

Finish line for marathon Central Java financing

Mia Tahara-Stubbs

10/06/2016

The seven year saga to get the \$4.3 billion 2,000MW Central Java ultra-supercritical coal-fired power project to financial close finally came to an end this week. To the relief of all parties involved, sponsors Adaro, J-Power and Itochu closed on the project on 6 June 2016.

A long pregnancy

PLN, Indonesia's state-owned power utility, issued the first request for proposals (RFP) for Central Java in March 2009 .

The RFP was revised four or five times before PLN officially tendered out the project. In June 2011 a [Japanese consortium was named preferred bidder](#) . The sponsor consortium comprises:

- J Power (Electric Power Development Company) 34%
- Adaro Energy 34%
- Itochu Corporation 32%

As it turned out, winning the project was to be the first of many hurdles to be cleared by the sponsors.

International sponsors of independent power producer (IPP) projects in Indonesia face unique challenges, one of which is dealing with multiple layers of officialdom.

In the case of Central Java, the sponsors not only had to contend with reaching an agreement with PLN, but also the Energy and Mineral Resources Ministry, which oversees the utility, as well as the Ministry of Finance which provides the guarantee for PLN's offtake agreement.

For the Japanese consortium, another layer of officialdom came in the form of the Japan Bank for International Cooperation (JBIC). The export-import bank eventually provided the bulk of the funding, but also held direct negotiations with PLN over the terms of the government guarantee required at the time to unlock JBIC funds.

The various layers of talks carried on for over two years. The 25-year power purchase agreement (PPA) and government guarantee was eventually signed in August 2011.

New roadblocks crop up

However, the sponsors were to hit yet another road block: land acquisition.

In the face of opposition from some landowners, Adaro, J-Power and Itochu struggled to acquire all the 200 hectares of land for the power plant, a key condition to reach financial close. By 2014, the consortium had managed to buy [only 87%](#)

[of the land](#) and failed to make any progress thereafter.

In July 2014, Bhimasena Power Indonesia, the project company set up by the sponsors, [declared force majeure on Central Java](#), because it could not acquire the land for the project without the Indonesian government's support.

Almost another year was to pass before [PLN stepped in to acquire the remaining 13% of land](#).

In March 2015, PLN said it would exercise a consignment clause in Indonesia's 2012 land acquisition law that would force residents off their land in exchange for depositing money in an escrow account with the court.

The land acquisition issue eventually reached a breakthrough in early March 2016, when Indonesia's Supreme Court voted to reject a cassation request from Batang locals, allowing the project to move forward.

In the meantime, the sponsors were forced every year to negotiate extensions for financial close with both PLN, for the PPA, and the Indonesian government for the guarantee.

The last piece falls in place

The Supreme Court ruling did clear the way for financial close but so much time had passed since the original PPA was signed that all the original contracts, including the PPA and other commercial contracts, had become obsolete and had to be renegotiated.

After the 6 April 2016 deadline for financial close in the PPA was missed, PLN granted what turned out to be the final extension, by two months to 6 June.

Much to the relief of all involved, the lenders and sponsors signed the loan agreements on 3 June and the project reached official financial close on 6 June.

JBIC is providing \$2.052 billion in debt and political risk guarantees for the commercial banks. A syndicate of nine commercial banks provided the remaining \$1.3 billion of the \$3.421 billion debt package. The pricing on the loan is rumoured to be in the range of 200bp to 250bp over Libor.

The nine banks are:

- DBS
- Mitsubishi UFJ Trust and Banking Corporation
- Mizuho Bank
- MUFG
- Norinchukin Bank
- Oversea-Chinese Banking Corporation
- Shinsei Bank
- SMBC
- Sumitomo Mitsui Trust Bank

SMBC was financial adviser to the lenders. The International Finance Corporation advised PLN on structuring the deal.

Shearman & Sterling and Milbank were legal advisers to the sponsors and lenders, respectively.

Mixed feelings

For those involved on the deal, reaching financial close has not only been a relief but also a reminder of how slow and complex getting a deal over the finishing line can be in Indonesia.

"We are happy and relieved and hope that reaching financial close on Central Java will mark a new era for getting IPP projects done in Indonesia," one adviser on the deal told *IJGlobal*.

Others are upbeat about the prospects for the several other coal-fired power plants that are in the final stages before financial close, such as the \$540 million 2x100MW KalSel plant and the \$2 billion 1,000MW expansion to the Cirebon power complex.

Still, the coast is not entirely clear for sponsors of IPP projects in Indonesia.

A new rule introduced this year requires bidders to deposit 10% upfront payments to qualify for tenders and potential bidders must also contend with the government's policy to source and allocate the LNG for any new gas-fired power plants.

Both new policies have thrown international sponsors and, their advisers, into disarray and scrambling to figure out how to deal with the rules.

"One step forward, three steps back – that's Indonesia for you," said one adviser active in the country.

Thank you for printing this article from IJGlobal.

As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.

If you have been given this article by a subscriber, you can contact us through www.ijglobal.com/sign-in, or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.