

## Energy

### Revised Gas Prices and CDMP Envisages To Curb Build Up In Circular Debt

- Revised gas prices hike and CDMP approved by ECC to curtail flow in circular debt. Measures taken will substantially reduce flow of circular debt in FY23
- Revised gas prices will be in effect from January 1st, 2023 for the following six months and are projected to generate PKR 310bn
- Based on the measures taken in CDMP, total tariff is likely to increase on account of Quarterly Tariff Adjustments (QTA), Power Holding Limited (PHL) mark up recovery and Fuel Cost Adjustment (FCA).
- The price increase for protected and unprotected consumer have gone on varying range and so has for commercial and bulk users.
- Companies under energy chain will benefit via improved cashflows, whereas other sector including fertilizer will likely pass over the impact to end consumer. For rest the impact will be negative but varying.

#### Revised gas prices hike and CDMP approved by ECC to curtail flow in circular debt

On February 13th, 2023, the Economic Coordination Committee (ECC) gave its long-awaited approval for a gas price hike to take effect from January 1st, 2023 for the next six months. The ECC also approved a revised Circular Debt Management Plan (CDMP), which was presented by the Ministry of Energy, in a meeting held on February 10th, 2023. As a result of the approval, the Power Division and its entities will now seek revised tariff schedules from the National Electric Power Regulatory Authority (NEPRA). Both the increase in gas prices and CDMP were deemed important for the approval of the IMF's 9th Review ([link](#)).

#### Revised gas prices approved by ECC

According to the revision, gas prices will be in effect from January 1st, 2023 for the following six months and are projected to generate PKR 310bn. Whereas PKR 110bn shortfall incurred during 1H FY23 will be added to the gas circular debt.

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**Domestic** - The price increase for protected and unprotected consumer have gone on varying range with a maximum of 112% increase. It is worth noting that, in addition to the price hike, protected and non-protected

consumers will have to pay fixed charges of PKR 50 and PKR 500, respectively.

**Other Categories** - Prices for bulk consumers have gone up by 105%. Prices for commercial consumers have increased by 29%, while the fuel price for fertilizer has risen by 47%.

| <b>Exhibit: Revised gas prices approved by ECC</b>      |          |         |          |
|---------------------------------------------------------|----------|---------|----------|
| Revised Gas Tariff for Domestic (Residential) consumers |          |         |          |
| in PKR/mmbtu                                            | Existing | Revised | % Change |
| <b>Protected*</b>                                       |          |         |          |
| Up to 0.25 hm3                                          | 121      | 121     | 0%       |
| Up to 0.50 hm3                                          | 121      | 150     | 24%      |
| Up to 0.60 hm3                                          | 300      | 200     | -33%     |
| Up to 0.90 hm3                                          | 300      | 250     | -17%     |
| <b>Non-Protected**</b>                                  |          |         |          |
| Up to 1.0 hm3                                           | 300      | 400     | 33%      |
| Up to 1.5 hm3                                           | 553      | 600     | 8%       |
| Up to 2.0 hm3                                           | 553      | 800     | 45%      |
| Up to 3.0 hm3                                           | 738      | 1,100   | 49%      |
| Up to 4.0 hm3                                           | 1,107    | 2,000   | 81%      |
| Above 4.0 hm3                                           | 1,460    | 3,100   | 112%     |

Source: MoF, IGI Research, \*Protected Category (up to 0.5hm3) to pay fixed charge of PKR 50 (Net of meter rent PKR 40), \*\* Non-Protected Category to pay fixed charge of PKR 500 (Net of meter rent PKR 40)

| <b>Exhibit: Revised gas prices approved by ECC</b>   |          |         |          |
|------------------------------------------------------|----------|---------|----------|
| Revised Gas Tariff for other categories of consumers |          |         |          |
| in PKR/mmbtu                                         | Existing | Revised | % Change |
| Bulk                                                 | 780      | 1,600   | 105%     |
| Special Commercial (Roti Tandoors)                   | 697      | 697     | 0%       |
| Commercial                                           | 1,283    | 1,650   | 29%      |
| Power (KE, SNPC, EPQL)                               | 857      | 1,050   | 23%      |
| Power (Liberty)                                      | 1,181    | 2,406   | 104%     |
| Fertilizer (Feed - Engro)*                           | 117      | 140     | 20%      |
| Fertilizer (Feed - FFBL)                             | 302      | 510     | 69%      |
| Fertilizer (Fuel)                                    | 1,023    | 1,500   | 47%      |
| Cement                                               | 1,277    | 1,500   | 17%      |
| Export (Process)                                     | 819      | 1,100   | 34%      |
| Export (Captive)                                     | 852      | 1,100   | 29%      |
| Non-Export (Process)                                 | 1,054    | 1,200   | 14%      |
| Non-Export (Captive)                                 | 1,087    | 1,200   | 10%      |
| CNG                                                  | 1,371    | 1,805   | 32%      |

Source: MoF, IGI Research, \* Engro Fertilizer (New Plant) has a claim of extended period for feed gas concessionary tariff of USD 0.7/mmbtu due to non-supply by SNGPL and Sindh High Court has granted a stay order to maintain the status quo.

## CDMP to curb power sector circular debt build up

### Hike in tariff to address fresh flow of circular debt

Based on the measures taken in CDMP, total tariff is likely to increase on account of Quarterly Tariff Adjustments (QTA), Power Holding Limited (PHL) mark up recovery and Fuel Cost Adjustment (FCA).

| <b>Exhibit: Total Increase in Power Tariff</b>           |       |
|----------------------------------------------------------|-------|
| PKR/unit                                                 | FY23* |
| QTA Q1 FY23 from Feb-23 to Mar-23                        | 3.21  |
| QTA Q2 FY23 from Mar-23 to May-23                        | 0.69  |
| QTA Q3 FY23 from Jun-23 to Aug-23                        | 1.64  |
| PHL Markup Surcharge recovery (Mar to Jun-23)            | 3.39  |
| FCA for Jun-22 and Jul-22 – Flood Relief (Mar to Oct-23) | 1.20  |

Source: IGI Research, Newsprint

\* domestic sector using up to 300 units per month would be partially insulated

### CDMP to restrict circular debt to PKR 2,374bn by end of FY23

To note, CDMP has been revised to curtail buildup in power sector circular debt which was under discussion with IMF under recent staff level meeting for 9<sup>th</sup> Review. However, CDMP deals with only power sector circular debt which stood at PKR 2,253bn as at Jun-22. Based on revised assumptions, the Circular debt flow comes at PKR 952bn for FY23 which will be restricted to PKR 122bn to end at PKR 2,374bn at Jun-23.

| <b>Exhibit: Base Case Parameters Assumption</b> |        |
|-------------------------------------------------|--------|
|                                                 | FY23   |
| Exchange Rate                                   | 232    |
| KIBOR                                           | 16.84% |
| LIBOR                                           | 4.73%  |
| Local CPI                                       | 428    |
| US CPI                                          | 300    |
| RFO (USD/MT)                                    | 610    |
| RLNG (USD/MMBTU)                                | 14.3   |
| Imported Coal (USD/MT)                          | 236    |
| Local Gas (USD/MMBTU)                           | 857    |
| Demand (Bkwh)                                   | 134    |

Source: IGI Research, Ministry of Energy

### Measures taken will substantially reduce flow of circular debt in FY23

Key measures presented by Ministry of Energy under CDMP include

- QTA for FY23,
- Improvement in line losses of DISCOs from 16.85% to 16.27%,
- Mark up savings of PKR 11bn due to stock payments to IPPs of PKR 180bn,
- Deferred FCA recovery from Mar-23 till Oct-23 to bring in savings of PKR 31bn,

- PHL Markup recovery through imposition of additional surcharge of PKR 3.39/unit for four month (Mar-Jun FY23),
- Discontinuation of Zero Rate Industry (ZRI) and Kissan Package from 1<sup>st</sup> Mar-2023 till Jun-23 to bring in savings of PKR 65bn,
- GST and taxes on collection basis would lead to estimated savings of PKR 14bn,
- Additional Budgeted subsidy of PKR 335bn.

| <b>Exhibit: Actions to reduce Circular debt flow in FY23</b> |             |
|--------------------------------------------------------------|-------------|
|                                                              | <b>FY23</b> |
| <b>Base Case Scenario</b>                                    | <b>952</b>  |
| QTA Q1 FY23 from Feb-23 to Mar-23 @ PKR 3.21/unit            | (40)        |
| QTA Q2 FY23 from Mar-23 to May-23 @ PKR 0.69/unit            | (17)        |
| QTA Q3 FY23 from Jun-23 to Aug-23 @ PKR 1.64/unit            | (16)        |
| Improvement of DISCOs losses - 16.27%                        | (12)        |
| Mark-up saving due to IPP Stock Payment                      | (11)        |
| FCA recovery till Jun-23                                     | (31)        |
| PHL Markup Surcharge recovery                                | (68)        |
| Discontinuation of ZRI Package From 1st March                | (51)        |
| Discontinuation of Kissan Package From 1st March             | (14)        |
| GST and taxes on collection basis                            | (14)        |
| Reimbursement from FBR                                       | (5)         |
| Additional Subsidy from Government                           | (335)       |
| Projected CD flow for the year                               | 336         |
| Budgeted PHL principal repayment                             | (35)        |
| Budgeted stock clearance of IPPs                             | (180)       |
| Revised CD projections after stock payments                  | 122         |
|                                                              | <b>FY23</b> |
| Circular Debt stock                                          | 2,374       |
| Amount Parket in PHL                                         | 765         |
| Payables to Power Producers                                  | 1,509       |
| GENCOs' payable to fuel suppliers                            | 100         |

Source: IGI Research, Ministry of Energy

### Administrative measures to ensure good governance in the power sector

In addition to existing measures, various administrative actions have been outlined to promote good governance in the power sector. One such measure is monitoring the progress of CDMP, with the Ministry of Energy responsible for ensuring that the set targets are met. The Power Planning and Monitoring Company will coordinate with all relevant implementation agencies, and submit reports to the Cabinet Committee on Energy (CCoE) or the Economic Coordination Committee (ECC) through the Power Division. Additionally, they will oversee and facilitate monitoring activities at the implementation sites. Another measure is to provide monthly

circular debt figures in an agreed-upon format, to be presented to the Cabinet on the 18<sup>th</sup> of each month, and published on the Power Division website.

#### Additional power tariff hike for FY24

ECC further approved surcharge of PKR 1/unit for FY24 in addition to existing and continuing surcharge of PKR 0.43/unit to cover debt servicing for power sector. ECC also approved another proposal of Ministry of Energy to recover FCA for Jun-22 and Jul-22 at PKR 1.2/unit per month till Oct-23 which was waived due to floods.

#### Energy sector to benefit from gas price hike and cdmp

We highlight gas price hike to benefit PSO, PPL, OGDC, SNGP and SSGC in terms of improved cash flows going forward, whereas, CDMP will primarily benefit power sector which has been witnessed severe cash constraints due to substantial build up in circular debt.

#### 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

The fertiliser sector is likely to pass on the incremental gas prices for feed and fuel stock to the end consumer, resulting in a potential hike of around PKR 400/bag for Urea (Feed: PKR 260/bag and Fuel: PKR 140/bag). However, EFERT's new Enven Plant is still on a concessionary feed gas tariff of USD 0.7/mmbtu, resulting in a lower overall price increase and benefiting the company's margins. On the other hand, the revised gas tariff hike will negatively impact the margins of cement companies with gas-based captive plants such as LUCK, CHCC, DGKC, FCCL, and MLCF. However, except for LUCK and CHCC, most companies have a relatively minimal reliance on gas-based captive plants. For TGL, EPCL, and other export-oriented sectors, the impact of the revised gas price hike will be negative, but the effect will vary. Considering that most of the companies operating in the north are already using expensive RLNG and EPCL's gas usage is minimal.

#### Direct and Indirect Effects of Gas Charges to Fuel Overall Inflation

The increase in gas and electricity prices is expected to add to the already high inflation numbers in the upcoming months. Gas charges represent almost 1% of the urban CPI index. Therefore, even a 20-30% weighted average price change will have a direct impact of less than 1% on overall inflation. However, there is more concern over the indirect price increase that will follow, including hikes in electricity tariffs and commodity prices

such as Urea, Dap, and others. As a result, we anticipate that the overall inflation rate will be around 29-31% in the coming months, leading up to the year-end.

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