BUSINESS RECORDER
Founded by M.A. Zuberi

28th November, 2018

ECC decision on gas load management

The Economic Coordination Committee of the Cabinet, chaired by Finance Minister Asad Umar, decided against load shedding during winter months; it decided to meet the gas shortage through import of LNG. In line with past practice, it was expected that ECC would approve the gas load management programme after complaints of low gas pressure and supply shortages for the winter months - December to February - began pouring in. Reports also indicated that during the winter months, upcountry residential urban areas would be badly affected given the decision of the PTI administration to provide uninterrupted gas to the five zero-rated industries with the salutary objective of ensuring that the wheels of productive units engaged in exports continue to turn - a decision that would have negative implications on supply of the cheap natural gas to domestic gas consumers.

The Petroleum Division estimated a shortfall in the Sui Northern Gas Pipelines Limited (SNGPL) clientele of a whopping 50 percent in urban Punjab and to a much lesser degree in Khyber Pakhtunkhwa. The decision to approve a gas load management programme as well as to ensure uninterrupted gas to the industrial sector were also taken by the previous administrations and reflect an economic compulsion, with obvious negative political overtones, of successive governments grappling with a widening domestic supply and demand gap.

The obvious proposal under consideration is to shift industry away from domestic gas to Regassified Liquefied Natural Gas (RLNG), and as RLNG is considerably more expensive, to provide it at subsidised rates commensurate with rates at which it is provided to industry in other regional countries thereby enabling Pakistani exporters to compete in the international market. This, in turn, would also enable the government to supply an additional 150mmcfd to domestic consumers at peak consumption hours (during the normal cooking time).

At present, total domestic supply of natural gas is estimated at 2,240mmcfd comprising of 1,175mmcfd of Sui Southern Gas Company servicing Sindh and Balochistan and about 1,060mmcfd in the SNGPL network where domestic demand rises from 500mmcfd in summers to about 900mmcfd in winter. The average cost of domestic gas is around 630 rupees per million BTU (British Thermal Unit) compared to 1350 rupees for equivalent RLNG quantity.

The question today is how much would the government have to dole out in subsidy that it can ill afford given that it has committed to providing: (i) 100 percent RLNG to zero-rated industries during the winter months at a flat rate of 6.5 dollars per mmbtu (with the current rate at 12.5 dollars per mmbtu); (ii) reduced the higher gas price available to Punjab industry by 800 rupees per mmbtu as opposed to gas producing provinces given that Punjab was being supplied with RLNG, while as per the constitution, the gas producing provinces were supplied domestic gas; and (iii) after the winter months starting March to provide a blend of natural gas and RLNG of 50:50 to zero-rated industry that would imply the continuation of a subsidy to industry.

The government raised gas prices by 46 percent in the first week of September, considered to be essential to control the rising circular debt in the gas sector, and then proceeded to reduce gas prices for Punjab-based industries by 54 percent by extending subsidies. It is quite clear that the decision to subsidise gas to industry would be criticised by multilaterals, a decision taken by the previous administration as well, though it reflects the government's greater concern over dwindling exports rather than over the widening circular debt of the gas sector which, in turn, has implications for a rise in the budget deficit.

To conclude, the government is clearly between a rock and a hard place with respect to the gas sector and any decision it takes would leave many dissatisfied and the option it takes would depend on its economic priorities, including the decision whether to seek an IMF package or not.

<u>RECORDER REPORT</u>