

POLICY FOR POWER GENERATION PROJECTS

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1. INTRODUCTION

1.1 WAPDA was established in 1958 and entrusted with a massive agenda, which included generation, transmission and distribution of power along with irrigation, water supply, drainage, flood control, etc. It owns about 54 percent of the country's total power generation capacity, serves 88 percent of all electricity customers in Pakistan and has been, until of late, the principal power generation, transmission and supply system in the country. It has a customer base of over 10 million. WAPDA achievements from 1958 till 1985 are commendable.

1.2 In late eighties, loan giving agencies including IMF, World Bank, IBRD and ADB, while offering loans for development of Power Sector imposed certain covenants to put ban on WAPDA for any thermal power induction and unbundle it into several entities to be corporatized in the initial stage, followed by privatization, which is under way. The reason forwarded thereof are as under:

- Unsatisfactory performance of public sector entities.
- Ever squeezing budgets in the public sector
- The need to makes the tariff, free from subsidies and cross subsidies
- Reflect market prices

After implementation of reforms, power sector will result in:

- Provide motivation for resource mobilization
- Improve efficiency
- Reduce burden on budgetary resources.
- Meet consumer expectations within affordable limits of tariff.

1.4 Objectives of the Power Policies

The main objectives of the Policy are:-

- To provide sufficient capacity for power generation at the least cost, and to avoid capacity shortfalls;
- To encourage and ensure exploitation of indigenous resources, which include renewable energy resources, human resources, participation of local engineering and manufacturing capabilities;
- To ensure that all stakeholders are looked after in the process, i.e. a win-win situation for all; and
- To be attuned to safeguarding the environment.

1.5 My question is, whether we have achieved our objectives over the last three decades following the guidance of the World Bank and IMF? If not why we are still taking dictation from IMF and the World Bank in our internal affairs. In spite of 30 years of dictation from loan giving agencies, we have landed into more problems including lack of generation capacity, weak financial position and sustainability of entities all due to higher generation tariff and poor management due to unbundling of WAPDA. No one can deny today that Government of Pakistan has failed to meet the power requirements, so badly needed for economic growth of the country, halting agriculture and industrial development.

2. REGULATORY ENVIRONMENT

2.1 In order to promote fair competition in the electricity industry and to protect the rights of consumers as well as producers and sellers of electricity, the GOP has enacted the Regulation of Generation, Transmission and Distribution of Electric Power Regulation Act, 1997 (NEPRA Act). Under this Act, the National Electric Power Regulatory Authority (NEPRA), has been established for regulation of electric power generation, transmission and distribution in Pakistan. In performing its functions under this Act, NEPRA shall, as far as practicable, protect the interests of consumers and companies providing electric power services.

3 SALIENT FEATURES OF THE POWER POLICY

While going through the Power Policy 2002, I have not observed any major flaws in its contents. However there is always margin for improvement based on ground realities. In fact its not the Gun but the person behind it, which matters.

Following are the Salient Features of Power Generation Policy 2002, which I would like to share with you.

- i. “The basis for selection of the successful bidder in each case will be the minimum levelized tariff, either through International Competitive Bidding (ICB) for solicited proposals or **through negotiations**/ICB for proposals on raw sites, i.e. locations whereof no feasibility study has been initiated. Variable tariffs over the life of the project will be permitted under the terms specified in the Request for Proposals (RFP). The process of selection will involve prequalification, issuance of the RFP and bidding and evaluation in accordance with the bid criteria clearly laid down in the RFP.”

I think the provision for awarding Contracts through negotiations is provided for flexibility, in case there is no response from the Sponsors on ICB basis but this provision has not been followed by PPIB in true spirit.

- ii. “Hydel projects in the private sector will be implemented on Build-Own-Operate Transfer (BOOT) basis. Thermal projects in the private sector, however, will be established either on BOOT or Build-Own-Operate (BOO) basis. Decision in the matter would be made on a case-to-case basis. The projects based on BOOT shall be transferred at the end of concession period to GOP.”

Project completed on BOO basis gives investors a sense of ownership of the Plant which on return of loans results in reasonably low tariff.

- iii. Power companies will be allowed to import plant and equipment not manufactured locally (for hydel and thermal projects including projects based upon renewable resources) at concessionary rates. Companies will also be completely exempted from the payment of income tax, including turnover rate tax, and withholding tax on imports. However, there will be no exemption from payment of income tax on oil-fired power plants.

This aspect is to attract foreign investors and to keep tariff low.

- iv. The proposals on raw sites for hydel, indigenous fuel and other renewable resource based projects with capacity above 50 MW, will be submitted to PPIB. Any Sponsor wishing to undertake a project at a raw site, must submit a detailed proposal to PPIB.
- v. According to policy PPIB will provide a one-window facility for implementation of projects above 50 MW capacity, and will issue the LOI and LOS, prepare pre-qualification and bid documents, prequalify the Sponsors, evaluate the bids of pre-qualified sponsors, assist the Sponsors/project companies in seeking necessary consents/ permissions from various governmental agencies, carry out negotiations on the IA, assist the power purchaser, fuel supplier, Provincial/AJK authorities in the negotiations, execution and administration of the contracts, issue and administer the GOP Guarantee backing up the power purchaser, fuel supplier, Provincial/AJK Government's contractual obligations, and follow up on implementation and monitoring of the project.

According to our information the prospective sponsors have to move from Department to Department for getting clearance over the years. There is no such facility namely 'One Window' in Pakistan.

- vi. According to Power Policy GOP will invite bids for hydel and indigenous fuel based projects for which feasibility studies are

already available and to initiate feasibility study work on raw sites for exploiting indigenous as well renewable resources. WAPDA in case hydel projects is truly following this policy while GOP failed to implement it in true spirit particularly in case of Thar Coal and Wind Mills which are the major resource potential of power generation and will produce inexpensive fuel for generation of electricity. We have failed to benefit from the large reserves of coal in Thar.

- vii. PPIB invites proposals on raw sites for indigenous fuels and other renewable resource, from bidders to carryout feasibility study of their own before issuance of Letter of Interest, which is not practicable in case of large coal Projects and renewable energy projects. Normally Power Generating Companies have no facilities for carrying out feasibility studies of indigenous resources such as Thar Coal, quantum of coal reserves, mining techniques and studies relating to data of wind velocities for installation of wind mills, etc. It is essential that GOP should carry out feasibility studies of all such indigenous resource from the companies specialized in the relevant field from its own resources and then power generation companies invited to bid through International Competitive Bidding (ICB). In my opinion this is the major cause of PPIB failure to attract foreign investors for successful execution of the Project.

4 GOP FAILURE TO IMPLEMENT THE POLICY

In my opinion the major cause for GOP failure to implement the Power Generation Policy in true spirit is corruption and failure of management to handle the situation:

- With passage of time, the atmosphere conducive to corruption has been building up in the country ever since. One does not need to wait long to find out how the network seems to multiply by leaps and bounds from top to bottom for making personal rapid gains.

- At top levels, corruption has given birth to foreign influence and relation with foreign agencies, which has completely destroyed the country's freedom and economic development. This type of corruption has already penetrated in the blood stream of our top brass bureaucrats, managers and politicians which is very dangerous and is responsible for disarray in our discipline and economic failure, and needs to be controlled with iron hands. Under the influence of foreign power's top brass positions in establishment are filled up, which look for their own interests under direction of foreign agencies and such covenants are signed which are detrimental to country economy's and existence.
- Pakistan has a history of external dependency, which has traditionally allowed foreign forces to dictate their agenda to Pakistani leadership. Our establishment is fully under influence of loan giving agencies which force our leaders to accept country's financial dependency. Our leadership is told if foreign multinational aid donors influenced by foreign powers, do not provide financial assistance, we are likely to be doomed and national security will be at stake and our financial rating will be down graded. Generally the political and financial dependence in foreign powers is due to personal concerns and benefits rather than national interest. So we look for our personal interests, to please the foreign powers. Under this system we try to please the foreign powers by adopting their dictated policies to get maximum personal benefits at the cost of nation. Any nation, which allows foreign forces to intervene, so willingly as we are doing today, cannot produce sustainable development resulting in bad governance, poor performance and greater socio-political instability.

5. FAILURE OF MANAGEMENT

Unfortunately every Project which is in the national interest is sabotaged. PPIB has not delivered although dozens of investors have shown their interest for investment in Pakistan. This evidently shows inefficiency and anti national approach to resolve the issues. Previously pre-feasibility of Thar Coal was conducted by Shenwa, a state owned Chinese Company.

They gave a bid of 5.75 cents per kW but some Government agencies insisted to lower the cost and ultimately negotiations failed and instead invited IFC and US investors, the costs of which are very high and no progress is made for harnessing Thar Coal reserves so far. Today we are buying power from hired gas generators at a much higher cost shutting down our own power plants due to shortage of gas supply, which in my opinion was a tactic used to accommodate foreign investor for vested interests. Same is the case of Gas Pipeline Project from Iran. To please USA, we have already delayed this Project for more than 2 decades and started looking for other alternatives under his direction which are neither safe nor reliable. At the end of the day we boost of our achievements by placing 170 million of our country men under misery and distress. We call ourselves Muslims having faith in Quran and Day of Judgment. We sell our conscious and country for sake of our Promotions and higher positions which they usually get under the directions of their Masters.

6. RECOMMENDATIONS

Policy for power generation Projects 2002 based on our previous experience and ground realities may be modified for successful implementation of power Projects so that generation at affordable cost is achieved through International Competitive Basis. It is recommended that changes in relevant clause of the power generation policy 2002 be made to achieve the following objectives

- i. Feasibilities studies of indigenous fuel resources and renewable energies should be carried out at International Competitive Basis at GOP own cost which should then be made part of RFP for sponsors of power generation.
- ii. Once the feasibility study of indigenous resources for power generation is established prospective sponsors for power generation should be invited on ICB as is being done by WAPDA in case of hydle resources.

- iii. Other than changes in power generation policy 2002, we would request that GOP should consider the following
 - a. Government of Pakistan needs to reconsider priorities of the hydle power Projects. Projects with shorter implementation period and easier to construct should be taken up first. Examples are Dau, Thakot, Pattan and other hydel power projects.
 - b. Under short term measures, we have no alternative except to fill the gap by adding thermal power generation based on furnace oil. To have healthy competition and competitive prices, it is proposed that WAPDA and IPP's should share installment of thermal generation capacity equally.
 - c. GOP should avoid hiring of thermal power houses on rental basis as the rate at which electricity is being purchased is very costly. We need thermal power generation on permanent basis to fill the gap of hydel power generation during low water season in future as well.
 - d. GOP has signed a covenant with the World Bank/ADB loan giving concurrence that no subsidy or cross subsidy will be given to any DISCO's beyond July 01, 2009. This will result in highest power tariff in QESCO and will add fuel to fire to disintegrate this province from rest of the country.

At the end I would like to say that we MUST LOVE OUR COUNTRY, LOVE PAKISTAN for sake of its stability and our forthcoming generations.