

# **ECC to weigh huge raise in gas prices to ease circular debt**

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ISLAMABAD: The first meeting of the Economic Coordination Committee (ECC) of the federal cabinet since the election of the Pakistan Tehreek-e-Insaf (PTI) government would today consider a recommendation issued in June by the Oil and Gas Regulatory Authority (OGRA) to triple the price of natural gas supplied to domestic consumers and raise rates for commercial, industrial and power sector users by 30 percent

To be chaired by the Finance Minister, Asad Umar, the ECC would also deliberate on summaries about the impact of circular debt on the energy sector, written by officials of the power and petroleum divisions and the finance ministry. It would discuss the deteriorating financial health of Pakistan State Oil.

The ECC would also decide upon measures to mitigate an emerging shortage of fertilisers and ensure the availability of premium di-ammonium phosphate fertiliser for the forthcoming sowing of the Kharif crop.

An official told The News that the gas price increase recommended in June by the OGRA had been left unaddressed by the caretaker government. Instead of increasing the rate from July 1, it had left the unpopular decision to the incoming elected government.

Both the major gas utilities, Sui Southern and Sui Northern, are suffering from financial difficulties because the previous Pakistan Muslim League-Nawaz government did not increase the prices during the five years of its tenure.

They now want the PTI government to approve the OGRA-recommended gas price hike, passing on extra costs totaling Rs123 billion a year to consumers, to help resolve their worsening internal liquidity crises.

The Managing Director of Sui Northern Gas Pipelines Ltd (SNGPL), Amjad Latif, recently told the Senate committee on circular debt that the company purchases natural gas from about 40 gas producers at an average rate of Rs629 per million British thermal units (MMBTU) and sells it for Rs399 per unit, at a net loss of about Rs230 per unit.

He also said the SNGPL had total outstanding receivables of Rs165 billion as of August 20, against payables of Rs171 billion. The major receivables include Rs21 billion from power companies, Rs20 billion from all other consumers, and Rs123 billion from the government, all on the account of the price differential.

The Sui Southern Gas Co Ltd Managing Director, Amin Rajpoot, informed the Senate committee that his company had suffered due to the payment of Rs50 billion in 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 the cost from their consumers.

He said that about Rs55 billion was outstanding against the Pakistan Steel Mills and some Rs80 billion were due from Karachi Electric. He said the gas utilities were unable to clear the dues of state-owned gas producers like OGDCL and Pakistan Petroleum Ltd.

The participants of the ECC meeting would discuss possible solutions to the menace of circular debt, which has surged to Rs1,155 billion, so as to ease the liquidity crisis faced by the energy industry. The piling debt is responsible for the non-payment of dues to PSO, which is owed Rs325.8 billion, as well as to independent and other power producers. Subsequently, many independent producers have reduced the amount of power they generate.

Currently, the circular debt, loans and liabilities of the power sector include payables of Rs575 billion and loans of Rs580 billion borrowed before power sector debt was parked in the Power Holding Pvt Co Ltd (PHPL).

Balochistan, Sindh and KPK are still subject to power load shedding, not because of any shortfall in electricity generation but because of system constraints and the liquidity crisis arising from circular debt.

The official told The News that a Rs160 billion spike in circular debt was caused a federal cabinet decision in December 2017 to allow the supply of electricity to all feeders, irrespective of whether connected areas were loss making or not.

The official said that the recovery of the billed amount of electricity sold to the consumers stands at 90 percent, which is why the power sector is sustaining losses of Rs120 billion a year. Line losses stand at 18.3 percent, against a permissible 16.3 percent, meaning that the consumers pay Rs196 billion a year to the power sector under the heading of inefficiency and failure to reduce line losses, as well as power theft. The official explained that the 16.3 percent line losses are built in tariff, while the remaining 2 percent of line losses, amounting to Rs24 billion a year, were added to the circular debt.

The official said the power division would seek policy guidelines from the ECC for the formulation of a long term strategy to reduce power sector losses and involve the provincial governments in action against the electricity thieves responsible for annual losses of Rs85-90 billion.

He said the debt office of the finance ministry has been tasked with negotiating a Rs50 billion loan with commercial and Islamic banks, to reduce circular debt and ease the liquidity crisis. Previously, commercial banks had refused to extend the loan because the government was making interest payments on its commercial debts without paying off the principal.

The debt office has resumed talks with Islamic and commercial banks for loans priced at the Karachi Inter Bank Offered Rates plus 0.5, 0.75 and 1 per cent a year.

