

# INTERVIEW

## Project Finance for Geothermal Power Project in Indonesia

Supporting a Renewable Energy Generation Business Undertaken with Japanese Companies

The Japan Bank for International Cooperation (JBIC) signed in March 2018 a common terms agreement for project finance (PF) with PT Supreme Energy Rantau Dedap (SERD), an Indonesian company invested in by Marubeni Corporation, Tohoku Electric Power Co., Ltd., and other sponsors for the Rantau Dedap Geothermal Power Project in South Sumatra, Indonesia. The loan is co-financed by Japanese commercial banks with the Asian Development Bank (ADB). Nippon Export and Investment Insurance (NEXI) is providing insurance for the portion co-financed by the commercial banks.

Interview with Deputy Director Yohei Oishi, Deputy Director Mayuko Anan and Tohori Tsuchiya  
Unit 3, New Energy and Power Finance Department I, Infrastructure and Environment Finance Group



Deputy Director Oishi



Deputy Director Anan



Mr. Tsuchiya

### Outline of PF for Rantau Dedap Geothermal Power Plant

JBIC signed in March 2018 a common terms agreement with SERD, an Indonesian company invested in by Marubeni Corporation, Tohoku Electric Power Co., Ltd., and other sponsors for the Rantau Dedap Power Project in South Sumatra, Indonesia. The loan, made as PF amounting up to approximately USD188 million (JBIC portion), is co-financed by Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd., as well as by the ADB. The total co-financing amount is approximately USD539 million. NEXI provides insurance for the portion co-financed by the commercial banks.

In this project, SERD will construct, own and operate a geothermal power plant with a gross capacity of 98.4 MW. The electricity generated will be sold to PLN, a state-owned power utility in Indonesia, for a period of 30 years.

In the past, JBIC provided financing for the Sarulla Geothermal Power Project (approximately 320 MW) in North Sumatra in 2014 and the Muara Laboh Geothermal Power Plant (approximately 80 MW) in West Sumatra in 2017.

### An "All Japan" Project for a Country with Geothermal Resources

Although Indonesia has the world's second largest amount of geothermal resources, the country only utilizes about 5% of its abundant geothermal reservoir. The Government of Indonesia (GOI) is planning to expand the share of geothermal energy in total power generation in the country to 21% by 2026 in order to meet the growing demand for electricity and to reduce CO<sub>2</sub> emissions.

In this project, SERD will construct, own and operate a geothermal power plant with a gross capacity of 98.4 MW in South Sumatra. The electricity generated will be sold to PT PLN, a state-owned power utility in Indonesia, for a period of 30 years. This project is an "all Japan" project. Marubeni and Tohoku Electric are the sponsors to SERD, and Fuji Electric Co., Ltd., which holds the largest share in the global geothermal equipment market, is involved as one of the EPC (engineering, procurement and construction) contractors.

Deputy Director Yohei Oishi explains: "Development of a geothermal power plant can take more than a decade. This project was launched by a local company partnering with a French sponsor in 2010, and Marubeni joined when the project started exploration. At this early stage JBIC started to consider financing the project. We entered into full-scale negotiations on finance documents with the sponsors in November 2017 when the power purchase agreement (PPA) was finalized after the plant's generating capacity was determined. With the sponsors, we set a goal to have the financial documents signed by March 2018.

### Negotiating and Consulting Expeditiously, Taking Risks Proactively

Mayuko Anan, another deputy director, says: "I was involved in a previous geothermal project, but this project was different in location and quantity of geothermal resources, so we needed to assess its intrinsic risks. For instance, in addition to risk analysis for power plant projects in general, we had to confirm the stable supply of steam and hot water throughout the loan period.

Tohori Tsuchiya, another team member, added: "The project was unique in that the period of guarantee provided by GOI for PLN's obligations under PPA was shorter than the loan period. This means that, later in the loan period, lenders including JBIC had to take PLN's offtake risk (such as the risk of PLN's non-payment). Since it was the first time for JBIC to do so in an Indonesian IPP (independent power producer) project without a government guarantee, we had an intensive direct dialogue with GOI to confirm GOI's intention to support PLN and conducted due diligence on credit worthiness of PLN.



Oishi looks back, "We faced some tough discussions, but GOI always dealt with us in good faith. We believe it was because they regarded JBIC as an important partner with a proven track record of supporting numerous projects in Indonesia and bringing in investments. We recognized that they also highly appreciated the past cooperation of the Japanese government and Japanese companies. In the negotiation with the sponsors and lenders, we took initiative to solve problems, and we achieved this challenging goal of signing the agreements in an extremely short period of less than four months."

### Supporting CO<sub>2</sub> Emission Reduction in Keeping with Japanese Government Policy

The signing ceremony of this project was held in March 2018.

Tsuchiya looks back. "Over 100 persons representing Japanese, French and Indonesian companies as well as advisors and bankers who participated in this project attended the ceremony. I was deeply moved by the fact that the signing was finally achieved by the passionate commitment from such a large number of stakeholders."

"I took over the project from my senior colleagues. At the ceremony, I felt relieved that we could finally wrap it up. Also, my confidence grew because our teamwork successfully achieved the signing. Indonesia has abundant geothermal resources, and I am eager to tackle a new project," Anan says.

Oishi commented, "There were some sticking points in our negotiations. Nevertheless, at the ceremony, the project manager for the French company, who was one of my negotiating counterparties, asked me to join a group photo with the project's stakeholders. I was very pleased when he told me that he was impressed by JBIC's speedy responses and that he hoped to work with us again. It also meant a lot that Tohoku Electric, a company that has a proven track record of success in geothermal energy development in Japan, took part in an overseas project for the first time since the Great East Japan Earthquake. Going forward, we will continue to actively support other "all Japan" overseas projects, based on the Japanese government's "Export Strategy for Infrastructure Systems" and the climate change policy of "Actions for Cool Earth: ACE 2.0."

The Rantau Dedap Geothermal Power Plant is slated to start operating by the second half of 2020.