as it may, from time to time, by notification in the official Gazette, determine.

6. **By whom applications may be made.-** Any company whether incorporated in Pakistan or abroad may file an application for entering into an agreement or reconnaissance agreement with respect to any area located in the offshore area to carry out either petroleum exploration or production activities, or both.

7. **Manner in which application may be made.-**

(1) Every application shall be made in writing in the form set out in the First Schedule or as otherwise directed by the Government, addressed to DGPC. Every application shall be entered in the register to be maintained by DGPC. The register shall be in such form as may be specified by the Ministry and shall be open to public inspection.

(2) The application shall state the nature of and the principal place of business of the company showing interest, the authorized, subscribed and paid-up capital of such company, the names and nationality of the directors thereof and the names and holdings of the principal shareholders.

(3) With every application there shall be deposited-

(a) a fee of fifty thousand rupees if the application is for a reconnaissance agreement related to the grant, extension or renewal of a permit;

(b) a fee of hundred thousand rupees if the application is for an agreement related to the grant, extension or renewal of a licence; and

(c) a fee of two hundred thousand rupees if the application is for an agreement related to the grant, extension or renewal of a lease.

(4) There shall be attached with an application five copies of the map upon which shall be delineated the boundaries of the areas in respect of which the application has been made. The map shall be taken from the relevant Survey of Pakistan map of appropriate scale. If the area is identified by a block system notified under rule 3, a reference to the relevant block number shall be sufficient.

(5) The applicant shall furnish evidence as to his financial and technical qualifications and as to his ability to conduct the activities

under a reconnaissance agreement or an agreement, as the case may be, in accordance with the good international petroleum industry practices. Such applicant shall furnish further evidence relating to such matters, as may be requested for, by DGPC and failure to provide such evidence to the satisfaction of DGPC, within three months of the request thereof, shall, unless DGPC determines otherwise, render the application void.

(6) The applicant shall furnish an undertaking that he will abstain from all political activities whatsoever affecting the sovereignty or security of Pakistan or such as may be tantamount to interference in its internal affairs and that especially he will eschew all espionage.

(7) The applicant shall furnish such other information as the Government may, specify till the grant of the right.

8. **Separate application to be made for each area.-**

(1) Where an applicant shows interest over two or more areas which are not contiguous, separate applications for executing reconnaissance agreements or agreements, as the case may be, for each such areas shall be filed, unless otherwise permitted by the Government.

(2) Nothing in these rules shall prevent any applicant to file applications for more than one area.

9. **Several companies**.- Where a contractor comprises two or more companies, each company shall be liable jointly and severally towards the Government and GHPL, as the case may be, for obligations and liabilities, resulting from petroleum operations under an agreement or reconnaissance agreement. The contractor shall, with the prior written approval of the Government, appoint an operator from amongst them, except that such special arrangements as to the operatorship will be applicable as may be approved by the Government under rules 67 and 69. No change in such appointment shall be made without the prior approval of the Government.

10. **Interest not assignable without consent.-** A contractor or any company forming part of the contractor shall not transfer, assign, convey or otherwise dispose of its interest in the agreement or reconnaissance agreement without the previous consent in writing of the Government.

11. **Method for seeking assignments.-** An application by a contractor for consent to the assignment, transfer or otherwise disposal of its interest in the agreement or reconnaissance agreement shall be made in writing to DGPC, and shall be accompanied by a fee of fifty thousand rupees. With the application, such contractor shall furnish the like particulars in respect of the proposed assignee as are required to be furnished in the case of a fresh application for entering into an agreement or reconnaissance agreement.

12. **Power to grant or refuse an application.-** Subject to rules 26, 27 and 33, an application for execution of an agreement, or reconnaissance agreement, as the case may be, or renewal or extension thereof, shall always be decided by the Government. In the event of refusal to such application, the Government shall as far as possible provide the reasons therefor.

13. **Lapse of entitlement to petroleum right.-** Where an agreement or reconnaissance agreement, as the case may be, is not executed within three months or such longer period as may be mutually agreed, after approval of the application by the Government has been conveyed to the applicant, the entitlement of the applicant to execute such agreement or reconnaissance agreement shall be deemed to have lapsed, unless the Government considers that the delay is not attributable to the fault of the concerned applicant.

14. **Surrender of an agreement.-** (1) Subject to the terms of the agreement, a contractor may surrender his right under these rules by giving one months' notice to DGPC and GHPL of its intention to do so, and if such contractor fulfills all its obligations under the rules as well as the agreement or reconnaissance agreement, including the obligations pursuant to rule 77 or if such contractor pays liquidated damages pursuant to rule 31, it shall on the expiry of the notice subject to sub-rule (2) be entitled to surrender its interest. By so doing, the rent for the remaining period of the agreement or reconnaissance agreement would not be payable.

(2) In case more than one company comprises the contractor, and less than all the companies wish to surrender its interest in the agreement or reconnaissance agreement, pursuant to a right, reasonable opportunity shall be provided to the other company or companies to acquire (as provided in sub-rule (3)) the interest from the company or companies wishing to surrender. Provided such opportunity is given and demonstrated to the DGPC and subject to the terms of the relevant agreement and these rules, the agreement or reconnaissance agreement may be surrendered, in its entirety, by

one company notwithstanding more than one company comprises the contractor, on giving notice as provided in sub-rule (1). In the event more than one company wishes to acquire the interest of a company which wishes to surrender its interest, such surrendered interest shall be offered to each on a pro rata basis.

(3) Except as the companies may agree otherwise, any opportunity to be given to acquire an interest under sub-rule (2) shall be without charging for such interest and in the event there is any outstanding minimum work obligation, the transferring party, wishing to surrender, shall pay to the acquiring party or parties a proportionate share of liquidated damages which could then have been charged at that time pursuant to rule 31, based on its participating interest.

15. **Submission and publication.-**

(1) Application for entering into an agreement or reconnaissance agreement may be submitted, either-

(a) at the initiative of an interested applicant; or

(b) on the basis of an invitation from the Government to submit competitive bids.

(2) In the case as specified in clause (b) of sub-rule (1), a notice for competitive bidding may be published in such national or foreign publications as the Government may determine.

(3) A notice of the grant, renewal, extension, surrender, termination and assignment of an agreement or reconnaissance agreement shall be published in the official Gazette, by the Government.

16. **Terms and conditions of a petroleum right.-**

(1) Every permit, licence and lease shall be in the form as set out in Parts I, II and III, as the case may be, of the Second Schedule and shall include such additional clauses relating to ancillary or incidental matters as the Government may deem fit to insert, which additional clauses in the case of a licences shall be intimated no later than the invitation for bids.

(2) Once a petroleum right has been granted, it shall not be modified, amended, altered, or terminated, surrendered or relinquished, in whole or part, except in accordance with these rules and a reconnaissance agreement or an agreement, as the case may

be, or the prior written consent of the Government, GHPL and the contractor.

17. **Guarantees.-**

The Government may require any company seeking to enter into an agreement to furnish, in form and substance acceptable to the Government, a guarantee or guarantees, which, if the Government so agrees, may be a parent company guarantee, in respect of the obligations and liabilities of a contractor.

18. **Agreements.**

(1) Following approval of an application, the Government shall cause GHPL to enter into an agreement or reconnaissance agreement, as the case may be, with a contractor to enable such contractor to carry out reconnaissance, exploration, development and production activities under relevant petroleum right.

(2) An agreement or reconnaissance agreement, as the case may be, shall remain valid for the applicable term of relevant petroleum right and may be extended or renewed for such additional period that corresponds with the term of renewal or extension of relevant petroleum right in accordance with these rules. On the expiry or early termination of petroleum right, the agreement or reconnaissance agreement, as the case may be, shall cease to be valid provided that the agreement or reconnaissance agreement, as the case may be, shall survive expiry or early termination in respect of the matters specifically covered thereunder.

(3) In the event of any conflict between the agreement or reconnaissance agreement, as the case may be, and these rules, the latter shall prevail.

PART II - PERMIT FOR RECONNAISSANCE SURVEYS

19. **Permit.-**

(1) The Government may allow GHPL to carry out through a contractor under a reconnaissance agreement, preliminary surveys including geophysical, geological, geo chemical and geo technical surveys and drilling of geological information bore hole over such area under a permit and on such terms and conditions as it may determine in each case.

(2) Subject to the terms of the permit, the Government may grant a licence or a lease to any other person at any time over any part of the area covered under a reconnaissance agreement.

(3) A contractor shall submit a copy of all the maps, plans, graphs and magnetic tapes and related data as and when these become available and a complete report of a survey no later than six months of the completion of the survey;

(4) A contractor shall comply with all instructions which DGPC may issue regarding the use of maps, plans, graphs and other data generated or collected by the contractor in the course of the reconnaissance survey.

(5) A permit and reconnaissance agreement shall not extend to areas already covered by a licence or a lease unless otherwise specified by the Government pursuant to sub-rule (1) of rule 69.

(6) A contractor of GHPL under a permit shall perform work stipulated in the reconnaissance agreement with due diligence.

(7) A contractor shall for each square kilometre or part thereof comprised in the permit area pay to the Government rent at the rate of one hundred rupees per year.

20. **Period of a permit.**

(1) The initial term of a permit shall be one year. The work programme to be performed by a contractor during the term of the permit will be set out in the reconnaissance agreement.

(2) The permit shall, at the discretion of the Government, be subject to one renewal of one year. An application for renewal shall be made in writing by the contractor on behalf of GHPL at least thirty days before the expiry of the permit or such lesser period as the DGPC allows.

(3) On receipt of an application in accordance with sub-rule (2), the Government shall renew the permit if the contractor has

(a) complied with the work programme and all other obligations under the reconnaissance agreement; and

(b) agreed with the Government the minimum work programme for the renewal period.

21. **No implied rights under a permit.**

(1) The reconnaissance agreement pursuant to a permit shall not imply that a contractor shall be entitled to seek subsequently execution of an agreement over all or any part of the area covered under the reconnaissance agreement.

(2) On the expiry of the reconnaissance agreement, a contractor may apply to DGPC for entering into an agreement in accordance with these rules but shall not be entitled to claim a relaxation of these rules. However, the Government, upon a request of such contractor, may allow adjustment of the work carried out or expenditure incurred, excluding any work or expenditure related to a multi-client arrangement unless otherwise agreed, against the minimum work or expenditure obligation under an agreement covering the area of a permit, if executed.

PART III - LICENCE FOR PETROLEUM EXPLORATION

22. **Grant of licence.-** The Government may grant an exclusive petroleum licence to GHPL to enable it to carry out exploration over any area through a contractor under an agreement on such conditions as are specified in the licence and the agreement.

23. **Size of area.-** A licence shall not be granted in respect of any area of more than two thousand five hundred square kilometres. In special circumstances, the Government may decide to grant an area of up to seven thousand five hundred square kilometres provided that the applicant offers a work programme commensurate with the size of the area.

24. **Shape of area.-** Each separate area in respect of which a licence is granted shall be, as far as possible, compact, bounded by straight lines.

25. **Rights and obligations of licence holder and contractor.-**

(1) Subject to the provisions of these rules, a licence shall give the exclusive right to GHPL to undertake, within the licence area, all activities through contractor under an agreement related to reconnaissance and exploration. A contractor or GHPL shall not be entitled to extract any petroleum from discoveries other than such test and early production, as provided for in rule 27A. .

(2) A contractor shall perform the work programme stipulated in the agreement for initial term and any extension or renewal along with other obligations referred to in these rules.

26. Period of licence, relinquishment and extension of area.-

(1) The initial term of a licence shall not exceed five years keeping in view the geological condition of the licence area. The initial term may be subdivided in phases as specified in the agreement.

(2) The Government may, subject to the terms of the licence, grant up to two renewals. The term of each renewal shall be up to one year. However, to avail a renewal, a contractor shall offer adequate work programme keeping in view the geological conditions of the licence area. A contractor desiring such renewal shall make an application on behalf of GHPL at least three months before the expiry of the licence or such lesser period as the DGPC may allow and the DGPC shall process such application within one month of submission of the same. Upon grant of such renewal to GHPL, the term of the agreement shall stand extended for the corresponding period.

(3) The initial term or renewal thereof of a licence shall be extended by the Government for drilling an exploration well in progress for the period of drilling. In the event of extension granted for a well under drilling, the DGPC may grant a further extension for up to three months for post well studies on the request of the contractor.

(4) A contractor shall comply with obligation of partial area relinquishment during the term of a licence on behalf of GHPL as specified in the agreement.

(5) A contractor desiring renewal of a licence pursuant to sub-rule (3), shall be entitled to a renewal on behalf of GHPL if it-

(a) has complied with the work programme and all other obligations of preceding term of the licence; and

(b) has committed to minimum work programme as is acceptable to the Government for the forthcoming renewal as specified in the agreement

(6) Upon a written request of contractor, the DGPC may, on case to case basis, extend the term of the licence, or any year of a licence, on the following grounds:

(a) If seismic and drilling services are not readily available to the contractor for the timely discharge of minimum work obligation, a proof to this effect will be required before the Government considers accepting or denying a request for extension of an exploration licence. Such a request for extension will be required to be made after the contractor has exhausted all other options including but not limited to pooling resources to undertake coordinated activities with other contractors, if possible;

(b) If a contractor commits to undertake additional work which is equivalent to at least 20% more than the minimum work obligation of the then current year, or if no specific separate work obligation for such year, then the current phase or renewal;

(c) If a contractor makes additional accelerated area relinquishment equivalent to 20% of the original licence area;

(d) Any technical considerations which hinder Petroleum operations.

(7) Notwithstanding anything contained in this rule, in no circumstances will an extension or extensions, provided in sub-rule (6), cumulatively exceed 24 months during the currency of an exploration licence.

(8) Notwithstanding anything contained in these rules, upon a written request of a contractor on behalf and with the consent of GHPL, the Government may, on a case to case basis revise the co-ordinate of the area covered under the licence provided that the geological structure extends into an adjoining free area, and further provided that the revised area will not exceed the area stipulated in rule 23.

(9)

(a) In the event a contractor has applied for an extension or a renewal, prior to the expiry of a licence, the licence shall be deemed extended until approval is given or denied.

(b) For any such deemed extended period, as provided in sub-rule (a), no additional rent shall be due, provided

such application is made at least three months or, in the case of an extension sought under sub-rule (3), one month, prior to the expiry of the licence, otherwise rent shall be payable for such deemed extended period, payable at the end of any such deemed extended period, based on the rental rate for the renewal or extension applied for, applied on a pro rata basis for any part of the extended period not being a complete year.

(c) If approval for the renewal or extension is granted, the renewal or extension applied for will be effective from the later of the date of approval or when the term was to expire, whichever is later, provided such application was made at least three months or, in the case of an extension under sub-rule (3), one month, prior to the expiry of the licence.

(d) In case the application for renewal is not made within three months, prior to the expiry of licence, or one month prior to the expiry of licence, in case of an extension under sub-rule (3), the approval for the renewal or extension shall be effective from the date the term was to expire.

(e) If a contractor applies for an extension or renewal within three months after the licence has expired, the Government may, on a case to case basis, still approve such application, provided the contractor pays a penalty of five hundred thousand rupees per day after the expiry of the licence, without prejudice to any obligation to pay liquidated damages Pending decision of the DGPC to such an application the licence shall be deemed extended and if approval is given the renewal or extension shall be effective from the date the term was to expire.

27. **Appraisal and evaluation of a discovery and renewal therefor.-** A contractor having made a discovery of petroleum shall perform such additional work so as to enable the contractor to make timely determination of a discovery as a commercial discovery. Subject to the contractor having complied with the minimum work programme and other obligations shall be entitled to seek renewal of the licence on behalf of GHPL not exceeding two years for the

purpose of expeditious appraisal, evaluation and commercialization of the discovery. The renewal shall only apply to the discovery area.

27A **Extended well testing. –**

(1) Subject to approval of the Government, a contractor may undertake extended well testing or early production, during the appraisal phase and before the grant of lease. The contractor shall comply with the requisite royalty, tax, rentals of the discovery area, marine research and coastal development fee and training and social welfare obligations as would be applicable under a lease.

(2) In the event a request for approval of EWT is to be made under sub-rule (1), the request shall include associated temporary production facilities and shall be made to the Government providing information with regard to, -

(a) technical justification for EWT;

(b) proposed duration for EWT; and

(c) a plan for disposal of natural gas during the proposed EWT period.

(3) Any request for EWT sought from the Government shall not be unreasonably withheld or delayed.

(4) Production during EWT and post declaration of commerciality would be considered as commercial production for the purpose of payment of production bonus, royalty and all other obligations as are applicable to the lease. However, the first production bonus would be payable upon the earlier of commencement of commercial production subsequent to grant of lease or production reaching the first level that production bonus is payable on volume produced.

28. **Retention of significant gas discovery.-** Upon a request of a contractor, in the case of a significant gas discovery under the licence, the Government may extend the period of the licence for up to five years covering the area of discovery. A further period of up to five years extension may be allowed by the Government upon the expiry off the initial retention period or justification being given that is acceptable to the Government. Before the expiry of allowed retention period, the contractor shall make determination as to commercial discovery and submit an application for grant of a lease along with the proposed development plan providing detailed assessment of gas market potential and a plan for infrastructure development.

29. **Declaration of commercial discovery.-**

(1) Upon completion of the evaluation of a discovery a contractor may submit a notice for declaration of commercial discovery to the Government along with a report in accordance with clause (d) of rule 58 and general plan for development. After issuing such a notice, the contractor shall be entitled to apply for the grant of a lease on behalf of GHPL in respect of discovery area in accordance with these rules.

(2) The grant of a lease shall prevail over the licence within the area designated in the lease, but the licence shall continue to be valid outside such lease area without modifying the right and obligations pursuant to the licence. In the event of a licence continuing to be valid beyond the term of a lease, or on any part of the area of a lease being reduced, the license shall automatically again extend over such lease area, provided such area or areas are contiguous with the remaining licence area and further provided that the total area of licence does not exceed the area provided in rule 23, less any reductions required under rule 26(4).

(3) Upon termination of the licence, GHPL shall relinquish the licence area except the area covered by a lease or leases granted to it.

30. **Extension pending grant of lease.-** If a contractor, before the expiry of the licence, has applied for grant of a lease on behalf of GHPL and such application is registered with the Government, the duration of the licence shall be extended until the lease has been granted or refused.

31. **Work programme and other obligations not fulfilled.-**

(1) Where upon the surrender, revocation or the expiry of a licence, the obligations pursuant to rule 25, 26 or 27 have not been fulfilled, a contractor shall either-

(a) pay to GHPL such sum by way of liquidated damages for undischarged work obligations as set forth in the agreement within a period of thirty days from the surrender, revocation or expiry of the licence; or

(b) transfer undischarged work obligation committed under rule 25 or rule 26 to another area with the approval of Government if it is demonstrated to the satisfaction of the Government that there is no drillable prospect in the licence area. In the event that

the contractor comprises more than one company, the undischarged work obligation shall be monetized, based on liquidated damages obligations and divided between the companies in accordance with their interests in the right. Any company not transferring a work obligation to an area of its choice shall pay its pro rata share of liquidated damages, without prejudice to rule 9.

(2) In case the liquidated damages payable pursuant to clause (a) of sub-rule (1) are not paid or the transfer of undischarged work obligation to any other area(s) pursuant to clause (b) of sub-rule (1), is not approved, the Government may, in addition to any other action or remedy, cancel a lease granted to GHPL in respect of any area comprised within the area of the licence which has been surrendered, revoked or expired.

(3) Where a contractor is in default of his work obligations and has paid liquidated damages as provided in sub-rule (1)(a) the contractor shall be deemed to have complied with such work obligation for the purposes of rules 25, 26 and 33.

32. **Rent.-**

(1) A contractor shall on behalf of GHPL pay rent annually to the Government at the rate of five million rupees plus one thousand rupees per square kilometre or part thereof .

(2) The rent shall be paid in advance of the period to which it relates.

PART IV - LEASE FOR PETROLEUM DEVELOPMENT AND PRODUCTION

33. **Grant of development and production lease.-**

(1) Following an application from a contractor on behalf of GHPL, the Government shall on being satisfied that a commercial discovery has been made and that the terms and conditions of the licence, including the work programme, have been duly observed and performed, or that the contractor is in satisfactory progress with the work programme, and that the requirements of rule 38 have been duly complied with by the contractor, grant a lease in the name of GHPL in respect of discovery area within the licence area granted to

GHPL to enable the contractor to carry out development and production activities related to the commercial discovery under an agreement.

(2) The Government may grant a single lease covering more than one discovery area within the same licence area provided that such discovery areas are juxtaposed vertically in which case the lease shall be granted on the basis of the combined discovery area.

(3) In the event that any part of a discovery area extends beyond the lease into an open acreage, the Government may upon being satisfied that the discovery area extends into such open acreage and subject to such conditions as deemed necessary, readjust the subsisting boundaries of the lease so as to include such part of the open acreage on which the discovery area extends.

34. **Rights of a contractor pursuant to a lease granted to GHPL.-** A contractor shall, subject to these rules and terms of the agreement have the exclusive right to carry out development and production operations for GHPL in respect of the commercial discovery within the area of lease including the right to undertake transportation of petroleum, subject to approval pursuant to rule 40.

35. **Shape of discovery area.-** Each discovery area in respect of which a lease is granted shall be laid out in straight lines as far as practically possible.

36. **Survey expense of a contractor.-** Before a lease is granted by the Government a contractor shall, if so required by the Government, at his own expense cause a bathyorographical and site survey of the sea-land specified therein to be made to scale normally required for petroleum operations purposes, and approved by the National Oceanographic Institute, and submit a report thereof to the Government.

37. **Period of lease.-**

(1) A lease shall be for the period for which application has been made supported by relevant technical and other information but not exceeding twenty-five years. In the event the lease is initially granted for a period less than twenty-five years, the same may be extended from time to time, such that the total overall period of lease does not exceed 25 years provided commercial production continues.

(2) Upon application from a contractor on behalf of GHPL, the Government may renew the lease for a period, not exceeding five

years, if commercial production is continuing at the time of the application, provided the request for renewal along with revised development plan is submitted to the Government not less than one year prior to expiry of initial term.

37A. **Further renewal or re-grant of lease after expiry of lease term.-**

(1) Effective from the end of a lease period, upon application from a contractor, at least 90 days before the expiry of the lease term, the Government may renew a lease for up to a further period of five years, provided at the time of application commercial production is continuing, an addendum to the development plan acceptable to the Government is provided and the contractor agrees, on behalf of GHPL, at least one year prior to the expiry of the lease period, to pay 15% of wellhead value of petroleum produced to the Government after the effective date of renewal.

(2) If there is no such renewal, or following expiry of such a renewal, the Government may invite bids from companies for the re-grant of the lease over the same, or substantially the same area as the expiring lease, for a term of ten years or such lesser period for which commercial production is expected to continue. The bids shall be evaluated on the basis of a development plan and signature bonus. The Government may keep re-granting a lease, in a similar manner, as long is commercial production is continuing.

(3) Each bidder shall provide a bid bond of ten per cent of the offered signature bonus at the time of bidding along with a development plan.

38. **Development plan.-**

(1) Together with the application for a lease, a contractor shall enclose a development plan which shall contain such information as the DGPC may prescribe by way of procedures provided for in rule 82A(3) in respect of the construction, establishment of all facilities, operation, safety, environment management and services for and incidental to the recovery, storage and transportation of petroleum as the Government may reasonably deem necessary which shall include but not be limited to such information as is specified in an agreement.

(2) The plan shall require the approval of the Government. Such approval shall not be unreasonably delayed provided the requisite information has been provided to the Government.

(3) After approval of the plan, a contractor shall carry out development and production in accordance with the plan, subject to such modifications as may be necessary and are approved by the Government from time to time.

39. **Other plans.**

(1) Prior to commencement of petroleum operations under an agreement pursuant to a lease, a contractor shall also submit an environmental management and protection plan and a safety plan or any amendment thereto for approval by the appropriate authority. If such authority is not the DGPC, a copy of such approved plan shall be promptly submitted to the DGPC.

(2) Each environmental management and protection plan shall be prepared in accordance with applicable law and good international petroleum industry practices, which shall ensure that petroleum operations are conducted in environmentally safe manner as per the highest principles of good international petroleum industry practices and shall provide for the protection of the natural environment. Such plan shall include without limitation-

(a) a description of the program established by the contractor to monitor the effect of routine operations on the natural environment and the measures adopted to minimize or mitigate the same;

(b) all contingency plans including without limitation response to, and mitigation of, the accidental spill of petroleum or hazardous substances;

(c) a description of equipment and procedures for treatment, handling and disposal of waste material;

(d) compliance monitoring programs to ensure that the composition of spilled waste material is in accordance with the limits specified in the environmental management and protection plan;

(e) a summary of the chemical substances intended for use in petroleum operations; and

(f) plans for abandonment, including without limitation removal of all structures and environmental restoration of the production site following termination of commercial production.

(3) An environmental management and protection plan, if so required by the Government, shall be accompanied by a review completed by a third party approved by the appropriate authority certifying that the environmental management and protection plan, the equipment proposed, the risks assessed, the practices and procedures identified, and all other necessary documents, have been reviewed and are reasonable and efficient and are consistent with good international petroleum industry practices, for the protection of the environment.

(4) If so required by the Government, the third party referred to in sub-rule 3 or any other competent person approved by the appropriate authority shall annually review or audit the environmental management and protection plan and having conducted such review or audit as they deem necessary, provide the appropriate authority with its professional opinion that the plan remains valid as specified in sub-rule (2) or that the plan requires some amendments for which the contractor shall take appropriate steps immediately to update the plan and ensure its immediate implementation.

(5) Each safety plan shall be prepared in accordance with applicable law and good international petroleum industry practices and shall include but not be limited to-

(a) details of the contractor's safety management policy and a description of the procedures established to ensure its effectiveness including demarcation of safety zones which shall conform to good international petroleum industry practices;

(b) a summary of the results of all studies undertaken to identify hazards and to assess risks and means to mitigate those risks;

(c) a description of the features incorporated in the design of any installation and of the equipment provided to eliminate hazards and reduce risks to personnel;

(d) a description of the procedures established for the safe operation and maintenance of the installation;

(e) the standards adopted for the training and qualification of personnel;

(f) a description of the command structure on any installation and onshore base, and their relationship to each other;

(g) contingency plans for response to and mitigation of accidental events affecting the safety of persons, or the integrity of the installation;

(h) a description of the physical environmental monitoring equipment; and

(i) the distance from the production installation, at which a ship, if any, shall remain during normal operations.

(6) The safety plan, submitted to the appropriate authority, shall be accompanied by a review by the certifying authority, certifying that the equipment proposed for use, the practices and procedures identified, and all other necessary elements, have been reviewed by the certifying authority and are reasonable and efficient and are consistent with good international petroleum industry practices for safe operations.

(7) The certificate issued by a certifying authority, shall state that the equipment or installation in question-

(a) is fit for the purposes for which it is to be used and may be operated safely in the relevant area, without posing a threat to persons or to the environment in the location and for the time set out in the certificate; and

(b) is in conformity with all of the requirements and conditions that are imposed for the purposes of this rule

(8) The certificate referred to in sub-rule (7) shall remain in force for so long as the equipment or installation to which the certificate relates is used in the work or activity, and shall be renewed, if so decided by the Government, annually by a certifying authority.

(9) A certificate of fitness from a certifying authority which has previously been involved in any element of the fabrication, installation or construction shall not be acceptable.

40. **Transportation of petroleum. –**

(1) Subject to approval in accordance with this rule, a contractor under an agreement shall have the right to lift and transport petroleum from the area of lease, either through transportation facilities owned wholly or partly by himself or through access to transportation facilities owned by a third party and such approval shall not be unreasonably withheld or delayed.

(2) A contractor under an agreement shall submit an application comprising the proposed organization and implementation of the transportation system. In case of pipeline transportation, the application shall also comprise the design, construction and route plans.

(3) The Government may, on giving its approval, stipulate such conditions as are reasonable and necessary to secure a rational system of transportation of petroleum and the Government may-

(a) require that several contractors or leaseholders install jointly-owned transportation facilities; and

(b) grant to any third party access to transportation capacity at tariffs to be negotiated between contractors or lease holders and approved by the Government.

41. **Royalty.-**

(1) Royalty on petroleum produced and saved shall be payable by a contractor to the Government at the rate of twelve and half per cent of the value unless a different rate for royalty is provided for in the agreement.

(2) Royalty shall be paid in cash unless the Government elects to take the delivery of royalty, whether wholly or partially, in kind at field gate on a six months advance notice. In such a case the contractor shall at the request and at the costs of the Government make arrangement for transportation of the royalty petroleum in the same manner as if it was his own petroleum.

(3) Royalty shall be payable monthly within a period not exceeding forty-five days of the end of the month of production in question which if delayed beyond this stipulated period would attract fine at rate of London Inter Bank Offer Rate ("LIBOR") plus one and half per cent as may be determined by the Government. In the event royalty obligation remain un-discharged for two consecutive months

following expiry of the month of production in question to which the payment of royalty relates, the Government may take such action as it may deem appropriate in accordance with these rules.

(4) The Government shall lift or take royalty petroleum in a timely manner and in accordance with such lifting agreement as may be mutually agreed with a contractor.

(5) A contractor shall be permitted to use petroleum produced from area of the lease or licence for drilling, production, maintenance and processing of petroleum obtained from the area of the lease or licence free of cost, royalty and excise duty provided that he shall not be entitled to include any notional costs in claiming his business expenses for income tax purposes.

(6) From the amount of royalties payable in respect of any one year of the term of a lease or licence, there shall be no deduction of any expenditure except allowed transportation cost. The rent paid during the year shall not be deductible from royalty payment.

(7) The Government may from time to time issue guidelines which will inter-alia cover procedure for administration and payment of royalty due from the contractor of GHPL under a lease or licence.

(8) Notwithstanding anything to the contrary contained in these rules, the election to take the royalty on natural gas in cash or kind shall be exercised only once within ninety days of the approval of development plan by the Government and may not be exercised for production from a licence.

42. **Value of petroleum.-**

(1) For the purpose of calculating the amount due by way of royalty, the value of the petroleum produced and saved shall be determined by using the monthly weighted actual selling price of the various transactions in the following manner, namely:-

(a) For the petroleum sold to the national market pursuant to rule 46, the actual selling price means the price determined in accordance with the relevant sale and purchase agreement between the contractor and the Government or its designee less allowed transportation cost; and

(b) in all other cases, the actual selling price means the greater of-

(i) the price at which the petroleum is sold or otherwise disposed of less allowed transportation costs; or

(ii) the fair market price received through arm's length sales of the petroleum less the allowed transportation costs.

(2) For the purpose of calculating the cost recovery and production sharing, the value of the petroleum shall be determined by using the monthly weighted actual selling price of the various transactions in the following manner, namely:-

(a) For the petroleum sold to the national market pursuant to rule 46, the actual selling price means the price determined in accordance with the relevant sale and purchase agreement between a contractor and the Government or its designee less allowed transportation cost; and

(b) in all other cases, the actual selling price shall be the price realized through a competitive process for which the Government may issue guidelines from time to time.

43. **Royalty administration.-**

(1) If a contractor comprises two or more companies, they shall designate the operator to remit royalty on their behalf unless prior approval has been obtained from DGPC to remit royalty themselves.

(2) Royalty shall be remitted with the supporting forms specified by DGPC with documents and information required.

(3) If DGPC determines that petroleum was avoidably lost or wasted, including consumed by the contractor for purposes not covered by rule 41(5) then royalty shall be payable on such lost or wasted petroleum in accordance with the direction issued by DGPC.

(4) If a contractor receives insurance compensation for unavoidably lost or wasted petroleum, royalty shall be due on the amount of the compensation in accordance with the direction issued by DGPC.

44. **Yearly lease rents.-**

(1) A contractor shall on behalf of GHPL pay rent annually to the Government at the rate of five million rupees plus one thousand rupees per square kilometre or part thereof.

(2) The rent shall be paid in advance of the period to which it relates

45. **Surface rent.-** A contractor shall pay for all land which he may use or occupy for the purposes of the operations conducted under the agreement, a surface rent at the rate assessable under the applicable laws and water rates as assessable under any relevant rules.

46. **Deliveries to the national market.-**

(1) The Government may decide that a contractor under an agreement shall deliver petroleum from his production to cover the requirements of the national market for petroleum. The national market for petroleum shall for this purpose means the total market requirements, less petroleum produced by or otherwise available to the Government from indigenous sources. The contractor shall deliver the petroleum at such place or places in Pakistan as the Government may direct at the Government's cost unless otherwise provided in the agreement and subject to sub-rule (3).

(2) The provisions of sub-rule (1) shall apply to all companies producing petroleum as far as practicable, pro rata to their production. Each contractor's obligation may be fulfilled directly or by means of swap arrangements approved by the Government.

(3) The Government may direct that a contractor shall pay for transportation of crude oil, condensate and natural gas liquid which it has thus ordered to be delivered up to the distance to the nearest operating refinery in Pakistan.

(4) The price to be paid for petroleum to be delivered pursuant to this rule shall be such price as may from time to time be determined in accordance with terms and conditions of applicable agreement between the Government and a contractor.

47. **Measurement of petroleum.-**

(1) A contractor shall measure or weigh all petroleum produced and saved from the licence or lease area by a method or methods customarily used in good international petroleum industry practices and approved by DGPC who may, from time to time and as and when

deemed necessary, issue guidelines for installation, maintenance, inspection and other matters related to measurement of petroleum as per good international petroleum industry practices.

(2) DGPC or any officer authorized by him shall, at all times during the term of an agreement or any renewal thereof, be entitled to inspect the measuring or weighing equipment and to be present whenever such a measurement or weighing takes place.

(3) A contractor shall install, operate and maintain all measuring and weighing equipment ensuring that such equipment remains in good working condition at all times. If any such equipment shall at any time be found not to be accurate, the same shall, if DGPC, so determines after considering any representations in writing made by the contractor, be deemed to have existed in that condition during the period of three months prior to the discovery thereof or the period elapsed since the last occasion upon which the same was examined or tested, whichever shall be the less. This restriction on time period shall not be applicable if the inaccuracy so discovered is found to be result of the contractor's wilful tampering or negligence in which case appropriate adjustment in royalties, and production share together with imposition of fine will be made as determined by DGPC. The royalties and production share payable in respect of such period shall be adjusted accordingly.

(4) A contractor shall not make any alteration in the method or methods of measurement or weighing used by him or any equipment used for that purpose unless approved by the DGPC and DGPC may require that no alteration shall be made save in the presence of a person authorized by him.

48. **Revocation of lease.-**

(1) The lease may be revoked and the agreement may be terminated if regular commercial production has not commenced within seven years from the grant of the lease. The lease may also be revoked and the agreement may be terminated if production has ceased for more than ninety days without prior written approval of the Government, unless this is due to force majeure.

(2) In the event, a contractor is found to have contravened sub-rule (1), the Government may issue a ninety days' notice requiring the contractor to remedy the breach within the notice period failing which the Government may impose a fine or revoke the lease and terminate the agreement unless a plausible justification is provided.

PART V.- ACCOUNTS, RECORD, INSPECTION AND REPORTS

49. **Keeping of records and accounts.-**

(1) A contractor shall maintain full and accurate records.

(2) Original copies of all records shall be kept in Pakistan unless otherwise approved by DGPC.

(3) A contractor shall immediately comply with the demand of DGPC or GHPL, as the case may be, to submit the certified copy of any record.

50. **Period of record-keeping.-**

(1) The records shall be kept and maintained for a period of six years or for a longer period as is required under the applicable law following the end of the calendar year to which the information contained in the record relates. In case of any particular record, upon application by a contractor, DGPC may consent in writing to the destruction of record before the end of the six years period or such other period as is required under the applicable laws as the case may be.

(2) Notwithstanding the provision of sub-rule (1), if based on reasonable grounds, DGPC is of the opinion that it is necessary for the administration of any rule, to retain record for a longer period, he may direct the concerned contractor to do so specifying the reasons therefor.

51. **Well records.-**

(1) Notwithstanding the generality of rule 49, a contractor shall always keep full and accurate record of the drilling, deepening, plugging, completion, re-completion, sidetracking, testing or abandonment of all wells containing particulars of the following matters with respect to each well, namely:-

(a) The strata and subsoil through which the well was drilled;

(b) the casing used in any well and any alteration to such casings;

(c) any petroleum and other reservoir fluids, or minerals encountered; and

(d) such other matters as DGPC may, from time to time, require.

(2) A contractor shall deliver copies of the said record to DGPC within a period of six months of becoming available.

52. **Production records.-** A contractor shall always keep full and correct record which shall contain accurate entries of-

(a) the gross quantity and quality of petroleum won and saved;

(b) the method and results of tests conducted;

(c) the quantity and quality of petroleum delivered in Pakistan and exported;

(d) the quantity and quality of petroleum used for re-injection, pressure maintenance, venting, flaring, drilling or other operational purposes;

(e) the quantity and quality of petroleum sold, the name of the purchaser and the price at which it has been sold supported by necessary documents;

(f) the quantity and quality of natural gas treated and processed for the removal of impurities and inerts and natural gas liquids and liquefied petroleum gases and the quantity and quality of any liquids, gases or any solids obtained from it; and

(g) such further particulars as DGPC may from time to time, require.

53. **Data to be property of the Government.-**

(1) All data including but not limited to, well logs, maps, magnetic tapes, cores, samples and any other geological and geophysical information obtained by a contractor as a result of his activities under an agreement or reconnaissance agreement shall be the property of the Government, subject to the right of the contractor to use such data for the purposes of the petroleum right. The contractor shall submit all of the aforesaid data and information as soon as it has become available to him. The contractor may, during the subsistence of an agreement or reconnaissance agreement, after prior intimation to the Government, disclose all or any part of the aforesaid data to a third party, provided that before disclosure of the data, such party executes an appropriate confidentiality agreement drawn up in accordance with good international petroleum industry practices.

(2) All raw and processed geophysical and geological information referred to in sub-rule (1) shall be submitted to DGPC in the format including but not limited to digital format and on material as agreed by DGPC.

(3) Information and data as mentioned in this rule shall be kept confidential by the Government and GHPL for a period of five years from the date the data is acquired by a contractor with the following exceptions, namely:-

(a) Information disclosed to other Pakistani authorities, or financial institutions or consultants of the Government who will be bound to keep the same confidential;

(b) information required for general statistical purposes;

(c) upon the earlier termination of a permit, licence or lease, or upon the date of relinquishment of the area to which the information relates; and

(d) all raw geophysical, geological and well data including well logs may be disclosed by the Government or GHPL to any interested party after two years of the activity to which such data relates. This however shall not be applicable to the data generated under multi-client arrangements.

(4) Notwithstanding anything contained in these rules, the data in the possession of the Government in respect of a surrendered or relinquished area of a permit, licence or lease or agreement may be released by the Government to any company or to an organization engaged in petroleum exploration, production and research, on the reproduction costs of the data and on such terms and conditions as it may determine.

(5) Except as provided under these rules, a contractor shall not disclose or cause to disclose any data except to a person who is legally entitled to obtain, or where the contractor is legally obliged to disclose, that data.

(6) Any other person who is permitted to receive the data shall hold the same subject to the same restrictions as are contained in sub-rule (5).

54. **Power to inspect plants, records and accounts, etc.-**

(1) DGPC or a person designated by him may, at any reasonable time after notice in writing enter any place where any activities or business is carried out by a contractor under the rules for the purpose of auditing or inspection or examination of inter alia wells, record, plants, appliances, buildings, or any other works.

(2) A contractor shall, for the purpose of an audit, or inspection or examination by the DGPC of any of the records described in these rules,

(a) provide access to DGPC or a person designated by him to conduct the audit or inspection or examination on his behalf to perform his duties without any hindrance;

(b) provide all reasonable assistance to DGPC or a person designated by him to perform his duties without any hindrance;

(c) promptly provide or make available the certified copies of records required by DGPC or to any person designated by him to perform his duties without any hindrance.

55. **Annual reports.-**

(1) A contractor shall each year submit to DGPC annual reports containing the following particulars, namely:-

(a) A financial statement with an abstract of the accounts, prepared in accordance with accounting principles generally accepted in the petroleum industry and audited by a recognized firm of chartered accountants approved by DGPC;

(b) a description of all exploration, development, production and other work carried out by the contractor during the year relating to the permit or licence or lease area;

(c) estimates of in place and recoverable reserves of petroleum at the end of each year classified on the basis of good international petroleum industry practices as per standard format notified by DGPC. If so desired by the Government, the contractor shall be

required to carry out reserves certification from an independent source; and

(d) estimates of petroleum production and exports for each quarter of the next year.

(2) The report referred to in clause (a) of sub-rule (1) shall be submitted within six months and the other reports within forty-five days after the end of year to which they relate.

56. **Quarterly reports.-** Within ten days after the end of each quarter, a contractor shall prepare and deliver a progress report to DGPC, which shall contain a narrative report of activities with plans and maps showing the places where work was done. Such report shall also contain-

(a) a summary of all geological and geophysical work carried out;

(b) a summary of all drilling activity and results obtained;

(c) a list of maps, reports and other geological and geophysical data prepared or acquired in connection with the activities; and

(d) a statement of expenditure incurred by the contractor during the month on a format as may be specified by DGPC from time to time.

57. **Daily reports.-** During drilling of a well, a contractor shall provide to DGPC, copies of his daily well reports on a format as may be specified by DGPC from time to time.

58. **Occasional reports.-** A contractor shall submit to DGPC, the following reports, namely:-

(a) Within twenty-four hours, by email or fax with hand copy delivered within next twenty-four hours, if a well shows the presence of petroleum in significant measure or if a drill stem or any other test has been carried out on a well which produces petroleum;

(b) within seven days after the above-mentioned report, a written report containing relevant geological information and chemical analysis in the case of a showing of the presence of petroleum, and in the case of a drill stem or any other test containing the following additional information, namely:-

(i) Conditions and results of the drill stem or any other test, including but not limited to flow rates, flow periods, tested intervals, pressures, choke sizes, hole condition and stimulation measure;

(ii) physical analyses; and

(iii) any deductions therefrom as to the potential of the reservoir.

(c) within one month after the completion or abandonment of drilling operations, a comprehensive well completion report, which shall contain, inter alia, the lithological groups, stratigraphic boundaries, hydrocarbon zones, a copy of all well logs and tests and other relevant information including costs, provided that such information which cannot be obtained within this period shall be submitted as soon as possible;

(d) at the latest upon the issue of a commercial discovery notice, a report which shall substantiate such notice and contains-

(i) all relevant geological information, including estimates of recoverable reserves and daily production;

(ii) a general plan for the development of the deposit, including possible alternatives, with a description of the main production and transportation installations envisaged, and the relevant cost estimates; and

(iii) calculations of the profitability estimates of the discovery;

(e) within forty-five days after the relinquishment or surrender of any part of the permit or licence or lease area and expiry or early termination of agreement all such maps, plans, reports, records, interpretations, and data that had been made or obtained by or for the contractor relating to exploration, development, production, abandonment, restoration of site and any other operations in the relinquished, surrendered or retained areas;

(f) report to DGPC particulars of any material issues of capital which may be made by it or its parent company or any other company having a controlling share interest in it, from time to time and any alteration which may be made in the memorandum and articles of association or in the constitution of the contractor or his parent company. Any fresh issues of

capital shall at all times be subject to clause (d) of rule 76; and

(g) from time to time, such other plans and information as to the progress and results of the contractor's operations as DGPC may reasonably require.

59. **General.-** The reports referred to in this Part V shall be made in such form and contain such further particulars as DGPC may specify. A contractor's obligations under this Part V shall comprise reports whether prepared inside or outside Pakistan and whether prepared by himself or by others.

60. **Reports of discovery.-**

(1) No announcement or statement, whether direct or implied, with respect to a discovery of petroleum shall be made by a contractor except by the Government in consultation with the contractor, or by a company where required by law or otherwise with the consent of the DGPC.

(2) No statement shall be made by or with the consent of a contractor claiming or suggesting, whether express or by implication, that any Government authority or any person or body active on behalf of the Government has or have formed or expressed an opinion that the licence or lease area is likely to contain petroleum.

PART VI – STANDARD OF OPERATIONS

61. **Avoidance of harmful methods of working.-**

(1) A contractor of GHPL under a petroleum right shall undertake and execute all operations in a proper, prudent and workmanlike manner in accordance with these rules, an agreement or a reconnaissance agreement and good international petroleum industry practices. The contractor shall not unreasonably obstruct or interfere with other activities such as navigation and fishing.

(2) Without prejudice to the generality of the foregoing provision, a contractor shall take all steps including but not limited to the following, namely:-

(a) Prevent the escape or waste of petroleum discovered in the area;

(b) conserve the area for operations;

(c) prevent damage to adjoining petroleum bearing strata;

(d) prevent the entrance of water through wells to petroleum bearing strata, except when approved by the Government for the purposes of secondary recovery; and

(e) prevent the escape of petroleum into any waters in or in the vicinity of the area.

(3) A contractor shall undertake petroleum operations in such a manner that avoids causing debris, which if caused shall be sole responsibility of the contractor.

(4) The Government may establish safety zones around temporary and permanent installations as per good international petroleum industry practices.

(5) The Government may, from time to time, determine and notify the standards applicable to the operations under these rules in accordance with good international petroleum industry practices.

62. **Principles of sound operations.-**

(1) All petroleum operations and activities shall be conducted diligently and in accordance with good international petroleum industry practices. The rate of production from each reservoir shall be the maximum efficient rate needed to achieve the maximum ultimate economic recovery of petroleum from various petroleum reservoirs unless otherwise approved by the Government.

(2) The Government may specify measures at the time of approval of development plan that a contractor shall take to conserve petroleum resource of Pakistan. These measures shall include, but not be limited to, notification of depletion policy, rate and flow of petroleum from the fields and the measures to achieve maximum ultimate economic recovery of petroleum from different reservoirs.

(3) A contractor shall not flare or vent any natural gas without the prior approval of the Government in writing.

63. **Commencement, testing and abandonment of drilling operations.-**

(1) If a contractor of GHPL under a licence or lease wishes to get a well approved as an exploration well such approval may be obtained

from DGPC prior to the commencement of drilling, after submitting all relevant data and interpretation in support thereof.

(2) A contractor shall not commence drilling, re-entry, sidetracking, hydraulic fracturing or abandonment of any well without first having obtained the approval of DGPC in writing.

(3) A contractor shall-

(a) as soon as possible make known to DGPC the proposal for testing a well;

(b) test all potentially productive horizons indicated by wire-line recording; and

(c) promptly undertake the technical evaluation of the well testing results and of all other relevant data and submit the same to DGPC as soon as possible.

(4) For the purposes of sub-rule (2), the approval of the DGPC shall be deemed to have been given at the end of the notice period provided in sub-rule (5) unless within such period the DGPC gives reasons why the operation applied for should be varied or stopped. Any approval given or deemed given under this rule shall be without prejudice to any other obligation of the contractor/GHPL.

(5) For the purposes of sub-rule (4), the "notice period" shall be (a) 21 days from the delivery of a request for approval, save for an exploration well, (b) for the drilling of an exploration well, it shall be 14 days after a reminder request which may not be delivered to the DGPC in less than 14 days of the original request being delivered or (c) for an on-going operation, two working days from the request being delivered; provided in each case that if the contractor/GHPL has failed to provide the required technical information for such operation in the standard format, any of the aforesaid periods shall commence from the provision of the required information.

(6) After the completion of all operations, the well shall be safely plugged as per applicable regulations and the same shall be reported to the DGPC within seven days of the well being plugged.

(7) Drilling operations shall be conducted in accordance with the applicable regulations and good international petroleum industry practices.

64. **Shape of relinquished areas.** Areas which are relinquished or surrendered shall be of sufficient size and shape to enable petroleum operations to be carried out thereon.

PART VII - MISCELLANEOUS

65. **Use of Pakistani goods and services.-**

(1) In all activities carried out pursuant to these rules, a contractor shall ensure the use of Pakistani goods and services, to the extent that such goods and services are competitive with regard to price, quality and schedule of delivery.

66. **Employment and training of Pakistani personnel.-**

(1) The Government may require a contractor to employ nationals of Pakistan in his organization at all levels and in all branches including technical and administrative units and to arrange for the training in Pakistan and abroad, of nationals of Pakistan to fill the aforesaid positions. The number of Pakistani personnel to be employed and trained shall be submitted to the DGPC in accordance with the guidelines that may be issued by him from time to time. An application for execution of an agreement or a renewal or extension thereof and the development plan submitted with the application for grant of lease on behalf of GHPL shall contain a description of the measures proposed to be taken by an applicant during exploration, appraisal, development and production phases so as to ensure compliance with this rule.

(2) The Government may require that a contractor shall provide training for Government personnel in order to develop the capability of such personnel to efficiently perform their duties related to the supervision of petroleum industry. Such training shall cover both technical and management disciplines for example geology, geophysics, engineering, project management, accounting, legal, and shall also be in the form of on-the-job training and participation in in-house seminars.

67. **Joint exploration and development.-**

(1) If a petroleum deposit extends across more than one licence or lease area with different contractors, such contractors shall endeavour to agree to explore and exploit the deposit jointly in the most efficient manner.

(2) The contractors shall endeavor to expeditiously agree to a joint exploration and/or joint development plan or in case one of the deposits has already been developed, a joint unitization plan, which shall be submitted to the Government for approval.

(3) If the contractors fail to reach an agreement within a reasonable period of time on a joint exploration, joint development or joint unitization plan as referred to in sub-rules (1) and (2), the DGPC shall, on the request of any of the contractors, or may itself by notice in writing to all concerned companies, direct that they finalize and submit for approval of the Government relevant plan within the period stipulated in the notice which shall not exceed three months.

(4) In the event such plan is not submitted to the Government within the stipulated period or such plan has not been approved by the Government, either contractor may request the Government to appoint a consultant to prepare such a plan, or if appropriate, decide first if a deposit does extend from the area of one contractor into that of another, which the Government shall do without delay.

(5) The cost of such consultant shall be at the joint cost of the contractors concerned to be paid as directed by the Government. If a contractor does not contribute, the cost shall be wholly borne by the other such contractor. In such an event, if the reservoir does extend into areas held by the respective contractor, the contractor which did not contribute shall reimburse the other the whole cost of the consultant thus appointed.

(6) The consultant shall be required to complete the plan within three months of receipt of the data and other information, with any extensions considered reasonable by the Government, which in any instance shall not exceed a cumulative period of six months. Both parties shall make available all data reasonably requested by the consultant which shall be obliged to enter into a confidentiality agreement. If a party fails to make such data available in a timely manner, the Government shall direct such a party or parties to comply with this request, failing which such party shall be in breach of a material term and shall be subject to rule 76(a).

(7) The plan so prepared by the consultant shall be considered by the Government and the respective contractors, each of whom shall have one month to make written submissions to the consultant. Thereafter the plan shall be finalized by the consultant and accepted by the Government and parties. In the event of a manifest error, the

Government may, unilaterally or on the request of an affected party, impose such additional conditions as may reasonably be considered appropriate. The final plan shall be binding on the concerned parties.

(8) In the event the reservoir does extend into areas held by the different contractors, the respective reserves determinations shall be effective from the date when there was commercial production or EWT production from more than one such area, and consultant shall make recommendations for necessary adjustments on this account in the plan.

(9) (a) The reference to "consultant" in rules 67(4), 68(2), 69(2) and 75(3) , shall be to such third party consultant appointed by competitive bidding from three consultants chosen by the DGPC from the list of consultants provided for in sub-rule (9)(b).

(b) The said "list of consultants" shall comprise of six pre-qualified consultants maintained by the DGPC. Each such consultant shall be independent and of an international caliber/repute. The list shall be readily available to any contractor, at any time, on request, which may make observations on any party contained in the list or recommend others for inclusion. Based on such observations and after giving other contractor an opportunity to comment, the list may be changed by the DGPC from time to time.

(c) In relation to any bidding process, the concerned contractors shall be given an opportunity of providing input on the bid documents including the terms of reference, evaluation criteria, in any communication relating to the bids and the parties shall have the right to be present at the bid opening.

68. **Petroleum exploration within a lease area.-**

(1) A contractor shall have a preferential right to perform petroleum exploration activities on all horizons underlying the surface area of a lease above or below the sub-surface boundary of the lease provided that, if the Government receives a bona fide offer from a third party to undertake exploration within the surface area of a lease (excluding the sub-surface boundaries of the lease), the contractor shall be given the opportunity to match such offer within six months of receiving a notice to this effect from the Government.

(2) In case a contractor decides not to match the offer and undertake exploration pursuant to sub-rule (1) and a third party

obtains rights under a petroleum exploration licence granted over any of the horizons underlying the surface area of a lease (excluding the sub-surface boundaries of the lease), then such a third party and the existing contractor shall within ninety days enter into an agreement setting forth the detailed terms and conditions of operating within the surface area of a lease so that the activities can be coordinated in a just and equitable manner which does not prejudice the interests of the existing contractor. In case such an agreement is not reached between the respective contractors within the specified time or such agreement has not been approved by the Government, the Government may appoint a consultant to prepare such a plan, at the joint and equal cost of the contractors concerned, which will be binding on the holder/contractor and the third party and rules 67(6), (7) and (9) shall apply mutatis mutandis. The plan so prepared by the consultant shall enable activities to be coordinated in a just and equitable manner, without adversely affecting the interests of the existing lease holder and contractors

(3) A licence granted over all or part of the lease area to a third party shall, notwithstanding the terms and conditions of the licence, be deemed to be effective upon the parties concluding the agreement, or conclusion of the plan, referred to in sub rule (2). If no agreement is reached or plan finalized within one year of the grant of such licence, at any time thereafter either the holder of the licence or the Government may terminate the same without any liability or obligation.

(4) For the purpose of petroleum exploration within a lease area, the provisions of rules 27, 28, 29 and 33 shall apply, mutatis mutandis, provided that where an existing contractor makes a new commercial discovery, on such contractor's request the provisions of rule 33 shall not be applicable and the existing lease shall be amended to bring the discovery area of such commercial discovery under the purview of the lease.

(5) In case any discovery area covered under a lease appears to extend beyond the geographical limits of the lease area, the Government may upon request allow the contractor, subject to such conditions as it deems necessary, to undertake appraisal of such discovery area beyond the limits of the lease in an open area and revise the co-ordinates of the lease area if justified by the results of the appraisal pursuant to rule 27.

69. **Exploration and use of facilities by a third party.-**

(1) The Government may allow a third party to undertake exploration in the area of a licence or lease as may be necessary to obtain sufficient knowledge as to the geological conditions in areas surrounding such area. The said exploration activities must not unreasonably interfere with the activities of a contractor. After consultation with the contractor concerned the Government shall determine the manner in which such exploration is to be carried out e.g., type, duration and exploration area, provided in any case that such third party shall not be given any rights whatsoever in the licence or lease area.

(2) The Government may decide that production, processing and transportation facilities owned by GHPL or a contractor shall be available for utilization by other party (in this sub-rule (2) referred to as "user"), if this is deemed to be desirable for the purpose of efficient operations, or if required in the public interest. Such utilization shall be with respect to the capacity of such facilities that is in excess to the existing or reasonably anticipated future needs of the contractor and GHPL and shall not adversely interfere with the activities and the rights of the contractor and GHPL. The user shall pay compensation for such utilization as may be mutually agreed by the contractor or GHPL and the user. If GHPL or the contractor and the user fail to reach an agreement within hundred and eighty days the Government may appoint a consultant to determine such compensation and other terms by way of a plan, at the cost of the user. Rules 67(6), (7) and (9) shall apply mutatis mutandis, and provided always that the consultant shall comply with any guidelines which the DGPC may issue from time to time in this regard.

(3) Any well which has been abandoned may be used by any party, with the approval of the Government, for any use, including use for geo thermal energy, provided that if the well or wells fall within a granted petroleum right, the approval of the petroleum right holder must also be obtained.

70. **Security interest.** Subject to these rules, and with the prior approval of the Government, a contractor or any company comprising contractor may create security interest for obtaining financing for petroleum operations. The Government may cause GHPL to execute all reasonable acknowledgements to formalize arrangements related to creation of such security interest provided that in no event the Government or GHPL shall be liable for any

indebtedness or liability of the contractor or any company comprising contractor.

71. **General right of contractor under a lease to enter the area.-** Subject to any required approval of the Government and of any other authority which may be involved, and on such conditions as may be stipulated, a contractor shall have the right, as required for the purpose of carrying out operations under the lease, to-

(a) enter upon and use land and water;

(b) appropriate water;

(c) store petroleum;

(d) erect houses, floating/fixed platforms and machinery;

(e) search for, dig and get gravel;

(f) cut timber and clear undergrowth;

(g) enclose with a fence areas for which it is paying surface rent; and

(h) carry out such other activities which the Government considers necessary.

72. **General rights of a contractor under permit or licence to enter land.-** Subject to approval of the Government and of any other authority which may be involved, a contractor or GHPL under a permit or licence shall have the rights stipulated in clauses (a), (b), (d), (f) and (h) of rule 71 provided that houses and machinery referred to in clause (d) must be of temporary nature.

73. **Restrictions on a contractor's rights.-**

(1) The rights granted to a contractor/GHPL shall not prejudice or affect the exercise of any of the following powers, namely:-

(a) The Federal Government or any person authorized by it may within the contractor's area search for and produce any minerals or substances other than petroleum and make and maintain such installations and facilities as required for the said purpose;

(b) the Federal Government or any other persons authorized by it may within area of the contractor-

(i) make and maintain upon, over or through the said area such reservoirs, pumping stations, generating stations, waterways, roads, tramways, railways, telegraph and telephone lines, pipelines or such other installations and facilities as it shall deem necessary or expedient for any purpose;

(ii) obtain such stone, earth and other materials as may be necessary or requisite for making, repairing or maintaining the said installations and facilities;

(iii) draw water from the said area and have free access thereto; and

(iv) pass and repass at all times over the said area for all such purposes as occasion shall require; and

(c) the Federal Government shall have the liberty and power to grant or demise to any person all or any part of the said area for any purpose so that such grant or demise be made subject to the rights of the contractor.

(2) The Federal Government's powers pursuant to clauses (a) and (b) of sub-rule (1) shall be exercised and enjoyed in such a manner as not to unreasonably hinder or interfere with the rights of a contractor. Fair and proper compensation shall be paid by the Federal Government for all loss, damage or injury (not, however, including the value of any water, stones, earth or other materials taken) which the contractor may sustain or be put to by reason or in consequence of the exercise of the said powers.

74. **Power to execute works.-** In case a contractor at any time fails to perform its obligations under these rules or under an agreement, the DGPC shall be entitled after giving to the contractor reasonable notice in writing of his intention to execute any works which in his opinion may be necessary to secure the performance of the said obligations or any of them and to recover the costs and expenses of so doing from the contractor.

75. **Power to control spill or waste.-**

(1) A contractor, at all times, has an obligation not to cause spill and waste.

(2) Where DGPC, on reasonable grounds, is of the opinion that, with respect to any operation of a contractor, spill or waste is required to be controlled or prevented, he may order the contractor to control or prevent spill and waste within a reasonable period of time, failing which he may take such necessary steps and measures to control or prevent the spill or waste as may be required and all cost thereof shall be borne by the contractor.

(3) If there is any dispute, controversy or claim arising out of or in relation to the exercise of the powers by DGPC under sub-rule (2) then DGPC and a contractor shall make all reasonable efforts to settle such dispute, controversy or claim within sixty days of the issuance of order by DGPC under sub-rule (2) failing which such dispute, controversy or claim shall be referred to an independent consultant which shall be appointed by the Government at the cost of and with consent of the contractor. The findings of such consultant shall be binding on DGPC and the contractor.

(4) DGPC or a contractor may exercise the option not to refer such matter to an independent consultant, in which event such dispute, controversy or claim shall be settled through arbitration in accordance with laws in force in Pakistan or as otherwise specified in the agreement.

76. **Power to revoke.-** In addition to other grounds for revocation stated in these rules, the Government may revoke a petroleum right after serving a thirty days show cause notice and according to the procedure specified in the agreement if-

(a) a contractor thereof is in breach of any of the material terms and conditions on which an agreement or reconnaissance agreement was executed, of the provisions of these rules or of any other written law applicable to the petroleum operations and has not, within a period of sixty days from the date on which a notice in that behalf was served on it by DGPC, remedied the breach, or where the breach is not capable of remedy, has not, within such period offered reasonable compensation in respect thereof;

(b) the agreement or reconnaissance agreement was executed by reason of information given by the contractor which was false in a material respect;

(c) any company comprising the contractor or its parent company makes an arrangement or composition with its creditors, a receiver is appointed or the contractor goes into liquidation whether compulsory or voluntary;

(d) without the prior consent of the Government, there is a disposition of the share capital of any company comprising the contractor or its parent company in consequence of which any person who prior to that disposition had effective control of the company or its parent company ceases to have such effective control; and

(e) the contractor has failed to make payment to the Government or GHPL, whether fully or partially , in accordance with these rules or an agreement or reconnaissance agreement and such payment remains in arrears or unpaid for two subsequent months after any due date of payment.

77. **Right of the Government upon termination of a petroleum right.-**

(1) When a permit, licence or lease has expired, or been revoked, surrendered or area relinquished, wholly or partly, except if otherwise provided in an agreement or reconnaissance agreement the area of permit, licence or lease or relinquished shall so far as practicable be reinstated in its original condition by a contractor and where this is not practicable, the contractor shall pay compensation to the Government for damages suffered as a result thereof.

(2) When a petroleum right has expired or been revoked surrendered or area relinquished, wholly or partly any installations and facilities relating thereto, or installations and facilities no longer required by the contractor for the area in question , may be taken over by the Government through GHPL, along with related equipment. The agreement may provide details regarding the same. This shall also include pipeline transportation and related facilities installed by a contractor to secure shipment of petroleum.

(3) At takeover of the installations and facilities including equipment pursuant to sub-rule (2), a contractor shall be required to hand over such installations and facilities including equipment in such condition as may be reasonably expected under good international

petroleum industry practices. No compensation shall be given to the contractor in case of such takeover. Takeover shall involve an automatic cancellation of any security for debts or leasing arrangement related to such installations and facilities including equipment and title of the same shall be transferred to the Government.

(4) If the Government does not wish to exercise its right to takeover the installations and facilities including equipment, the Government may demand that removal shall be carried out by a contractor at his expense, in which case the provisions of sub-rule (1) shall apply.

(5) Unless otherwise stipulated in an agreement, at least one year prior to termination, a contractor shall submit to the Government a plan for the orderly closing down and abandonment of his operations, and for the removal of the facilities or their transfer to the Government, as the case may be.

78. **Indemnity.-** A contractor shall be responsible and liable for actual loss or damage and the consequences of his activities under the agreement. The contractor under the agreement shall-

(a) effectively indemnify, defend and hold harmless the President, the Government and GHPL at all times against all proceedings, costs, charges, claims, losses, damages and demands whatsoever, including, without limitation, claims for loss or damage to property or injury or death to persons, caused by or resulting from work conducted by or on behalf of contractor, by any third party, or any thing done or purporting to be done in pursuance thereof, provided that contractor shall not be held responsible to the Government and GHPL for any indirect or consequential damages or loss, including loss of profit and any loss, claim, damage or injury caused by or resulting from any negligent action of any concerned personnel of the Government or GHPL; and

(b) if required to do so by the Government, take out and maintain such insurance as the Government may approve against any liability of the contractor under these rules and the agreement.

79. **Miscellaneous obligations.-**

(1) A contractor shall establish an organization in Pakistan with sufficient competence and capacity to conduct all operations and activities pursuant to these rules and shall-

(a) immediately after execution of an agreement or reconnaissance agreement but before commencing any petroleum operations in the relevant area, furnish to DGPC, the name and address of the manager, resident in Pakistan, under whose supervision petroleum operations are to be carried out; and

(b) in writing, keep DGPC informed of the names, addresses and nationalities of sub-contractors employed by him from time to time.

(2) Any rent for a petroleum right, fee, or maximum penalty referred to in these rules may be increased from time to time by reference to an appropriate consumer price index, which increase shall be effective prospectively after notification.

80. **Force majeure.-**

(1) Failure on the part of a contractor to fulfil any of the terms and conditions of these rules, an agreement or reconnaissance agreement shall not give the President, or the Government, any claim against the contractor or be deemed a breach of his obligations insofar as such failure arises from force majeure.

(2) In this rule the expression "force majeure" includes the act of God, war, insurrection, riot, civil commotion, blockade, strike, lockout or other industrial disturbances, flood, lightening, explosion, fire, earthquake and any other happening which a contractor could not reasonably prevent or control, and shall not include a circumstance existing at the time of the grant of the petroleum right or execution of an agreement.

(3) If the ability to fulfil the terms and conditions, is affected by force majeure, a contractor shall without delay give notice to the Government, stating the cause of such inability, its efforts to remove such causes and remedy its consequences and steps to be taken to prevent the circumstances reoccurring and mitigating the consequences thereof.

(4) The term of a petroleum right granted to GHPL and an agreement or reconnaissance agreement, as the case may be, shall be

extended for the duration of the force majeure situation and for such further period as is required to resume a contractor's operations.

81. **Arbitration.-** Except as otherwise agreed in a reconnaissance agreement or an agreement, as the case may be, or expressly provided for in these rules, any question or dispute regarding a petroleum right or an agreement or reconnaissance agreement or any matter or thing connected therewith shall be resolved by arbitration in Pakistan and in accordance with Pakistan laws.

82A. **Decisions and review.-**

(1) All decisions to be made by the Government, including the DGPC, under these rules or concerning a petroleum right, PSA or other agreement or plan made in relation to a petroleum right shall be in writing, with reasons, made without undue delay.

(2) DGPC may prepare procedures to be followed by a contractor/holder of a petroleum right seeking a decision under any rule which shall be readily available to any person on request. If there are such procedures and a holder of a petroleum right reasonably satisfies the criteria contained therein, then the Government or DGPC shall, unless the circumstances reasonably justify otherwise make a decision favourable to the petroleum right holder.

(3) The DPGC shall prepare procedures as provided for in sub-rule (2) for, but not limited to rules 9, 10, 26(8), 27A, 31(1)(b), 38 and 63.

First option:

(4) (a) If a holder of a petroleum right or a contractor is aggrieved by a decision of the DGPC or if the DGPC does not respond to a request in a timely manner, the regulations contained in the Fourth Schedule hereto shall apply. This will however be without prejudice to a party's rights under any provision of law or the agreement.

(b) Such regulations may be amended by the DGPC from time to time to apply prospectively and any changes shall be duly notified in the official gazette and a copy sent to all petroleum right holders and contractors.

Second option – an alternative to sub-rule (4), preceding, and the Fourth Schedule, have r.82B:

82B. **Independent Appeal Forum: -**

(1) Any holder of a petroleum right or contractor aggrieved either by a decision of the DGPC or where the DGPC has not responded to a request in a timely manner, may without undue delay, make a written representation to the DGPC. The DGPC shall arrange to convene a review meeting with the holder of a petroleum right or contractor within seven days of the receipt of written representation.

(2) Within seven days of the review meeting, the DGPC shall convey to the aggrieved party in writing its final decision with reasons and basis thereof.

(3) If the holder of a petroleum right or contractor is still aggrieved of the decision/final decision of the DGPC or if DGPC has still not responded, the aggrieved party may request the Secretary, Ministry of Petroleum & Natural Resources after 14 days of his representation or the final decision of DGPC as the case may be, for the matter to be submitted to the Forum of Appeals (FOA).

(4) The FOA shall comprise of the following three members including the Chairperson:

(i) A senior technical expert with at least 25 years' experience from the exploration and production industry who will be the member/Chairperson.

(ii) A senior commercial/regulatory expert from the exploration and production industry with at least 20 years' experience as member.

(iii) A senior legal expert with at least 15 years' experience in the exploration and production industry as member.

(iv) The FOA shall develop its own procedures and protocols for the conduct of hearings and consultation with other experts from the industry out of the lists maintained by the Ministry of Petroleum & Natural Resources as deemed necessary.

(5) The FOA shall convene no later than 25 days after the representation referred to in these rules and render its decision within thirty working days of such hearing or remand the matter back to the DGPC to make, or revise, its decision within a specified period. The decision of the FOA shall contain detailed reasons and justifications in support thereof and will be sent to Secretary MPNR

with a copy to the concerned parties. The decision shall be implemented by the DGPC without delay unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions.

(6) Secretary MPNR will review the decision and issue a speaking order in the matter within a fortnight.

(7) The Government may issue suitable guidelines, from time to time, in relation to any aspect regarding FOA. Such guidelines may include appeal procedures, documents to be filed for the appeal and the payment of fees to the FOA.

(8) Availing of the remedies under these rules are without prejudice to a party's rights under any other provision of law or the agreement.

83. **Penalties:**

(1) Whosoever contravenes any provision of these rules shall, without prejudice to any other action that may be in relation to the contravention, be punishable as outlined in the Third Schedule.

(2) In imposing any fine under these rules, the DGPC shall keep in view the principle of proportionality of the fine to the type, gravity, duration, frequency and repetition of the breach or failure. Prior to imposing a fine, the DGPC shall, in writing, require the person liable to be affected to show cause, in writing, as to why the fine should not be imposed.

(3) The DGPC may, from time to time, modify the Schedule of Fines (Third Schedule), including the categories and scale of fines to apply prospectively, and provided no individual fine may exceed [50] million rupees.

(4) The imposition of a fine shall be without prejudice to any other legal right under these rules or legal and contractual rights of the Government.

84. **Applicable laws, rules and regulations.-** (1) Except as otherwise provided for in these rules, all laws, rules and regulations of Pakistan including any guidelines, orders and instructions issued by the Government from time to time as are applicable to petroleum exploration and production activities in onshore area shall deem to be applicable mutatis mutandisto such activities in offshore area.

THE FIRST SCHEDULE

APPLICATION FOR CONTRACTORSHIP UNDER A RECONNAISSANCE PERMIT, EXPLORATION LICENCE OR DEVELOPMENT AND PRODUCTION LEASE

1In the case of using this Schedule for an assignment under rule 10, references herein to "applicant" shall be replaced with "proposed assignee", including the execution block at the end. The application shall be made by the proposed assignor.

THIRD SCHEDULE

FINES

a) Table of fines and related offences is outlined below.

b) Before the imposition of a fine, a show cause notice shall be issued by the DGPC to the offending petroleum right holder/contractor giving not less than 14 days from date of receipt of the notice to explain as to why a fine should not be imposed. This will be without prejudice to any other remedy available to the Government and the obligation for the default to be rectified, if possible.

c) If, in response to the notice, a reasonable written justification is given and the offence has been rectified as far as possible, no fine shall be imposed, or the fine shall be substantially reduced by the DGPC.

d) Immediately following receipt of a response from the party, referred to in paragraph (c) or, if no response is received within the time stipulated in paragraph (a), the DGPC shall inform the petroleum right holder/contractor in writing either that no fine shall be imposed or the amount of fine to be imposed, as the case may be.

e) Where it is possible to rectify an offence and it has not been rectified, an additional fine may be imposed within 14 days of the receipt of the notice referred to in paragraph (d), above, at the rate of up to 1% per day of the fine stipulated therein until the offence is rectified, or the petroleum right/agreement to which the fine relates has terminated or the total of the additional fine is equal to the fine stipulated under paragraph (d), above. Upon the additional fine no longer accruing, the DGPC will intimate to the contractor the total fine imposed, revising the notice referred to in paragraph (d), above.

f) The fine stipulated in the notice/intimation referred to in paragraph (d) or (e), as applicable, shall be payable within 14 days of receipt of the relevant communication. Failure to do so, in itself, can be construed by the DGPC as a material breach under rule 76(a).

g) In the event a letter communicating the imposition of a fine is not accepted for receipt, it shall be deemed to have been delivered under this Schedule on the working day immediately after the day it was sent by a recognised courier to the last address provided to the DGPC, provided also sent on the same day by either facsimile machine or registered post.

h) In each case where any data, reports or information is to be provided by a right holder or the contractor to the Government in a desired format, the DGPC will give such right holder/contractor a reasonable opportunity to correct the completed format before issuing a show cause notice for the imposition of a fine.

i) Any fine levied shall be independent of, and without prejudice to, the Government's rights under rule 76 (Power of revocation), rule 74 (Power to execute works), for breach of contract, or any other legal recourse. Furthermore, the payment of a fine will not extinguish the requirement to comply with the obligation in the rule, for which the fine was imposed, as far as possible.

j) Whilst fines are expressed in US$, these should be paid in Pakistan Rupees (PKR), determined at the prevailing exchange rate on the date of payment.

k) Each fine shall be imposed on the holder of a petroleum right or the contractor as the case may be collectively through the operator, with ultimate liability being joint and several (pursuant to rule 9).

l) A fine which remains unpaid following the date of the DGPC's communication referred to in paragraph (d) and, if applicable, paragraph (e) it will result in a late payment surcharge of 1% per month (or part thereof) of delay beyond 14 days of receipt of the relevant notice or communication.

m) Fines for any one offence, including any additional fines due to delays thereto, may not exceed the cap prescribed in the Rules.

Table of offences attracting fines and the stipulated fines:

2003 Rules	Rule title	Offence	Fine
Rule 17	Guarantees	Failure to provide acceptable performance guarantee(s)	10% of work unit value or $50,000, whichever is higher without prejudice to right of the DGPC to cancel a licence awarded.
Rule 25 (1)	Rights and obligations of licence holder and contractor.	Production without approval	US$50,000, except, if the offence is for continuing EWT production beyond an approved EWT period would be US$25,000, without prejudice to the royalty due.
Rule 26(4)	Relinquishment.	Failure to relinquish when obliged to do so.	US$100,000.
Rule 31(2)	Work programme and other obligations not fulfilled.	Failure to pay liquidated damages or transfer of undischarged work obligation not approved.	US$200,000 in addition to the minimum expenditure obligation of undischarged work obligation.
Rules 32 and 44	Licence and Lease Rent.	Failure to pay rent.	The higher of US$5,000 or 50% of the rent due without prejudice to the rent due.
Rule 36	Survey expense.	Failure to undertake a survey when requested.	US$10,000.
Rule 38(3)	Development plan.	If development and production not carried out as per approved Development Plan and revision not approved or not sought.	If a material change (being 20% change from what was stated in the Development Plan in capital expenditure or rates or change in number of wells): - US$5,000 for seeking modification within six months of the modification being effective or

			US$25,000 thereafter. - If modification is not sought and is discovered by the Government then US$25,000 plus US$5,000 per complete month after the unapproved modification having been effective till discovered.
Rule 47	Petroleum measurement.	Failure to measure or weigh using the method agreed and/or failure to comply with any guidelines in that regard and/or failure to permit inspection of such equipment.	US$100,000.
Rule 48	Revocation of lease.	Failure to produce within required time limits.	US$250 per day for the first three months and US$1,000 thereafter, without prejudice to rights of revocation at any point.
Rules 49, 51, 52 & 55-58	Accounts Records and Reports.	Reports not kept/maintained or provided to DGPC/Government, as required.	US$10,000.
Rule 50	Period of record-keeping	Failure to maintain records as required.	US$25,000.
Rule 53	Data property of the Federal Government.	Data and information not submitted as required.	US$10,000.
Rule 53(5)		Disclosure of data to unauthorized party.	US$50,000.
Rule 54(2)	Power to inspect plants, records and accounts etc.	Refusal or delay in access of data to the DGPC and non-provision of certified copies of record.	US$50,000.
Rule 60	Reports of discovery.	Making an impermissible announcement or statement.	US$50,000.
Rules 62(3)	Flaring.	Unauthorized flaring of gas.	100% of the value of the unauthorized flared gas, determined on the basis of the price

			applicable to the block in $/MMBTU. Any show cause notice or intimation of fine may provide that the exact fine is to be calculated.
Rule 63	Commencement, testing and abandonment of drilling operations.	Development well included in the Development Plan spud without approval.	$10,000 (in addition to any fine under rule 38(3)).
		Exploration/appraisal/development well not included in a Development Plan spud without approval	US$50,000.
		Re-entry, side-tracking or hydraulic fracturing commenced without approval.	US$10,000.
		Abandonment of well (Exploration/Appraisal/Depleted/Unsafe) and abandonment of producing zone without approval.	US$50,000.
Rule 66	Employment and training of Pakistani personnel.	Failure to submit report of number of Pakistani personnel to be employed and trained.	US$10,000.
Rule 67(6)	Joint exploration and development.	Failure to comply with direction to provide data following a request by DGPC.	US$25,000.
Rule 77(1)	Right of Government upon termination of a petroleum right.	Failure to reinstate where re-instatement is practicable. (note, if reinstatement not practicable, r.77(1) provides for damages to be paid.)	US$50,000 plus cost incurred by the Government to re-instate the area.
Rule 77(5)		Plan for abandonment/removal of facilities not submitted when required.	US$10,000 per month (or part thereof) of delay in submission of plan/informing the DGPC.
Rule 78(2)	Indemnity	Failure to take out required insurance.	US$25,000.
Rule 79	Miscellaneous obligations.	Failure to set up an organization in Pakistan.	US$10,000 if the organisation is not set up in the first six months after the

			grant of a petroleum right.
General.	Any other obligations provided in the 2003 Rules which are not fulfilled by the holder of a petroleum right and not expressly referred to above, penalty of up to US$1,000.		
Legal costs.	In addition to the fines stipulated herein or elsewhere in the Rules, any of the Government's legal fees (including lawyers and court/arbitration fees) incurred and documented for recovery of any of the fines as a result of non-payment following a show cause notice shall be separately recovered as a further fine, provided if the matter has been taken to court or arbitration, fine shall only be payable if it has not been struck down as not payable.		
PSA.	If there is a provision in a PSA or petroleum right whereby something has to be done, applied for or requested in a certain time by the right holder and DGPC has discretion to extend such time the DGPC may impose a fine of US$5,000 to consider a late application, without prejudice to its contractual rights or implying any obligation to accept or approve whatever is to be done, applied for or requested. If the DGPC ultimately accepts such delay it may do so on condition of an additional fine for the delay, of up to US$1,000 per day from the day something had to be done, applied for or requested.		

Fourth Schedule

Regulations for Reviews and Appeals

1. Any holder of a petroleum right or contractor aggrieved either by a decision of the DGPC or if the DGPC has not responded to a request within a timely manner may, without undue delay, make a written representation to the DGPC. Such representation shall be provided in duplicate.

2. The DGPC shall convene a review meeting within 14 days of receipt of such representation. At such meeting the aggrieved party shall have the opportunity of being heard and the DGPC shall ensure that the holder/contractor has received such notice at least three working days prior to the meeting.

3. At the review meeting the DGPC shall either explain the basis for the decision, change the decision, make a decision or agree to make a decision promptly after the meeting, as appropriate. Within seven days of the meeting, the DGPC shall write to the aggrieved party setting out its final decision with reasons and basis thereof.

4. The DGPC and/or any official he considers necessary and the officer concerned with the subject matter shall be present at the review meeting.

5. If within 14 days of either (i) if the holder/contractor is still aggrieved by the final decision or (ii) the date of the review meeting, if no final decision was conveyed after the review meeting or (iii) the date of the written representation to DGPC, and the DGPC failed to convene a review meeting, the aggrieved holder/contractor may request the DGPC that the matter be referred to a special tribunal for hearing as provided in regulation 6, below.

6. The special tribunal shall be comprised of the following three officers:

   (i) [Director General (Oil) or Director General (Gas), to be rotated on an annual basis, initially being the Director General (Oil);

   (ii) Senior officer of the rank of a Joint Secretary from the Ministry of Law, Justice and Hum an Rights;

   (iii) an officer, not less than the grade of an Additional Secretary, of the Ministry of Petroleum and Natural Resources who shall be the chairperson.]

   (iv) In the event any of the appointed officers are not in a position to attend such special tribunal hearing on a given date, such officer may appoint any other senior officer who directly reports to him to attend. The special tribunal may develop its own procedures and protocols for the conduct of hearings before it.

7. The special tribunal shall convene in the offices of the Ministry of Petroleum and Natural Resources, no later than 25 days after the request referred to in sub-regulation 5 and the DGPC shall have ensured the holder/contractor received notice of the meeting at least seven days prior to the meeting.

8. Within seven days of such hearing the special tribunal shall either affirm a decision, change a decision, make a decision or remand the matter back to the DGPC to make, or revise, its decision.

9. The decision of the tribunal shall be with reasons and copied to the concerned parties. The decision shall be implemented by the DGPC within 14 days, or up to 21 days, to be justified in writing, unless it disagrees with the decision on technical grounds or grounds of public

policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions.

10. In the event of a failure, within the prescribed time, (i) to convene a review meeting, or a special tribunal hearing, or (ii) to ensure the aggrieved party has received notice sufficiently in advance of such meeting or special tribunal hearing or (iii) for the review meeting or special tribunal to give its response, the Federal Government shall be liable to the penalty provided in regulation 11.

11. The penalty referred to in regulation 10, shall be an entitlement of a holder of a petroleum right/contractor to deduct from any rent payable under these rules ten thousand rupees per day of delay, up to a maximum of one hundred thousand rupees. In the event the grievance relates to more than one petroleum right the said penalty shall be equally divided amongst the contractors/holders of such petroleum rights. A summary of any such penalties arising in a quarter shall be sent by the DGPC to the Ministry of Finance and be made available, on a non-confidential basis, to any party on request, on payment of a reasonable fee.

12. The Government may issue guidelines, to be reviewed from time to time, in relation to any aspect of these regulations. Such guidelines may include procedures, such (a) as the format of documents to be filed for the appeal or (b) provision for nominal costs of appealing to the special tribunal or (c) costs for abuse of the review and appeal process.

13. Availing of the remedies under these regulations are without prejudice to a party's rights under any other provision of law or contract.

ANNEXURE 12: PAKISTAN PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 2001

Statutory Notifications (S.R.O.)

GOVERNMENT OF PAKISTAN

MINISTRY OF PETROLEUM AND NATURAL RESOURCES

Islamabad, the September, 2001

NOTIFICATION

S.R.O. I/2001. In exercise of the powers conferred by section 2 of the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948 (XXIV of 1948), the Federal Government is pleased to make the following rules, namely:-

THE PAKISTAN PETROLEUM

(EXPLORATION AND PRODUCTION) RULES, 2001

PART I GENERAL

1. **Short title and commencement. -**

(1) These Rules may be called the Pakistan Petroleum (Exploration and Production) Rules, 2001.

(2) They shall come into force at once.

2. **Definitions.-** In these rules, and in every permit, licence and lease issued hereunder, unless there is anything repugnant in the subject or context,

(a) "allowed transportation cost" means the reasonable actual cost incurred for moving the petroleum produced and saved from the field gate within the lease area to the point of determination of value of the petroleum;

(b) "arm's length sales" means the sales made freely in the open market, in freely convertible currencies, between willing and unrelated sellers and buyers having conflicting interests and in which such buyers and sellers have no contractual or other relationship, directly or indirectly, or any common or joint interest as is reasonably likely to influence selling prices and shall, inter alia, exclude the value of sales (whether direct or indirect, through brokers or otherwise) involving an affiliate, sale between

Government to Government entities, counter trades, restricted or distress sales, sales involving barter arrangements and generally any transactions motivated in whole, or in part, by consideration other than normal commercial practices;

(c) "commercial discovery" means a discovery of petroleum which in the opinion of the holder of a licence or lease, would, on the basis of one or more wells, justify, particularly by its quality, quantity, gravity, place and depth where found, its economic development, and assures a continuous commercial production for a reasonable period;

(d) "commercial production" means production of petroleum out of a commercial discovery which production ensures at least the recovery of all expenditure directly attributable to such commercial discovery within a reasonable time and earning of a reasonable profit;

(e) "DGPC" means the Director General, Petroleum Concessions and includes any officer or authority appointed by the Federal Government to exercise the powers and perform the functions of the Director General, Petroleum Concessions, under these rules;

(f) "discovery area" means an area, within the area of a licence or lease, which encompasses the accumulation of petroleum in a geological entity limited by lithological boundaries, structural boundaries, the contact zone between petroleum and the limiting water level, or a combination thereof, and so that the petroleum included everywhere is in pressure, fluid or gas communication;

(g) "discovery" means the finding of a deposit of petroleum from an exploration well not previously known to have existed within the area held by petroleum right holder which produces a flow of petroleum at the surface which is measurable by the conventional petroleum industry testing methods;

(h) "exploration well" means a well which tests clearly a separate geological entity, be it of structural, lithologic or facies of pressure nature, penetrating all prospective intervals at the particular location. If the holder of a licence or lease wishes to get a well approved as an exploration well such approval may be obtained from the DGPC prior to the commencement of drilling, after submitting all relevant data and interpretation in support thereof;

(h-A) "extended well test" or "EWT" means the extended well testing or early production, as provided in rule 22-A;

(i) "good oilfield practices" means generally the reasonable and prudent diligent use of policies, procedures, methods, equipments and material that results in effective and efficient exploration,

appraisal and development of petroleum including optimum recovery of petroleum from a discovery area with minimal impact on the environment as permitted and use of efficient and effective practices for transforming produced petroleum into marketable form and delivering it to the market, always having due regard for safety and other factors and means in particular, knowledge of and compliance with the standards that may be developed by relevant professional institutions and adopted by the Government from time to time;

(j) "Government" means the Federal Government;

(k) "Ministry" means the Ministry for the time being in charge of petroleum affairs;

(k-A) "petroleum concession agreement" or "PCA" means an agreement entered into pursuant to these rules between the President and a company or companies for the purpose of exploration and development and production of petroleum;

(l) "petroleum" means all liquid and gaseous hydrocarbons existing in their natural condition in the strata, as well as all substances, including sulphur, produced in association with such hydrocarbons, but does not include basic sediments and water;

(m) "petroleum right" includes a permit, licence and lease issued under these rules;

(n) "President" means the President of Pakistan;

(o) "record" means all record pertaining to the activities of a petroleum right holder including but not limited to an account, book, return, statement, report, chart, table, diagram, form, survey, image, invoice, letter, map, agreement, memorandum, plan, core, sample, voucher, financial and non-financial information, and anything containing information whether in writing or in electronic form or represented or reproduced by any other means and the result of recording of electronic data, its processing systems and programmes to illustrate what the systems and programmes do, and how they operate without compromising proprietary rights, if any, related to hardware and software;

(p) "significant gas discovery" means, a discovery of natural gas which has tested significant flow rates of natural gas from one or more reservoirs and which is estimated to be capable of continuous production over a reasonable period which in the opinion of the holder could be declared a commercial discovery in the future provided inter alia that adequate gas pipeline transportation facilities are installed and gas markets have been sufficiently developed for sale of natural gas on commercial basis;

(q) "spill" means a discharge, emission or escape of petroleum, other than one that is authorized by applicable law;

(r) "waste or wasted" means waste as understood in the petroleum industry and shall include working methods which, in accordance with good oilfield practices are considered wasteful; and

(s) "wellhead value" means the value of the petroleum produced and saved less allowed transportation costs as determined by DGPC under these rules.

3. **Division of area.-** Any area of Pakistan, may be divided into blocks of size and shapes the Government may from time to time, by notification in the official Gazette, determine.

4. **By whom applications may be made.-** Any petroleum company whether incorporated in Pakistan or abroad may apply in accordance with these rules for-

(a) a reconnaissance permit hereinafter referred to as permit;

(b) an exploration licence hereinafter referred to as the licence; and

(c) a development and production lease hereinafter referred to as the lease.

5. **Manner in which application may be made:**

(1) Every application shall be made in writing in the form set out in the First Schedule hereto or as otherwise directed by the Government, addressed to DGPC. Every application shall be entered in the register to be maintained by DGPC. The register shall be in such form as may be prescribed by the Ministry and shall be open to public inspection.

(2) The application shall state the nature of and the principal place of business of the company, the authorized, subscribed and paid-up capital of the company, the names and nationality of the directors thereof and the names and holdings of the principal shareholders.

(3) With every application there shall be deposited-

(a) a fee of twenty thousand rupees if the application is for the grant, extension or renewal of a permit;

(b) a fee of forty thousand rupees if the application is for the grant, extension or renewal of a licence; and

(c) a fee of eighty thousand rupees if the application is for the grant, extension or renewal of a lease.

(4) To the application there shall be attached five copies of the map upon which shall be delineated the boundaries of the areas in respect of

which a petroleum right is applied for. The map shall be taken from the relevant Survey of Pakistan map of appropriate scale. If the area is identified by a block system notified under rule 3, a reference to the relevant block number is sufficient.

(5) The applicant shall, with his application, furnish evidence as to his financial and technical qualifications and as to his ability to conduct the activities under the relevant petroleum right in accordance with the good oilfield practices. The applicant shall furnish further evidences relating to such matters, as may be requested for, by DGPC and failure to provide such evidences to the satisfaction of DGPC, within three months of the request thereof, shall, unless DGPC determines otherwise, render the application void.

(6) The applicant shall, with his application, furnish an undertaking that he will abstain from all political activities whatsoever affecting the sovereignty or security of Pakistan or such as may be tantamount to interference in its internal affairs and that especially he will eschew all espionage.

(7) The applicant shall furnish such other information as the Government may specify till the grant of the right.

6. **Separate application to be made for each area.-**

(1) Where an applicant seeks a petroleum right over two or more areas which are not contiguous, the applicant shall apply for separate petroleum rights over each such area, unless otherwise permitted by the Government.

(2) Nothing in these rules shall prevent more than one petroleum right being granted to the same applicant.

7. **Several holders.-** Where a Petroleum Right is held by two or more companies, they shall be liable jointly and severally towards the Government for obligations and liabilities, resulting from their activities pursuant to the petroleum right. The companies shall, with the prior written approval of the Government, appoint an operator from amongst them, except that such special arrangements as to the operatorship will be applicable as may be approved by the Government under rules 61 and 63. No change in such appointment shall be made without the Government's prior approval.

8. **Petroleum right not assignable without consent.-** A petroleum right or any working interest therein shall not be assigned without the previous consent in writing of the Government.

9. **Method of making applications for assignments.-** An application by the holder of a petroleum right for consent to the assignment of a petroleum right shall be made in writing addressed to DGPC, and shall be accompanied by a fee of ten thousand rupees. With the application, the applicant shall furnish the like particulars in respect of the proposed assignee

as are required to be furnished in the case of applicants for a petroleum right.

10. **Power to grant or refuse petroleum right.-** Subject to rules 21, 22 and 28, the grant of a petroleum right, extension or renewal thereof, shall always be decided by the Government. In the event of refusal to grant such petroleum right, extension or renewal thereof, the Government shall as for as possible provide the reasons therefor.

11. **Lapse of entitlement to petroleum right.-** Where a petroleum right is not executed within three months after approval of the application by the Government has been conveyed to the applicant, the entitlement of the applicant to such petroleum right shall be deemed to have lapsed, unless the Government considers that the delay is not attributable to the fault of the applicant.

12. **Surrender of petroleum right.-**

(1) Subject to the terms of the PCA, a holder of a petroleum right wishing to surrender its right under these rules shall give the DGPC, one months' notice of its intention to do so, and if the holder fulfills all its obligations under the petroleum right, including the obligations pursuant to rule 70 or if holder of petroleum right pays liquidated damages pursuant to rule 26, it shall on the expiry of the notice subject to sub-rule (2) be entitled to surrender its petroleum right. On so doing a holder of a petroleum right shall not be obliged to pay rent for the remaining period of the petroleum right.

(2) In case more than one company holds a petroleum right and less than all the companies wish to surrender the right, reasonable opportunity shall be provided to the other company or companies to acquire (as provided in sub-rule (3)) the interest from the company or companies wishing to surrender. Provided such opportunity is given and demonstrated to the DGPC and subject to the terms of the relevant PCA and these rules, a licence/lease may be surrendered, in its entirety, by less than all the companies which hold such petroleum right by giving notice as provided in sub-rule (1). In the event more than one company wishes to acquire the interest of a company which wishes to surrender its interest, such surrendered interest shall be offered to each on a pro rata basis.

(3) Except as the companies may agree otherwise, any opportunity to be given to acquire an interest under sub-rule (2) shall be without charging for such interest and in the event there is any outstanding minimum work obligation, the transferring party, wishing to surrender, shall pay to the acquiring party or parties a proportionate share of liquidated damages which could then have been charged at that time pursuant to rule 26, based on its participating interest.

13. **Submission and publication.-**

(1) Application for a petroleum right may be submitted, either-

(a) at the initiative of the applicant, or

(b) on the basis of an invitation from the Government to submit competitive bids.

(2) In the latter case, a notice for competitive bidding may be published in such national or foreign publications as the Government may determine.

(3) Notice of the grant, renewal, extension, surrender, termination and assignment of a petroleum right shall be published in the Gazette of Pakistan.

14. **Terms and conditions of a petroleum right.-** Every permit, licence and lease shall, subject to such modifications as may be made by the Government, be in the form set out in Parts I, II and III, as the case may be, of the Second Schedule hereto and shall include such additional clauses relating to ancillary or incidental matters as the Government may deem fit to insert.

15. **Guarantees.-** The Government may require the holder of a petroleum right to furnish, in form and substance acceptable to the Government, a guarantee or guarantees, which, if the Government so agrees, may be a parent company guarantee, in respect of the obligations and liabilities of the holder. The Government may also consider accepting the deposits in escrow accounts on a case to case basis. For a company incorporated in Pakistan, the Government may also consider accepting suitable security such as first and preferred lien on their assets, and oil and gas production in Pakistan, in respect of the obligations and liabilities of the holder.

PART II PERMIT FOR RECONNAISSANCE SURVEYS

16. **Grant of permit.-** The Government may grant a permit to any company to carry out reconnaissance surveys over such areas and on such terms and conditions as it may determine in each case but always upon the following conditions, namely:-

(a) the grant of the permit does not imply that the holder shall be entitled to the grant subsequently of a licence over the areas covered by the permit;

(b) on the conclusion of the survey, the holder may apply for a licence in accordance with these rules, but shall not be entitled to claim a relaxation of rules for the grant of a licence applied for by him. However, the Government, upon a request of holder, may allow adjustment of the work carried out or expenditure incurred,

excluding any work or expenditure related to a multi-client arrangement unless otherwise agreed, against the minimum work or expenditure obligation under a licence covering the area of permit, if granted;

(c) unless otherwise stipulated in the permit, the holder shall have the non-exclusive right to undertake, within the designated areas, petroleum reconnaissance by such geophysical, geological, geo-chemical and geo-technical methods and such other related work including geological information bore-hole, as are stipulated in the permit;

(d) the holder shall submit a copy of all the maps, plans, graphs and magnetic tapes and related data as and when these become available and a complete report of the survey no later than six month of the completion of the survey;

(e) the holder shall comply with all instructions which DGPC may issue regarding the use of maps, plans, graphs and other data generated or collected by the holder in the course of the reconnaissance survey;

(f) the permit shall be valid for a period of one year and may, at the discretion of the Government, be renewed for a period of up to one year;

(g) a permit does not extend to areas already covered by a licence or a lease unless otherwise specified by the Government pursuant to rule sub rule (1) of rule 63;

(h) the Government may grant a licence, or a lease, to any person at any time for any part of an area covered by a permit except as provided therein;

(i) the holder of the permit shall perform work stipulated in the permit with due diligence;

(j) the holder of the permit shall for each square kilometre or part thereof comprised in the permit area pay to the Government rent at the rate of one hundred rupees per year.

PART III LICENCE FOR PETROLEUM EXPLORATION

17. **Grant of licence.-** The Government may grant an exclusive petroleum licence for exploration over any area and on such conditions as are specified therein.

18. **Size of area.-** A licence shall not be granted in respect of any area of more than 2,500 sq.km. In special circumstances, the Government may

decide to grant an area of up to 7,500 sq. km. provided that the applicant offers a work programme commensurate with the size of the area.

19. **Shape of area.-** Each separate area in respect of which a licence is granted shall be, as far as possible, compact, bounded by straight lines and marked with permanent physical boundaries.

20. **Rights and obligations of licence holder.-**

(1) Subject to the provisions of these rules, the licence gives the holder the exclusive right to undertake, within the licence area, all activities related to reconnaissance and exploration, including drilling for petroleum. The holder of the licence shall not be entitled to extract any petroleum from discoveries other than such test and early production, as provided for in rule 22A.

(2) The holder shall perform the work programme stipulated in the licence for the initial term (Phases I and II) and any extension or renewal. The work programme shall contain the number of exploration wells to be drilled, the depth and time within which they must be drilled, and, where appropriate, the seismic work to be performed, as well as any other matter that may be relevant.

21. **Period of licence, relinquishment and extension of area.-**

(1) The initial term of a licence shall not exceed five years keeping in view the surface and geological condition of the licence area. The initial term shall comprise two phases with first three years period designated as "Phase-I" and the next two years period as "Phase-II" respectively. Minimum work programme for phase-I shall be determined through competitive bidding whereas a firm exploration well will have to be committed for phase-II.

(2) The Government may, subject to the terms of the licence, grant up to two renewals. The term of each renewal shall be up to two years. However, to avail the renewal of maximum term of two years a reasonable work programme comprising at least an exploration well shall have to be offered keeping in view the surface and geological conditions of the licence area. A holder desiring to obtain such renewal shall make an application at least three months before the expiry of the licence or such lesser period as the DGPC may allow.

(3) The initial term or renewal thereof of a licence shall be extended by the Government for drilling an exploration well in progress for the period of drilling.

(4) The holder of a licence shall comply with following part relinquishment schedule during the term of the licence namely:-

(a) at the end of Phase-I -30% of the original licence area;

(b) at the end of Phase-II -20% of the original licence area; and

(c) at the end of first renewal-10% of the original licence area

(5) A holder shall be entitled to renewal as aforesaid if he-

(a) has complied with the work programme and all other obligations of preceding term of the licence; and

(b) has committed to drill during the renewal period at least an exploration well prior to each renewal.

(6) Notwithstanding anything contained in these rules, upon a written request of a holder, the Government may, on a case to case basis, extend the term of the licence, or any year of a licence based on technical considerations or revise the co-ordinate of the area covered under the licence provided that the geological structure extends into an adjoining free area, and further provided that the revised area will not exceed the area stipulated in rule 18.

(7) (a) In the event a holder of a licence has applied for an extension or a renewal, prior to the expiry of a licence, the licence shall be deemed extended until approval is given or denied,

(b) If approval for the renewal or extension is granted, the renewal or extension applied for will be effective from the date of approval or the term was to expire, whichever is later, unless such application was made less than three months or, in the case of an extension under sub-rule (3), one month, prior to the expiry of the licence, in which case it will be effective from the date the term was to expire.

(c) If a holder of a licence applies for an extension or renewal within three months after the licence has expired, the Authority may, on a case to case basis, still approve such application, provided the holder of a licence pays a penalty of five hundred thousand rupees per day after the expiry, without prejudice to any obligation to pay liquidated damages. Pending decision of the DGPC to such an application the licence shall be deemed extended and if approval is given the renewal or extension shall be effective from the date the term was to expire.

(d) Rent, as provided in rule 27, shall be payable for any deemed extended period provided in sub-rules (a) or (b), unless an application for renewal or extension is made at least three months or, in the case of an extension sought under sub-rule (3), one month, prior to the expiry of the licence, in which case no rent shall be payable for the deemed extended period. Any such rent for such period shall not be payable again on account of the renewal or extension being effective from the date the licence was to expire.

Rent shall be payable on a pro rata basis for any part of the extended period not being a complete year.

22. **Appraisal and evaluation of a Discovery and renewal therefor.-** A holder of a licence having made a discovery of petroleum shall perform such additional work so as to enable the holder to make timely determination of a discovery as a commercial discovery. Subject to the holder of the licence having complied with the work programme and its other obligations, it shall be entitled to renewal of the licence for two years for the purpose of expeditious appraisal and evaluation of the discovery. The renewal shall only apply to the discovery area.

22-A **Extended well testing.-**

(1) A holder of a licence may undertake extended well testing or early production, during the appraisal phase and before grant of lease provided the DGPC is informed in advance or if such EWT involves flaring of gas, requiring approval of the DGPC, or such EWT is to exceed one month, approval of the DGPC shall be obtained in advance. The holder of the licence shall comply with the requisite royalty, tax, rentals of the discovery area and training and social welfare obligations as applicable under the lease.

(2) In the event a request for approval of EWT is to be made under sub-rule (1), the request shall include associated temporary production facilities and shall be made to the DGPC providing information with regard to,-

(a) technical justification for EWT;

(b) proposed duration for EWT; and

(c) a plan for disposal of gas during the proposed EWT period.

(3) If approval of the DGPC is sought for EWT, it shall not be unreasonably withheld or delayed.

(4) Production during EWT and post declaration of commerciality, would be considered as commercial production for the purpose of payment of production bonus, royalty and all other obligations as are applicable to lease. However, the first production bonus would be applicable upon the earlier of commencement of commercial production subsequent to grant of lease or production reaching the first level that production bonus is payable on volume produced.

23. **Retention of significant gas discovery.-** Upon a request of a holder of a licence, the Government may allow retention of a significant gas discovery under the licence for a period of up to five years covering the area of Discovery. Before the expiry of allowed retention period, the holder shall make determination as to commercial discovery and submit an application for grant of a lease along with the proposed development plan providing

detailed assessment of gas market potential and a plan for infrastructure development.

24. **Declaration of Commercial Discovery.-**

(1) Upon completion of its evaluation the holder of a licence may submit a notice for declaration of commercial discovery to the Government along with a report in accordance with clause (d) of rule 52 and general plan for development. After issuing such a notice, the holder shall be entitled to apply for the grant of a lease in respect of discovery area in accordance with these rules.

(2) The grant of a lease prevails over the licence within the area designated in the lease, but the licence continues to be valid outside such lease area without modifying the rights and obligations pursuant to the licence. In the event of a licence continuing to be valid beyond the term of a lease, or on any part of the area of a lease being reduced, the license shall automatically again extend over such lease area, provided such area or areas are contiguous with the remaining licence area and further provided that the total area of licence does not exceed the area provided in rule 18, less any reductions required under rule 21(4).

(3) Upon termination of the licence, the holder shall relinquish the licence area except the area covered by a lease or leases granted to him.

25. **Extension pending grant of lease.-** If the holder, before the expiry of the licence, has applied for a lease,the duration of the licence shall be extended until the lease has been granted or refused.

26. **Work programme and other obligations not fulfilled.-**

(1) Where upon the surrender, revocation or the expiry of a licence, the obligations pursuant to rules 20 or 22 have not been fulfilled, the holder shall either:-

(a) pay to the Government such sum by way of liquidated damages which correspond to the minimum expenditure of undischarged work obligations as set forth in the licence within a period of thirty days from the surrender, revocation or expiry of the licence; or

(b) transfer undischarged work obligation committed under rule 20 to another area with the approval of Government if it is demonstrated to the satisfaction of the Government that there is no drillable prospect in the licence area. In the event that a petroleum right is held by more than one company, the undischarged work obligation shall be monetized, based on liquidated damages obligations and divided between the companies in accordance with their interests in the right. Any company not transferring a work obligation to an area of its choice shall pay its pro rata share of liquidated damages, without prejudice to rule 7.

(2) In case the liquidated damages payable pursuant to clause (a) of sub-rule (1) are not paid or the transfer of undischarged work obligation to another area pursuant to clause (b) of sub-rule (1), is not approved, the Government may, in addition to any other action or remedy including black listing of the holder, cancel a lease granted to the holder in respect of any area comprised within the area of the licence which has been surrendered, revoked or expired.

(3) Where a holder of a licence is in default of his work obligations and has paid liquidated damages as provided in sub-rule (1)(a) the holder shall be deemed to have complied with such work obligation for the purpose of rules 21, 22 and 28.

27. **Rent**

(1) The holder of a licence shall for each square kilometre or part thereof comprised in the licence area pay rent to the Government at the following rates, namely:-

(a) (i) in respect of 5 years initial term of the licence Rs.3000; or

(ii) in respect of each year of initial term of the licence Rs.650;

(b) (i) in respect of each renewal of the licence Rs.5000; or

(ii) in respect of each year of the renewal or extension of licence Rs.2750.

(2) Notwithstanding any provision of the licence, rent shall be adjusted as provided for in rule 72(2) and not by any adjustment clause in a licence so as to ensure that the rent retains its value in real terms.

(3) The rent shall be paid in advance of the period to which it relates.

PART IV LEASE FOR PETROLEUM DEVELOPMENT AND PRODUCTION

28. **Grant of development and production lease.-**

(1) The Government shall on being satisfied that a commercial discovery has been made and that the terms and conditions of the licence, including the work programme, have been duly observed and performed, or that the holder is in satisfactory progress with the work programme, and that the requirements of rule 33 have been duly compiled with by the applicant, grant a lease in respect of discovery area within the licence area granted to the applicant.

(2) The Government may grant a single lease covering more than one discovery area within the same licence area provided that such discovery

areas are juxtaposed vertically in which case the lease shall be granted on the basis of the combined discovery area.

(3) In the event that any part of a discovery area extends beyond the lease into an open acreage, the Government may upon being satisfied that the discovery area extends into such open acreage and subject to such conditions as deemed necessary, readjust the subsisting boundaries of the lease so as to include such part of the open acreage on which the discovery area extends.

29. **Rights of lease holder.-** The holder of lease shall have an exclusive right to perform activities in connection with the development and production of petroleum in the area covered by the lease, including the right to undertake transportation of petroleum, subject to approval pursuant to rule 34.

30. **Shape of discovery area.-** Each discovery area in respect of which a lease is granted shall be laid out in straight lines between well defined points as far as practically possible and must also be marked with permanent physical boundaries.

31. **Survey expense of applicant.-** Before a lease is granted by the Government the applicant shall, if so required by the Government, at his own expense cause a topographical survey of the land specified therein to be made to scale normally required for petroleum right purposes, and approved by the Survey of Pakistan, and submit 6 copies thereof to the Government.

32. **Period.-** The lease shall be for the period for which application has been made supported by relevant technical and other information but not exceeding twenty-five years. In the event the lease is initially granted for a period less than twenty-five years, the same may be extended from time to time, such that the total overall period of lease does not exceed 25 years provided commercial production continues. Upon application from the holder, the Government may renew the lease for a period, not exceeding five years, if commercial production is continuing at the time of the application.

32-A. **Further renewal or re-grant of lease after expiry of lease term.-**

(1) Effective from the end of a lease period, upon application from a holder of a lease, at least 90 days before the expiry of the lease term, the DGPC may renew a lease for up to a further period of five years, provided at the time of application commercial production is continuing, an addendum to the development plan acceptable to the DGPC is provided and the lease holder agrees, at least one year prior to the expiry of the lease period, to pay 15% of wellhead value of petroleum produced to the Government, after the effective date of such renewal.

(2) If there is no such renewal, or following expiry of such a renewal, the DGPC may invite bids from companies for the re-grant of the lease over

the same, or substantially the same area as the expiring lease, for a term of ten years or such lesser period for which commercial production is expected to continue. The bids shall be evaluated on the basis of a development plan and signature bonus. The DGPC may keep re-granting a lease, in a similar manner, as long as commercial production is continuing.

(3) Each bidder shall provide a bid bond of ten per cent of the offered signature bonus at the time of bidding along with a development plan.

33. **Development plan.-**

(1) Together with the application for a lease, the holder shall enclose a development plan which shall contain such information as the Government shall prescribe by way of procedures provided for in rule 74A, including but not limited to the following namely:-

(a) proposals for the development and production of the each discovery area including possible alternatives and proposals relating to the disposition of associated gas;

(b) proposals relating to the spacing, drilling and completion of wells, the production and storage installations and transport and delivery facilities required for the petroleum production. Such proposal shall cover-

(i) the estimated number, size and production capacity of production facilitates and platforms, if any;

(ii) estimated number of production wells;

(iii) particulars of production equipment and storage facilities;

(iv) particulars of feasible alternatives for the transportation of petroleum including pipelines and

(v) particulars of equipment required for the operations

(c) the production and sales profiles for crude oil, condensate and natural gas and other products for the life of the field;

(d) investment plans including cost estimates of capital and operating expenditure;

(e) profitability estimates;

(f) proposals related to the establishment of processing facilities and processing of petroleum in Pakistan.

(g) safety measures to be adopted in the course of development and production operations including measures to deal with emergencies and protection of environmental;

(h) a description of the organization in Pakistan, pursuant to these rules;

(i) contingency and abandonment plans;

(j) time schedule of all activities covered in the development plan clearly specifying the critical milestones and proposed measures to achieve such milestones.

(2) The plan requires the approval of the Government. Such approval shall not be unreasonably delayed provided the requisite information has been provided to the Government.

(3) After approval of the plan, the lease holder shall carry out development and production in accordance with the plan, subject to such modifications as may be necessary and are approved by the Government from time to time.

34. **Transportation of petroleum.-**

(1) Subject to approval in accordance with this rule, the holder of a lease has the right to lift and transport petroleum from the lease area, either through transportation facilities owned wholly or partly by himself or through access to transportation facilities owned by a third party and such approval shall not be unreasonably withheld or delayed.

(2) The holder shall submit an application comprising the proposed organization and implementation of the transportation system. In case of pipeline transportation, the application shall also comprise the design, construction and route plans.

(3) The Government may, on giving its approval, stipulate such conditions as are reasonable and necessary to secure a rational system of transportation of petroleum and the Government may-

(a) require that several lease holders install jointly-owned transportation facilities; and

(b) grant to any third party access to transportation capacity at tariffs to be approved by the Government.

35. **Royalty.-**

(1) Royalty on petroleum produced and saved shall be at the rate of twelve and half percentage (12.5%) of wellhead value unless a higher rate for royalty is provided for in any agreement between the petroleum right holder and the Government.

(2) Royalty shall be paid in cash unless the Government elects to take the delivery of royalty (wholly or partially) in kind at field gate on a six months advance notice. In such a case the holder shall at the request and at the costs of the Government make arrangement for transportation of the royalty petroleum in the same manner as if it was his own on petroleum.

(3) Royalty shall be payable monthly within a period not exceeding forty five days of the end of the month of production in question which if delayed beyond this stipulated period would attract fine at rate of Libor plus two per cent as may be determined by the Government. In the event royalty obligation remain un-discharged for two consecutive months following expiry of the month of production in question to which the payment of royalty relates, the Government may take such action as it may deem appropriate in accordance with these rules.

(4) The Government shall lift or take royalty petroleum in a timely manner and in accordance with such lifting or sales agreement as may be mutually agreed with the holder of a lease.

(5) The holder of a lease or licence shall be permitted to use petroleum produced from the lease or licence area for drilling, production, maintenance and processing of petroleum obtained from the said lease or licence free of cost, royalty and excise duty provided that the holder of the lease or licence shall not be entitled to include any notional costs in claiming his business expenses for income tax purposes.

(6) From the amount of royalties payable in respect of any one year of the term of a lease or licence, there shall be deducted the amount of yearly lease rent actually paid in respect of that year pursuant to rule 38.

(7) Government may from time to time issue guidelines which will inter-alia cover procedure for administration and payment of royalty due from the holder of a licence or a lease.

(8) Notwithstanding anything to the contrary contained in these rules, the election to take the royalty on natural gas in cash or kind shall be exercised only once within ninety days of the approval of development plan by the Government and may not be exercised for production from a licence.

36. **Value of petroleum.-** For the purpose of calculating the amount due by way of royalty, the value of the petroleum produced and saved shall be determined by using actual selling price in the following manner, namely:-

(a) If the petroleum is sold to the national market pursuant to rule 40, the actual selling price means the price determined in accordance with the relevant sale and purchase agreement between the petroleum right holder and the Government or its designee less allowed transportation cost.

(b) In all other cases, the actual selling price means the greater of-

(i) the price at which the petroleum is sold or otherwise disposed of less allowed transportation costs; or

(ii) the fair market price received through arm's length sales of the petroleum less the allowed transportation costs.

37. **Royalty administration.-**

(1) If there are two or more than two companies as holder of a lease or licence, they shall designate the operator to remit royalty on their behalf unless prior approval has been obtained from the DGPC to remit royalty themselves.

(2) Royalty shall be remitted with the supporting forms prescribed by the DGPC with documents and information required.

(3) If DGPC determines that petroleum was avoidably lost or wasted, including consumed by the holder of a right for purposes not covered by rule 35(5), then royalty shall be payable on such lost or wasted petroleum in accordance with the direction issued by DGPC.

(4) If the holder of a lease or licence receives insurance compensation for unavoidably lost or wasted petroleum, royalty is due on the amount of the compensation in accordance with the direction issued by the DGPC.

38. **Yearly lease rents.-**

(1) The lease holder shall pay to the Government annually in advance, rent at the rate of Rs.7,500 per square kilometre or part thereof covering the lease area.

(2) Notwithstanding any provision of a lease, rent shall be adjusted as provided for in rule 72(2) and not by any adjustment clause in a lease. so as to ensure that the rent retains its value in real terms.

39. **Surface rent.-** The holder of a lease shall pay for all land which he may use or occupy for the purposes of the operations conducted under the lease, a surface rent at the rate assessable under the revenue and rent law in the district in which the land is situated and water rates, if any, ordinarily assessable under any relevant rules if the land has not been occupied for the winning of petroleum.

40. **Deliveries to the national market.-**

(1) The Government may decide that the holder of a petroleum right shall deliver petroleum from his production to cover the requirements of the national market for petroleum. The national market for petroleum shall for this purpose means the total market requirements, less petroleum produced by or otherwise available to the Government from indigenous

sources. The lease holder shall deliver the petroleum at such place or places in Pakistan as the Government may direct at the Government's cost unless otherwise agreed and subject to sub-rule (3).

(2) The foregoing provision shall apply to all holders producing petroleum as far as practicable, pro rata to their production. Each holder's obligation may be fulfilled directly or by means of swap arrangements approved by the Government.

(3) The Government may also decide that the holder shall arrange and pay for adequate transportation of crude oil condensate and natural gas liquid which it has thus ordered to be delivered up to the distance to the nearest operating refinery in Pakistan.

(4) The price to be paid for petroleum to be delivered pursuant to this rule shall be such price as may from time to time be determined in accordance with terms and conditions of applicable agreement between the Government and the holder.

41. **Measurement of petroleum.-**

(1) The holder of a petroleum right shall measure or weigh all petroleum produced and saved from the licence or lease area by a method or methods customarily used in good oilfield practices and approved by DGPC. The DGPC, from time to time and as and when deemed necessary, may issue guidelines for installation, maintenance, inspection and other matters related to measurement of petroleum as per good oilfield practices.

(2) DGPC, or any officer authorized by him, shall, at all times during the term of the licence or a lease or any renewal thereof, be entitled to inspect the measuring or weighing equipment and to be present whenever such a measurement or weighing takes place.

(3) The holder of a petroleum right shall install, operate and maintain all measuring and weighing equipment ensuring that such equipment remains in good working condition at all times. If any such equipment shall at any time be found not to be accurate, the same shall, if the DGPC, so determines after considering any representations in writing made by the holder, be deemed to have existed in that condition during the period of three months prior to the discovery thereof or the period elapsed since the last occasion upon which the same was examined or tested, whichever shall be the less. This restriction on time period shall not be applicable if the inaccuracy so discovered is found to be result of the holder's wilful tampering or negligence in which case appropriate adjustment in royalties and imposition of fine will be made as determined by DGPC. The royalties payable in respect of such period shall be adjusted accordingly.

(4) The holder shall not make any alteration in the method or methods of measurement or weighing used by him or any equipment used for that

purpose. The DGPC, may require that no alteration shall be made save in the presence of an officer authorized by him.

42. **Revocation of lease.-**

(1) The lease may be revoked if regular commercial production has not commenced within five years from the grant of a lease. The lease may also be revoked if production has terminated for more than ninety days without prior written approval of the Government, unless this is due to force majeure.

(2) In the event, the holder of a lease is found to have contravened sub-rule (1) above, the Government may issue a ninety days notice requiring the holder of the lease to remedy the breach within the notice period failing which the Government may revoke the lease or impose a fine, or both.

PART V ACCOUNTS, RECORD, INSPECTION AND REPORTS

43. **Keeping of records and accounts.-**

(1) The petroleum right holder shall maintain full and accurate records.

(2) Original copies of all record shall be kept in Pakistan unless otherwise approved by the DGPC.

(3) The petroleum right holder shall immediately comply with the demand of the DGPC to submit the certified copy of any record;

44. **Period of record-keeping.-**

(1) The record shall be kept and maintained for a period of six years or for a longer period as is required under the applicable law following the end of the calendar year to which the information contained in the record relates. In case of any particular record, upon application by the holder of petroleum right, the DGPC may consent in writing to the destruction of record before the end of the six years period or such other period as is required under the applicable laws as the case may be.

(2) Notwithstanding the provision of sub-rule (1), if based on reasonable grounds, the DGPC is of the opinion that it is necessary for the administration of any rules, to retain record for a longer period, he may direct the concerned holder of the petroleum right to do so specifying the reasons therefor.

45. **Well records.-**

(1) Notwithstanding the generality of rule 43, the holder of a petroleum right shall always keep full and accurate record of the drilling, deepening, plugging, completion, re-completion, sidetracking, testing or

abandonment of all wells containing particulars of the following matters with respect to each well:-

(a) the strata and subsoil through which the well was drilled;

(b) the casing used in any well and any alteration to such casings;

(c) any petroleum and other reservoir fluids, or minerals encountered; and

(d) such other matters as the DGPC may, from time to time, require.

(2) The holder shall deliver copies of the said record to the DGPC as and when these become available or are required by him.

46. Production records.- The holder of a petroleum right shall always keep full and correct record which shall contain accurate entries of:

(a) the gross quantity and quality of petroleum won and saved;

(b) the method and results of tests conducted;

(c) the quantity and quality of petroleum delivered in Pakistan and exported;

(d) the quantity and quality of petroleum used for re-injection, pressure maintenance, venting, flaring, drilling or other operational purposes;

(e) the quantity and quality of petroleum sold, the name of the purchaser and the price at which it has been sold supported by necessary documents;

(f) the quantity and quality of natural gas treated and processed for the removal of impurities and inerts and natural gas liquids and liquefied petroleum gases and the quantity and quality of any liquids, gases or any solids obtained from it; and

(g) such further particulars as the DGPC may from time to time, require.

47. **Data to be property of Government.-**

(1) All data including but not limited to, well logs, maps, magnetic tapes, cores, samples and any other geological and geophysical information obtained by the holder of a petroleum right as a result of his activities in a permit, licence or lease shall be the property of the Government subject to the right of the holder to use such data for the purposes of the petroleum right. The holder shall submit all of the aforesaid data and information as soon as it has become available to him. The holder may, during the subsistence of a permit, licence or lease, after prior intimation to the

Government, disclose all or any part of the aforesaid data to a third party, provided that before disclosure of the data, such party executes an appropriate confidentiality agreement drawn up in accordance good oilfields practices.

(2) All processed geophysical and geological information referred to in sub-rule (1) shall be submitted to the DGPC, on transparent, dimensionally stable material as well as in the digital format, as may be notified by the DGPC from time to time.

(3) Information and data as mentioned in this rule shall be kept confidential by the Government for a period of three years from the date the data is acquired by the holder with the following exceptions:

(a) information disclosed to other Pakistani authorities, or financial institutions or consultants of the Government who will be bound to keep the same confidential;

(b) information required for general statistical purposes;

(c) upon the earlier termination of a permit, licence or lease, or upon the date of relinquishment of the area to which the information relates; and

(d) all raw geophysical, geological and well data including well logs may be disclosed by the Government to any interested party after two years of the activity to which such data relates. This however is not applicable to the data generated under multi-client arrangements.

(4) Notwithstanding anything contained in these rules, the data in the possession of the Government in respect of a surrendered or relinquished area of a permit, licence or lease may be released by the Government to a holder or to an organization engaged in petroleum exploration, production and research, on the reproduction costs of the data and on such terms and conditions as it may determine.

(5) Except as provided under these rules, a holder of petroleum right shall not disclose or cause to disclose any data except to a person who is legally entitled to obtain, or where the holder is legally obliged to disclose, that data.

(6) Any other person who is permitted to receive the data shall hold the same subject to the same restrictions as are contained in sub-rule (5).

48. **Power to inspect plants, record and accounts, etc.-**

(1) The DGPC or, a person designated by him, may, at any reasonable time after notice in writing enter any place where any activities or business is carried out by a petroleum right holder under the rules for the purpose

of auditing or inspection or examination of inter alia wells, record, plants, appliances, buildings, or any other works.

(2) The petroleum right holder shall, for the purpose of an audit, or inspection or examination by the DGPC of any of the records described in these rules,

(a) provide access to the DGPC or the person designated by the DGPC to conduct the audit or inspection or examination on his behalf to perform his duties without any hindrance;

(b) provide all reasonable assistance to the DGPC and persons designated by the DGPC to perform his duties without any hindrance;

(c) promptly provide or make available the certified copies of Records required by the DGPC or to any person designated by the DGPC to perform his duties without any hindrance.

49. **Annual reports.-**

(1) The holder of a petroleum right shall each year submit to the DGPC, annual reports containing the following particulars namely:-

(a) a financial statement with an abstract of the accounts, prepared in accordance with accounting principles generally accepted in the petroleum industry and audited by a recognized firm of chartered accountants approved by the DGPC;

(b) a description of all exploration, development, production and other work carried out by the holder during the year relating to the permit or licence or lease area.

(c) estimates of in place and recoverable reserves of petroleum at the end of each year classified on the basis of good oilfield practices as per standard format notified by DGPC. If so desired by the Government, the holder shall be required to carry out reserves certification from an independent source; and

(d) estimates of petroleum production and exports for each quarter of the next year.

(2) The report referred to in clause (a) of sub-rule (1) shall be submitted within six months and the other reports within forty-five days after the end of year to which they relate.

50. **Quarterly reports.-** Within ten days after the end of each quarter each holder of a petroleum right shall prepare and deliver a progress report to the DGPC, which shall contain a narrative report of activities with plans and maps showing the places where work was done. Such report shall also contain-

(a) a summary of all geological and geophysical work carried out;

(b) a summary of all drilling activity and results obtained;

(c) a list of maps, reports and other geological and geophysical data prepared or acquired in connection with the activities; and

(d) a statement of expenditure incurred by a holder of petroleum right during the month on a format as may be prescribed by the DGPC from time to time.

51. **Daily reports.-** During drilling of a well, each holder of a licence or lease shall provide to DGPC, copies of his daily well reports on a prescribed format.

52. **Occasional reports.-** The holder of a petroleum right shall submit to the DGPC, the following reports namely:-

(a) within twenty-four hours, by email or fax with hand copy delivered within next twenty-four hours, if a well shows the presence of petroleum in significant measure or if a drillstem or any other test has been carried out on a well which produces petroleum;

(b) within seven days after the above-mentioned report, a written report containing relevant geological information and chemical analysis in the case of a showing of the presence of petroleum, and in the case of a drillstem or any other test containing the following additional information namely:-

(i) conditions and results of the drillstem or any other test, including but not limited to flow rates, flow periods, tested intervals, pressures, choke sizes, hole condition and stimulation measure;

(ii) physical analyses; and

(iii) any deductions therefrom as to the potential of the reservoir;

(c) within one month after the completion or abandonment of drilling operations, a comprehensive well completion report, which shall contain, inter alia, the lithological groups, stratigraphic boundaries, hydrocarbon zones, a copy of all well logs and tests and other relevant information including costs, provided that such information

which cannot be obtained within this period shall be submitted as soon as possible;

(d) at the latest upon the issue of a commercial discovery notice, a report which shall substantiate such notice and contains-

(i) all relevant geological information, including estimates of recoverable reserves and daily production;

(ii) a general plan for the development of the deposit, including possible alternatives, with a description of the main production and transportation installations envisaged, and the relevant cost estimates; and

(iii) calculations of the profitability estimates of the discovery;

(e) within forty-five days after the relinquishment or surrender of any part of the permit or licence or lease area such maps, plans, reports, records interpretations, and data made or obtained by or for the holder relating to exploration, development, production abandoned, restriction of site and any other operations in the relinquished, surrendered or retained areas;

(f) report to the DGPC particulars of any material issues of capital which may be made by him or his parent company or any other company having a controlling share interest in it, from time to time and any alteration which may be made in the memorandum and articles of association or in the constitution of the holder or his parent company. Any fresh issues of capital shall at times be subject to clause (d) of rule 69;

(g) from time to time, such other plans and information as to the progress and results of the holder's operation as the DGPC may require.

53. **General.-** The reports referred to in this Part V shall be made in such form and contain such further particulars as the DGPC may prescribe. The holder's obligations under this Part V comprise reports whether prepared inside or outside Pakistan and whether prepared by himself or by others.

54. **Reports of discovery.-**

(1) No announcement or statement (whether direct or implied) with respect to a discovery of petroleum shall be made, except by the Government in consultation with the licence or lease holder, or by a holder where required by the law or otherwise with the consent of the DGPC.

(2) No statement shall be made by or with the consent of a holder claiming or suggesting, whether express or by implication, that any Government authority or any person or body active on behalf of the

Government has or have formed or expressed an opinion that the licence or lease area is likely to contain petroleum.

PART VI STANDARD OF OPERATIONS

55. **Avoidance of harmful methods of working.-**

(1) The petroleum right holder shall undertake and execute all operations in a proper, prudent and workmanlike manner in accordance with good oilfields practices and shall not unreasonably obstruct or interfere with other activities each as navigation, fisheries and agriculture. All reasonable precautions shall be taken to prevent pollution or damage to the environment and surrounding;

(2) Without prejudice to the generality of the foregoing provision, the petroleum right holder shall take all steps including but not limited to the following namely:-

(a) prevent the escape or waste of petroleum discovered in the area;

(b) to conserve the area for operations;

(c) to prevent damage to adjoining petroleum bearing strata;

(d) to prevent the entrance of water through wells to petroleum bearing strata, except when approved by the Government for the purposes of secondary recovery: and

(e) to prevent the escape of petroleum into any waters in or in the vicinity of the said area;

(3) The Government may establish safety zones around temporary and permanent installations as per good oilfield practices.

(4) The Government may from time to time, determine and notify the standards applicable to the operations under these rules in accordance with good oilfield practices.

56. **Principles of Sound operations.-**

(1) All petroleum operations and activities shall be conducted diligently and in accordance good oilfields practices. The rate of production from each reservoir shall be the maximum efficient rate needed to achieve the maximum ultimate economic recovery of petroleum from various petroleum reservoirs unless otherwise approved by the Government.

(2) The Government may specify measures at the time of approval of development plan that a holder of a lease shall take to conserve petroleum resource of Pakistan. These measures shall include, but not be limited to,

notification of depletion policy, rate and flow of petroleum from the fields and the measures to achieve maximum ultimate economic recovery of petroleum from different reservoirs.

(3) The holder shall not flare or vent any natural gas without the prior approval of the Government in writing under these rules.

57. **Commencement, testing and abandonment of drilling operations.-**

(1) The holder of a petroleum right shall not commence drilling, re-entry, sidetracking, hydraulic fracturing or abandonment of any well without first having obtained the approval of the DGPC in writing.

(2) A holder of a petroleum right shall-

(a) as soon as possible make known to the DGPC the proposal for testing a well;

(b) test all potentially productive horizons indicated by wire-line recording ; and

(c) promptly undertake the technical evaluation of the well testing results and of all other relevant data and submit the same to the DGPC as soon as possible.

(3) For the purposes of sub-rule (1), approval of the DGPC shall be deemed to have been given at the end of the notice period provided in sub-rule (4) unless within such period the DGPC gives reasons why the operation applied for should be varied or stopped. Any approval given or deemed given under this rule shall be without prejudice to any other obligation of the holder of a petroleum right.

(4) For the purposes of sub-rule (3), the "notice period" shall be (a) 14 days from the delivery of a request for approval, save for an exploration well, (b) for the drilling of an exploration well, it shall be 7 days after a reminder request which may not be delivered to the DGPC in less than 14 days of the original request being delivered or (c) for an on-going operation, two working days from the request being delivered; provided in each case that if the holder of the petroleum right has failed to provide the required technical information for such operation in the standard format, any of the aforesaid periods shall commence from the provision of the required information.

(5) After the completion of all operations, the well shall be safely plugged and the same shall be reported to the DGPC within seven days of the well being plugged.

(6) Drilling operations shall be conducted in accordance with good oilfield practices.

58. **Shape of relinquished areas**. Areas which are relinquished or surrendered shall be of sufficient size and shape to enable petroleum operations to be carried out thereon.

PART VII MISCELLANEOUS

59. **Use of Pakistani goods and services.-**

(1) In all activities carried out pursuant to these rules, the holder shall ensure the use of Pakistani goods and services, to the extent that such goods and services are competitive with regard to price, quality and schedule of delivery.

60. **Employment and training of Pakistani personnel.-**

(1) The Government may require the holder of a petroleum right employ nationals of Pakistan in his organization at all levels and in all branches including technical and administrative units and to arrange for the training in Pakistan and abroad, of nationals of Pakistan to fill the aforesaid positions. The number of Pakistani personnel to be employed and trained shall be submitted to the DGPC in accordance with the guidelines that may be issued by him from time to time. The application for grant of a licence or a renewal or extension thereof and the development plan submitted with the application for grant of lease shall contain a description of the measures proposed to be taken by the applicant during exploration, appraisal, development and production phases so as to ensure compliance with this rule.

(2) The Government may require that the holder shall provide training for Government personnel in order to develop the capability of such personnel to efficiently perform their duties related to the supervision of petroleum industry. Such training shall cover both technical and management disciplines (e.g. geology, geophysics, engineering, project management, accounting, legal) and shall also be in the form of on-the-job training and participation in in-house seminars.

61. **Joint exploration and development.-**

(1) If a petroleum deposit extends across more than one licence or lease area held by different holders, such holders shall endeavour to agree to explore and exploit the deposit jointly in the most efficient manner.

(2) The holders of the different petroleum rights shall endeavor to expeditiously agree a joint exploration and development plan or, in case one or more of the deposits has already been developed, a joint unitization plan, which shall be submitted to the Government for approval.

(3) If the holders fail to reach an agreement on joint exploration and development or unitization plan as referred to in sub-rules (1) and (2) within a reasonable period of time, the DGPC shall, on the request of any of the involved holders of petroleum rights, or may itself, by notice in writing to all concerned holders, direct that they finalize and submit for approval of the Government relevant plan within the period stipulated in the notice which shall not exceed three months.

(4) In the event such plan is not submitted to the Government within the stipulated period or such plan has not been approved by the Government, either holder may request the Government to appoint a consultant to prepare such a plan, or, if appropriate, decide first if a deposit does extend from the area of one right holder into that of another, which the Government shall do without delay.

(5) The cost of such consultant shall be at the joint cost of the holders of the relevant petroleum rights to be paid as directed by the DGPC. If a holder does not contribute, the cost shall be wholly borne by the other such holder. In such an event, if the reservoir does extend into areas held by the respective holder, the holder which did not contribute shall reimburse the other the whole cost of the consultant thus appointed.

(6) The consultant shall be required to complete the plan within three months of receipt of the data and other information, with any extensions considered reasonable by the Government which in any instance shall not exceed a cumulative period of six months. Both parties shall make available all data reasonably requested by the consultant which shall be obliged to enter into a confidentiality agreement. If a party fails to makes such data available in a timely manner the Government shall direct such a party or parties to comply with this request, failing which such party shall be in breach of a material term and shall be subject to rule 69(a).

(7) The plan so prepared by the consultant will be considered by the Government and the respective holders, each of whom shall have one month to make written submissions to the consultant. Thereafter, the plan shall be finalized by the consultant and accepted by the DGPC and parties. In the event of a manifest error, the Government may, unilaterally or on the request of an affected party, impose such additional conditions as may reasonably be considered appropriate. The final plan shall be binding on the concerned parties.

(8) In the event the reservoir does extend into areas held by the different holders of petroleum rights, the respective reserves determinations shall be effective from the date when there was commercial production or EWT production from more than one such area, and consultant shall make recommendations for necessary adjustments on this account in the plan.

(9) (a) The reference to "consultant" in rules 61(4), 62(2), 63(2) and 68(3), shall be to such third party appointed by competitive bidding from three consultants chosen by the DGPC from the list of consultants, provided for in sub-rule (9)(b).

(b) The said "list of consultants" shall comprise of six pre-qualified consultants maintained by the DGPC. Each such consultant shall be independent and of an international caliber/repute. The list shall be readily available to any holder of a petroleum right, at any time, on request, which may make observations on any party contained in the list or recommend others for inclusion. Based on such observations and after giving other holders of petroleum rights an opportunity to comment, the list may be changed by the DGPC from time to time.

(c) In relation to any bidding process, the involved petroleum right holders shall be given an opportunity of providing input on the bid documents, including terms of reference, evaluation criteria in any communication relating to the bids and the parties shall have the right to be present at the bid opening.

62. **Petroleum exploration within a lease area.-**

(1) A lease-holder shall have a preferential right to perform petroleum exploration activities on all horizons underlying the surface area of a lease above or below the sub-surface boundary of the lease provided that, if the Government receives a bona fide offer from a third party to undertake exploration within the surface area of a lease (excluding the sub-surface boundaries of the lease), the lease- holder shall be given the opportunity to match such offer within six months of receiving a notice to this effect from the Government.

(2) In case the lease-holder decides not to match the offer and undertake exploration pursuant to sub-rule (1) and a third party is granted petroleum exploration rights over any of the horizons underlying the surface area of a lease (excluding the sub-surface boundaries of the lease), then such a third party and the existing lease holder shall within ninety days enter into an agreement setting forth the detailed terms and conditions of operating within the surface area of a lease so that the activities can be coordinated in a just and equitable manner which does not prejudice the interest of the existing holder. In case such an agreement is not reached between the respective holders within the specified time or such agreement has not been approved by the Government, the Government may appoint a consultant to prepare such a plan at the joint and equal cost of the parties which will be binding on the holder and the third party and rules 61(6), (7) and (9) shall apply mutatis mutandis. The plan so prepared by the consultant shall enable activities to be coordinated in a just and equitable manner, without adversely affecting the interests of the existing lease holder

(3) A licence granted over all or part of the area within a lease shall, notwithstanding the terms and conditions of the licence, be deemed to be effective upon the parties concluding the agreement, or the conclusion of the plan, referred to in sub rule (2). If no agreement is reached or plan finalized within one year of the grant of such licence, at any time thereafter either the holder of the licence or the Government may terminate the same without any liability or obligation.

(4) For the purpose of petroleum exploration within a lease area, the provisions of rules 22, 24, 25 and 28 shall apply, mutatis mutandis provided that where an existing lease holder makes a new commercial discovery, on such leaseholder's request the provisions of rule 25 shall not be applicable and the existing lease shall be amended to bring the discovery area of such commercial discovery under the purview of the lease.

(5) In case any discovery area covered under a lease appears to extend beyond the geographical limits of the lease area, the Government may upon request allow the lease holder to undertake appraisal of such discovery area beyond the limits of the lease in an open area and revise the co-ordinates of the lease area if justified by the results of the appraisal pursuant to rule 22.

63. **Exploration and use of facilities by a third party.-**

(1) The Government may allow a third party to undertake exploration in the area of a licence or lease holder as may be necessary to obtain sufficient knowledge as to the geological conditions in areas surrounding the area of such holder. The said exploration activities must not unreasonably interfere with the activities of the holder. After consultation with holders concerned the Government shall determine the manner in which such exploration is to be carried out e.g., type, duration and exploration area.

(2) The Government may decide that production, processing and transportation facilities owned by the holder of a lease shall be available for utilization by any other party (in this sub-rule (2) referred to as "user"), if this is deemed to be desirable for the purpose of efficient operations, or if required by the public interest. Such utilization must not unreasonably interfere with the activities of the holder of the lease. The user shall pay compensation for such utilization as may be mutually agreed by the holder and the user. If the holder of the lease and the user fail to reach an agreement within hundred and eighty days, the Government may appoint a consultant to determine such compensation and other terms by way of a plan, at the cost of the user. Rules 61(6), (7) and (9) shall apply mutatis mutandis, provided always that the consultant shall comply with any reasonable guidelines which the DGPC may issue from time to time in this regard.

(3) Any well which has been abandoned may be used by any party, with the approval of the Government, for any use, including use for geo thermal energy, provided if the well or wells are in the area of a petroleum right, the approval of the petroleum right holder must also be obtained.

64. **General right of holder of lease to enter land.-** Subject to any required approval of the Government and of any other authority which may be involved, and on such conditions as may be stipulated, the holder of a lease shall have the right, as required for the purpose of carrying out operations under the lease, to-

(a) enter upon and use land;

(b) appropriate water;

(c) store petroleum;

(d) erect houses and machinery;

(e) search for, dig and get gravel;

(f) cut timber and clear undergrowth;

(g) enclose with a fence areas for which he is paying surface rent; and

(h) carry out such other activities which the Government considers necessary.

65. **General rights of the holder of permit or licence to enter land.-** Subject to approval of the Government and of any other authority which may be involved, the holder of a permit or licence shall have the rights stipulated in clauses (a), (b), (d), (f) and (h) of rule 64 provided that houses and machinery referred to in clause (d) must be temporary.

66. **Restrictions on the holder's rights.-**

(1) The rights granted to the holder of a petroleum right shall not prejudice or affect the exercise of any of the following powers:-

(a) President may work other minerals, etc. The President or any person authorized by him may within the holder's area search for and produce any minerals or substances other than petroleum and make and maintain such installations and facilities as required for the said purpose;

(b) President may permit other activities. The President or any other persons authorized by him may within this holder's area:

(i) make and maintain upon, over or through the said area such reservoirs, pumping stations, generating stations, waterways, roads, tramways, railways,

telegraph and telephone lines, pipelines or such other installations and facilities as he shall deem necessary or expedient for any purpose;

(ii) obtain such stone, earth and other materials as may be necessary or requisite for making, repairing or maintaining the said installations and facilities;

(iii) draw water from the said area and have free access thereto; and

(iv) pass and repass at all times over the said area for all such purposes as occasion shall require; and

(c) President may grant or demise said lands to third parties subject to holder's rights. Liberty and power for the President to grant or demise to any person all or any part of the said area for any purpose so that such grant or demise be made subject to the rights of the holder.

(2) The President's powers pursuant to clauses (a) and (b) of sub-rule (1) above shall be exercised and enjoyed in such a manner as not to unreasonably hinder or interfere with the rights of the holder. Fair and proper compensation shall be paid by the President for all loss, damage or injury (not, however, including the value of any water , stones, earth or other materials taken) which the holder may sustain or be put to by reason or in consequence of the exercise of the said powers.

67. **Power to execute works.-** If the holder of a petroleum right shall at any time fail to perform his obligations under these rules or under any agreement with the Government, the DGPC shall be entitled after giving to the holder reasonable notice in writing of his intention to execute any works which in his opinion may be necessary to secure the performance of the said obligations or any of them and to recover the costs and expenses of so doing from the holder.

68. **Power to control spill or waste.-**

(1) A holder of petroleum right shall at all times, has obligation not to cause spill and waste.

(2) Where DGPC, on reasonable grounds, is of the opinion that, with respect to any operation of the holder of petroleum rights, spill or waste is required to be controlled or prevented, he may order to the holder of petroleum right to control or prevent spill and waste within a reasonable period of time, failing which he may take such necessary steps and measures to control or prevent the spill or waste as may be required and all cost thereof shall be borne by the holder of petroleum rights.

(3) If there is any dispute, controversy or claim arising out of or in relation to the exercise of the powers by the DGPC under sub-rule (2) then the DGPC and the holder of petroleum right shall make all reasonable best efforts to settle such dispute, controversy or claim within sixty days of the issuance of order by the DGPC under sub-rule (2) failing which such dispute, controversy or claim shall be referred to an independent consultant which shall be appointed by the Government at the cost of and with consent of the holder of petroleum right. The findings of such consultant shall be binding on the DGPC and the holder of petroleum right.

(4) Notwithstanding anything in subrules (1) to (3) the DGPC or the holder of petroleum right may exercise the option not to refer such matter to the independent consultant, in which event such dispute, controversy or claim shall be settled through arbitration in accordance with laws in force in Pakistan.

69. **Power of revocation.-** In addition to other grounds for revocation stated in these rules, the Government may revoke a petroleum right after serving a thirty days show cause notice if-

(a) the holder thereof is in a material respect in breach of the terms and conditions on which the petroleum right was granted, of the provisions of these rules or of any other written law applicable to the petroleum operations and has not, within a period of sixty days from the date on which a notice in that behalf was served on him by the DGPC, remedied the breach, or where the breach is not capable of remedy, has not, within such period offered reasonable compensation in respect thereof;

(b) the petroleum right was granted by reason of information given by the holder which was false in a material respect;

(c) the holder or his parent company makes an arrangement or composition with its creditors, a receiver is appointed or the holder goes into liquidation whether compulsory or voluntary;

(d) without the prior consent of the Government there is a disposition of the share capital of the holder or its parent company in consequence of which any person who prior to that disposition had effective control of the holder or its parent company ceases to have such effective control; and

(e) the holder thereof has failed to make payment (whether part or full) payable under the rules or the relevant agreement and such payment remains in arrears or unpaid for two subsequent months next after any of the day on which the same was ought to be paid.

70. **Right of Government upon termination of a petroleum right -**

(1) When a permit or licence or lease has expired or been revoked, surrendered or area relinquished wholly or partly, except if otherwise provided in the PCA, the area of permit or licence or lease or area relinquished shall so far as practicable be reinstated in its original condition and where this is not practicable, the holder shall pay compensation to the Government for damages suffered as a result thereof.

(2) When a petroleum right has expired, or been revoked, surrendered or area relinquished wholly or partly any installations and facilities relating thereto, or installations and facilities no longer required by the holder of the petroleum right for the area in question, may be taken over by the Government through GHPL, along with related equipment. This also comprises pipeline transportation and related facilities installed by the holder to secure shipment of petroleum.

(3) At takeover, the installations and facilities including equipment pursuant to sub-rule (2), the holder shall be required to hand over such installations and facilities including equipment in such condition as may be reasonably expected under good oilfields practices. No compensation shall be given to the holder in case of such takeover. Takeover involves an automatic cancellation of any security for debts or leasing arrangement related to such installations and facilities including equipment and title of the same shall be transferred to the Government.

(4) If the Government does not wish to exercise its right to takeover the installations and facilities including equipment, the Government may demand that removal shall be carried out by the holder of the petroleum right at the holder's expense, in which case sub-rule (1) hereof shall apply.

(5) At least one year prior to termination, the holder of a lease shall submit to the Government a plan for the orderly closing down and abandonment of his operations, and for the removal of the facilities or their transfer to the Government as the case may be.

71. **Indemnity.-** The holder of a petroleum right shall;

(a) effectively indemnify, defend and hold harmless the President and the Government at all times against all proceedings, costs, charges, claims, losses, damages and demands whatsoever, including, without limitation, claims for loss or damage to property or injury or death to persons, caused by or resulting from work conducted by or on behalf of petroleum right holder, by any third party, or anything done or purporting to be done in pursuance thereof.

(b) if required to do so by the Government, take out and maintain such insurance as the Government may approve against any liability of holder under these rules.

72. **Miscellaneous obligations.-**

(1) The holder of a petroleum right shall have an organization in Pakistan with sufficient competence and capacity to conduct all operations and activities pursuant to these rules and shall-

(a) immediately after grant of petroleum right but before commencing any operations in the relevant area, furnish to the DGPC, the name and address of the manager, resident in Pakistan, under whose supervision operations are to be carried on in the permit, licence or lease; and

(b) in writing, keep the DGPC informed of the names, addresses and nationalities of sub-contractors employed by him from time to time.

(2) Any rent for a petroleum right, fee, or maximum penalty referred to in these rules may be increased from time to time by reference to an appropriate consumer price index, which increase shall be effective prospectively after due notification to all concerned.

73. **Force majeure.-**

(1) Failure on the part of the holder to fulfil any of the terms and conditions of the petroleum right shall not give the President, or the Government, any claim against the holder or be deemed a breach of his obligations insofar as such failure arises from force majeure.

(2) In this rule the expression "force majeure" includes the act of God, war, insurrection, riot, civil commotion, flood, lightening, explosion, fire, earthquake and any other happening which the holder could not reasonably prevent or control, and shall not include a circumstance existing at the time of the grant of the petroleum right.

(3) If the ability to fulfil the terms and conditions, is affected by force majeure, the holder shall without delay give notice to the Government, stating the cause of such inability, its efforts to remove such causes and remedy its consequences and steps to be taken to prevent the circumstances reoccurring and mitigating the consequences thereof.

(4) The term of the holder's petroleum right shall be extended for the duration of the force majeure situation and for such further period as is required to resume the holder's operations.

74. **Arbitration.-** Except as otherwise agreed or expressly provided for in these rules, any question or dispute regarding a petroleum right or any matter or thing connected therewith shall be resolved by arbitration in Pakistan and in accordance with Pakistan laws.

74A. **Decisions and review.-**

(1) All decisions to be made by the Government, including the DGPC, under these rules or concerning a petroleum right, PSA or other agreement or plan made in relation to a petroleum right shall be in writing, with reasons, made without undue delay.

(2) DGPC may prepare procedures to be followed by a holder of a petroleum right seeking a decision under any rule which shall be readily available to any person on request. If there are such procedures and a holder of a petroleum right reasonably satisfies the criteria contained therein, then the Government or DGPC shall, unless the circumstances reasonably justify otherwise make a decision favourable to the petroleum right holder.

(3) The DGPC shall prepare procedures as provided for in sub-rule (3) for, but not limited to, rules 8, 9, 10, 22(8), 24, 25, 28(1)(b), 36 and 60.

First option:

(4) (a) If a holder of a petroleum right is aggrieved by a decision of the DGPC or if the DGPC does not respond to a request in a timely manner, the regulations contained in the Fourth Schedule hereto shall apply. This will however be without prejudice to a party's rights under any provision of law or the PCA.

(b) Such regulations may be amended by the DGPC from time to time to apply prospectively and any changes shall be duly notified in the official gazette and a copy sent to all petroleum right holders.

Second option – an alternative to sub-rule (4), preceding, and the Fourth Schedule, have r.74B-

74B. **Independent Appeal Forum:-** (1) Any holder of a petroleum right aggrieved either by a decision of the DGPC or where the DGPC has not responded to a request in a timely manner, may without undue delay, make a written representation to the DGPC. The DGPC shall arrange to convene a review meeting with the holder of a petroleum right within seven days of the receipt of written representation.

(2) Within seven days of the review meeting, the DGPC shall convey to the aggrieved party in writing its final decision with reasons and basis thereof.

(3) If the holder of a petroleum right is still aggrieved of the decision/final decision of the DGPC or if DGPC has still not responded, the aggrieved party may request the Secretary, Ministry of Petroleum & Natural Resources after 14 days of his representation or the final decision of DGPC as the case may be, for the matter to be submitted to the Forum of Appeals (FOA).

(4) The FOA shall comprise of the following three members including the Chairperson:

(i) A senior technical expert with at least 25 years' experience from the exploration and production industry who will be the member/Chairperson.

(ii) A senior commercial/regulatory expert from the exploration and production industry with at least 20 years' experience as member.

(iii) A senior legal expert with at least 15 years' experience in the exploration and production industry as member.

(iv) The FOA shall develop its own procedures and protocols for the conduct of hearings and consultation with other experts from the industry out of the lists maintained by the Ministry of Petroleum & Natural Resources as deemed necessary.

(5) The FOA shall convene no later than 25 days after the representation referred to in these rules and render its decision within thirty working days of such hearing or remand the matter back to the DGPC to make, or revise, its decision within a specified period. The decision of the FOA shall contain detailed reasons and justifications in support thereof and will be sent to Secretary MPNR with a copy to the concerned parties. The decision shall be implemented by the DGPC without delay unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions.

(6) Secretary MPNR will review the decision and issue a speaking order in the matter within a fortnight.

(7) The Government may issue suitable guidelines, from time to time, in relation to any aspect regarding FOA. Such guidelines may include appeal procedures, documents to be filed for the appeal and the payment of fees to the FOA.

(8) Availing of the remedies under these rules are without prejudice to a party's rights under any other provision of law or the PCA.

74C. **Penalties.-**

(1) Whosoever contravenes any provision of these rules shall, without prejudice to any other action that may be taken in relation to the contravention, be punishable as outlined in the Third Schedule.

(2) In imposing any fine under these rules, the DGPC shall keep in view the principle of proportionality of the fine to the type, gravity, duration, frequency and repetition of the breach or failure. Prior to imposing a fine,

the DGPC shall, in writing, require the person liable to be affected to show cause, in writing, as to why the fine should not be imposed.

(3) The DGPC may, from time to time, modify the Schedule of Fines (Third Schedule), including the categories and scale of fines to apply prospectively, and provided no individual fine may exceed [50] million rupees.

(4) The imposition of a fine shall be without prejudice to any other legal right under these rules or legal and contractual rights of the Government.

75. **Transitional.-**

(1) The Pakistan Petroleum (Exploration and Production) Rules, 1986 are hereby repealed.

(2) Notwithstanding the repeal of the Pakistan Petroleum (Exploration and Production) Rules, 1986, hereinafter referred to as the said rules, where any person holds any permit, licence or lease granted or regranted or renewed under the said rules the provisions of the said rules shall continue to apply to such permit, licence or lease, as if the said rules have not been repealed.

FIRST SCHEDULE

APPLICATION FOR A RECONNAISSANCE PERMIT, EXPLORATION LICENCE OR DEVELOPMENT AND PRODUCTION LEASE1

1 In the case of using this Schedule for an assignment under rule 9, references herein to "applicant" shall be replaced with "proposed assignee", including the execution block at the end. The application shall be made by the proposed assignor.

THIRD SCHEDULE

FINES

a) Table of fines and related offences is outlined below.

b) Before the imposition of a fine, a show cause notice shall be issued by the DGPC to the offending petroleum right holder giving not less than 14 days from date of receipt of the notice to explain as to why a fine should not be imposed. This will be without prejudice to any other remedy available to the Government and the obligation for the default to be rectified, if possible.

c) If, in response to the notice, a reasonable written justification is given and the offence has been rectified as far as possible, no fine shall be imposed, or the fine shall be substantially reduced by the DGPC.

d) Immediately following receipt of a response from the party, referred to in paragraph (c) or, if no response is received within the time stipulated in paragraph (a), the DGPC shall inform the petroleum right holder in writing either that no fine shall be imposed or the amount of fine to be imposed, as the case may be.

e) Where it is possible to rectify an offence and it has not been rectified, an additional fine may be imposed within 14 days of the receipt of the notice referred to in paragraph (d), above, at the rate of up to 1% per day of the fine stipulated therein until the offence is rectified, or the petroleum right/agreement to which the fine relates has terminated or the total of the additional fine is equal to the fine stipulated under paragraph (d), above. Upon the additional fine no longer accruing, the DGPC will intimate to the holder the total fine imposed, revising the notice referred to in paragraph (d), above.

f) The fine stipulated in the notice/intimation referred to in paragraph (d) or (e), as applicable, shall be payable within 14 days of receipt of the relevant communication. Failure to do so, in itself, can be construed by the DGPC as a material breach under rule 69(a).

g) In the event a letter communicating the imposition of a fine is not accepted for receipt, it shall be deemed to have been delivered under this Schedule on the working day immediately after the day it was sent by a recognised courier to the last address provided to the DGPC, provided also sent on the same day by either facsimile machine or registered post.

h) In each case where any data, reports or information is to be provided by a right holder or the contractor to the Government in a desired format, the DGPC will give such right holder a reasonable opportunity to correct the completed format before issuing a show cause notice for the imposition of a fine.

i) Any fine levied shall be independent of, and without prejudice to, the Government's rights under rule 69 (Power of revocation), rule 67 (Power to execute works), for breach of contract, or any other legal recourse. Furthermore, the payment of a fine will not extinguish the requirement to comply with the obligation in the rule, for which the fine was imposed, as far as possible.

j) Whilst fines are expressed in US$, these should be paid in Pakistan Rupees (PKR), determined at the prevailing exchange rate on the date of payment.

k) Each fine shall be imposed on the holders of a petroleum right collectively through the operator, with ultimate liability being joint and several (pursuant to rule 7).

l) A fine which remains unpaid following the date of the DGPC's communication referred to in paragraph (d) and, if applicable, paragraph (e)

it will result in a late payment surcharge of 1% per month (or part thereof) of delay beyond 14 days of receipt of the relevant notice or communication.

m) Fines for any one offence, including any additional fines due to delays thereto, may not exceed the cap prescribed in the Rules.

Table of offences attracting fines and the stipulated fines:

2001 Rules	**Rule title**	**Offence**	**Fine**
Rule 15	Performance guarantees	Failure to provide acceptable performance guarantee(s)	10% of work unit value or $50,000, whichever is higher without prejudice to right of the DGPC to cancel a licence awarded.
Rule 20(1)	Rights and obligations of licence holder.	Production without approval	US$50,000, except, if the offence is for continuing EWT production beyond an approved EWT period would be US$25,000, without prejudice to the royalty due.
Rule 21(4)	Relinquishment.	Failure to relinquish when obliged to do so.	US$100,000.
Rule 26(2)	Work programme and other obligations not fulfilled.	Failure to pay liquidated damages or transfer of undischarged work obligation not approved.	US$200,000 in addition to the minimum expenditure obligation of undischarged work obligation.
Rules 27 and 38	Licence and Lease Rent.	Failure to pay rent.	The higher of US$5,000 or 50% of the rent due without prejudice to the rent due.
Rule 31	Survey expense.	Failure to undertake a survey when requested.	US$10,000.
Rule 33(3)	Development plan.	If development and production not carried out as per approved Development Plan and revision not approved or not sought.	If a material change (being 20% change from what was stated in the Development Plan in capital expenditure or rates or change in number of wells): - US$5,000 for seeking modification within six months

			of the modification being effective or US$25,000 thereafter. - If modification is not sought and is discovered by the Government then US$25,000 plus US$5,000 per complete month after the unapproved modification having been effective till discovered.
Rule 41	Measurement of petroleum.	Failure to measure or weigh using the method agreed and/or failure to comply with any guidelines in that regard and/or failure to permit inspection of such equipment.	US$100,000.
Rule 42	Revocation of lease.	Failure to produce within required time limits.	US$250 per day for the first three months and US$1,000 thereafter, without prejudice to rights of revocation at any point.
Rules 43, 45, 46 & 49-52	Accounts Records and Reports.	Reports not kept/maintained or provided to DGPC/Government, as required.	US$10,000.
Rule 44	Period of record-keeping	Failure to maintain records as required.	US$25,000.
Rule 47	Data property of the Federal Government.	Data and information not submitted as required.	US$10,000.
Rule 47(4)		Disclosure of data to unauthorized party.	US$50,000.
Rule 48(2)	Power to inspect plants, records and accounts etc.	Refusal or delay in access of data to the Authority and non-provision of certified copies of record.	US$50,000.

Rule 54	Reports of discovery.	Making an impermissible announcement or statement.	US$50,000.
Rules 56(3)	Flaring.	Unauthorized flaring of gas.	100% of the value of the unauthorized flared gas, determined on the basis of the price applicable to the block in $/MMBTU. Any show cause notice or intimation of fine may provide that the exact fine is to be calculated.
Rule 57	Commencement, testing and abandonment of drilling operations.	Development well included in the Development Plan spud without approval.	$10,000 (in addition to any fine under rule 33(3)).
		Exploration/appraisal/development well not included in a Development Plan spud without approval	US$50,000.
		Re-entry, side-tracking or hydraulic fracturing commenced without approval.	US$10,000.
		Abandonment of well (Exploration/Appraisal/Depleted/Unsafe) and abandonment of producing zone without approval.	US$50,000.
Rule 60	Employment and training of Pakistani personnel.	Failure to submit report of number of Pakistani personnel to be employed and trained.	US$10,000.
Rule 61(6)	Joint exploration and development.	Failure to comply with direction to provide data following a request by DGPC.	US$25,000.
Rule 70(1)	Right of Government upon	Failure to reinstate where re-instatement is practicable.	US$50,000 plus cost incurred by the Government to re-

	termination of a petroleum right.	(note, if reinstatement not practicable, r.70(1) provides for damages to be paid.)	instate the area.
Rule 70(5)		Plan for abandonment/removal of facilities not submitted when required.	US$10,000 per month (or part thereof) of delay in submission of plan/informing the DGPC.
Rule 71(b)	Insurance	Failure to take out required insurance.	US$25,000.
Rule 72(1)	Miscellaneous obligations.	Failure to set up an organization in Pakistan.	US$10,000 if the organisation is not set up in the first six months after the grant of a petroleum right.
General.	Any other obligations provided in the 2001 Rules which are not fulfilled by the holder of a petroleum right and not expressly referred to above, penalty of up to US$1,000.		
Legal costs.	In addition to the fines stipulated herein or elsewhere in the Rules, any of the Government's legal fees (including lawyers and court/arbitration fees) incurred and documented for recovery of any of the fines as a result of non-payment following a show cause notice shall be separately recovered as a further fine, provided if the matter has been taken to court or arbitration, fine shall only be payable if it has not been struck down as not payable.		
PCA.	If there is a provision in a PCA or petroleum right whereby something has to be done, applied for or requested in a certain time by the right holder and DGPC has discretion to extend such time the DGPC may impose a fine of US$5,000 to consider a late application, without prejudice to its contractual rights or implying any obligation to accept or approve whatever is to be done, applied for or requested. If the DGPC ultimately accepts such delay it may do so on condition of an additional fine for the delay, of up to US$1,000 per day from the day something had to be done, applied for or requested.		

FOURTH SCHEDULE

REGULATIONS FOR REVIEWS AND APPEALS

1. Any holder of a petroleum right aggrieved either by a decision of the DGPC or if the DGPC has not responded to a request within a timely manner may, without undue delay, make a written representation to the DGPC. Such representation shall be provided in duplicate.

2. The DGPC shall convene a review meeting within 14 days of receipt of such representation. At such meeting the aggrieved party shall have the opportunity of being heard and the DGPC shall ensure that the holder has received such notice at least three working days prior to the meeting.

3. At the review meeting the DGPC shall either explain the basis for the decision, change the decision, make a decision or agree to make a decision promptly after the meeting, as appropriate. Within seven days of the meeting, the DGPC shall write to the aggrieved party setting out its final decision with reasons and basis thereof.

4. The DGPC and/or any official he considers necessary and the officer concerned with the subject matter shall be present at the review meeting.

5. If within 14 days of either (i) if the holder is still aggrieved by the final decision or (ii) the date of the review meeting, if no final decision was conveyed after the review meeting or (iii) the date of the written representation to DGPC, and the DGPC failed to convene a review meeting, the aggrieved holder may request the DGPC that the matter be referred to a special tribunal for hearing as provided in regulation 6, below.

6. The special tribunal shall be comprised of the following three officers:

   (i) [Director General (Oil) or Director General (Gas), to be rotated on an annual basis, initially being the Director General (Oil);

   (ii) Senior officer of the rank of a Joint Secretary from the Ministry of Law, Justice and Human Rights;

   (iii) an officer, not less than the grade of an Additional Secretary, of the Ministry of Petroleum and Natural Resources who shall be the chairperson.]

   (iv) In the event any of the appointed officers are not in a position to attend such special tribunal hearing on a given date, such officer may appoint any other senior officer who directly reports to him to attend. The special tribunal may develop its own procedures and protocols for the conduct of hearings before it.

7. The special tribunal shall convene in the offices of the Ministry of Petroleum and Natural Resources, no later than 25 days after the request referred to

in sub-regulation 5 and the Authority shall have ensured the holder received notice of the meeting at least seven days prior to the meeting.

8. Within seven days of such hearing the special tribunal shall either affirm a decision, change a decision, make a decision or remand the matter back to the DGPC to make, or revise, its decision.

9. The decision of the tribunal shall be with reasons and copied to the concerned parties. The decision shall be implemented by the DGPC within 14 days, or up to 21 days, to be justified in writing, unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions.

10. In the event of a failure, within the prescribed time, (i) to convene a review meeting, or a special tribunal hearing, or (ii) to ensure the aggrieved party has received notice sufficiently in advance of such meeting or special tribunal hearing or (iii) for the review meeting or special tribunal to give its response, the Government shall be liable to the penalty provided in regulation 11.

11. The penalty referred to in regulation 10, shall be an entitlement of a holder of a petroleum right to deduct from any rent payable under these rules ten thousand rupees per day of delay, up to a maximum of one hundred thousand rupees. In the event the grievance relates to more than one petroleum right the said penalty shall be equally divided amongst the holders of such petroleum rights. A summary of any such penalties arising in a quarter shall be sent by the DGPC to the Ministry of Finance and be made available, on a non-confidential basis, to any party on request, on payment of a reasonable fee.

12. The Government may issue guidelines, to be reviewed from time to time, in relation to any aspect of these regulations. Such guidelines may include procedures, such (a) as the format of documents to be filed for the appeal or (b) provision for nominal costs of appealing to the special tribunal or (c) costs for abuse of the review and appeal process.

Availing of the remedies under these regulations are without prejudice to a party's rights under any other provision of law or contract.

ANNEXURE 13: PAKISTAN PETROLEUM (EXPLORATION AND PRODUCTION) RULES, 1986

The Gazette of Pakistan

EXTRAORDINARY
PUBLISHED BY AUTHORITY

ISLAMABAD, Saturday, September 20, 1986

PART II

Statutory Notifications (S.R.O.)

GOVERNMENT OF PAKISTAN

MINISTRY OF PETROLEUM AND NATURAL RESOURCES

NOTIFICATION

Islamabad, the 14th September, 1986

S.R.O. 865 (I)/86. In exercise of the powers conferred by Section 2 of the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act 1948 (XXIV of 1948) the Federal Government is pleased to make the following rules, namely:

PART I

GENERAL

1. **Title and commencement.-** These Rules may be called the Pakistan Petroleum (Exploration and Production) Rules, 1986, and shall come into force on the 14th September, 1986.

2. **Interpretation.-** In these Rules and in every permit, licence and lease issued hereunder unless there is anything repugnant in the subject or context:

   (a) "Director General, Petroleum Concessions" means any officer or authority appointed by the Government to exercise the powers and perform the functions of the Director General, Petroleum Concessions, under these Rules.

   (b) "Discovery area" means an area, within the area of a holder's Petroleum right, which encompasses the accumulation of Petroleum in a geological entity limited by lithological boundaries, structural boundaries, the contact zone between

Petroleum and the limiting water level, or a combination thereof, and so that the Petroleum included everywhere is in pressure, fluid or gas communication.

(c) "Government" means the Federal Government of Pakistan.

(d) "Market value" means the value of the Petroleum as determined pursuant to rule 38.

(e) "Ministry" means the Ministry for the time being in charge of Petroleum affairs.

(f) "Petroleum" means all liquid and gaseous hydrocarbons existing in their natural condition in the strata, as well as all substances, including sulphur, produced in association with such hydrocarbons, but does not include basic sediments and water.

(f-A) "petroleum concession agreement" or "PCA" means an agreement entered into pursuant to these rules between the President and a company or companies for the purpose of exploration and development and production of petroleum;

(g) "Petroleum right" includes a permit, licence or lease issued under these Rules.

(h) "PRESIDENT" means the PRESIDENT of Pakistan.

(i) "Wellhead value" means the market value of the Petroleum less gathering, processing, treatment and transportation costs from the wellhead to the place at which the market value is determined, and in the case of natural gas shall also include compression, dehydration and liquefaction costs.

3. Division of area.- Any area of Pakistan, including its territorial waters, exclusive economic zone and historic waters, may be divided into blocks of size and shapes determined by the Government.

4. By whom applications may be made.- Any company whether incorporated inside or outside of Pakistan may apply in accordance with the Rules for:

(a) a reconnaissance permit hereinafter referred to as permit;

(b) an exploration licence hereinafter referred to as the licence;

(c) a development and production lease hereinafter referred to as the lease.

5. Manner in which application may be made.- (1) Every application shall be made in writing in the form set out in the first schedule hereto or

as otherwise directed by the Government, addressed to the Director General, Petroleum Concessions. Every application shall be entered in the register to be maintained by the Director General, Petroleum Concessions. The register shall be in such form as may be prescribed by the Ministry and shall be open to inspection.

(2) The application shall state the nature of and the principal place of business of the company, the authorized, subscribed and paid-up capital of the company, the names and nationality of the directors thereof and the names and holdings of the principal shareholders.

(3) With every application there shall be deposited:

(a) a fee of Rs.10,000 if the application is for the grant, extension or renewal of a permit;

(b) a fee of Rs.20,000 if the application is for the grant, extension or renewal of a licence; and

(c) a fee of Rs.40,000 if the application is for the grant, extension or renewal of a lease.

(4) To the application there shall be attached 15 copies of the map upon which shall be delineated the boundaries of the areas in respect of which a Petroleum right is applied for. The map shall be taken from the relevant Survey of Pakistan map of appropriate scale. If the area is identified by a block system as referred to in rule 3, a reference to the relevant block number is sufficient.

(5) The applicant shall with his application furnish evidence as to his financial and technical qualifications and as to his ability to conduct the activities under the relevant Petroleum right in accordance with the highest standards of the international Petroleum industry. The applicant shall forth with upon request furnish further evidence relating to such matters and if such further evidence shall not have been furnished to the satisfaction of the Director General, Petroleum Concessions within three months of the request therefor, the application shall unless the Director General, Petroleum Concessions otherwise determines, be deemed void.

(6) The applicant shall with his application furnish an undertaking that he will abstain from all political activities whatsoever affecting the sovereignty or security of Pakistan or such as may be tantamount to interference in its internal affairs and that especially he will eschew all espionage.

(7) The applicant shall furnish such other information as the Government may specify till the grant of the right.

6. **Separate application to be made for each area**.-(1) If an applicant seeks a Petroleum right over two or more areas which are not contiguous, the applicant shall apply for separate Petroleum rights over each such area, unless otherwise permitted by the Government.

(2) Nothing in these Rules shall prevent more than one Petroleum right being granted to the same applicant.

7. **Several holders.-** If a Petroleum right is held by two or more companies, they shall be liable jointly and severally towards the Government for obligations and liabilities, resulting from their activities pursuant to the Petroleum right. The companies shall, subject to the approval of the Government, appoint one of them to be the operator on behalf of the companies. No change in such appointment shall be made without the Government's approval.

8. **Petroleum right not assignable without consent.-** A Petroleum right or any participating share therein shall not be assigned without the previous consent in writing of the Government.

9. **Method of making applications for assignments.-** An application by the holder of a Petroleum right for consent to the assignment of a Petroleum right shall be made in writing addressed to the Director General, Petroleum Concessions, and shall be accompanied by a fee of Rs. 5,000. With the application, the applicant shall furnish the like particulars in respect of the proposed assignee as are required to be furnished in the case of applicants for a Petroleum right.

10. **Discretionary grant of Petroleum right.-** Subject to rules 21, 22 and 27, the grant of a Petroleum right, extension or renewal thereof is always at the discretion of the Government.

11. **Lapse of entitlement to Petroleum right.-** If a Petroleum right is not executed within three months after approval of the application by the Government has been conveyed to the applicant, the entitlement of the applicant to such Petroleum right shall be deemed to have lapsed, unless the Government considers that the delay is not attributable to the fault of the applicant.

12. **Surrender of Petroleum right.-** (1) Subject to the terms of the PCA, a holder of a Petroleum right wishing to surrender its right shall give the Director General, Petroleum Concessions, three months' notice of its intention to do so, and if the holder fulfills all its obligations under the Petroleum right, including the obligations pursuant to rule 69 or if applicable pays liquidated damages pursuant to in rule 25, it shall on the expiry of the notice subject to sub-rule (2) be entitled to surrender the Petroleum right. On so doing a holder of a petroleum right shall not be obliged to pay rent for the remaining period of the lease.

(2) In case more than one company holds a petroleum right and less than all the companies wish to surrender the right, reasonable opportunity shall be provided to the other company or companies to acquire (as provided in sub-rule (3)) the interest from the company or companies wishing to surrender. Provided such opportunity is given and demonstrated to the DGPC and subject to the terms of the relevant PCA and these rules, a licence/lease may be surrendered in its entirety by less than all the companies which hold such petroleum right by giving notice as provided in sub-rule (1). In the event more than one company wishes to acquire the interest of a company which wishes to surrender its interest, such surrendered interest shall be offered to each on a pro rata basis.

(3) Except as the companies may agree otherwise, any opportunity to be given to acquire an interest under sub-rule (2) shall be without charging for such interest and in the event there is any outstanding minimum work obligation, the transferring party, wishing to surrender, shall pay to the acquiring party or parties a proportionate share of liquidated damages which could then have been charged at that time pursuant to rule 25, based on its participating interest.

13. **Submission and publication.-**

(1) Application for a Petroleum right may be submitted, either:

(a) at the initiative of the applicant, or

(b) on the basis of an invitation from the Government to submit competitive bids.

(2) In the latter case, a notice containing the terms for competitive bidding may be published in such national or foreign publications as the Government may determine.

(3) Notice of the grant, surrender, termination and assignment of a Petroleum right shall be published in the Gazette of Pakistan.

14. **Terms and conditions of a Petroleum right.-** Every permit, licence and lease shall, subject to such modifications as may be made by the Government, be in the form set out in Parts I, II and III, as the case may be, of the Second Schedule hereto and shall include such additional clauses relating to ancillary matters as the Government may deem fit to insert.

15. **Guarantees.-** The Government may require the holder of a Petroleum right to furnish, in form and substance acceptable to the Government, a guarantee or guarantees (which, if the Government so agrees, may be a parent company guarantee) in respect of the obligations and liabilities of the holder.

PART II

RECONNAISSANCE SURVEYS

16. **Reconnaissance survey.-** The Government may grant a permit to any company to carry out reconnaissance surveys over such areas and on such terms and conditions as it may determine in each case but always upon the following conditions, namely:

(a) the grant of the permit does not imply that the holder shall be entitled to the grant subsequently of a licence over the areas covered by the permit;

(b) at the conclusion of the survey, the holder may apply for a licence in accordance with the Rules, but shall not be entitled to claim a relaxation of any rules laid down in these Rules for the grant of licence applied for by him;

(c) unless otherwise stipulated in the permit, the holder shall have the non-exclusive right to undertake, within the designated areas, Petroleum reconnaissance by such geophysical, geological, geochemical and geotechnical methods and such other related work including shallow drilling (i.e. not more than 200 meters) as are stipulated in the permit;

(d) within six months of the date of the completion of the survey, the holder shall make available to the Director General, Petroleum Concessions, a complete report of the survey together with a copy of all the maps, plans, graphs and magnetic tapes and related data as well as any other data made or collected in the course of the survey;

(e) the holder shall abide by all instructions which the Director General, Petroleum Concessions, may issue regarding the use of maps, plans, graphs and other data made or collected by the holder in the course of the reconnaissance survey;

(f) the permit is valid for a period of one year and may at the discretion of the Government be renewed for a period of up to one year;

(g) a permit does not extend to areas already covered by a licence or a lease unless otherwise specified by the Government pursuant to rule 63(1);

(h) a licence or a lease may be granted at any time for any part of an area covered by a permit;

(i) the holder of the permit shall perform the programme of work stipulated in the permit with due diligence.

PART III

LICENCE FOR PETROLEUM EXPLORATION

17. **Grant of licence.-** The Government may grant an exclusive Petroleum exploration licence over any area and on such conditions as are specified therein, including other terms and conditions as the Government may determine.

18. **Size of area.-** A licence shall not be granted in respect of any area more than 2,500 sq.km. In special circumstances, the Government may, at its discretion, grant an area up to 7,500 sq. km. in case of offshore or onshore area provided that the Licensee offers a work programme commensurate with the size of the area.

19. **Shape of area.-** Each separate area in respect of which a licence is granted shall be, so far as possible, compact and bounded by straight lines. In the case of on-shore areas, they shall be marked with permanent physical boundaries.

20. **Rights and obligations of licence holder.-** (1) Subject to the provisions of rule 63(1) the licence gives the holder the exclusive right to undertake, within the licence area, all activities related to reconnaissance and exploration, including drilling, for Petroleum. The holder of the licence is not entitled to extract any Petroleum from discoveries other than such test production as the Government may in its discretion permit.

    (2) The holder must perform the work programme stipulated in the licence for initial term and any extension or renewal. The work programme will contain the number of wells to be drilled, the depth and time within which they must be drilled, and, where appropriate, the seismic work to be performed, as well as any other matter that may be relevant.

21. **Period.-** (1) The initial term of a licence shall not exceed three years.

    (2) The Government may, subject to the terms of the licence, grant up to three renewals in on-shore areas and up to five renewals in offshore areas. The term of each renewal shall be one year. Prior to the first renewal the holder of a licence shall relinquish at least 50 per cent of the initial licence area, unless otherwise stipulated in the licence. A holder desiring to obtain such renewal must make an application at least three months before the expiry of the licence.

    (3) A holder shall be entitled to renewal as aforesaid if he:

        (a) has complied with the work programme and all other obligations under the licence; and

(b) has committed himself to drill the well or wells specified in the licence during the renewal period to the depth specified therein.

(4) Notwithstanding anything contained in sub-rule (1) or (2), upon a written request of a holder, the government may, on a case to case basis, extend the term of the licence based on technical considerations or revise the co-ordinate of the area covered under the licence provided that the geological structure extends into a free area.

(5) (a) In the event a holder of a licence has applied for an extension or a renewal, prior to the expiry of a licence, the licence shall be deemed extended until approval is given or denied,

(b) If approval for the renewal or extension is granted, the renewal or extension applied for will be effective from the date of approval or the term was to expire, whichever is later, unless such application was made less than three months prior to the expiry of the licence, in which case it will be effective from the date the term was to expire.

(c) If a holder of a licence applies for an extension or renewal within three months after the licence has expired, the Government may, on a case to case basis, still approve such application, provided the holder of a licence pays a penalty of five hundred thousand rupees per day after the expiry, without prejudice to any obligation to pay liquidated damages. Pending decision of the Government to such an application the licence shall be deemed extended and if approval is given the renewal or extension shall be effective from the date the term was to expire.

(d) Rent, as provided in rule 26, shall be payable for any deemed extended period provided in sub-rules (a) or (b), unless an application for renewal or extension is made at least three months prior to the expiry of the licence, in which case no rent shall be payable for such deemed extended period. Any such rent for such period shall not be payable again on account of the renewal or extension being effective from the date the licence was to expire. Rent shall be payable on a pro rata basis for any part of the extended period not being a complete year.

22. **Renewal for appraisal and evaluation.-** (1) A holder of a licence having made a discovery of Petroleum and having complied with the work programme and his other obligations shall be entitled to

renewal of the licence for the purpose of appraising the discovery. The renewal shall only apply to the discovery area

(2) The renewal period shall be:

(a) One year, in the case of discoveries on land;

(b) up to a maximum of two renewals, one year each time, in the case of offshore discoveries in waters of less than 200m depth; or

(c) up to a maximum of three renewals, one year each time, in the case offshore discoveries in waters of 200m depth or more.

23. **Extension pending grant of lease.-** If the holder of a licence before the expiry of the licence has applied for a lease, the duration of the licence shall be extended until the lease has been granted or refused.

24. **Declaration of commerciality-relinquishment.-** (1) After having finalized the necessary appraisal and delineation work, the holder of a licence may issue a declaration to the Government stating that he considers a deposit as commercial. Prior to or upon issuing the declaration, the holder must submit a report in accordance with rule 52(d). Upon issuing such a declaration, the holder is obliged to apply for the grant of a lease in respect of the discovery area.

(2) The grant of a lease prevails over the licence within the area designated in the lease, but the licence continues to be valid outside such lease area without modifying the rights and obligations pursuant to the licence. In the event of a licence continuing to be valid beyond the term of a lease, or on any part of the area of a lease being reduced, the licence shall automatically again extend over such lease area, provided such area or areas are contiguous with the remaining licence area and further provided that the total area of licence does not exceed the area provided in rule 18, less any reduction required under rule 21(2).

(3) Upon termination of the licence, the holder must relinquish all areas of the licence except those areas covered by a lease issued to him.

25. **Work Programme not fulfilled.-** (1) If, upon the surrender, revocation or the expiry of a licence, the obligations pursuant to sub-rule (2) of rule 20 or rule 22 are not fulfilled, the holder shall either:-

(a) pay to the Government such sum by way of liquidated damages which correspond to the minimum expenditure of

undischarged work obligation as set forth in the licence within a period of thirty days from the surrender, revocation or expiry of the licence; or

(b) transfer undischarged work obligation committed under rule 20 to another area with the approval of the Government if it is demonstrated to the satisfaction of the Government that there is no drillable prospect in the licence area. In the event that a petroleum right is held by more than one company, the undischarged work obligation shall be monetized, based on liquidated damages obligations and divided between the companies in accordance with their interests in the right. Any company not transferring a work obligation to an area of its shall pay its pro rata share of liquidated damages, without prejudice to rule 7.

(2) In case the liquidated damages payable pursuant to clause (a) of sub-rule (1) are not paid or the transfer of undischarged work obligation to any other area(s) pursuant to clause (b) of sub-rule (1), is not approved, the Government may, in addition to any other action or remedy including black listing of the holder, cancel a lease granted to the holder in respect of any area comprised within the area of the licence which has been surrendered, revoked or expired.

26. **Rent.-** (1) The holder of a licence shall for each square kilometer or part thereof comprised in the licence area pay to the Government rent at the following rates:

(a) in respect of the initial term of the licence Rs.1250

(b) in respect of each renewal or year of extension Rs.2500

(2) The rent shall be paid in advance of the period to which it relates; provided that for the initial term, the rent may be paid annually in which case the rate for each square kilometer or part thereof shall be four hundred and seventeen rupees.

(3) Notwithstanding any provision of a licence, rent shall be adjusted as provided for in rule 71(2) and not any adjustment clause in a licence so as to ensure that the rent retains its value in real terms.

PART IV

LEASE FOR PETROLEUM DEVELOPMENT AND PRODUCTION

27. **Grant of development and production lease.-**

(1) The Government shall on being satisfied that the deposit can be commercially produced, and that the terms and conditions of the licence, including the work programme, have been duly observed and performed, or that the holder is in satisfactory progress with the work programme, grant a leasein respect of discovery area within the licence area granted to the applicant under these rules.

(2) In the event that any part of a discovery area extends beyond the lease into an open acreage, the Government may upon being satisfied that the discovery area extends into such open acreage and subject to such conditions as deemed necessary, readjust the subsisting boundaries of the lease so as to include such part of the open acreage on which the discovery area extends.

28. **Rights of lease holder.-** The lease gives the holder an exclusive right to perform activities in connection with the development and production of Petroleum in the area covered by the lease, including the right to undertake transportation of Petroleum, subject to approval pursuant to rule 34.

29. **Size of development area.-** The size of any development area shall be sufficient to efficiently develop and produce all Petroleum within the discovery area, but shall not exceed an area of more than 125 sq. kilometers save in cases where special exemption is granted by the Government.

30. **Shape of development area.-** Each separate area in respect of which a lease is granted shall be laid out in a block or blocks bounded by straight lines between well defined points. In the case of on-shore areas, they must also be marked with permanent physical boundaries.

31. **Survey expense of applicant.-** Before a lease on land is granted by the Government the applicant shall, if so requested by the Government, at his own expense cause a topographical survey of the land specified therein to be made to scale normally required for Petroleum exploration purposes, and approved by the Survey of Pakistan, and submit 6 copies thereof to the Government.

32. **Period.-** (1) The lease shall be for the period for which application has been made but not exceeding twenty five years in respect of the on-shore areas of Pakistan and up to thirty years in respect of the offshore areas. Upon application from the holder, the Government may renew the lease for a period, not exceeding five years, if commercial production is continuing at the time of the application.

(2) In the event the lease is initially granted for a period of less than 25 years in respect of on-shore areas or 30 years in respect of offshore areas, the same may be extended from time to time, such that the total overall period of lease does not exceed 25 or 30 years, respectively, provided commercial production continues.

32A. **Further renewal or re-grant of lease after expiry of lease term**.- (1) Effective from the end of a lease period, the DGPC may renew a lease for up to a further five years, provided commercial production is continuing, an addendum to the development plan acceptable to the DGPC is provided and the lease holder agrees, at least one year prior to the expiry of the lease period, to pay 15% of wellhead value of petroleum produced to the Government, after the effective date of such renewal.

(2) If there is no such renewal, or following expiry of such a renewal, the DGPC may invite bids from companies for the re-grant of the lease over the same, or substantially the same area as the expiring lease, for a term of ten years or such lesser period for which commercial production is expected to continue. The bids shall be evaluated on the basis of a development plan and signature bonus. The DGPC may keep re-granting a lease, in a similar manner as long as production is continuing.

(3) Each bidder shall provide a bid bond of ten per cent of the offered signature bonus at the time of bidding along with a development plan.

33. **Development plan.-** (1) Together with the application for a lease, the holder shall enclose a general plan for development and production of the Petroleum deposit or deposits. The application shall contain such information as the Government shall prescribe by way of procedures provided for in rule 73A, including:

(a) a development plan comprising the design and location of production and transportation facilities and installations, including pipelines and storage installations as well as plans for the progress of the work;

(b) investment plans;

(c) a projected production and sales profile for the life of the deposit(s);

(d) a description of the organization which the holder has available for the fulfillment of his obligations, pursuant to rule 35; and

(e) a report on the measures proposed to be taken in the interests of safety of the operations and protection of the environment.

(2) In the case of a discovery on land, the plan shall include, as a minimum, the drilling of one well per year to the reservoir depth until the field is fully developed.

(3) The plan requires the approval of the Government. Such approval will not be unreasonably withheld or delayed.

(4) After approval of the plan, the lease holder shall carry out development and production substantially in accordance with the plan, subject to such modifications which may be necessary from time to time.

34. **Transportation of Petroleum**.- (1) Subject to approval in accordance with this rule, the holder of a lease has the right to lift and transport Petroleum from the lease area, either through transportation facilities owned wholly or partly by himself or through access to transportation facilities owned by a third party. Such approval will not be unreasonably withheld or delayed.

(2) The holder must submit an application comprising the proposed organization and/or implementation of the transportation system. In case of pipeline transportation, the application shall also comprise the design, construction and route plans.

(3) The Government may, on giving its approval, stipulate such conditions as are reasonable and necessary to secure a rational transportation of Petroleum. The Government may, for example:

(a) require that several lease holders install jointly-owned transportation facilities; and

(b) grant to any third party access to transportation capacity at tariffs to be approved by the Government.

35. **Organization of lease holder in Pakistan.-** An operator performing activities pursuant to these Rules shall have an organization in Pakistan with sufficient competence and capacity to conduct the activities. After approval of the development plan, development and production activities pursuant to the lease shall be performed from a base in Pakistan.

36. **Royalty.-** (1) Subject to the payment of such additional amount by way of royalty as may be specified in any agreement with the Government to which the holder of the lease is a party, the holder shall pay a royalty at the rate of 12.5 per cent of the wellhead value of the Petroleum produced and saved.

(2) Royalty is payable monthly within 10 days of the expiry of the calendar month in question.

(3) From the amount of royalties payable in respect of any one year of the term of a lease, there shall be deducted the amount of yearly lease rent actually paid in respect of that year pursuant to rule 39.

37. **Royalty in kind.-** (1) The Government may, with six months' notice, decide that royalty according to rule 36 shall, wholly or partly, be satisfied in kind. In such case the holder shall at the request and at the cost of the Government arrange for transportation, treatment, storage of the royalty Petroleum and such other activities related thereof as the Government may reasonably require, in the same manner as if it were his own Petroleum.

(2) The Government shall lift or take royalty Petroleum in a timely manner and in accordance with such lifting or sales agreement as may have been agreed.

38. **Value of Petroleum.-** For the purpose of calculating the amount due by way of royalty, the value of Petroleum shall be:

(a) in the case of Petroleum delivered to the national market pursuant to rule 41 the price actually realized in such sales;

(b) in the case of Petroleum not sold pursuant to rule 41 the international market price determined in such manner as the Government, subject to the terms and conditions of any agreement between the PRESIDENT and the lessee, may, from time to time, determine.

39. **Yearly lease rents.-** (1) The lease holder shall pay to the Government annually in advance, rent at the rate of Rs.6250 per square kilometer or part thereof of the lease area.

(2) Notwithstanding any provision of a lease, rent shall be adjusted as provided for in rule 71(2) and not by any adjustment clause in a lease so as to ensure that the rent retains its value in real terms.

40. **Surface rent.-** The holder of a lease shall pay for all land which he may use or occupy for the purposes of the operations conducted under the lease, a surface rent at the rate assessable under the revenue and rent law in the district in which the land is situated and water rates, if any, ordinarily assessable under any irrigation rules if the land has not been occupied for the winning of Petroleum. If no such rent is assessable under the laws of the district, the rate may be fixed by the Government subject to a maximum of Rs.2000 per sq. kilometer.

41. **Deliveries to the national market.-** (1) the Government may decide that the holder shall deliver Petroleum from the production to cover the requirements of the national market for Petroleum. The national market for Petroleum shall for this purpose mean the total market requirements, less Petroleum produced by or otherwise available to the Government from Pakistani Petroleum fields. The

holder shall deliver the Petroleum at such place or places in Pakistan as the Government may reasonably direct at the Government's cost unless otherwise agreed and subject to sub-rule (3).

(2) The foregoing provision shall apply to all holders producing Petroleum as far as practicable, pro-rata to their production. Each holder's obligation may be fulfilled directly or by means of swap arrangements approved by the Government.

(3) The Government may also decide that the holder shall arrange and pay for adequate transportation of crude oil which it has thus ordered to be delivered up to the distance to the nearest operating refinery in Pakistan.

(4) Unless otherwise agreed between the President and the lessee, the price to be paid for Petroleum to be delivered pursuant to this rule shall be such price as may from time to time be determined by the Government.

42. **Measurement of Petroleum:-** (1) The lease holder shall measure or weigh by a method or methods customarily used in good Petroleum industry practice and from time to time approved by the Director General, Petroleum Concessions, all Petroleum won and saved from the lease area.

(2) The Director General, Petroleum Concessions, or any Officer authorized by him, shall, at all time during the terms of the lease or any renewal thereof, be entitled to inspect the measuring or weighing appliances and to be present whenever such a measurement or weighing takes place.

(3) If any measuring or weighing appliances shall at any time be found not to be correct, the same shall, if the Director General, Petroleum Concessions, so determines after considering any representations in writing made by the holder, be deemed to have existed in that condition during the period of three months prior to the discovery thereof or the period elapsed since the last occasion upon which the same was examined or tested, whichever shall be the less. The royalties payable in respect of such period shall be adjusted accordingly.

(4) The holder shall not make any alteration in the method or methods of measurement or weighing used by him or any appliances used for that purpose without first informing the Director General, Petroleum Concessions. The Director General, Petroleum Concessions, may in any case require that no alteration shall be made save in the presence of an officer authorized by him.

43. **Revocation of lease.-** (1) The lease may be revoked if regular, commercial production has not commenced within five years from

the grant of the lease, or within seven years in the case of an offshore field. The lease may also be revoked if production has terminated for more than 90 days, unless this is due to force majeure.

(2) In the event, a holder of a lease is found to have contravened sub-rule (1) the Government may issue a ninety days' notice requiring the holder of a lease to remedy the breach within the notice period failing which the Government may impose a fine or revoke the lease, or both, unless a plausible justification is provided by the holder of a lease and accepted by the DGPC.

PART V

ACCOUNTS, RECORDS, INSPECTION, REPORTS

44. **Keeping of accounts.-** The holder of a licence or lease shall maintain full and accurate accounts. Original copies of all financial books, records and registers shall be kept in Pakistan, unless otherwise agreed by the Director General, Petroleum Concessions. The Director General, Petroleum Concessions, and other Pakistani authorities concerned shall have the right to receive a certified copy of any such books, records and registers, whether the original is kept inside or outside Pakistan.

45. **Well records.-** (1) The holder of a licence or lease shall keep accurate records of the drilling, deepening, plugging, completion, recompletion, sidetracking, testing or abandonment of all wells containing particulars of the following matters with respect to each well:

(a) the strata and subsoil through which the well was drilled;

(b) the casing inserted in any well and any alteration to such casing;

(c) any Petroleum and other reservoir fluids, or workable minerals encountered; and

(d) such other matters as the Director General Petroleum Concessions may from time to time require.

(2) The holder shall deliver copies of the said records to the Director General, Petroleum Concessions, as and when required by him.

46. **Production records.-** The holder of a lease shall keep full and correct records which shall contain accurate entries of:

(a) the gross quantity of Petroleum won and saved from the lease area;

(b) the method and results of tests made on the Petroleum;

(c) the quantity of Petroleum delivered in Pakistan and/or exported;

(d) the quantity of Petroleum used for reinjection, flaring, drilling or other operational purposes;

(e) the quantity of Petroleum sold, the name of the purchaser and the price at which it has been sold;

(f) the quantity of natural gas treated in Pakistan for the removal of natural gas liquids and liquefied Petroleum gases and the quantity of any liquids or gases or any solids obtained from it; and

(g) such further particulars and statistics as the Director General, Petroleum Concessions, may from time to time reasonably require.

47. **Data to be property of Government**.-(1) All data, wells logs, maps, magnetic tapes, cores, samples and any other geological and geophysical information obtained by the holder of a licence or lease as a result of his activities under the licence or lease shall be the property of the Government subject to the right of the holder to use such data for the purposes of the petroleum right. The holder shall submit all of the aforesaid data and information as soon as it has become available to him. The holder may, during the subsistence of the licence or lease, after prior intimation to the Government, disclose all or any part of the aforesaid data to a third party, provided that before disclosure of the data, such party executes an appropriate confidentiality agreement drawn up in accordance with the standard international industry practice.

(2) All data and information referred to in sub-rule (1) obtained by the holder of a permit, as a result of his activities under the permit, shall be his property, but the Director General, Petroleum Concessions, shall be entitled to receive a copy thereof as soon as it has become available to the holder.

(3) All processed geophysical information referred to in sub-rule (1) and (2) above shall be submitted to the Director General, Petroleum Concessions, on transparent, dimensionally stable material.

(4) Information and data as mentioned in this rule shall be kept confidential by the Government for a period of three years from the

date the data is submitted to it under sub rule (1), with the following exceptions:

(a) information disclosed to other Pakistani authorities, to financial institutions or to consultants of the Ministry if they are bound to keep it confidential;

(b) information required for general statistical purposes;

(c) upon the earlier termination of a permit or lease, or upon the date of relinquishment of the area to which the information relates; and

(d) all raw well data including well logs may be disclosed by the Government to any interested party after two years of completion of a well to which such data relates.; and

(5) Notwithstanding anything contained in these rules, the data in the possession of the Government in respect of a surrendered or relinquished area of a permit, licence, lease and any free adjoining area may be released by the Government to a holder or to an organization engaged in Petroleum exploration and research, on the reproduction costs of the data and on such terms and conditions as it may determine.

48. Power to inspect plants, records, accounts etc.- (1) Any person or persons authorized by the Director General, Petroleum Concessions, or by any other competent authority in Pakistan shall be entitled at all times:

(a) to examine the wells, plants, appliances, buildings and works made or executed by the holder of a Petroleum right and the state of repair and condition thereof;

(b) to inspect, check and make abstracts or copies of any logs, records, measurements, plans, maps or accounts which the holder of a Petroleum right is required to keep or make;

(c) to inspect the samples of strata, Petroleum or water which the holder of a Petroleum right is required to keep; and

(d) to execute any works to which the Director General, Petroleum Concessions, may be entitled.

(2) The holder of a Petroleum right shall grant access for such inspectors to all temporary and fixed installations or other facilities or sites. Further, such inspectors shall have access to all information and data concerning the operations and shall in the case of offshore operations be provided by the holder with free transportation to and

lodging in the offshore area as required to carry out their duties efficiently.

49. Annual reports.- (1) The holder of a licence or lease shall each year submit to the Director General, Petroleum Concessions, reports containing the following particulars;

(a) a financial statement with an abstract of the accounts, prepared in accordance with accounting principles generally accepted in the Petroleum industry and audited by a recognized firm of chartered accountants approved by the Director General, Petroleum Concessions;

(b) a description of all exploration, development, production and other work carried out by the holder during the year relating to the licence or lease area;

(c) estimates of economically recoverable reserves of Petroleum at the end of that year, classified on the basis of good international petroleum industry practices as per standard format notified by DGPC; and

(d) estimates of Petroleum production and exports for each quarter of the next two years.

(2) The report referred to in sub-paragraph (a) above shall be submitted within three months and the other reports within 45 days after the year to which they relate.

50. Quarterly reports.- Within five days after the end of each quarter each holder of a Petroleum right shall prepare and deliver progress report to the Director General, Petroleum Concessions, which shall contain a narrative report of activities with plans and maps showing the places where work was done. Such report shall also contain:

(a) a summary of all geological and geophysical work carried out;

(b) a summary of all drilling activity and results obtained; and

(c) a list of maps, a list of reports and a list of other geological and geophysical data prepared in connection with the activities.

51. Daily reports.- During drilling of a well, each holder of a licence or lease shall provide to the Director General, Petroleum Concessions, copies of his daily well report.

52. Occasional reports.- The holder of a licence or lease shall submit to the Director General, Petroleum Concessions, the following reports:

(a) within 24 hours, by email, if a well shows the presence of Petroleum in significant measure or if a drillstem test has been carried out on a well which produces Petroleum;

(b) within seven days after the above-mentioned report, a written report containing relevant geological information and chemical analysis in the case of a showing of the presence of Petroleum, and in the case of a drillstem test containing the following additional information:

(i) conditions and results of the drillstem test, including but not limited to flow rates, flow periods, tested intervals, pressures, choke sizes, hole condition and stimulation measure;

(ii) physical analyses; and

(iii) any deductions therefrom as to the potential of the reservoir;

(c) within one month after the completion or abandonment of drilling operations, a comprehensive well completion report, which shall contain, inter alia, the lithological groups, stratigraphic boundaries, hydrocarbon zones, a copy of all well logs and tests and other relevant information, provided that such information which cannot be obtained within this period shall be submitted as soon as possible;

(d) at the latest upon the issue of a commerciality declaration, a report which shall substantiate the declaration and contain:

(i) all relevant geological information, including estimates of recoverable reserves and daily production;

(ii) a program for the development of the deposit, including possible alternatives, with a description of the main production and transportation installations envisaged, and the relevant cost estimates;

(iii) calculations of the profitability of the discovery;

(e) within 45 days after the relinquishment or surrender of any part of the licence or lease area such maps, plans, reports, records interpretations, and data made or obtained by or for the holder relating to exploration, development, production and any other operations in the relinquished, surrendered or retained areas, as the Director General, Petroleum Concessions, may require.

(f) from time to time, such other plans and information as to the progress and results of the holder's operation as the Director General, Petroleum Concessions, may reasonably require.

53. General.- The reports referred to in this Part V shall be made in such form and contain such further particulars as the Director General, Petroleum Concessions, may reasonably prescribe. The holder's

obligations under this Part V comprise reports whether prepared inside or outside Pakistan, and whether prepared by himself or by others.

54. Reports of discovery.- (1) No announcement with respect to a discovery of Petroleum shall be made except by the Government in consultation with the licence or lease holder, or by a holder where required by the law or otherwise with the consent of the DGPC.

(2) No statement shall be made by or with the consent of a holder claiming or suggesting, whether express or by implication, that any Government authority or any person or body active on behalf of the Government has or have formed or expressed an opinion that the licence or lease area is from its geological formation or otherwise likely to contain Petroleum.

PART VI

STANDARD OF OPERATIONS

55. **Safety in operations.-** (1) The activities pursuant to these Rules shall be conducted in a prudent manner and shall not unreasonably obstruct or interfere with other activities such as navigation, fisheries and agriculture. All reasonable precautions shall be taken to prevent pollution or accumulation of trash and to prevent damage to the environment and surroundings.

(2) The Government may establish safety zones around temporary and permanent installations.

56. **Sound production principles.-** (1) All Petroleum development and production activities shall be conducted diligently and in accordance with modern internationally accepted, good oil industry practices. The rate of production from each reservoir shall be the maximum efficient rate needed to achieve the maximum ultimate economic recovery of Petroleum and the various Petroleum reservoirs unless otherwise approved by the Government.

(2) The holder shall not flare any natural gas or use it to create or increase the pressure in the reservoir without the Government's approval.

57. **Prevention of damage to installations and reservoirs.-** All installations and facilities and all wells in the area covered by a licence or lease which have not been abandoned shall be maintained in good working condition. The holder of the licence or lease shall carry out all operations in accordance with good oil field practice, and shall in particular take all steps practicable in order:

(a) to control the flow and prevent the waste of Petroleum;

(b) to prevent damage to adjoining Petroleum bearing strata;

(c) to prevent the entrance of water through wells to Petroleum bearing strata, except when approved by the Government for the purposes of secondary recovery.

58. **Commencement and abandonment of drilling operations.-** (1) The holder of a Petroleum right shall not commence or abandon the drilling, re-entry, sidetracking, hydraulic fracturing or abandonment of any well without first having obtained the approval of the Director General, Petroleum Concessions.

(2) A holder of a petroleum right shall,-

(a) as soon as possible make known to the DGPC the proposal for testing a well;

(b) test all potentially productive horizons indicated by wire-line recording; and

(c) promptly undertake the technical evaluation of the well testing results and of all other relevant data and submit the same as soon as possible to the DGPC.

(3) For the purposes of sub-rule (1), approval of the DGPC shall be deemed to have been given at the end of the notice period provided in sub-rule (4) unless within such period the DGPC gives reasons why the operation applied for should be varied or stopped. Any approval given or deemed given under this rule shall be without prejudice to any other obligation of the holder of a petroleum right.

(4) For the purposes of sub-rule (3), the "notice period" shall be (a) 14 days from the delivery of a request for approval, save for an exploration well, (b) for the drilling of an exploration well, it shall be 7 days after a reminder request which may not be delivered to the DGPC in less than 14 days of the original request being delivered or (c) for an on-going operation, two working days from the request being delivered; provided in each case that if the holder of the petroleum right has failed to provide the required technical information for such operation in the standard format, any of the aforesaid periods shall commence from the provision of the required information.

(5) After the completion of all operations, the well shall be safely plugged and the same shall be reported to the DGPC within seven days of the well being plugged.

59. **Shape of relinquished areas.** Areas which are relinquished or surrendered shall be of sufficient size and shape to enable Petroleum operations to be carried out thereon.

PART VII

MISCELLANEOUS

60. **Use of Pakistani goods and services.-** In all activities pursuant to these Rules the holder must ensure the use of Pakistani goods and services to the extent such goods and services are competitive with regard to price, quality, services and schedule of delivery.

61. **Employment and training of Pakistani personnel.-** (1) The Government may require the operator of a Licence or a lease employ nationals of Pakistan in his organization at all levels and in all branches including technical and administrative units and to arrange for the training in Pakistan and abroad, of nationals of Pakistan to fill the aforesaid positions. The number of Pakistani personnel to be employed and trained shall be submitted to the Director General, Petroleum Concessions in accordance with the guidelines that may be issued by the DGPC from time to time. The application for a Licence and the development plan shall contain a description of the measures proposed to be taken by the operator to ensure compliance with this rule, respectively, before and after the implementation of the development plan.

    (2) the government may require that the holder shall provide training for Government personnel in order to develop the capability of such personnel to efficiently perform their duties related to the supervision of Petroleum industry. Such training shall cover both technical and management disciplines (e.g. geology, geophysics, engineering, project management, accounting, legal) and shall be in the form of on-the-job training and participation in in-house seminars.

62. **Joint exploration and development.-(**1) If a Petroleum deposit extends across more than one licence or lease area with different holders, the holders shall endeavor to explore and exploit the deposit jointly in the most efficient manner.

    (2) The holders of the different petroleum rights shall endeavor to expeditiously agree a joint exploration and development plan or, in case one, or more, of the deposits have already been developed, a joint utilization plan, which shall be submitted to the Government for approval. If the holders fail to reach agreement on such joint plan within a reasonable period, the Government may stipulate the conditions which shall be applied.

    (3) If agreement on a joint exploration and development or unitization plan as referred to in sub-rules (1) and (2), is not reached within a reasonable period of time the DGPC shall, on the request of any of the involved holders of petroleum rights, or may itself, by notice in writing to all concerned parties, direct that they finalize and

submit for approval of the DGPC a plan within the period stipulated in the notice, which shall not exceed three months.

(4) In the event such plan is not submitted to the DGPC within the stipulated period or such plan has not been approved by the DGPC, either holder may request the DGPC to appoint a consultant to prepare such plan, or, if appropriate, decide first if a deposit does extend from the area of one right holder into that of another, which the DGPC shall do without delay.

(5) The cost of such consultant shall be at the joint cost of the holders of the relevant petroleum rights to be paid as directed by the DGPC. If a holder does not contribute, the cost shall be wholly borne by the other such holder. In such an event, if the reservoir does extend into areas held by the respective holder, the holder which did not contribute shall reimburse the other the whole cost of the consultant thus appointed.

(6) The consultant shall be required to complete the plan within three months of receipt of the data and other information, with any extensions considered reasonable by the DGPC which in any instance shall not exceed a cumulative period of six months. Both parties shall make available all data reasonably requested by the consultant which shall be obliged to enter into a confidentiality agreement. If a party fails to make such data available in a timely manner, the DGPC shall direct such a party or parties to comply with this request, failing which such party shall be in breach of a material term and shall be subject to rule 68(1)(a).

(7) The plan so prepared by the consultant shall be considered by the DGPC and the respective holders, each of whom shall have one month to make written submissions to the consultant. Thereafter, the plan shall be finalized by the consultant and accepted by the DGPC and parties. In the event of a manifest error, the DGPC may, unilaterally or on the request of an affected party, impose such additional conditions as may reasonably be considered appropriate. The final plan shall be binding on the concerned parties.

(8) In the event the reservoir does extend into areas held by the different holders of petroleum rights, the respective reserves determinations shall be effective from the date when there was commercial production or EWT production from more than one such area, and consultant shall make recommendations for necessary adjustments on this account in the plan.

(9) (a) The reference to "consultant" in rules 62(4), 62(A)(2) and 63(2) shall be to such third party appointed by competitive bidding from three consultants chosen by the DGPC from the list of consultants, provided for in sub-rule (9)(b).

(b) The said "list of consultants" shall comprise of six pre-qualified consultants maintained by the DGPC. Each such consultants shall be independent and of an international caliber/repute. The list shall be readily available to any holder of a petroleum right, at any time, on request, which may make observations on any party contained in the list or recommend others for inclusion. Based on such observations and after giving other holders of petroleum rights an opportunity to comment, the list may be changed by the DGPC from time to time.

(c) In relation to any bidding process, the involved petroleum right holders shall be given an opportunity of providing input on the bid documents, including terms of reference, evaluation criteria in any communication relating to the bids and the parties shall have the right to be present at the bid opening.

62(A) **Petroleum exploration within a lease area:-** (1) A lease holder shall have a preferential right to perform petroleum exploration activities on all horizons underlying the surface area of a lease above or below the sub-surface boundary of the lease provided that, if the Government receives a bona fide offer from a third party to undertake exploration within the surface area of a lease, (excluding the sub-surface boundaries of the lease), the lease holder shall be given the opportunity to match such offer within six months of receiving a notice to this effect from the Government.

(2) In case the lease holder decides not to match the offer and undertake exploration pursuant to sub-rule (1), and a third party is granted petroleum exploration rights over any of the horizons underlying the surface area of a lease (excluding the sub-surface boundaries of the lease), then such a third party and the existing lease holder shall within ninety days enter into an agreement setting forth the detailed terms and conditions of operating within the surface area of a lease so that the activities can be coordinated in a just and equitable manner which does not prejudice the interests of the existing holder. In case such an agreement is not reached between the respective holders within the time specified by the Government or such agreement has not been approved by the DGPC, the Government may appoint a consultant to prepare a plan at the joint and equal cost of the parties, which will be binding on the holder and the third party and rules 62(6) and (9) shall apply mutatis mutandis. The plan so prepared by the consultant shall enable activities to be coordinated in a just and equitable manner, without adversely affecting the interests of the existing lease holder.

(3) A licence granted over all or part of area within a lease shall, notwithstanding the terms and conditions of the licence, be deemed to be effective upon the parties concluding the agreement, or the conclusion of the plan referred to in sub rule (2). If no agreement is

reached or plan finalized within one year of the grant of such licence, at any time thereafter either the holder of the licence or the Government may terminate the same without any liability or obligation.

(4) For the purpose of petroleum exploration within a lease area, the provisions of rules 22, 24 and 27 shall apply mutatis mutandis provided that where an existing lease holder makes a new discovery, on such leaseholder's request the provisions of rule 27 shall not be applicable and the existing lease shall be amended to bring the discovery area of such a discovery under the purview of the lease.

(5) In case any discovery area covered under a lease appears to extend beyond the geographical limits of the lease area, the Government may upon request allow the lease holder to undertake appraisal of such discovery area beyond the limits of the lease in an open area and revise the co-ordinates of the lease area if justified by the results of the appraisal.

63. **Exploration and use of facilities by a third party.-** (1) If required for the purpose of utilization of the Government's own resource mapping or in other special circumstances, the Government may give a third party the right to undertake such exploration in the area of a licence or lease holder as may be necessary to obtain sufficient knowledge as to the geological conditions in areas surrounding the area of such holder. The said exploration activities must not unreasonably interfere with the activities of the holder. After consultation with holders concerned the Government shall determine the manner in which such exploration is to be carried out e.g., type, duration and exploration area.

(2) The Government may decide that production and transportation facilities owned by the holders of a lease shall be available for utilization by any other party (in this sub-rule (2) referred to as "user"), if this is deemed to be desirable for the purpose of efficient operations, or if required by the national interest. Such utilization must not unreasonably interfere with the activities of the holder. The user shall pay compensation for such utilization as may be mutually agreed by the holder and the user. If the holder of the lease and the user fail to reach an agreement within 180 days, the DGPC may appoint a consultant to determine such compensation and other terms by way of a plan, at the cost of the user. Rules 62(6), (7) and (9) shall apply mutatis mutandis, provided always that the consultant shall comply with any reasonable guidelines which the DGPC may issue from time to time in this regard.

(3) Any well which has been abandoned may be used by any party, with the approval of the Government, for any use, including use for geo thermal energy, provided if the well or wells are in the area of a

petroleum right, the approval of the petroleum right holder must also be obtained.

64. **General right of holder of lease to enter land.-** Subject to any required approval of the Government and of any other authority which may be involved, and on such conditions as may be stipulated, the holder of a lease shall have the right, as required for the purpose of carrying out operations under the lease, to:

(a) enter upon and use land;

(b) appropriate water;

(c) store Petroleum

(d) erect houses and machinery;

(e) search for, dig and get gravel;

(f) cut timber and clear undergrowth;

(g) enclose with a fence areas for which he is paying surface rent; and

(h) carry out such other activities which the Government considers necessary.

65. **General rights of the holder of permit or licence to enter land.-** Subject to approval of the Government and of any other authority which may be involved, the holder of a permit or licence shall have the rights referred to in rule 64(a), (b), (d), (f) and (h) provided that houses and machinery referred to in clause (d) must be temporary.

66. **Restrictions on the holder's rights.-** (1) the rights granted to the holder of a Petroleum right shall not prejudice or affect the exercise of any of the following powers, that is to say:

(a) PRESIDENT may work other minerals, etc. The PRESIDENT or any other person authorized by him may within the holder's area search for and produce any minerals or substances other than Petroleum and make and maintain such installations and facilities as required for the said purpose;

(b) PRESIDENT may permit other activities. The PRESIDENT or any other person authorized by him may within the holder's area:

(i) make and maintain upon, over or through the said area such reservoirs, pumping stations, generating stations,

waterways, roads, tramways, railways, telegraph and telephone lines, pipelines or such other installations and facilities as he shall deem necessary or expedient for any purpose;

(ii) obtain such stone, earth and other materials as may be necessary or requisite for making, repairing or maintaining the said installations and facilities;

(iii) draw water from the said area and have free access thereto; and

(iv) pass and repass at all times over the said area for all such purposes as occasion shall require; and

(c) PRESIDENT may grant or demise said lands to third parties to grant or demise to any person all or any part of the said area for any purpose so that such grant or demise be made subject to the rights of the holder.

(2) The PRESIDENT's powers pursuant to paragraphs (a) and (b) above shall be exercised and enjoyed in such a manner as not to unreasonably hinder or interfere with the rights of the holder. Fair and proper compensation shall be paid by the PRESIDENT for all loss, damage or injury (not, however, including the value of any water, stones, earth or other materials taken) which the holder may sustain or be put to by reason or inconsequence of the exercise of the said powers.

67. **Power to execute works.-** If the holder of a Petroleum right shall at any time fail to perform his obligations the Director General, Petroleum Concessions, shall be entitled after giving to the holder reasonable notice in writing of his intention to execute any works which in the opinion of the Director General, Petroleum Concessions, or his agents may be necessary to secure the performance of the said obligations or any of them and to recover the costs and expenses of so doing from the holder.

68. **Power of revocation.-** In addition to other grounds for revocation stated in these Rules, the government any revoke a Petroleum right if:

(a) the holder thereof is in a material respect in breach of the terms and conditions on which the Petroleum right was granted, of the provisions of these Rules or of any other written law applicable to the Petroleum operations and has not, within a period of 60 days from the date on which a notice in that behalf was served on him by the Director General, remedied the breach, or where the breach is not capable of remedy, has not, within such period offered reasonable compensation in respect thereof;

(b) the Petroleum right was granted by reason of information given by the holder which was false in a material respect;

(c) the holder makes an arrangement or composition with its creditors, a receiver is appointed or the holder goes into liquidation whether compulsory or voluntary;

(d) without the prior consent of the Government there is a disposition of the share capital of the holder in consequence of which any person who prior to that disposition had affective control of the holder ceases to have such effective control.

69. **Right of Government upon termination of a Petroleum right**.-(1) When a permit, licence or lease has expired or been revoked, surrendered or area relinquished wholly or partly, except if otherwise provided in the PCA, the permit, licence, lease or relinquished area shall so far as practicable be reinstated in its original condition and where this is not practicable, the holder shall pay compensation to the Government for damages suffered as a result thereof.

(2) When a petroleum right has expired, or been revoked, surrendered or area relinquished, wholly or partly, any installations and facilities relating thereto, or installations and facilities no longer required by the petroleum right holder for the area in question, may be taken over by the Government, along with related equipment. This also comprises pipeline transportation and related facilities installed by the holder to secure shipment of Petroleum.

(3) At takeover, the installations, including equipment in the lease area, shall be in such condition as good oil industry practices indicate. No compensation will be given to the holder in case of such takeover. Takeover involves an automatic cancellation of any security for debts related to such installations including equipment.

(4) If the Government does not wish to exercise its right to takeover the installations including equipment, the Government may demand, that removal shall be carried out by the holder of the lease at the holder's expense, in which case sub-rule (1) hereof shall apply correspondingly.

(5) At least one year prior to termination, the holder of a lease shall submit to the Government a plan for the orderly closing down of his operations, and for the removal of the facilities or their transfer to the Government as the case may be .

70. **Indemnity.-** The holder of a Petroleum right shall:

(a) at all times keep the Government effectually indemnified against all proceedings, costs, charges, claims and demands whatsoever which may be made or brought against the Government by any third party in relation to or in connection with his Petroleum right or anything done in or purporting to be done pursuance thereof; and

(b) if required to do so by the Government, take out and maintain such insurance as the Government may approve against any liability which the holder may incur under this rule.

71. **Miscellaneous obligations.-** (1) The holder of a Petroleum right shall:

(a) before commencing any operations in the relevant area, furnish to the Director General, Petroleum Concessions, the name and address of the manager, resident in Pakistan, under whose supervision such operations are to be carried on;

(b) currently and in writing, keep the Director General, Petroleum Concessions, informed of the names, addresses and nationalities of sub-contractors employed him; and

(c) report to the Director General, Petroleum Concessions, particulars of any fresh issues of capital which may be made by him from time to time and any alteration which may be made in the memorandum or articles of association or in the constitution of the holder.

(2) Any rent for a petroleum right under rules 26 or 39, maximum penalty under rule 73C or fee referred to in these rules may be increased from time to time by reference to an appropriate consumer price index, which increase shall be effective prospectively after notification issued by the Government.

72. **Force majeure.-** (1) Failure on the part of the holder to fulfill any of the terms and conditions of the Petroleum right shall not give the PRESIDENT any claim against the holder or be deemed a breach of his obligations insofar as such failure arises from force majeure.

(2) In this clause the expression "force majeure" includes the act of God, war, insurrection, riot, civil commotion, flood, lightning, explosion, fire, earthquake and any other happening which the holder could not reasonably prevent or control and shall not include a circumstance existing at the time of the grant of the petroleum right.

(3) If the ability to fulfill is affected by force majeure, the holder shall without delay give notice to the Government, stating the cause of such inability and his efforts to remove such causes and remedy its

consequences and steps to be taken to prevent the circumstance reoccurring and mitigating the consequences thereof.

(4) The term of the holder's Petroleum right shall be extended for the duration of the force majeure situation and such further period as is required to resume the holder's operations.

73. **Arbitration.-** Except as otherwise agreed or expressly provided for in these rules, any question or dispute regarding a Petroleum right or any matter or thing connected therewith shall be resolved by arbitration in Pakistan, and in accordance with Pakistani laws.

73A. **Decisions and review.-** (1) All decisions to be made by the Government, including the DGPC under these rules or, concerning a petroleum right, PCA or any other agreement or plan, pursuant to these rules, shall be in writing, with reasons, without undue delay.

(2) DGPC may prepare procedures to be followed by a holder of a petroleum right seeking a decision under any rule which shall be readily available to any person on request. If there are such procedures and a holder of a petroleum right reasonably satisfies the criteria contained therein, then the Government or DGPC shall, unless the circumstances reasonably justify otherwise make a decision favourable to the petroleum right holder.

(3) The DGPC shall prepare procedures as provided for in sub-rule (2) for, but not limited to, rules 8, 9, 21(4), 25(1)(b), 33 and 58.

First option:

(4) (a) If a holder of a petroleum right is aggrieved by a decision of the DGPC or if the DGPC does not respond to a request in a timely manner, the regulations contained in the Fourth Schedule hereto shall apply. This will however be without prejudice to a party's rights under any provision of law or the PCA.

(b) Such regulations may be amended by the DGPC from time to time to apply prospectively and any changes shall be duly notified in the official gazette and a copy sent to all petroleum right holders.

Second option – an alternative to sub-rule (4), preceding, and the Fourth Schedule, have r.73B-

73B. **Independent Appeal Forum:-** (1) Any holder of a petroleum right aggrieved either by a decision of the DGPC or where the DGPC has not responded to a request in a timely manner, may without undue delay, make a written representation to the DGPC. The DGPC shall arrange to convene a review meeting with the holder of a petroleum right within seven days of the receipt of written representation.

(2) Within seven days of the review meeting, the DGPC shall convey to the aggrieved party in writing its final decision with reasons and basis thereof.

(3) If the holder of a petroleum right is still aggrieved of the decision/final decision of the DGPC or if DGPC has still not responded, the aggrieved party may request the Secretary, Ministry of Petroleum & Natural Resources after 14 days of his representation or the final decision of DGPC as the case may be, for the matter to be submitted to the Forum of Appeals (FOA).

(4) The FOA shall comprise of the following three members including the Chairperson:

(i) A senior technical expert with at least 25 years' experience from the exploration and production industry who will be the member/Chairperson.

(ii) A senior commercial/regulatory expert from the exploration and production industry with at least 20 years' experience as member.

(iii) A senior legal expert with at least 15 years' experience in the exploration and production industry as member.

(iv) The FOA shall develop its own procedures and protocols for the conduct of hearings and consultation with other experts from the industry out of the lists maintained by the Ministry of Petroleum& Natural Resources as deemed necessary.

(5) The FOA shall convene no later than 25 days after the representation referred to in these rules and render its decision within thirty working days of such hearing or remand the matter back to the DGPC to make, or revise, its decision within a specified period. The decision of the FOA shall contain detailed reasons and justifications in support thereof and will be sent to Secretary MPNR with a copy to the concerned parties. The decision shall be implemented by the DGPC without delay unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions.

(6) Secretary MPNR will review the decision and issue a speaking order in the matter within a fortnight.

(7) The Government may issue suitable guidelines, from time to time, in relation to any aspect regarding FOA. Such guidelines may include appeal procedures, documents to be filed for the appeal and the payment of fees to the FOA.

(8) Availing of the remedies under these rules are without prejudice to a party's rights under any other provision of law or the PCA.

73C. **Penalties.-** (1) Whosoever contravenes any provision of these rules shall, without prejudice to any other action that may be taken in relation to the contravention, be punishable as outlined in the Third Schedule.

(2) In imposing any fine under these rules, the DGPC shall keep in view the principle of proportionality of the fine to the type, gravity, duration, frequency and repetition of the breach or failure. Prior to imposing a fine, the DGPC shall, in writing, require the person liable to be affected to show cause, in writing, as to why the fine should not be imposed.

(3) The DGPC may, from time to time, modify the Schedule of Fines (Third Schedule), including the categories and scale of fines, to apply prospectively, and provided no individual fine may exceed [50] million rupees.

(4) The imposition of a fine shall be without prejudice to any other legal right under these rules or legal and contractual rights of the Government.

74. **Transitional.-** (1) The Pakistan Petroleum (Production) Rules 1949 are hereby repealed.

(2) Notwithstanding the repeal of the Pakistan Petroleum (Production) Rules, 1949, hereinafter referred to as the said rules, where any person holds any permit, licence or lease granted or renewed under the said rules the provisions of the said rules shall continue to apply to such licence or lease as if the said rules have not been repealed.

FIRST SCHEDULE

APPLICATION FOR A RECONNAISSANCE PERMIT, EXPLORATION LICENCE OR DEVELOPMENT AND PRODUCTION LEASE1

1 In the case of using this Schedule for an assignment under rule 9, references herein to "applicant" shall be replaced with "proposed assignee", including the execution block at the end. The application shall be made by the proposed assignor.

THIRD SCHEDULE

FINES

a) Table of fines and related offences is outlined below.

b) Before the imposition of a fine, a show cause notice shall be issued by the DGPC to the offending petroleum right holder giving not less than 14 days from date of receipt of the notice to explain as why a fine should not be imposed. This will be without prejudice to any other remedy available to the Government and the obligation for the default to be rectified, if possible.

c) If, in response to the notice, a reasonable written justification is given and the offence has been rectified as far as possible, no fine shall be imposed, or the fine shall be substantially reduced by the DGPC.

d) Immediately following receipt of a response from a petroleum right holder, referred to in paragraph (c) or, if no response is received, within the time stipulated in paragraph (a) the DGPC shall inform the petroleum right holder in writing either that no fine shall be imposed or the amount of fine to be imposed, as the case may be.

e) Where it is possible to rectify an offence and it has not been rectified, an additional fine may be imposed within 14 days of the receipt of the notice referred to in paragraph (d), above, at the rate of up to 1% per day of the fine stipulated therein until the offence is rectified, or the petroleum right to which the fine relates has terminated or the total of the additional fine is equal to the fine stipulated under paragraph (d), above. Upon the additional fine no longer accruing, the DGPC will intimate to the holder the total fine imposed, revising the notice referred to in paragraph (d), above.

f) The fine stipulated in the notice/intimation referred to in paragraph (d) or (e), as applicable, shall be payable within 14 days of receipt of the relevant communication. Failure to do so, in itself, can be construed by the DGPC as a material breach under rule 68(a).

g) In the event a letter communicating the imposition of a fine is not accepted for receipt, it shall be deemed to have been delivered under this Schedule on the working day immediately after the day it was sent by a recognised courier to the last address provided to the DGPC, provided also sent on the same day by either facsimile machine or registered post.

h) In each case where any data, reports or information is to be provided by a right holder to the Government in a desired format, the DGPC will give such right holder a reasonable opportunity to correct the completed format before issuing a show cause notice for the imposition of a fine.

i) Any fine levied shall be independent of, and without prejudice to, the Government's rights under rule 68 (Power of revocation), rule 67 (Power to execute works), for breach of contract, or any other legal recourse. Furthermore, the payment of a fine will not extinguish the

requirement to comply with the obligation in the rule, for which the fine was imposed, as far as possible.

j) Whilst fines are expressed in US$, these should be paid in Pakistan Rupees (PKR), determined at the prevailing exchange rate on the date of payment.

k) Each fine shall be imposed on the holder of a petroleum right as the case may be collectively through the operator, with ultimate liability being joint and several (pursuant to rule 7).

l) A fine which remains unpaid following the date of the DGPC's communication referred to in paragraph (d) and, if applicable, paragraph (e) it will result in a late payment surcharge of 1% per month (or part thereof) of delay beyond 14 days of receipt of the relevant notice or communication.

m) Fines for any one offence, including any additional fines due to delays thereto, may not exceed the cap prescribed in the Rules.

Table of offences attracting fines and the stipulated fines:

1986 Rules	**Rule title**	**Offence**	**Fine**
Rule 15	Guarantees	Failure to provide acceptable performance guarantee(s)	10% of work unit value or $50,000, whichever is higher without prejudice to right of the DGPC to cancel a licence awarded.
Rule 20(1)	Rights and obligations of licence holder.	Production without approval	US$50,000, except, if the offence is for continuing EWT production beyond an approved EWT period would be US$25,000, without prejudice to the royalty due.
Rule 21(2)	Relinquishment.	Failure to relinquish when obliged to do so.	US$100,000.
Rule 25	Work programme not fulfilled.	Failure to pay liquidated damages or transfer of undischarged work obligation not approved.	US$200,000 in addition to the minimum expenditure obligation of undischarged work obligation.
Rules 26 and 39	Licence and Lease Rent.	Failure to pay rent.	The higher of US$5,000 or 50% of the rent due without prejudice to the rent due.

Rule 31	Survey expense.	Failure to undertake a survey when requested.	US$10,000.
Rule 33(4)	Development plan.	If development and production not carried out as per approved Development Plan and revision not approved or not sought.	If a material change (being 20% change from what was stated in the Development Plan in capital expenditure or rates or change in number of wells): - US$5,000 for seeking modification within six months of the modification being effective or US$25,000 thereafter. - If modification is not sought and is discovered by the Government then US$25,000 plus US$5,000 per complete month after the unapproved modification having been effective till discovered.
Rule 42	Petroleum measurement.	Failure to measure or weigh using the method agreed and/or failure to comply with any guidelines in that regard and/or failure to permit inspection of such equipment.	US$100,000.
Rule 43	Revocation of lease.	Failure to produce within required time limits.	US$250 per day for the first three months and US$1,000 thereafter, without prejudice to rights of revocation at any point.
Rules 44, 45, 46 & 49-52	Accounts Records and Reports.	Reports not kept/maintained or provided to DGPC/Government, as required.	US$10,000.
Rule 47	Data property of the Government.	Data and information not submitted as required.	US$10,000.

Rule 48(2)	Power to inspect plants, records and accounts etc.	Refusal or delay in access of data to the DGPC and non-provision of certified copies of record.	US$50,000.
Rule 54	Reports of discovery.	Making an impermissible announcement or statement.	US$50,000.
Rule 56(2)	Flaring.	Unauthorized flaring of gas.	100% of the value of the unauthorized flared gas, determined on the basis of the price applicable to the block in $/MMBTU. Any show cause notice or intimation of fine may provide that the exact fine is to be calculated.
Rule 58	Commencement, testing and abandonment of drilling operations.	Development well included in the Development Plan spud without approval.	$10,000 (in addition to any fine under rule 33(4)).
		Exploration/appraisal/development well not included in a Development Plan spud without approval	US$50,000.
		Re-entry, side-tracking or hydraulic fracturing commenced without approval.	US$10,000.
		Abandonment of well (Exploration/Appraisal/Depleted /Unsafe) and abandonment of producing zone without approval.	US$50,000.
Rule 61	Employment and training of Pakistani personnel.	Failure to submit report of number of Pakistani personnel to be employed and trained.	US$10,000.
Rule 62(6)	Joint exploration	Failure to comply with direction to provide data following a	US$25,000.

	and development.	request by DGPC.	
Rule 69(1)	Right of Government upon termination of a petroleum right.	Failure to reinstate where re-instatement is practicable. (note, if reinstatement not practicable, r.69(1) provides for damages to be paid.)	US$50,000 plus cost incurred by the Government to re-instate the area.
Rule 69(5)		Plan for abandonment/removal of facilities not submitted when required.	US$10,000 per month (or part thereof) of delay in submission of plan/informing the DGPC.
Rule 70(b)	Indemnity	Failure to take out required insurance.	US$25,000.
Rule 71	Miscellaneous obligations.	Failure to set up an organization in Pakistan.	US$10,000 if the organisation is not set up in the first six months after the grant of a petroleum right.
General.	Any other obligations provided in the 1986 Rules which are not fulfilled by the holder of a petroleum right and not expressly referred to above, penalty of up to US$1,000.		
Legal costs.	In addition to the fines stipulated herein or elsewhere in the Rules, any of the Government's legal fees (including lawyers and court/arbitration fees) incurred and documented for recovery of any of the fines as a result of non-payment following a show cause notice shall be separately recovered as a further fine, provided if the matter has been taken to court or arbitration, fine shall only be payable if it has not been struck down as not payable.		
PCA.	If there is a provision in a PCA or petroleum right whereby something has to be done, applied for or requested in a certain time by the right holder and DGPC has discretion to extend such time the DGPC may impose a fine of US$5,000 to consider a late application, without prejudice to its contractual rights or implying any obligation to accept or approve whatever is to be done, applied for or requested. If the DGPC ultimately accepts such delay it may do so on condition of an additional fine for the delay, of up to US$1,000 per day from the day something had to be done, applied for or requested.		

FOURTH SCHEDULE
REGULATIONS FOR REVIEWS AND APPEALS

1. Any holder of a petroleum right aggrieved either by a decision of the DGPC or if the DGPC has not responded to a request within a timely manner may, without undue delay, make a written representation to the DGPC. Such representation shall be provided in duplicate.

2. The DGPC shall convene a review meeting within 14 days of receipt of such representation. At such meeting the aggrieved party shall have the opportunity of being heard and the DGPC shall ensure that the holder/contractor has received such notice at least three working days prior to the meeting.

3. At the review meeting the DGPC shall either explain the basis for the decision, change the decision, make a decision or agree to make a decision promptly after the meeting, as appropriate. Within seven days of the meeting, the DGPC shall write to the aggrieved party setting out its final decision with reasons and basis thereof.

4. The DGPC and/or any official he considers necessary and the officer concerned with the subject matter shall be present at the review meeting.

5. If within 14 days of either (i) if the holder is still aggrieved by the final decision or (ii) the date of the review meeting, if no final decision was conveyed after the review meeting or (iii) the date of the written representation to DGPC, and the DGPC failed to convene a review meeting, the aggrieved holder may request the DGPC that the matter be referred to a special tribunal for hearing as provided in regulation 6, below.

6. The special tribunal shall be comprised of the following three officers:

   (i) [Director General (Oil) or Director General (Gas), to be rotated on an annual basis, initially being the Director General (Oil);

   (ii) Senior officer of the rank of a Joint Secretary from the Ministry of Law, Justice and Human Rights;

   (iii) an officer, not less than the grade of an Additional Secretary, of the Ministry of Petroleum and Natural Resources who shall be the chairperson.]

   (iv) In the event any of the appointed officers are not in a position to attend such special tribunal hearing on a given date, such officer may appoint any other senior officer who directly

reports to him to attend. The special tribunal may develop its own procedures and protocols for the conduct of hearings before it.

7. The special tribunal shall convene in the offices of the Ministry of Petroleum and Natural Resources, no later than 25 days after the request referred to in sub-regulation 5 and the DGPC shall have ensured the holder received notice of the meeting at least seven days prior to the meeting.

8. Within seven days of such hearing the special tribunal shall either affirm a decision, change a decision, make a decision or remand the matter back to the DGPC to make, or revise, its decision.

9. The decision of the tribunal shall be with reasons and copied to the concerned parties. The decision shall be implemented the DGPC within 14 days, or up to 21 days, to be justified in writing, unless it disagrees with the decision on technical grounds or grounds of public policy in which event it may refer the matter to the Secretary, Ministry of Petroleum and Natural Resources for directions.

10. In the event of a failure, within the prescribed time, (i) to convene a review meeting, or a special tribunal hearing, or (ii) to ensure the aggrieved party has received notice sufficiently in advance of such meeting or special tribunal hearing or (iii) for the review meeting or special tribunal to give its response, the Government shall be liable to the penalty provided in regulation 11.

11. The penalty referred to in regulation 10, shall be an entitlement of a holder of a petroleum right to deduct from any rent payable under these rules ten thousand rupees per day of delay, up to a maximum of one hundred thousand rupees. In the event the grievance relates to more than one petroleum right the said penalty shall be equally divided amongst the holders of such petroleum rights. A summary of any such penalties arising in a quarter shall be sent by the DGPC to the Ministry of Finance and be made available, on a non-confidential basis, to any party on request, on payment of a reasonable fee.

12. The Government may issue guidelines, to be reviewed from time to time, in relation to any aspect of these regulations. Such guidelines may include procedures, such (a) as the format of documents to be filed for the appeal or (b) provision for nominal costs of appealing to the special tribunal or (c) costs for abuse of the review and appeal process.

13. Availing of the remedies under these regulations are without prejudice to a party's rights under any other provision of law or contract.