

Gas prices

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Amidst protests against the rise in the price of liquefied petroleum gas (LPG), the Economic Coordination Committee (ECC) has decided to keep gas prices unchanged for now – despite stark warnings from the CEOs of the Sui Northern and Sui Southern gas utilities. The government put paid to the Ogra recommendation to triple the gas price charged to domestic consumers, ostensibly to avoid starting off on the wrong foot as it takes the reins of power. The new Finance Minister Asad Umar, however, asked for a report on gas pricing, which is likely to recommend a gas price hike as a solution to a growing circular debt crisis in the gas sector. On Monday, the CEOs of the two gas utilities warned the Senate that the government must increase gas prices to end the Rs123 billion in circular debt that has piled up in the gas sector. The logic is that gas costs had been increasing. The price, however, paid by consumers had remained stagnant over the last five years. The import of LNG since 2015 had resulted in a major change in the cost of ensuring that domestic gas supplies remain stable. SNGPL has claimed that it purchases natural gas for around Rs629 per MMBTU and sells it for Rs399 per unit. The gap is supposed to be covered by government subsidies, of which a major chunk remains unpaid.

This would suggest that gas prices could remain stable if the government finds a way to pay gas subsidies in a timely way. It is important to avoid a circular debt crisis in the gas sector, which would only amplify the energy crisis crippling Pakistan's economy. Gas is integral to domestic and commercial life in the country and it is worth thinking seriously about the impact of a sudden jump in gas prices. However, there is no doubt that the import of gas creates a major challenge in ensuring cheap gas supplies. Gas companies are also asking for the price hike to cover the cost of over Rs100 billion lost due to legal disputes. It is certainly not clear why this cost should be borne by gas consumers. The PTI government will have to differentiate between the cost of gas and the cost of litigation if it decides to increase gas prices. It will also have to determine whether it can continue to subsidise the consumption of gas. Any major increase in gas pricing will be a bitter pill for consumers to swallow – and the LPG-related protests should serve as a warning that the political cost of a price hike will be high. The government has delayed the decision for now. The finance minister's decision to ask for a detailed report for now is a sensible one.