

### **Crisis of energy**

For the last two or more months, serious problems have emerged in the country's energy sector and led to the managing directors of two gas companies being taken to task. The problems haven't been completely resolved.

Six major developments have taken place in our energy sector. First, the government has banned the import of furnace oil – though KE has been exempted from the ban and is eligible to import 300 tonnes of furnace oil per day. Second, the government has lifted the ban on the export of furnace oil and encouraged oil refineries to export furnace oil. Third, the government has talked tough to oil refineries, asking them to install conversion facilities to convert furnace oil into lighter products such as gasoline and diesel.

Fourth, oil refineries have resisted the government's required solutions as they believe that exports will create logistical issues and incur additional costs. Oil refineries in the country are dragging their feet on the issue. Fifth, the counter-proposal put forward by oil refineries is that furnace oil should be put in a must-run mode – which has never been practised in Pakistan.

Sixth, the prime minister has ordered that the gas shortage must be resolved within one week. The MDs of Sui Northern Gas Limited and Sui Southern Gas Company Limited have been sacked in the wake of the petroleum secretary's report.

Times have changed. The energy sector has become more complex, additional power capacity has been installed, and LNG has been included in the energy mix. Managing the sector was a simple task in the past. In view of the energy crisis, all facilities were operated with very little need for active coordination. The recent problem indicates the growing complexities within the sector. When furnace oil-based electricity production was drastically reduced, it created problems. The decision affected the oil-refining sector as it stopped lifting condensate from gas fields, which consequently decreased gas production.

The recent ups and downs have indicated that the existing bureaucratic and management system has failed. The form of active coordination that is required at this stage cannot be provided in a system where coordination and communication takes place at the apex level and information has to flow from bottom to top. Expertise and policies are required.

Horizontal linkages must be created. The Ministry of Energy was purportedly created for this purpose. However, the two divisions are working in isolation. This is the real problem, not the two MDs who have been held responsible. In this case, both officials are probably as responsible for the situation as anyone else within the system.

Today, furnace oil and oil refineries are at the heart of the problem. Oil refineries don't want to export furnace oil in the short run and drag their feet in installing conversion facilities in the medium run. They also believe that exports will create result in undue transportation costs.

However, the facts are slightly different. Barring Attock and Parco, all refineries are located in Karachi. At best, Parco and Attock may deserve some exemptions in this respect. Parco in the north and Byco in the south could also install common conversion facilities. Alternatively, third points could be selected on two locations.

At this stage, the government ought to commission a third-party study to address the issue. Leaving these matters to oil refineries will only waste time and create confusion. The government has a great deal of leverage and can simply withdraw or reduce the duty or the purchase price of furnace oil to generate a more cooperative and less self-centered attitude.

What's particularly surprising is that K-Electric has been given a quota to import furnace oil. In the past, the company repeatedly resisted the use of furnace oil and offered many justifications for this. But their logic wasn't accepted. Nepra kept issuing strictures and even fined the power company for not running their furnace oil-driven power plants. Now, it seems the situation has suddenly changed.

Things seem to have moved in the opposite direction. There is a surplus in power-generation capacity and more electricity can and should flow from the north to the south. It is pertinent to mention that Karachi should be made part of overall planning and shouldn't be left alone to fend for itself, especially at a time when there is instability in the ownership structure. Similar issues can erupt later as well.

The prime minister's orders on January 8 to immediately address the gas problem are either based on a failure to understand the complexities in the energy sector or the fact that he is aware that some steps have already been taken and a solution is in the pipeline. If the latter is not the case, the PM hasn't been duly briefed about the complications. A major reason for the gas shortage is the high demand during winter.

Earlier, there was no solution due to the limited supplies of gas. Now, we have LNG. Some LNG terminals aren't being utilised to their optimal capacity. Some LNG orders have been cancelled recently due to lack of coordination. So, the simple solution is to increase more LNG during winters. But it takes five weeks to get an additional LNG ship. Through extraordinary initiatives at the top level, the lead time could be reduced.

A gas supply company is needed to handle all gas procurements – imported or local. Local gas and LNG have to be commingled. This won't militate against differentials in tariffs and the price of gas. Gas prices have to be announced every month because the fuel component of electricity is priced and announced on a monthly basis. In addition, horizontal-coordination mechanisms must be introduced, which might be vehemently opposed by the existing bureaucratic system.

Some complications have emerged out of the provincial shares in gas production. A creative method is required to resolve the issue and replace vague statements with a working formula. This is easier said than done. Regardless of whether this is an easy or difficult task, corrective measures must be taken to resolve the issues that we are facing. If we fail to achieve this, similar problems will continuously crop up and more officials at gas companies may have to be taken to task.

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