

By Zafar Bhutta

Govt overcomes gas crisis at a price

ISLAMABAD: The government has managed to overcome gas crisis, however, it has come at a hefty cost to Sui Northern Gas Pipelines Limited (SNGPL), which suffered a revenue shortfall of Rs73 billion due to diversion of expensive imported gas to domestic consumers in the last two winter seasons.

At present, the Oil and Gas Regulatory Authority (Ogra) notifies the re-gasified liquefied natural gas (RLNG) sale price for SNGPL on a monthly basis whereas natural gas prices for domestic consumers are revised after every six months.

Moreover, there is no mechanism in place at present to recover RLNG price from the domestic consumers.

The gas sale price for domestic consumers is Rs350 per unit but SNGPL has provided RLNG to them at a cost of Rs1,700 per unit, which led to the accumulation of tariff differential of Rs73 billion.

In a desperate effort, the Petroleum Division has approached the Economic Coordination Committee (ECC), seeking permission for the recovery of Rs73 billion from RLNG consumers due to the diversion of imported gas to domestic consumers.

Sources told The Express Tribune that SNGPL faced a revenue shortfall of Rs73.8 billion due to diversion of RLNG to the domestic sector, especially in the last two winter seasons.

The revenue shortfall compounded the impact of reduction in gas supply from different fields with the Covid-19 outbreak, which compelled SNGPL to divert RLNG to meet demand from domestic and commercial consumers from March 2020 onwards. The tariff differential is subject to change based on actual volumes diverted in winter and summer months and the recovery of shortfall during the months.

The Petroleum Division said it was of the considered view that due to the severity of weather in the past winter season, SNGPL was constrained to inject RLNG into the system to meet demand from domestic and commercial consumers, which compounded the problem in the absence of a recovery mechanism whereas under the RLNG ring-fenced pricing, an arrangement for the recovery of RLNG-related shortfall can only be made through a monthly pricing mechanism.

Accordingly, the Petroleum Division submitted different options to the economic decision-making body for approval. The Petroleum Division wants the ECC to allow the recovery of RLNG revenue shortfall through monthly RLNG sale pricing from all consumers.

It submitted a proposal to the ECC, saying that Orga may provisionally allow the recovery of RLNG revenue shortfall considering the month-wise actual RLNG volumes diverted to domestic and commercial sectors and any amount in the deferral account would also be adjusted.

Officials say the best mechanism will be to introduce a weightage average price of RLNG and locally produced gas to enhance supply. But provinces have opposed the mechanism.

Punjab uses imported gas whereas the remaining provinces consume local gas under Article 158 of the Constitution, which provides that gas-producing provinces would have the first right of using their gas. Punjab is mainly dependent on imported gas.

Experts are of the view that the government should immediately ban new gas supply schemes and focus on liquefied petroleum gas (LPG) consumption by domestic consumers.

At present, the government gives cross-subsidy to the domestic consumers. It should subsidise LPG for domestic consumers and locally produced gas should be diverted to power plants, which would help reduce power tariffs.

Secondly, the private sector should be encouraged to import LNG as it would create competition and reduce prices. At present, the government has monopoly over LNG import. The present government allowed the private sector to import LNG in July last year but not a single ship could be brought due to bureaucratic hurdles.

“Due to severity of weather during the past winters, SNGPL was constrained to inject RLNG into the system to meet demand of domestic consumers. As of now, this shortfall has compounded the impact of reduction in system gas from fields with the onset of Covid-19, which has compelled SNGPL to divert gas to domestic and commercial consumers also from March 2020 onwards to meet demand. This has resulted in a revenue shortfall/tariff differential of around Rs73 billion,” said a Petroleum Division spokesperson.

“SNGPL has been selling RLNG to domestic consumers on directions of the federal government to ensure smooth supply at domestic tariffs for the last two years. Total recoverable amount on this account has accumulated to over Rs70 billion now. LNG also had to be diverted to the domestic sector in March, April and May of this year since indigenous gas production went down by around 300 mmcf/d owing to the shutdown of refineries originating from the lockdown-related implications,” said an SNGPL spokesperson.

He said the petroleum ministry had accordingly prepared a framework for the recovery of such differential cost to make the RLNG supply chain and SNGPL sustainable.

“This framework is being taken to the ECC for approval to recover such outstanding differential costs, which is essential for smooth operations of the RLNG supply chain.”