DAWN

Raise gas prices or risk circular debt, warn two CEOs

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ISLAMABAD: The gas companies on Monday asked the government to pass on the impact of higher gas costs to consumers to dissolve a Rs123 billion circular debt that had caused a serious cash flow problem for the entire gas production and distribution sector.

The chief executives of two gas utilities — Sui Northern Gas Pipelines Ltd (SNGPL) and Sui Southern Gas Company (SSGCL) — told a Special Committee of the Senate on Circular Debt that the cost of gas had been increasing but sale prices payable by consumers had not been changed by the previous government over the last five years, creating and accumulating deficit. The committee was presided over by Senator Shibli Faraz of PTI.

SNGPL Managing Director Amjad Latif said the gap between the demand and supply of gas fell sharply since March 2015 with the induction of imported liquefied natural gas (LNG). On the other hand he said his company's financials worsened due to a big difference in the purchase and sale price of gas and settlement of two old disputes in courts, putting additional burden of about Rs60bn on his cash flows in just one year.

He said the company was purchasing natural gas from about 40 gas producers at an average rate of Rs629 per million British Thermal Unit (MMBTU) and selling at Rs399 per unit, with a net loss of about Rs230 per unit.

Price differential between system gas and imported LNG is a major contributor to utilities receivables

Secondly, the SNGPL also suffered a financial impact of Rs30bn on account of a dispute on Tal Block that remained under arbitration between 2010 and 2017. Likewise, another Rs23bn burden was caused by a two year (2015-17) dispute over the Sui gas field that went against the SNGPL.

Mr Latif said the SNGPL had total outstanding receivables of Rs165bn as of August 20 against payables of Rs171bn. The major receivables included Rs21bn from power companies, Rs20bn from all other consumers and Rs123bn from government on account of price differential.

He said the Economic Coordination Committee (ECC) of the cabinet had found a solution to the problem and passed on recommendations to the Oil & Gas Regulatory Authority (Ogra) for implementation. The Ogra, he said, had forwarded to the government its tariff determination with about 30 per cent average increase but this could not be notified due to change of government.

According to him, the regulator was required under the law to notify the prices in case of failure of the federal government within 40 days to respond to its determination but the regulator did not do so.

Member Finance of Ogra said the caretaker government had wrote to his organisation to put on hold the tariff increase because it was a major policy decision that should be taken by the new government.

SSGCL Managing Director Amin Rajpoot told the committee that the gas companies would not have faced problems if the price increases had taken place in a timely manner. On top of that, his company also suffered due to about Rs50bn sales tax and income tax refunds. He said the gas companies were required to make timely payments to foreign gas producers because of sovereign guarantees but were not able to recover prices from its consumers.

In this regard, he reported that about Rs55bn was outstanding against the Pakistan Steel Mills and Rs80bn or so against K-Electric. He said the gas utilities were not able to clear dues to state-owned gas producers like Oil and Gas Development Company and Pakistan Petroleum.

Both the heads of two utilities demanded of the new government to increase consumer gas prices as decided by the ECC a few months ago to overcome financial difficulties. They said the issue was not that of the profit and loss as was the case with the power sector where losses were high but a cash flow problem which could be resolved through timely price adjustments.

They said while the system losses of gas companies at around 8pc were higher than international best practices of 5-6pc, these were not a major drain on financials as compared to power sector’s 20-30pc losses that were the source of circular debt.

The committee was told that under the existing practice, if the gas price to consumers was higher than the prescribed price determined by the regulator, the surplus funds result in gas development surcharge and deposited in the public kitty for onward transfer to the provinces. On the other hand, the loss arising out of higher prescribed prices and lower consumer prices had to borne by the gas companies.

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