Agricultural land consolidation

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ISLAMABAD: The government is all set to increase effective gas prices for non-protected domestic consumers by up to 129 per cent, bulk 25 per cent, commercial 136 per cent, export industry 71 per cent, non-export industry 117 per cent, CNG 144 per cent, cement 193 per cent and Liberty Power 62 per cent, sources close to Secretary Petroleum told *Business Recorder*.

To be applicable from October 1, 2023, there will be no change in gas prices for protective category of domestic consumers, Roti Tandoor and feed gas of Engro's fertiliser plant.

However, fixed rate for those protected consumers has been increased from Rs 10 to 400(3900 per cent), non-protected domestic consumers using up to 600 MMBTU to Rs 1000 from Rs460 (117 per cent) and up to 3100 MMBTU to Rs 2000 from Rs 460(335 per cent).

Gas tariff and reforms—I

OGRA determines annual revenue requirements of both Sui companies in accordance with the respective licence conditions, Natural Gas Tariff Rules 2002 and Section 8 of the OGRA Ordinance 2002.

OGRA issued its determination of Estimated Revenue Requirements (ERR) for FY 2023-24 on June 02, 2023 for both SNGPL and SSGC. According to the determination, SNGPL required revenue of Rs.358 billion and SSGCL required revenue of Rs.339 billion in FY 2023-24.

Pursuant to Section 8(3) of the OGRA Ordinance 2002, the federal government was required to advise OGRA to revise the consumer gas prices in accordance with the government policy with effect from July 1, 2022 within 40 days of determination of OGRA. However, the revision in consumer gas prices could not be done as of date.

Due to price inaction, the Sui Companies have already carried the revenue shortfall for the period July to September 2023. Section 8(3) of OGRA Ordinance requires the federal government to ensure that the sale prices so advised are not less than the revenue requirement(s) determined by the Authority. However, the consumer gas prices have not been adequately revised consistent with OGRA's determination since FY 2013-14. This has resulted in accumulation of revenue shortfall/ tariff differential amounting to Rs. 878 billion, i.e., SSGCL Rs. 450 billion and SNGPL Rs 332 billion as of June 2023.

This is part of petroleum sector's total circular debt stock (excluding late payment surcharge of approximately Rs. 2,100 billion). Price inaction until June 2024 will lead to revenue shortfall of Rs. 185 billion on natural gas only. Companies have already carried a revenue shortfall of Rs. 46 billion for the period July to September, 2023. On the other hand, the deficit on RLNG diversion of Rs. 210 billion is anticipated during this winter, bringing the total shortfall to Rs.395 billion.

The sources said natural gas reserves of the country are depleting at a CAGR of 5-7%. Petroleum Division has devised a tariff proposal for all consumer categories and intends to generate surplus revenues over the revenue requirements of Sui Companies to maximize coverage of anticipated diversion of RLNG to domestic consumers during winter months in the absence of any budgeted subsidy and industry tariff rationalisation, thus stopping the flow of circular debt.

Domestic (Residential): The gas sector has no budgeted subsidies, and affordability for certain consumer categories is to be ensured through cross subsidy funded by surplus revenues created in other consumer categories. The average prescribed price of each molecule is Rs. 1,291/mmbtu but the protected category of domestic consumers is still paying a tariff of Rs.121/ mmbtu to Rs.250/mmbtu in 4 consumption stabs. There will be no increase in tariff for the protected category (57% of the domestic consumers); however, the fixed monthly charge is proposed to be increased from Rs.10 to Rs.400 for this category. The tariff for non-protected domestic consumers will have marginal increase in initial slabs with progressivity in tariffs for onward stabs until the highest consumptions where tariff will be aligned with that of LPG cost. This is in order to curb unbridled consumption while urging those who can afford to switch to alternate fuels to conserve gas. The previous slab benefits are being maintained up to consumption of 4 hm3. There shall be no previous slab benefit in the last slab of non-protected domestic category. The non-protected category fixed charge is proposed to be increased in 2 slabs; fixed monthly charge for consumption up to 1.5 hm3 will be Rs. 1,000 while Rs. 2,000 for exceeding consumption of 1.5 hm3 (currently Rs.460 per month for both proposed stabs).

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                Proposed Sales Prices I Tariff for Domestic (Residential)
Consumers
==================================================================================
                           Existing        Revised          Effective tariff
Fixed monthly
Slabs                        Rates           Rates              (Rs./mmbtu)
charge (Rs.)
                         (Rs./mmbtu)        w.e.f.          Existing      Revised
Existing      Revised
                                           01.10.23
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Protected

Up to 0.25 hm3	121	121	121	121
Up to 0.5 hm3	150	150	136	136
10 400				
Up to 0.6 hm3	200	200	158	158
Up to 0.9 hm3	250	250	217	217

Non-protected

Up to 0.25 hm3	200	300	200	300
Up to 0.6 hm3	300	600	258	475
1.000				
Up to 1 hm3	400	1,000	340	760
Up to 1.5 hm3	600	1,200	467	1,067
460				
Up to 2 hm3	800	1,600	650	1,300
Up to 3 hm3	1.100	3,000	900	2,067
2.000				
Up to 4 hm3	2.000	3,500	1.325	3,125
above 4 hm3	3.100	4,000	2,220	4,000

Tabte-V

Revised Gas Tariff for Other Cateeories of Consumers

Category		Existing Rates Rs./mmbtu	Revised Rates
Bulk		1,600	2.000
Sp. Commercial (Roti Tandoor)		697	697
Commercial		1,650	3.900
Power	Power (KE. SNPC. EPQL)	1,050	1,050
	Liberty	2.406	3.890
	Feed (Engro)	200	200**

Fertilizer	Feed (FFBQL)	510	580
	Fuel	1,500	1,580
(Cement	1,500	4.400	
Export Ind.	Process	1,100	2,050
	Captive	1,100	2,050
Non-Export Ind	Process	1,200	2,600
	Captive	1,200	2,600
CNG	1.805	4.400	

*The Gas price of Liberty Power is based on HSFO linked formula and not fixed by the Government

**Engro Fertilizer Ltd (New Plant) has a claim of extended period for feed gas concessionary tariff of US$0.7/mmbtu due to non-supply of gas by SNGPL and Sindh High Court has granted stay order to maintain the status quo.

The effective rate for bulk domestic and Special l Commercial (Roti Tandoor): The tariff for bulk consumption has been proposed to be increased from Rs 1,600/mmbtu to Rs2,000 mmbtu whereas there will be no change in tariff for Special Commercial (Roti Tandoor) category.

Commercial Sector: Piped gas is an urban phenomenon covering only 30% of the country's population. The rest of the population is already using LPG as an alternate fuel. 51% of the commercial consumers on piped gas are paying RLNG prices whereas 49% are paying natural gas prices. The existing tariff is proposed to be revised from Rs. 1,650/mmbtu to Rs. 3,900 /mmbtu which is still a discount on the switching value of LNG or LPG. This rate shall be applicable to all commercial consumers, irrespective of natural gas or RLNG use, to create a level playing field for all commercial consumers.

Power Sector: There are very few power plants operating on Sui companies' network while most of the plants are on dedicated gas supplies and RLNG. Considering the increasing cost of generation due to fuel mix, there shall be no change in gas tariff for power generation to avoid any burden on domestic consumers of power sector.

Industry Export (Process and Captive): Currently, there is wide price disparity between the industry operating on SSGCL and SNGPL networks. Industry in north (operating on SNGPL network) consumes 50:50 blend of indigenous and RLNG for 9 months (Mar to Nov) and 100% RLNG for 3 months (Dec-Feb), averaging to current tariff of $9.6/mmbtu (-Rs. 2,790) over the year. On the other hand, process connections of industry in south (operating on SSGCL) is being charged at Rs. 1,100/mmbtu. SSGC has recently started supply of blend in proportion of 75:25 for captive use of gas which approximates to $5.9/mmbtu (-Rs. 1,710). The industrial tariff is aimed at (i) Promoting exports and industrial production by incentivizing the sector despite the higher component of RLNG and rising cost of both natural gas and RLNG; (ii) eliminate discrimination and create a level playing for existing and new players to encourage industrialisation; and (iii) to minimize the disparity between the industries operating in North and South. The natural gas tariff for export industry, both process and captive connections, shall be revised to Rs. 2,050/mmbtu across the country. The estimated blended cost shall be raised to $7.5-8/mmbtu (-Rs. 2,200-2,300) in South, i.e. industry on SSGC network, and shall be maintained at $9-9.5/mmbtu (-Rs. 2,610-2,760) in North, i.e., industry on SNGPL network over the year at current USD PKR parity and LNG rates. Both the Sui companies will be allowed to provide affordable yet sustainable blends of natural gas and RLNG to further rationalise the prices in North and South regions.

The Sui companies shall offer blended gas based on the availability of natural gas and RLNG while prioritising higher natural gas allocation to export consumers. The blended tariff shall be applicable to all existing and new consumers.

Industry non-export (Process and Captive): Currently, the industry in North is charged full RLNG tariff of $12.5/mmbtu (Rs3,650) whereas similar industry in South is being charged a tariff of Rs1,200/mmbtu for process use and blended tariff of $5.9/mmbtu (Rs1,710) for captive use. In order to minimise the disparity in tariff, the non-export industry is proposed to be charged Rs. 2,600/mmbtu for natural gas throughout the country. The Sui companies shall offer blended gas based on the availability of natural gas and RLNG.

From now onwards, SNGPL shall offer blend of natural gas and RLNG in 60:40 ratio to the export industry while 20:80 ratio to the non-export industry out of the estimated volumes for industrial consumers; both process and captive as per petitions filed by SNGPL to OGRA for revenue determination. The blends offered by the Sui companies shall be reviewed every quarter based on availability of natural gas and RLNG.

From now onwards, SSGC shall offer blend of natural gas and RLNG of 90:10 out of the estimated volumes for industrial consumers - both process and captive as per petitions filed by SSGC to OGRA for revenue determination. The blends offered by the Sui companies shall be reviewed every quarter based on availability of natural gas and RLNG.

CNG and Cement Sectors: As the country continues to struggle with the chronic gas shortages, use of natural for CNG generation is inefficient and is responsible for trade and fiscal deficits arising in other consumer categories. The proposed price of Rs. 4,400/mmbtu approximates 80% of equivalent petrol cost. Similar price is proposed for cement sector which is only 0.4% of total natural gas supplies for FY 23-24. This is in order to promote switching to alternate fuels. This shall be applicable on any piped gas (natural gas or RLNG) to be supplied to the consumers under this category.

Fertiliser Sector: Historically, the price for the feed gas is kept lower so that farmer could get urea at affordable prices. Since majority of fertiliser plants are on MPCL network where proposed prices for feed and fuel are Rs. 580/mmbtu and Rs. 1,580/mmbtu, respectively, the same prices have been proposed for feed and fuel for fertiliser plants on Sui network (FFBQL and Engro).

Petroleum Division is of the considered view that the revision of sale prices/ tariff should be consistent with the revised revenue requirements of OGRA as per the legal provision in the OGRA Ordinance, 2002 so as to stop the flow of circular debt.

In order to ensure transfer of surplus revenues created in one Sui due to uniformity of consumer gas prices across the country but different mix of natural gas and RLNG with both the Sui's - SNGPL and SSGC - would enter into "cost of gas equalisation agreement". OGRA would consider the inter-company adjustments under this arrangement while determining the revenue requirements of Sui companies once the Agreement is executed between the Sui Companies. The surplus revenue would be considered in the determination of Revised Estimated Revenue Requirements (RERR) by OGRA in its mid-year determination by way of revision of prescribed prices besides allowing SNGPL to meet tariff differential in RLNG diversion to domestic sector.