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(632) 552-9907

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STRATEGIC OBJECTIVE #4

(Management of Productive, Life-Sustaining Natural Resources Strengthened)

Changes in power contracts to turn off US investors

(Source: The Manila Times Internet Edition – 10/25/05)

ADDITIONAL American investment in the Philippine power industry may be hampered by the government’s incessant calls to review and eventually renegotiate its contracts with independent power producers (IPPs), an executive of the United States Agency for International Development (Usaid) said Monday.

Jon Lindborg, Usaid mission director, confirmed that US interests are closely monitoring developments in the Philippine power sector before they make any investment decisions.

Lindborg said that policies should be stable to improve the investment climate in the Philippines.

“We certainly want to see more US investment in the Philippines and do all that we can, as a government partner, to make the environment here better for investment,” he said.

According to Linborg, American investors are closely watching the proposed renegotiation of IPP contracts with the government, particularly with the state-run National Power Corp. (Napocor), which sources 70 percent of its power requirements from IPPs.

The Philippine Senate has raised proposals to renegotiate these IPP contracts, many of which contain “take or pay” provisions, allowing IPPs to charge end-users for spare electricity capacity, which are either unused or ungenerated.

Earlier Senate deliberations indicate that the power generation contracts of at least five IPPs are not only overpriced but contain serious flaws.

Among the IPP contracts being eyed for renegotiation is the power supply deal between the Philippine unit of the US-based Mirant Group, which owns nine local power plants, and the Napocor.

Besides owning a 1,200-megawatt (MW) in Sual, Pangasinan, Mirant Philippines also operates the 700 MW coal-fired plant in Pagbilao, Quezon, which has been in the news recently for emitting toxic substances.

Similarly, James Harris, Mirant Philippines’ president, has earlier called on the government to respect the sanctity of these contracts with IPPs, many of which were encouraged to come over to help solve the power crisis of the early 1990s.

“They look forward to making investments. They’re looking at sanctity of contracts where the contracts that I sign five years ago are the same contracts that I can honor five years next, and they need to make their decision based on those kinds contracts,” Lindborg said.♦

--Niel V. Mugas