DAWN

# Next ECC meeting to weigh economic, political costs of gas price hike

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ISLAMABAD: The upcoming Economic Coordination Committee (ECC) meeting of the Cabinet would be at pains to balance the economic and political costs among various consumer categories and groups following a 46 per cent increase in gas price determined by the Oil and Gas Regulatory Authority (Ogra).

The massive increase has come after four years. Under Ogra law, the gas prices should be revised bi-annually, preferably on first of July and January.

The domestic gas prices are linked with international oil prices. Low international prices during last few years provided an opportunity to previous government in keeping consumer prices unchanged as it also kept the exchange rate generally stable.

On top of that, a series of disputes over unaccounted for gas (UFG) losses of the two gas utilities — Sui Northern Gas Company Limited (SNGPL) and Sui Southern Gas Company Limited (SSGCL) — were also undecided in various high courts.

Ogra, regulatory authority responsible to determine prescribed prices for the two gas utility companies also suffered the quorum challenges. Additionally, originating during PPP government, it remained under probe of the National Accountability Bureau and the Supreme Court of Pakistan.

On more than one occasion, Ogra determined higher consumer end tariff but the government was reluctant to pass this on to end consumers. The law requires government to notify Ogra with modifications on how it wants to subsidise or cross-subsidise price adjustment among various consumers within 40 days without changing the overall revenue determined by the regulator.

The law also requires the prescribed price determined by the regulator to be notified by the regulator itself in case of failure of the government to change the prices. Since the due process was not followed, both the then government and the regulator had legally breached the prescribed Ogra law on this count.

A senior executive at one of the gas utilities said both the government and Ogra were in violation of the law for a continuous 4th year. In the process, the SNGPL had suffered an accumulated loss of about Rs125 billion compared to Rs80bn loss of SSGCL. He wondered why gas prices could not be increased by the caretakers when they repeatedly increased oil prices.

A few factors jointly played a critical role in determining the higher gas increase i.e. up to 186pc. These include an increase in international oil prices, production of natural gas from some of the new fields which are based on a significantly higher producer prices under 2012 petroleum policy instead of 2001 policy based old fields now on declining trend.

A sudden jerk in the exchange rate during last year along with the culmination of court cases, of which some are 7-8 years old, played a significant part in delaying the proposed increase. For example, the SNGPL had an additional financial impact of Rs30bn on account of a dispute on Tal Block that remained under arbitration between 2010 and 2017 and finally went against SNGPL.

The dismantling of the Mari Gas formula about two years ago also had a lagged impact on the revenue requirement of the gas utilities.

Under a lot of pressure from the PML-N government, Ogra commissioned an independent study allowed for 7.6pc UFG losses in consumer tariff instead of the previously held 4.5pc rate but the process was not be completed during the tenure of the PML-N government as the regulator had to clear a backlog of almost four years in just one year.

As a matter of principle, Ogra should have determined the prescribed prices for the two gas utilities latest by May 20 so that it could become effective as of first of July. Instead it concluded the process on June 21 with fresh determination and forwarded it to the caretaker government.

The 40-day deadline was due in the first week of August but the caretakers asked petroleum division and Ogra to put on the notification in writing because it was a major political decision which should be taken by the upcoming elected government.

While determining the latest prescribed prices for gas utilities, the regulator said it had taken into account increased proportion of LNG in the system, local constraints and legal challenges arising thereof and concluded that all consumers should at least pay the average cost of service or the average prescribed prices.

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