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August 29, 2009

Mr Syed Adil Gilani,
Chairman, Transparency International Pakistan,
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Dear Sir,

Subject: Rental power projects

We are in receipt of your letter of August 27, 2009, and thank you for the same. We submit the following for your review and information:

1. Transparency International Pakistan (TIP) is an important organisation. We appreciate and unreservedly endorse its objectives. It was for this reason that we approached your organisation, unsolicited, through our letter of August 3, 2009, volunteering information on rental power in general and our projects in particular. It is not merely in our interest as a responsible corporation, but in the interest of the general public that facts and information be available for an informed debate that weighs the merits and demerits of any proposal affecting public life. You have graciously appreciated and acknowledged our initiative in this regard.
2. While we do not consider it appropriate to "tell" the Government of Pakistan and public sector organisations what they may or may not do, we have, through our letter of August 17, 2009, requested PPIB, PEPCO, WAPDA and the Ministry of Water & Power to consider your request for documentation to further the aforementioned objectives. We also understand that documentation on rental power has been provided to PPRA.
3. We are pleased that you have reviewed the advertisement issued by us for our 136MW Bhikhi Rental Power Plant. This Plant runs on natural gas, and provided electricity to the national grid at Rs 5.86 per unit from December 2007 to December 2008. However, you have referred to the two upcoming RPPs based on furnace oil at Eminabad and Gojra and then asked: "why you are charging 100% more for Gojra?" This is a surprising question considering that the PPR project

portfolio was relayed to you in our first letter of August 3, 2009. PPR has no interest in either of the projects you have referred to.

4. We are pleased that you have reviewed Julia M. Fraser's May 2005 report, "Lessons from the Independent Private Power Experience in Pakistan," for the Energy and Mining Board of The World Bank Group. However, there is nothing in this report to support your finding that 12 IPPs "voluntarily reduced their tariff when corruption inquiry was conducted."

The report quotes the then US Secretary of Energy as describing the 1994 Power Policy as "the best energy policy in the whole world" and then describes the tactics adopted by the succeeding government to negate this conclusion.

The report states that "excessive coercion, harassment and heavy-handed legal and other actions initiated by the [succeeding] Government to renegotiate tariffs or cancel contracts contributed to Pakistan's fall from grace in the eyes of the international private sector community." The report states that "coercive tactics (e.g. arresting/interrogation of IPP company officers and sometimes family members) and threats of project cancellation were being used in attempts to obtain tariff reductions." The report states that this strategy was "unsuccessful". Referring to cases of marginal tariff reductions, the report makes clear: "In exchange for these tariff concessions, the term of their power purchase agreements was extended from around 20 years to 30 years."

5. Questions regarding any actual or alleged shortcomings on the part of governmental and regulatory organisations are best addressed by those relevant organisations. Questions regarding the prudence or otherwise of the Government's policy to employ rental power are also better addressed by its representatives.
6. WPI and PPR have a single common shareholder, but are independent legal entities. Both corporations were incorporated and exist under the laws of Oklahoma, USA. Your letter claims that Walters Power International (WPI) has a contract with KESC. This is to inform you that PPR and WPI have no contracts of any nature whatsoever with KESC. Neither corporation has any contract or interest in the IPPs (Gul Ahmed and Tapal) you have referred to.
7. As we have previously stated, we endorse the objectives of your organisation and the goals to which it aspires. We appreciate TIP's determination to be "politically non-partisan" and take positions "based on sound, objective and professional analysis and high standards of research." We appreciate that TIP seeks to work with all stakeholders and will "adopt a Non-Confrontational stance when dealing with Governments." We appreciate TIP's declaration that it will steer clear from actions that may give the impression its efforts are personalized.

