

By ICMA Research and Publications Department

Impact of Power Tariff Hikes and Taxes on Electricity Consumers in Pakistan

In the first month of the 2024-25 fiscal year, electricity rates have already surged significantly. The budget for this period introduces substantial new indirect taxes, raising the cost of even basic consumer goods. As the year progresses, the IMF is expected to advocate for a market-driven exchange rate policy, potentially leading to increased import inflation. The IMF's Staff Report from May 10, released at the end of the Stand-by Facility, projects a 16% devaluation of the rupee for the 2024-25 fiscal year. Additionally, base electricity tariffs for 91% of residential users have been adjusted, with increases

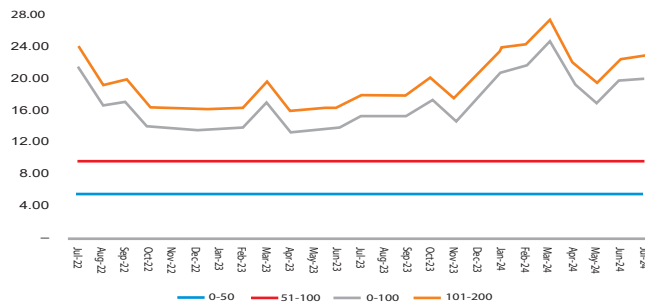


Figure 1: Domestic (protected) Consumer Effective Electricity Tariff (Rs/unit) - Source(s): Nepra, BR, Research ranging from 26% to 51%.

This highlights the scale of the increase: for 91% of residential electricity users—including the two tiers in the protected category and the first three tiers in the unprotected category, covering up to 300 units per month—the weighted average increase is 40%. Only 5%

Electricity Base Tariffs (Changes over the Years)								
Category	Domestic	Feb-21	Nov-21	Feb-22	Jul-22	Oct-22	Jul-23	Jul-24
Protected	Up to 50 units	98%	0%	0%	0%	0%	0%	0%
	51-100	-	-	-	-	-	-	-
	01-100	34%	0%	0%	0%	0%	0%	51%
	101-200	24%	0%	0%	0%	0%	0%	41%
Unprotected	01-100	34%	22%	1%	42%	0%	22%	43%
	101-200	24%	17%	-12%	39%	31%	21%	31%
	201-300	19%	14%	-9%	35%	30%	23%	26%
	301-400	11%	9%	-26%	29%	26%	25%	22%
	401-500	11%	9%	-19%	26%	28%	27%	17%
	501-600	11%	9%	-15%	25%	29%	26%	17%
	601-700	11%	9%	-12%	24%	30%	25%	16%
	301-700	11%	-	-	-	-	-	-
Above 700	9%	7%	-9%	25%	27%	21%	14%	

Table 1: Electricity Base Tariffs (Changes over the Years) Source: NEPRA

Electricity Base Tariffs (Changes over the Years)

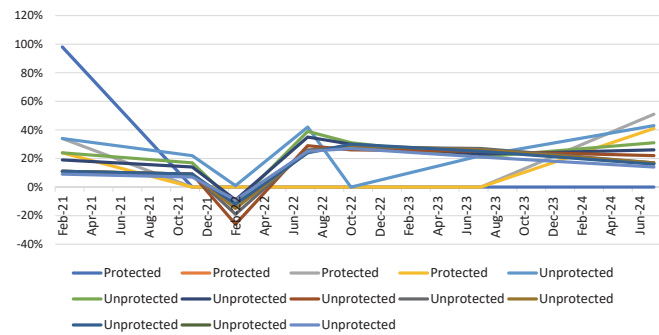


Figure 2: Snapshot of Electricity Base Tariffs (Changes over the Years)

of the 29 million domestic consumers in the lifeline category have been exempt from any price hikes.

More than **10 million** protected consumers, accounting for **60%**, along with one-third of all consumers, experience the steepest relative increase of **51%**. The next **11 million** consumers face a rise exceeding **40%**. The first four consumption quintiles are all within the first

Schedule of Electricity Tariff of K-Electric

Description	Applicable Uniform Variable Tariff (Rs. /kWh)	Applicable Uniform Variable Tariff (Rs. /kWh)
	Jul. to Sep 2024	Oct. 2024 onward
A-1 General Supply Tariff-Residential		
Up to 50 units	3.95	3.95
50-100 units	7.74	7.74
1-100 units (Protected)	7.74	11.69
101-200 units (Protected)	10.06	14.16
1-100 units	16.48	23.59
101-200 units	22.95	30.07
201-300 units	34.26	34.26
301-400 units	39.15	39.15
401-500 units	41.36	41.36
501-600 units	42.78	42.78
601-700 units	43.92	43.92
Above 700 units	48.84	48.84
Time of Use		
Peak	48	48
Off-Peak	41.68	41.68
E-1 (i) Temporary Residential	59.09	59.09
A-2 General Supply Tariff- Commercial		
For sanctioned load less than 5kW	38.59	38.59
For sanctioned load 5kW & above	40.91	40.91
Peak	44.97	44.97
Off-Peak	36.3	36.3
E-1 (ii) Temporary Commercial	54.6	54.6
Electric Vehicle Charging Station (EVCS)	45.55	45.55

Table 2: Schedule of Electricity Tariff of K-Electric Source: NEPRA

100 units of unprotected and up to **200 units** of the protected category. Only **5%** of this **80%** are exempt from any increase, while the minimum increase for the fourth quintile is **41%**.

Analysis of K-Electric's Electricity Tariff Schedule (July 2024 Onward)

(1) Steep Increase for Low Usage Residential Consumers

Protected Categories: The tariff for protected residential users consuming **1-100 units** will see a significant rise from **Rs.7.74/kWh** to **Rs.11.69/kWh**, and for those consuming **101-200 units**, from **Rs. 10.06/kWh** to **Rs.14.16/kWh** in October 2024 onward. This sharp increase could place additional financial pressure on lower-income households who rely on these protected categories for affordability.

Regular Tariff Users: For regular residential consumers using up to 200 units, there is a notable jump in the tariff, particularly for those in the **1-100-unit** range (from **Rs.16.48/kWh** to **Rs.23.59/kWh**). This nearly **43%** increase might lead to higher utility bills, further straining household budgets amid existing economic challenges.

(2) Moderate Increases for Higher Usage Residential Consumers

Consumers using more than 200 units will see relatively stable tariffs, with no increase from July to October 2024. This stability suggests that the tariff structure is designed to encourage higher consumption by wealthier households while placing a greater burden on those using less energy.

(3) Commercial Tariffs

Small Commercial Users: There is no change in the tariff for small commercial users with a sanctioned load less than 5kW (**Rs.38.59/kWh**) or 5kW and above (**Rs.40.91/kWh**), indicating that the cost structure for small businesses remains constant.

Time-of-Use Tariffs: Both peak (**Rs.44.97/kWh**) and off-peak (**Rs.36.3/kWh**) tariffs for commercial users remain unchanged, which could provide some predictability in energy costs for businesses, though it does not account for potential inflationary pressures.

(4) Impact on Electric Vehicle Charging Stations (EVCS)

The tariff for EV charging stations is set at **Rs. 45.55/kWh**, which remains constant over the period.



While this provides stability for EV infrastructure operators, the relatively high cost could deter widespread adoption of electric vehicles in a market where price sensitivity is crucial.

Apart from base tariff, electricity consumers in Pakistan face various taxes and surcharges in 2024, which vary based on consumption levels and consumer categories. The detailed breakdown is illustrated as follows:

Tax Structure

1) Domestic Consumers

Exemption: Bills less than **Rs.25,000** are exempt from tax.

Tax Rate: For bills of **Rs.25,000** or more, a flat **7.5%** tax is applied to the entire bill amount.

2) Commercial and Industrial Consumers

Exemption: No tax is applied for bills up to Rs. 500.

Tax Rates:

- Bills exceeding **Rs. 500** but not exceeding **Rs. 20,000** incur a **10% tax** on the amount exceeding **Rs. 500**.
- For bills exceeding **Rs. 20,000**, a fixed tax of **Rs. 1950** is charged, plus:
- **12% tax** on the amount exceeding **Rs. 20,000** for commercial consumers.
- **5% tax** for industrial consumers.

Additional Charges

- a) **General Sales Tax (GST):** Levied at **17%** on the electricity bill.
- b) **Electricity Duty:** Ranges from **1.0%** to **1.5%** of variable charges, applicable to all consumers.
- c) **PTV License Fee:** **Rs. 35** for domestic and **Rs. 60** for commercial consumers.

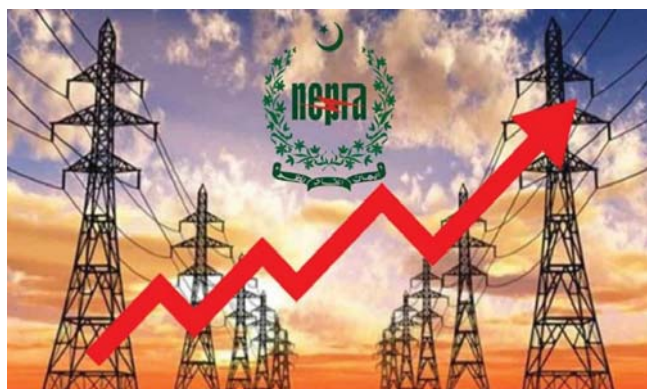
Summary Table of Taxes and Surcharges	
Tax/Duty/Fee	Rate/Details
General Sales Tax (GST)	17% of the electricity bill
Electricity Duty	1.0% to 1.5% of variable charges
PTV License Fee	Rs. 35 (domestic), Rs. 60 (commercial)
Financing Cost Surcharge	Rs. 0.43 per kWh
Fuel Price Adjustment (FPA)	Variable based on fuel charges
Extra Tax	5% to 17% for non-registered commercial consumers
Further Tax	3% for non-STRN consumers
Income Tax	Varies based on applicable tariff and bill amount

- d) **Financing Cost Surcharge: Rs. 0.43 per kWh** for all categories except lifeline domestic consumers.
- e) **Fuel Price Adjustment (FPA):** Adjusts based on the difference between actual and reference fuel charges.
- f) **Extra Tax:** Charged at **5% to 17%** for industrial and commercial consumers not registered with the Federal Board of Revenue (FBR).
- g) **Further Tax:** A **3%** tax is applied to consumers without a Sales Tax Return Number (STRN), excluding certain categories like domestic and agricultural consumers.

This comprehensive tax structure reflects the complexities consumers face when managing their electricity bills in Pakistan for 2024.

Present Status of Electricity Bills in Pakistan

On a typical domestic electricity bill, the government imposes a 24% tax. For commercial bills, the rate is 37%, and for industrial bills, it's 27%. The taxes include an extra tax, further tax, 18% sales tax, and advance income tax. Domestic customers pay 7.5% advance income tax,



commercial users pay 12%, and industrial users pay 5%. According to the former finance minister, total tax revenue from these charges was Rs. 388 billion last year and is projected to rise to Rs. 450 billion this year.

Implications for Economic Segments:

- a) **Lower-Income Households:** The disproportionate increase in tariffs for lower consumption bands may exacerbate economic inequality, as those least able to afford higher prices will face the steepest increases.
- b) **Commercial Sector:** The unchanged tariffs for commercial users suggest that the government aims to maintain business stability, but without additional relief, small businesses may still struggle with overall operational costs in a challenging economic environment.
- c) **EV Adoption:** The steady tariff for EVCS reflects an effort to support the transition to electric vehicles, though the cost may remain a barrier for broader adoption.

Conclusion:

The FY 2024-25 has seen significant hikes in electricity rates and new indirect taxes impacting essential goods. With a projected 16% devaluation of the rupee and the IMF's push for a market-driven exchange rate, imported inflation may rise. Base tariffs have increased by 26% to 51% for 91% of residential users, with an average rise of 40%, hitting lower-income households hardest. Despite stable tariffs for high consumption and commercial users, these changes could worsen economic disparities, strain household budgets, and slow electric vehicle adoption, affecting overall economic stability.