



Pakistan Power Resources

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The Chairman,
Transparency International,
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August 3, 2009

Dear Sir,

Subject: **Rental power**

We refer to your letter to the Federal Minister for Water & Power dated July 24, 2009, and which is available on your organisation's website. We also refer to the news item, "PPRA to scrutinise PPIB-executed contracts," published in the August 1, 2009, edition of Business Recorder.

Pakistan Power Resources (PPR) is incorporated in the US and owns and operates the gas-fired 136MW Rental Power Plant at Bhikki, District Sheikhpura. This is one of the two Rental Power Plants currently operating in Pakistan. The other, which was also commissioned in late 2007, is owned and operated by GE. PPR is also implementing the gas-fired 110MW Rental Power Plant at Guddu and the RFO-fired 192MW Rental Power Plant at Multan. All three Projects were awarded through a competitive-bidding process.

At the outset we shall like to state that PPR shares common objectives with your organisation. The long-term sustainability of high-investment Projects, including the ones being undertaken by PPR, is only possible if these are awarded, implemented and run cleanly and transparently. The Projects being run and implemented by PPR are challenging. However, it is important that concerns regarding rental power be immediately addressed and allayed.

To this end, the response or non-response from Governmental organisations notwithstanding, as far as PPR is concerned, we shall like to cooperate with your organisation in reviewing the rental power model and the process through which contracts were awarded by PEPCO and PPIB.

We are attaching herewith the following items for your kind review and information:

1. Press clipping from Business Recorder dated August 2, 2009: "Scrutiny of contracts: RPPs offer to cooperate with PPRA."
2. Comparison of tariffs between rental power plants and IPPs.

We shall be pleased to make a presentation on the rental power model generally and our Projects specifically at a time and place of your convenience.

We shall look forward to hearing from you.

Thanking you,
Sincerely yours,



Fasih Ahmed,
Director

Scrutiny of contracts: RPPs offer to cooperate with PPRA

Mushtaq Ghumman, Business Recorder

ISLAMABAD (August 02 2009): Rental Power Producers (RPPs) have offered full co-operation to the Public Procurement Regulatory Authority's (PPRA), that has decided to scrutinise contracts awarded by the government following receipt of information that some circles have shown "suspicion" on the transparency of the awards.

The rental power projects' issue and its implications on government credibility have also been discussed in the Federal Cabinet a couple of days ago on the hue and cry made by the opponents. "We welcome the involvement of PPRA in reviewing contracts awarded by the Pakistan Electric Power Company (Pepco) and PPIB for the setting up of fast-track rental power projects to help Pakistan meet its emergency power requirements," said one of the rental power sponsors who recently held meeting with President Asif Ali Zardari in Islamabad and apprised him of the situation at length.

The policy to set up rental power projects had been validated by three successive governments and contracts had been awarded following the laid down process, said the rental power producers. The tariffs of rental power plants were favourably in line with the tariffs for upcoming IPPs, and rental power plants required only six-eight months in commissioning whereas the IPPs took three-four years, he clarified.

"We are familiar with the achievements of PPRA and remain confident that the nature of the examination will neither be persecutory nor dilatory," he added. "The PPRA will and should review the process and recommend rectifications and corrective measures if and wherever necessary," he said, adding that rental power sponsors would cooperate fully with the organisation to allay any and all concerns.

The rental producers said the deferment of six percent withholding tax was a decision taken by the government and was consonant with other stimulus measures contained in the recently unveiled trade policy. They said that while several rental power projects had previously been delayed on account of Pepco and PPIB, not being able to abide by their contractual obligations on account of the economic difficulties being faced by Pakistan, most rental power plants were expected to be commissioned by end-December.

The announcement by rental power producers comes on the heels of the story broken by *Business Recorder* that the PPRA is expected to scrutinise PPIB-executed contracts for fast-track rental power projects in Pakistan. Transparency International's Pakistan chapter, in a letter dated July 24, complained to PPRA about the PPIB's non-responsiveness in providing details of rental power contracts it had executed with various local and foreign companies.

TIP has also asked Pepco to provide the detail of rental contracts signed with different investors. Power sector analysts are of the view that 14 percent advance payments and deferment of six percent withholding tax are post-tendering benefits, which may render these tenders suspicious under the procurement rules.

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