



# Public-Private Partnership Stories

## Philippines: Rural Electrification Marinduque, Romblon, Tablas & Masbate



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On four remote islands in the Philippines, small power projects are making a big difference in people's lives. IFC helped the government attract private investment in off-grid power generation, which will provide reliable and cheaper electricity to hundreds of thousands of people. The agreements were signed September 2005 and May 2007.

Two local companies won the contracts for 15-year supply agreements: DMCI Holdings and 3iPowerGen. Together the two companies are investing more than \$55 million for new generation, while reducing generation costs more than 40 percent. The plants will add 38 MW of new power, replacing the existing erratic service with reliable, round-the-clock electricity and providing more than 460,000 people with power for the first time.

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

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## BACKGROUND

The Philippines has a population of 85 million spread across 7,100 islands. For years, the government-owned National Power Corporation's Small Power Utility Group (SPUG) held the monopoly for supplying power for off-grid areas where the average per capita income is \$2 a day. Not only was the service unreliable and expensive for those who had access—it was not available at all for hundreds of thousands of others. The investments required to provide quality service and meet future capacity needs were inadequate due to budget constraints.

IFC helped the government develop and award innovative power supply agreements for four provinces through two power-supply agreements: one for Marinduque, Romblon and Tablas; and one for Masbate. The new plants will provide uninterrupted electricity services and the government will save more than \$1 million per year because of reduced subsidies.

## IFC'S ROLE

To address the challenge of providing sufficient power to meet demand in an efficient and sustainable way, the government sought to introduce private-sector participation in power generation. The goal was to reduce the deficit and use the savings to improve service in areas that had no access.

The government appointed IFC as the lead transaction advisor to:

- Prepare a regulatory framework for private sector participation in off-grid areas.
- Draft model contract agreements, such as the Power Supply and Subsidy Agreements.
- Design, manage, and implement a competitive and transparent process to select private power providers.

In 2004, IFC signed a comprehensive mandate with the Philippine government to open 14 areas covered by the Small Power Utilities Group to private-sector participation. These areas were selected because of their high subsidy requirements (approximately 80 percent).

IFC developed the first regulatory framework for power generation in the four provinces and helped create a fair and transparent bidding process that attracted firms interested in the project. The landmark project leveraged private sector capital and expertise to improve affordability, quality and generation capacity in support of the overall development of the remote areas.

## TRANSACTION STRUCTURE

In all four provinces, IFC structured a concession whereby the new power providers would operate and maintain the existing power stations or build new ones. IFC also brokered power supply agreements whereby the suppliers would provide guaranteed capacity to the local distribution utilities.

Recognizing that consumers in off-grid areas cannot pay the true cost of generation, the new regulatory framework provided for regulated generation rates based on affordability. The new power providers were selected through a competitive process, with the winning bidders decided on the basis of the lowest price. The framework allowed for rate adjustment over time to reflect changes in fixed and variable costs of generation.

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

## BIDDING

3iPowerGen, a consortium formed by Coastal Power Development Corporation and Applied Research Technologies, won the bid to supply the islands of Marinduque, Romblon and Tablas. The company proposed a hybrid wind/diesel technology that will bring generation into compliance with the country's environmental standards. The consortium will provide 25MW of combined electric capacity to the three islands at a cost that is 40 percent below the current P13.8 per kWh.

DMCI holdings was the winning bidder for the island of Masbate. The company will supply 13 MW of dependable, uninterrupted electricity at a cost of P7.07 per kWh—about 50 percent below the current generation cost.

## EXPECTED POST-TENDER RESULTS

- More than 460,000 people will have access to reliable and affordable electricity for the first time.
- Those with existing access to electricity will receive better service at lower cost.
- Private sector efficiencies will substantially reduce generation costs.
- The government will save \$1 million in reduced subsidies.
- The success of the model pilot in Marinduque, Romblon, and Tablas will be replicated in other areas to help achieve the national goal of 100 percent electrification.