Energy

ECC Approves Gas Price Hike Ahead of IMF Review

- On October 23th, 2023, the Economic Coordination Committee (ECC) gave its long-awaited approval for a gas price hike to take effect from November 1st, 2023. This will be presented to the federal cabinet for final approval after which OGRA will notify the gas tariff.
- To highlight, fixed charges for protected and non-protected consumers has also been increased to PKR 400/month and PKR 1,000-2000/month (depending on slab) from PKR 10/month and PKR 460/month respectively.
- Gas tariff for protected consumers remained unchanged while for non-protected domestic consumers tariff has been raised by up to 173%. Tariff for CNG, commerical, non-export, export and fertilizer has gone up by 144%, 136%, 117%, 86% and 14% respectively.
- Gas charges represent almost 1% of the urban CPI index. With the said increase in gas prices, we expect overall 0.5% increase in CPI reading. Gas price hike is also likely to curtail furture buildup in gas circular debt

ECC gives nod for gas tariff hike after much delay

On October 23th, 2023, the Economic Coordination Committee (ECC) gave its long-awaited approval for a gas price hike to take effect from November 1st, 2023. The revision in gas prices was suppose to take effect from 1st-July-23. This will be presented to the federal cabinet for final approval after which OGRA will notify the gas tariff.

After much delay, the approval comes just a head of the IMF review where gas price increase was one of the targets which had to be met. Gas price hike is also likely to curtail furture buildup in gas circular debt.

Fixed Charges: To highlight, fixed charges for protected and non-protected consumers has also been increased to PKR 400/month and PKR 1,000-2000/month (depending on slab) from PKR 10/month and PKR 460/month respectively.

Domestic - Gas tariff for protected consumers remained unchanged while for non-protected domestic consumers tariff has been raised by up to 173%

Other Categories - Tariff for CNG, commerical, non-export, export and fertilizer has gone up by 144%, 136%, 117%, 86% and 14% respectively.

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Exhibit: Revised gas prices approved by ECC
Revised Gas Tariff for Domestic (Residential) consumers

in PKR/mmbtu	Existing	Revised	% Change
Protected*			
Up to 0.25 hm3	121	121	0%
Up to 0.50 hm3	150	150	0%
Up to 0.60 hm3	200	200	0%
Up to 0.90 hm3	250	250	0%
Non-Protected**			
Up to 0.25 hm3	200	300	**50%**
Up to 0.6 hm3	300	600	**100%**
Up to 1.0 hm3	400	1,000	150%
Up to 1.5 hm3	600	1,200	100%
Up to 2.0 hm3	800	1,600	100%
Up to 3.0 hm3	1,100	3,000	173%
Up to 4.0 hm3	2,000	3,500	75%
Above 4.0 hm3	3,100	4,000	29%

Source: MoF, IGI Research, *Protected Category (up to 0.5hm3) to pay fixed charge of PKR 400/ month, ** Non-Protected Category to pay fixed charge of PKR 1,000-2,000/month

Exhibit: Revised gas prices approved by ECC
Revised Gas Tariff for other catergories of consumers

in PKR/mmbtu	Existing	Revised	% Change
Bulk	1,600	2,000	25%
Special Commercial (Roti Tandoors)	697	697	0%
Commercial	1,650	3,900	136%
Power (KE, SNPC, EPQL)	1,050	1,050	0%
Power (Liberty)	2,406	3,890	62%
Fertilizer (Feed - Engro)	200	200	0%
Fertilizer (Feed - FFBL)	510	580	14%
Fertilizer (Fuel)	1,500	1,580	5%
Cement	1,500	4,400	193%
Export (Process)	1,100	2,050	86%
Export (Captive)	1,100	2,050	86%
Non-Export (Process)	1,200	2,600	117%
Non-Export (Captive)	1,200	2,600	117%
CNG	1,805	4,400	144%
Weighted Average	**914**	**1,397**	**53%**

Source: MoF, IGI Research,.

Fertiliser sector likely to pass on incremental gas prices to consumers, negative impact of revised gas tariff on cement companies and other with gas-based captive plants

Fertilizer: Gas prices for fertilizer sector has been increased to PKR 580/mmbtu and PKR 1,580/mmbtu from PKR 510/mmbtu and PKR 1,500/mmbtu for feed and fuel gas respectively. Fertilizer sector is likely to pass over the impact of gas price increase to end consumer. For EFERT, the impact will be minimal where we estimate the Company to increase the price by PKR 100/bag as it is already being charged gas on PP12 pricing for 30% of its feed gas. For FFC which is procuring feed gas from MARI at PKR 302/mmbtu will likely increase the price by PKR 500/bag.

Cement: Cement sector witnessed highest increase in gas prices by 193% to PKR 4,400/mmbtu from PKR 1,500mmbtu. Gas is mostly utilized by cement sector for captive power plants where manufacturers in North are already on RLNG. Except for LUCK and CHCC, most companies have a relatively minimal reliance on gas-based captive plants. We expect LUCK and CHCC are likely to pass over the impact of gas price hike to end consumer.

Chemical: Under Chemical sector, EPCL and LOTCHEM reply on gas for their captive power plants. For EPCL gas price has been increased from PKR 1,200/mmbtu to PKR 2,600/mmbtu. For LOTCHEM, gas prices have inclined from PKR 1,100/mmbtu to PKR 2,050/mmbtu. We expect negative impact on EPCL and LOTCHEM earnings where the Companies would have to raise PVC and PTA prices respectively to reduce the impact of gas price increase.

Oil & Gas exploration: E&P sector is likely to benefit from gas price increase which has been marred by substantial rise in receivables. OGDC and PPL are most impacted by gas circular debt with receivables of PKR 511bn and PKR 465bn respectively as at Jun-23. As gas revenue contributes nearly 41% and 62% for OGDC and PPL respectively, the gas price increase will ease cash flow position for both companies and result in improved payouts going forward.

Oil & Gas Marketing: Among OMC sector, SNGP, SSGC and PSO remain most effected by gas circular debt. PSO's receivables from SNGP piled up to PKR 298bn while short term borrowings stood at PKR 423bn as at Jun-23. PSO receivables have piled up due to RLNG supplied to sui companies. Going forward, we expect improved recoveries for SNGP and SSGC post gas price hike and resultantly improve cash position and payouts for both sui companies and PSO.

Textile: Gas prices for Textile sector have increased to PKR 2,050/mmbtu from PKR 1,100/mmbtu (up by 86%). Although north based manufacturers are being provided gas at blended rate, south based manufacturers are likely to take a higher hit of gas price increase which is likely to negatively impact earnings.

Gas price increase to curtail buildup in gas circular debt

Increase in gas prices is likely to curb future buildup in gas circular debt which has been piling up due to rise in oil prices and PKR depreciation while the impact was not passed over to end consumer. We expect positive cash flow impact going forward for OGDC, PPL, SSGC, SNGP and PSO as a result of gas tariff hike.

Direct Inflation impact to be limited, indirect impact to follow later

Gas charges represent almost 1% of the urban CPI index. With the said increase in gas prices, we expect overall 0.5% increase in CPI reading. Furthermore, indirect impact of gas price will likely follow in the coming months. As a result, we anticipate that the overall average inflation rate will cross 24% for FY24.

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