



PAKISTAN ELECTRIC POWER COMPANY (PVT) LIMITED

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GM (C&M)

No. 10921-23 /PEPCO/GM(C&M)/CE/(PMU)/CFL Dated 07/09 /2010



→ The Joint Secretary (PAC & C-II)
National Assembly Secretariat
(Public Accounts Committee Wing)
Islamabad.

Sub: ALLEGATION OF PROCUREMENT OF ENERGY SAVER BULBS AT 100% HIGHER MARKET RATES - TIP LETTERS DATED 3 DECEMBER 2009, 21 DECEMBER 2009 AND 22 DECEMBER AND PEPCO REPLY DATED 21 DECEMBER 2009 AND FAILURE OF PEPCO TO POSTPONE THE TENDER OPENING.

Ref: National Assembly Secretariat (Public Accounts Committee Wing) U.O. No.F.1(1)2010-JSPAC, dated: 16th August, 2010.

The concern shown by TIP regarding possible problems in the purchase of 10 Million CFLs (Phase-1) were duly replied by PEPCO and a detailed report in this respect was submitted to Chairman Public Accounts Committee through Secretary Ministry of Water & Power Govt. of Pakistan Islamabad by PEPCO vide letter No. 10474-78, dated: 09/07/2010 (Copy enclosed). In which all the concerns shown by TIP were addressed.

The latest position of this project is as under:

1. The Loan Agreement with ADB and AFD has been signed by Govt. of Pakistan.
2. The Project has been cleared by CDWP and is on the agenda of ECNEC for approval during its next meeting.
3. The financial proposals of the responsive bidders have been opened and the price offered by the lowest responsive bidder M/S Fire Fly Lighting China is US \$ 0.948

MANAGING DIRECTOR

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No. 10474-78 MD/PEPCO/CE/TD/PD(PMU)/CFL Dated: 09/07/2010

Secretary,
Ministry of Water and power,
Govt. of Pakistan,
ISLAMABAD.

Sub: ALLEGATION OF PROCUREMENT OF ENERGY SAVE BULBS AT 100% HIGHER MARKET RATES - NOTICE TAKEN BY CHAIRMEN PUBLIC ACCOUNTS COMMITTEE.

Ref: National Assembly Sect's U.O. No. F.I(1)/2010-PAC dated 18.05.2010 received through Director General Audit WADPA letter No. Proc/QR/TIP/031 dated 11.06.2010.

The concern shown by TIP regarding possible problems in the purchase of 10 Million CFLs (Phase-1) were duly replied by PEPCO on 21.12.2009 & all the issues were listed point wise. Similarly, TIP letter dated 20.06.2010 was replied by PEPCO vide letter No. 2940-42/M/PEPCO/33A(C&M)/CFLs dated 30.06.2010 (copy enclosed).

The queries raised by TIP on above referred letters are addressed as follows:

National CFL program for procurement of 30 Million high quality CFLs / Energy Save Bulbs is a very transparent procurement through international competitive bidding, evaluation & award duly built in to ensure transparency & competitiveness under the procurement guidelines of PPRA & ADB which is financing this Project under its Energy Efficiency Program alongwith AFD of France. Similarly, a very comprehensive & transparent process has been built in for distribution through PEFCO (DISCOs) & KESC to the domestic customers all over Pakistan, free of cost in exchange of 40-100 incandescent bulbs. The whole process of distribution has in-built monitoring and tracking system approved by ADB and is to be supervised by ADB Implementation Consultants.

The reported cost of US\$ 1.37 (Rs.115) as per PC-I document of the Project contains only an estimated indicative cost of Lamps. It is not the actual cost per lamp which will emerge and will be determined when the ICB (International Competitive Bidding) process is complete. So far, the technical bids have been opened & evaluated and have been submitted to ADB for approval. After the approval of the Bank, the financial bids of technically qualified bidders will be opened in the presence of all bidders and the media. Therefore, at this stage when the financial proposal has not been opened, it is incorrect and preposterous to say that the CFLs are being purchased at higher cost and Govt. of Pakistan is incurring 100% higher expenditure on this procurement.

Exact cost will be determined when financial proposals will be opened, however, it is envisaged that the prices likely to emerge out of this competitive process would be much less than the ones for the seemingly similar but standard products which are sold in the market. Actually, the loan for ADB & AFD will be restricted to the actual price which emerges out of the ICB process. However, if the quoted price of one CFL emerges on the higher side than the market price, the tender is likely to be scrapped in consultation with the ADB.

A standard quality CFL last upto 6000 hours or upto 3 years after replacement. Most of the CFLs available in the market are of spurious quality and operate less than 1000 hours. In this Project, the specification requires purchase of lamps with high quality and with a life span of 10,000 hours and two year warranty. All these features are not there in any brand available in the market. The specifications are according to internationally accepted standard of IEC & ELI.

It is incorrect that the Cabinet Division has refused clearance of the National CFL Project. On the recommendation of Cabinet Committee, the Cabinet has approved the project and the Govt. has already announced the implementation of the Project during the budget for the year 2010-2011. It is the least cost solution to address shortages over a very short period of time. For this purpose a very large number of countries have successfully used it for reducing peak demand as well as a substitute for expensive peak capacity. Developing and developed countries around the world are main streaming the use of CFLs and phasing out the use of incandescent bulbs.

PEPCO's program for 30 million CFLs will be largest program in the world. It will help reduce peak demand by about 1000 MW and will help save investment of over US\$ 1.6 billion. This will reduce load shedding, it will additionally help reduce the consumer bill by Rs.300-450 per lamp per year. It will also help save 2000 million units of electricity annually. Further, it will reduce carbon emission and will be the fittest program for CDM (Clean Development Mechanism) revenues as it will help avoid emission of about one ton of CO2 per annum. By 2018 it will help avoid 5.37 million tons of carbon dioxide. Accordingly, it is expected that the Project will yield US\$ 32 million carbon credit upto 2018.

Moreover this program is in line with the PM's directive for induction of CFLs Program for demand side management. This project is in the national interest and has been launched after technical and financial feasibility study carried out by renowned consulting firm M/s Hagler Bailly and all the areas have been clearly covered. As far as conducting feasibility under the technical supervision of Institute of Engineers Pakistan (IEP) is concerned, it will be superfluous as it has already been got done through the best of international consultant; ADB & AFD only decided to launch this program after getting the technical feasibility through their international experts. On the other hand, the loan agreements both with ADB and AFD have been signed by Govt. of Pakistan.

The Chairman, Public Account Committee may please be appropriately apprised.

As above


(Engr. Tahir Basharat Cheema)
Managing Director - PEPCO
21/2/2010

- 1 Auditor General of Pakistan, Islamabad.
- 2 Secretary, (Planning Commission), Islamabad.
- 3 Managing Director, Public Procurement Regulatory Authority, Islamabad
- 4 Master file