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<u>PROJECT</u>

21-22-23 November 1994 • Mandarin Oriental • Hong Kong

I am very pleased to be able to present Altresco's views on approaching successful development and financing of independent power projects in ASIA.

I'm going to address this topic by enumerating Altresco's three stage approach to constructing lasting and successful business relationships while moving toward a completed financing. 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 developing nations to obtain new affordable sources of electricity though alternative project and 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 has an active interest in creating projects with significant local involvment. This local involvment allows us to address the optimization of the opportunities generated by the development of a new electrical generating plant. We are committed to developing projects that do more than provide much needed electricity. It is our strategy to multiply our market presence by being a contributive part of local consortiums where we can bring the immediately needed development expertise while at the same time helping our local affiliates better understand this process in order that we can, working together, expand the benefits that can be gained by the success of the 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 the independent power 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 is 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.

(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:

- Relationship and Reconnaissance stage
- Preliminary development
 Obtaining preliminary agreement on the key project components
 Compatibility review of preliminary understandings
- 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 <u>it is possible</u> 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 survive 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.

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 international development team who has experience and understanding of having completed a IPP from concept though financing and 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 or two expats in residence (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.

In order to complete a financing on any project I believe that it is essential that you be able to share all of the project information with all of the key participants.

As the project moves forward and assumptions change in order to fit new information and changes in circumstance your project participants will all be affected. Any lack of disclosure will complicate the ability to simply demonstate the necessity for change. Since virtually every document that is key to the financing effort will need modifications as the attorneise all try to reach consensus on what will be adequate for the lenders, there will be no secrets left by the time the project financing is closed.

Since we know this to be the case at the end of the process, I am very strong in my feelings that it be the case in the beginning and throughout the effort.

Again, this openness shows the need for extremely good working relationships.

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.

ie:(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 financiable contracts.

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 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.

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 <u>is</u> 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 dependent 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 moncy 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 though 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 ce 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, tulk about ripple slippage)

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)

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 mon 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.

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.

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.

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.

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 be seech 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 necessesarily represent incompetence or deceit. I feel that judging people on this basis could cause many very good opportunities to die for no good reason.

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,

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 morely 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.

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.