

Comments from United States on Approval by mail: Indonesia: Private Sector Geothermal Energy Program (ADB) CTF

Attached please find comments and questions on the Indonesia geothermal project from the U.S. which would help us formulate our position on this project.

The geothermal industry in Indonesia has been struggling despite significant theoretical potential, in large part because of a complicated and fragmented institutional framework, including inconsistencies in the permitting/licensing process, frequent changes in laws with respect to renewable energy, interconnection and other issues related to PLN's status as a monopoly, etc.

The new CTF program appears to intend that by facilitating the completion of some of the existing projects and demonstrating their viability, it will encourage further private sector interest in geothermal beyond the initial 750 MW. Given the record over the past decade and the substantial institutional issues that remain, however, we are concerned that support for these transactions alone, if they are not matched with further institutional, utility, and enabling environment reforms, will greatly limit their influence as demonstration projects to attract further private sector investment and development efforts.

We understand that World Bank and ADB (as well as other development banks such as KfW) have been working with Indonesian Government institutions in the past few years to seek solutions, particularly in finding ways to streamline the tender (for concession areas), permits and license process (which involves local governments and several technical ministries), and to reduce upfront investment risks.

It is important that efforts to improve the financial environment for geothermal in Indonesia should coordinate and track with efforts to reform the overall regulatory/policy environment, to ensure that institutional problems do not inhibit the gains from potential renewed private sector interest in geothermal. We would like to know more about how the ADB views such linkages and how they intend to facilitate them.

Is the project subject to the Indonesian local content requirements which are part of Geothermal law was passed in 2003 (Law No. 27 of 2003) How are the project organizers meeting the requirements of the law?

How are the local content requirements structured? How would they impact project development and the costs?

Are the projects subject to Indonesia's Negative Investment List, under which foreign companies are permitted to own up to a maximum of 90% of the operation and maintenance service of a geothermal facility, and 95% of either geothermal drilling service or geothermal power plant.

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