



THE GAS SYSTEM in PAKISTAN



Dr. Nadeem ul Haque
(VC PIDE)

GAS Sector Challenges

Demand Mismanagement

- Highly Subsidised Prices for some Sectors
- Politically Motivated Gas Allocation & Management Policies_ Preference to Domestic Consumers
- Inefficient Use of Gas

Insufficient Supplies

- Indigenous Resources Depleting
- LNG Imports Increasing
- Winters_ RLNG diverted to Subsidised Domestic Consumers

Inefficiencies

- Unaccounted For Gas (UFG) 7 times of world average; SNGPL (11.8%) & SSGCL (17.8%)_ 1% UFG costs around Rs 1.7 Billion
- Difference in Electricity & Gas Tariffs leads to Misallocation of Energy Resources

Over Regulated

- Consumer Prices are Government Controlled
- Uniform Pricing across Country
- All Operations (Upstream and Downstream) under Government Control

SNGPL & SSGCL

- No Business Model
- Monopolies with Guaranteed Rate of Return on Assets.
- No Mechanism to link their Financial Returns to their Operational Efficiency

Circular Debt

- Gas Companies Costs Going Up_ RLNG; Prices are much below Costs for Some Consumer Categories.
- High UFGs
- Delays in Price Notifications

No Competitive Gas Market

Key Messages

Arif Hameed
(Former MD,
SNGPL)

- ❖ OGRA should take the lead to monitor the leakages and determine cost-effective prices for gas companies.
- ❖ No more gas allocation based on political preferences.
- ❖ Focus on the maintenance of the distribution network and install high-quality measurement devices to address the UFG issue. No more pipeline expansion.
- ❖ Despite having 42% of private shares in SNGPL, there is one independent director on the board. Remaining ten directors are from the government with no technical knowledge; they are reshuffled quite often.

Muhammad Arif
(Member Gas,
OGRA)

- ❖ OGRA will try its best to control for UFGs but needs cooperation from the government of Pakistan and the two gas companies.
- ❖ There are many efficient ways to resolve the UFG issue_ lease out the particular area where there is a problem to a private party. Sell gas in bulk to the private company and let that company handle theft, collection, service and distribution.
- ❖ Profit-making companies e.g., OGDCL should not be privatised.

Sheikh Imran ul Haque
(Former CEO,
PSO)

- ❖ Empower the regulator and regulator has to lead the competitive market development.
- ❖ Empower the two companies through independent board directors; unbundling is good but it needs time.
- ❖ New business model for the gas companies and let the professionals lead.
- ❖ Recent buying of LNG in the spot market is more expensive than the Qatar LNG. There is an opportunity; as global LNG markets have turned. Re-visit the long-term contracts, as many other countries are doing and negotiate 25% of the contracted volume that is going to be available in the next few years.
- ❖ No need for two parallel energy systems for domestic consumers or for industry. Gas is not cheap anymore; it should be used where it can add value.

Shahid Sattar
(MD APTMA
& Former
Member
Energy
Planning
Commission)

- ❖ Prioritise exploration activities_ not only right well-head prices but also minimum government interference.
- ❖ Outsource retail activities to a private company and SSGCL and SNGPL continue with the pipeline business.
- ❖ Competitive Market for Gas_ allows for the bilateral trading in the gas market.
- ❖ The add-ons to imported LNG in Pakistan are very high because of so many entities involved; this inefficiency also needs attention to minimise the final cost of LNG.
- ❖ Some balance is required in gas and electricity prices, to minimise the misallocation of energy resources.
- ❖ We need leadership to bring our energy system out of this existential crisis.

General emphasis on:

- ❖ Single independent regulator for all gas system activities_ upstream, midstream and downstream. No more government interference.
- ❖ In the guaranteed rate of return formula, there is an incentive to expand pipelines, while there is no incentive for maintaining the existing ones. There is a need to shift from the guaranteed return to efficiency-based returns. It is the job of the regulator to come up with the new mechanism.
- ❖ Consumer tariff should be on the cost of service basis for an efficient gas sector. A direct subsidy is a more effective tool_ there is an option of BISP for life-line consumers and export promotion programmes for the industry.
- ❖ OGRA has to take lead to make some structural changes in the system.
- ❖ Before unbundling we as a nation must agree on how to manage energy systems.
- ❖ Our political economy needs to be educated by our technocrats. There has to be a will & capacity to implement what is suggested by the technocrats.



https://www.youtube.com/watch?v=cMtTMOXlhWY&feature=emb_logo

Prepared BY

Afia Malik (Senior research Economist, PIDE) and

Saba Anwar (Research Economist, PIDE)



Design and Edited by Hafsa Hina



www.pide.org.pk



webinars@pide.org.pk



92-51-9248051



92-51-9428065