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Consumers to bear burden as K-Electric allowed to build recovery losses into tariff

Khaleeq Kiani | Published May 28, 2025

ISLAMABAD: In a major policy departure, the National Electric Power Regulatory Authority (Nepra) on Tuesday approved K-Electric's request to incorporate unrecovered bills into its consumer tariff — starting with a recovery shortfall of 6.75 per cent in 2023-24, gradually declining to 3.5pc by 2029-30.

Nepra set K-Electric's base tariff at Rs40 per unit for the fiscal year 2023-24, which is almost 40pc higher than even the national average tariff of about Rs28 per unit in 2025-26 for the 10 public sector power distribution companies (Discos).

The delta between the Discos' average and K-Electric's tariff is transferred to the taxpayers through the federal budget in the form of tariff differential subsidy.

In a detailed determination, the regulator changed K-Electric's tariff mechanism based on 100pc recovery of bills and instead allowed recovery losses in the tariff, starting from 6.75pc in FY24 and gradually declining to 3.5pc by F30.

Nepra sets utility's base rate at Rs40 per unit, 40pc higher than national average tariff

Interestingly, the Discos' tariff is still based on a 100pc recovery of bills. The judgement on K-Electric indicated that a similar charge may be coming up for Discos' tariff in the shape of higher costs to honest consumers.

"To ensure sufficient liquidity in the power market and to align the collection targets with current market realities, the authority has decided to allow recovery loss to K-Electric," Nepra said, directing K-Electric to ensure collection of 93.35pc of FY24 billing, 93.6pc in FY25, 94.4pc in FY26, 95.19pc in FY27, 95.7pc in FY28, 96.10pc in FY29, and 96.5pc in FY30.

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The loss recovery allowance, starting at 93.25pc, was opposed by the Ministry of Energy (Power Division). Although it supported the loss recovery allowance through tariff, apparently to claim similar dispensation for government-owned Discos, it said a lower recovery ratio should be allowed, starting with 96.7pc, and an increase in commercial losses should be benchmarked against efficient Discos to arrive at reasonable targets.

Nepra set the total average tariff at Rs39.97 per unit for FY24, which included a power purchase cost of Rs31.96, transmission cost of Rs2.86, distribution cost of Rs3.31, and supply margin of Rs2.28, with a negative prior-year adjustment of 44 paise per unit to ensure total revenue requirement of Rs606 billion.

Interestingly, the above tariff is based on almost half of the power supply from the national grid; otherwise, K-Electric's average base rate would have been much higher.

This determination covers a total power dispatch of 17,768 gigawatt-hours (GWh) — 48pc sourced from the national grid, 42pc from K-Electric's own generation, and 9.9pc from private suppliers.

K-Electric's total revenue requirement determined by Nepra at Rs606.92bn for FY24 included a supply margin Rs34.68bn, operations and maintenance (O&M) allowance at Rs5.91bn, negative working capital adjustment of Rs1.244bn, recovery loss of Rs36.25bn, gross margin of Rs40.92bn, and net margin of Rs34.68bn after a negative prior-year adjustment of Rs6.69bn.

The power regulator noted that K-Electric's previous multi-year tariff (MYT) for 2017-23 did not allow any provision on account of recovery loss. Instead, actual write-offs were allowed subject to prescribed criteria.

Considering that FY24 had already lapsed and FY25 was almost 10 months gone, K-Electric's actual recovery for

FY24 remained at 91.5pc, whereas FY25 was expected to close at 90.5pc, it said. The financial impact of these under-recoveries was around Rs40bn and Rs57bn, respectively.

"The authority noted that return allowed to K-Electric for its distribution function is around Rs21.6bn, meaning thereby that effectively K-Electric would be incurring losses for the first two years of MYT, if no recovery loss is allowed to K-Electric. This may compromise the financial viability of the company, which is neither in the interest of the consumers nor power system as whole," Nepra said.

The regulator said that Discos were not allowed any recovery loss, but the federal government had the power to levy surcharges to offset the inefficiencies of Discos arising from high losses and under-recoveries. However, no such option is available for K-Electric, as it can only charge the regulated tariff.

It said the National Electricity Policy 2021 empowered Nepra to revisit the target for collections and align with the current market realities through "efficient tariff structures for sufficient liquidity in the power market" as "international precedents also suggest that 100pc billing recovery is generally not mandated".

Solar projects

In a separate development, Nepra approved bidding results of K-Electric's two solar-powered plants with a combined capacity of 150 megawatts, promising the lowest-ever rates in Pakistan.

Under the determination, Master Textile Mills Limited has been declared the lowest bidder at the lowest offered tariff of Rs11.6508 (4.0363 US cents) per kilowatt-hour for the 50MW Winder project, and Rs11.21 (3.8826 US cents) per kWh for the 100MW Bela project.

The two projects are estimated to bring savings, both in terms of cost and forex outflow, in both national and K-Electric's grids, by displacing the existing expensive generation, Nepra said.

It added that energy cost savings due to fuel displacement were estimated at Rs2.3bn annually, amounting to a total of Rs57.8bn over the life of the projects. Additionally, the projects are estimated to generate annual foreign exchange savings of $17.01 million, totalling $425.2m in savings over their lifespan.

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