Case 16

Indonesia

Energy Sector

Central Java Power Plant

Sinthya Roesly
Central Java Power Plant

Name of the speaker and email contact: Sinthya Roesly (CEO of IIGF); s.roesly@iigf.co.id
Public Organization, managing the public interest: PT PLN (State Electricity Company) as the Contracting Agency
Private Organization, developing the project: PT BPI (J-Power, Itochu & Adaro consortium) as the Project Company
Capital Providers, financing the project: JBIC & several commercial banks

Why is this project a Case Study for PPPs: The CJPP is the national strategic project to be well-prepared as a benchmark PPP transaction

Why is this project a Case Study for PPPs based on SDGs:

Context → Realizing CJPP as the 1st PPP Project under Indonesia PPP regulation Year 2005
Strategy → Supporting the Project through MoF fiscal support, including the IIGF Guarantee
Project KPI's → Support economic growth, improve public service provision
Impact → Without the Project, GoI can not meet the needs of power to cover the electricity demand in the Java-Bali which grew >7 percent annually
Scale up & replicate → As the PPP model project, the PPP process, documentation has been replicated to other sectors. Other countries may also benefit from the government guarantee model provided to PPP project (i.e. IIGF guarantee) with more accountable risk management
Management Team → Strong & integer CA team; Forced to get the attention from multi Government stakeholders up until the President

Context:

• Indonesia, is one of the investment targets for international investors and banks in infrastructure sector.
• There is an urgent need for infrastructure development to sustain stable economic growth, serve strong domestic demand and for Indonesia to remain competitive.
• A number of positive development in infrastructure sector by the Government
  Creation of land fund, infrastructure fund, guarantee fund & viability gap fund, as well as new Land Law issuance
• Improvement in regulatory framework for PPP implementation in accordance with international best practices has been undergoing for the last 10 years
  E.g. electricity sector reform, e.g. 1st Gen of IPP to FTP 1, standard PPA, PSO & direct MoF guarantee;
• Its workability has been seen in first deals done under the new PPP regulation with international competitive bidding and IIGF+MOF guarantee
  E.g. CJPP (Central Java Power Plant), Palapa Ring IT backbone network;
• In addition to power sector, telco, water sector and toll roads, ports and social infrastructure such as hospital and sports facility are currently being prepared by the Government of Indonesia (GoI) to be procured under PPP regime
Strategy:

The CJPP was critical to avoid electricity crisis
Electricity supply in Java to sustain national economic growth

The Project needs government guarantee
For emerging market (sub-investment grade credit rating), governments typically provide sovereign guarantee for cross-border IPP project

Guarantees create liabilities to Government
Provision sovereign guarantee must be part of fiscal risk management framework – creation of a guarantee fund (IIGF)

Gol PPP program needs a template to follow
As national priority, the CJPP project was selected as a model project for the 2005 PPP regulation

On Nov 2006, GoI had announced CJPP as one of PPP Model Project.

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Date of Bid Submission
Winning Bidder Announced
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Project KPI’s

The Project
Ultra super critical coal fired power plant; BOT; 2x 1000 MW; located in coastal area of Central Java; Project cost ~US$ 4 bio

Scope of IIGF & MOF Guarantee
- Guarantee Agreement: IPP with IIGF and GoI
- Coverage: political risks, force majeure affecting PLN and PLN EOD (Event of Default)
- Guarantee Tenor: Construction period + After COD:
  - Equity: 16 years
  - Debt: 21 years

Not covered:
1. Sellers EOD
2. Tax for Special Facilities
3. Indemnity

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Impact on People & Planet

CJPP Main Issues to have Impact to the 'Conventional' approach

- No PPP benchmark: Project Preparation, Transaction, Guarantee – process & docs
  - Regulatory adjustments, e.g. enabling State offtaker PLN as the CA
  - Years of PLN experience for Indonesia IPP transaction
  - IFC facility as transaction advisor; RfP revised >15 times (coping with the ‘dynamic’ process)
- GoI introduced new guarantee scheme for PPP in CJPP
  - IIGF as the new entity to the transaction; Guarantee regulation ready after RfP issued;
  - One on one meetings with the bidders (& its lenders)
  - Detail discussion on Risk Allocation
- Risk Allocation: Land acquisition was assigned to the Project Company → issue !!
  - Exist in standard PLN PPA (after 2012 Land Law enactment became Govt responsibility)
- Stakeholders coordination: Central government, provincial and municipality levels
  - Land acquisition issues: Dispute and legal suit on land use approval;
  - Also impact the PC and Project Sponsors, e.g. change in BoD; discussions with JBIC
- Guarantor’s consent to PPA amendments: extended role of IIGF as guarantor
  - PPP FC delay → PPA amendment prior to FC (as the guarantee has not been effective);
  - Expectation for IIGF to drive debottlenecking efforts: Joint Monitoring Committee meetings, Guarantee Monitoring System development, etc

CJPP brings benefits on reducing poverty, increasing employment, economic development and addressing the gap of affordable energy access in Indonesia.

PPP process requires extra efforts in balancing the risks and strong commitment to address social issues, environment and people management, to be able to succeed

Project Impact to the SDGs

SDGs Sustainable Development Goals | No Impact | Some Impact | High Impact | Describe Impact
--- | --- | --- | --- | ---
1 End poverty | ✓ |  |  | Higher economic activities
2 End hunger | ✓ |  |  | Higher economic activities
3 Well being - healthy lives | ✓ |  |  | Better living facilities
4 Quality education | ✓ |  |  | Better living facilities
5 Gender equality | ✓ |  |  | Better access to information
6 Water and sanitation for all | ✓ |  |  | Better utility to water treatment
7 Affordable and sustainable energy | ✓ |  |  | Reduce off-grid electricity cost
8 Economic growth and decent jobs for all | ✓ |  |  | Higher economic activities
9 Resilient infrastructure, sustainable industrialization, foster innovation | ✓ |  |  | Provide utility to other services
10 Reduce inequalities within and among countries | ✓ |  |  | Higher economic activities
11 Cities inclusive, safe, resilient and sustainable | ✓ |  |  | Higher economic activities
12 Responsible consumption by all | ✓ |  |  | Given the difficult process, with socialization
13 Combat climate change | ✓ |  |  | Coal-fired emission minimization
14 Protect the ocean | ✓ |  |  | Coastal jetty for coal transport
15 Take care of the earth | ✓ |  |  | Coal-fired emission minimization
16 Peaceful and inclusive society, justice for all, accountable institutions at all levels | ✓ |  |  | Better socio-living facilities
17 Mechanism and partnerships to reach the goals | ✓ |  |  | Efficiency and effective through PPP
Escalating the (Case Study) project:

- 1st PPP Project under Indonesia PPP regulation Year 2005
- National priority infrastructure project since 2006
- PPP Project Finance Deal of the Year 2012
- 1st PPP Project receiving IIGF guarantee
- 1st big Project utilizing the new Land Law with Government responsible for land acquisition
- Forced to get the attention from multi Government stakeholders up until the President

People First is also about the Management Team that made it happen:

- No Perfect PPP – start with ‘quick wins’, high impact
- Get the ‘Right’ Risk Allocation – land acquisition
- Fiscal support provision - and its integration to PPP process
- Constructive regulatory and legal support – may assist on dispute cases
- Affected people early involvement – public consultation and communication
- SDG impacts assessment - to be communicated & monitored
- Multi stakeholders engagement – commitment to the higher purpose of the Project
- Commitment of PLN as the CA – may require strategic approval/decision
- Negotiation prior to bid submission – including the guarantee coverage
- Strong project documentation
- Competitive, transparent process and integer, capable procurement team
- Credible project preparation and transaction support – multilateral may be involved for pilot project
- Positive cooperation of private participants – sponsors, (potential) financiers early involvement during transaction process