

The year that was

Milestones highlight PSALM's privatization program in '08

Riding on the success it achieved in 2007, the Power Sector Assets and Liabilities Management Corporation (PSALM) continued to move forward in 2008 as it recorded three milestones that highlighted its ongoing privatization efforts under the government's power industry restructuring agenda.

FIRST MILESTONE

By successfully bidding out the Tiwi-MakBan power facilities in July and the Panay-Bohol plant package in November, PSALM finally hurdled the 70% privatization threshold for generating assets in the Luzon and Visayas grids. In surpassing the targeted privatization level stipulated in the Electric Power Industry Reform Act, PSALM moved the Philippine electricity industry closer to the much-awaited era of open access and retail competition.¹

SPC Power Corp. (SPC), formerly known as Salcon Power Corporation, gave the highest offer of USD5.86 million (USD5,857,553.34) for the 146.5-MW Panay and 22-MW Bohol diesel power plants in a public bidding held on 12 November 2008.²

On 30 July 2008, the 289-MW Tiwi Geothermal Power Plant located in Tiwi, Albay and the 458.53-MW MakBan Geothermal Power Plant situated in Laguna and Batangas provinces were acquired by AP Renewables Inc., a domestic corporation wholly owned by the Aboitiz Power Corporation. AP

¹ The 70% threshold dipped to 57.36% after Emerald Energy Corporation (EEC), the winning bidder for the 600-megawatt (MW) Calaca Coal-Fired Thermal Power Plant, decided to terminate its purchase of the asset allegedly due to the deterioration of the power plant since it was bid out on 16 October 2007.

Belying EEC's claim after a thorough evaluation of the plant's overall condition, PSALM forfeited, in favor of the government, the USD14-million performance bond that the winning bidder posted.

In spite of the snag, PSALM remains optimistic about privatizing 100% of National Power Corporation's generation assets in 2009 starting with the rebidding of the Calaca facility. Already, several investor groups have expressed interest in acquiring the Batangas-based power plant.

² PSALM turned over the Panay and Bohol power plants to SPC in simple ceremonies held on 25 March 2009. The turnover proceeded smoothly even as some sectors, particularly in the Visayas region, sought its deferment, citing some issues.

SPC opted to pay the full purchase price to effectively complete the transaction for the two Visayas-based power facilities. The proceeds from the sale will be used to pay a portion of National Power's obligations to ease its huge debt burden.

Renewables offered USD446.9 million (USD446,888,008.00) for the Luzon-based geothermal facilities.

The sale was described by Energy Secretary Angelo Reyes as an “important achievement for the government” since Tiwi and MakBan were the first geothermal facilities successfully bid out by PSALM.³

The turnover of the 75-MW Ambuklao and 100-MW Binga Hydroelectric Power Complex to SN Aboitiz Power Benguet Inc. (SNAP Benguet) was held on 10 July 2008. SNAP Benguet offered USD325 million for the Benguet-based facilities in a bidding held last 28 November 2007.

During the turnover ceremony, SNAP Benguet paid the first installment of its winning bid comprising 70% of the total purchase price. The company completed the sale transaction on 29 August 2008 by paying the 30% balance of its USD325-million bid. The last installment is equivalent to USD99.0925 million, which includes the accumulated interest reckoned from the time PSALM turned over the power facilities in July 2008. The interest earned by PSALM from the sale transaction on top of the principal amounted to USD1.5925 million.

PSALM officially closed the sale of the 600-MW Masinloc Coal-Fired Thermal Power Plant on 16 April 2008 with the turnover of the Zambales-based facility to Masinloc Power Partners Co. Ltd. (MPPCL).

A consortium led by Singapore-based AES Transpower Pte. Ltd., MPPCL was declared the highest bidder for the Masinloc power plant, offering USD930 million during the bidding held last 26 July 2007. MPPCL opted to pay the full amount of its bid.

PSALM sold its first decommissioned power plant in 2008 – the 200-MW Manila Thermal Power Plant (MTPP) located in Isla de Provisor, Paco, Manila – with the completion of the negotiated sale that PSALM conducted on 25 April with Gagasan Steel Incorporated.

An affiliate of Malaysia-based Gagasan Steel Sdn Berhad, Gagasan Steel, paid USD2.5 million (USD2,506,000.00) for the retired power facility that included the plant equipment, components, auxiliaries, and accessories of the MTPP but not the underlying land.

PSALM decided to hold negotiations with Gagasan Steel after the third bid exercise held last 06 February 2008 was declared a failure. Gagasan Steel

³ PSALM targets the turnover of the Tiwi-MakBan plants in 2009, with AP Renewables expected to settle the 40% down payment of its USD446.9-million purchase price, or around USD160 million.

was the only bidder to pass the technical qualifications, but the firm fell short of the reserve price.

On 15 May 2008, Gagasan Steel received the Notice of Award from PSALM, officially declaring the company as the new owner of the MTPP.

The Notice of Award and Certificate of Effectivity were issued after Gagasan Steel gave to PSALM its performance bond for the MTPP sale amounting to USD1.253 million, or 50% of the total purchase price of USD2.5 million.⁴

The privatization of National Power's generation assets in 2008 ended on a positive note with the sale of the 0.8-MW Amlan Hydroelectric Power Plant to ICS Renewables Inc. for USD230,000.

PSALM declared ICS Renewables, a newly-incorporated, Filipino-owned company engaged in the manufacture of alternative fuels, the highest bidder during the second round of bidding for the Visayas-based hydropower facility held last December.

SECOND MILESTONE

PSALM's success in 2008 as implementer of the government's power privatization program was highlighted by the execution and effectivity of the Concession Agreement for the National Transmission Corporation (TransCo) last 28 February 2008, barely two months after the consortium of the Monte Oro Grid Resources Corp., Calaca High Power Corp. and State Grid Corp. of China won the bidding for the 25-year TransCo concession on 12 December 2007.

Thereafter, the franchise application by the Concessionaire was approved by the House of Representatives and the Senate in August and November, respectively.⁵

⁴ Gagasan Steel, an import-export handler, dealer, and trader of scrap metals whose local clients include National Power and the Manila Electric Co., officially assumed ownership of the MTPP in February 2009 after it paid in full the purchase price for the decommissioned power facility.

⁵ On 14 January 2009, PSALM formally turned over the 25-year TransCo concession to the National Grid Corporation of the Philippines (NGCP) composed of Monte Oro, Calaca High Power, and State Grid Corp. of China. On 07 January 2009, the NGCP remitted USD987.5 million to PSALM as its upfront payment for the operation of the transmission system and in compliance with the provisions of the sale transaction. The amount comprises 25% of the USD3.95-billion purchase price to acquire the concession contract.

THIRD MILESTONE

The privatization proceeds generated from the successful bidding of the power assets in 2008 amounted to USD455.48 million (USD446.8 million for Tiwi-MakBan, USD5.86 million for Panay-Bohol, USD2.51 million for Manila Thermal, and USD230,000 for Amlan). The USD455.48-million together with the actual amount collected from the successful turnover of the Masinloc facility (USD930 million) and the Ambuklao-Binga plants (USD325 million) totaled USD1.7 billion.

Using the privatization proceeds, PSALM made three loan prepayments in 2008 to reduce National Power's debt by 18%, i.e., from USD7.01 billion by the end of 2007 to USD5.7 billion by the end of 2008. The successful prepayments became possible through the support provided by the Bangko Sentral ng Pilipinas which ensured the smooth processing of the payments.

Aside from savings on interest payments and guarantee fees, the prepayments reduced National Power's foreign exchange debt by 4%, and increased the peso component of the debt currency mix from 2% to 13%.

The first prepayment was made on 19 March 2008 when PSALM settled three yen-denominated loans of National Power with the Japan Bank for International Cooperation-OECF (JBIC-OECF) worth Y16.887 billion, or around USD174 million. These loans were extended to National Power in 1995 and 1997 to finance a number of transmission projects. Two of the loans will mature in 2027, while the other loan will mature in 2025.

In June 2008, PSALM prepaid Y49.5-billion, or around USD458.5-million, OECF relent loans to National Power by the national government and Y27.2 billion, or around USD263 million, representing Tranche B of the Miyazawa yen-denominated loans extended in 1999 by the Japanese government to National Power to finance a number of transmission projects.

Before the current financial crisis began wreaking havoc on the world's economies, PSALM made prepayments in August and September 2008. PSALM prepaid USD126 million and Y10.2 billion, or a total of USD219 million, of National Power's debt on 15 August and 18 August, respectively. The amount represented the loans extended by the Asian Development Bank (ADB) and the JBIC for the Masinloc power plant that was successfully privatized in 2007.

On 16 September 2008, PSALM prepaid two yen loans of National Power totaling Y19.76 billion, or USD184.14 million. The loans were extended by the ADB and the JBIC to National Power also for the Masinloc power plant. The ADB loan amounted to Y12.66 billion, or USD117.82 million, while the JBIC loan reached Y7.10 billion, or USD66.32 million.

IPPA

Accelerating the privatization of the energy contracts of National Power with independent power producers (IPPs) through the selection of IPP administrators (IPPAs), the PSALM management decided to launch the IPPA bidding in November 2008 with the 1,000-MW Sual power plant in Sual, Pangasinan and the 700-MW Pagbilao plant in Pagbilao, Quezon.

Both operated by Team Energy under build-operate-transfer contracts that will expire in 2024 and 2025, respectively, the Sual and Pagbilao plants were chosen because of keen investor interest in these power facilities based on recent fora conducted by PSALM early last year.⁶

The success of the IPPA bidding that PSALM expects to finish in 2009 will meet one of the preconditions for the implementation of open access and retail competition that will eventually translate to more reasonable electricity prices for Filipino consumers.

PSALM also hopes to complete the privatization of the generation assets of National Power by the end of 2009. At least seven more power plants and four decommissioned assets will be auctioned off this year to meet the other precondition for a market-driven and competitive electric power industry.

⁶ From December 2008, PSALM rescheduled the bid date for the selection of IPPAs to February 2009 and then to 27 March 2009 based on feedback from prospective bidders. The bidding has been moved to 27 May 2009 to ensure the success of the bidding process. So far, at least four investor groups have expressed interest to participate in the bidding.