Regulatory Framework for Distribution of Petroleum

1.0 Background

According to the provisions of the Ceylon Petroleum Corporation Act No.28 of 1961, only the Ceylon Petroleum Corporation had gained all the powers to import, export, store, sell, supply, distribute, mix or any other activity related to petroleum and all related products.

Petroleum (diesel, petrol, kerosene etc.) was imported to Sri Lanka and provided to the public only by the Ceylon Petroleum Corporation (CPC), while Ceylon Petroleum Storage Terminal Limited (CPSTL) stored and distributed the fuel. However, at present, fuel-supplying companies such as Lanka Indian Oil Company (LIOC) and Sinopec Energy Lanka (Pvt) Ltd (Sinopec) also competitively engage in the same business, besides the Ceylon Petroleum Corporation (CPC).

Under the supervision of Ceylon Petroleum Corporation, there are 234 Corporation Owned Dealer Operated fuel filling stations (CODO), 674 Dealer Owned Dealer Operated fuel filling stations (DODO) and 93 fuel-supplying centers that are not fuel filling stations. In the year 2003, Lanka Indian Oil Company (LIOC) had entered into the distribution of petroleum in Sri Lanka and this company operates fuel filling stations covering many areas of the Country. 100 Corporation Owned Dealer Operated fuel filling stations (CODO) operated under Ceylon Petroleum Corporation (CPC) had been given to the Lanka Indian Oil Company (LIOC) at the time of inception. Later, they have started 149 Dealer Owned Dealer Operated fuel filling stations (DODO) as well. Similarly, Sinopec Energy Lanka (Pvt) Ltd (Sinopec) a foreign investor has entered the petroleum distribution industry in 2023 and it currently operates around 150 Dealer Owned Dealer Operated fuel filling stations (DODO). Also, several other private companies expect to enter this business in the near future.

In the Ceylon Petroleum Corporation Act, it has mentioned the requirement of obtaining the written permission of the Minister-in-charge of Energy in any activity of importing, exporting, storing, selling, distributing and supplying petroleum and all related products. Currently, competitive companies have entered the petroleum distribution industry and the Ceylon Petroleum Corporation also appears as a competitor in that market. Therefore, the regulatory function for formally maintaining the petroleum distribution market is assigned to the Ministry-in-charge of Energy.

Accordingly, the Ministry-in-charge of Energy has prepared the regulatory framework for the distribution of petroleum through: **Regulating the Establishment of Fuel Filling Stations, Regulating the Construction of Fuel Filling Stations** and **Regulating the Operations of Fuel Filling Stations**.

2.0 Regulating the Establishment of Fuel Filling Stations

When fuel-supplying companies/corporations maintain fuel filling stations for the distribution of petroleum, they must make arrangements to meet the fuel needs of the people of the country in a fair, efficient and public-friendly manner. There, once in three (03) years when the Ministry-in-charge of Energy identifies the need of establishing new fuel filling stations, the fuel suppliers are notified on the approval of the Minister-in-charge of Energy to identify suitable locations for establishing new fuel filling stations and submit proposals to the Ministry, but, on exceptional occasions, a special notification may be issued by the Minister-in-charge of Energy.

Then, based on the following criteria used for regulating the establishment of fuel filling stations, public notices are published by a fuel-supplying company/corporation for the establishment of new fuel filling stations. Then, the completed applications of the selected applicants for the establishment of new fuel filling stations should be submitted to the Ministry-in-charge of Energy with the recommendation of the respective fuel-supplying company/corporation. Then, the permanent officials committee of the Ministry will study the content of the applications under the above-mentioned three (03) areas, recommend the lists of qualified applicants and submit them to the Minister-in-charge of Energy through the Secretary to the Ministry. After that, the list approved by the Minister-in-charge of Energy will be informed by the Secretary to the Ministry to the fuel-supplying company/corporation along with copies to the respective applicants.

2.1 Confirming the Location and the Clarity of the Land

(1) The proposed land for the establishment of the filling station should be a land that does not affected by environmental hazards.

(2) The proposed land should be a land that easily fulfills the criteria of Government institutions that require prior approvals to construct a filling station.

(3) The proposed land should have an area of at least 40 perches. (in a circumstance where this basic requirement cannot be met, considering the public interest of the area, if a request is presented for a land with an area of less than 40 perches, the Ministry of Energy should conduct a special investigation and make decisions in order to construct and maintain a filling station in such a place.)

(4) The length of the proposed land facing the main road should be minimum 125 feet (in cases where the above criteria cannot be met due to the need of a new filling station in urban areas, the Ministry of Energy can make decisions by conducting a special investigation.)

(5) The applicant or the relevant institution should have freehold/leasing right of the proposed land. If the land has been acquired on a lease base, it should be remained for at least 15 years to the applicant or the relevant institution. In an occasion where the proposed land is mortgaged to a recognized financial institution, it is mandatory to obtain a written permission from the relevant institution that there is no objection to this project.

(6) It is the applicant's responsibility to prove the legal ownership of the proposed land. To prove the legal ownership of the proposed land, the deed of the land, plan, title report, papers related to 30 years, certificate of non-possession and street line, recommendation of the Central Environment Authority, the letter issued by the Divisional Secretariat mentioning that there is no objection to the related project and the affidavit submitted by the applicant saying that there are no legal issues related to the proposed land along with the relevant documents after verified by a lawyer with more than 10 years of field experience in the area, the application should be submitted along with a certificate mentioning that the applicant owns the right to the land. (The same lawyer himself should prove his service period.)

2.2 Confirming the Availability of Business Opportunities

(1) Checking the number of vehicles registered under the Divisional Secretariat to which the proposed filling station belongs and number of vehicles registered in the nearby Divisional Secretariat, the traffic density of vehicles on the proposed road, examining the impact on demand and supply of fuel on the relevant filling station.

(2) Studying the information about the population density of the area where the proposed filling station will be established.

(3) Studying the distance to the nearest fuel filling stations from the proposed location, sales and the way these fuel filling stations are located beside the road (side/opposite).

(4) Exploring the development activities and future plans in the area.

(5) Finding the location and connectivity of roads, by-ways and highways associated with the proposed location.

(6) Analyzing the strategic and business importance of maintaining a new filling station at the proposed location.

2.3 Confirming the Financial Capability and Business Skill

(1) The applicant must prove Sri Lankan citizenship.

(2) The applicant must submit a police clearance report.

(3) It is the fuel-supplying agency's responsibility to assess the financial capability of the investor who wishes to build a filling station, and the necessary supporting information should be obtained and confirmed from field reports.

(4) After inspection and approval of the proposed plan and the cost estimate (BOQ) for the filling station by the selected fuel-supplying company/corporation, the applicant should voluntarily give his written consent to make the relevant investment.

(5) The applicant shall sign a special agreement with the fuel-supplying company/corporation regarding the construction work. The construction work must be completed within one year, the license of the fuel filling stations that fail to complete the construction within that period will be canceled and in such a case the applicant has the ability to submit an appeal to the Ministry of Energy by the fuel-supplying company/corporation regarding the extension of the construction period. Re-validation of such licenses shall be done by the Ministry of Energy on the recommendation of the relevant fuel-supplying company/corporation.

(6) Information should be submitted about the other businesses owned by the investor and their nature and the information about the future business plans also should be provided.

3.0 Regulating the Construction of Fuel Filling Stations

Under the regulatory framework for petroleum distribution, regulatory functions of the construction of fuel filling stations will be done after the completion of the regulatory function of establishing the fuel filling stations. Firstly, the fuel-supplying companies/corporations publish the public notices and select the qualified applicants and submitting them to the Ministry, after receiving the approval of the minister, the selected investor will take steps to initiate the establishment of fuel filling stations. Here, the fundamental factors to be followed by the investor in the establishment of the filling station are divided into two (02) main categories as follows.

1. Physical development of the filling station premises
2. Public safety and environmental conservation associated with the filling station

3.1 Physical Development of the Filling Station Premises

Special consideration should be given to public safety and vehicle safety when constructing fuel filling stations. Further, as well as the ability to easily handle the vehicles arriving at the premises, attention should also be paid to the ability to quickly meet the fuel requirement. All other construction activities including buildings should be carried out in accordance with the guidance given by the fuel supplier with proper standards.

3.1.1 Construction of the Building

(1) The building of the filling station should be built as per the specifications given by the fuel-supplying company/corporation.
(2) The approval of the Urban Development Authority and the Central Environment Authority should be obtained for the proposed building.
(3) At the end of the construction, a compliance certificate should be obtained from the relevant institution.
(4) Water, sanitary facilities, rest areas, and other amenities should be provided for the customers and the staff, while ensuring the accessibility for disabled persons.
(5) The canopy constructed to cover the main pumps should be of 16 feet minimum height.
(6) The yard of the filling station should be paved with interlocking stones and the area around the pump should be concreted.

3.1.2 Establishment of Fuel Pumps

(1) A single pump with two nozzles should be installed for a product.
(2) There should be one separate pump for motorcycles and three-wheelers.
(3) Units of measurement for fuel dispensing pumps should be approved by the Measurement Units, Standards and Services Department (Pattern approval).
(4) Manhole and fill caps of fuel tanks should be arranged to be locked.
(5) Manhole and Discharging Point should be painted according to the approved color patterns.

a) Yellow color - petrol 92
b) Blue color - Diesel
c) Red color – Petrol 95
d) Gray Color - Kerosene
e) White color – Super diesel
f) Vertical bar in orange color in the background gray color - Lanka Industrial Kerosene

3.1.3 Establishment of Fuel Storing Tanks and Piping System

(1) At least one tank of 3000 IG capacity for other approved products including 2 tanks of at least 3000 IG gallon capacity for Petrol 92 Octane and 2 tanks of at least 5000 IG gallon capacity for Lanka Auto Diesel should be installed. As well as, all the tanks should be installed underground in accordance with the guidelines given by the supplier.
(2) The oil tank should be checked to ensure that there are no leaks.
(3) The applicant must submit a certificate confirming the pressure test of the underground tank.
(4) The necessary technical facilities (Automated Tank Gauging System - ATG) should be established to automate the filling station with an automatic underground tank gauging system.
(5) After installation, a pressure test should be done and the manufacturer's certificate should be submitted for that.

3.1.4 General Facts regarding the Construction on the Premises

(1) Facilities for the four (04) basic fuel types should be established in the filling station.
(2) There should be separate landing facilities for scheduled fuel landing operations.
(3) A separate vent line/pipe with vapor recovery shall be at a minimum height of 19 feet from the floor.
(4) As per the institutional specifications, GI/UPP pipes of 1.5" diameter shall be laid for pipelines.
(5) A generator with a generating capacity of not less than 15 KVA shall be installed to provide uninterrupted service.
(6) The proposed filling station building and other constructions and fixtures shall be painted as per the approved color scheme.
(7) It is compulsory to maintain air emission pipes in the tank according to the prescribed standard and color schemes.
(8) The filling station premises should be maintained hygienically and cleanly with an attractive appearance.
(9) Installation of air compressor of minimum 3 H.P./3Phase/Digital Air Tower capacity and equipment for nitrogen air facility to provide free air facility to vehicles.
(10) The parking area should be clearly marked.
(11) The track should be constructed of concrete or Inter Locking Blocks and the track should be laid in such a manner that vehicular traffic can be handled without any difficulty.
(12) You are allowed to paint the logo only on walls and use of the logo on letterheads and bills is prohibited.

3.2 Public Safety and Environmental Conservation associated with the Fuel Filling Station

A fuel filling station is a place where there is a risk to the safety of the surrounding environment and the public. Therefore, during the establishment of a filling station, the construction work should be carried out in such a way as to ensure the safety of the public while avoiding risky situations. Fuel and gas leaks can cause fires, explosions and even damage to life and property. Apart from this, other harmful situations like vehicle accidents can also occur. Therefore, it is necessary to take this into consideration and make sure that the construction works are carried out correctly and systematically.

During the establishment of a filling station, the construction work should be done in a way that does not harm the environment, and the possible environmental changes should be kept at a very minimum level. Construction work should be done in such a way that there are no adverse conditions for the surrounding ecosystems and people. The construction work of the filling station should be carried out in accordance with the guidelines of the fuel supplier and the regulations and guidelines of other relevant institutions so that the environment is safe. It is bound to follow the following environmental criteria.

(1) The construction works should be carried out in accordance with the instructions given by the Central Environmental Authority and the relevant government institutions and the fuel supplier, as well as the relevant laws and regulations.
(2) Subject to Central Environmental Authority (CEA) clarifications, the site shall be constructed with a height of 10 feet solid wall adjacent to the side or rear boundary of a residential plot.
(3) The filling station shall be constructed as per the instructions of the Health, Safety and Environment (HSE) Unit of the fuel-supplying Company/Corporation.
(4) The Crossroads connecting main roads and intersections should be provided with reasonable access distances for vehicle entry/exit.
(5) Fuel pumps or other mechanical equipment shall not be installed near public streets or highways.
(6) A raised boundary of at least 1-foot height shall be constructed to prevent vehicular movement on sidewalks and open driveways only at entry-exit points and prevent vehicular entry along street lines.
(7) The guidelines of the Health, Safety and Environment (HSE) Unit of the fuel-supplying Company/Corporation shall be equipped with fire extinguishers and fire protection equipment installed in accordance with the requirement of the relevant laws.
(8) All volatile flammable liquid storage tanks shall be installed below the ground in accordance with the existing requirements rules/regulations.
(9) The environmental impact of water sources in the surrounding area should be assessed before construction begins.
(10) In order to prevent fuel from causing damage to the surrounding environment, prior approvals should be obtained for the proposed method of construction of the filling station, and a formal waste disposal method should also be identified.
(11) Product storage tanks need to be installed as per the guidelines of Central Environmental Authority (CEA).
(12) The land of the filling station must be properly maintained to maintain a dust-free environment. The land should be leveled and sloping places should be avoided.

4.0 Regulation of the Operational Activities of the Fuel Filling Stations

Under the regulatory framework of petroleum distribution, as per the criteria for **regulating the establishment of fuel filling stations and the construction of fuel filling stations**, after the operation of the filling station has been initiated, the responsibility of maintaining the service provision in proper standards and efficiently is transferred to the relevant fuel-supplying company/corporation. It is the full responsibility of the fuel-supplying company/corporation as well as the staff including the owner of the filling station to maintain the operation of the filling station in accordance with the **Regulation of Operational Activities of Fuel Filling Stations**.

4.1 Maintaining Written Records

(1) Should maintain Daily Sales Reports (Separate soft and hard copies of pump and tank dimensions should be maintained for each product.)
(2) A detailed inventory register should be maintained as per the requirement of the fuel-supplying company/corporation regarding the equipment available in the filling station.
(3) Should maintain Customer Complaint Register. Further, the action taken for the complaints should be recorded therein. Complainants should be informed about them.
(4) A log book should be kept at every filling station for the convenience of monitoring by the fuel-supplying company/corporation or any other regulatory body.
(5) It is mandatory to maintain a Calibration Check List Book for the officers of the Measurement Units, Standards and Services Department (MUSSD)
(6) A Fuel Ordering Register shall be maintained.
(7) The fuel-supplying company/corporation shall arrange for the ordering and issuing of fuel through an Information Technology system. It is compulsory to physically maintain the fuel-issued document at the filling station.
(8) The invoice related to the fuel delivered should be maintained separately according to the type of fuel.

4.2 Certifying the Quality of Fuel

(1) It should be ensured at all times that the manhole does not contain water or other waste.
(2) Before unloading the fuel stock distributed by the tankers, it should be maintained the fuel samples with a sealed fuel label, signed by the Tank Driver and the Manager of the Fuel Filling Station which was taken from the respective tanks following a formal procedure, until the stock is sold out within the filling station premises.
(3) To start daily fuel operations, at least two (02) fuel samples should be taken from the fuel tanks and it should be maintained in the premises of the fuel-filling station (Date, tank number and time of sampling should be maintained with sealed labels).

4.3 Customer Service Provision and Awareness

(1) It is essential to treat customers in a friendly and courteous manner. Also, no customer should be discriminated against.
(2) It is compulsory to have a measured 5-liter approved measuring container at the filling station for the relevant inspection purposes.
(3) The filling station staff is obliged to provide it to the relevant party in cases where someone requests it due to customer needs or legal requirements to confirm the correctness of the calibration of the dispensing pumps.
(4) An automatic bill printing facility should be available.
(5) It is the responsibility of the owner/distributor to ensure that the correct quantity of fuel is dispensed from each fuel pump as per daily reports.
(6) Sealing and unsealing of fuel pumps (Fine tuning/adjustments) are the responsibility of the officers of the Measurement Units, Standards and Services Department (MUSSD), and no other party has the legal authority to do so.
(7) Every fuel pump must be verified annually by the Measurement Units, Standards and Services Department (MUSSD), and it is strictly prohibited to issue fuel from fuel pumps that are not verified.
(8) It is the responsibility of the distributor/owner to check the accuracy of the fuel release from the pumps according to a certain time frame by the officers of Measurement Units, Standards and Services Department (MUSSD) and if there is any violation of the relevant laws and regulations, the owner/distributor should take full responsibility.
(9) The fuel supplier shall provide formal training for filling station staff regarding safety and precautionary regulations and procedures.
(10) It is compulsory for the fuel-supplying company/corporation to introduce a program to provide a formal qualification (National Vocational Qualification - NVQ) related to the relevant training and to grade the staff accordingly.
(11) The approved name and the identification logo of the fuel filling station should be properly displayed so that it is clearly visible to the public.
(12) The valid prices of fuel should be properly displayed to the public and invoices should be submitted when necessary.
(13) Uniforms and safety shoes shall be provided by the relevant institution for the fuel filling station staff and it is mandatory for the staff to wear them while performing their duties.
(14) The fuel filling station should be open for 15 hours a day. The product names i.e. Lanka Petrol 92 Octane, Lanka Petrol 95 Octane Euro 4, Lanka Auto Diesel and Lanka Super Diesel 4 Star Euro 4, should be displayed on the respective fuel pumps using international color coding.
(15) The distributor's name and contact details (preferably a mobile phone number) should be displayed in a visible place for the customers.
(16) Opening hours, distance to the nearest fuel filling station, and facilities for customers like telephone numbers, sanitary and ATM should be clearly indicated on the display boards.
(17) A notice board of 20'×10' should be displayed at a proper place in the fuel filling station premises.
(18) Should maintain 30 days backups for CCTV. The CCTV camera system should cover at least 4 sides.
(19) As per the Health Safety and Environment (HSE) unit guidelines, safety notices such as "Do not use mobile phones, Switch off the engine" should be displayed in all 3 languages.

(20) Facilities should be available to purchase lubricants, grease, battery water and water for radiators.
(21) Maximum opportunity should be provided to further facilitate the purchase of goods and services required by the customers.
(22) Fuel-filling station Dealers, Management and Employees are obliged to offer fair, just, and logically provable responses to complaints and representations made by customers.
(23) Distributors, management and employees are bound to operate fuel stations transparently and free from bribery and corruption, subject to the government-approved policies for fuel distribution.

5.0 Evaluating the Performance of the Fuel Filling Stations

The management, employees and supervisors of the fuel filling stations with the best-advanced customer care facilities and equipped with new technology should be motivated by evaluating them through a criteria-based evaluation process conducted annually in District and National Level among the fuel filling stations under the fuel supplier company/corporation.

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