

Energy Sector Update

Thursday, February 1, 2024

'Innovative' Plan Set to Reduce Circular Debt

The Caretaker Government is mulling an innovative plan to settle a portion of the Circular Debt (CD). As per the proposed plan PKR 1,268bn will be settled to reduce the Circular Debt, if approved by IMF. The Ministry of Finance is tasked to present a detailed outline to the IMF for settling the Energy Sector's CD using Government funding in one to two days.

The total Circular Debt has burgeoned to PKR5.7tn in which PKR 3,022bn is contributed by petroleum/ gas sector (~70% owed to E&P companies for gas and oil supplies, and 27% LNG importers) and PKR 2,704bn belongs to Power Sector (IPPs, PHPL, GPPs and WAPDA owed 34%, 28%, 19%, and 9% respectively). Out of the total, the principal amount of Energy Sector CD is PKR 1,167bn while the remaining amount is PKR 4,559 bn. Despite there being no budgeted subsidy for the Petroleum Sector, PKR 976bn was allocated during FY24 to contain the Power Sector's Circular Debt pile.

The Innovative Plan includes the following features:

- Recovering the Petroleum Sector CD stock from consumers requires a **4.3 times Tariff increase** for natural gas consumers, equating to a PKR 5,800/mmbtu rise on Sui Gas Companies' network over one year.
- Addressing the Power CD necessitates an **Additional Charge of PKR 24.5 per unit for electricity** consumers to bring the stock to zero.
- Around PKR 286bn, collected via **Fuel Cost Surcharge at PKR 3.23 per unit**, was attributed to electricity consumers, with the remainder financed by the Government.
- Plan suggests settling Principal Outstanding balances.
- Writing off Late Payment Surcharge (LPS) balances (up to PKR 133bn) throughout the supply chain.
- Non-cash transactions are to be excluded.
- The Proposal addresses tax avoidance by E&P companies.
- A Supplementary Grant (SG) of PKR 745bn is requested, with allocations of PKR 386bn for SNGPL, PKR 259bn for SSGCL, and PKR 100bn for CPPA-G.

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- Technical Supplementary Grants (TSG) of PKR 82bn for OGDCL to settle Principal TFCs issued in 2012, PKR 46bn for CPPA-G, and PKR 29bn for PSO.
- The Plan ensures that payments do not exceed Circular Debt receivable in any entity.
- The return mechanism involves dividends from entities where funds are parked after Circular Debt settlement.
- Supplementary Grants will be used for settlement, with dividends ensuring full reimbursement to the Government. The GoP's share of dividends will exceed the originally issued SG by PKR 3bn.
- To expedite fund usage to one day (8 hours) and complete all transactions between 9am to 5pm.

If this Plan is implemented with IMF's approval, it will be instrumental in managing the Circular Debt issue, though challenges will persist with the remaining balance and subsequent accumulation of Circular Debt. Nevertheless, companies linked to CD like OGDC, PPL, PSO and IPPs are expected to benefit through improved financial liquidity and are expected to announce healthy dividend payouts for shareholders. However, the response of the IMF to the proposed plan will be pivotal in shaping its effectiveness.

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