LNG: the double menace of high price and lack of demand

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There is no dull moment in Pakistan and in the energy sector facing one problem after the other. There used to be energy deficit, both of gas and electricity and not long ago. Gas shortages have been there even in the winter which has not quite left us into the spring month of March. A few days back there was a LNG ship and the government didn't know what to do with it. May be by the time the reader goes through these lines, some solution would have been found. However, the issue is difficult as we will see in the following. We will posit some suggestions as well to deal with the issue.

LNG Prices and Lack of Demand; the double menace

Due to Currency depreciation and increase in interest rates, Gas costs have been increased also along with LNG effect. As a result, the new proposed tariff as determined by OGRA has been postponed. The choices are not many. Quite a difficult situation has been faced by gas and power sector. There is 5000 MW of RLNG power plant capacity available at very high efficiency rates which cannot be fully utilized. There is excess electric power generation capacity and the demand has come down further. If one utilizes Gas power plants, coal ones remain underutilized and vice versa. Due to low demand, one og the two LNG terminals remains underutilized. In the current month, only one LNG ship demand was expected based on which the gasification charges of the terminal have mounted to five times from a normal of 42 USc to 2.235 USD. At current costs, one LNG ship has gas worth 27 million USD.

In this context, GoP has been considering invoking *Force Majeure(FM)* .Reportedly, India has already given notice. Qatar has remitted one billion USD worth of take or pay liabilities from India, a report which could not be verified. It is a difficult situation. Pakistan is already suffering fewer than two international tribunal penalty decisions of Rekodik Copper and Karkey rental power. However, FM may not be aimed at totally abrogating the Qatar LNG deal. It may be limited to temporary containment of lifting LNG. Negotiations are being urged by stakeholders in Pakistan. It is expected that the Qatar Gas would eventually be forced by the demands of the three countries (, India, Pakistan and Bangladesh who have similar contracts), to accept new terms compatible with the new market realities. However, the current issue is complicated by lack of demand as well and not limited to prices alone.

With respect to Qatar Gas, there is an ugly situation. At a 13.35 % of Oil prices per barrel, it has been costing us 8 USD at 60 USD/barrel Oil prices and at 85 USD per barrel, it has been costing as much as 11.34 USD plus an average of 2 USD overheads importing and gasification charge. At current, Oil prices of 30 USD or lesser, Qatar LNG should cost around 4 USD which appears to be pretty reasonable. However, these prices are not effective yet due to the formula involving last three months averaging.

Last three months average is still high at around 50 USD. It will take another two months for Qatar LNG to be able at more or less affordable prices of around 4 USD/bbl which is nearly comparable with our local prices.

Local Gas Curtailment

There appears to be another option left which is curtailing local gas production and utilize LNG instead of allowing it to evaporate or take or pay penalty to take effect. We are short of local gas and the local gas is projected to be consumed up in a decade. The curtailment would be temporary and it is quite probable that the compensation in terms of higher demand may be there by next winter. As per informal discussions, Local gas companies would not be happy and reportedly there are technical limits to curtailment in local production. One wonders, how are international companies able to announce and implement production cuts? Another lack of motivation in this respect is that it reduces sales and thus profitability. GoP has to take a holistic view of the situation balancing costs and benefit of various options. In the absence of a gas storage facility which will take 5 years to build, supply demand bottlenecks may emerge in future also for a variety of reasons. The prospect of curtailing local production would not have occurred in the minds of local gas production companies in the context of a perpetual deficit to deal with which LNG had to be imported. The issue is worth consideration before dumping it into the graveyard of ideas.

Nationalists vs Commercial Companies

It is common among the mineral and energy companies to maximize production and bring the resource to the market and thus maximize the present value of the profit streams. It is a case of recouping investment as fast as possible. Thus there is resistance to production cuts. Exporting governments also need the revenues and income to meet their budgetary targets. Nationalists and sub-nationalists in the areas from where natural resources are extracted complain of the exhaustion of their natural resource wealth. They complain of lower royalty income and benefits to their regions or provinces and in such circumstances would like to minimize production and retain some of it under the earth to be used by future generations. After all, they don't have any other source of income or resource. The problem is in Pakistan, in the region and as well as in almost any other developing country where resource extraction is there. Mineral and Energy extraction is there in developed countries is there as well but they have solved their problem due to their massive economic development and the employment opportunities.

There is potential for discovering new gas resources and enhancing the exploitation of already discovered gas resources in Balochistan. There is a difference of opinion and assessment whether the potential would be as much as to eliminate dependence on imported LNG and whether local gas would save enough foreign exchange most local gas costs have a high dollar content.. There is a need to resolve politico-commercial issue for having better and peaceful access to the gas resource areas. A fair formula has to be invented related to royalties.

Reviewing the investment policies

There is a need for an immediate review of energy investment policies; the supply side and the tariff system. There is capacity surplus in the power sector which has contributed to circular debt among other factors. While there are serious issues of lack of demand exacerbated due to the Corona crisis, there is an unrestricted activity from the supply side. New and new projects are being approved under policy inertia. Perhaps nothing can be done to stop the under implementation projects. Power plants of 7200 MW will be commissioned by 2022 with no clue as to where to absorb the new capacity. Reportedly, a number of investors did apply for delaying projects but were denied exemption arguing that heavy demand was coming. One feels like banging his head on such bureaucratic ignorance and inertia. A moratorium on new power projects, even if approved and planned, is immediately required? It may not be easy as there is a lot of vested interest whose business and expected profits would be delayed if not totally curtailed.***(The writer is former Member Energy, Planning Commission)***

Projects currently under construction			
		MW	**COD**
Mira Power	Hydro	102	Feb-20
Punjab Thermal	RLNG	1,200	Sep-20
K2	Nuclear	1,100	Oct-20
Lucky Electric	Coal	660	Mar-21
Thar Energy	Coal	330	Mar-21
Thal Nova	Coal	330	Mar-21
Wind Projects	Wind	600	Jun-21
K3	Nuclear	1,100	Sep-21
Karot Hydropower	Hydro	720	Dec-21
Jamshoro Power	Coal	660	Dec-22
Suki Kinari	Hydro	870	Dec-22
TOTAL		**7,672**	