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# Where Do Contractual Savings Become Consumer Relief?

Emaan Khurram
International School Lahore
A1

*Tracing the transparency of government consumer savings claims regarding renegotiation of power contracts*

**Executive Summary**

A large chunk of Pakistanis' electricity bill consists of the capacity charge: a fixed charge that the government has to pay to Independent Power Producers (IPPs) for their mere capacity to produce power, regardless of actual demand and units sold. These charges are a result of the "Take-or-pay" power contracts that were signed with power producers decades ago. As Government public announcements proclaiming savings secured from renegotiations of these contracts continue, the capacity charge on the electricity bill does not seem to decrease and consumers continue to bear excessive charges. This brief investigates the transparency and auditability gap surrounding these public claims, examining why claimed generation side savings fail to translate into visible retail tariff reductions. The analysis reveals a fundamental institutional disconnect: while cumulative saving claims rely on forward-looking, multi decade projections, state oversight bodies, namely the Auditor General of Pakistan (AGP) and the National Electric Power Regulatory Authority (NEPRA), operate strictly on single year, backward-looking accounting frameworks. Consequently, the claims exist in an auditability vacuum, where the claimed multi-year relief can not be verified as consumer tariff reductions in audited state records. Furthermore, cost reductions received at the Central Power Purchasing Agency (CPPA-G) are often absorbed downstream and likely neutralize gains before they can reach users.

To bridge the transparency vacuum and ensure any generation side gains reach the consumer, this brief recommends NEPRA and CPPA-G to establish a mandatory tariff reconciliation framework, electricity bills to introduce an itemized line-item credit to prevent savings from being absorbed by general Distribution company (DISCO) loss as well as for NEPRA to introduce a mandatory sunset and annual reconciliation clause for the Debt Service Surcharge (DSS).

**Introduction**

In FY2024-25, the same year Pakistan's government began terminating and renegotiating its most expensive power contracts, consumers had to pay Rs 14.21[1] for every unit sold as a capacity charge: payment owed to power plants for being available, regardless of whether they would generate electricity. This is the direct consequence of the take-or-pay clauses written into

[1]National Electric Power Regulatory Authority, State of Industry Report 2025 (Islamabad: NEPRA, 2026), Executive Summary, 3.

Pakistan's legacy independent power producer (IPP) contracts, under which sovereign guarantees committed the state to paying for contracted capacity irrespective of actual demand. This is a structure that protects investor returns from demand risk while transferring that risk entirely onto the public sector, and from there onto the consumer.[2] In FY23-24 alone, distributed solar adoption, high tariffs and unreliable DISCO supply reduced grid consumption even as capacity payments continued[3]. This fixed payment structure left the government paying for idle capacity, which is a central driver of the circular debt that has threatened the power sector's fiscal stability. By 2024, renegotiating these contracts had become closer to a necessity than a policy reform: Pakistan's IMF programme made inaction indefensible as it pledged to renegotiate Power Purchase Agreements (PPAs) to alleviate fiscal pressures.[4]

Therefore, since October 2024, the government has renegotiated or terminated agreements with dozens of IPPs and government-owned power plants, publicizing a rapidly escalating sequence of "savings" figures - from Rs 411 billion to over Rs 3.6 trillion within thirteen months[5]. Existing commentary on this largely asks whether the renegotiation was economically justified and whether it was conducted transparently[6]. Less examined is the question of transparency from the perspective of savings to consumers. Despite these negotiations, the capacity burden on consumers for first half of FY2025-26 was forecasted as Rs16.32 per unit – 63% of the Power Purchase Price (PPP)[7]. And the approved charge by NEPRA was 5% higher than that at Rs17.19 per unit[8]. Which is a 21% increase from the previous fiscal year. There are structural reasons behind why this charge remains high, but the public record offers no way to separate what is structural from what is simply unrealized: the government has not published a methodology distinguishing the two. This is why this policy brief seeks to examine what the government's repeated announcements of 'savings' hold up against Pakistan's own audited regulatory and financial record and how transparently they reach the electricity bill.

## Methodology

This brief deploys a qualitative document analysis and analysis of regulatory audit framework to evaluate the verifiability and consumer pass through of government savings claims after IPP contract renegotiation. Primary sources are in the form of NEPRA, AGP, CPPA-G and Ministry of Energy documents to establish existing auditory frameworks. Secondary sources such as DAWN reporting from the Senate standing committee and federal cabinets, and press releases by the government are used to analyze the discourse on how savings from renegotiating IPP contracts are framed in order to lay down the argument.

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[2]PIDE, Circular Debt: An Unfortunate Misnomer (Working Paper 2020:20).

[3]Auditor-General of Pakistan, Audit Report on the Accounts of Power Division, Its Attached Entities and NEPRA, Audit Year 2024-25 (Islamabad: Department of the Auditor-General of Pakistan, 2025), xvii, https://agp.gov.pk/SiteImage/Policy/Power%20division%20its%20attached%20entities%20nepra-2024-25.pdf.

[4]International Monetary Fund [IMF], 2024, Pakistan: 2024 Article IV Consultation and Request for an Extended Arrangement under the Extended Fund Facility (Country Report No. 24/310), p.18/75.

[5]Dawn, "Govt ends contracts with five IPPs to save Rs411bn," Oct. 11, 2024, dawn.com/news/1864412; ProPakistani, "Govt Cancels Costly IPP Contracts Worth Rs. 3.6 Trillion," Nov. 4, 2025, propakistani.pk/2025/11/04/govt-cancels-costly-ipp-contracts-worth-rs-3-6-trillion/.

[6]Isaad, Haneea, and Shafiqul Alam. 2024. Optimizing Pakistan's Economy by Renegotiating Power Purchase Agreements. Institute for Energy Economics and Financial Analysis (IEEFA). ieefa.org.

[7]National Electric Power Regulatory Authority (NEPRA), Decision of the Authority in the Matter of Request Filed by CPPA-G for Power Purchase Price Forecast for the FY 2025-26, No. NEPRA/R/ADG(Tariff)/TRF-100/9267-71 (June 23, 2025), 18.

[8]Fawad Yousafzai, "Nepra projects higher capacity charges for 2026," The Nation, January 10, 2026, nation.com.pk/10-Jan-2026/nepra-projects-higher-capacity-charges-2026.

A coding system is developed to analyze 5 different reported savings figures which dissects the claim across five different categories: time basis, referent (what is actually being reduced), stated beneficiary, whether it is verifiable and if the consumer pass through is named.

A limitation of this methodology is that verification here is possible only at the whole sector level because NEPRA and the AGP do not publish a contract-by-contract reconciliation matching each announcement in their annual audits and reports. AGP power audit covering FY2024-25 was not found so claims could not be exactly verified against records. The column 'Is consumer relief verifiable against audited record?' specifically evaluates whether reported IPP savings claims are matched by traceable tariff rollbacks or explicit relief line-items in AGP annual audits or NEPRA determinations. Savings claims are sourced from secondary reporting, and what the officials define savings could also reflect upon the general costs saved during renegotiation of IPP contracts such as profit-cost margins or waived late payment surcharge; it doesn't necessarily have to pertain to capacity charge relief. Although the analysis engages extensively with numeric figures, the method remains qualitative because the aim is to verify claims across documentation.

**Key Findings**

Table 1: Defining "Savings" in Pakistan's IPP Renegotiation Announcements

| # | Date and Source | Stated figure | Time Basis | Referent (what is reduced) | Stated Beneficiary | Verifiable against audit? | Pass-through named? |
|---|---|---|---|---|---|---|---|
| 1 | October 2024 – Ministerial Press Conference (DAWN)[1] | Rs411bn overall; Rs70bn annual | Annual + cumulative stated; relationship unspecified | Avoided IPP payments; 5 terminated contracts. Tariff reduction target: Rs8-10 per unit | Rs70bn/71 paisa-per-unit consumer relief. Rs411bn treasury saving | Capacity charge spikes in FY2024-25; net effect is not isolated in any published breakdown | Implied via per unit figure |
| 2 | December 2024 – official Press Information Department release[2] | Rs238.224bn national; Rs8.826bn annual, for the same 8 plant deal; restates row 1's figures | Cumulative + annual | Avoided IPP payment (8 renegotiations) | Not stated | Same FY2024-25 window – not isolatable | None stated |
| 3 | January 2025 – Federal cabinet | Rs1.4 Trn national exchequer; Rs137bn | Cumulative exchequer + annual | Reduced with 14 IPPs; government liability + | Government + consumers | Same FY2024-25 window – | Implied only; no mechanism cited |

| # | Date and Source | Stated figure | Time Basis | Referent (what is reduced) | Stated Beneficiary | Verifiable against audit? | Pass-through named? |
|---|---|---|---|---|---|---|---|
| | decision (DAWN)[3] | annual consumer saving | consumer savings | consumer tariff | | not isolatable | |
| 4 | Feb 2025, Senate standing committee on power (DAWN; Hum News)[4] | Rs1.571 trn cumulative | Cumulative | Avoided IPP payments; 27 IPPs | Consumers | FY2024-25 window – not isolatable | Yes, but no mechanism identified |
| 5 | March 2025 – Senate standing committee on power (Energy Update; The News)[5] | Rs3.498 trillion, 29 IPPs/GPPs | Cumulative; 3–20 years | Avoided future IPP/GENCO payments; 29 IPPs/GPPs | Unspecified | Not verifiable, spans decades | Yes; conditional on tariff approval |
| 6 | November 2025 – press report (ProPakistani, sourced from Ministry of Energy)[6] | Rs3.6 trillion | Vague; government saving + annual consumer burden | Avoided IPP payments | Vague; government saving + annual consumer burden | Falls in FY2025-26 – audit unavailable | None stated |

*[1] DAWN, "Govt ends contracts with five IPPs to save Rs411bn."*
*[2] Government of Pakistan, Press Information Department, press release, Dec. 28, 2024, pid.gov.pk/site/press_detail/27562.*
*[3] Dawn, "Revision of Agreements with 14 IPPs...," Jan. 14, 2025, dawn.com/news/1885176.*
*[4] Dawn, "Govt claims saving Rs1.5tr by revisiting IPP contracts," Feb. 25, 2025, dawn.com/news/1894200/; "Government secures Rs1.571 trillion in savings from IPPs," Feb. 25, 2025, humenglish.com/business/government-secures-rs1-571-trillion-in-savings-from-ipps/.*
*[5] Energy Update, "Revised IPP Contracts to Save Rs3.5 Trillion Over 3-20 Years," Mar. 27, 2025, energyupdate.com.pk; The News, "Govt eyes Rs3.5tr savings in more IPP deals," same date, thenews.com.pk/print/1295738.*
*[6] ProPakistani, "Govt Cancels Costly IPP Contracts Worth Rs. 3.6 Trillion," Nov. 4, 2025, propakistani.pk/2025/11/04/govt-cancels-costly-ipp-contracts-worth-rs-3-6-trillion.*

**Absence of Consumer Relief**

Even though AGP audits and verifies claims of consumer relief due to IPP negotiations, its findings frequently expose that savings for the public are absorbed by DISCO payables which remain in tens of billions before reaching consumer bills[9]. The AGP Audit Report on the Accounts of Power Division audits historical compliance, contract mismanagement, and operational losses, but contains no mechanism to verify forward looking savings claims or trace per-unit tariff relief[10] (such as the cited 71 paisa/unit reduction) to bills. Because AGP audits backward-looking financial statements and NEPRA adjusts tariffs on aggregate system costs, government IPP savings claims remain un-audited and unverified.

In comparable international power sectors such as Kenya's, long term contract modifications and IPP savings are verified through dedicated audit mechanisms and isolated tariff reconciliation ledgers[11]. Pakistan's state oversight however, lacks an inter-institutional framework to trace claimed multi-year contract savings down to AGP audit trails or retail NEPRA tariffs. Currently, the AGP is constrained by a backward-looking annual compliance mandate while NEPRA determines tariffs using aggregate system cost formulas that allow savings made to get absorbed into rising costs. Without establishing a mandatory, published reconciliation framework that explicitly isolates capacity savings from distribution losses between CPPA-G, NEPRA and the AGP, government claims of multi-trillion rupee consumer savings will remain assertions rather than public relief.

**Absence of Itemized Tariff Disclosures**

NEPRA does not perform itemized billing on retail electricity invoices to isolate upstream capacity charge variations from downstream operational losses or statutory surcharges.[12] Instead, capacity charge reductions enter the tariff pool where they are downstream absorbed by DISCO operational deficits. Concurrently, statutory levies such as the nationwide Debt Service surcharge charged at Rs 3.23 per kWh[13] are applied as fixed additions to consumer bills without itemized tracking, preventing consumers from seeing whether generation-side savings actually reach their final bills.

**Contradictions Between NEPRA and the Government as to Where Circular Debt Savings Come From**

In January 2026, Federal Minister for Power, Awais Leghari, held a press conference directly challenging NEPRA's own State of Industry Report 2025 claiming that the report, delayed roughly five months past its statutory release date, was based on incomplete and inaccurate data and did not reflect the government's actual progress. He rejected NEPRA's claim that circular debt fell by Rs 780 billion in one year due to external financial injections, terming it as

[9]Department of the Auditor-General of Pakistan, "Financial Audit Manual" (Islamabad: Auditor-General of Pakistan, 2021), agp.gov.pk.

[10]Department of the Auditor-General of Pakistan, "Financial Audit Manual" (Islamabad: Auditor-General of Pakistan, 2021), agp.gov.pk.

[11]Office of the Auditor-General of Kenya (2022). Report of the Auditor-General on Forensic Review of Procurement and Management of Power Purchase Agreements (PPAs). Nairobi: Parliament of Kenya.

[12]National Electric Power Regulatory Authority, National Electric Power Regulatory Authority (Tariff Standards and Procedure) Rules, 1998 (Islamabad: NEPRA, 1998), nepra.org.pk.

[13]DAWN, "Power users to continue paying debt surcharge," DAWN, January 15, 2026, https://www.dawn.com/news/1967028.

"misleading," and offered his own breakdown of that reduction: Rs 193 billion from lower DISCO losses, and Rs 260 billion "achieved through successful negotiations with independent power producers (IPPs)."[14] This is the first instance in the corpus of this brief, of the government itself attaching a specific rupee figure to consumers facing circular debt relief attributable to IPP renegotiation, rather than the more vague language ("will gradually reach consumers") seen in Table 1. NEPRA's FY2024-25 State of Industry Report is itself contested by the Ministry it concerns, which suggests lack of transparency across institutions in terms of reporting where consumer relief comes from. This brief does not treat the Minister's Rs 260bn figure as verified for it is not a counter-audit and the statement does not specify a calculation methodology any more than the savings announcements in Table 1 do, which is consistent with this brief's argument that parties do not disclose how their numbers are derived.

**Absorption and Neutralisation of Generation Savings**

Even if contract renegotiations successfully reduce capacity payments, these gains do not reach bills because they are immediately absorbed by distribution level inefficiencies[15]. In FY24-25 alone, DISCOs accumulated Rs 397bn in new sector debt[16], of which Rs 264.5bn stem from excess transmission and distribution losses and theft beyond regulatory allowance, while Rs 132.5bn stem from recovery shortfalls. Furthermore, high borrowing costs, inter-entity payables (with individual DISCOs owing hundreds of billions to CPPA-G), and circular debt servicing consume cash flow long before it impacts tariff calculations. In 2026, the government announced that the Rs 3.23 per unit debt service surcharge would continue up till six years[17] to fund circular debt repayment. No document in this corpus connects the size of the announced savings to the size or eventual removal of this surcharge. Even though government announcements frame IPP contract terminations and capacity charge renegotiations as multitrillion rupee savings, these generation side reductions have not translated into any meaningful downward adjustment or sunset check on consumer DSS levies. Because the Rs 3.23/kWh surcharge is treated as a fixed structural component of base tariffs, consumers continue to pay heavy debt-servicing fees regardless of how much IPP capacity debt is negotiated down or retired. A saving in Pakistan's power sector is typically treated as an avoided cost increase. During the amount of electricity sales from the national grid fell from 3% in FY2023-24 and another 2.8% in FY2024-25, largely attributable to the solar boom[18]. Therefore, the evaluation of capacity cuts as absolute savings ignores the shrinking grid use denominator as capacity charge is calculated by dividing the total fixed operational costs of all IPPs and dividing it by total number of units (kWh) sold to consumers[19]. Because consumer demand is

[14] The Nation, "Nepra's State of Industry Report fails to present true picture of power sector: Awais Leghari," Jan. 19, 2026, nation.com.pk/19-Jan-2026/nepra-s-state-industry-report-fails-present-true-picture-power-sector-awais-leghari.
[15] National Electric Power Regulatory Authority (NEPRA), State of Industry Report 2024 (Islamabad: NEPRA, 2024), https://nepra.org.pk/publications/State%20of%20Industry%20Reports.php.
[16] National Electric Power Regulatory Authority, State of Industry Report 2025.
[17] DAWN, "Power users to continue paying debt surcharge," DAWN, January 15, 2026, https://www.dawn.com/news/1967028.
[18] DAWN, "Shrinking grid," DAWN, February 14, 2026, https://www.dawn.com/news/1973145.
[19] National Electric Power Regulatory Authority, "National Electric Power Regulatory Authority (Tariff Standards and Procedure) Rules, 1998," https://nepra.org.pk/Legislation/2-Rules/2.1%20NEPRA%20Tariff%20Standards%20and%20Procedure%20Rules,%201998/NEPRA%20(Tariff%20Standards%20and%20Procedure)%20Rules%201998%20along%20with%20all%20amendments.pdf.

contracting during negotiation cycles, the tariff hikes driven by idle plants mask the savings made.

## Recommendations

### Implement a Tariff Reconciliation Framework

To eliminate the auditability vacuum surrounding long term power contract renegotiations, the government must move beyond single year, backward looking oversight and establish a joint, line item transparency framework. Specifically, the Ministry of Energy, CPPA-G, NEPRA and the AGP must co-establish a tariff Reconciliation Framework that would be published. AGP should incorporate consumer savings audit from renegotiations of power plants. The AGP should consider conducting and publishing forward looking verification by auditing and validating forward looking Net Present Value (NPV) financial models before public announcements are made in order to separate generation side savings from distribution losses. These models can account for inflation and interest rate fluctuations across multiple decades. This is important because Power Purchase Agreements (PPA) contain automatic indexation mechanisms and a cumulative saving extending toward decades would be worth far less in purchasing power today due to inflation. This would allow policy analysts and economists, as well as the common person, to check the real value of a projected cumulative saving and use that for analysis and further research.

### Mandate an Itemized Consumer Tariff Framework to Prevent Downstream Absorption

To ensure that capacity charge savings are kept separate from distribution inefficiencies and fixed surcharges, the Ministry of Energy and NEPRA should implement a mandatory Itemized Tariff Reconciliation Framework across consumer electricity bills. An explicit, dedicated credit line-item on retail monthly bills (e.g., Generation Contract Relief Credit) that directly reflects capacity charge reductions should be mandated, preventing DISCOs from netting these savings against their operational losses. Moreover, DISCO transmission and distribution line losses and collection shortfalls should be explicitly separated as distinct cost additions on bills, ensuring distribution inefficiencies are transparently accounted for rather than offset against generation side gains. This would allow for ring-fencing of consumer savings and prevent cross-subsidizing DISCO theft. By displaying a “capacity charge relief” credit on the bill along with a “DISCO loss surcharge”, DISCOs are prohibited from using upstream savings to cover operational inefficiencies. This could also create direct financial pressure on those efficiencies and force regulators and provincial management to address power theft rather than masking it behind capacity savings and on the government to renegotiate more contracts to “take-and-pay” schemes.

### Mandate a Statutory Sunset Check and Annual Reconciliation for the Debt Service Surcharge

NEPRA and the Ministry of Energy ought to amend the annual tariff determination framework to incorporate a Mandatory DSS Sunset and Reduction Clause which would include a separation of debt accounting: the Power Division and CPPA-G should explicitly separate the reporting of legacy debt service funded through DSS from ongoing operational debt (line losses and under recoveries) in annual reports. Legally tying DSS rates to remaining principal debt can lead to a scheduled reduction in the surcharge as bank loans are amortized and ensures the charge expires once the debt is retired. This can also prevent circular debt recycling and prevent the ministry of energy from using these funds to cover ongoing debt, allowing for the potential to break the cycle of recurring energy debt.

**Conclusion**

Holding the state, regulatory authorities, and public auditing bodies accountable for official statements regarding energy sector savings is essential to restoring public trust. In a power system where gains are often obscured by distribution losses and uncollected bills, claims of consumer relief should not remain unverified assertions. The findings of this brief demonstrate that the absence of verifiable consumer relief is an institutional gap in tariff design, and auditing mandates. As long as any generation side capacity savings enter an un-segregated tariff pool, they will continue to be absorbed by downstream DISCO inefficiencies and fixed surcharges before they reach consumers. The recommendations provided, if implemented rigorously, will open a channel for accountability and transparency in the regard of relief from IPP renegotiations, considering a large chunk of consumers' electricity bills come from the capacity charges. This publicized accountability can also reduce DISCO losses and circular debt and encourage the government to pursue further contract revisions with IPPs.

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