PRAC
POLICY RESEARCH
& ADVISORY COUNCIL

KARACHI CHAMBER OF
COMMERCE & INDUSTRY

PRAC Team
Mohammad Younus Dagha – Chairman
Dr. Usama Ehsan Khan – Head of Research
Namra Saleem – Lead Researcher

NEPRA's Tariff Cut for K-Electric: Uniformity or Financial Strain?

Policy Recommendations

Structural Reform through Unbundling	• Unbundle KE into separate generation, transmission, and distribution entities to ensure transparency, financial discipline, and cost efficiency.
Power Procurement Parity	• Ensure KE-DISCO's access to national grid power at pooled CPPA-G rates to create parity with other DISCOs and reduce end-consumer tariffs.
Commercial Accountability for Generation	• Operate expensive KE-GENCO on its own commercial merit, ensuring that the burden of inefficiencies is not transferred to distribution-side consumers.
Liquidity Support through Timely Subsidies	• Ensure timely disbursement under the Tariff Differential Subsidy (TDS) framework to sustain operational liquidity.
Dynamic Tariff Adjustment Mechanism	• Implement quarterly tariff indexation to align with fuel and capacity cost fluctuations.
Performance-Based Efficiency Incentives	• Introduce efficiency-linked rewards for Transmission & Distribution (T&D) loss reduction and improved recovery rates.
Renewable Energy Transition	• Accelerate renewable energy integration to lower long-run generation costs and reduce dependence on imported fuels.

Introduction

NEPRA has approved a Rs 7.6 per unit reduction in KE's average tariff, revising it from Rs 39.97 to Rs 32.37 per kWh under the uniform national tariff policy (BR Web Desk, 2025). This decision, intended to align KE's tariff with other DISCOs, was described by the Power Division as a "pro-consumer move" that aims to remove inefficiencies and harmonize pricing across the country (Profit Pakistan Today, 2025). However, true tariff uniformity requires structural parity in power procurement.

While other DISCOs procure electricity from the national grid at pooled rates, KE continues to bear the financial burden of its own costly generation fleet. To genuinely align KE with other DISCOs, the KE-DISCO should be supplied power at national pool rates, while its generation segment should be treated independently, selling electricity on merit order through the CPPA-G mechanism. Only then can tariff harmonization deliver equitable and sustainable outcomes without distorting KE's cost structure or undermining consumers' affordability.

Analysis

The revised tariff determination has imposed a substantial financial adjustment on KE. Applying the Rs 7.6/kWh reduction, partially offset by the Rs 1.6/kWh fuel reference adjustment, to KE's FY24 total energy sales of 15,025.11 GWh translates into an estimated annual revenue loss of **about Rs 90 billion**. While this decision enhances affordability for consumers, it places considerable strain on KE's liquidity, operational efficiency and reinvestment capacity. Previously, the TDS for KE was estimated at around PKR 5.97/kWh, based on a consumer-determined tariff of PKR 34/kWh.

Under the newly approved tariff of PKR 32.37/kWh, KE will be required to return roughly PKR 6/kWh in TDS to the government, while about PKR 1.6/kWh will be adjusted through the Fuel Cost Adjustment (FCA) mechanism, partially recoverable from consumers (AHL, 2025). This review efficiently removes the fiscal cushion that had previously supported KE's balance sheet, compelling the utility to absorb subsidy withdrawal impacts while aligning its tariff with national uniformity targets.

Table 1: Implications of Reduced Tariff for KE

Parameter	Value / Description Unit: PKR/kWh	Calculation
Earlier KE determined tariff	39.97	-
Government-determined tariff	34.00	-
Tariff Differential Subsidy (TDS)	5.97	39.97 – 34.00 = 5.97
Tariff cut (NEPRA revision)	7.60	-
New KE determined tariff (post-revision)	32.37	39.97 – 7.60 = 32.37
Impact of fuel reference change (FCA)	1.60	
Net material difference	6.00	Tariff cut – FCA = 7.60 – 1.60 = 6.00
Total Energy Sold (FY24)	15,025.11 GWh (15.03 bn kWh)	-
Annual Revenue Implication	PKR 90,180 million (Rs 90.1 billion)	15,030,000,000 × 6.00 = 90,180,000,000

Source: SOI Report 2024, NEPRA, Notification NEPRA, and AHL Research

Key Implications

- **Higher Generation Cost:** KE's generation cost remains substantially above the national grid average due to ageing, inefficient plants and reliance on costly thermal fuels such as furnace oil and re-gasified LNG. The company generates about 42% of its electricity internally, while purchasing the remainder (58%) from the national grid at lower pooled rates.

Table 2: Cost Comparison: KE's Own vs. Purchased Generation from National Grid

Source	Generation (GWh) Share – FY24	Average Cost (Rs/kWh) – FY24
Own Generation	42%	27
National Grid Purchases	58%	11

Source: SOI Report 2024, NEPRA

- **Tariff Gap:** Other DISCOs' average notified tariffs range between Rs 30–32/kWh, whereas KE's pre-revision cost was nearly Rs 40/kWh, creating a disparity of Rs 8–10 per unit, largely stemming from operational inefficiencies and higher input costs.

- **Fiscal Impact and Savings to the Exchequer:** Following NEPRA's Rs 7.6/kWh reduction, the federal government justified subsidy withdrawal by citing fiscal savings of Rs 700 billion (Dawn, 2025) over seven years, translating into an annual saving of approximately Rs 100 billion, assuming KE's annual sales of around 15 billion units.

Unbundling KE: A Pathway to Efficiency

A sustainable reform approach involves unbundling KE into three independent entities: (i) KE-GENCO (Generation Company) – to sell power to the national grid on merit order; (ii) KE-DISCO (Distribution Company) – to procure power from the grid at pooled rates; and (iii) KE-TRANSCO (Transmission Company) – to manage infrastructure and connectivity. This separation would enhance transparency, attract private investment, and enforce cost discipline across the value chain. It would also align Karachi's power supply model with other national utilities operating under the CPPA-G.

Will K-Electric Go Bankrupt?

The Rs 7.6/kWh tariff cut poses substantial financial pressure on KE, potentially reducing its annual revenue by over Rs 90 billion. Experts say that bankruptcy is possible over the medium term (i.e., about 2–5 years) if cost reductions, debt restructuring, or timely government subsidies do not occur, but it is not imminent (Express Tribune, 2025). Service failure, like blackouts, is a credible risk if investment in network maintenance and upgrades is curtailed; yet, KE still maintains operational assets, access to cheaper grid power, and regulated cost-recovery mechanisms (APP, 2025). The outcome of the risk will depend on KE's management or regulatory support, suggesting that while financial strain is real, immediate collapse of service or bankruptcy is unlikely (Dawn, 2025).

Conclusion

The revised tariff has intensified financial pressure on KE's operations. However, achieving genuine parity with other DISCOs requires more than standardized pricing. It calls for the unbundling of KE's generation and distribution functions – allowing the DISCO to procure power at nationally pooled rates, while KE's GENCO should be treated on its own merits rather than putting the finance burden on the distribution side.

References

BR Web Desk. (2025). NEPRA's tariff cut 'would not be sustainable for KE,' says power utility. Available Link: https://www.brecorder.com/news/40388480/nepras-tariff-cut-would-not-be-sustainable-for-ke-says-power-utility

Profit Pakistan Today. (2025). Power Division hails NEPRA's K-Electric tariff cut as a pro-consumer decision. Available Link: https://profit.pakistantoday.com.pk/2025/10/28/power-division-hails-nepras-k-electric-tariff-cut-as-a-pro-consumer-decision/

AHL Research. (2025). NEPRA issued its decision on motions of leave for review regarding KE's MYT determinations. Available Link: https://arifhabibltd.com/api/research/open?path=178/68fa288486a7908245338486.pdf

Dawn.com. (2025). A jolt that may trip K-Electric by Nasir Jamal. Available Link: https://www.dawn.com/news/1951534#:~:text=At%20the%20heart%20of%20the,electricity%20depending%20on%20their%20affordability

Express Tribune. (2025). KE tariff cut impact. Available Link: https://tribune.com.pk/story/2574668/ke-tariff-cut-impact

APP. (2025). NEPRA's decision on K-Electric Tariff cut, a pro-consumer move: Power Division. Available Link: https://www.app.com.pk/national/nepras-decision-on-k-electric-tariff-cut-a-pro-consumer-move-power-division/#:~:text=ISLAMABAD%2C%20Oct%2027%20(APP)%3A,and%20curbing%20inefficiencies%20%E2%80%94%20contrary%20to