

Gas price: rationale over populism

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There are times when a government has to or rather should rely on economic rationale to make decisions rather than appealing to the populace. The case of increasing gas prices is one of them. Yesterday, the Economic Co-ordination Committee remained unable to decide the matter yet again.

It will not be a popular decision but the bitter pill has to be swallowed sooner rather than later. The best time to take these sorts of difficult decisions is at the beginning of a government's tenure when political capital is at a peak level and the inability of the previous government to take the decision can be utilized as a defence.

For the past five years, the PML-N government refused to pass on the burden of a hike in gas tariffs in total denial of the economic costs that the country's exchequer would have to bear. It then comes as no surprise that the percentages have dramatically increased over the years and the gas regulator Ogra, has proposed a hike of almost 44 percent and 31 percent for SNGPL and SSGC respectively according to a research note by Arif Habib Limited (AHL)

Had this been done in a timely manner and increased on a yearly basis, the decision would not pinch as much as it would now. Unarguably, the hardest hit will be the domestic consumer segment but bear in mind that this is the most inefficient segment.

One primary reason for its inefficiency is in fact the unrealistically low tariffs provided to domestic consumers, which has encouraged wasteful consumption of the precious resource. It should also be noted that the majority of domestic users utilize alternative fuels given that the gas distribution network does not cater to these.

As this newspaper had predicted before, a hike in domestic gas prices would be interpreted as "an act of evil" by many and the recent illogical view expressed in many of the dailies confirms the prediction. ("Read: Step up the gas (price) now" published June 27, 2018)

What they have failed to take into account is the fact that both SNGPL and SSGCL cannot become financially sustainable unless the gas prices are rationalized. These utilities buy gas from producers based on oil indexation so the purchase price has been increasing whereas the selling price has remained stagnant.

This has in turn led to a massive increase in payables of both gas companies which has played a big role in the circular debt crisis. The negative differential margin has also led to need for borrowing to finance gas infrastructure projects.

There is also the fact that the share of R-LNG will steadily increase in the overall energy mix of Pakistan. This is evident from the projections made by the Oil and Gas Regulatory Authority (OGRA) in its recently released annual report. The shortfall will reach almost 4000 mmcfd by FY19-20 and the gap will reach almost 6,611mmcfd without imported gas by FY2029-30.

The need of the hour is to implement the increase in gas price and adopt a weighted average pricing mechanism to reduce cross-subsidisation. Moreover, as far as subsidies go, the federal government does not have the fiscal room available anymore to placate future domestic gas consumers.