



Public-Private Partnership Stories

Philippines: Rural Electrification Small Power Utilities Group: Basilan



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IFC is helping to introduce private sector efficiency in power generation in off-grid areas covered by the Small Power Utilities Group (SPUG), which is already yielding significant social, economic, and environmental benefits.

IFC's third transaction in rural power in the Philippines is located at Basilan Island. Under a new power supply agreement with the Coastal Power Development Corporation, 185,000 people currently without electricity in the Mindanao region will gain access to electricity for the first time. The Coastal Power Development Corporation will supply 11.8 MW at a cost of PHP 11 per kilowatt-hour. The agreement was signed in August 2008.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

IFC Advisory Services in
Public-Private Partnerships
2121 Pennsylvania Ave. NW
Washington D.C. 20433
ifc.org/ppp

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BACKGROUND

The Philippines has a population of 85 million spread across 7,100 islands. In remote and island regions such as Mindanao, connection to the main power grid is often unviable because of the high generation costs and the low incomes of the end users: per capita incomes in the region average less than PHP 100 a day. In addition, high cost structures and poor reliability in off-grid areas, resulting in frequent power outages, characterize the state-owned power suppliers (the cost of generation in off-grid areas of Basilan is PHP 11 per kilowatt-hour, compared with PHP 5.12 for regulated generation—regulated rates are established by the Energy Regulatory Commission, based on affordability). The government has to partially subsidize the resulting revenue deficit. Investments required to provide quality service and meet future capacity needs have been inadequate because of budget constraints.

IFC'S ROLE

The government decided to introduce private sector participation in power generation to:

- Lower generation costs.
- Reduce its subsidy burden.
- Improve reliability.
- Meet projected demand in off-grid areas.

In 2004, IFC signed a comprehensive mandate with the Philippine's Department of Energy; the National Power Corporation, which runs the SPUG's private-sector participation program; and the Power Sector Assets and Liabilities Management Corporation. The target of the mandate is to open 14 areas covered by SPUG to private-sector participation (Basilan is one of them). These areas were selected based on their high subsidy requirements (approximately 80%).

As part of its comprehensive mandate, IFC advised the government on:

- Preparing a regulatory framework for private sector participation in SPUG areas.
- Drafting model contractual documents, such as the power supply agreement and the subsidy agreement.
- Designing, managing, and implementing a fair and transparent competitive selection process.
- Selecting new power providers.

TRANSACTION STRUCTURE

For all 14 areas, IFC structured a concession whereby the new power provider would operate and maintain the existing power station or build a new one. In the case of Basilan, IFC also brokered a 15-year power supply agreement whereby the supplier would provide guaranteed capacity to the Basilan Electric Cooperative, the local distribution utility.

Recognizing that consumers in these off-grid areas cannot afford payments that reflect the true cost of generation, the new regulatory framework provides for regulated generation rates based on affordability. The new power provider is selected through a competitive selection process and the one offering the lowest generation rate is awarded the contract. This rate will be adjusted over time to reflect changes in fixed and variable costs of generation.

Based on the general framework, the electric cooperatives are allowed to charge the above agreed rate for the generation component of the consumer's electricity charges. However, if the true cost of generation rate were higher, the new power provider will be reimbursed for the difference, on the basis of kilowatt-hours supplied, from a subsidy fund.

BIDDING

In accordance with national legislation, the Bids and Awards Committee initiated negotiations with the sole bidder after single bids had been received for each of two previous tenders. After a series of discussions, approved by the board of directors of the Basilan Electric Cooperative, the Coastal Power Development Corporation tendered its winning proposal to the Committee. Under the terms of the agreement, beginning in 2010 the corporation will supply 11.8 megawatts to the Basilan Electric Cooperative at a cost of PHP 11 per kilowatt-hour.

EXPECTED POST-TENDER RESULTS

- The reliability and quality of supply will improve for 145,000 people with existing service almost immediately after the start of commercial operations.
- Some 185,000 people currently without access to electricity will gradually gain access to service for the first time.
- The government will save more than PHP 50 million per year (deficit reduction and impact on national budget).
- The reduction in subsidies in this area will allow redeployment of funds to other areas currently without services.