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3rd December, 2009

Tahir Basharat Cheema,
Managing Director,
PEPCO,
WAPDA House,
Lahore.

Subject: Allegation of Procurement of Energy Saver Bulbs at 100% higher market rates-URGENT

Dear Sir,

The news published in Daily Dawn of 2nd December 2009 that PEPCO is buying Energy Saver Bulbs at higher cost, and that ADB has funded the project, costing Rs 6 Billion. The following statement from the news is very serious allegation on PEPCO as well as ADB.

"Documents made available to Dawn suggest that the CFLs would cost about Rs225 per bulb. To be procured at about Rs165 per piece (\$1.97) by the Pakistan Electric Power Company (Pepco), the bulb is available at less than Rs140 in the retail market and shopkeepers readily agree to Rs135 per bulb if purchased in bulk.

Planning Commission's spokesman Muhammad Asif Sheikh defended the project and said it would help conserve energy. He said the sponsors had also been asked to look into local manufacturing of CFLs. When asked that companies like Philips and Osaka were selling CFLs at much lower prices than approved by the Planning Commission, he said the quality of Pepco-sponsored CFLs would be better."

Public Procurement Rules, 2004 have eliminated all discretions in procurement process, and PEPCO has to follow these Rules, or in case ADB is funding the Project, and the Loan Agreement specify use of ADB Guidelines and not PPRA Rules, even then the ADB procurement procedures does not allow specifications which eliminates Phillips or Osaka Bulbs, and procure costlier energy saver bulbs.

Transparency International Pakistan request PEPCO to please clarify whether the news is correct, and if so, what are the rules under which Rs. 225 is being paid for a bulb available in open market at Rs. 140, and causing loss to exchequer of approximately Rs 3 Billion, as reported in Dawn. Kindly also confirm whether "Integrity Pact" has been signed by the Supplier, which is mandatory in all procurements made by Federal governments, even on procurement made under ADB or any IFI funding.

With Regards,

Syed Adil Gilani
Chairman,

Copy forwarded for the information and appropriate action on the violation,

1. Chairman Public Accounts Committee, Islamabad
2. Auditor General Pakistan, Islamabad
3. Federal Secretary, Planning Commission, Pakistan.
4. Managing Director PPRA , Islamabad
5. Mr. Rune Stromer , Country Director, Pakistan Resident Mission, Level 8, North Wing Serena Office Complex, Khayaban-e-Suharwardy, G-5, Islamabad

Govt buying energy saver bulbs at high rates

By Khaleeq Kiani

Wednesday, 02 Dec, 2009

ISLAMABAD, Dec 1: In the midst of severe energy shortfalls, the government is learnt to have decided to procure about 30 million energy saver bulbs for free distribution at rates much higher than in the retail market.

The Central Development Working Party headed by Planning Commission's Deputy Chairman Sardar Assef Ahmed Ali last month approved the Rs6.7 billion national compact fluorescent lamps (CFLs) project for free distribution of about 30 million CFLs as a measure to conserve energy. About Rs5.3 billion will be borrowed for the project from the Asian Development Bank.

Energy experts are of the opinion that the government is adopting an old CFL option which is environmentally less viable than the new technology of LEDs (light-emitting diodes) and compromising on transparency by paying Rs85-100 more than the market price at the cost of national exchequer.

The cost of the project could be brought down by Rs2.5 to Rs3 billion by negotiating a better price.

Documents made available to Dawn suggest that the CFLs would cost about Rs225 per bulb. To be procured at about Rs165 per piece (\$1.97) by the Pakistan Electric Power Company (Pepco), the bulb is available at less than Rs140 in the retail market and shopkeepers readily agree to Rs135 per bulb if purchased in bulk.

The government could have further reduced the price of CFLs by negotiating bulk purchases with manufacturers.

The documents suggest that the project was approved only on the premise of an estimated energy saving of Rs17 billion despite certain objections raised by the Ministry of Water and Power -- the parent organisation of Pepco.

The ministry's adviser had pointed out that "keeping in view the production of higher order harmonics in CFLs working, which may heat up the feeders and distribution transformers, sponsors (Pepco) may consider the future technical problems after adding these CFLs in the system". He said that the quality of CFL was a serious issue and, therefore, quality/warranty mechanism adopted by sponsors might be clarified.

According to him, Pepco claimed that the project was being implemented after approval by the prime minister, but it did not provide any evidence of the approval. The adviser said that the basis for per unit cost of the bulb at \$1.97 had not been justified nor had the economic analysis of efficiency and energy saving for the existing tube-lights been furnished.

"Transparency of the entire project is doubtful," said Arshad H. Abbasi, an energy expert and consultant for the United Nations Development Programme on water and power. He said that CFL was not a sustainable energy conservation solution but a waste of public money.

He said there were certain people who wanted to make money in the name of energy savings. He said the government should have made power companies responsible for loss reduction and developed cheap hydel power projects, instead of monitoring quality of foreign CFLs manufacturers.

Faridullah Khan, managing director of Enercon (ministry of environment), agreed that LEDs were more environment friendly, economical and efficient than CFLs, but said the introduction of CFLs was the first step in the emergent situation and LEDs could be adopted subsequently. He also agreed that targets set under the five-year plan for reduction of pilferage and technical losses could not be met.

Planning Commission's spokesman Muhammad Asif Sheikh defended the project and said it would help conserve energy. He said the sponsors had also been asked to look into local manufacturing of CFLs.

When asked that companies like Philips and Osaka were selling CFLs at much lower prices than approved by the Planning Commission, he said the quality of Pepco-sponsored CFLs would be better.

The director general of Pepco's energy conservation could not be reached for comments despite requests made through its public relations department.