BUSINESS RECORDER
Founded by M.A. Zuberi

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Analyses & Comments by BR Research

Gas sector: planning all over the place

The energy sector complexities in contracts and its mismanagement are cascading not only across the energy chain, but could also have adverse implications in totally different sectors. Recent line packing of gas supply is not going to be a one off issue, as poor planning of the past regime and bad management of incumbents are drying the benefits to be accrued of better hydel flows, new efficient plants and cheaper fuel options.

The improvement and gains to be attained due to better snowfall last year, more rains this season, new hydel generation options, movement to cheaper fuels like coal and having better efficient power plants are not going be accrued; and the higher capacity payments related to new plants and RLNG terminals may haunt to slowdown the economic recovery process.

The current issue of energy management started a few months back when furnace oil was unnecessarily imported, and later weather forecast was not considered in importing RLNG. The higher import of fuel versus less consumption of electricity is resulting in cutting down domestic production of cheap gas; no thanks to poor planning by incumbents and unreasonable 'take or pay' contracts by the predecessors.

The problem of gas pipeline system packing was highlighted in this space couple of weeks back (for details read 'Energy mess to get messier', published on 6th August, 2019). The situation is messier today. The higher import of FO resulted in less use of RLNG power plants as the consumption of energy came down due to economic slowdown, better water availability, and induction of new alternate power generation sources.

That has resulted in SNGPL and SSGC lines packing beyond optimal limits. It has some adverse consequences – curtailment of indigenous gas fields as against optimal pressure of 800-1000 PSI, the pressure is around 1100 PSI in some sections. The lower domestic production is for replacement of higher imported RLNG to oblige term contract 'take or pay' of 800 mmcfd, and that is in addition to average three spot cargos per month.

The need is to re-gasify around 1 bcfd while the firm demand by power sector is of 450 mmcfd for Sep19. The puzzle is how to deploy 350-550 mmcfd RLNG at $11.35/mmbtu without any subsidy. The other problem is that higher import bill has to be paid as domestic cheap gas is to be replaced by imported one.

The utmost need is proper planning of RLNG use. The money saved on demurrages is wasted on opportunity cost of not using local gas. The pressing requirement is to create RLNG storage. A discourse is required to develop on RLNG storage, and proper execution of energy ministry. It is action time!