

Karachi power situation set to aggravate

ISLAMABAD: The power supply situation is set to aggravate, particularly in Karachi, as K-Electric's financials deteriorate to an extent of its inability to pay fuel bills due to non-payment of subsidies and a freeze on tariff by the government while consumers brave intense humid conditions.

Senior official sources told Dawn that K-Electric had formally conveyed to the federal government that it was not in a position to make payments against gas and furnace oil supplies to the Sui Southern Gas Company Limited (SSGCL) and Pakistan State Oil (PSO), respectively.

They said a meeting of key stakeholders — Minister for Energy Omar Ayub Khan, Sindh Governor Imran Ismail, Special Assistant to the Prime Minister on Petroleum Nadeem Babar, managements of KE and other entities and provincial representatives — reviewed the situation and felt the need for a professional handling of the situation to avert an unmanageable crisis without political considerations.

Mr Babar did not respond to calls and Mr Ayub could not be reached for comments.

KE chief executive Syed Moonis Alvi, however, said positive discussions had been held with the federal government and hopefully the situation was moving towards solutions. Responding to a question, he said the government should notify the tariff hike so that tariff for KE consumers and the national power tariff become equal.

KE tells govt it cannot make payments to SSGCL, PSO

The non-payment of bills to SSGCL will lead to immediate closure of LNG supplies owing to a vacuum in its decision-making following fresh cases filed by the National Accountability Bureau (NAB) against the company's top management. SSGCL is currently providing about 200 million cubic feet per day of gas for 1,000MW of power generation, meaning KE's generation will drop by almost one-third.

As if that is not enough, PSO is also handicapped by over Rs350 billion receivables due to circular debt of over Rs2.2 trillion and suspension of oil supplies on deferred payments by Saudi Arabia.

SSGCL's outstanding bills against KE stand at about Rs14bn and are increasing at a rate of about Rs4bn per month. PSO supplies about Rs6-7bn worth of monthly fuel to KE. A KE default could spill over into public sector entities both in petroleum and power sectors.

As such, the inability of KE to clear its fuel bills "could be a tipping point" for the entire energy sector because public sector power companies were also operating on government support and tight cash flows, a senior official of the energy ministry said.

He said the financial constraints had been part of the KE-fuel suppliers' dismal fiscal situation but aggravated by a recent decision of the federal cabinet to delay notification for about Rs2.39 per unit increase determined by the National Electric Power Regulatory Authority (Nepra) which practically blocked an expected revenue stream.

Based on the Nepra determination, the Economic Coordination Committee (ECC) of the cabinet had in March approved an average Rs2.39 per unit increase in KE tariff to bring it on a par with uniform national power tariff. This tariff has been pending for almost three years (11 quarters). In summers, this works out to be about Rs3bn per month that drops to about Rs2bn or averages out at about Rs2.5bn.

Its application was stopped due to the Covid-19 situation at the time. The ECC again gave a go-ahead for its implementation with effect from July 1 this year, but it was again withheld by the federal cabinet and Prime Minister Imran Khan on the desire of PTI members of the cabinet from Karachi amid floods and loadshedding.

The non-payment of subsidy by the government and freeze on tariff are creating cash flow problems, not only for KE but also for other distribution companies, resulting in a second-tier tariff increase to finance the borrowing costs. KE claims over Rs240bn receivables from the government, including Rs110bn on account of tariff delay and Rs32bn against the Karachi Water Board alone. While there was a dispute over whether the federal or provincial government should foot this bill, there was no disagreement that this amount was payable to KE, an official at the Governor House said.

A KE official said the power utility was borrowing at almost 18 per cent mark-up to finance SSGCL's late payment surcharge and keep its other affairs running and this was again resulting in higher tariff for end consumers.

For the current year, the federal government has kept Rs15bn as tariff differential subsidy in the budget for KE to keep the tariff uniform against an expected gap of Rs72bn at a rate of Rs6bn per month. Likewise, KE was paid Rs25bn as tariff subsidy during the fiscal year ending June 30, 2020 against its claim of Rs48-60bn.

At present, the KE tariff is Rs2.89 per unit (kWh) lower than the rest of the country for almost all commercial categories — temporary residential, all bulk supply tariff, public lighting and residential colonies attached to industrial premises — and all industrial tariff categories.

The KE tariff for residential consumers is Rs1.65 per unit lower than the rest of the country. Its tariff for commercial consumers on less than 5kwatt load in Karachi is Rs1.09 per unit lower than the rest of the country.