

Q&A with Clarinda Tjia-Dharmadi

Sarulla Geothermal Project To Serve As Blueprint For Future Projects

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The 330-MW Sarulla geothermal power project stands to be the largest geothermal power project in Indonesia to date. A Latham & Watkins team led by partners Joseph Bevash, Clarinda Tjia-Dharmadi and Andrew Roche advised the lenders on the \$US1.17 billion financing of the project. In this Q&A interview Tjia-Dharmadi discusses the significance of the deal, the unique financing challenges it presented, and the project's potential to serve as a blueprint for future geothermal projects in Indonesia.

Why is the Sarulla geothermal power project seen as a landmark deal in the Indonesian energy industry?

Tjia-Dharmadi: There are a couple of very unique features with regards to the deal. At the outset, it is, of course, a green energy project, and it is a very important milestone for the geothermal power market in Indonesia. Green energy is important throughout the world, and it is important for Indonesia, which has a power demand that is expected to grow at more than 8 percent per annum. Sarulla is the first green fuel project to have closed in a long while with limited recourse project financing — basically the first since Unit 1 of the Wayang Windu Geothermal Power Project in 1997. So, not only is Sarulla significant in having closed that project financing, but it is also the first power project in Indonesia to have closed with the benefit of a new form of government support that was previously not available.

Everyone has always recognized that with the large population growth and large demand for electricity and energy, the demand and appetite for power in Indonesia was there. However, new investments in the sector had been moribund because of the change in Indonesian government policy underlying the lack of government support for state utilities obligations under the power purchase agreement, and you can't have a limited financing recourse for a large project of this nature without it.

Latham was instrumental in working with the Indonesian government to conclude a bankable type of government support that will be used on what are called our Fast Track 2 projects. The firm has put this support in place for several other projects in addition to Sarulla, but those projects haven't yet reached financial close. Sarulla is the first one to have reached financial close under this Fast Track 2 scheme, so it will establish new blueprints for raising limited recourse project financing for the new generation of geothermal power plants as well as other types of power projects in Indonesia.

So, while the Sarulla project is significant as a geothermal project because of the emphasis on sustainable and renewable energy and because this project has very large resources, it is also significant for the power sector as a whole because this government support that we put in place will be applicable not just for geothermal, but for any kind of Fast Track 2 power project in Indonesia — hydro, conventional, coal or solar.

The Sarulla project used an integrated approach to project financing. How does this differ from the unit-by-unit approach typically used in geothermal power projects?

Tjia-Dharmadi: This approach was another notable feature of the deal. Given the nature of geothermal projects, you generally have to continue to drill in order to get assurances with regards to the amount of resources in the ground. You may have a given plot of land and you may estimate how much there is in the reserves, and predict that you will be able to build a 300 megawatts power plant, but you don't really get the certainty of the reserves until you keep drilling. So, most geothermal power projects are developed on a unit-by-unit basis due to this development phasing, connected with proving out what reserves are actually in the ground. On the Sarulla project, they used the alternative approach by financing all three generating units as an integrated whole. The integrated nature of the project financing for the Sarulla project meant that the bankability depended on a detailed reserve analysis and thorough due diligence reports.

Did this approach present any challenges?

Tjia-Dharmadi: We did face some issues in connection with the integrated nature of the project, because it hinged on reserve analysis, getting comfortable with the technical and legal due diligence reports that were provided by the lenders' consultants. A key component of the exercise was the development of a drilling and construction program, which also needed to be coordinated for compliance with the commissioning and testing requirements agreed to with Perusahaan Listrik Negara (PLN), the state-owned electricity company, in order to expedite and maximize the exploitation as well as ongoing maintenance and management of the geothermal reserves and based on the diligence findings. With the coordinated and very robust drilling and construction program and other structural enhancements to the financing structure, we were able to negotiate a funding package that comprised debt and equity, and that was also supported by quite a significant amount of pre-completion revenues projected to be earned during the period from commercial operations of the first unit until commercial operations of the third unit.

How will the Sarulla project help pave the way for future geothermal power projects in Indonesia?

Tjia-Dharmadi: In one sense, this project was very complex because this was a project that straddled the old generation geothermal projects in terms of its form and in terms of the project documentation — for example the power purchase agreements were the old form, tripartite structure with Pertamina, which is the state entity that used to administer Indonesia's natural resources, and with PLN, the state utility that is in charge of electricity. So, in that sense even though the underlying project contracts were the old generation form, the risk allocation done in this project with regards to sponsors, lenders, as well as PLN, mean the project will establish the blueprint for what is financeable even for the new generation projects. And, of course, Sarulla is the first project to have closed with the new form of government support and that is just crucial for any limited recourse financing project going forward in Indonesia.

Is Latham uniquely qualified to handle geothermal deals in the Indonesian market?

Tjia-Dharmadi: We are uniquely qualified because we had a driving role in connection with the government support structure that was created and we acted for the lenders, so we are also the architects of the bankable financing structure. We are currently advising on all of the new generation geothermal projects at the vanguard of development in Indonesia. Sarulla just happens to have reached financial close first. We have four other geothermal projects in the pipeline at different stages of development and they are first four to come out under the new generation geothermal regime.

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