KalSel coal-fired power, Indonesia

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After five years, sponsors Adaro and Korea East-West Power have reached financial close this week on their 2x100MW $540 million KalSel coal-fired independent power producer (IPP) project in Indonesia.

Indonesia remains the most active and accessible market for international independent power producer projects in Southeast Asia. But the "so long" process, as several advisers put it, of closing the KalSel transaction has left many daunted by the prospect of helping with the government's ambitions to build 35,000MW of new electricity capacity.

KalSel was originally tendered out in 2011 and the two 100MW coal-fired power plants in South Kalimantan, on the southern end of the Indonesian side of the island of Borneo, was awarded in 2012 under what was supposed to be a fast track programme. Adaro's largest coal mine is also located in South Kalimantan.

Obstacles crop up

One speed bump was the presidential election in July 2014 that brought to power President Joko "Jokowi" Widodo. The election slowed down the approval process until the end of that year.

Others ranged from a change in the issuance process of the business viability guarantee letter (BVGL) from the Indonesian government to the reorganisation of the export credit agency, which switched from Korea Finance Corporation to Korea Export-Import Bank and then, eventually, to Korea Trade Insurance Corporation (K-Sure).

Reconciling lenders' concerns about the coal agreement between parent company Adaro and the project vehicle as well as currency conversion through a designated converting bank also contributed to slowing down the process, sources told *IJGlobal*.

The 25-year power purchase agreement (PPA) was finally signed in October 2014. Under the terms of the PPA, the sponsors had 12 months to reach financial close but has been repeatedly extended.

As it turned out, it was the closing of another long-delayed coal-fired power plant, the $4.3 billion 2,000MW Central Java ultra-supercritical coal-fired power plant, that paved the way for KalSel to reach financial close, advisors told *IJGlobal*.

Sponsors Adaro, J-Power and Itochu closed on the benchmark project on 6 June 2016.

The financing documents for KalSel were eventually signed at the end of November 2016 and the transaction reached official financial close on 23 January 2017.

The 20-year $422 million senior loan priced at 155bp over Libor, with a gradual step up to 180bp. The loan is split into a $401 million tranche insured by Korea Trade Insurance Corporation (K-Sure) and a $21 million uncovered tranche provided by Korea Development Bank (KDB). The project is being financed on a 75:25 debt-to-equity ratio.

The six mandated lead arrangers, on equal footing and in alphabetical order, on the senior loan were:

- DBS
- KDB
- HSBC
- MUFG
- Mizuho
- SMBC

All the banks, except HSBC, are also providing an equity bridge loan.

DBS and Milbank are advising the sponsors. Shearman & Sterling is advising the lenders.

The exhausting run

After his election, Jokowi set a target to install 35,000MW of new power generation capacity, raising hopes the pace of tendering out IPPs in Indonesia would be streamlined and proceed at a faster pace.

Instead, the Indonesian government and state-owned utility PLN, which procures the power plants, has continued to tweak the process and try out different models, which has turned transactions into time-consuming marathons.

The government and PLN need to choose and stick to a template model for PPAs and guarantee, one advisor told *IJGlobal*.

In the meantime, the slow pace of procurement has forced Jokowi's government to abandon the 35,000MW goal and scale down in November 2016 its ambition to build 19,000MW of new power capacity by 2019.

Still, deals are getting done, even at what seems at a perpetually delayed pace. The next international IPP transaction on the horizon to close is the $2 billion, 1,000MW expansion to the Cirebon coal-fired power plant.

The Marubeni-led consortium is expected to achieve financial close by the end of the first-quarter of 2017.