



# Pakistan

Part III

▶▶▶ WITH ITS PRESENT GROWTH RATE, PAKISTAN NEEDS TO INCREASE ITS ENERGY GENERATION BY 10% EACH YEAR TO MEET DEMAND. PRIVATIZATION AND INVESTOR-FRIENDLY POLICIES ARE THE ANSWER.

AN INTRODUCTION BY PRESIDENT MUSHARRAF

## Powering investment opportunities in energy generation

**W**ater and power are the two basic necessities for improving the quality of life of the people and sustaining economic development in Pakistan. Consumption of water and energy in a country is a measure of its prosperity; the more a country progresses, the larger the need for water and power. Foreseeing the expected shortages in electricity due to rapid industrial growth, Pakistan's government took prompt measures to expand power generation capacity. The task of setting up new power projects has been entrusted to the Private Power and Infrastructure Board (PPIB). It works as a one-stop shop for private investors on behalf of all government bodies and benefits from a significant representation of the private sector on its governing board.

In order to facilitate the private sector and eliminate the concerns over red tape, the government has shortened and simplified the procedures for implementation of policy measures, making them more investor friendly and convenient to follow.

These efforts have resulted in a tremendous response from private in-

vestors. It is expected that projects having cumulative capacity of 8,381MW and an estimated worth of over \$8 billion will materialize.

The projects, which are expected to bring foreign investment worth over \$3.5 billion, include seven based on gas, six based on hydroelectricity, two on coal and one on indigenous oil. Moreover, there are another five projects that are being considered by PPIB.

The government adopted an aggressive marketing strategy to attract serious and credible foreign and local investors to build new power projects. PPIB and the Pakistan government organized two road shows at Dubai and London to market power generation projects. These shows were very well received by prominent investors, lenders, consultants, equipment manufacturers, and suppliers as well as financial advisors.

The initial response has been very encouraging. Various investors and international power players from different countries including the U.S., Japan, China and the UAE have shown a great interest in developing the Faisalabad, Kashmore, and Chichoki Mallian plants.

The government has also offered opportunities for investment in seven hydroelectric and three coal-fueled power projects.



President Musharraf is boosting international interest in the power sector.



With 150 million inhabitants, Pakistan is aiming to raise the country's overall installed capacity by 7,500MW within the next ten years at an estimated cost of \$8 billion.

ENSURING A RELIABLE SUPPLY AND DEVELOPING RENEWABLE ENERGIES

## Competitive bidding processes and joint ventures in the spotlight

"TODAY Pakistan's economy is growing at a rate of 8%. With that kind of growth we need to increase our power generation by 10% every year in order to meet requirements," observes Pakistan's Minister for Water and Power Liaquat Ali Jatoi. "The macroeconomic reforms and progress we have made have generated a lot of new investment, which in turn will require an increased availability of energy." Consequently, the government has thrown the doors wide open for new investment in the country's power sector, creating policies that offer excellent incentives and assurances for investors and which involve an international competitive bidding process that ensures fair play.

In addition, investment procedures have been streamlined and processing times reduced, according to Mr. Jatoi, who adds, "Pakistan is a heaven for investors, and the power sector is a gold mine."

Driving these efforts is the government's intention to raise Pakistan's overall installed capacity by 7,500MW within the next ten years – an endeavour it expects to cost some \$8 billion. The government has also placed increasing emphasis on the development of indigenous and renewable energy sources, especially coal. Pakistan has some 200 billion metric tons in coal reserves, enough to generate 100,000MW for the next 30 years, and



Minister for Water and Power Liaquat Ali Jatoi: "The power sector is a goldmine."

new investment opportunities for five coal blocks were announced this year. Mr. Jatoi comments, "We will focus on the conversion of coal resources into power and gas-fired projects, in addi-

tion to our thermal power. We are also very optimistic about our ability to develop renewable energy sources and we are targeting 100MW from renewable energy by the end of this year."

Ensuring that Pakistan's population of 150 million has access to a reliable power supply is not only a concern for the government, the private sector is also becoming involved. Uch Power Limited, one of the country's first independent power producers, has laid 47 miles of electrical lines in a remote region of the Balochistan (in the west of the country) in a joint public-private effort. As a result of the electricity supply, farmers in the area have been able to irrigate substantial tracts of previously uncultivated land – showcasing the power sector's influence in Pakistan's economic progress.



New hydroelectricity power projects provide a boost to renewable energy ventures.

## Independent power producers up capacity

PAKISTAN has allowed independent power producers (IPPs) to operate in its energy sector since 1994 when the Private Power Generation Policy was established to counteract the increasing inefficiency in state electricity generation, which caused frequent and lengthy outages during the early 1990s. Today 16 IPPs in the country represent 30% of installed electricity generation capacity and the government is working to raise both this percentage and the number of private companies operating in the sector in order to meet a growing demand that could produce shortages as early as this year (current projections indicate shortages beginning from 2005-2006 and expanding to 5500MW by 2010). A new power sector policy in 2002 further increased incentives for new players, and Pakistan now counts among its suppliers such world-renowned names as the UK's International Power, the U.S. AES Corporation, General Electric, Siemens, and Saudi Arabia's Xenel Industries Ltd. The Private Power and Infrastructure Board (PPIB), the state agency responsible for regulating Pakistan's power sector, acts as a one-stop shop for investors interested in entering the market, and helps companies negotiate power purchasing agreements and obtain

licenses. PPIB Managing Director Zafar Ali Khan says that the 2002 power policy came about as a result of the government's intention to continue the liberalization of the sector, including the gradual privatization of the state giant

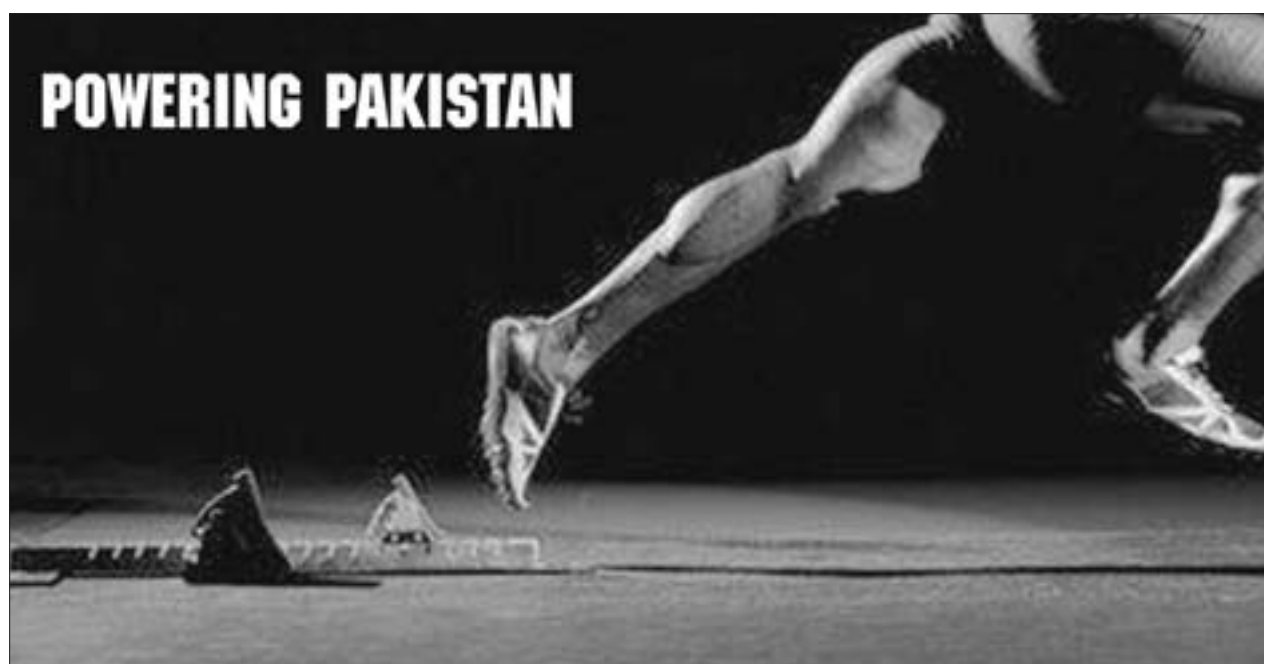


Managing Director of PPIB Zafar Ali Khan: "Our efforts are focused on privatization."

Wapda (Water and Power Development Authority), and was aimed at addressing the flaws in the 1994 policy, which had led to unaffordable tariffs. As well as increasing incentives, the 2002 policy differs from the former in that for future projects electricity will be purchased and tariffs will be set through a process of international competitive bidding. Mr. Khan explains, "The government has remained committed to implementing reforms in the sector

by unbundling the state-owned utility into corporatized companies and eventually privatizing them. Our efforts are focused on the privatization of public sector companies, as well as on attracting new investment from the private sector by providing incentives under new and improved policies." Currently, the transmission, distribution and retail supply of electricity in Pakistan is largely undertaken by Wapda, whose various branches have been recently separated into distinct companies in an attempt to create a more competitive, market-oriented environment.

In two international shows this year, PPIB unveiled three new large-scale projects for investors that included a 400MW to 500MW gas project called Uch II, a 400MW dual-fired project to supply the textile industry in Faisalabad, and another dual-fuel project near the load center in the industrial city of Lahore. Additional opportunities were presented in the form of smaller hydropower projects. The shows elicited an immediate response from investors, including a proposal from AES to develop a \$1 billion coal project in Thar, and the announcement of increased investment to the tune of \$1 billion from CDC Group's Globeleq, which already owns 50% of the Lahore-based Orient Power.



POWERING PAKISTAN

EMPOWERING PAKISTANIS

POWERING PAKISTAN AND EMPOWERING PAKISTANIS, THE KOT ADDU POWER COMPANY (KAPCO) OPERATES AND MAINTAINS THE KOT ADDU POWER PLANT IN THE MUZAFFARGARH DISTRICT, PUNJAB. A SHINING EXAMPLE OF A SUCCESSFUL PUBLIC-PRIVATE PARTNERSHIP SINCE 1996, KAPCO RECENTLY UNDERTOOK AN IPO THAT WAS OVERSUBSCRIBED BY RECORD-BREAKING PROPORTIONS. NOW 316,000 SMALL INVESTORS OWN 20% OF THE COMPANY AS KAPCO GENERATES TRUE POWER THROUGH GENUINE PAKISTANI PARTICIPATION.

KOT ADDU POWER COMPANY

**KAPCO**

INFO@KAPCO.COM.PK, WWW.KAPCO.COM.PK

This Sponsored Section is produced by InterCom Ltd and did not involve the reporting or editorial staff of the International Herald Tribune.

Intercom UK Ltd, 12, St James Square, London, SW1Y 4RB, United Kingdom  
Tel: +44 20 7629 5870, Fax: +44 20 7629 5337, www.intercom-ltd.com

Commercial Management: Taylor Russell, Editorial Content: Miguel Artacho

# Pakistan

A CUSTOMER BASE OF OVER 10 MILLION

## Streamlined Wapda sparks opportunities

THE PAKISTAN Water and Development Authority (Wapda) is the cornerstone of Pakistan's power sector. Since its establishment in 1958, the company has implemented a number of major infrastructure projects for the generation, transmission and distribution of Pakistan's electricity supply. Today, it employs 137,000 people, has a customer base of over 10 million, and is at the center of the restructuring of Pakistan's power sector. The state-owned giant has been divided into 14 new companies, which have been whipped into shape with the placement of experienced private sector personnel in top management positions. The result has been an increase of over \$4 billion in revenues last year.

Wapda's new streamlined organization is comprised of nine distribution companies, four generation companies, and a national transmission and dispatch company that buys and sells electricity from generators to suppliers. With the company's successful restructuring under its belt, the government is now moving forward with its privatization plans. Wapda Chairman Tariq Hamid says that the first three companies to be privatized – the Faisalabad Electric Supply Company, the Peshawar Electric Supply Company, and a generation company, Jamshoro, will be open for bidding this year. Wapda currently generates 70% of Pakistan's elec-



Chairman of Wapda Tariq Hamid: "Great hydro-generation potential."

tricity, and its companies are the sole agents of power purchase, transmission and distribution in the country.

The development of Pakistan's hydropower potential is another major focus for Wapda. The company has elaborated a Vision 2025 hydropower development plan that outlines projects for both the public sector and the private sector, as well as for public-private partnerships. Pakistan has hydropower potential of

40,000MW, enough to secure the country's self-reliance in power, and hence its future economic progress, as well as transform Pakistan into a regional electricity exporter. Hydropower projects now nearing completion have brought in investment of roughly \$3 billion and are expected to be producing an extra 2,000MW for the country between 2006 and 2008. In addition, Mr. Hamid says that a memorandum of un-

derstanding has recently been signed with private sector companies for three more projects, and that there are many more opportunities for interested investors. "We have a great hydro-generation potential and we want to exploit it. In the short term, we will also need more gas-fired power plants and the government has committed to new gas exploration. So there are opportunities for investors in generation, and there is also room for participation in the privatization process of Wapda," he states.

GROUNDBREAKING BUSINESS ROLE MODEL CONTINUES TO REAP REWARDS

## Guaranteed power and secure shareholder value

THE HUB POWER COMPANY (Hubco) operates one of Pakistan's largest private power plants. Representing a consortium of international interests, including Saudi Arabia's Xenel and the UK's International Power, Hubco is a model success story of an independent power producer (IPP) in Pakistan. The \$1.6 billion, 1200MW fuel oil-fired plant, located at the Hub River estuary in the province of Balochistan, was completed one month ahead of schedule and on budget in 1997. The plant's start-up marked the end of nearly 15 years of effort on behalf of the Pakistani government to open up the sector to private interests, and represented a groundbreaking project in that it received direct funding from the World Bank. Today Hubco is one



CEO of Hubco Ashraf Tumbi: "Future shortages will have to be met by IPPs."

of Pakistan's most actively traded blue chip companies and has one of the country's largest market capitalizations. Revenues in 2004 were \$275 million, generating \$10 million in profits. The company's long term agreement with the state utility, the Water and Power Development Authority (Wapda), means a guaranteed revenue stream and shareholders have been attracted by consistent dividends that last year reached 13%.

Hubco CEO Ashraf Tumbi says that the company owes a great deal to the Pakistani government for the success of the project. He comments, "At the time of construction, Hubco was by far the largest independent power project in South Asia, maybe in all of Asia. The site was unique; it was in a completely uninhabited area where there was absolutely no infrastructure so it

was a totally greenfield investment that took a lot of effort to put together. Mr. Tumbi continues, "We really need to take our hats off to the Pakistani government for dealing with the bureaucracy and helping us get around the obstacles that the sheer size of the project represented." Hubco will make the last payment on its senior debt this summer, according to Mr. Tumbi. He says this will put the company in a strong position to jump on the new opportunities that the government has been promoting in the sector, which include proposals for six new hydropower plants. Mr. Tumbi adds that, given future

growth in the sector will most likely come from private ventures, there is room for new players. "The government does not want to involve itself any longer in projects that are best suited for the private sector and the power generation industry is one of those sectors that they have specifically targeted for higher private participation," he explains. "Therefore, by default, future shortages will have to be met by IPPs."



One of the most actively traded blue chip companies, Hubco generated \$10 million in profits in 2004.

IPO UNPRECEDENTED SUCCESS SHOWCASES INVESTOR CONFIDENCE IN PAKISTAN'S ECONOMY

## Kapco - stepping on the gas and upholding best practice

IN MARCH of this year, the Pakistan Water and Development Authority offered 20% of its 64% share of Kot Addu Power Company Limited (Kapco) in an initial public offering (IPO) that was four and a half times oversubscribed. The unprecedented success of the IPO was a strong sign of investor confidence in Pakistan's economy and in its power sector in particular. For Kapco, it was a reward for many years of effort and the ultimate recognition of the company's success. "The IPO was really the culmination of our vision," remarks CEO Malcolm Clampin. "It gave me and my team immense satisfaction. On the first day of trading, the share price closed at 66 rupees [\$1.1] per share, which valued the total stock in our company at \$1 billion."

Originally commissioned in 1985, Kapco was partially privatized in 1996 when 26% of its shares were sold to the UK's International Power (IP). The British group subsequently upped its stake to 36% and was granted management control of the company. Mr. Clampin credits IP for building much of Kapco's impeccable reputation as a reliable supplier of uninterrupted energy. He says that IP's global expertise was essential in building the basis for Kapco's best practice policies, especially the use of solid internal controls in all aspects of its business.



CEO of Kapco Malcolm Clampin: "It is essential that long-term gas supplies are secured within Pakistan."

Kapco is powered by 10 gas-fired turbines and five steam turbines, which use top-of-the-line equipment from a range of international manufacturers such as ABB, Siemens and Fiat. The advanced turbines have allowed the company to maximize its generation capacity, and a multi-fuel system has increased its flexibility (the turbines can run on high speed diesel, low sulfur residual fuel oil or natural gas). The plant has a current capacity of 1600MW and provides 7% of Pakistan's electricity supply. Mr. Clampin says the company will continue to employ the multi-fuel policy it has followed until now, but will also continue to increase its gas-fired generation, which has been upped from 54% in 2003 to 75% this year. Fuel oil accounts for 24.6% of Kapco's production, while diesel makes up for the remaining 0.4%. However, future increases in gas-fired production are dependent upon new gas exploration in the country, according to Mr. Clampin. He says, "Our plan for the next five years is a fuel split of 80% gas and 20% fuel oil. Beyond that, there is still no certainty with regard to gas supply, which is why it is essential in terms of energy cost that long-term gas supplies are secured within Pakistan."

**March towards brighter Pakistan**

- 1,43,94,229 Connections
- 83,444 Villages electrified
- 3,74,520 KM Power carrier lines
- 17,000 MW Power gen. capacity including IPPs
- 69 bn. units Energy gen. per year
- 45 Years of excellence

Only WAPDA has the power to achieve these luminous results. Ever since its inception in 1958, WAPDA has grown from strength to strength, and today, it supplies electricity to the entire nation. For even a brighter future, WAPDA has formulated a comprehensive National Water Resource and Hydropower Development Programme-Vision 2025.

In the first phase of the Programme, work is excelling on Gomal Zam Dam, Mirani Dam, Thal Canal, Rainy Canal, Kachhi Canal, Raising of Mangla Dam projects for more water to the agriculture sector and on the projects of high head khwars for more hydro-electric power.

WAPDA is confidently leaping forward in the service of the nation and in defending the economic frontiers of Pakistan.

**The power behind progress**

WAPDA PUBLIC RELATIONS

Powering Pakistan's **GROWTH**

*The first and largest power plant financed by the private sector in southern Asia, Hubco is proud to provide power for the prosperity of Pakistan.*

**HUBCO**

**Partners in progress**

THE HUB POWER COMPANY LIMITED

info@hubpower.com [www.hubpower.com](http://www.hubpower.com)