

**Philippines Private Sector  
Participation in Power Generation in Missionary  
Areas (the “SPUG Project”)**



**Preliminary Information Memorandum**

**Province of Siquijor - Investment Opportunity in  
Power Generation**

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## Preliminary Information

This Preliminary Information Memorandum is being issued on behalf of the Department and Energy (DOE) and the National Power Corporation (NPC) to the recipient to obtain the recipient's preliminary assessment and feedback on the proposed transaction and an initial indication of the recipient's level of interest in participating the same.

These introduction and presentation have been prepared by the International Finance Corporation (IFC) from information supplied to it by the Province of Siquijor Island Electric Cooperative, Inc. (PROSIELCO) and National Power Corporation.

Both materials have been prepared to assist interested parties in making their own evaluation and do not purport to contain all of the information that an interested party may need or desire.

Neither DOE, nor any of its attached agencies, PROSIELCO nor IFC make any representation (expressed or implied) or warranty as to the accuracy or completeness of these information.

The NPC and PROSIELCO reserve the right, in their sole discretion, to modify the information provided, and without prior notice or assigning any reason, to decide not to proceed with any transaction. In which case, NPC and PROSIELCO will not be liable or responsible.

# 1. Executive Summary

## The opportunity

The Government of the Republic of the Philippines (“GOP”) through the Department of Energy (DOE) and the National Power Corporation (NPC) is inviting private sector participation (PSP) in power generation in the island of Siquijor as part of the major reforms in the power sector particularly in the off-grid areas. An opportunity exists for private power investors to build, own and operate generation facilities to supply the entire province.

- Balanced Transaction Structure with adequate allocation of risks
- Transparent competitive selection process on the basis of clear and objective criteria
- Investment for a 6-MW power plant with regulatory and contractual framework in place
- Distribution utility has a good credit standing

## The “PSP Program”

In addition to providing a business opportunity for investors, the PSP program aims to bring benefits to the national government and the offtaker, Province of Siquijor Electric Cooperative Inc. (PROSIELCO) include:

- Reduction of NPC-SPUG’s deficit and impact on the national budget
- Re-deployment of expected decrease in subsidy requirements to unenergized areas
- 24/7 supply of electricity
- Improved quality and reliability of power supply
- Secure future power supply demand

## The IFC’s mandate

The International Finance Corporation (“IFC”), the private sector arm of the World Bank Group, was first retained in 2004 by the DOE, NPC and Power Sector Assets and Liabilities Management Corporation (PSALM) as the Transaction Advisor to advice on the implementation of PSP through a fair and competitive selection process. This said mandate has been extended to

promote the PSP program in the remaining Fourteen “First Wave” Areas operated and managed by NPC Small Power Utilities Group (SPUG).

## The “SPUG Project”

The transaction is being implemented pursuant to the Implementing Rules and Regulations of the EPIRA, and the Department of Energy (DOE) issued Department Circular No. DC 2004-01-001 (“SPUG Circular”). Under the SPUG Circular, New Power Providers (NPPs) would gradually replace the operations of the NPC Small Power Utilities Group (NPC-SPUG) and take over the right to supply electricity in SPUG areas by entering into Power Supply Agreements (PSA) with electric cooperatives (ECs) which hold the franchises to distribute electricity in said areas. This is also known as the “SPUG Project”. In this project, the NPPs would be selected through a competitive selection process. The SPUG Circular also provides that NPC shall petition the ERC for the implementation of a regulatory regime to facilitate PSP in existing SPUG areas, and requires that NPC-SPUG not undertake any new capacity in these said areas.

In June 2004, the NPC, by means of a Resolution, proposed Fourteen (14) areas being operated and managed by SPUG to be part of the “First Wave” to be opened to PSP. Siquijor Island is one of these “First Wave” Areas for the entry of private sector because of its high level of contribution to SPUG’s subsidy requirement.

The last Extension Mandate of IFC is mainly to manage the competitive selection process to replace SPUG’s generation function in Siquijor Island.

In February 2009, a Memorandum of Agreement (MOA) was signed between DOE, NPC and the Province of Siquijor Electric Cooperative, Inc (PROSIELCO). The MOA provides a framework of cooperation between the DOE, NPC and PROSIELCO and also designates the appointed Transaction Advisor, IFC, to assist in the structuring and implementation of the competitive process.

## The “SPUG Siquijor Project”

The current power supply situation in the island has been unstable and unreliable with frequent power interruptions due to the following reasons:

- **Capacity** - NPC-SPUG currently provides power supply through land-based power generating units and power barges with dependable

- capacity of 3.275MW and peak demand of 2.95MW (as of 2009) leaving a very low reserve margin of 0.325MW
- **Transmission** - Power is supplied through the EC's 13.2 kv distribution lines
  - EC's distribution network consists of 2 feeders with a centralized feeder metering at the Siquijor Diesel Power Plant

In most of the "SPUG" areas, where the offtakers are mostly electric cooperatives with small loads, and with diesel/bunker diesel plants and power barges, generation and O & M costs are high resulting in heavy reliance on subsidy.

PROSIELCO, the Offtaker has been consistently recognized by NEA as one of the best performing ECs due to the following reasons:

- Positive financial operations showing net income for the past 5 years
- **Systems Loss** - maintained a single-digit system loss of 8.46% for the past 5 years
- **Collection efficiency** - 100%; maintained one month level of consumer accounts receivable
- Prompt payment discount payor
- Low average level of non-power cost currently at 15% of revenues
- **Sales** - In 2008, total energy sales reached 10.656 million kwh & peak demand registered at approximately 2.95 MW, the highest during the 5-year period.
- **Service Area** - As of October 2009, all 134 barangays in its coverage area are energized and 88.6% of households are with electricity. The EC is now focused on the sitio energization covering 529 out of 685 potential areas, 90% complete.

## Transaction Structure Highlights

- 15-year Power Supply Agreement with the distribution utility
- Take-over of the total supply requirements; right to be dispatched on a priority basis
- Full recovery of generation cost through payments from PROSIELCO and a subsidy mechanism
- Project may be eligible for tax incentives for infrastructure projects

## The Approach

- Structuring Phase- The first phase of the work is a legal, technical and financial due diligence of PROSIELCO and the NPC-SPUG generation facilities in the particular area for PSP, which was just completed. This phase also includes preliminary market testing to gauge potential investor interest, an analysis of the off grid generation market for Siquijor Island, and the identification of strategic options to effectively implement the entry of the NPP. A recommended phase in-phase out arrangement and structure will be submitted to the DOE, NPC and PROSIELCO.
- Implementation Phase - Once DOE, NPC and PROSIELCO approved the transaction structure, the implementation phase will commence. This will likely include opening of a data room, investors due diligence, pre-bid conferences and investors' consultations, finalization of transaction documents, a transparent bidding and award process. Below is the indicative timetable.

The IFC for its last Extension Mandate is going “the extra mile” by monitoring the implementation of the completed transactions to realize the ultimate benefits of the PSP program.

## The Timeline

<b>Milestones</b>	<b>Estimated Date</b>
Launch of Transaction (EOI) and Request for Proposal	Mid-April 2010
Pre-Bid Conference/Investors Consultations	End of April 2010
Pre-qualification and Bid Submission	End of May 2010
Award of Bid and Closing	End of June 2010

## 2. The Province of Siquijor

### a. Background

Located in the Visayan region of the Philippine Islands, Siquijor has a population of approximately 74,000 and a 92% literacy rate, one of the highest in the Philippines. The main languages are Cebuano, Tagalog and English.

Siquijor is the third smallest province in the country both in terms of population and land area, after Camiguin and Batanes. For a time it was sub-province of Negros Oriental. Called *Isla del Fuego* or the “Island of Fire” by the Spanish before, Siquijor is considered by many Filipinos to be a mystical island, full of witches and other supernatural phenomena.

Esteban Rodriguez of the Legazpi Expedition in 1565 led the first Spaniards to officially “discover” the island. He was captain of a small party that left Legazpi’s camp in Bohol to explore the nearby islands which are now called Pamilican, Siquijor, and Negros.

Founded in 1783 under the administration of secular clergymen, Siquijor became the first municipality as well as the first parish to be established on the island. Siquijor was, from the beginning, administered by the diocese of Cebu. As for civil administration, Siquijor was under Bohol since the province had its own governor. The first Agustinian priest, Father Vicente Garcia, arrived in Siquijor in 1794. Several years thereafter, a priest of the same order founded the parishes of Larena (initially called Can-oan), Lazi (formerly Tigbawan), San Juan (Makalipay), and Maria (Cang-meniao). With the exception of Enrique Villanueva, all of the present six municipalities were established as parishes in 1877. From 1854 to 1892, Siquijor became part of the province of Negros Oriental, and became a sub-province in 1901.

In 1971, Siquijor became an independent province by virtue of Republic Act No. 6398. The capital was officially transferred from Larena to Siquijor in 1972 through a plebiscite held on November 8, 1971 and confirmed through Proclamation No. 1075.

### b. Demographics

#### Households increased by 2,429

The population of Siquijor was 87,695 persons as of August 1, 2007, based on the 2007 Census of Population (POPCEN 2007). This figure was higher by 6,097 persons over the population count of 81,598 persons in 2000. The recent

population count for the province translates to an annual growth rate of 1.00 percent for the period 2000 to 2007, lower than the 2.19 percent annual growth rate registered for the period 1995 to 2000.

The number of households reached 19,780, which was 2,429 households more than the 2000 figure. The average household size in 2007 was 4.4 persons, which was slightly lower than the average household size of 4.7 persons in 2000.

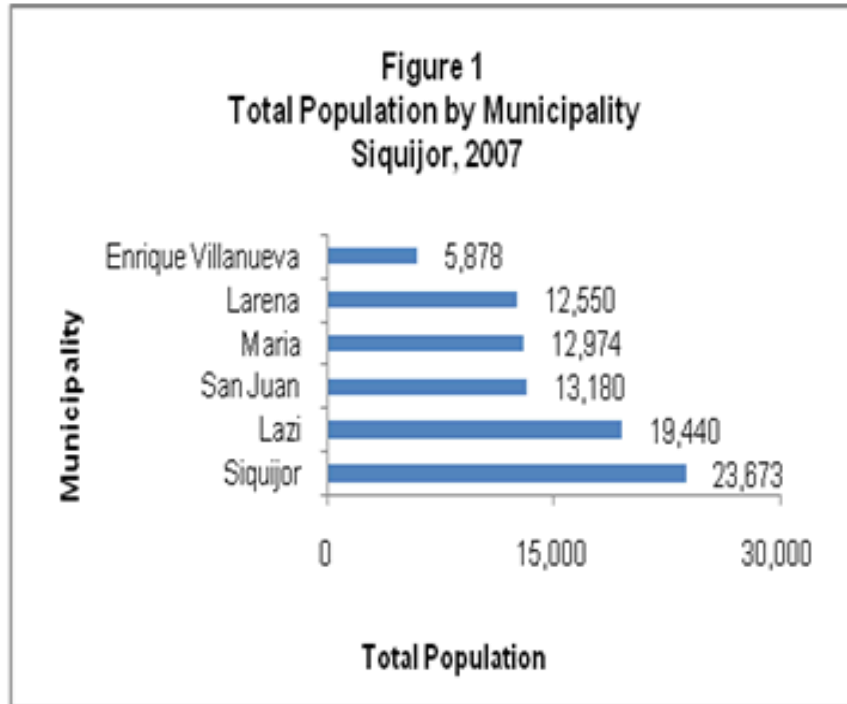
**Table 1. Total Population, Household Population and Number of Households by Municipality: Siquijor, 2007**

City/Municipality	Total Population	Household Population	Number of Households
<b>Siquijor</b>	<b>87,695</b>	<b>87,607</b>	<b>19,780</b>
Enrique Villanueva	5,878	5,867	1,334
Larena	12,550	12,524	2,733
Lazi	19,440	19,440	4,388
Maria	12,974	12,959	2,973
San Juan	13,180	13,180	3,037
Siquijor	23,673	23,637	5,315

Source: National Statistics Office, 2007 Census of Population

## Siquijor was the most populated municipality

Among the 6 municipalities in the province of Siquijor, Siquijor, the provincial capital, was the most populous with a population of 23,673 persons or 27.0 percent of the provincial total population. This municipality was followed by Lazi (22.2 percent), San Juan (15.0 percent), Maria (14.8 percent), and Larena (14.3 percent). The municipality of Enrique Villanueva (6.7 percent) had the least share.



*Source: National Statistics Office, 2007 Census of Population*

### **c. Economics**

The major crops of Siquijor are corn, coconut, cassava, palay, peanut, banana, mungo and other legumes. Agricultural productivity, however is declining and unwise use of land is prevalent, making Siquijor dependent on neighboring provinces for food supply.

Siquijor’s major fishing grounds include the Siquijor sea, south Tañon Strait, Bohol Strait, and the Mindanao Sea. Inland fishery includes fresh and brackish water. Siquijor has 15 hectares of fishponds and 71 hectares of swamplands.

Siquijor has been gearing up to develop its tourism industry, which the Department of Tourism has been supporting. The province has several tourist attractions, among which are the 201-year old stone church convent, the Cannas Falls and San Antonio, where one can savor the serenity and loveliness of the remaining forest.

### **d. Location**



- Strategic geographic location; no security concerns
- Adequate communication facilities and infrastructure linkages inland and with nearby islands
- Attractive tourist destination and investment
- Third smallest province in the country in terms of population and land area

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