



Geothermal power project in Indonesia makes its mark across the region



Construction on the world's largest single contract geothermal project is underway in Indonesia following the completion of landmark US\$1.17 billion financing deal between Sarulla Operations Limited and international lenders, including ING Bank. Once operational, the Sarulla Geothermal Power Project will deliver 320 MW of clean, sustainable and reliable electricity to the Indonesian market.

The venture is widely regarded as a breakthrough project could stoke renewed interest elsewhere in South East Asia in this largely underdeveloped segment of the energy sector.

Jumpei Sakaue, Project Finance Manager of Sarulla Operations Limited, notes "The successful project financing of Sarulla project is expected to become a catalyst for further development of Indonesia's abundant geothermal resources. We believe ING's commitment to supporting clean and sustainable energy, combined with its balanced view between proper risk analysis and comprehension of commercial requirements, have contributed to the successful closing of the Sarulla project financing arrangement".

The plant will also make a significant contribution towards Indonesia's goal of increasing its share of renewable energy to around 23% of its total portfolio by 2025, and reducing greenhouse gas emissions by 26% by 2020. Sarulla is expected to save some 1.3 million tonnes of carbon dioxide emissions annually. Conscious efforts also went into the project's design and implementation plan in order to mitigate the negative impact on surrounding communities, and ensuring adherence with environmental, health, safety and social guidelines from the IFC Performance Standards, the Equator Principles, the Japan Bank for International Cooperation and the Asian Development Bank.

Geothermal energy is one of the most promising ways for the nation to achieve its sustainability goals. Its untapped resources in this area are estimated to equal some 29 GW, which represents a staggering 40% of the earth's entire geothermal resource base.

Sustainable business model

The project will be developed and implemented under a 30-year energy sales contract with PT PLN (Persero), Indonesia's national electricity utility company, and a 30-year joint operating contract with Pertamina Geothermal Energy. While the project's structure is unique in many ways, the general framework for Indonesian independent power projects is well established. Sarulla is also expected to gradually displace some existing power generating plants that currently receive government subsidies, thereby creating savings for the Indonesian government of approximately US\$1 million per day.

The borrower, Sarulla Operations Limited, is a special purpose vehicle established to build, own and operate the plant. It was formed by a group of specialist geothermal power operators and established local and international power developers with an established presence in Indonesia, namely Itochu Corporation, Kyushu Electric Power Company, Medco Power Indonesia, and Ormat Technologies.

The project's financing, exploration and construction programs were developed and custom tailored to fit its unique project profile. Financial close was achieved in May this year following an intensive review, negotiation process and good collaboration with a group of lenders that included an export credit agency (Japan Bank for International Cooperation); a multilateral (Asian Development Bank); a climate investment fund (Clean Technology Fund) and a group of international commercial banks that included ING Bank as one of the mandated lead arrangers.

It is not uncommon for power projects in Indonesia like Sarulla to experience delays and challenges throughout the different stages of development. That's why sponsors look for banks that are not only able to offer competitive terms, but also those with country and power sector credentials that can be relied upon over the longer term to resolve issues and maintain their commitments.

"ING has advised and arranged several power projects in the country throughout Asian and Global financial crisis," clarifies Erwin Maspolim, ING's Asian Head of Utilities & Infrastructure Finance. Come rain or shine, we are there for our clients. That is part of what we bring to the table."

"For ING Bank this deal is a sound example of ING's support of clients that invest in electricity generation projects that contribute to a lower carbon economy. In the past few years there has been a shift in ING's portfolio of power plant financings towards more renewable energy projects", explains Leo van Stijn, Global Head Utilities, Power & Renewables at ING Structured Finance.

Partnering for growth

Over the years, ING has maintained a close relationship with the project sponsors, and with its parents, affiliates and project companies in the US, Guatemala, Australia, Brazil, the Netherlands, Singapore, Vietnam, Indonesia and the Philippines. On this occasion, the transaction was led by the ING Structured Finance Utilities & Infrastructure team in Asia, with strong support from Financial Markets, Corporate Clients, and Legal & Risk.

"Ormat appreciates ING's contribution to the landmark financing of the Sarulla Geothermal Project," says Nachman Isaac, VP Project Finance of Ormat Technologies, Inc. "We wish to thank ING team members for their dedication and devotion to this transaction, and we are looking forward to leveraging our two-decade cooperation with them to other Ormat ventures in the future."

Award-winning project

The (financing of the) Sarulla Geothermal Power Project has been awarded by several globally renowned institutions:

- Asia Pacific Power Deal of the Year by IJGlobal
- Asia Pacific Power Deal of the Year by Project Finance Int.
- Most innovative ECA/Project Finance Deal of the Year by Trade & Export Finance.

<https://www.ingcb.com/insights/articles/geothermal-power-project-sarulla>