

Secondary research

Pakistan's Gas Crisis due to Gas Theft ...& Unaccounted for Gas (UFG)

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Abstract

Until 1999, the government tightly controlled the oil and gas industries of Pakistan. No decision could be made without referring to the higher instances, and when decisions were made, they were often based on political as opposed to economic considerations. Since early 2000, an ambitious, pro-market, reform program is being implemented, and gradually, the straightjacket under which the industry used to operate is being dismantled. As a result, the sector has changed dramatically over the past five years, and Pakistan now leads South Asia in sector reform. Pakistan has been lucky to have a number of natural gas discoveries in the past 4 to 5 years with an output potential of more than 1 billion cubic feet of gas per day within the next few years. The government is encouraging fast-track development of these discoveries through different incentives to bring the additional gas in the national pipeline network. **Copyright © IJRETR, all rights reserved.**

Keywords: energy, petroleum, gas

Introduction

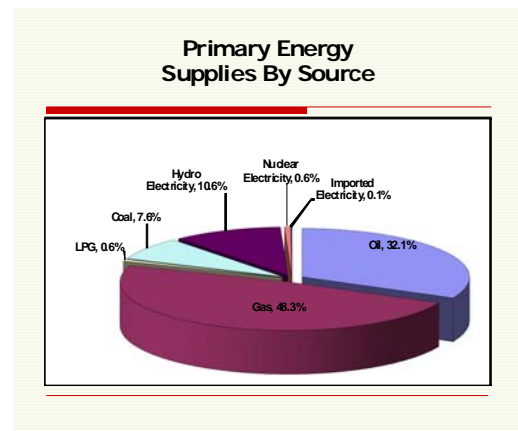
Pakistan never had a natural gas surplus to the extent that Pakistan decided to adopt an energy policy that made natural gas as the prime energy source feeding into five highly critical sectors of national economy. Secondly the myth why the pricing of this precious indigenous resource was not based on the principle of scarcity and optimal utilization baffle experts. It was severely over allocated, underpriced and excessively misused. The apparent public private partnership as prevalent in the natural gas sector turns out to be a multilayered façade that cover up for the monopolistic control of the Ministry of Petroleum.

The oligarchic control of all aspects of the sector ranged from appointments and placements, exploration & production licensing, distribution & transmission, tariff and price determination etc. The gravity of the mismanagement can be realized through the fact that the overall economy slowed down (stagnation). This poor governance of natural gas and power sector has now entered into stagflation, which is the worst-ever experienced by Pakistan.

Theoretically speaking the sharp rise in prices as observed in increased tariff and hike in prices would have earned more profits and this could be redirected to generate sector expansion and more economic activity. However, net gain/ benefit remained nil and the state of affairs are such that Pakistan does not find enough capital to develop infrastructure for the distribution and transmission of natural gas reserves discovered at Kurk/KP and is now vigorously looking into quick imports and signing contract for LPG import. The dichotomy of the present crisis at one end point to lack of prudent macroeconomics management mechanism and remedial analysis focusing on government policy, expenditures and tariff issues for rectification and at the other it needs a review through the critical lens of good governance focusing on accountability and transparency of the natural gas sector that failed on the whole. This Policy Brief will explore the effect of lack of transparency in the overall natural gas sector efficacy through case studies.

Role of Gas in the Future Energy Mix

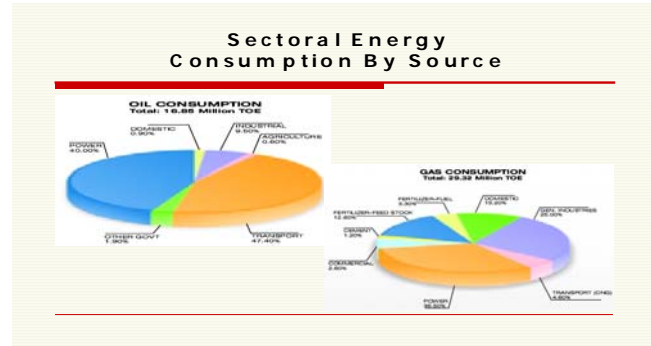
Petroleum products and natural gas account for about 80 percent of commercial energy use, hydroelectricity for about 15 percent, and coal and liquefied petroleum gas (LPG) for the balance. Pakistan has spent 43.5 percent (or \$3.815 billion) more dollars during the July-April 2011-12 periods on import of petroleum products as during the ten-month period the country imported petroleum products worth \$12.58 billion against \$8.76 billion in corresponding period last year. Pakistan Bureau of Statistics (PBS) bulletin indicates that under the petroleum group, petroleum products import stood at \$8.35 billion against \$4.92 billion last year, showing an increase of 69.8 percent. Besides, crude petroleum import also showed an increase of 49.9 percent to \$4.23 billion during these ten months from \$3.85 billion in same period last year. Industry experts said that the swelling consumption of petrol in the transport sector particularly in two and four vehicles have raised its imports across the country. The shrinking disparity between the petrol and CNG prices coupled with greater reliance on petroleum products after unavailability of natural gas also pushed up its daily consumption during this period. On the other hand, gas reserves at 27.0 trillion cubic feet (TCF) are equivalent to more than 25 years of current production (about 900 billion cubic feet [bcf] per annum), and there is scope for a significant increase in gas production, and hence in the share of gas in the commercial energy mix. The shares of hydroelectricity and coal are



low, notwithstanding the country's large hydropower potential, and substantial coal deposits which have been discovered in Sindh province. Under the circumstances, it would be desirable to diversify the sources of supply, particularly away from petroleum products, on the basis of not only strategic but also financial considerations.

Macro-Economic Impact

Given the high level of imports, the economy is vulnerable to fluctuations in world market prices of crude oil and products. During the recent period of high international prices annual petroleum imports accounted for 33 percent of total imports (and represented up to 37 percent of export earnings). By contrast, in earlier years (when international prices were lower), the share of petroleum imports was 15-17 percent of total imports and between 19-21 percent of total export earnings. The oil and gas sector accounts for a significant share of government revenues.



Natural Gas Crisis

In ongoing winter season the gas shortages as usual have also increased, and there is rationing of piped gas. Reliance on imported fuels has increased and is increasing the cost of electricity generation and adding to the country's balance of payments problems. The growing energy shortages have made life difficult for Pakistanis across the board. The quality of life of citizens has deteriorated. Economic growth rates have been stunted, and industry and agriculture have suffered. The Government of Pakistan, recognizing the magnitude of the crisis and its effect on the people and the economy, has undertaken emergency measures to address, manage and reduce the impact of the crisis. The reasons for present crisis in gas sector have both technical & governance aspects. These issues have emerged due to missing link with common citizen. The hydrocarbons sector is representative of this planned approach to economic development and its pitfalls. Although the primary focus has been on oil, both oil and gas have been subject to similar type of policies. Historically, oil was the primary focus of policy.

Issues & Challenges

The globe abounds with dismal examples of how oil and gas revenues have disrupted peace, stability and the governance infrastructure in many countries. The discovery of oil in commercial quantities places the country at risk of the 'resource curse' syndrome and could threaten the consolidation of the democratic gains. It is important to engage/support local natural resource groups in ongoing legislative/policy reform initiatives to ensure the development of appropriate, acceptable, equitable, progressive and transparent framework for the merging oil and gas sector of the economy and work to facilitate the involvement of host communities in the full stretch of natural

resources exploration and track appropriate transparency and accountability mechanisms within the machinery of government and public administration to ensure adequate allocations for their peculiar development and protection of their environment. The fundamental aim is to support active community participation (grassroots / local voices) in local government decision making and for the effective implementation of local development plans. The only purpose is to build on its support for ongoing advocacy for the promulgation of a right to information legislation which is an essential part of a well functioning democracy and good governance.

Non-Customer gas theft in un-accounted for Gas (UFG)

Advisor to Prime Minister on Petroleum Natural Resources Dr Asim Hussain has revealed that as many as 200 CNG stations were involved in gas theft. Oil and Gas Regulatory Authority had been informed of the gas theft; but no action was taken against these outlets. The advisor refused to give names of the CNG stations involved in the gas theft but said the OGRA has been given the list containing their names. Gas theft is also on the rise, as it surged to 380 million cubic feet per day (mmcf) that is 200 mmcf from Sui-Northern Gas Pipelines (SNGPL) and 180 mmcf from Sui-Southern



Gas Company (SSGC) systems. Ministry of Petroleum and Natural Resources announced that gas is being illegally utilized by all consumers including industrial, commercial and domestic. Gas pipelines in Pakistan suffer from theft of nearly 380 mmcf on average, of about 12.5 percent of total production, a ratio that is significantly lower than line losses in the power sector, but still high and rising. The country at present is confronted with serious energy crisis. To manage these crisis the government has recently announced gas load management plan under which gas supply to CNG stations and industry is being suspended till February first week 2013. Pakistan's current gas demand is met entirely through domestic production, which at present stands at 4,000 mmcf. The companies are supplying about 2,900 mmcf through their extensive transmission and distribution network of some 140,000 kilometers and serving 6.3 million consumers in their respective franchise areas. The level has been stagnant for the last few years as new gas field discoveries have been scarce and the cost of exploration keeps rising rapidly owing to the added burden of security.

According to Petroleum Institute of Pakistan's (PIP) estimates domestic gas production will decline to less than 1,000 mmcf by 2026 as the existing fields are exhausted and the energy industry fails to find new ones to replace them. While new fields such as Zamzama and Manzalai have come online, they are much smaller than some of the older fields, such as Sui and Qadirpur, where gas production has started declining with each passing day. One option currently being explored by the government is importing gas from Iran, which will add about 750 mmcf to the country's supply. However, analysts warn that consumers must be prepared for its adverse impact on gas prices, as the gas will be at least three times more expensive than domestic production costs, causing overall gas prices to rise.

Rise in unaccounted for gas (UFG) which means difference between total volume of gas purchased by the companies and volume of metered gas supplied to consumers. UFG levels of Sui Southern Gas Company Limited (SSGCL) and Sui Northern Gas Pipelines Limited (SNGPL) have remained abnormally high of over 10 per cent last fiscal year. International bench mark of UFG for companies is two per cent. According to OGRA estimates one per cent of UFG of both companies at average price of fiscal year 2009-10 translated to a revenue loss of Rs2.5billion per year. Massive monetary losses in the form of high UFG losses are recovered by utilities by passing on the impact to consumers. Effective enforcement of UFG benchmarks could result in savings for consumers. Both companies, SSGCL and SNGPL, had filed petitions for review of UFG benchmarks as they claimed they were facing gas theft due to law and order situation in certain areas. Government has recently imposed gas theft act which allows imprisonment and fining people involved in gas theft.

Conclusion

Transparency is a pillar of good governance. Regulators should be open and keep regulations simple and user-friendly. Transparent decision-making processes can lead to better acceptance of policies by the general public. There is a clear need to create mechanisms, in the working of the regulatory body, to incorporate various transparency provisions in the Regulatory Act in order to operationalize easy access to relevant information and documents. Such provisions would create space of greater democratic for civil society participation; easy access to redressal mechanisms must also be implemented.

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