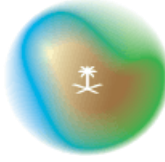


Law on the Distribution of Dry Gas and Liquefied Petroleum Gas for Residential and Commercial Purposes

Promulgated by Royal Decree No. (M/126) dated 01/12/1438 AH

Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

This translation is provided for guidance. The governing text is the Arabic text.



Law on the Distribution of Dry Gas and Liquefied Petroleum Gas for Residential and Commercial Purposes

Article (1)¹

In this Law, the following words and phrases shall have the meanings assigned thereto, unless the context requires otherwise:

Ministry: Ministry of Energy.

Minister: Minister of Energy.

Implementing Regulations: Implementing Regulations of this Law.

Bylaws: The technical and procedural regulations and guidelines issued by the Ministry and referred to in Article 7 of this Law.

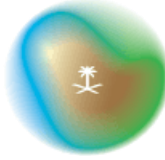
Dry Gas: Gas which mainly consists of methane, and which may include an amount of ethane, small quantities of heavier hydrocarbon compounds, and other components. The Bylaws shall specify the properties and characteristics of Dry Gas.

Liquefied Petroleum Gas (LPG): Hydrocarbon products consisting of a mixture of propane and butane, which are sold separately, or as a mixture; fuel, or feedstock. LPG may contain a small amount of pentane and heavier components, and it is stored in a liquefied state under special storage conditions inside pressure vessels. The Bylaws shall specify the properties and characteristics of LPG.

Synthetic Natural Gas (SNG): A mixture produced by mixing LPG with air which has properties similar to the properties of combustion of Dry Gas. The Bylaws shall specify the properties and characteristic of SNG.

Dry Gas Distribution Network: A network which starts at the entrance of the main pressure reducing station and which receives high pressure Dry Gas from a transport pipeline and delivers it to the gas meters of Consumers. The network consists of distribution pipelines,

¹ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH



control valves, pressure reducing substations and any other associated facilities, gas meters, filters, odorizers, and monitoring and control systems.

Independent Gas Distribution Network: An independent distribution network that receives LPG, SNG, or Dry Gas from storage tanks and any other associated facilities, and delivers it to the gas meters of Consumers. The network consists of distribution pipelines, control valves, storage tanks and any other associated facilities, gas meters, filters, and monitoring and control systems.

LPG Distribution: Distributing LPG using pipelines, tank trucks, or cylinders from LPG Facilities, and selling it directly to another Licensee or to Consumers.

LPG Facilities: Facilities which include LPG storage tanks, transport pipelines, filling stations, storage yards, and gas handling systems, and the accessories of such facilities.

Activities: The activities provided for in Article 4 of this Law.

License: A permission granted for carrying out any of the Activities in accordance with the provisions of this Law, the Implementing Regulations, and the Bylaws.

Person: A natural or legal person.

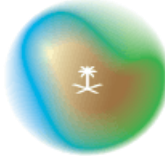
Licensee: A Person holding a License.

Retailer: A Person who is licensed to sell LPG cylinders in retail outlets.

Residential Consumer: Any Person whose residence is supplied, for residential purposes, with Dry Gas, LPG, LPG cylinders, or SNG.

Commercial Consumer: Any Person whose commercial establishment is supplied, for commercial purposes, with Dry Gas, LPG, LPG cylinders, or SNG. Any governmental or industrial establishment shall be deemed a Commercial Consumer if the consumption of such establishment does not exceed the quantity determined by the Ministry in accordance with the requirements of encouraging investment in the field of gas distribution.

Consumer: A Residential consumer or Commercial Consumer.



Tariff: The financial consideration paid by the Consumer to a Licensee which covers operating costs, capital costs, and profit margin, in addition to the approved gas price.

Article (2)

This Law aims to:

1. Regulate the Activities in a manner that serves public interest and protects the rights and interests of Consumers and Licensees, including ensuring compliance with approved policies relating to the Activities and with the safety requirements for supplying gas to Consumers;
2. Ensure that the Activities are of high quality in terms of relevant environmental standards and measures as well as the work methods and technologies used therein, and encourage relevant research and development and the localization of technology; and
3. Encourage investment in the Activities by creating a competitive environment which ensures a fair economic return and enables Consumers in the Kingdom's provinces to receive Dry Gas, LPG and SNG services.²

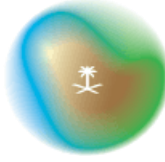
Article (3)³

Without prejudice to the powers and duties of other relevant entities, the Ministry shall, in implementation of the provisions of this Law, assume all powers and duties necessary for regulating the Activities subject to this Law. In particular, the Ministry shall:

1. Prepare, approve, and update a long-term plan for the provision of sufficient quantities of Dry Gas and LPG for residential and commercial consumption, and follow up on the implementation of such plan, in a manner that ensures optimal use;
2. Issue the Licenses necessary to engage in the Activities and collect licensing fees;

² Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

³ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH



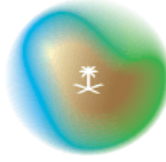
3. Promote competition, monitor and assess market conditions and relevant developments, and act in a manner that ensures adequate geographical coverage;
4. Ensure the availability of Dry Gas and LPG supplies for the final Consumer, monitor Licensees to ensure that they operate Dry Gas Distribution Networks and Independent Gas Distribution Networks, and monitor Retailers to ensure that they provide Dry Gas and LPG products to Consumers; and
5. Approve the Tariff, pursuant to a decision by the Minister, taking into account the following:
 - A. Approved Dry Gas and LPG prices.
 - B. Enabling Licensees to operate sufficiently to fully recover costs and achieve a fair profit margin, taking into account international best practices and the requirements of relevant laws and regulations;
 - C. Providing incentives to ensure the continuous improvement of technical and economic efficiency as well as the quality of service;
 - D. Any existing contractual arrangements at the time this Law enters into force.

Article (4)⁴

The Activities subject to this Law shall include the following:

1. Constructing, developing, operating, or maintaining Dry Gas Distribution Networks or an Independent Gas Distribution Networks, connecting residences and commercial establishments to such networks; and supplying Consumers with Dry Gas, LPG or SNG.
2. Transporting LPG from its sources to LPG Facilities or to an Independent Gas Distribution Network;
3. Constructing, developing, operating, or maintaining LPG filling and storage facilities.

⁴ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH



4. LPG bulk distribution.
5. Retailing LPG cylinders in designated outlets.

Article (5)

A Person may not engage in any of the Activities without obtaining a License.

Article (6)

A single Person may be licensed to engage in more than one Activity. The Implementing Regulations and the Bylaws shall specify the necessary conditions therefor.

Article (7)

Without prejudice to the powers of other entities, the Ministry shall specify in the Bylaws matters that ensure the achievement of the public interest, including the following:⁵

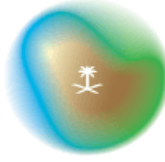
1. The rules regulating the Activities.⁶
2. The requirements for the issuance, amendment, renewal and transfer of Licenses.⁷
3. The fees for each type of License.
4. The categories of Licensees and their responsibilities and obligations.
5. The relationship between Licensees and between Licensees and Consumers.
6. The key performance indicators for Licensees.
7. The accounting procedures and practices a Licensee must adhere to in order to ensure the separation of expenses related to the Activities from other expenses.
8. The procedures regulating the issuance of invoices and collection of payments for services and products provided by the Licensee to Consumers or to any other Licensee.⁸

⁵ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

⁶ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

⁷ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

⁸ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH



9. The relationship between the Licensee and the source of gas supply.⁹
10. The procedures and standards necessary to ensure the provision of services to Consumers and the protection of their rights, including the rights of Consumers to receive high quality and efficient services from Licensees at reasonable competitive prices as well as the procedures for dealing with complaints.¹⁰
11. The controls and procedures governing auditing and inspection procedures for the Activities.¹¹
12. The measures necessary to develop the national industry that supports the Activities, and to increase local content, including jobs, services, manufacturing, and technology.¹²
13. The measures necessary to combat monopolistic practices, create an environment that promotes fair competition, and attract and encourage investments in all the Activities, including prohibiting Licensees from entering into any agreements, making any arrangements, or engage in any practices that may undermine or limit competition.¹³
14. The procedures and controls that ensure the safe supply of Dry Gas and LPG and the amount of consumption that must be available to serve as a strategic stock.¹⁴

Article (8)¹⁵

1. Licenses for the Activities provided for in Article 4 (1,2,3 and 4) of this Law shall be issued by inviting eligible Persons to submit their proposals in accordance with the procedures specified in the Bylaws.
2. A Licensee may, upon the Ministry's approval, use the facilities of another Licensee pursuant to an agreement concluded between them on commercial terms. If the

⁹ Added by Royal Decree No. (M/112) dated 09/11/1443 AH

¹⁰ Added by Royal Decree No. (M/112) dated 09/11/1443 AH

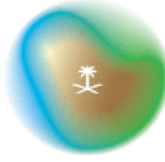
¹¹ Added by Royal Decree No. (M/112) dated 09/11/1443 AH

¹² Added by Royal Decree No. (M/112) dated 09/11/1443 AH

¹³ Added by Royal Decree No. (M/112) dated 09/11/1443 AH

¹⁴ Added by Royal Decree No. (M/112) dated 09/11/1443 AH

¹⁵ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH



Licenses fail to reach an agreement, and such failure affects the provision of service to Consumers, the Ministry may take the measures necessary to ensure the continuity of service.

Article (9)¹⁶

(Repealed)

Article (10)¹⁷

A Licensee shall comply with the provisions of this Law, the Implementing Regulations, and the Bylaws as well as the conditions of his License and the Ministry's instructions and decisions.

Article (11)

LPG Distribution for residential and commercial purposes shall be limited to areas with no Dry Gas Distribution Network, and shall not exceed the daily quantity designated by the Ministry.¹⁸

Article (12)

The Ministry shall set the following in coordination with relevant agencies:¹⁹

1. Technical conditions and specifications relating to Dry Gas installations inside residences and commercial establishments.
2. Specifications for the safe use of Dry Gas by Consumers.

Article (13)²⁰

1. The Licensee shall submit a request to the Ministry to obtain its pre-approval as per the conditions set thereby if he intends to assign, grant, lease, or exchange his License

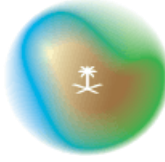
¹⁶ Deleted by Royal Decree No. (M/112) dated 09/11/1443 AH

¹⁷ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

¹⁸ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

¹⁹ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

²⁰ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH



or part of the licensed Activities, transfer in any manner the ownership of primary assets; merge with a third party; engage in a transaction resulting in the acquisition of most of his shares or assets to a third party; or transfer the ownership of his interests or shares which constitute the majority of interests of shares. The Ministry shall decide on such request within a period not exceeding 90 days from the date of the completion thereof. If a decision is not made on the request within such period, the request shall be deemed approved. If the request is rejected, the decision must be reasoned.

2. The primary assets referred to in Paragraph (1) of this Article shall mean all assets the transfer of ownership which undermines the performance of the licensed Activity, including Dry Gas Distribution Networks, Independent Gas Distribution Networks, and LPG Facilities as well as any other assets specified in the Bylaws.

Article (14)

If a Licensee is unable to carry out any of the Activities for which he is licensed, the Ministry shall take the measures necessary to ensure the continuity of service in accordance with the rules and procedures specified in the Implementing Regulations.²¹

Article (15)

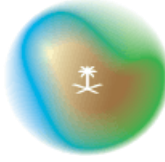
The following acts shall be deemed a violation of this Law:

1. Providing the Ministry with false or misleading data or information.²²
2. Concealing essential information relating to the Activities.
3. Undermining the principles of fair competition.
4. Causing damage to Dry Gas Distribution Networks, Independent Gas Distribution Networks or LPG Facilities, or unlawfully using or connecting to the same.²³

²¹ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

²² Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

²³ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH



5. Violating any of the provisions of this Law, the Implementing Regulations, or the Bylaws; the conditions of the License; or the Ministry's instructions and decisions.²⁴
6. Obstructing auditing and inspection procedures.²⁵

Article (16)

1. Without prejudice to any harsher penalty stipulated in any other law, any Person who violates, or attempts to violate, any of the provisions of this Law, the Implementing Regulations, or the Bylaws, the conditions of the License, or the Ministry's instructions and decisions shall be subject to one or more of the following penalties:²⁶
 - A. A fine not exceeding five million riyals.
 - B. Suspension of the Activity wholly or partially for a period not exceeding one year.
 - C. Cancellation of the License.
2. The amount of the fine for each violation shall be determined on case-by-case basis within the limits stipulated in this Law and pursuant to a table issued by the Minister, taking into account the nature of the Activity and the nature and gravity of the violation as well as any aggravating and mitigating circumstances thereof.²⁷
3. The Committee referred to in Article 17(1) of this Law may:
 - A. Impose a fine not exceeding 10% of the value of the original fine for each day the violation continues after the violator is notified of the Committee's decision;²⁸
 - B. Double the fine imposed on the violator if the same violation is repeated within three years from the date the decision imposing the previous penalty becomes final;²⁹

²⁴ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

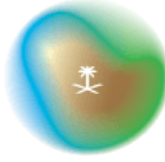
²⁵ Added by Royal Decree No. (M/112) dated 09/11/1443 AH

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²⁷ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

²⁸ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

²⁹ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH



- C. Order the violator to return any amounts obtained as a result of the violation; and
- D. Include in the penalty decision a provision to publish a summary of the decision at the expense of the violator in a local newspaper issued in the area of his place of residence, or if none is available, in the nearest area, or through any other appropriate medium, depending on the type, gravity, and impact of the violation, provided that publication is made after the decision becomes final.

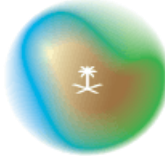
Article (17)

1. A Committee, or more, including two experts in Sharia or law and an expert in the gas industry, shall be formed pursuant to a decision by the Minister for a renewable term of three years. The formation decision of the committee shall name its chairman who shall be an expert in Sharia or law. Committee decisions shall be passed by majority vote and shall be reasoned and approved by the Minister. Such committee shall review violations of the provisions of this Law, the Implementing Regulations, and the Bylaws as well as the conditions of the License and the instructions and decisions issued by the Ministry, and shall impose the penalties stipulated in this Law.³⁰
2. The committee's work rules and procedures shall be determined pursuant to a decision by the Minister.³¹
3. Committee decisions may be appealed before the Administrative Court within 60 days as of the date of knowledge thereof.
4. The Minister shall designate the officials in charge of investigating violations of the provisions of this Law from among the Ministry's employees or others. Said officials shall have the power to enter the facilities of Licensees, and the power to inspect and detect violations, access the violator's records, and obtain a copy of relevant identification documents.³²

³⁰ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

³¹ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

³² Amended by Royal Decree No. (M/112) dated 09/11/1443 AH



5. The Minister shall issue the controls for detecting, establishing, and investigating violations of this Law.³³
6. The Ministry may, if necessary, seek the assistance of competent agencies when detecting violations or enforcing decisions issued against violators.³⁴

Article (18)

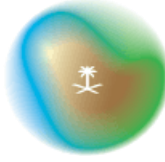
1. If the Ministry finds that a Person has violated, or attempted to violate, any of the provisions of this Law, the Implementing Regulations, or the Bylaws; the conditions of the License; or the instructions and decisions issued by the Ministry, it shall, in exigent circumstances-pursuant to a decision issued by the Minister-take one or more of the following measures:³⁵
 - A. Order the violator to cease and desist the violation.
 - B. Order the violator to rectify the situation and take the corrective measures necessary to address the effects of the violation. If the violator fails to do so, the Ministry may take such measures at his expense.³⁶
 - C. Suspend the licensed Activity wholly or partially for a period not exceeding six months.
 - D. Temporarily assume management of the licensed Activity for a period not exceeding six months, renewable once, to ensure the continuity of such Activity, in accordance with the rules and procedures specified in the Implementing Regulations.
2. The decision issued in this regard shall be enforced as of the date of notifying the violator thereof, provided that the Ministry refers the violation, within 10 business days, to the committee referred to in Article 17(1) of this Law. Said Committee shall review

³³ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

³⁴ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

³⁵ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

³⁶ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH



the violation and issue a decision thereon within a period not exceeding 20 business days; if the committee does not issue a decision within such period or the issued decision is not accepted by the relevant person, he may file an appeal with the Administrative Court in accordance with applicable legal procedures.³⁷

Article (19)

1. The conditions of the License shall specify the provisions governing the devolution of a Dry Gas Distribution Network to the State if the License period expires without renewal. In all cases, the network shall be delivered to the State in a usable condition, with the exception of deterioration resulting from normal use, as specified in the Bylaws.³⁸
2. If the License for a Dry Gas Distribution Network is canceled pursuant to Article 16 of this Law, the network shall be appraised and transferred to a new Licensee through tendering. Any surplus amounts shall be paid to the owner of the canceled License after deducting all claims resulting from violations of provisions of this Law, the Implementing Regulations, and the Bylaws; the conditions of the License; and the Ministry's instructions and decisions.³⁹
3. A decision regarding the network appraisal referred to in Paragraph (2) of this Article shall be issued by the Minister, as specified in the Bylaws.⁴⁰

Article (20)

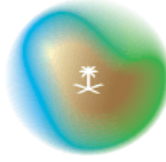
The Minister shall issue the Implementing Regulations within 180 days from the date of publication of this Law in the Official Gazette. The Implementing Regulations shall become effective on the date this Law enters into force. The Ministry shall, in preparing the

³⁷ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

³⁸ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

³⁹ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH

⁴⁰ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH



Implementing Regulations, collaborate with the Ministry of Interior on matters relating to its jurisdiction.⁴¹

Article (21)

1. This Law shall enter into force 180 days from the date of its publication in the Official Gazette.
2. This Law shall repeal any provisions conflicting therewith.

⁴¹ Amended by Royal Decree No. (M/112) dated 09/11/1443 AH