

Will the gas price impact be treated right?

The gas price revision in the midst of World Cup fever and the last minute amnesty filings did not exactly go unnoticed. But luckily for the government it failed to get as much traction as it warranted, given the quantum of price increase – almost unprecedented in a few cases.

The prices for domestic consumers have gone up by the highest rate, to as high as 235 percent year-on-year. The slab with the highest number of consumers falling up to 100 cubic meters – will face a massive 173 percent hike versus the same period last year. The number comes down to 136 percent when compared to the previous revision which was done in October 2018.

This is one of the rare occasions where the domestic sector has faced the major brunt of the price increase, as previously the domestic sector was by and large insulated or faced a lesser increase as compared to other user categories. That said, the weighted average price at Rs400/mmbtu for domestic consumers is still significantly lower than the cost of distribution at Rs738 per mmbtu.

Strictly speaking in terms of the impact this will have on CPI, one could argue that the authorities could have done better and wiser – than jacking up the price by this much. The current impact of gas price in percentage points comes at 1.33. Should the PBS use its infamous simple average mechanism, the same would go up to 2.1 percentage points – a 56 percent increase from prevailing level. And if the PBS decides to come out improved from next month onwards – the impact could be much lower at 1.64 percentage points – or 22 percent higher from current level.

In all reality though, the real impact would be significantly lower than even the weighted average increase as notified by Ogra, because the domestic consumers have been allowed the benefit of one previous slab. It is rather difficult to put an exact number, but in real terms the impact could well be much lower than 100 percent – assuming that the previous slab benefit would be availed in one fourth of consumption. In all essence, this is a rather conservative estimate – and the actual impact, especially when compared from October 2018, could be much lower.

One wonders, if the PBS could actually work with Ogra to arrive at a rather accurate methodology, than just simple averages. It really should, as CPI number forms the basis for decisions that have a more lasting and telling impact on the economy, that runs in hundreds of billions of rupees, as compared to a 30-something billion rupees of collection from the increase.