

Indonesia's infrastructure bottleneck

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Sponsors and their advisers suffered what has become a familiar delay in Indonesia when the bid submission deadline for the Java 1 gas-fired combined-cycle power and floating storage project was again pushed back this week.

But the return of popular finance minister Sri Mulyani Indrawati may not only push PLN to speed up its tender process but could also pave the way for more private sector investment in infrastructure.

PLN's best efforts

State-owned electricity company PLN has been burdened with what is widely perceived as a momentous task beyond its ability: to achieve President Joko "Jokowi" Widodo's pledge to install new electricity capacity of 35,000MW by 2019.

PLN has been scrambling to tender out power projects to the private sector at a faster pace than the previous Susilo Bambang Yudhoyono administration, which was in power for 10 years between 2004 and 2014.

Since Jokowi took office in October 2014, PLN has launched six projects in less than two years, compared to 11 in the 10 years under Yudhoyono, *IJGlobal* data shows.

Progress has been slow, however. Around 16,000MW worth of power plant tenders have been delayed over the past two years, according to Indonesia's ministry of energy.

The latest delay has been the third postponement of the bid submission date for the \$2 billion 2x800MW Java 1 gas-fired combined-cycle power and floating storage project. The submission deadline for Indonesia's third independent power producer (IPP) project to be tendered by PLN since Jokowi took power has now been pushed back by another month, from 25 July to 25 August.

Changing the rules along the way

A big headache for Java 1's potential bidders has been adjusting the contracts after the ministry of energy decided in May that PLN, and not the sponsors, would be in charge of procuring and allocating the liquefied natural gas (LNG).

Under the [original request for proposals issued in early February](#), the sponsors were responsible for procuring the gas. Since then, the sponsors and advisers have been negotiating with PLN to change the terms of the contracts drafted by the utility and its advisers, the Jakarta office of Ernest & Young and a local law firm.

"It has been very difficult: you just don't know what PLN will do," said an adviser to one of the consortia. Schedules can be arbitrarily changed, while the quality and timing of responses to queries can also vary. "Sometimes you would get a meaningful answer, and sometimes not," he said.

However, with another month left before bid submission, advisers told *IJGlobal* that most of the issues, notably the

clauses that in effect transferred the LNG procurement risk from PLN to the sponsors, have been resolved and they hope the deadline will not need to be pushed back again.

The change in LNG procurement rules also turned out to be a deal breaker for some of the potential bidders.

Following the issuance of the new rules, state-owned gas company Pertamina threatened to pull out of the bidding. Pertamina has apparently decided to stay with consortium partner Marubeni, although another member, France's Total, is understood to have dropped out. Marubeni and Pertamina have retained ING as their financial adviser.

Another dropout was Mitsui & Co, which withdrew from the consortium led by Indonesian power company Medco. The Japanese trading company has been replaced by Qatar's Nebras and Korea Electric Power. The consortium is understood to be advised by SMBC.

As [previously reported by IJGlobal](#), Indonesia's Adaro and Sembcorp (advised by DBS), and Mitsubishi Corporation and PLN subsidiary PTP (advised by MUFG) are also preparing bids.

Pressure from the top

According to the latest and final version of PLN's electricity procurement business plan published on 25 July, the utility will have to procure 80,500MW of electricity to IPPs over the next nine years, according to a report in the Jakarta Post.

The new target reflects President Jokowi's commitment to boosting private investment in the infrastructure sector and the cabinet reshuffle announced this week will help speed up the pace of procurement, a Jakarta-based infrastructure adviser with close ties to the government told *IJGlobal*.

One key change will be the departure of Sudirman Said, the minister of energy and mineral resources, who has had a testy relationship with the president of PLN, Sofyan Basir. Said will be replaced by Archandra Tahar, an engineering graduate and former consultant to Pertamina.

Another appointment that should improve coordination between various ministries, which have often been blamed for holding up deals in the past, is the surprise return of Sri Mulyani Indrawati, a World Bank economist and popular market-friendly reformer, as finance minister. She will replace Bambang Brodjonegoro, who is moving to head up the National Development Planning Agency.

"I always want to work optimally so that my cabinet is able to work faster, more efficiently, more solidly and more supportively, allowing us to see real results," Jokowi told the local press after the reshuffle.

With the latest appointments, President Jokowi "is shifting the paradigm to the private sector and pace of tendering out infrastructure will pick up," the Jakarta-based adviser said.

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