BUSINESS RECORDER
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Energy prices: Industries take the brunt

Much focus has been on the energy prices' impact on domestic consumers. Given the quantum of increase in some cases, it is not entirely out of place either. What the consumers could well be facing in the near future is another impact, indirect this time, of inflated energy prices, as the rates for industrial units have gone up as well.

The rupee has shed significant value in the past six months, and the export oriented sectors would have sit well with the events, had it not been for the government's decision to do away with the GST exemption on electricity and gas bills for zero-rated industrial users. The FBR, in the last week of June 2019, had withdrawn all Sales Tax General Orders allowing zero-rating facility on electricity and gas, which is now applicable from July 1, 2019.

Industrial power tariffs

	Industrial (Rs/unit)*	Textile & other zero-rated (cents/unit)
FY11	7.05	8.24
FY12	7.00	7.84
FY13	8.53	8.81
FY14	13.04	12.66
FY15	13.04	12.85
FY16	13.04	12.49
FY17	13.04	12.44
FY18	13.04	11.85
1HFY19	13.81	10.67
2HFY19	10.81	7.50
FY20-E**	12.97	8.775***

*excludes GST

** assuming average increase of 20% for users other than zero-rated

*** Zero-rating on GST withdrawn - no change in base tariff

Source: Nepra, BR Research

Recall that it was only back in January 2019 where the government introduced separate gas and power tariffs for zero-rated sectors, in a bid to boost exports through making the energy prices competitive with the region. Six months later, the scenario has changed and gas tariffs are back to the levels of FY18, having increased by 22 percent from FY19.

Had the GST exemption continued, the year-on-year increase in gas tariffs would have been 5 percent only, despite a 31 percent year-on-year increase in rupee terms. The rupee shed 24 percent value in FY19, which was favorable for the zero-rated sector, almost nullifying the impact of increase, but the party has been spoiled by the withdrawal of earlier GST exemptions.

Industrial gas tariffs

	Industrial (Rs/mmbtu)*	Textile & other zero-rated (USD/mmbtu)
FY11	382	4.47
FY12	465	5.20
FY13	474	4.90
FY14	474	4.60
FY15	474	4.67
FY16	600	5.75
FY17	600	5.72
FY18	600	5.45
FY19	735	4.40
FY20	1021	5.41**

** excludes GST*

*** assuming PKR/USD at 170, inclusive of 17% GST*

Source: Ogra, BR Research

For non-export oriented industries, the increase is more pronounced at 39 percent year-on-year, crossing Rs1020 per mmbtu. This is also the highest year-on-year increase in gas tariffs for industrial consumers, zero-rated sectors included, since at least FY11. The result could well be higher prices of goods sold in the domestic market, and some lost ground on the export front.

The electricity situation is not as clear, as uncertainties surround on treatment of zero-rated sectors, in the recently announced quarterly adjustments of tariffs and for the upcoming FY20 tariff. For simplicity sake, assuming that the government continues providing electricity to zero-rated sectors at 7.5 cents per unit, the price will still go up to 8.8 cents per unit, simply because of the 17 percent GST impact. This is still slightly lower than the average rate of 9 cents per unit in FY19, but the relief extended in second half of FY19 is gone – and the export oriented industries will soon be fighting for space in the ever intense competitive export market.

The analysis has assumed 20 percent year-on-year increase in average industrial tariffs, which is arguable on the lower side. There have been previous instances of higher increase for industrial units – which also happened right after Pakistan entered the IMF programme back in 2013. The local industry enjoyed a short-lived relief in 2HFY19, but the industrial tariffs are now also expected to be back to at least FY18 levels. Some of this impact will definitely be passed on to the end consumers. The IMF's projection of 13 percent average inflation in FY20 is making more and more sense now.

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