

Scenario 191

NANDIPUR POWER PROJECT

The Economic Coordination Committee [ECC] of the Pakistan's Federal Cabinet had approved 425 megawatt combined cycle power plant at Nandipur **on 27th December 2007**, during Gen Musharraf's era, at an agreed EPC price of \$329 million. Accordingly, the Northern Power Generation Company Limited [NPGCL] entered into an EPC contract **on 28th January 2008** with the Chinese firm – then the flat Pak rupee rate to US dollar exchange was Rs:67.70.

Nandipur Power Project was costing Rs:23 billion then when contract with Dong Fang Electric Corporation of China was signed with 10% down payment. ***By mid-2010, much of the work at this power project was complete and it was expected to be finished on schedule in April 2011.*** Then the PPP government was in high swing.

The Ministry of Finance [MoF] issued a sovereign guarantee for this project, on the basis of which Dong Fang put together a consortium of lenders who established a Letter of Credit for import of the equipment. By mid-2010, the turbines were in place and it looked like the project would be finished on schedule. This activity took place in anticipation of the Ministry of Law and Justice [MoL&J] approving the financial agreements and the sovereign guarantee issued by the MoF — a routine process in such projects.

PPP's BABAR AWAN FAILED NANDIPUR [?]

However, the project suffered delays because the MoL&J, then under ***PPP's Minister Babar Awan, kept the clearance pending for two years because the PPP government did not want to release funds for the power project being completed in Punjab.*** Thus, the machinery worth \$85 million, awaiting clearance at the Karachi Port, remained stuck for more than two years.

On top of the waiver of demurrage and detention charges, Chinese firm had demanded Pakistan to pay \$40 million for losses suffered by the company due to non-clearance of its machinery from the Karachi port. The firm wanted new terms and conditions had the Government of Pakistan wanted to continue with the project.

*[In the same year of 2008, another identical, 450MW power plant had been agreed for **Chicho kee Mallian Project**, with the same contractor, Dong Fang, and the same consortium of lenders for a contract price of \$352 million [approx Rs:31 billion]. Here also, Pepco made a 10 percent down payment, and the project was scheduled to be completed in February 2012.*

However, after the incomprehensible behavior of MoL&J in the Nandipur project, the financing consortium refused to establish the letter of credit until all outstanding clearances were issued. As a result, the project was also delayed for endless period.]

In June 2013, with the new PML[N] government in saddles, Pakistan's Ministry of Water & Power [MoW&P] started renegotiating the contract with the Chinese Company to resume work on the Project - after days of negotiations, the firm agreed to resume work on the power station.

On 4th July 2013; the Executive Committee of National Economic Council [ECNEC] approved the Nandipur project in its meeting at the revised cost of \$574 million [Rs:57.38 billion as against Rs:23 billion in original] and Rs:1.036 billion were earmarked to cover the demurrage, detention charges and Excise Duty from the date of arrival of machinery till 30th September 2013; machinery was lying at Karachi port.

On 8th July 2013, the Chinese engineers arrived Pakistan to inspect the machinery lying at the Karachi Port and secured its release. The equipment consisting of more than 4,500 packages of plant and machinery had since been lying in the open at Karachi port for over a year, at a demurrage cost of Rs:700 million. These packages proved a standing testament to inefficiency, negligence and corruption.

The real tragedy, though, was the delay in the nation being able to use the additional 900 MW — almost one fifth of Pakistan's then shortage — that those two plants could generate. The economy was losing 2.5% of GDP on account of lack of power. PM Nawaz Sharif finally instructed the MoL&J to approve the financial arrangements and the sovereign guarantee issued by his own MoF.

Little background:

The Economic Coordination Committee [ECC] had to waive the customs duties and demurrage for the equipment lying at the port – the ECC had approved the request made by the MoWP in July 2011, but objections raised by the Law Division in that respect were there to put an endless delay in the project. The machinery was not cleared from the Karachi Port because of the Law Division.

Above all, the concurring damage to Pakistan's economy caused the loss of jobs to thousands of people, and countless hours of unnecessary, avoidable and painful load-shedding for millions of households for about a decade. As for the law ministry, it might hide its bureaucratic inefficiency over some weak pretext — after all corruption always shelters behind weak excuses.

PPP's Babar Awan, the minister in-charge of MoL&J would never be able to justify that criminal delay in a matter so vital to the well-being of Pakistan's economy. The people could have seized those criminal politicians by the collar and demand answers in the name of the generations whose futures were so deceitfully squandered.

The Chinese firm served a notice to the Government of Pakistan calling for the termination of the project contract due to delays in its construction. During renegotiations, however, the firm agreed not to ditch the project; nonetheless, it countered with a demand that it be paid for losses suffered because of depreciation of currency and damages on machinery stranded at Karachi Port for two year delay in the project's completion.

The Supreme Court, in the meantime, had taken notice of the frequent delays in the completion of the Nandipur project, and fingers were raised towards one particular minister of the PPP, Babar Awan and his boss President Zardari.

A Judicial Commission [JC] formed by the Supreme Court had held the federal law ministry responsible for causing delays in the completion of the project – for not forwarding the summary to the concerned for three years by the law ministry – from March 2010 to March 2013.

A three-member bench of the apex court, headed by CJP Iftikhar M Chaudhry, heard the Nandipur project case. During proceeding, former law minister Babar Awan said that the report of J Rahmat Hussain Jafri

[*the head of the JC*] over this project was accurate, adding that Kh Asif should also resign since he was the minister.

Justice Jafri's report had pointed out a corruption of Rs:15 billion in Nandipur project while names of three ministers were categorically mentioned. The Chief Justice remarked that the court would determine all those responsible for delay in the project. The court adjourned the hearing for three weeks – but never to finalize that glaring case of corruption.

CJP Iftikhar M Chaudhry was seen more tainted with corruption or compromise as he didn't decide the case purposefully.

Resuming back:

On 11th July 2013, the ECC, decided to investigate news reports alleging that there were some irregularities in the revised cost of the Nandipur Combined Cycle Project; Chairman ECC, the Finance Minister Ishaq Dar, decided that the matter to be immediately looked into by the Ministry of Planning & Development [MoP&D].

Insufficient supply of electricity has been the major stumbling block in attaining economic self-sufficiency for the successive governments. The PPP regime's lack of investment in energy sector further aggravated the dwindling situation due to its institutional ineptness, political shortsightedness, fast depletion of gas reserves and poor planning in fair distribution of energy resources among the federating units, especially the Punjab; hats off to nexus of corrupt Zardari & Babar Awan.

Punjab was facing acute energy shortage since the last five years - resulting in closing of a large number of industrial units, massive unemployment and revenue shortfalls. Investment in the power sector was definitely zero and big industrialists had already moved out to Bangladesh, Malaysia and Jakarta to save their future.

The PML[N]'s much-needed **National Energy Policy 2013-18** to support the then required energy needs encouraged investments through public-private partnership. That energy policy comprised of seven main points with much trumpeted vision that:

"Pakistan will build a profitable, bankable and investment-friendly power sector that would meet the needs of its population and boosts its economy in a sustainable and affordable manner while adhering to the most-efficient generation, transmission and distribution standards."

This energy policy was much ambitious but remained confined to words only. It aimed at increasing power generation through private investors but lacked proper implementation and harnessing full potential - got entangled in notorious bureaucratic gimmicks. It established the **Punjab Power Development Company** [PPDC] and the **Punjab Power Development Board** [PPDB] as "One Window Facilitator" to promote and encourage private sector's active participation.

Steps were taken by CM Shahbaz Sharif to restart work on Nandipur power project – but he too failed to get it started till ending 2015 due to same corrupt bureaucratic hierarchy and their attitudes.

In Pakistan, the power projects are the exclusive domain of the federal government which operate them through MoW&P but why the Nandipur power project was administratively held and controlled by Chief Minister Shahbaz Sharif and his son Salman Shahbaz.

The answer lies in a fact that this project was initiated by the Government of Punjab following the passage of the 18th Amendment to the Constitution under the directions of the then CM Punjab and the contract was also negotiated and awarded by the Government of Punjab – PEPCO was later asked to sign the contract because of the govt to govt maxim; AND it was prompted by the Prime Minister, too.

On 24th December 2013; the National Accountability Bureau [NAB] board also authorised an inquiry against former law minister Babar Awan and officials of the MoL&J, MoF and MoW&P on allegations of having delayed the **Nandipur** and **Chichoki Mallian power projects**, causing a loss of Rs:113 billion to the national exchequer.

Then it was resolved that under re-mobilization program the project was to be completed by December 2014 and the Chinese Company, DECL, had agreed for the five month early commissioning of the first gas turbine unit – but the project could not be made operational.

On 31st May 2014; at last the much-hyped Nandipur Power Plant [first 95MW plant] was inaugurated by PM Nawaz Sharif -- generated electricity at the record cost of Rs:42 per unit BUT was shut down after only five days of operation – reasons technical.

Till then, the Nandipur Power Project had not yet officially or legally achieved its commercial operation date [COD]; the plant was run on die-

sel fuel for five days after its inauguration, but closed down for being too expensive apparently. Reportedly NEPRA had set a reference fuel cost of Rs:7.51 for the month of June 2014, but the actual fuel cost came to Rs:7.44, hence requiring a reduction of Rs:008 per unit which was accordingly approved as subsidy.

[This was symptomatic of many of the energy projects the PML[N] had commissioned during those days: they used to rush into ribbon-cutting ceremonies of development and energy projects for publicity, instead of ensuring that the technical criteria and legal requirements were fulfilled.]

The inauguration of the Guddu Thermal Power Station and Uch-II; the ground breaking of a 1320MW coal-fired plant at Port Qasim Karachi by a consortium of Qatari and Chinese companies, put together by Sharifs in collaboration of their corrupt bureaucrats' team were other examples.]

But the reason of its shutting down after remaining operational for only five days was use of inappropriate fuel. Later in July 2015 it was reported that the plant was once again functional and producing the contractual output of 425 MW.

The case of misappropriation and use of unsuitable fuel has been under investigation but again providence stepped in. On the night between 6 and 7 September 2016, an unknown individual broke into the office of Captain (R) Mehtab [Security Officer of Nandipur Power Project] and destroyed records pertaining to the purchase of furnace oil. The apprehended culprit Bilqias Khan, a guard with Captain Mehtab, came open with a statement that the record was destroyed on the directions of Captain (R) Mehtab – in turn pointing towards the PML[N] high ups.

More details about this 'unsuitable fuel' episode are given in next paragraphs.

NANDIPUR MANAGEMENT FAILURE:

On 18th February 2015; the Senate standing committee on water and power was informed that 425 MW Nandipur power project would be made fully operational before 30th June 2015 but it could not run due to acute management issues.

In March 2015 the Nandipur management notified to the MoW&P of huge losses and a possible scam if the 'operation & management' [O&M] was not immediately handed over to the professionals. A letter written to the ministry had cautioned the government saying that the project was entering its operation phase; thus any delay in the arrangement of the O&M team would be a great setback and could invite grave technical and financial repercussions.

Till those days, Nandipur Power Project's three turbines had already been commissioned and the plant was being run on test basis; the plant was generating 300 MW. The fourth unit of combine circle was to be made operational within three months but could not be. The fuel treatment plant was not working for some time but then made fully functional.

The Committee was told that: **'...in Pakistan, the Nandipur Power Plant is second most efficient thermal power plant after Guddu 747 MW'**.

The Senate panel was told that the government was working on various projects simultaneously including hydel, coal and wind – and that China was a sole country to finance coal-based power generation projects. **The PPP had done nothing except renting the power projects** whereas the PML[N] focused on short-term projects which could be completed during their term till 2018 years.

All the coal-based power projects were being set up by the private sector. A 1320 MW Sahiwal power plant was expected to run on imported coal and would be ready by 2017 – three more coal-based power plants were on completion way in the first phase. One plant of 300 MW was to be set up in Salt Range [Punjab] while two plants of 1,320 MW and 660 MW were planned for Thar area in Sindh. Thar Block-2 power project of 660 MW was in advance stage then.

Chief Executive Officer of 969 MW Neelum Jehlum power project, Gen (R) Zubair, apprised the committee that overall 69.5 pc work had already been completed and the project would be completed during its scheduled timing subject to availability of required funds. The Neelum Jehlum project was launched without the financial close but the work on the project never halted despite various problems. The Chinese Exim Bank and Kuwait Fund indicated \$300 million and \$30 million respectively for the project.

The Senate Committee had expressed displeasure on awarding contract of Golan transmission line to a sole bidder by violating PPRA rules and

directed to cancel the contract and recover amount paid to the contractor. The Nandipur fiasco rightly pointed the same like things as well; since any government could botch up any project.

One large CPEC project in Gadani had already been wound up because it ran the risk of becoming another example of failure on a far bigger scale. That context in view, it became imperative that the Nandipur fiasco be examined minutely. An audit of the project's finances was on the way, but an investigation into the massive cost overruns, including an \$80m remobilisation advance for the contractor and a \$30m tab for conversion to a different fuel, was also on the finger tips.

In fact, Nandipur suffered from a wide range of governmental failures — incompetence, poor planning, lack of coordination — but whether or not there had been any criminal irregularity ***except Babar Awan's wilful and criminal manoeuvrings;*** was not yet determined. The NAB in fact had also focussed on the same earlier phase when the project languished due to neglect by the PPP regime.

During the same days of **February 2015**, Board of Directors of Northern Power Generation Company [NPGC] approved handing over of 425MW Plant Nandipur Power, for ten years to the Malaysia's Tenaga Nasional Berhad [TNB], the largest electricity utility in Malaysia. The government of Pakistan had to pay service charges of Rs:600 million to TNB for the said power plant during the contract period.

The power generation, repair and maintenance of the plant had to be the responsibility of TNB. Listed on the Main Board of Bursa Malaysia with almost USD30 billion in assets, the TNB Company's more than 33,500 employees serve an estimated 8.3 million customers in Peninsular Malaysia, Sabah and Labuan.

Nandipur was going to be the first ever state-owned power plant which was to be run by a private power company instead of Pakistan's Water and Power Development Authority [WAPDA]. It was generally felt that the Malaysian TNB could run the plant in a better way - as the state machinery like WAPDA brought total failures. The managers held that oil theft, mixing of water and poor servicing would be stopped with the Malaysian firm; the selection of Malaysian TNB was made through bidding process.

BUT the Malaysian firm TNB option was refused by the board.

The media held that the cost of only 425MW had been escalated to a staggering Rs:84 billion later, which figure was later refuted by Kh Asif, the concerned PML[N] Minister during a live TV interview in September 2015. PM Nawaz Sharif had inaugurated the first turbine of 95MW [out of five] here in May 2014; the other *four turbines were to be commissioned by January 2015, the cost of power generation on furnace oil was told to be reduced to Rs:18 per unit.*"

As per NEPRA's record, the other Independent Power Plants [IPPs] were producing electricity at Rs:14 to Rs:16 per unit by using the furnace oil as fuel. Though the high cost of generation [Rs:36 & then Rs:18 per unit] had disturbed the overall cost of the fuel mix, putting additional burden on the end consumers but, due to unknown reasons, that turbine was shut down in ending October 2014 – only after four months running; on an apparent excuse of some civil work.

Out of estimated cost of Rs:58 billion, an amount of Rs:37 billion had already been borrowed till ending 2014 from domestic banks at an interest rate of around 12%. Due to that delay, the country had already sustained losses of Rs:315 billion, including Rs:298 billion on account of lost economic opportunities due to load shedding. The delay also caused Rs:8.5 billion increase in mark up and expenses of Rs:5 billion were incurred on inspection and testing of the equipment that was rusting at the Karachi port for three years.

Suddenly; Nandipur's MD started propagating in media that the cost would be down to Rs:14 per unit once the imported Liquefied Natural Gas [LNG] made available.

After Asif Ali Zardari's vow to become '*real opposition*' to the PML[N] government during August 2015, the PPP leadership raised the Nandipur project issue very high in media. During 2nd week of September 2015, every TV channel conducted live talk shows for days highlighting delay of more than two years in commissioning of the said project. Fingers were pointed out towards expected corruption involved for which PM Nawaz Sharif had to announce openly that '***an audit should be carried out in a transparent way***'. PML[N]'s two ministers named Kh Asif and Ahsan Iqbal were amongst the suspected ones.

The major point: the PPP and Imran Khan's PTI wanted probe in Nandipur power plant failure - that '***how a Furnace Oil Treatment Plant [FOTP] of smaller capacity arrived in presence of Nespak, the engineering consultant of the project***'.

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- Who estimated quantum of furnace oil for the 425MW plant and its filtration requirements;
- who calculated the size of the plant;
- what size was required and what ordered to the manufacturer General Electric (GE);
- who accepted the plant of that much less capacity if was ordered the required capacity to the GE.

It still needs investigations that how one could achieve a stupendous collective failure. The ruling PML[N] failed as a party because it allowed a totally irrelevant man, the Chief Minister of Punjab who had allocated the said job to his younger son Salman Shahbaz, to hijack the construction of the plant. This was criminal to say the least, both on part of the consultant and the project director.

The above simple questions wondered energy experts and new members of the Board of Directors, which took charge barely four months ago - PM Nawaz Sharif had already inaugurated an incomplete plant on 31st May 2014. The MoW&P failed to take charge of the plant and cravenly gave in to political clout of CM Shahbaz Sharif who belatedly accepted responsibility. The Ministry of Petroleum failed because impurities in oil were far beyond the permissible level, which had blown the FOTP's requirement out of proportion.

Referring to the **'Dawn' of 12th September 2015**:

'The ruling PML(N) failed as a party because it allowed a "totally irrelevant man, CM Shahbaz Sharif to hijack the construction of the plant".'

The CM failed because he installed a bureaucrat not only as Managing Director [MD] but also a Project Director who should have been a professional engineer - the Project Director failed because of incompetence and greed.

The net result was a national embarrassment. The size of the FOTP was only realised when the plant had already been inaugurated by PM Nawaz Sharif; the MD of the Pakistan Electric Power Company [Pepco] told media without fear.'

Fresh and more components for the treatment plants were ordered which took another three months to arrive. To make matters worse, even those components were found defective, or at least, not the right ones needed for the plant. That was why the plant could not be run.

The officials at the plant later confirmed that adulterated furnace oil was provided to the Nandipur power plant during its testing but the attempted supply was refused. Allegedly the tanker of adulterated furnace oil was provided to Nandipur by a mafia which supplied the oil to other state-owned power plants. MoW&P ordered an inquiry into the matter. This was criminal on part of both the consultant and the Project Director. As per above referred newspaper's source:

"In June 2015, the MD tried to shift the blame when he pleaded for subletting operation and maintenance (O&M) to a Malaysian company, but the board refused.

Then he tried to sublet the same to a US company, which had supplied three machines but the board again put its foot down and said that it was the state of the art plant – fully computerised which hardly needs outsourcing at exorbitant price."

The outsourcing bid was designed to hide two things: administrative and professional incompetence and returning personal favour. The MD did not get affidavits and guarantees / bonds from the employees who were trained in China – so after training, all freshly trained employees went back to their original seats as they were not administratively bound by the MD in any way. There was no one to take care of the plant.

To make the matter worse, the MD himself went to the US for training by GE – a session designed for professional engineers. He simply took it a boozing trip. It was thus necessary to sublet the O&M and escape the results of mismanagement and personal favours.

The said media campaign was, however, replied by the Nandipur's management by releasing its facts & figures just the next day. Referring to **'the News' of dated 16th September 2015:**

'Precisely; Nandipur project incurred a total cost of Rs:49.589 billion till July 2015; including unprecedented whopping interest amounting to Rs:14.3 billion, 29% of the actual cost, paid on bank loans because of massive delays, which occurred during the tenures of the both PPP and PML(N) regimes till then - official documents containing a complete break-up of the expenditure under all heads revealed. The interest covered seven years from 2008 and 2015.

The funds were arranged by a syndicate of seven Pakistani commercial banks. The actual expenditure also included duties

and taxes of Rs:1.814 billion and contingency charges of Rs:17.64 million. The approved cost of the project as per the revised PC-1 was Rs:58.416 billion.'

The ECC, in a meeting held in July 2012, had approved an increase in the size of sovereign guarantees for the project from Rs:5.3 to Rs:19.1 billion, in favour of a consortium of local banks, as a time-gap arrangement till further foreign loans for the Nandipur Project could be obtained.

The economic body had also waived demurrage and detention charges amounting to Rs:856.5 million, another amount of Rs:713 million was paid to the Karachi Port Trust [KPT] as demurrage charges for keeping its facilities occupied by the machinery and equipment imported for the project for a long time.

Nandipur paraphernalia from China weighing 43,000 tons, remained at the KPT for three years from 2010 to 2013 before the PML[N] government stepped in. No ship could use at least one KPT berth because it was completely occupied by the machinery and equipment. At the port, some parts were also stolen apart from rusting of the equipment for lying there for years. The main turbines came from the General Electric while the fuel oil treatment plant was imported from Germany.

Of the remaining details of the expenditure, the engineering, procurement and construction [EPC] costs came to Rs:30.321 billion. An amount of Rs:752 million was spent on '*power dispersal*' to connect transmission of electricity produced by the Nandipur plant with the three grids, two in Gujranwala and one in Sialkot.

A sum of Rs:241.62 million was paid to NESPAK as consultancy charges. The local civil works claimed Rs:375.65 million; an amount of Rs:47.892 million went to insurance, and administration and other overheads came to Rs:539.35 million. The initial spare parts cost Rs:421.5 million.

The record was made available to the media that on **23rd July 2015**; the Nandipur plant had achieved its contractual Commercial Operation Date [CoD] after successful Performance Tests and Reliability Test Run [RTR]. During ten days of this technical test run, it generated 430 megawatt, and as against Nepra's efficiency rate of 44%, its CoD's efficiency was 44.94%, which was considered an achievement.

However, the setback was caused by the non-selection of an operation and maintenance [O&M] contractor for which \$5 million was allocated in the project but yet could not be engaged because of unnecessary delays

and usual bureaucratic red-tape. The negligence was committed by those who had delayed or blocked the timely hiring of contractor to manage the O&M.

NAB & SC - ALL KEPT SLEEPING:

The intelligentsia in Pakistan knew the actual cost of this Nandipur project along with the details of who pocketed the poor peoples' money – but simply they are mis-directional or compromising in nature - thus the whole phuss or mess; see a concise statement:

"What is truth and what real cost of corruption in Pakistani society - Nandipur Power Project has another story. Recall December 2007 when Dongfang Electric Corporation had confirmed and signed a price of \$329 million - BUT till mid 2016, the project is near completion when \$847 million have been spent. The difference: \$518 million are wasted or EATEN through bribes, common interest 'deals', nepotism, inefficiency and mis-management.

The cost of corruption to Pakistani society was actually more than \$518 million – the costs associated with misallocation of resources, distortions of incentives, people's sufferings for SIX years till then coupled with production & GDP loss through that period."

Still the characters involved and responsible – Babar Awan for keeping machinery docs 'in the name of legal scrutiny' for THREE years [2010-13]; Asif Zardari on whose instructions the docs were kept pending; Kh Asif and Ahsan Iqbal who both twisted the project in mid-2013; CM Shahbaz Sharif and Salman Shahbaz who handled the project later though NOT concerned with MoW&P projects and, of course, numerous hand-picked crook and corrupt bureaucrats including the then NAB managers.

At \$847 million cost the electricity generated by Nandipur was coming up to be one of the most expensive on the face of this planet. Public-sector corruption has a direct impact on the composition of government expenditures. What that means is that corrupt governments tend to spend more on infrastructure where the potential for commissions and kick-backs is higher than spending on education and health. This under-investment on education and health means lower rates of economic growth – see any country's index in history pages.

On 18th August 2016; the MoW&P informed the Public Accounts Committee [PAC] that the Nandipur power project was producing electricity at a higher cost of Rs:7.25 per unit, but the cost would come down when the plant reverted to gas by the end of the year [2016]; Water and Power Secretary Younus Dagha told that the dual-fuel power plant was not efficient on oil but would give better results on gas.

That time the plant was producing 250MW. A gas pipeline was being laid to make the power plant more efficient; the plant was planned to run on liquefied natural gas [LNG] in future.

Referring to a daily the '**Pakistan today**' dated **9th December 2016;** near ending of the year [2016], the Nawaz Sharif government was in the dock on various charges of corruption surfaced from Panama Leaks involving money laundering through off shore companies.

Sharifs and Zardaris were lucky that they were living in Pakistan like country where the laws for poor and feudal were differently applied – so nothing was proved against any of them; thanks to procedural gimmicks of the courts. No Pakistani sitting ruler could be convicted in the past for his / her financial plunders. Records mysteriously disappeared or burnt or got destroyed or stained - with no apportion of blame on any.

Nandipur Power Project was a 425 MW combined cycle thermal power plant was constructed by the China's Dong Fang Corp costing Rs: 23 billion and was nearly completed in time [April 2011] but could not due to delay and negligence of the previous PPP government. When in June 2013, PML[N] took over the project and put it run in mid 2016 the actual cost reached Rs:84 billion.

Numerous reasons were attributed to the cost escalation.

In the earlier paragraphs, the complete story has been discussed that how the cost of Nandipur plant escalated during 2008-16 from Pakistan Electric Power Company [PEPCO]'s signed contract from Rs:23 billion [\$329 million] to Rs:58.85 billion. During 2016-17, the cost went even more high because the plant was converted from Furnace oil to LNG as raw material.

In February 2016, the issue of misappropriation in purchase of furnace oil was brought to light for which an inquiry conducted by GENCO-III recommended audit of complete record from the day ONE. The one part of the report from 2014 till then was submitted a day prior to the fire incident.

Then another inquiry was held to probe into complete record of furnace oil purchases from start of the project by Mr Mujeeb [Senior Engineer GENCO-III Muzaffargarh]. CIA Gujranwala also submitted a report to the court regarding destruction of the record and accused Bilqias Khan for destruction of the record.

On 25 September 2016; a team of NAB Lahore visited Gujranwala to inquire into corruption and destruction of the record, however, exact scope or outcome of the inquiry was not known.

Later it surfaced that Nandipur administration remained busy in doing the cover-up while the NAB was being kept delayed to visit the project's offices. They had also NOT cooperated with police on the plea as being a corruption case it was NAB's domain. A writ petition was filed against corruption in Nandipur power project at Session Court Gujranwala by one Manzoor Qadir Bhinder Advocate – but apparently all were tactics to gain time – as has been the hallmark of Pakistan's judicial system since decades and which is known to the whole world.

Security in-charge Captain (R) Mehtab Alam was removed from his post after the records were burnt mysteriously. A criminal case was registered against 'unknown persons' regarding the incident. The incident, when it came into the officials' knowledge next morning, caused panic among the staff as the whole power project was intensively secured. Officials of intelligence agencies, Rangers, police and Elite Force were posted at the project to ensure foolproof security. It was considered impossible for a layman to trespass such high-level security. Even VIPs had restricted access to certain portions of the project.

Yet despite the stringent security measures, the culprits destroyed the evidence pertaining to the multi million dollars scam. The incident only proved that to what extent Sharifs and their buddy bureaucrats could go to destroy evidence to keep them secure.

Riaz Ahmad; on 10th December 2016 said in '**Pakistan Today**':

*"Pakistan is kept underdeveloped and backward by odious and corrupt governance; repeatedly voted in to power by a backward electorate. If it continues the way it is, **Pakistan will die in a decade or so**, no country can survive under such an orgy of corruption, pillage, loot, abuse of power and authority, void of law and order and absence of justice.*

It will be the first time in history where the electorate of a country under a democratic rule destroyed their own country through their own vote."

CONTRACT WITH CHINA TO OPERATE:

On 6th February 2017; the Pakistan government entered into a 10-year contract with a Chinese firm for operation and maintenance of the controversial Nandipur power project at a price shrouded in mystery.

According to a statement issued by the MoW&P, the agreement for a long-term operation and maintenance [O&M] of the 425MW plant was signed between the Northern Power Generation Company Limited [NPGCL] and the Hydro Electric Power System Engineering Company [HEPSEC] of China. The agreement was valid ***"for a period of ten years or two major inspections, whichever is later."***

The contract price was not disclosed. Secretary MoW&P Younas Dagha did not confirm if the contracted price was higher than the previously allowed 48 paisa per unit by the NEPRA. The Chinese bidder was selected through a process under which bids were opened on 11th April 2016 and finalised on 6th August 2016. The '**negotiations**' held between China and Pakistani counterparts – the agreement was signed on 10th Feb 2017.

A total of four companies had participated in the bidding, but two were declared non-responsive. HEPSEC was confirmed the lowest bidder at a total cost of \$185 million, followed by \$227.2 million offered by TNB Repair and Maintenance of Malaysia. At this offered rate, the per unit O&M cost worked out at Rs:0.85 on furnace oil – almost 80 pc higher than the rate allowed by NEPRA which was Rs:0.48 on furnace oil Rs:0.34 on gas per unit [Kwh] – the rest was to be met by poor populace.

The O&M tariff was significantly higher than that of about Rs:0.62 per unit for the 1292MW Hub power plant and about Rs:0.35 per unit for AES-Lalpir, [*but were originally signed at Rs:0.35 and Rs:0.16 per unit in the late 1990s and has since gone up with indexation*]. Thus NEPRA could re-evaluate its determined tariff and prove that lower than this rate was not available in the world or otherwise take a hit on its own return of equity, resulting in economic non-viability of the plant.

Daily the '**Nation**' dated **7th May 2017** very cogently dissected the real mafia hands behind this mega-project of Nandipur. How the PPP and the PML[N] governments collectively tried to knit a web of deceit and lies to hoodwink the Pakistani nation about the operational and financial viability of this most expensive and technically flawed project is a masterpiece of disinformation; but a story of massive corruption too.

It is the REAL story of how the government and public audit and investigation entities including the private audit firm namely Fergusons, the NAB, Auditor General of Pakistan and the Transparency International [TI] were used to gloss over the technical and criminal negligence, violation of PPRA Rules and astronomical costs - simply unbelievable and is surely a tragedy of the highest order for this unlucky country.

So much so that even the Supreme Court of Pakistan was taken for a ride! The most alarming aspect of this whole affair was the way the Sharifs tried to shirk responsibility for their negligence and questionable conduct in the whole affair! The reasons advanced for astronomical increase in the cost estimates of this project within just three years were:

- *Firstly, the three year delay in its completion due to the inaction on behalf of the previous federal government of the PPP, which resulted in damage to the machinery worth \$85 million while lying at the Karachi Port;*
- *Secondly, the \$40 million compensation cum depreciation charges to be paid to the China's installer company;*
- *Thirdly, the installation of an additional gas turbine of 100 MW to the four furnace oil turbines having a cumulative output of 425 MW and the laying of the CNG / LNG pipeline to the plant.*

Interestingly, for the unbelievable increase in the cost of the plant, the CM Punjab and Federal Minister for Power Kh Asif wholly and very conveniently blamed the previous PPP government – whereas both political parties were equally culpable and guilty.

The most significant aspect of this deception was of gigantic proportions got prepared later for the planning, cost estimation, bidding process and implementation by the PML[N] hawks carried out in complete violation of the requirements of due diligence. Moreover, the project came up totally uneconomical - not being cost effective.

This is a classic case of avoidance of responsibility, indeed throwing away blame for their own follies on each other.

In the Wikipedia Website, the Nandipur Power Project is said to be owned by Pakistan Electric Power Company [PEPCO] and operated by the **Nandipur Thermal Power Generation Company Limited**, incorporated on 2nd January 2014 with its head Office located in Lahore. **In fact, the Company is owned by the Government of Punjab and is therefore a provincial entity.**

Let us overview the facts inside the dilemma:

[During the last week of September 2016; while disappointed by the NEPRAs 'stubbornness', the PML[N] planned seeking judicial intervention to jack up the consumer tariff of the Nandipur power project by over 34pc in a bid to make it 'viable'. MoW&P had exhausted all institutional and regulatory instruments to secure Nandipur's tariff on actual cost. The NEPRA had blocked all avenues of tariff increase based on actual cost, even rejecting review and reconsideration requests.

NEPRA had repeatedly turned down requests by the power companies to assume the total cost of the 425-525MW Nandipur project at Rs:65 billion while determining its tariff. But the regulator considered the project cost at Rs:42bn in a 30-year tariff that averaged Rs:11.64 per [kilowatt-hour] unit.

The government's desire could bring this tariff to Rs:15.63 per unit — an increase of 34pc. The cost increase was being sought due to project delays, resultant cost overruns, penalties paid to contractors and the cost of laying gas pipeline to carry imported LNG to the project site to run the plant at its full 525MW capacity. The NEPRA held that:

"The project delays and cost escalations are not the faults of the consumer. Similarly, there was no precedent to allow for the cost of a gas pipeline in the power tariff because the pipeline should be constructed by the gas company, treated as the gas company's asset and made part of the gas company's revenue requirement."

The government claimed in its regulatory filings that the Nandipur project was non-viable at the given tariff of Rs:11.63 per unit. NEPRA tried to convince the government that the project could become viable if the government scales down its 15pc re-

turn on equity to 7.5pc. Also, the gas pipeline cost should be shouldered by the gas company, where it actually belongs.

NEPRA was also of the view that allowing a cost overrun, project delays and pipeline costs in gas tariff could set a legal precedent for the private sector to claim cost increases, hence the government should not set a bad precedent to penalise innocent consumers and, instead, bear the additional cost out of its own budget and reduce its return on equity.

Thus NEPRA had rejected a reconsideration request from the MoW&P and declined to change its determined tariff. The ministry was in fix because the project had already incurred more than Rs:12bn in losses at this tariff, which hardly covered the Rs:35bn in project loans. Everyone knew that Nandipur plant had suffered since five years because of inordinate delays, cost overruns, mismanagement, corruption and kickbacks.

This led to a series of audits, probes and parliamentary debates, but nobody could be held accountable – democracy hurray.....]

As per terms, the contractor was required to hire at least 25pc local workforce for on-job training and would be penalised in case of the plant's efficiency falling below 44pc, but any higher efficiency gain would go to the contractor without a capping.

The MoW&P claimed that the plant had been fully operational since its completion in July 2015 and was now running on furnace oil.

The work was under way to run the plant on natural gas for which an 88km pipeline was being laid. The plant's conversion into gas operation, which was expected to be completed by the end of April 2017, could significantly improve its performance, reduce operating costs, and result in overall improvement and increase its capacity to 525MW.

[Nepra had put on record in one of its determinations that during the tenure of the PPP government, the law and justice ministry was responsible for delaying the project for about four years during which period the project cost increased by about 160pc — from \$329m to \$847m.]

During the last week of April 2017; the Pakistan government started running the 525-megawatt Nandipur power plant on trial basis after it was finally converted to Liquefied Natural Gas [LNG].

Since the plant was running on trial basis, so the Sui Northern Gas Pipelines Limited [SNGPL] provided 10 to 30MMCFD of LNG to it according to demand; for the plant's commercial operation, its total demand of 100MMCFD was ready to be supplied. The SNGPL had laid a new and dedicated pipeline for provision of LNG to Nandipur plant.

Since being commissioned a few years ago, the Nandipur plan could not be run properly due to technical and procedural flaws. Though the government continued claiming the project would be a success, it attracted severe criticism from opposition parties and technical experts on various issues. Following frequent technical and administrative problems, the government finally removed its project director to get desired results.

The MoW&P had also identified three major technical and procedural problems with the Nandipur project and sought action against those responsible. The selection of low-capacity furnace oil treatment plant for such a big project, flaws in the long-term outsourcing of operation and maintenance contract and awarding the contract to engineering, procurement and construction contractors on a short-term basis were the key shortcomings that led to failure of the project.

Moreover, poor quality fuel believed to have been adulterated on its way to Nandipur from Karachi had also caused initial problems.

Petroleum Minister Shahid Khaqan Abbasi [*later the prime Minister of Pakistan since August 2017*] also claimed that there would be no technical problem with the 525MW plant if it was run on natural gas. He opposed the selection of dual fuel combined cycle technology for the project on technical grounds, but was overruled when a high-level meeting was informed that banks were not ready to extend funds unless the plant had alternative fuel.

Now the actual loss: While analysing the actual cost estimate and unnatural escalation in cost due to delay in execution, the fact remained that the huge increase from \$329 million to \$574m was ALL CORRUPTION—

"....how it was possible when 95% of construction work had been completed by mid-2010. Further, the actual contract with Dongfang Company included \$85 million worth of machinery

which had landed at Karachi Port for 2 years. Later in July-Sep 2013, the amount of compensation paid to the Chinese Company for damages amounted to only \$40 million [Rs:3.84 billion @ Exchange Rate of Rs.96/-]. Now do arithmetics please.

Summing the above actual costs does not make up the cost from Rs:23 billion to Rs:58.85 billion.”

On 10th May 2017; NAB officials told the Public Accounts Committee [PAC] that the national exchequer had faced Rs:113 billion losses in Nandipur power project due to the criminal negligence of the Law Ministry; the PAC members grilled the NAB officials because NAB remained sleeping over so big loss thus was hand in glove with corrupt mafia.

The NAB officials declared the former Law minister Babar Awan responsible for the failure of Nandipur power project; he had put the file of the said project under the carpet for three years. The interesting fact was also told by NAB that the cost had increased by Rs:43 billion; further that the ministry's officers were not cooperating in the investigation.

Senator Azam Swati alleged that the corrupt officials were active in NAB. An interesting situation arose when PAC sought names of the accused from NAB Director Rizwan, but he refused to disclose the names. However, he informed PAC that NAB had recorded the statements of former PM, law minister and dozens of officers in this regard.

An interesting fact was revealed to the PAC that the ***previous government had awarded the contract to a company that was black-listed in China.***