

**"THE ALTRESCO APPROACH TO THE  
PHILIPPINES AND ASIA POWER MARKET"**

**SPEECH  
TO**

**ASIA POWER '94**

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**RESUME**

Mr Williams has more than 25 years of experience in real estate development and the power industry. His work experience began in 1964 in the industrial equipment and supply business, marketing power transmission and materials handling equipment.

In 1976, he founded Property Resources, Inc., which co-owned and managed \$300 million in investment properties.

In 1986, Mr Williams founded Altresco, Inc. to develop and invest in alternative energy projects to meet the changing needs of the power industry. Altresco's first project, a 160MW cogeneration project in Pittsfield, Massachusetts, went on line in September 1990. Mr Williams served as chief executive officer and chairman of the board of Altresco, Inc. and led the development, project financing, construction, and start up of the Pittsfield facility.

Mr Williams then founded a successor company, Altresco International, LLC (AI) to identify and develop power projects worldwide. AI is currently developing the Luzon Power Project on the island of Luzon in the Republic of the Philippines.

When completed in the late 1990s, the plant will supply up to 440MW of electricity to communities near the plant site and to the Manila grid. The facility will burn low-cost liquid fuels in an advanced combined-cycle technology based on slow-speed diesel engines.

## ASIA POWER '94 PRESENTATION

*(slide One)*

I am very pleased to be able to present Altresco's views on approaching development of independent power projects within ASEAN countries and more particularly with our friends in the Philippines and S.E. Asia.

I'm going to address this topic by enumerating Altresco's three stage approach to constructing lasting and successful business relationships with its client/partners. Within each stage is a myriad of issues that if properly identified, understood, analyzed, planned for and given adequate attention to will form the fabric of a sound and praiseworthy Independent Power Project.

To illustrate the importance of using a staged approach, I'll share with you some learned experience from the U.S., the Philippines, and other parts of the world that reinforce the need to conduct each stage carefully in order to ensure success.

First, I'm sure it would be helpful if I took just a moment to let you know a little bit more about Altresco International.

The name Altresco was derived from the name Alternative Resources Company. Our original and continuing mission is to provide an alternative to the old inefficient, environmentally abusive forms of thermal and power generation that grew out the availability of cheap abundant fuel, rapid industrial growth, smaller populations and ignorance of the long term damage being done to the environment. Altresco was founded in 1986 and by 1990 was already providing cleaner, more efficient electricity for more than 160,000 homes plus providing a new source of steam to the 12 million square foot General Electric Pittsfield plant.

Today we are also helping to provide alternate ways for capital short nations to obtain new affordable sources of electricity though alternative financing structures.

I am very proud of the fact that today the name Altresco is associated with honorable and sensitive business dealings, leading the pack on establishing higher environmental standards in an affordable way, responsibility and active contribution to the cities and towns where we are involved in projects and fair and open negotiations with our power customers.

Altresco International is today a group of seasoned professionals with a broad range of direct and related experience in the development of independent power projects.

*(slide two)*

Our corporate mission is to help bring Clean, Efficient, and Cost-Effective electrical power to nations, populations and industries. Responsiveness, quality, economy and reliability are the cornerstones of Altresco's business. Altresco's continued growth is based on providing a complete range of development services to its global clients and partners.

Altresco International differs from many U.S. developers presently in Asia because of our active interest in creating projects with a majority local ownership. We are committed to teaching as well as simply developing projects. It is our strategy to multiply our market presence by being a contributive part of local consortiums where we can bring the immediately needed expertise while at the same time helping our local affiliates learn this process in order that we can, working together, expand both of our abilities to undertake new projects.

The Altresco International organization is designed to be able to provide the highest level of expertise in a very diverse set of development parameters. Our decision to focus on the development phase of independent power business and to take a more passive role in the ownership and operation of the business is the result of direct experience. We are acutely aware of the need to keep the development team lean, and responsive. In the early stage of project development when most of the decisions are subjective and need to be made on an experienced gut feel basis, it can be fatal to a project to burden it with the overhead and decision making process of a large multinational corporation.

It is exactly this situation where the Altresco team can be of the most value. Our team has both specific and general expertise in virtually all areas of the power generation and power project financing business.

Some of the more specific areas where we add value are ( cut to experience/services section of brochure). *(refer to capabilities page from A.I.I. brochure)*

*(slide three)*

This brings me to the heart of my presentation about Altresco' approach to development of projects in the Philippine and Asian market.

The three stage development approach:

1. Relationship and Reconnaissance stage
2. Preliminary development
  - Obtaining preliminary agreement on the key project components
  - Compatibility review of preliminary understandings
3. Full team development effort

This approach is designed to help in the process of trying to match appropriate resources, development efforts and expenses to the needs of the project.

First , lets talk about stage one, the relationship and reconnaissance stage.

**BEFORE YOU CAN DECIDE THE BEST WAY TO DEVELOP A PROJECT, YOU MUST FIRST BE SURE THAT IT DESERVES TO BE A PROJECT.**

Stage one is the time to do your first "sanity check" or "fatal flaw analysis" of the project. To give you an idea of what I mean by this the following is a partial list of the participants whose benefits must be determined to at least two levels; (slide 4)

Power purchaser, Country of project, Local of Site, power transmission provider, fuel supplier, site owner, primary project sponsor, turn key contractors, other equipment vendors, equity investors, debt providers, debt and equity guarantors, multi lateral institutions, lenders legal counsel, financial advisors, sub groups of the vendors such as vendors equity providers, national support available on behalf of vendors (EXIMs), insurers, water providers, politicians and clergy, the environmental groups representing everything from the air, to the water, to their own pet interest.

By two levels I mean that you need to know as a minimum what each parties motivations would be to participate in the transaction as well as their view of the overall desirability of the project and how they should relate to all of the other project participants. And after you have identified these items as they exist today you must look at how they are likely to exist 1,2,3, 5,10 and 25 years from today.

The world, and attitudes and motivations of many if not all of the projects participants will change during the development process as well as during the life of the project.

***EVERYONE AFFECTED BY THE PROJECT, INCLUDING THE SPONSORS, POWER BUYER OR BUYERS, COMMUNITY, GOVERNMENT AGENCIES, NGOS, VENDORS, NEIGHBORS AND PASSERSBY MUST RECEIVE POSITIVE REINFORCEMENT AND IF AT ALL POSSIBLE A REASON TO ACTIVELY SUPPORT THE PROJECT. IF THE KEY PARTICIPANTS ALL HAVE A CLEAR UNDERSTANDING OF THE BENEFITS THEY WILL ENJOY AS A RESULT OF THE PROJECT GOING FORWARD THE PROJECT WILL HAVE THE RESILIENCY TO SURVIVE ALL OF THE CHANGES, CHALLENGES, POLITICAL VARIATIONS, AND UNFORESEEN PROBLEMS THAT WILL OCCUR DURING THE DEVELOPMENT PROCESS.***

***THE FIRST PRIORITY OF THE PROJECT PARTICIPANTS MUST BE BROUGHT OUT SO THAT INCOMPATIBILITIES CAN BE DISCOVERED EARLY.***

Remember: If everyone wants the project to succeed and there is a general sense that it is good for everyone involved, then even seemingly insurmountable obstacles get resolved in compromises that no one even expected.

**THIS IS WHAT I CALL " PROJECT BALANCE"**

You may rightfully ask at this point why anyone in their right mind would undertake such an

impossible task as trying to make all of these people, interest groups, businesses and other entities happy.

I've been asked that question and some days, I'm so tired I don't have a good answer. Sometimes this business seems almost Quixotic in it's nature. That is why it helps to have a more important goal than making money when you start into one of these projects. In order to succeed in this business you will need tenacity, patience, and willingness and ability to keep solving new problems that are not even related to anything that was on your original task list.

I can tell you from experience that it is possible to structure projects that will fulfill this challenge.

If you have done your homework and built the trust and made sure that there is a benefit for everyone then you will be able to keep going even when the project dies its 22nd death. You will be able to do this because you will know that there are too many people who will benefit from the project for it to die.

Undertakings that are intrinsically good tend to keep floating back to the top because they deserve to happen.

However it is also my belief that projects that are not "balanced" will be never be free from attacks and problems until they die or become balanced. One more thing to remember is that just because the project is balanced from your point of view does not necessarily make it balanced in everyone's view.

One major note of caution I need to share. Many of the people you are dealing with during stage one will become friends. There will be a lot of hope for success among your new friends.

**DON'T OVER PROMISE.** Be very careful during this period to qualify your hopes and plans as tentative and dependant on many things.

This will not be easy. Many of your competitors will be promising that the project is "already financed" or "a done deal".

But, I must warn you, as the project evolves many thing will need to change in order for the project to go forward. Many of the people you hoped to do business with will not be able to provide the products or services that the final project will actually use. The boat simply will not carry all of the people and companies that want to be on it. Neither will you know at the beginning which will be able to participate in the final project.

Broken promises and or suddenly finding themselves left out can create enemies that no project can survive.

These " balance" issues are very important to consider in the U.S. but paying attention to

them becomes absolutely critical when Americans undertake this business in Asia. We as U.S. developers do not know what our Asian counterparts are thinking. Even more difficult is that we don't even know how to find out what they are thinking. When we get here it is almost impossible, even with a sincere desire to be sensitive and aware, to imagine how difficult it is to reconcile the very individualistic American mentality that made this very business exist with the polite, community oriented, non confrontational Asian culture.

All of this discussion is meant to emphasize the need to plan to spend substantial time on Stage One of the development process as we at Altresco define it.

In Asia, I believe that this process and undertaking is what will separate the survivors from the failures.

It is also my belief that in Asia, if you take the time to build these relationships and nurture them they will grow to provide not only good business relationships but also very good and fulfilling friendships.

A key part of the Altresco Strategy is to provide time for this process to be handled in a satisfactory and yet cost effective way.

With this in mind we feel that the stage one development team needs to involve two key people plus the ability to consult with those others who will be available and or involved in later stages. The key people need to be a top representative from your local/regional development partner (ideally the person who already has the relationship with the key people at the power purchasing entity) and a representative from the Altresco team who has experience and understanding of having completed a IPP from concept to operation. It is my view that each new project must have on the development team an individual who will be assigned to the project and hopefully the key relationships for the duration. This also means that most of the reconnaissance will be done by one person (with home office support as needed) rather than a very expensive team of two or three executives commuting round the world with very hectic schedules and no time to play golf.

It is my very strong belief that projects that are conceived with the long term view and developed with full attention to fairness and balance will succeed.

Examples: Gene Komlosi at Pittsfield GE

Elaborate on the building of the relationship (*starting from the 27 MW "test" and leading to 160 mw total. Recognizing that our priority is small in relationship to the overall business of the customer. Thinking in terms of the customers overall objectives rather than simply how it is affected by your project*), finding the benefits for G.E. Pittsfield, G.E. corporate, Berkshire gas, the people of Pittsfield, the neighborhood and school, the Mass. Dept. of Public Utilities and Dept. Environmental Quality Engineering, the gas producers, the city of Pittsfield, the labor unions, New England power.

Sonny Posadas, Joe Guingona , Rudy Quetua and Lourde Torres at MERALCO  
Elaborate on the relationships, the open book teamwork development approach, our community relationship work, the national financial benefit, finding the best way to create long term savings, learning to develop consensus. Finding benefits for NPC through the transmission, working together to solve the problems and create financable contracts.

In fact, we at Altresco view the relationship aspect of these transactions as being so important that we prioritize our opportunities based on the strength of the relationships we have with people or companies that will be involved in the project.

As a result of our experience to date in Asia we have altered our development strategy to include the concept of joining with our Asian partners to create majority Asian owned corporations or partnerships that will be the developer. We also look for the potential of not just loaning our expertise to our local partners but planning on leaving it with them through a process of teaching and sharing the development process. An Altresco goal is that the ASEAN development team we are working with will learn and grow enough through the course of the first joint project development effort to go on to develop other projects as a self contained development company.

Altresco plans to be an ongoing participant in ASEAN led development teams, rather than projecting a continuance of American led teams being assisted by their ASEAN subordinates.

### **Stage two of the development process**

*(slide 5)*

Before I get into more specifics, I would like to point out that for the purpose of simplicity I refer to these "stages" as if they are separate, distinct and sequential. This is not the case. In actual practice the transitions are more like a ramping up of the project activities. Since many of the relationships and contacts made during phase one will be continuous threads that will become part of the final fabric they are not separated into three activities but simply become more and more defined as the project evolves.

If the first stage is called Relationships and Reconnaissance then I think we should possibly think of stage 2 as research and development  
The preliminary development stage is where you start to test the premises that you came up with during stage one.

Recently an acquaintance of mine in the O & M side of the business and I were discussing the nature of the development process compared to the nature of managing ongoing and operational projects.

I made a statement that the development process is like manufacturing only continually



building new prototypes of your product.

He said he agreed but in his view there was a major difference between the two. In manufacturing prototypes there is an assumption that there will be a certain amount of trial and error where in the development of power projects the cost of trial and error is too great so it is important to get it right the first time.

I pointed out to him that the problem with getting it right the first time is that in fact every new power project you develop is unique. It is a prototype.

There are certain similarities, for example they all convert fuel into some kind of useful thermal or electrical energy. The equipment is generally similar. The projects are dependant on having a market for this energy. In other words the only similarities are the first level or most superficial level. Otherwise they are as alike as two different people.

## FLEXIBILITY

*(slide 6)*

I have come to believe that one of the few certainties of this business is that the final operating project will not be very much like your first idea.

A very common cause of project failure is the result of having become too concrete in our development plan too early.

If you have sincerely paid attention to the needs of the parties during the stage one part of the development effort you should have a great degree of confidence in the need for the project.

You should also be confident that all of the components of a viable project are present or available.

During stage one, however, you have not yet been able to determine on an in depth basis whether or not the pieces of the project you are planning on will all fit together. There is a very high probability that when you start to ask the tough questions many parts will not turn out as you had expected. This is actually a very logical assumption since if there were no problems to solve you wouldn't be needed anyway.

The **compatibility review** is the process of laying all of the pieces of the puzzle out on the table and making sure that there are no large bright red pieces that seem to go right in the middle of the picture of the waterfall. Unfortunately very few of the incompatible pieces will be nearly so obvious. Stage two is the process of actually trying to assemble the pieces and discovering how far off you are and if in fact a complete picture can be assembled.

At this stage, there will be many components that will not fit in their present shape but still contain the needed image. There will be pieces that have to be found. But referring back to stage one; if the project is adequately beneficial you will be able to get all of the pieces you need.

One of the most important things to remember though during this compatibility review process is that at the end of the day, in order to close financing, everything must fit together seamlessly.

Stage two is also where you have to start reducing many of your verbal understanding to written memorandums. This is where you start finding out whether or not what you thought you heard is what the other party really meant. **Don't rush this process.** Ask a lot of questions. In multi cultural transactions I have experienced tremendous project trauma in situation where I thought I understood what my partners were thinking and was wrong. As a result of these misunderstandings we kept having unexplained breakdowns. These breakdowns kept occurring until the project finally came to a complete stop. It was only then, when there was nothing else to do that we were able to look around and identify the misunderstanding. Fortunately, because of the time well spent in stage one, we were able to resurrect the project and move forward, but this cost several months and a lot of wasted money before we were able to correct the problem.

Stage two is also where creativity meets rigidity. At this point in the development process it is very important to have a project development management team that can relate well to both the creative development people and the more rigid finance and operations teams. There will be many adjustments that have to be made to the development plan as the details are checked out and found to differ from the original assumptions and representations. It is key that the development team have the knowledge of where to look for alternatives to almost any piece of the project puzzle in order to keep moving in a direction that will ultimately result in a bankable project.

It is during this process that the manpower requirements of the project will start to grow rapidly. As you get a closer look at each piece of the puzzle you will discover that it is not one piece but in fact many pieces that were clustered together. One task will become two or six.

It is at this time that the tasks will need to be assigned to teams that have more specialized abilities in the different aspects of the development effort. These same teams will be the people that will follow through into the stage three activities and in some cases all the way to operations.

In the Luzon Power project we broke up the task assignments into teams staffed by personnel from the consortium members but with leadership of each team provided by the most appropriate and experienced people regardless of source.

*(extemp. exhibit 2)*

At this point in the development process the project starts to be taken seriously by potentially affected parties. As people come to fully understand the magnitude of the undertaking attitudes will sometimes change. Willing welcomes will suddenly have a price, neighbors will become afraid, situations that seemed to be fact will turn out to have been rumor. **ALL OF THESE ISSUES CAN BE SOLVED**, and many times the solution will even create more opportunity, but it takes a development team with flexibility.

Stage two is further complicated by the fact that every time one piece of the puzzle changes you must stop and review the impact that this change has had on all of the other pieces. This

can be the place where the project leader throws in the towel. It can also be the place where the real long term relationships can start to cement or to fall apart.

Let me share a couple of examples of projects that only exist because of total flexibility during the stage two process:

#### Pittsfield:

From buying a three megawatt wood fired plant to developing a 160mw gas fired plant.

Fuel supply: A component of the plan keeps breaking into more pieces until an answer can be found. Breaking down the components of the gas supply into small enough components that the individual difference in the needs of gas producers, pipelines and Local Distribution company could be addressed.

#### Luzon Power

A 330 MW bunker C fired combustion turbine combined cycle to a 440mw cc combustion turbine to a 300 MW combined cycle low speed diesel engine.

A problem I see repeatedly in action is having one organization trying to integrate the activities of project development in the same house with the management and operations staff.

Project development people need to be able to discard old methods and ideas and adapt to new situations on very short notice since the rules can very easily change overnight. They must be able to feel the change in the marketplace and restructure the whole project on short notice as new information makes the original plan obsolete.

On the other hand power plant management and operations people are paid to insure predictability and reliability. There are tried and true management methods that are duplicated over and over with continually improving results as a result of small improvements to the existing methods. This is not an area of "risk it all" adventure or totally new approaches.

These differences are among the reasons Altresco International has focused on being an independent project development organization that has the flexibility, responsiveness, experience and foresight needed to identify, create and develop financially projects. Our experience also enables us to help create projects that can be integrated into the much more defined financial, operations and management structure that will be appropriate as the project makes the transition into the financing, construction and operation stages. It is this ability to enjoy credibility with both the creative side of the IPP community as well as the more rigid financial and technical side that make it possible for us to develop successful projects.

#### Stage three

*(slide 7)*

By the time a project gets to this stage it will be taking on a life of its own. Many of the

participants will want to start running to the finish line. The uninitiated will start calling it a done deal. Don't be fooled. The real manpower part of the project has just begun.

It is very important to have scheduling systems up and operating by this time. It is very difficult for the development team, let alone the task team leaders, to keep track of the necessary linkages between the project tasks and contracts.

Also I must tell you that as top management you need to be aware of the schedule, do everything you can to help enforce it, but DON'T EVEN THINK ABOUT BETTING YOUR COMPANY ON IT.

**LIST ACTIVITIES ON THE LPA SCHEDULING CHART AND DISCUSS THE AMOUNT OF TIME ALLOWED FOR EACH ACTIVITY.**

*(extemp re.exhibit 3a,b,c, talk about ripple slippage)*

*(slide 8)*

This is also the time in the development process to start integrating the long term management and operating team people since all of the contracts and decisions that are being made are starting to firm up and need to be double checked from a practical implementation approach.

*(slide 8)*

*Extemp. on slide*

**Overcoming different outlooks on documentation and other issues caused by differing priorities and styles.**

I still remember with fondness the simpler days of my early business career in Colorado and Wyoming in the U.S..

In those days, if a handshake and a verbal understanding was not enough then you did not do business.

Those days are not gone in Asia.

The only problem is that this business and financing in general tends to be a Western driven business and financing is not done on a handshake.

There are many issues that come up that on a face value basis seem very straight forward. Since business here is largely done based on the strength of the relationship and on trust it seems pretty reasonable to assume that the written agreements can be fairly short. When a problem comes up that is not addressed by the contract we'll set down and figure out how to solve it.

This is a very enjoyable way to do business.

Unfortunately, when you are looking at a 10-25 year project agreement, there is a very high likelihood that the people with the relationship will no longer be around when a problem comes up.

This reality causes people who are loaning money to or investing in the project based on the key agreements to want language that will survive changes in people, governments, laws and even the very parties to the transaction.

We have found it challenging to try to explain why things have to be guaranteed when fairness and common sense fully support the position of the power purchaser. We have been very lucky to find ourselves dealing with people who are willing to recognize the requirements of the lenders. In the case of Luzon Power we are dealing with people on the other side of the table who are business men that have borrowed large sums of money as well as doing IPO's.

In most cases the staff of the power purchaser simply have never been exposed to private project financing requirements and tend to take positions on issues that although seemingly quite reasonable will cause projects to be completely unfinancable. This is certainly not something to criticize. I would have never believed many of the requirements myself if I had not spent 20 years financing projects.

Another major difference is the time and styles of resolving conflicts.

In the west we tend to assume that the apparent problem is the one that needs to be solved and we are willing to be quite confrontive in the process of obtaining agreement and resolution of the issue.

The way I would describe my understanding of problem resolution here is more like solving problems in a marriage than like solving problems in a western business setting.

The reason I use marriage as an example is that issues are handled in a way that assumes that the relationship is for life. This causes conflicts to be much more sensitive than short term business dealings. Relationships are personal. They are not just business.

Situations that have the potential to cause offense, insult or loss of respect are handled with great care and as gently as possible.

My initial reaction to this was total frustration. My attitude was "look if you will tell me the problem we'll solve it and get on with the real issues".

It took me a long time to start to appreciate the courtesy and respect for each other that is the cause of this less direct approach. Today, I have come to enjoy the warmth and civilized nature of this approach and I am learning to take the time to find out the issues softly. I am getting much better at hearing hints. I am also finding that I am also enjoying friendships in my business dealings which I never seemed to have time for before.

In America we have inter-corporate negotiating meetings to resolve issues. Individuals each tend to tell their position and seek agreement on behalf of their company or their department of the company. Many people may be spokesmen for the same company in the same meeting. Also people ask for agreement or objection and expect it to be voiced in the meeting. If no one voices objection then it is assumed to be acceptable. When people don't agree they speak up and the idea is criticized, evaluated until a final position is established. In Asia it is normal to have **intra-corporate** meetings to share ideas and to establish what the group idea is. Once that is established we then have a meeting with the outsider with one

spokesman representing the group. When presented, if no one voices disagreement it does not mean that they agree. Disapproval will not be expressed in the meeting. Only positive reactions will be actively voiced. Silence is not agreement!!!

We have found it very productive to slow down in the process of negotiating agreements. It is most important to make sure you have received, responded to and reached consensus among all of the members of your consortium before you start negotiating with an outside party.

I have not found it to be common practice for folks here to voice their real feelings and objections about an issue to someone who has not demonstrated a sincere interest in understanding those feelings. This makes it very important to really try to find out what the issues are and sincerely try to address them compassionately and with understanding rather than simply using the information to try to manipulate the issue to your direction. It is very important for American and other western companies who want to do business here to realize that the profit aspect of transactions is not the only motivating factor. The American style of negotiating from a position of monetary strength and asserting our requirements and terms of investment simply is not acceptable here. The ASEAN people are quite capable of learning our business and do not aspire to be merely a source of profit for American companies.

No matter how successful we may have been in the U.S. we still have to earn the respect and trust again in this new market. We still have to prove that we are ready, willing and able to perform within the cultural parameters of the countries here. We also have to add value beyond simply bringing money.

Western public corporations with quarterly reports to issue and stockholders to report to, generally have very strong competition internally for resources. The executives who are showing the most dramatic and immediate results are the ones who get recognition and funding for projects.

An executive who is making trips halfway around the world on a repeated basis to play golf with his Asian counterparts with a year or two passing with no concrete results (no solid contracts), is going to feel like he is losing the corporate ladder battle. This situation tends to cause U.S. executives to be much more "business only" bottom line oriented than their Asian counterparts.

In Asia, for the most part, relationships and trust must be built before there is any business. This takes priority over this quarters immediate results. Business will have to wait until this can be established.

It is very important to recognize this difference in priorities. It can help create a much more harmonious environment in the consortium.

Failure to recognize these differences in priorities can bring about the destruction of the project from inside the development team even when the project is a good well balanced project in all other aspects.

Although private power generation is as old as generation itself and actually preceded the establishment of utility grids, I believe that the IPP business as it exists today is an American invention.

But I also think that most of us who are involved in trying to bring this concept to play outside of the U.S. have realized that trying to develop IPP projects with the same methods that were successful in the U.S. is about as effective as riding a bicycle down a river.

As sensitive to these issues as I was even prior to coming to Asia, I did not begin to actually understand the magnitude of the differences in outlook, priority and understanding between the cultures. The most blinding handicaps have been those areas where we were sure we understood each other in the beginning. This has caused huge problems to occur for what seem to be the most irrational and silly reasons. These problems have many times been over items that are never talked about but are reflected by seemingly intractable differences over minor issues. The underlying problem has been impossible to find because none of the parties could understand or believe that something so obvious to us could be honestly overlooked or not recognized by the others.

#### COMPASSION AND PATIENCE.

One of the most important points I can hope to make during this presentation is the need for compassion and patience by all the parties to a transaction. In my experience in Asia I have met and dealt with people and executives of many nationalities. Most transactions will involve many countries and several cultural approaches. I would beseech you all to try to remember that no matter how frustrating it is when someone else's business style seems completely inappropriate that they are still probably doing the best they can to make things work. I know there are exceptions but for the most part it is safe to assume that, at worst, the person on the other side of the transaction is trying to succeed by using a style that has always worked before in his business career. It takes some time for any of us to make a heartfelt adjustment to the cultural differences. This seemingly inappropriate behavior does necessarily represent incompetence or deceit. I feel that judging people on this basis could cause many very good opportunities to die for no good reason.

#### *What we learned about power development in the U.S. that still works in Asia.*

I would like to restate this to "Concepts that seem universal"

- \* Good projects are made not found. Even when you find a project where it appears that all of the necessary ingredients are there, the balance, fit, and synchronization must be handled properly or you will end up with a blob of wet flour instead of a loaf of bread.

Finding ways to add value will usually be the difference between the rates the power buyer

needs to see and the investment yields the Project sponsors require.  
YIELD ON INVESTMENT MUST INCLUDE SOME VALUE THAT YOU ADD

AVOIDED COST IS THE PRICE YOU SELL YOUR POWER FOR. IT IS NOT THE CURRENT PROJECTED GRID RATE. AVOIDED COST IS A CONCEPT THAT CAN BE MISLEADING.

For example in the Philippines no one has really been able to determine exactly what the overall avoided cost is today. The only two reference points are the grid rate and the price charged by the last accepted power proponent. This gives you two speculative indices. The only way I know of to solve this problem is to negotiate with the customer based on actual needed cost and rate of return.

THE PROBLEM OF SIGNING UP REAL PROJECTS IS ONE THAT HAS EXISTED SINCE THE BEGINNING OF THE IPP BUSINESS.

One of the most difficult issues I see facing the Asian power purchasers is one that still has not been solved in the U.S. very well. This is the process of sorting through all of the projects that are being proposed to determine which ones will not only be competitive but which ones are likely to happen at all. We need to remember also that many of the selection processes designed in the U.S. by investor owned utilities were in fact designed to select projects that could not be completed. An example of this is the RFP bidding process of Boston Edison. In the first round of bidding 230 MW of proposals were accepted out of over 6000 MW of proposals. The winners were selected primarily on price and were required to post a \$15/KW bond. No one succeeded in building a project although the primary winning bidder tried hard (but unsuccessfully) to sell his winning position. In round two an additional 200 MW was awarded, although the process was much more sophisticated, still only 15MW of capacity was buildable. They succeeded in making it to the third RFP before any one submitted a winning bid that could actually build a plant. Even then it was only possible as a result of Altresco's cooperative relationship with its existing utility customer that allowed us to bid the power from an existing plant. Their real strategy was uncovered then by their refusal to sign the mandated power contract even though it was the exact agreement accepted in the willing bid.

It is important to point out that in the U.S. it is not in the Investor Owned Utility's best interest to buy power from IPP's since this takes away their ability to add rate base to earn a return for their stock holders while at the same time leaving them with the obligation to serve.

In Asia , however, the intent really is to buy the most competitive power. The problem is that almost everyone has learned the right things to put in a bid. But just like in the U.S. this tends to lead to winning projects that can't be financed and built.



One possible solution we advocate is for the Asian utilities to have competitive negotiations for the supply of power. This allows the power purchaser to have meaningful dialog with the proponent in order to help determine the sanity of its proposal.

This situation is what has led Altresco to the open book strategy of negotiated contracts. The open book transparent strategy can make life much easier if you accept from the beginning what I have come to believe is almost the equivalent to a law of physics: A project will not close until everyone involved is satisfied that they are getting the best possible deal that the overall project economics will allow.

The simplest way to reach this point is to establish at the beginning what rate of return is going to be adequate to attract the equity and debt that will be required to finance the project. This should be based on market rather than opportunism since you will be competing with other people who are willing to work at market by the time you go back for your final consents to assignment anyway.

Be open with your customers about your perception of this market value and make sure they understand and agree.

From this point forward, provided you don't have the urge to try to outsmart the obvious, you can establish your power rate through disclosure of your actual costs and required coverage ratios.

There should be incentives for above average performance on the IPP's part. this will allow you to earn bonus's when you deserve them.

Perhaps many people think that this is a naive approach to developing projects but in my view it is merely acknowledging that before the project finance closes everybody will know all about the deal anyway so why work so hard to hide your cards till the end. Our approach allows people to be on the project team rather than across the table and I really believe that we need everyone on the team that can be.

## **OUTLOOK:**

My outlook for the Philippines and for Asia in general is a much more competitive arena than has existed in the past. Even though the demand for power in Asia far outstrips the current identifiable supply sources, there are now a large number of major companies competing for this market. My opinion is that the truly quality deals are relatively few. The amount of foreign exchange is limited. The utility environment in the United States has driven not only the traditional IPP developers to look overseas but also a great number of Utilities. There are huge amounts of money being raised for Asian infrastructure projects. These and the increasing level of sophistication of the power purchasing countries and the multilateral funding agencies are all going to act to drive the yields down to a level that will no longer allow exorbitant profits for the quick companies. I do feel that the market is stabilizing and that companies who take a long term view will do

well.

**SUMMARY:**

*(slide 9)*

I would like to summarize my presentation by saying that ALTRESCO INTERNATIONAL is bullish on developing Independent Power Projects in Asia.

As a result of our experience we have changed our development approach substantially in order to better address what we perceive the real opportunities to be.

Our three stage approach is designed to provide as much time as is necessary for relationship building and project understanding without overburdening each project with attributable overhead.

In recognition of the evolution of the IPP market in Asia we have made a conscious decision to actively seek roles in consortiums where we can add additional value by helping to create development teams staffed primarily by people who are native to the country or region in which we are working. We feel that this will create a long term ability for local business to actively and constructively participate in the development of the tremendous potential in Asia.

We believe that ultimately each project must be "BALANCED" in order to succeed.

FLEXIBILITY will be a key part of the final success of projects. Very few projects ever look the same at financial closing as the developer or project sponsor visualized it at the beginning.

TENACITY and a strong commitment to the original intent and benefit structure of the project is a must.

We must all work overtime to truly try to understand the viewpoints and driving forces behind each of the participants in our projects and realize that the reasons people are doing things or reacting a certain way is probably not for the same reasons that would cause us to react similarly.

Thank you very much for the honor of your attention.

## ASIA POWER '94 PRESENTATION DRAFT

The Altresco approach to the Philippine and Asian power market.

### Introduction:

I am very pleased to be able to present Altresco's views on approaching Independent Power Projects in Asia and particularly with our friends in the Philippines and S.E. Asia.

I'm going to address this topic by enumerating Altresco's three stage approach to constructing lasting and successful business relationships with its client/partners. Within each stage is a myriad of issues that if properly identified, understood, analyzed, planned for and given adequate attention to will form the fabric of a sound and praiseworthy Independent Power Project. To illustrate the importance of using a staged approach, I'll share with you some learned experience from the U.S., the Philippines, and other parts of the world that reinforce the need to conduct each stage carefully in order to ensure success.

### Altresco Background:

I'm sure it would be helpful if I took just a moment to let you know a little bit more about Altresco International.

The name Altresco was derived from the name Alternative Resources Company. Our original and continuing mission is to provide an alternative to the old inefficient, environmentally abusive forms of thermal and power generation that grew out the availability of cheap abundant fuel, rapid industrial growth, smaller populations and ignorance of the long term damage being done to the environment. Altresco was founded in 1986 and by 1990 was already providing cleaner, more efficient electricity for more than 160,000 homes plus providing a new source of steam to the 12 million square foot General Electric Pittsfield plant.

Today we are also helping to provide alternate ways for capital short nations to obtain new affordable sources of electricity through alternative financing structures.

I am very proud of the fact that today the name Altresco is associated with honorable and sensitive business dealings, leading the pack on establishing higher environmental standards in an affordable way, responsibility and active contribution to the cities and towns where we are involved in projects and fair and open negotiations with our power customers.

Altresco International is today a group of seasoned professionals with a broad range of direct and related experience in the development of independent power projects.

Our corporate mission is to help bring Clean, Efficient, and Cost-Effective electrical power to nations, populations and industries. Responsiveness, quality, economy and reliability are the cornerstones of Altresco's business. Altresco's continued growth is based on providing a complete range of development services to its global clients and partners.

Altresco International differs from many U.S. developers presently in Asia because of our active interest in creating projects with a majority local ownership. We are committed to teaching as well as simply developing projects. It is our strategy to multiply our market presence by being a contributive part of local consortiums where we can bring the immediately needed expertise while at the same time helping our local affiliates learn this process in order that we can, working together, expand both of our abilities to undertake new projects.

The Altresco International organization is designed to be able to provide the highest level of expertise in a very diverse set of development parameters. Our decision to focus on the development phase of independent power business and to take a more passive role in the ownership and operation of the businesses is the result of direct experience. We are acutely aware of the need to keep the development team lean, and responsive. In the early stage of project development when most of the decisions are subjective and need to be made on an experienced gut feel basis, it can be fatal to a project to burden it with the overhead and decision making process of a large multinational corporation.

It is exactly this situation where the Altresco team can be of the most value. Our team has both specific and general expertise in virtually all areas of the power generation and power project financing business.

Some of the more specific areas where we can add value are (out to experience/services section of brochure)

This brings me to the heart of my presentation about Altresco' approach to development of projects in the Philippine and Asian market.

The three stage development approach:

1. Relationship and Reconnaissance stage
2. Preliminary development
  - Obtaining preliminary agreement on the key project components
  - Compatibility review of preliminary understandings
3. Full team development effort

This approach is also designed to help in the process of trying to match appropriate resources, development efforts and expenses to the needs of the project.

First, lets talk about stage one, the relationship and reconnaissance stage.

**BEFORE YOU CAN DECIDE THE BEST WAY TO DEVELOP A PROJECT, YOU MUST FIRST BE SURE THAT IT DESERVES TO BE A PROJECT.**

Stage one is also the time to do your "sanity check" or "fatal flaw analysis" of the project. ~~Just to~~ give you an idea of what I mean by this the following is a partial list of the participants whose benefits must be determined to at least two levels;

Power purchaser, Country of project, Local of Site, power transmission provider, fuel supplier, site owner, primary project sponsor, turn key contractors, other equipment vendors, equity investors, debt providers, debt and equity guarantors, multi lateral institutions, lenders legal counsel, financial advisors, sub groups of the vendors such as vendors equity providers, national support available on behalf of vendors (EXIMs), insurers, water providers, politicians and clergy, the environmental groups representing everything from the air, to the water, to their own pet interest.

By two levels I mean that you need to know as a minimum what each parties motivations would be to participate in the transaction as well as their view of the overall desirability of the project and how they should relate to all of the other project participants. And after you have identified these items as they exist today you must look at how they are likely to exist 1,2,3, 5,10 and 25 years from today.

The world, and attitudes and motivations of many if not all of the projects participants will change during the development process as well as during the life of the project.

***EVERYONE AFFECTED BY THE PROJECT, INCLUDING THE SPONSORS, POWER BUYER OR BUYERS, COMMUNITY, GOVERNMENT AGENCIES, NGOS, VENDORS, NEIGHBORS AND PASSERSBY MUST RECEIVE POSITIVE REINFORCEMENT AND IF AT ALL POSSIBLE A REASON TO ACTIVELY SUPPORT THE PROJECT. IF THE KEY PARTICIPANTS ALL HAVE A CLEAR UNDERSTANDING OF THE BENEFITS THEY WILL ENJOY AS A RESULT OF THE PROJECT GOING FORWARD THE PROJECT WILL HAVE THE RESILIENCY TO SURVIVE ALL OF THE CHANGES, CHALLENGES, POLITICAL VARIATIONS, AND UNFORESEEN PROBLEMS THAT WILL OCCUR DURING THE DEVELOPMENT PROCESS. THE FIRST PRIORITY OF THE PROJECT PARTICIPANTS MUST BE BROUGHT OUT SO THAT INCOMPATIBILITIES CAN BE DISCOVERED EARLY.***

Remember: If everyone wants the project to succeed and there is a general sense that it is good for everyone involved, then even seemingly insurmountable obstacles get resolved in compromises that no one even expected.

### **THIS IS WHAT I CALL " PROJECT BALANCE"**

You may rightfully ask at this point why anyone in their right mind would undertake such an impossible task as trying to make all of these people, interest groups, businesses and other entities happy.

I've been asked that question and some days, I'm so tired I don't have a good answer. Sometimes this business seems almost Quixotic in it's nature. That is why it helps to have a more important

goal than making money when you start into one of these projects. In order to succeed in this business you will need tenacity, patience, and willingness and ability to keep solving new problems that are not even related to anything that was on your original task list.

I can tell you from experience that it is possible to structure projects that will fulfill this challenge. If you have done your homework and built the trust and made sure that there is a benefit for everyone then you will be able to keep going even when the project dies its 22nd death. You will be able to do this because you will know that there are too many people who will benefit from the project for it to die.

Undertakings that are intrinsically good tend to keep floating back to the top because they deserve to happen.

However it is also my belief that projects that are not "balanced" will be never be free from attacks and problems until they die or become balanced. One more thing to remember is that just because the project is balanced from your point of view does not necessarily make it balanced in everyone's view.

One major note of caution I need to share. Many of the people you are dealing with during stage one will become friends. There will be a lot of hope for success among your new friends.

**DON'T OVER PROMISE.** Be very careful during this period to qualify your hopes and plans as tentative and dependant on many things.

This will not be easy. Many of your competitors will be promising that the project is "already financed" or "a done deal".

But, I must warn you, as the project evolves many things will need to change in order for the project to go forward. Many of the people you hoped to do business with will not be able to provide the products or services that the final project will actually use. The boat simply will not carry all of the people and companies that want to be on it. Neither will you know at the beginning which will be able to participate in the final project.

Broken promises and or suddenly finding themselves left out can create enemies that no project can survive.

These "balance" issues are very important to consider in the U.S. but paying attention to them becomes absolutely critical when Americans undertake this business in Asia. We as U.S. developers do not know what our Asian counterparts are thinking. Even more difficult is that we don't even know how to find out what they are thinking. When we get here it is almost impossible, even with a sincere desire to be sensitive and aware, to imagine how difficult it is to reconcile the very individualistic American mentality that made this very business exist with the polite, community oriented, non confrontational Asian culture.

All of this discussion is meant to emphasize the need to plan to spend substantial time on Stage

One of the development process as we at Altresco define it.

In Asia, I believe that this process and undertaking is what will separate the survivors from the failures.

It is also my belief that in Asia, if you take the time to build these relationships and nurture them they will grow to provide not only good business relationships but also very good and fulfilling friendships.

A key part of the Altresco Strategy is to provide time for this process to be handled in a satisfactory and yet cost effective way.

With this in mind we feel that the stage one development team needs to involve two key people plus the ability to consult with those others who will be available and or involved in later stages. The key people need to be a top representative from your local/regional development partner (Ideally the person who already has the relationship with the key people at the power purchasing entity) and a representative from the Altresco team who has experience and understanding of having completed a IPP from concept to operation.

It is my view that each new project must have on the development team an individual who will be assigned to the project and hopefully the key relationships for the duration. This also means that most of the reconnaissance will be done by one person (with home office support as needed) rather than a very expensive team of two or three executives commuting round the world with very hectic schedules and no time to play golf.

It is my very strong belief that projects that are conceived with the long term view and developed with full attention to fairness and balance will succeed.

Examples: Gene Komlosi at Pittsfield GE

Elaborate on the building of the relationship, finding the benefits for G.E. Pittsfield, G.E. corporate, Berkshire gas, the people of Pittsfield, the neighborhood and school, the Mass. Dept. of Public Utilities and Dept. Environmental Quality Engineering, the gas producers, the city of Pittsfield, the labor unions, New England power.

Sonny Posadas, Joe Guingona , Rudy Qustua and Lourde Torres at MERALCO

Elaborate on the relationships, the open book teamwork development approach, our community relationship work, the national financial benefit, finding the best way to create long term savings, learning to develop consensus. Finding benefits for NPC through the transmission, working together to solve the problems and create financable contracts.

In fact, we at Altresco view the relationship aspect of these transactions as being so important that we prioritize our opportunities based on the strength of the relationships we have with

people or companies that will be involved in the project.

As a result of our experience to date in Asia we have altered our development strategy to include the concept of joining with our Asian partners to create majority Asian owned corporations or partnerships that will be the developer. We also look for the potential of not just loaning our expertise to our local partners but planning on leaving it with them through a process of teaching and sharing the development process. An Altresco goal is that the ASEAN development team we are working with will learn and grow enough through the course of the first joint project development effort to go on to develop other projects as a self contained development company.

Altresco plans to be an ongoing participant in ASEAN led development teams, rather than projecting a continuance of American led teams being assisted by their ASEAN subordinates.

### Stage two of the development process

Before I get into more specifics, I would like to point out that for the purpose of simplicity I refer to these "stages" as if they are separate, distinct and sequential. This is not the case. In actual practice the transitions are more like a ramping up of the project activities. Since many of the relationships and contacts made during phase one will be continuous threads that will become part of the final fabric they are not separated into three activities but simply become more and more defined as the project evolves.

If the first stage is called Relationships and Reconnaissance then I think we should possibly think of stage 2 as research and ~~development~~.  
The preliminary development stage is where you start to test the premises that you came up with during stage one.

Recently an acquaintance of mine in the O & M side of the business and I were discussing the nature of the development process compared to the nature of managing ongoing and operational projects.

I made a statement that the development process is like manufacturing only continually building new prototypes of your product.

He said he agreed but in his view there was a major difference between the two. In manufacturing prototypes there is an assumption that there will be a certain amount of trial and error where in the development of power projects the cost of trial and error is too great so it is important to get it right the first time.

I pointed out to him that the problem with getting it right the first time is that in fact every new power project you develop is unique. It is a prototype.

There are certain similarities, for example they all convert fuel into some kind of useful thermal or electrical energy. The equipment is generally similar. The projects are dependant on having a market for this energy. In other words the only similarities are the first level or most superficial level. Otherwise they are as alike as two different people.



## FLEXIBILITY

I have come to believe that one of the few certainties of this business is that the final operating project will not be very much like your first idea.

A very common cause of project failure is the result of having become too concrete in our development plan too early.

If you have sincerely paid attention to the needs of the parties during the stage one part of the development effort you should have a great degree of confidence in the need for the project. You should also be confident that all of the components of a viable project are present or available.

During stage one, however, you have not yet been able to determine on an in depth basis whether or not the pieces of the project you are planning on will all fit together. There is a very high probability that when you start to ask the tough questions many parts will not turn out as you had expected. This is actually a very logical assumption since if there were no problems to solve you wouldn't be needed anyway.

The compatibility review is the process of laying all of the pieces of the puzzle out on the table and making sure that there are no large bright red pieces that seem to go right in the middle of the picture of the waterfall. Unfortunately very few of the incompatible pieces will be nearly so obvious. Stage two is the process of actually trying to assemble the pieces and discovering how far off you are and if in fact a complete picture can be assembled.

At this stage, there will be many components that will not fit in their present shape but still contain the needed image. There will be pieces that have to be found. But referring back to stage one, if the project is adequately beneficial you will be able to get all of the pieces you need.

One of the most important things to remember though during this compatibility review process is that at the end of the day, in order to close financing, everything must fit together seamlessly.

Stage two is also where you have to start reducing many of your verbal understanding to written memorandums. This is where you start finding out whether or not what you thought you heard is what the other party really meant. Don't rush this process. Ask a lot of questions. In multi cultural transactions I have experienced tremendous project trauma in situation where I thought I understood what my partners were thinking and was wrong. As a result of these misunderstandings we kept having unexplained breakdowns. These breakdowns kept occurring until the project finally came to a complete stop. It was only then, when there was nothing else to do that we were able to look around and identify the misunderstanding. Fortunately, because of the time well spent in stage one, we were able to resurrect the project and move forward, but this cost several months and a lot of wasted money before we were able to correct the problem.

Stage two is also where creativity meets rigidity. At this point in the development process it is very important to have a team that can relate well to both the creative development people and

the more rigid finance and operations teams. There will be many adjustments that have to be made to the development plan as the details are checked out and found to differ from the original assumptions and representations. It is key that the development team have the knowledge of where to look for alternatives to almost any piece of the project puzzle in order to keep moving in a direction that will ultimately result in a bankable project.

It is during this process that the manpower requirements of the project will start to grow rapidly. As you get a closer look at each piece of the puzzle you will discover that it is not one piece but in fact many pieces that were clustered together. One task will become two or six.

It is at this time that the tasks will need to be assigned to teams that have more specialized abilities in the different aspects of the development effort. These same teams will be the people that will follow through into the stage three activities and in some cases all the way to operations.

It is at this point in the development process that the project starts to be taken seriously by potentially affected parties. As people come to fully understand the magnitude of the undertaking attitudes will sometimes change. Willing welcomes will suddenly have a price, neighbors will become afraid, situations that seemed to be fact will turn out to have been rumor.

**ALL OF THESE ISSUES CAN BE SOLVED**, and many times the solution will even create more opportunity, but it takes a development team with flexibility.

Stage two is further complicated by the fact that every time one piece of the puzzle changes you must stop and review the impact that this change has had on all of the other pieces. This can be the place where the project leader throws in the towel. It can also be the place where the real long term relationships can start to cement or to fall apart.

Let me share a couple of examples of projects that only exist because of total flexibility during the stage two process:

#### Pittsfield:

From buying a three megawatt wood fired plant to developing a 160mw gas fired plant.

Fuel supply: A component of the plan keeps breaking into more pieces until an answer can be found. Breaking down the components of the gas supply into small enough components that the individual difference in the needs of gas producers, pipelines and Local Distribution company could be addressed.

#### Luzon Power

A 330 MW bunker C fired combustion turbine combined cycle to a 440mw cc combustion turbine to a 300 MW combined cycle low speed diesel engine.

A problem I see repeatedly in action is having one organization trying to integrate the activities of project development in the same house with the management and operations staff.

Project development people need to be able to discard old methods and ideas and adapt to new situations on very short notice since the rules can very easily change overnight. They must be able to feel the change in the marketplace and restructure the whole project on short notice as new information makes the original plan obsolete.

On the other hand power plant management and operations people are paid to insure predictability and reliability. There are tried and true management methods that are duplicated over and over with continually improving results as a result of small improvements to the existing methods. This is not an area of "risk it all" adventure or totally new approaches.

These differences are among the reasons Altresco International has focused on being an independent project development organization that has the flexibility, responsiveness, experience and foresight needed to identify, create and develop financially projects. Our experience also enables us to help create projects that can be integrated into the much more defined financial, operations and management structure that will be appropriate as the project makes the transition into the financing, construction and operation stages. It is this ability to enjoy credibility with both the creative side of the IPP community as well as the more rigid financial and technical side that make it possible for us to develop successful projects.

### Stage three

By the time a project gets to this stage it will be taking on a life of its own. Many of the participants will want to start running to the finish line. The uninitiated will start calling it a done deal. Don't be fooled. The real manpower part of the project has just begun.

It is very important to have scheduling systems up and operating by this time. It is very difficult for the development team, let alone the task team leaders, to keep track of the necessary linkages between the project tasks and contracts.

### TEAM MANAGEMENT

Also I must tell you that ~~at~~ top management you need to be aware of the schedule, do everything you can to help enforce it, but **DON'T EVEN THINK ABOUT BETTING YOUR COMPANY ON IT.**

### LIST ACTIVITIES ON THE LPA SCHEDULING CHART AND DISCUSS THE AMOUNT OF TIME EACH ACTIVITY WILL TAKE

This is also the time in the development process to start integrating the long term management and operating team people since all of the contracts and decisions that are being made are starting to firm up and need to be double checked from a practical implementation approach.

### Overcoming different outlooks on documentation and other issues caused by differing

priorities and styles.

In Asia ~~we still~~ *business is still done in a way -* have a way of doing business that is a nightmare from a lenders perspective but a joy from a personal point of view.

I still remember with fondness the simpler days of my early business career in Colorado and Wyoming in the U.S..

In those days, if a handshake and a verbal understanding was not enough then you did not do business.

Those days are not gone in Asia.

The only problem is that this business and financing in general tends to be a Western driven business and financing is not done on a handshake.

There are many issues that come up that on a face value basis seem very straight forward. An example of a fairly typical mistake that can make a project unfinanceable. The developer puts together a proforma that provides for all costs to escalate to track the estimate of the selling price of power from the national utility. This escalation includes the capital component of the pricing. Since the power purchaser is a distribution company it has no way to recover any charges that would exceed the actual price charged by the national power company they agree to the escalating price as long as the developer agrees to match any lower price that they are able to buy power for in the future. Since there is a power shortage and the cost of obtaining power is going up very rapidly for the national utility it seems to be a very safe bet that the developer will never have to lower his price. Then comes the banker, "What if you have to lower your price" developer " Oh that will never happen, look how fast the prices are going up from the national power company". Lender " what about after the BOT's have transferred and the national company does have to pay for capacity anymore? uh oh The chance is very good that the developer could be safe. But as more developers come along and the competition gets tougher there is a good possibility that the developer may have to lower his price to a level that will not cover the payments on the debt.

In the case the problem was able to be solved by predetermining the capacity charge. This solution assured that the combined cost could not escalate faster than the national cost escalation since both use the same fuel which is the lowest cost type of fuel available.

Another major difference is the time it takes to resolve conflicts and the importance of respecting the relationships over expediency.

In America we have intercorporate negotiating meetings to resolve issues. Individuals each tend to tell their position and seek agreement on behalf of their company or their department of the company. Many people may be spokesmen for the same company in the same meeting. Also people ask for agreement or objection and expect it to be voiced in the meeting. If no one voices objection then it is assumed to be acceptable. When people don't agree they speak up and the idea

is criticized, evaluated until a final position is established.

In Asia it is normal to have intra-corporate meetings to share ideas and to establish what the group idea is. Once that is established we then have a meeting with the outsider with one spokesman representing the group. When presented, if no one voices disagreement it does not mean that they agree. Disapproval will not be expressed in the meeting. Only positive reactions will be actively voiced. Silence is not agreement!!! We have found it very productive to slow down in the process of negotiating agreements. It is most important to make sure you have received, responded to and reached consensus among all of the members of your consortium before you start negotiating with an outside party.

Western public corporations with quarterly reports to issue and stockholders to report to, generally have very strong competition internally for resources. The executives who are showing the most dramatic and immediate results are the ones who get recognition and funding for projects.

An executive who is making trips halfway around the world on a repeated basis to play golf with his Asian counterparts with a year or two passing with no concrete results (no solid contracts), is going to feel like he is losing the corporate ladder battle. This situation tends to cause U.S. executives to be much more overbearing and bottom line oriented than their Asian counterparts.

In Asia, for the most part, relationships and trust must be built before there is any business. This takes priority over this quarters immediate results. Business will have to wait until this can be established.

It is very important to make allowances for this difference in priorities. It can help create a much more harmonious environment in the consortium.

Failure to recognize these differences in priorities can bring about the destruction of the project from inside the development team even when the project is a good well balanced project in all other aspects.

**What we learned about power development in the U.S. that still works in Asia.**

I would like to restate this to "Concepts that seem universal"

- \* Good projects are made not found. Even when you find a project where it appears that all of the necessary ingredients are there, the balance, fit, and synchronization must be handled properly or you will end up with a blob of wet flour instead of a loaf of bread.

Finding ways to add value will usually be the difference between the rates the power buyer needs to see and the investment yields the Project sponsors require.

**YIELD ON INVESTMENT MUST INCLUDE SOME VALUE THAT YOU ADD**

**AVOIDED COST IS THE PRICE YOU SELL YOUR POWER FOR. IT IS NOT THE CURRENT PROJECTED GRID RATE. AVOIDED COST IS A CONCEPT THAT CAN BE MISLEADING.**

For example in the Philippines no one has really been able to determine what the overall avoided cost is today. The only two reference points are the grid rate and the price charged by the last accepted power proponent. This gives you two speculative indices. The only way I know of to solve this problem is to negotiate with the customer based on actual needed cost and rate of return.

**THE PROBLEM OF SIGNING UP REAL PROJECTS IS ONE THAT HAS EXISTED SINCE THE BEGINNING OF THE IPP BUSINESS.**

One of the most difficult issues I see facing the Asian Utilities is one that still has not been solved in the U.S. very well. This is the process of sorting through all of the projects that are being proposed to determine which ones will not only be competitive but which ones are likely to happen at all. We need to remember also that many of the selection processes designed in the U.S. by investor owned utilities were in fact designed to select projects that could not be completed. An example of this is the RFP bidding process of Boston Edison. In the first round of bidding 230 MW of proposals were accepted out of over 6000 MW of proposals. The winners were selected primarily on price and were required to post a \$15/KW bond. No one succeeded in building a project although the primary winning bidder tried hard (but unsuccessfully) to sell his winning position. In round two an additional 200 MW was awarded, although the process was much more sophisticated, still only 15MW of capacity was buildable. They succeeded in making it to the third RFP before any one submitted a winning bid that could actually build a plant. Even then it was only possible as a result of Altresco's cooperative relationship with its existing utility customer that allowed us to bid the power from an existing plant. Their real strategy was uncovered then by their refusal to sign the mandated power contract even though it was the exact agreement accepted in the winning bid.

It is important to point out that in the U.S. it is not in the Investor Owned Utility's best interest to buy power from IPP's since this takes away their ability to add rate base to earn a return for their stock holders.

In Asia, however, the intent really is to buy the most competitive power. The problem is that almost everyone has learned the right things to put in a bid. But just like in the U.S. this tends to lead to winning projects that can't be financed and built.

The only solution we have been able to suggest is for the Asian utilities to have competitive negotiations for the supply of power where it is possible to have meaningful dialog with the proponent in order to help determine the sanity of its proposal.

This situation is what has led Altresco to the open book strategy of negotiated contracts.

The open book transparent strategy can make life much easier if you accept from the beginning what I have come to believe is almost a law of physics: A project will not close until everyone involved is satisfied that they are getting the best possible deal that the overall project economics will allow.

The simplest way to reach this point is to establish at the beginning what rate of return is going to be adequate to attract the equity and debt that will be required to finance the project. This should be based on market rather than opportunism since you will be competing with other people who are willing to work at market by the time you go back for your final consents to assignment anyway.

Be open with your customers about your perception of this market value and make sure they understand and agree.

From this point forward, provided you don't have the silly urge to try to outsmart the obvious, you can establish your power rate through disclosure of your actual costs and required coverage ratios.

There should be incentives for above average performance on your part, this will allow you to earn bonus's when you deserve them.

Perhaps many people think that this is a naive approach to developing projects but in my view it is merely acknowledging that before the project finance closes everybody will know all about the deal anyway so why work so hard to hide your cards till the end. Our approach allows people to be on the project team rather than across the table and I really believe that we need everyone on the team that can be.

example John Levett at New England Power  
Rudy Quetua and the ERB in the Philippines (erb re the rate cap)

Although private power generation is as old as generation itself and actually preceded the establishment of utility grids, I believe that the IPP business as it exists today is an American invention.

But I also think that most of us who are involved in trying to bring this concept to play outside of the U.S. have realized that trying to develop IPP projects with the same methods that were successful in the U.S. is about as effective as riding a bicycle down a river.

As sensitive to these issues as I was even prior to coming to Asia, I did not begin to actually understand the magnitude of the differences in outlook, priority and understanding between the cultures. The most blinding handicaps have been those areas where we were sure we understood each other in the beginning. This has caused huge problems to occur for what seem to be the most irrational and silly reasons. These problems have many times been over items that are never talked about but are reflected by seemingly intractable differences over minor issues. The underlying problem has been impossible to find because none of the parties could understand or believe that something so obvious to us could be honestly overlooked or not recognized by the others.

My outlook for the Philippines and for Asia in general is a much more competitive arena than has existed in the past three years. Even though the demand for power in Asia far outstrips the current identifiable supply sources, there are now a large number of major companies competing for this market. My opinion is that the truly quality deals are relatively few. The amount of foreign exchange is limited. The utility environment in the United States has driven not only the traditional IPP developers to look overseas but also a great number of Utilities. There are huge amounts of money being raised for Asian infrastructure projects. These and the increasing level of sophistication of the power purchasing countries and the multilateral funding agencies are all going to act to drive the yields down to a level that will no longer allow exorbitant profits for the quick companies.



PROJECT STARTS ON JAN 94		MONTHS												TOTAL	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
<p>PRELIMINARY ENGINEERING PHASE SITE VIS. STUDY - PHASE SITE STUDY REPORT - PROJECT MANUAL</p> <p>PROVIDE TRAVEL SCHEDULE MEETINGS IN PHILIPPINES</p> <p>MEETINGS IN PHILIPPINES</p> <p>PRELIMINARY PAID - / PROGRESS PAYMENTS</p> <p>ORDER / INVESTMENT APPROVAL</p> <p>FOR APPROVAL</p> <p>Finalize PHIL. SUPPLY BOX &amp; CONTRACT</p> <p>ISSUE / EQUIPMENT SPECS</p> <p>REVISION OF PROJECT MANUAL</p> <p>REVISE CAPITAL BUDGET / FINANCIAL MODEL</p> <p>SELECT FOR PROPOSAL - EQUIPMENT WORKS</p> <p>SUBMITTAL OF PROPOSAL TO FINANCIAL INSTITUTIONS</p> <p>PHILIPPINE RESIDENTIAL ASSOCIATION MEMBERS</p> <p>PHIL. IN. REQUIREMENTS &amp; FINAL APPROVALS</p> <p>PHIL. E.I.A. APPROVAL</p> <p>CONSTRUCTION BIDDING &amp; CONTRACTS</p> <p>PHIL. IN. SERVICE PERIODS / FINAL FINANCIAL PACKAGE</p> <p>PHILIPPINE OFFICE</p> <p>CIVIL / STRUCTURE CONSTRUCTION</p> <p>FOUNDATION / ELECTRICAL / MECHANICAL</p> <p>SINGLE CYCLE COMPLETION</p> <p>FINISHED CYCLE COMPLETION</p> <p>PROJECT COMPLETION</p>	<p>PHILIPPINE RESIDENTIAL ASSOCIATION MEMBERS</p> <p>PHIL. IN. REQUIREMENTS &amp; FINAL APPROVALS</p> <p>PHIL. E.I.A. APPROVAL</p> <p>CONSTRUCTION BIDDING &amp; CONTRACTS</p> <p>PHIL. IN. SERVICE PERIODS / FINAL FINANCIAL PACKAGE</p> <p>PHILIPPINE OFFICE</p> <p>CIVIL / STRUCTURE CONSTRUCTION</p> <p>FOUNDATION / ELECTRICAL / MECHANICAL</p> <p>SINGLE CYCLE COMPLETION</p> <p>FINISHED CYCLE COMPLETION</p> <p>PROJECT COMPLETION</p>														
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330 MW Combined Cycle, Pre-Project  
SUPERHEAT DRUM CHIMNEY

JUNE 1997

Union Power Associates

FINEST HOUR

330 Mw Combined Cycle Project

REPORT DATE 8JUN92 RUN NO. 2  
13:12

Altresco Philippines, Inc.

START DATE 1JUN92 FIN DATE 19MAR95

PRELIMINARY SUMMARY SCHEDULE

DATA DATE 1JUN92 PAGE NO. 1

ACTIVITY ID	ORIG DUR	REM DUR	X	ACTIVITY DESCRIPTION	EARLY START	EARLY FINISH	LATE START	LATE FINISH	TOTAL FLOAT
00	0	0	0	PROJECT STATUS 01 JUN 92	1JUN92		1JUN92		0
20	4	4	0	PRELIMINARY ENGINEERING PNOG SITE	1JUN92	28JUN92	1JUN92	28JUN92	0
30	12	12	0	EIS STUDY - PNOG SITE	1JUN92	23AUG92	1JUN92	23AUG92	0
05	1	1	0	ROUGH DRAFT - PROJECT MANUAL	1JUN92	7JUN92	29JUN92	5JUL92	4
10	1	1	0	ARRANGE TRAVEL SCHEDULE (MEETINGS IN PHILIPPINES)	1JUN92	7JUN92	29JUN92	5JUL92	4
15	2	2	0	MEETINGS IN PHILIPPINES	8JUN92	21JUN92	4JUL92	19JUL92	4
100	6	6	0	PRELIMINARY PEID's / PROCESS FLOWSHEETS	22JUN92	2AUG92	20JUL92	30AUG92	4
90	6	6	0	BOARD OF INVESTMENT APPROVAL	22JUN92	2AUG92	10AUG92	20SEP92	7
80	4	4	0	ERB APPROVAL	22JUN92	19JUL92	24AUG92	20SEP92	9
95	8	8	0	FINALIZE FUEL SUPPLIER & CONTRACT	22JUN92	16AUG92	21SEP92	15NOV92	13
40	1	1	0	DRAFT EQUIPMENT SPECS	22JUN92	28JUN92	28SEP92	4OCT92	14
20	2	2	0	REVISION OF PROJECT MANUAL	22JUN92	5JUL92	5OCT92	18OCT92	15
50	2	2	0	REVISE CAPITAL BUDGET / FINANCIAL MODEL	22JUN92	3JUL92	3OCT92	18OCT92	15
43	4	6	0	REQUEST FOR PROPOSAL - EQUIPMENT VENDORS	29JUN92	9AUG92	5OCT92	15NOV92	14
55	4	4	0	SUBMITTAL OF PACKAGE TO FINANCIAL INSTITUTIONS	8JUL92	2AUG92	19OCT92	13NOV92	15
105	8	8	0	PRELIMINARY GENERAL ARRANGEMENT DRAWINGS	13JUL92	4SEP92	10AUG92	4OCT92	4
85	8	8	0	PUBLIC HEARINGS & FINAL APPROVALS	3AUG92	27SEP92	21SEP92	15NOV92	7
35	12	12	0	PNOG EIS APPROVAL	24AUG92	15NOV92	24AUG92	15NOV92	0
110	6	6	0	CONSTRUCTION BIDDING & CONTRACTS	7SEP92	18OCT92	5OCT92	15NOV92	4
115	6	6	0	DUE DILIGENCE PERIOD / FINAL FINANCIAL PACKAGE	16NOV92	27DEC92	16NOV92	27DEC92	0
60	12	12	0	FINANCIAL CLOSING	28DEC92	21MAR93	28DEC92	21MAR93	0
65	50	50	0	CIVIL / STRUCTURAL CONSTRUCTION	22MAR93	6MAR94	22MAR93	6MAR94	0
70	50	50	0	MECHANICAL / ELECTRICAL / CONSTRUCTION	19APR93	3APR94	19APR93	3APR94	0
75	4	4	0	SINGLE CYCLE COMMISSIONING	7MAR94	3APR94	7MAR94	3APR94	0
120	50	50	0	COMBINED CYCLE COMMISSIONING	4APR94	19MAR95	4APR94	19MAR95	0
125	0	0	0	PROJECT COMPLETION			19MAR95	19MAR95	0

DATE 1-17-94

ACTIVITY NO.	ACTIVITY DESCRIPTION	1992	1993	1994	1995
10000	PRELIMINARY DESIGN				
10001	PRELIMINARY DESIGN				
10002	PRELIMINARY DESIGN				
10003	PRELIMINARY DESIGN				
10004	PRELIMINARY DESIGN				
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10100	PRELIMINARY DESIGN				

**LUZON POWER ASSOCIATES  
LUZON POWER FACILITY  
SCHEDULE OF PROJECT ACTIVITIES**

Project Start: 12/29/92  
Project Finish: 6/30/95

Activity Includes: \_\_\_\_\_  
Critical Activity: \_\_\_\_\_  
Reported by: \_\_\_\_\_

Pratt & Whitney Systems, Inc. 100-100

Sheet 1 of 1

DATE: 12/29/92  
FILE: 2102130

OCT, 1992

ACTIVITY DESCRIPTION	1982	1983	1984	1985
INITIAL AGREEMENT FOR POWER				
INCORPORATION OF LUZON POWER ASSOCIATES				
PRELIMINARY BUDGET RESEARCH				
SITE DISCUSSION - PHOENIX, CALTEX, SAJIAN				
SITE SELECTION				
SITE ACQUISITION				
FINANCING RECONNAISSANCE				
REFINE FINANCIAL PROJECTION				
PRELIMINARY FEASIBILITY STUDY				
WORKING POWER CONTRACT				
EQUIPMENT RFP AND SPECIFICATIONS READY				
CONTRACTOR SELECTION (NOTICE-TO-PROCEED)				
DISCIPLINE TEAM SELECTION				
ENGINEERING - FINAL FEASIBILITY, EPC-RFP				
LEGAL REVIEW				
PRELIMINARY FUEL AGREEMENT				
FINAL FUEL AGREEMENT				
FINANCING TEAM SELECTION				
PRESENTATION TO FINANCING SOURCES				
FINANCING DOCUMENTATION				
CLOSING ACTIVITIES PREPARATION				
CLOSING				
SUBMIT TO ENERGY REVIEW BOARD				
SUBMIT TO BOARD OF INDUSTRIES				
ACCREDITATION WITH NATIONAL POWER CORP.				
PERMITTING				
SITE PUBLIC RELATIONS PROGRAM				

Activity Not/Not Yet  
Critical Activity  
Program Not

Project Start: 1982  
Project Finish: 2000

Site Desc: 1982  
Plot Desc: 2000

LUZON POWER ASSOCIATES  
LUZON POWER FACILITY  
SCHEDULE OF DEVELOPMENT ACTIVITIES

Sheet 1 of 1

Prepared by: Systems, Inc. 10/8/84