

CTF Indonesia Geothermal Private Sector Program
ADB Response to External Review
17 September 2013

We appreciate the strong support and comments made by the independent consultant who has reviewed the ADB proposal for the Indonesia Geothermal Private Sector Program. In regards to the questions raised, we would like to offer the following response:

1. GHG estimates of underlying projects – We appreciate that geothermal power projects will have some minimal emissions of CO₂, CH₄ or other greenhouse gases (GHGs) during operations. While it is difficult to estimate or use a “rule of thumb” for these emissions across different types of geothermal projects, we will calculate the net GHG emissions reductions for each project according to ADB’s methodology and report the information to the CIF trustee upon financial close of each project. What is shown in the proposal are the estimates of gross GHG emission reductions based on expected capacity installation and typical capacity factors as base load power.
2. Legal issues over steamfield – It is correct to point out that for certain projects, the legal rights over the steamfield (i.e., below ground) remains with PGE, a public sector entity. This situation has been clarified to the satisfaction of both the developer and PGE prior to signing of the Joint Operating Contract on one particular project. We have received advice from external legal counsel that ownership and security over the project assets constructed for steamfield operations is not an issue. Furthermore, PGE has granted the right to the project developer to utilize the steam to generate electricity.
3. Medium term loans – These loans have been structured to provide sufficient additional time if the developer needs to extend the drilling program based on suboptimal results. In the unlikely event that exploration results are wholly negative that the sponsor abandons the development, ADB will have a right to enforce against the sponsors’ shares of the project company (which could be sold to another developer or returned to the government). While we do perceive some risks in this regard, we expect that additional drilling (and/or resizing of the project) would be the more prudent course taken by developers rather than loan default or abandonment of the license.
4. B-Loans – ADB is discussing with international commercial banks how the B-loan structure (or similar programs by other IFIs) may help leverage additional sources of financing for projects. This will help mitigate certain perceived political or other risks in the first projects to be financed. The ADB B-loan program has historically been successful in bringing new banks into a market it otherwise would not pursue transactions.