



**TRANSPARENCY
INTERNATIONAL-PAKISTAN**

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16th November. 2009

Mr. Shaukat Tarin,
Federal Minister of Finance,
Government of Pakistan,
ISLAMABAD

Sub: SECP to investigate KESC affairs

**Ref: SECP Letter No EMD/233/401/02-33 dated 5 August 2009, NEPRA
Letter dated 12 Oct. 2009, KESC Letter dated 5 October 2009 and reported ECC
Meeting on KESC scheduled for 17th Nov. 2009**

Dear Sir,

Transparency International Pakistan has been requesting PC, NEPRA, WAPDA for copies of the Concession Agreement of 2005, and Amended Agreement of 2009, since last one year, but all these agencies have failed to furnish the copies which are our right under PPRA Rules.

It is noted from news paper that the Economic Co-ordination Committee (ECC) of the Cabinet is scheduled to meet on November 17 under the chairmanship of Finance Minister Shaukat Tarin, and is expected to suggest actions against Karachi Electric Supply Company (KESC) for "breach of agreement" with the government at the time of its privatisation.

Beside the defaults mentioned in the news paper, TIP is of the view that many other defaults have been committed by KESC, like non payment of costs of energy of IPPs, Tapal and Gul Ahmed, failure to invest US \$ 500 million in 2005-2009, for upkeep, payment of energy cost to Wapda and fuel cost to PSO, and creating artificial shortage, in order to buy energy fro RPP, specially Walters at very high cost.

Senator Raza Rabbani of PPP, Senator Dr Farooque Sattar of MQM, and recently MQM Minister Rauf Siddiqui have demanded to terminate the Contract Agreement and take over KESC in public Sector.

TI Pakistan strongly oppose such move, as it would be a damaging step for the credibility of Pakistan with foreign investors, and future privatization. Incapable Appointees of regulatory bodies have failed to protect GoP Interest, and ECC shall recommend removal of all such officers from all posts in GoP.



KESC shall perform their obligations and ECC may nominate a third party to examine KESC defaults and recommend action by KESC with time frame and penalties. M/s Abraj Group shall comply with the terms of Agreement dated 2005, and operate according to prudent business practices and perform as per Contract Agreement dated 2005. Rule of Law shall prevail in Pakistan.

With regards,

Syed Adil Gilani,
Chairman,

Copy forwarded for the information of;

Chairman, PAC, Islamabad

1. Minister of Water & Power, Islamabad
2. Minister of Privatisation, Islamabad, with reminder that TIP is still not provided the copies of Concession Agreement 2005 and Amended Agreement 2009.
3. Auditor General Pakistan, Islamabad CEO, KESC, Karachi.
4. Mr. Salman Ali Shaikh, Chairman, Securities and Exchange Commission of Pakistan,

BUSINESS RECORDER

Editor-in-chief: M.A. Zuberi

Breach' of agreement: ECC may suggest actions against KESC

MUSHTAQ GHUMMAN

ISLAMABAD (November 15 2009): The Economic Co-ordination Committee (ECC) of the Cabinet, which is scheduled to meet on November 17 under the chairmanship of Finance Minister Shaukat Tarin, is expected to suggest actions against Karachi Electric Supply Company (KESC) for "breach of agreement" with the government at the time of its privatisation, well-informed sources in Water and Power Ministry told *Business Recorder* on Saturday.

According to the sources, Pakistan Electric Power Company (Peppo) and National Electric Power Regulatory Authority (Nepra) have pointed out several violations on the part of KESC, including non-payment of outstanding dues. The Nepra has already imposed a penalty of Rs 0.6 million for poor performance and failure to dispatch adequate power from its own plants and the IPPs, which resulted in severe shortage of power and massive loadshedding in Karachi.

Giving the background, the sources said that the ECC had noted the presentation, made by the Nepra on steps taken by the latter to regulate the first ever privatised power utility, and constituted a committee, comprising Ministers for Law, Finance, Deputy Chairman of Planning Commission, Water and Power Secretary and the Nepra Chairman. The committee held its meeting on September 11, 2008 and October 16, 2008, and noted that the KESC was in breach of agreements on account of the following:

- Failure to install additional 1000 MW generation within three years from the date of privatisation as per the implementation agreement (IA). Termination of O&M agreement with Siemens in violation of share purchase agreement (SPA).
- Operated the KESC system without a qualified O&M partner in violation of the consortium agreement, a condition precedent for qualification criterion to bid for and own the KESC as per the SPA.
- Delayed utilisation and implementation of Rs 10.1 billion for financial improvement plan (FIP).

The KESC has accordingly been advised as under:

- The KESC should run its all available plants, especially of Bin Qasim, at the maximum output to meet its system demand and also enhance the availability and dependable capacities of all its power plants.
- Transmission and distribution networks should be upgraded and augmented to avoid frequent breakdowns.
- Import from Wapda system should be minimised as much as possible so that loadshedding duration in the rest of the country is reduced.
- The KESC should add generation to meet future load growth of system and make flat-out procurement of power from the IPPs. The sources said the Nepra also issued a show-cause notice under Section 28 and 29 of the Nepra Act, 1997 to the KESC on July 21 due to non-fulfilment of its obligations to the consumers, NTDC and IPPs.

The Nepra has already heard the views of all the stakeholders and now the decision is awaited. In subsequent development, the Cabinet Committee on Energy Crisis (CCEC) has also taken cognisance of the issue in its meeting held on July 29 and August 5, and given targets to the KESC to improve the situation.

The sources said the Muttahida Qaumi Movement (MQM), which was also part of the government both in the Centre and province, was of the view that as the utility had failed to provide any relief to the consumers of Karachi, hence the government should take it back from the incumbent operators. However, the government was reluctant to cancel/nullify the privatisation as it would send negative message to the investors, said the sources.