

Client Alert

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Indonesia's PLN invites hydropower developers to prequalify

Indonesia's State-owned power utility, PT PLN (Persero) (**PLN**) has issued an invitation to hydropower developers to submit applications to be included on the List of Selected Providers (commonly referred to by its Bahasa Indonesia acronym as "**DPT**") for Indonesian hydropower projects with a capacity of above 10MW.

Why the need for the DPT process?

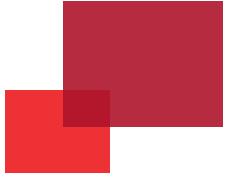
Pursuant to a series of Minister of Energy and Mineral Resources regulations passed mid last year, all renewable energy projects (with the exception of geothermal and waste to energy) must be awarded by PLN through a "Direct Selection" process. A "Direct Selection" process involves PLN calling a limited tender, selecting at least two participants to submit bids (as opposed to running a full tender, open to anyone to participate). Accordingly, the DPT process seeks to define the list of potential bidders that PLN will select to participate in a bid.

Late last year PLN ran a similar DPT process for wind, solar PV, biomass/biogas, tidal, municipal waste and hybrid projects (see our previous [Client Alert](#)). Hydropower was a notable exclusion from that 2017 DPT process, and accordingly this current DPT process seeks to pick up where the 2017 process left off. Interestingly the "mini-hydro" category of projects (i.e. hydropower projects with capacities of not more than 10MW) still does not have a DPT as yet, and accordingly it is still unclear how PLN is going to define the group of companies to participate in a Direct Selection process for mini-hydro projects without an associated mini-hydro DPT to rely on.

What is different with the 2017 DPT process?

The 2017 DPT process was essentially a general prequalification process, with no specific reference to any particular project or even any specific renewable energy type. For example, a developer who had experience in developing coal plants, and could pass the financial qualification criteria of the 2017 DPT process, was able to successfully put itself on the DPT for wind, solar PV, biomass/biogas, tidal, municipal waste and hybrid projects. The 2017 DPT process also was developer-specific – i.e. it did not require developers to form consortia for the purposes of participating in the DPT process, as each developer was assessed individually.

There are a number of differences in this new DPT process:



1. The PLN invitation suggests that in order to qualify (presumably to be read “qualify to be included on the DPT”), the interested parties must demonstrate that they have a feasibility study including interconnection study.

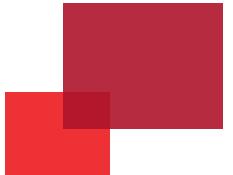
This requirement will substantially narrow the number of participants who are eligible for the DPT process. With the recent uncertainties over the tariff regime and general concerns over how the procurement process for hydropower projects will work, a number of greenfield hydropower developers have been put on hold, with developers not wanting to incur the not-insubstantial cost of developing feasibility studies and grid studies. So it may be that a number of developers will be caught by surprise by this new requirement, and may not have their projects at a stage of development where they can meet this requirement.

2. The invitation states that international developers need to partner with a local developer.

Under the current Indonesian foreign investment framework, foreign ownership of hydropower projects with capacities above 10MW is limited to 95%, meaning that a 5% local partner is required. So unlike the 2017 DPT process (which required applicants to apply in their individual capacities), this process will require international developers to find local partners in order to submit bids. It may be a challenge to find a local partner who has the required financial standing to meet the usual PLN financial qualification criteria – typically involving the local partner to have a credit rating of a certain level.

Once the DPT process is finished, how will the Direct Selection process work?

One of the concerns over the regulatory requirement for Direct Selection to be deployed on all renewable projects (excluding geothermal and waste to energy) is that a competitive process may not really fit all circumstances. Whilst a competitive process for (for example) a 50MW solar project tying into Substation X at a particular location may give rise to a number of possible sites and therefore genuine competitive tension between bidders, when it comes to very site-specific renewables such as hydro, a question arises as to whether a competitive process really fits. For example, if Developer A has (i) secured the land acquisition rights for a particular site on a river, and (ii) has secured a water utilization licence for that river, then the practical reality is that no-one else will be able to bid for that project. So to go through a Direct Selection process to only have it fail (at which time PLN becomes free to directly appoint the only submitting bidder) seems an inefficiency that the Indonesian IPP sector could do without at the current time.



The Indonesian Government does, after all, have the safety net of the renewable tariff ceiling framework which will ensure that the Government is not paying any more than the current grid price for hydropower.

Conclusion

Whilst the 2017 DPT process saw over 100 developers submit applications to PLN, the new requirements introduced under this hydropower DPT process would suggest that the number of qualified applicants for hydropower will be significantly smaller. As with the 2017 process, one key question is how often PLN proposes to run this DPT process to update its list of qualified developers. Developers are only going to go and proactively spend money in feasibility and grid studies if they can see a realistic possibility of getting to a Power Purchase Agreement at some point in the near future thereafter, and the introduction of this intermediate DPT stage may result in the path from (1) a good water resource to (2) a signed Power Purchase Agreement becoming significantly longer unless PLN is going to frequently re-run this DPT process.

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PT PLN (PERSERO)

INVITATION FOR LIST OF SELECTED PROVIDERS (DAFTAR PENYEDIA TERSELEKSI) FOR IPP (INDEPENDENT POWER PRODUCERS) HYDROELECTRIC POWERPLANTS

1. PT PLN (Persero) intends to select a potential project sponsor which will be listed on Selected Providers (Daftar Penyedia Terseleksi / DPT) to develop IPP Renewable Energy Powerplants. As per Ministry of Energy and Mineral Resources Regulation No. 50/2017, the Procurement Process of IPP Renewable Energy Powerplants will be held with direct selection mechanism from a pool of Qualified Applicants listed on Selected Providers (as the case maybe update from time to time) that meet criteria on Pre-Qualification Questionnaire Document.
2. The project for IPP Renewable Energy Powerplants is Hydroelectric Powerplant with the capacity more than 10 MW, which will be implemented on BOOT (Build, Own, Operate & Transfer) pursuant to a long term Power Purchase Agreement (PPA).
3. PT PLN (Persero) hereby invites Parties who have Intention to be qualified and included on Selected Providers List (Daftar Penyedia Terseleksi/DPT) for development of IPP Renewable Energy Powerplants:
Title : DAFTAR PENYEDIA TERSELEKSI (DPT)
Powerplant Type : Hydroelectric
4. Party shall be a company from Indonesia or international company which has diplomatic relation with Indonesia. Where a Party is from international company, they shall engage a reputable local company as a member of Joint Venture, Joint Operation, or Consortium.
5. In order to qualify, The Parties must demonstrate that they have feasibility study including interconnection study.
6. Parties shall fulfill financial requirement as set forth in the Pre-qualification Questionnaire Document. Parties shall submit with their application with a recent valid document.
7. Parties may register and collect the Pre-qualification Questionnaire Document from **April 30th, 2018 – May 15th, 2018 (working hours from 08.00 – 16.00 Western Indonesian Standard Time)**, after payment of a non refundable fee in the amount of Rp 11.000.000,- (eleven million Rupiah) included VAT 10% at the address below:
 - PT PLN (Persero) Kantor Pusat
Divisi Energi Baru dan Terbarukan
c/o Senior Manager of Hydro Energy
Gedung 1, Lantai 7, Jalan Trunojoyo Blok M/135, Kebayoran Baru, Jakarta 12160
Phone +6221- 7251234, 7261122, Ext. 1321
Fax +6221- 7227063
8. The Application shall be submitted in one (1) original, one (1) copy and one (1) electronic copy by hand not later than **15:00 Western Indonesian Standard Time on June 8th, 2018** to the above address in the sealed envelopes with clearly marked as mentioned as Project of point 2 above.

Jakarta, April 23rd, 2018
Senior Manager of Hydro Energy