



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
INDONESIA SECOND POWER TRANSMISSION DEVELOPMENT PROJECT
APPROVED ON JULY 8, 2013
TO
REPUBLIC OF INDONESIA

ENERGY & EXTRACTIVES GLOBAL PRACTICE

EAST ASIA AND PACIFIC REGION

| | |
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ABBREVIATIONS AND ACRONYMS

| | |
|------|--------------------------------|
| APM | Accredited Procurement Manager |
| DSCR | Debt Service Coverage Ratio |
| FM | Financial Management |
| PDO | Project Development Objective |
| PLN | Perusahaan Listrik Negara |
| kV | kilo volt |
| kVA | kilo volt ampere |
| mVA | mega volt ampere |



BASIC DATA

Product Information

| | |
|--|--|
| Project ID P123994 | Financing Instrument Investment Project Financing |
| Original EA Category Partial Assessment (B) | Current EA Category Partial Assessment (B) |
| Approval Date 08-Jul-2013 | Current Closing Date 31-Dec-2019 |

Organizations

| | |
|-----------------------------------|------------------------------|
| Borrower Republic of Indonesia | Responsible Agency PT PLN |
|-----------------------------------|------------------------------|

Project Development Objective (PDO)

Original PDO

The development objective of the proposed project is to meet growing electricity demand and increase access to electricity in the Project Area through strengthening and expanding the capacity of the power transmission networks in the Project Area in a sustainable manner.

Summary Status of Financing

| Ln/Cr/Tf | Approval | Signing | Effectiveness | Closing | Net Commitment | Disbursed | Undisbursed |
|------------|-------------|-------------|---------------|-------------|----------------|-----------|-------------|
| IBRD-82800 | 08-Jul-2013 | 28-Aug-2013 | 26-Mar-2014 | 31-Dec-2019 | 159.60 | 77.02 | 82.58 |

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Project Status

1. The original loan of \$325 million for the Indonesia Second Power Transmission Development Project was approved on July 8, 2013, signed on August 28, 2013 and became effective on Mar 26, 2014. The project components are designed to meet growing electricity demand in Java-Bali, East and West Indonesia through strengthening and expanding the capacity of the power transmission networks in a sustainable manner.
2. The project is structured to be implemented in two phases, Group 1 and Group 2.
3. Following a series of delays that hindered progress, a number of proactive steps were taken to improve the project, including restructuring the project and canceling the unused portion of the loan in December 2017. The December 2017 restructure of the Project involved:
 - a) The partial cancellation of \$165.4 million that was the unused amount of the loan, taking into account: (i) \$50.0 million in commitments for the Group 1 sub-projects; (ii) \$109.6 million in revised estimated costs of the Group 2 sub-projects;
 - b) A change in the Loan Agreement to clarify that the scope of transmission investments includes those at voltages greater than 150 kV;
 - c) Changes to the Results Framework, Project Components and Costs, Financing Plan, Disbursement Estimates, and Economic and Financial Assessment; and
 - d) A first extension of loan closing date from December 31, 2018 to December 31, 2019.
4. These proactive steps have resulted in an enhanced implementation support arrangement and positive progress have been made in the last 18 months, including acceleration of the procurement process: (i) bids on all four Group 2 packages were opened in February and March 2017; (ii) bid evaluation reports on all four packages were submitted to the Bank for review and no objection; (iii) following the Bank's No Objection, contracts have been awarded for Packages 1, 3 and 4; and (iv) Package 2 was re-bid as discussed further below.
5. To date, PLN has energized 100% of the 37 sites under Group 1, and substantial progress has been made with most of the sub-stations in Group 2 with accelerating construction since September 2018. The project is on-track to get all its activities completed before the closing date — apart from the Group 2 - Package 2 electrical installation activities that PLN is now financing using its own funds. However, the actual growth in electricity sales in the project area will be lower than projected at appraisal because of a substantial slowing in electricity demand growth in Indonesia over the period 2014-2019. The slow-down in electricity demand and energy consumption is due to a range of factors, including: (i) electricity tariff increases in the period 2014-2016, which were aimed at reducing government electricity subsidy payments and improving the financial sustainability of the sector; (ii)



lower than expected economic growth, of around 5% per year, rather than more than 7% per year; and (iii) a reduction in industrial output in Indonesia.

6. In order to maintain implementation momentum, enhanced implementation support arrangements have been agreed with PLN. During 2018 PLN began providing the Bank team with new spreadsheet reports that track: (a) progress and remedial actions, by substation site; and (b) status of disbursements by contract package. These reports are discussed at monthly progress monitoring meetings between PLN and the Bank. In November 2018, during a project supervision mission, it was agreed with PLN that in 2019 the Bank team would seek to verify the commissioning into service of all the substations financed under the project. The verification of commissioning would be done using a combination of desktop analysis of supporting documents, discussions with PLN Regional Directorates and System Operations, and site-visits to a sizeable sample of the scattered substations between formal project supervision missions.
7. As of March 13, 2019, total loan disbursements were \$74.04 million, which constituted 46.4% of the current loan of \$159.6 million. Following this restructuring which includes cancellation of \$22 million off the IBRD loan, a balance of \$63.56 million will have to be disbursed during FY2019 and FY2020 to absorb all \$137.6 million of the restructured loan.
8. The project is in compliance with its legal, Financial Management (FM) and safeguard requirements, with the one exception — that PLN has not met the loan covenant requiring that its Debt Service Coverage Ratio (DSCR) remains above 1.5. The Bank has, however, issued waivers for the DSCR covenant over the last four years and is currently processing the analysis to waive the DSCR covenant for 2018. This recurrent issue is being addressed through the Bank's advisory and analytical work.

B. Rationale for Restructure

9. Following receipt of new bids for Group 2, Package 2 in early 2018 which happened to be higher to PLN's owner's estimates of \$22.0 million, PLN informed the Bank that as per its regulation the award price must be below the estimates and decided to enter into price negotiations with the only bidder. PLN notified the Bank that it wished to continue the procurement process following its own guidelines and utilizing its own resources rather than the proceeds of the loan. After consultation with the Bank's Accredited Practice Manager (APM), PLN's proposal has been agreed in PLN's interest and in the overall interest of the Project. That decision has prompted this proposed second project restructure to partially cancel a further \$22.0 million off the loan, along with the need to amend the PDO and results indicators.
10. In addition to the proposed changes to the PDO and Results Framework (described below), the other related changes include revisions to Project Components and Costs, Financing Plan, and Disbursement Estimates. There is no change in the Safeguards Category of the project, which remains Category B. Safeguards instruments (Environmental Assessment OP/BP 4.01; Indigenous Peoples OP/BP 4.10; Involuntary Resettlement OP/BP 4.12) remain valid and both social and environmental safeguards management rating remain Satisfactory. There are no changes to the project's requirements for Procurement, Disbursements, and Financial Management. The project's economic and financial analysis has been updated to account for the \$22 million partial cancellation, and the results of that analysis show that investments under the project remain economically justified and return and



NPVs remain robust. The updated economic and financial analysis is in the project files. The project implementation agency remains the same, PT Perusahaan Listrik Negara (PLN).

11. On July 27, 2018 PLN wrote a letter to the Ministry of Finance (Ref. No. 046/KEU.05.02/DITREGSUM/2018), requesting the restructure of this project. The Ministry of Finance wrote to the Bank on September 27, 2018 (Ref. No. S-889/PR/2018), formally requesting the project restructure as initially proposed by PLN. The Ministry of Finance letter was received by the Bank on October 1, 2018.

II. DESCRIPTION OF PROPOSED CHANGES

C. Summary of Proposed Changes

12. In summary, five changes are proposed:

- *Change to the Project Development Objective.* Adjusting the Project Development Objective (PDO) to remove the reference to “improving access”, because the project has no explicit components targeted at increasing connections, but instead is more focused on improving the quality and reliability of power supplies;
- *Changes to the Results Framework* — amending the project’s indicators and targets to better reflect: (i) the reduced scope of activities and its planned deliverables; and (ii) lower than originally anticipated growth in electricity demand.
- *Change in Components and Costs* to reflect the partial cancellation of \$22 million IBRD, due to PLN deciding to use its own funds for one of the packages that was previously to be funded from the proceeds of the loan (i.e. Group 2, Package 2);
- *Changes in the Financing Plan and Disbursement Estimates* to capture the \$22 million partial cancellation of the loan.



D. Change to the Project Development Objective

13. The proposed new PDO is: “The development objective of the project is to meet growing electricity demand in the Project Area through strengthening and expanding the capacity of the power transmission networks in the Project Area in a sustainable manner”.
14. The new PDO formulation excludes reference to “improving access” since the project had no explicit components targeted at increasing connections, but instead is more focused on improving the quality and reliability of power supplies. The revised PDO is achievable within remaining project lifetime and available resources envelope provided that implementation pace and efforts are sustained by PLN.

E. Change in Results Framework

15. As the restructuring and cancellation results in changes to equipment to be procured and work to be carried out to achieve the PDO, the target values for the PDO indicators and Intermediate Result Indicators need to be adjusted. The updated results framework is shown below.
16. The key changes to the Results Framework include:
 - a) Amending the end-target dates to be more realistic, in light of delays in procurements and construction and commissioning activities;
 - b) Reductions in the target for “Commissioned capacity (kVA) of Group 2 transformer substations”, from 3,150,000 kVA to 2,290,000 kVA, plus the correction in the units of measure from MVA to kVA;
 - c) Reductions in the targeted levels of energy sales growth in the Group 2 project areas, to reflect the reductions in the scope investments and the reductions in overall level of demand growth.



F. Change in Components and Costs

17. Following the proposed cancellation of \$22.0 million, the remaining IBRD loan of \$137.60 million will provide \$50.00 million financing for Group 1 and \$87.6 million for Group 2 sub-projects.

| Component | (A) | (B) | (C) | (D) |
|--|------------------------------|-----------------------------------|------------------------------------|--|
| | Original amount (\$ million) | First Revised amount (\$ million) | Second Revised amount (\$ million) | Comments regarding unused loan funds (C) |
| Subcomponent 1.1: Extension and rehabilitation of transmission substations and construction of new transmission substations under Group 1. | 70.00 | 50.00 | 50.00 | Cost savings from ICB for Group 1. PLN unable to identify additional substation sub-projects under Group 2 to absorb the \$20 million in Group 1 cost savings. |
| Subcomponent 1.2: Extension and rehabilitation of transmission substations and construction of new transmission substations under Group 2. | 255.00 | 109.6 | 87.60 | Reduced scope of works identified by PLN for Group 2, with an estimated cost of only \$87.6 million. |
| IBRD finance | 325.00 | 159.60 | 137.60 | Second partial loan cancellation in amount of \$22.0 million. |
| Counterpart Funding | 21.43 | 21.43 | 21.43 | |
| TOTAL | 346.43 | 181.03 | 159.03 | |

G. Change in Financing Plan

18. Following the cancellation of \$22.0 million from the revised \$159.60 million loan, the revised proposed total project costs will amount to \$159.03 million; of which IBRD finances \$137.60 million and \$21.4 million is Counterpart Funding.

H. Change in Disbursement Estimates

19. The disbursement schedule below has been revised taking into account: (a) actual expenditures to date; (b) the advanced construction progress with the Group 1 sub-projects and estimated completion timeframes; and (b) PLN’s schedule for completing the new Group 2 sub-projects before December 31, 2019.



III. SUMMARY OF CHANGES

| | Changed | Not Changed |
|--|----------------|--------------------|
| Project's Development Objectives | ✓ | |
| Results Framework | ✓ | |
| Components and Cost | ✓ | |
| Cancellations Proposed | ✓ | |
| Reallocation between Disbursement Categories | ✓ | |
| Disbursement Estimates | ✓ | |
| Implementing Agency | | ✓ |
| DDO Status | | ✓ |
| Loan Closing Date(s) | | ✓ |
| Disbursements Arrangements | | ✓ |
| Overall Risk Rating | | ✓ |
| Safeguard Policies Triggered | | ✓ |
| EA category | | ✓ |
| Legal Covenants | | ✓ |
| Institutional Arrangements | | ✓ |
| Financial Management | | ✓ |
| Procurement | | ✓ |
| Implementation Schedule | | ✓ |
| Other Change(s) | | ✓ |
| Economic and Financial Analysis | | ✓ |
| Technical Analysis | | ✓ |
| Social Analysis | | ✓ |
| Environmental Analysis | | ✓ |



IV. DETAILED CHANGE(S)

PROJECT DEVELOPMENT OBJECTIVE

Current PDO

The development objective of the proposed project is to meet growing electricity demand and increase access to electricity in the Project Area through strengthening and expanding the capacity of the power transmission networks in the Project Area in a sustainable manner.

Proposed New PDO

The development objective of the project is to meet growing electricity demand in the Project Area through strengthening and expanding the capacity of the power transmission networks in the Project Area in a sustainable manner.

COMPONENTS

| Current Component Name | Current Cost (US\$M) | Action | Proposed Component Name | Proposed Cost (US\$M) |
|---|----------------------|---------|---|-----------------------|
| Subcomponent 1.1: Extension and rehabilitation of 150 kV and 70/20 kV substations under Group 1 | 50.00 | Revised | Subcomponent 1.1: Extension and rehabilitation of transmission substations and construction of new transmission substations under Group 1 | 50.00 |
| Subcomponent 1.2: Extension and rehabilitation of 150 kV and 70/20 kV substations and Construction of New 150/20 kV Substations under Group 2 | 109.60 | Revised | Subcomponent 1.2: Extension and rehabilitation of transmission substations and construction of new transmission substations under Group 2 | 87.60 |
| TOTAL | 159.60 | | | 137.60 |

CANCELLATIONS

| Ln/Cr/Tf | Status | Currency | Current Amount | Cancellation Amount | Value Date of Cancellation | New Amount | Reason for Cancellation |
|----------------|------------|----------|----------------|---------------------|----------------------------|----------------|--|
| IBRD-82800-001 | Disbursing | USD | 159,600,000.00 | 22,000,000.00 | 01-Oct-2018 | 137,600,000.00 | BORROWER'S REQUEST FOR COUNTRY REASONS |



REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

| | Current Allocation | Actuals + Committed | Proposed Allocation | Financing % (Type Total) | |
|--------------------------------|-----------------------|---|-----------------------|--------------------------|----------|
| | | | | Current | Proposed |
| IBRD-82800-001 Currency: USD | | | | | |
| iLap Category Sequence No: 1 | | Current Expenditure Category: GOODS & WORKS | | | |
| | 159,600,000.00 | 78,780,107.94 | 137,600,000.00 | 100.00 | 100.00 |
| Total | 159,600,000.00 | 78,780,107.94 | 137,600,000.00 | | |

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates
Yes

| Year | Current | Proposed |
|------|---------------|---------------|
| 0000 | 0.00 | 0.00 |
| 2014 | 0.00 | 0.00 |
| 2015 | 4,787,375.20 | 0.00 |
| 2016 | 16,292,289.22 | 4,787,375.20 |
| 2017 | 25,447,336.00 | 24,164,321.20 |
| 2018 | 67,853,500.00 | 12,581,144.52 |
| 2019 | 45,219,499.58 | 66,067,159.08 |
| 2020 | 0.00 | 30,000,000.00 |



Results framework

COUNTRY: Indonesia

Indonesia Second Power Transmission Development Project

Project Development Objectives(s)

The development objective of the proposed project is to meet growing electricity demand and increase access to electricity in the Project Area through strengthening and expanding the capacity of the power transmission networks in the Project Area in a sustainable manner.

Project Development Objective Indicators by Objectives/ Outcomes

| Indicator Name | DLI | Baseline | End Target |
|---|---|-----------|------------|
| Electricity sales growth | | | |
| Electricity Sales in project areas for Group 1 (Gigawatt-hour (GWh)) | | 10,000.00 | 16,000.00 |
| Growth in electricity sales in project areas for Group 2 in Java-Bali (Percentage) | | 100.00 | 117.50 |
| Growth in electricity sales in project areas for Group 2 in East Indonesia (Percentage) | | 100.00 | 120.00 |
| Growth in electricity sales in project areas for Group 2 in West Indonesia (Percentage) | | 100.00 | 120.00 |
| Action: This indicator has been Revised | Rationale: <i>This "Growth in electricity sales in project areas for Group 2 in West Indonesia" indicator is actually unchanged from that approved in the December 2017 project restructure and its end target remains 120% by 31-Dec-2019. That change was not picked up in the Project Portal then, so the Revised flag now is ensure the change is made to the system records now.</i> | | |



Intermediate Results Indicators by Components

| Indicator Name | DLI | Baseline | End Target |
|--|-----|--|--------------|
| Procurement and contract completion | | | |
| Progress in Procurement and Contract Completion - Group 1 (Percentage) | | 0.00 | 100.00 |
| Progress in Procurement and Contract Completion - Group 2 (Percentage) | | 0.00 | 100.00 |
| Commissioned capacity of transformer substations - Group 1 (Kilovolt-Amphere(KVA)) | | 0.00 | 2,010,000.00 |
| Commissioned capacity of transformer substations - Group 2 (Kilovolt-Amphere(KVA)) | | 0.00 | 2,290,000.00 |
| Action: This indicator has been Revised | | Rationale: Reduction in target for commissioned capacity of Group 2 transformer substations from 3,150,000 kVA to 2,229,000 kVA. Correction of units to kVA on end target number, which was mistakenly written as 3150 kVA previously, where it should have been 3150 MVA or 3,150,000 kVA. | |



The World Bank

Indonesia Second Power Transmission Development Project (P123994)
