

Abstract

Is the "International Power Producer" a relic of the past?

The structure for the classic IPP - including firm off-take by a single-buyer, Government Guarantees and limited recourse project finance has been around since the '80's. But is it now becoming a historical relic or does it still have relevance today? Where markets have been introduced, obviously changes have been needed in the model: But other factors are also driving change. Coal - the "economic choice" - is becoming persona non-grata to international and development banks. Local players are willing to treat the energy industry like "any other industry" and take risks that international players may not contemplate. The local banking sectors in various Asian countries have grown stronger and local banks may finance on terms that international players balk at. Gaining finance in these environments may depend more on the strength of the sponsor than the strength of the PPA. What does the international player bring to the table in these environments? This presentation will use the case study of a recent Mindanao project, where a tender is being run by the local retailers to try and attract international generators to build a new power station - but the only fuel that is practical is coal and for such a small system, only a small 2 x 150MW plant will fit. The Philippine government is no longer giving guarantees; the retailers - privately owned not-for-profit co-operatives - are not allowed to have spare funds and thus have no money for expensive advisors nor fancy credit structures. The avenues for funding such as the ADB or the local Public Private Partnership initiatives will only support "clean" technology - which will not solve Mindanao's problems. International bidders are lining up, but who will guarantee their revenues? Can the classic structure overcome the challenges in the project or will a "local solution" be the only way? Will the strengths of the classic model be valued in this changing environment and what are the risks of ignoring it?

Sarah Fairhurst
sfairhurst@lantaugroup.com
+852 9157 5367