



9th January, 2015

Mr. Khuwaja Muhammad Asif,
Federal Minister for Water & Power,
Government of Pakistan,
Islamabad.

Sub: Complaint against WAPDA and GENCO for Delaying Contract No. 4081/ GMT/ DPS/ GUD- 76 Dated 05/11/2007 for Last 7 Years Causing Huge Losses to the Govt. of Pakistan, and Financial Loss to the Contractor M/s. Kamenergoremont, Russia.

Dear Sir,

Transparency International Pakistan has received a complaint against WAPDA and GENCO for delaying Contract No. 4081/ GMT/ DPS/ GUD- 76 dated 05/11/2007 for last 7 years causing huge losses to the Govt. of Pakistan, and financial loss to the Contractor M/s. Kamenergoremont, Russia.

The summary of the events and how the project got delayed by the vested interests with their letters;

- a) Summary.
- b) GHC letter No. GMT/DPSO/GUD-76/ 9877-79 dated 04/12/2014
- c) GHC letter No. CPGCL/ CEO/ 14/ 9505-08 dated 09/04/2014
- d) PEPCO letter No. CPGCL/ CEO/ 10/ 23666- 70 dated 31/05/2010 and
- e) IED- Holding letter No. 110/4248 dated 17/10/2014 are enclosed (Annexure A).

Kindly note that the contract was awarded by WAPDA in 2007, and after the formation of GENCO, it was handed over to GENCO.

The issue is that the contractor was awarded the contract, as he submitted the lowest bid of USD \$ 2, 779, 913, whereas the 2nd lowest bid was more than 3 times, at Euro 10, 262, 418, and 3rd lowest bid was more than 6.5 times at USD \$ 20, 912, 740.

The complaint was discussed with the Chief Executive Officer Guddu, Mr. Akhund, who informed that the issue is being referred to the Ministry for Water & Power, for the approval which is required to be paid for delay as per contract conditions. The difference of USD 2110, 687 to be checked and approved.

TI- Pakistan has also in recent past, vetted the increase in cost in the Nandipur Power Plant case which was double the amount of the contract, due to delay caused by the Government of Pakistan and not by the contractor.

In this case also the contractor is not at fault, and the Government of Pakistan is responsible for the delay and under the PPRA Rules and contract conditions, all the liability of compensation rest with the client, that is, GENCO/ Govt. of Pakistan.

TI- Pakistan request the Minister to take immediate action to resolve the issue, and get the revised cost checked and approved immediately, so that the two plants of GUDDU, which can produce 220 megawatt, will be able to be restored to its full capacity. It is reported that at present one plant of GUDDU is closed, and the other plant is producing only 50 megawatt.

TI-Pakistan also requests to conduct an inquiry against all those who are responsible for the delay, which had caused shortage of electricity, for last 5 years.

Transparency International Pakistan is striving for across the board application of Rule of Law, which is the only way to stop corruption.

With Regards,



Sohail Muzaffar
Chairman

Copies forwarded for the information with request to take action under their mandate to:

1. Secretary to Prime Minister, Islamabad.
2. Mr. Khurshid Shah, Leader of Opposition & Chairman, PAC, National Assembly, Islamabad.
3. Chairman, NAB, Islamabad.
4. Registrar, Supreme Court of Pakistan, Islamabad.
5. Managing Director, PPRA, Islamabad.

SUMMARY

A Single stage two envelope tender was called in June 2005 by WAPDA / PEPCO / GHCL. Tender was for Modification / Designing , Manufacturing of Equipment , Supply, Erection / Installation, Commissioning & Testing for Rehabilitation for Capacity and Reliability Improvement of Boilers , Boiler Burners and Turbo Generator of **110 MW** each Units 1 & 2 Thermal Power Station Guddu

Tender (technical offers) were opened on 30th January 2006 and sealed commercial offers were retained to be opened later on (i.e. after completion of technical evaluation). There were total three bidders, all from Eastern Europe, namely:

- a. M/s.Kamenergoremont , Russia
- b. M/s. Hopter , Czechoslovakia
- c. M/s.Skoda Export, Czechoslovakia

After completion of technical evaluation, commercial offers of three bidders were opened on 20th May, 2006. Following were the prices announced by opening committee:

- a. M/s.Kamenergoremont , Russia : **USD 2,779,913**
- b. M/s. Hopter , Czechoslovakia : **Euro 10,262,418**
- c. M/s.Skoda Export, Czechoslovakia : **USD 20,912,740**

The designed capacity of both units is 110 MW each. At the time of tender/issuance of LOI, the unit 1 was running at 70 MW & unit 2 was running at 50 MW.

The most prominent feature of awarded contract includes Burner Management System which M/s.KER have assured that would be of **USA** make by **M/s.EMERSON**.

After lot of efforts by M/s.KER , letter of Intent (LOI) valuing USD 2,779,913 was issued on 22nd May, 2007 in favor of KER. 10% PBG was submitted against LOI on 1st October,2007 . Performance Bank Guarantee No. BG 10700671 dated 28-09-07 valuing USD27991.30 was issued by Deutsche Bank , Karachi, Pakistan. The guarantee was issued on the basis of instructions received from Russian bank of supplier. After submission of PBG , Contract No. 4081/GMT/DPS/GUD-76 dated 5th November, 2007 was issued to Kamenergoremont (KER). Subsequently , two separate Letter of credits were opened for supply and service part on 09-02-2008 and 07-02-2008 respectively.

However, vide letter dated 4th March, 2008 by GENCO-II asked KER for conversion of units 1 to 4 from gas firing to furnace oil firing . In response , KER's proposal for reconstruction of oil handling plant was submitted to General Manager (Thermal) on 12th August, 2009. Thereafter , CEO Guddu vide their letter No. CPGCL/CEO/10/23666-70 dated 31-05-2010 reversed the decision for conversion of units.

Delivery period (Supply time) of equipment was envisaged to be 6 months after opening of L/C. Due to reviews regarding "Furnace Oil Conversion" and as the annexures to contract were not finalized & signed by WAPDA/PEPCO/GHCL, supply of equipment could not be undertaken. In ignorance of the ground realities caused by the WAPDA / GENCO themselves , after passing of dead line for supply of equipment , an encashment letter dated 17-12-2008 for 10% PBG was issued by PEPCO/GHCL.

In order to seek justice against the unjustified encashment of guarantee, M/s.KER filed a petition on 25th March , 2009 in the Honorable Sindh High Court. PEPCO's encashment letter is suspended by the sitting Judge with the instructions that plaintiff (KER) will ensure life of guarantee. However , the bank confirmed that the guarantee amount is at present held in "Suspense" account.

Original signed annexures received from Guddu TPS on 02-02-2011.

From time to time KER kept extended the guarantee till refusal from their VTB Bank that further extension in counter bank guarantee cannot be made as per officials laws and procedures in Russia. While the issue was under consideration to find way forward within the law, PEPCO / GHCL issued a final encashment notice on 23-08-2012. Accordingly, Duetsche Bank Karachi encashed the PBG on 24-09-12. A pay order of Rs. 26,158,981.33 was dispatched to the office of General Manager (Thermal) , Wapda House, Lahore only to be returned by GM office to Duetsche bank advising them that negotiations / discussions with the supplier were taking place and therefore, requested the bank to keep the amount of PBG (i.e. Rs. 26,158,981.33) with themselves (bank). Deutsche bank maintain that amount in their suspense account awaiting final outcome of the ongoing interaction between GENCO Holding / WAPDA and KER in compliance with the court order. Incase of inability of both parties to implement the contract, the honorable Sindh high court is most likely to appoint Arbitrator . This process would mean further delay in contract execution.

Vide letter No.CPGCL/CEO/14/9505-08 dated 09-04-2014 , CEO TPS Guddu had mentioned that they have reached to the conclusion that the rehabilitation work of both units be taken in hand at the earliest possible. Accordingly, on 19th May,2014 , GENCO-II presented their requirements and detail of fuel gas Mari Deep. After studies by KER specialists and a renowned Design Institute , it was confirmed that the gas in question could be used as a fuel for power generation . In order to finalize and formalize the matter, meetings from 15th to 17th Dec., 2014 have been held in the office of CEO , GHCL, Islamabad. The outcome of discussions confirmed adherence to the already contracted works and supplies to ensure restoration of the original capacity. Letter of KER with new price (caused due to significant time lapse) of USD 4,890,600 has also been submitted to GENCO Holding . GHCL requested to further furnish justification for price increase to enable formal consideration.

In the meanwhile, further actions on PBG and L/C were put on hold pending outcome of discussions and final value of contract. GHCL vide their letter 9877-79 dated 4th December, 2014 informed Detusche Bank Karachi about extension of rights of encashment till 31st March, 2015

During the period 2006 to 2014 , several visits by the Russian experts were organized to Guddu power station , Wapda House Lahore & Islamabad. In all, there have been around 16 visits including 44 specialists to Pakistan. During these visits, five "minutes of meeting" were signed from time to time. During this period of time, WAPDA/PEPCO/GHCL conveyed twice to KER about change of fuel.

Present condition of the two units is that unit 2 is closed and unit 1 is operating at 50 MW depriving country of much needed electricity. If timely rehabilitation of both the units had taken place as per sanctity of tender, the Government would have saved and earned millions of dollars curtailing electricity shortfall.

Even now the execution of this contract would ensure earliest possible restoration of original generation capacity in a cost effective manner. The price increase caused due to significant time lapse would not alter the comparative position of original bidders with KER price still remaining lowest and much lesser.

WAPDA – Water & Power Development Authority

PEPCO – Pakistan Electric Power Company

GHCL – GENCO Holding Company Limited

GENCO –II -- Guddu power station

KER – Kamenergoremont , Russia

PBG – Performance Bank Guarantee



GENCO HOLDING COMPANY LIMITED

Office of the
General Manager (Thermal)
197-WAPDA House,
Lahore.
Phone: 92(42) 9920611, 99202211/2197
Fax: 92 (42) 99202107

No. GMT/DPSO/GUD-76/ 9877-79

Dated 04/12/2014

Deutsche Bank AG, Karachi Branch,
242 & 243 Avari Plaza Fatima Jinnah, Road,
Karachi

T.C.S

Subject:- PERFORMANCE BANK GUARANTEE NO.BG10700671 DATED 28.09.2007 FOR US\$ 277991.30 AGAINST P.O NO. 4081 /GMT /DPSO / GUD-76 DATED 05.11.2007.

Reference:-

1. This office letter No. 4268-70 dated 29.04.2014.
2. Your office letter No. GTFO/Gtees dated 06.05.2014.
3. This office letter No.6812-14 dated 04.08.2014.

The subject Performance Bond was issued by you to indemnify WAPDA to cover damages/losses against captioned Purchase Order. The Performance Bond has expired since 13.09.2012. This office has already lodged its claim for confiscation of the said Guarantee, within validity of Guarantee.

Keeping in view of the court order, it is requested that our rights may please be reserved for the confiscation/encashment of the subject performance Guarantee up till 31.03.2015.

Kindly acknowledge the receipt of this notice by affixing Bank Seal on 2nd copy of this letter and return the same to this office.


Deputy Director (P&S)
For General Manager (Thermal)Opr:

C.C

1. Chief Executive Officer, GENCO-II, TPS, Guddu.
2. M/s ISTIL PVT. Ltd, office No. 510, 5th floor, Anum Empire, Block-7 & 8 Shahrah-e-Faisal K.C.H.S Karachi.



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Office of the
General Manager (Thermal)
197-WAPDA House,
Lahore.
Phone: 92(42) 9920611, 99202211/2197
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Deputy Director (P&S)
For General Manager (Thermal)Opr:

C.C

1. Chief Executive Officer, GENCO-II, TPS, Guddu.
2. M/s ISTIL PVT. Ltd, office No. 510, 5th floor, Anum Empire, Block-7 & 8 Shahrah-e-Faisal K.C.H.S Karachi.

**PEPCO****Central Power Generation Co. Ltd.**
(GENCO-II)

☎ 0722-578567
☎ 0722-578328
✉ genco2_guddu@yahoo.com
✉ cosecgen2@yahoo.com

Office of the
Chief Executive Officer
GENCO-II TPS, GUDDU.

No. CPGCL/CEO/10/ 23666-70

Date: 31/05/2010

M/s ISTIL Pakistan (Pvt.) Ltd.
Office # 510, 5th Floor, Anum, Block 7 & 8, K.E.C.H.S.,
Shahra-e-Faisal, Karachi-75350.

Subject :- Contract No.4081/GMT/P&S/GUD-76 Dated 05.11.2010 for Modification & Rehabilitation on 2x110 MW units 1&2 TPS, Guddu.

Dear Sirs

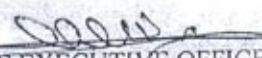
This is with reference to letter No.0373/2010 dated 17th May, 2010 of M/s ISTIL Pakistan (Pvt.) Ltd. Karachi alongwith enclosures of M/s KAMENERGOREMONT Russia with submission of their experts on the basis of the visits & study of the information / documents provide in respect of conversion of Unit No.1&2 on 100% oil firing. The same has been studied and accordingly this office offers comments as under;

The existing size of stack is only 50 meter and will not fulfill the environmental condition / requirement during furnace oil firing. In this regard it is to submit that the existing stack foundation is not capable to bear the load of steel structure required to increase the height of stack and also no any sufficient space available for the building of separate stack.

Fuel forwarding station has never been in regular operation since its commissioning and presently huge work including supply of fuel forwarding pumps and replacement of existing pipeline is required for its smooth operation.

The existing installed Air heater is Tubular type, where as for continuous operation on furnace oil, the Rotary type Air Heater is inevitable to achieve the required Boiler Operating parameters. The replacement of existing tubular type Air heater with Rotary type would require more space, which is not available at site. Further the soot blowing system is also required essentially for cleaning of air pre-heater to get required operating parameter on furnace oil firing.

In view of the above submission that the conversation of steam unit No.1&2 on 100% fuel oil firing having life of 35 years will require considerable updating / modification, including huge amount and execution time for upgrading the existing system, which is not cost effective and fast track approach. It is, therefore, requested that the existing subject contract may please be finalized being cost effective and fast track approach.


CHIEF EXECUTIVE OFFICER
GENCO-II TPS, GUDDU.

c.c.to:

- The General Manager (Thermal) PEPCO-197 Wapda House Lahore.
- Chief Engineer / T.D.GENCO-II TPS, Guddu
- Plant Manager-I GENCO-II TPS, Guddu
- Dy. Plant Manager (M0-I Unit # 1&2 TPS, Guddu.



IED
INTEGRATED
ENERGODEVELOPMENT

IED-Holding

LLC "Management Company "IED-Holding"
420036, Russia, Republic of Tatarstan Kazan,
Voskhod s:r., 45
tel. /fax: +7 (843) 572-09-99
e-mail: office@ker-holding.ru
www.ker-holding.ru



№ 110/4248

dd 17.10.2014

To : **General Manager (Thermal) Opr.,
GENCO Holding Company Limited
Wapda House,
Lahore**

Copy to : **The Chief Executive Officer, GENCO-II,
CPGCL, GUDDU
[STIL Pakistan (Pvt.) Limited**

Dear Sir,

Please find below our commercial offer for modification /designing, manufacturing of equipment, supply, erection/installation and commissioning of 2x 110MW Units № 1 & 2 of Thermal Power Station, Guddu under the contract №.4081/GMT/P&S/ GUD-76 dated 05-11-2007.

Total price is USD 4 890 600,00.

The detail is as under :

| | |
|--|------------------|
| 1. Cost of material / spares | 3 343 136,00 USD |
| 2. Service charges | 1 040 804,00 USD |
| 3. Cost of instruments, tools, equipment Including welding equipment and electrodes | 506 660,00 USD |

TOTAL : 4 890 600,00 USD

We look forward to our continued cooperative efforts.

Yours faithfully,

General director

Khamis M. Makhyanov

Handwritten notes:
10/17/14
17/12/14