
CREDIT NUMBER 165 IND

Project Agreement

(Electricity Distribution Project)

BETWEEN

INTERNATIONAL DEVELOPMENT ASSOCIATION

AND

PERUSAHAAN LISTRIK NEGARA

DATED OCTOBER 29, 1969

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AGREEMENT, dated October 29, 1969 between the INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association) and PERUSAHAAN LISTRIK NEGARA (hereinafter called PLN).

WHEREAS by the Development Credit Agreement of even date herewith between Republic of Indonesia (hereinafter called the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to fifteen million dollars (\$15,000,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that the proceeds of the said Credit be made available to PLN and that PLN agree to undertake certain obligations towards the Association as hereinafter in this Project Agreement set forth; and

WHEREAS PLN, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Wherever used in this Project Agreement, unless the context shall otherwise require, the several terms defined in the Development Credit Agreement and in the General Conditions, as so defined, shall have the respective meanings therein set forth.

ARTICLE II**Particular Covenants**

SECTION 2.01. (a) PLN shall carry out the Project with due diligence and efficiency and shall at all times conduct its operations and affairs in accordance with sound engineering, public utility, administrative and financial practices and under the supervision of experienced and competent management.

(b) PLN shall cause all works included in the Project to be constructed by contractors acceptable to the Association and PLN, or pursuant to other arrangements satisfactory to the Association.

(c) Upon request from time to time, PLN shall furnish promptly to the Association the plans, specifications and the construction schedule for the Project, and shall furnish details of any material modifications subsequently made therein, in such detail as the Association shall from time to time request.

SECTION 2.02. (a) PLN shall employ management consultants acceptable to, and on terms and conditions satisfactory to, the Association to

1. assist in the management and operations of PLN;
2. review and make recommendations on the organization and operation of the electric power sector including
 - (i) the adequacy of the Governing Laws for the purpose of PLN's conducting its operations according to the criteria set forth in Section 2.01(a) of this Agreement, including the authority of PLN to determine its own tariffs according to criteria stipulated in such Laws, subject only to appropriate administrative review;

- (ii) the electricity tariff structure, having regard to the cost to PLN of providing services, and PLN's capital requirements; and
 - (iii) employment practices within the power sector;
3. assist PLN in the organization and implementation of a valuation of the fixed assets of PLN;
 4. review, prepare and assist in the institution of appropriate methods and procedures of PLN relating to the following:
 - (i) records, accounting system and financial practices;
 - (ii) system planning and operating techniques;
 - (iii) standards for design, operation and maintenance;
 - (iv) contracting, procurement and inventory practices; and
 - (v) insurance coverage.

(b) PLN undertakes that it will promptly carry out such recommendations of the consultants resulting from their activities referred to in the foregoing paragraph as the Borrower and the Association shall consider appropriate. Recommendations relating to the organization, structure and operations of PLN, including any required consolidation, modification or supplementing of the Governing Laws, shall be implemented within one year after the Effective Date; and those providing for the establishment of a schedule of tariffs and charges pursuant to Section 2.04 of this Agreement, within thirty-two months of such date.

(c) PLN undertakes that the valuation of the fixed assets of PLN shall be completed within twenty months of the Effective Date.

SECTION 2.03. In carrying out the Project, PLN shall employ engineering consultants acceptable to, and on terms and conditions satisfactory to, the Association, for the following purposes:

- (a) reviewing the electricity distribution system of PLN in Djakarta and environs;
- (b) preparing specifications for the equipment, supplies and materials to be procured under the Project;
- (c) assisting PLN in the evaluation of bids, awards of contracts and in the procurement of such goods for the Project; and
- (d) coordinating and supervising the installation and construction work included in the Project.

SECTION 2.04. The revised schedule of electricity tariffs and charges to be implemented as provided in Section 2.02(b) shall set forth tariffs and charges fixed at such levels as should provide PLN with revenue sufficient:

- (a) to cover (i) all operating expenses of PLN, including administration and overhead expenses, maintenance, depreciation and taxes, and (ii) interest on, and to the extent it exceeds depreciation, amortization of, debt; and
- (b) to finance a reasonable portion of PLN's capital expenditures.

Thereafter, unless the Association shall otherwise agree, PLN shall from time to time make such revisions in its schedule of tariffs as shall be necessary to maintain such a volume of revenue, and shall submit such revisions promptly to the Borrower for such administrative review as shall be required under the Governing Laws.

SECTION 2.05. PLN shall (i) maintain or cause to be maintained records adequate to identify the goods and services financed out of the proceeds of the Credit, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of PLN; (ii) enable the Association's representatives to inspect the Project, the goods financed out of the proceeds of the Credit, all other plants, sites, works, property and equipment of PLN and any relevant records and documents; and (iii) furnish to the Association all such information as the Association shall reasonably request concerning the Credit and the maintenance of the service thereof, the expenditure of the proceeds, the Project, and the administration, operations and financial condition of PLN.

SECTION 2.06. (a) The Association and PLN shall cooperate fully to ensure that the purposes of the Credit will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request.

(b) The Association and PLN shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Credit and to the administration, operations and financial condition of PLN. PLN shall promptly inform the Association of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Credit or the performance by PLN of its obligations under this Agreement or which shall increase or threaten to increase materially the estimated cost of the Project.

SECTION 2.07. Except as the Association shall otherwise agree, PLN (i) shall use, or cause to be used, all goods

financed out of the proceeds of the Credit exclusively in the carrying out of the Project and (ii) shall obtain title to all such goods free and clear of all encumbrances.

SECTION 2.08. (a) PLN shall take out and maintain with responsible insurers, or make other provisions, including self-insurance, satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with sound public utility practices, or as shall be otherwise agreed by the Association.

(b) Without limiting the generality of the foregoing, PLN undertakes to insure the goods financed out of the proceeds of the Credit against marine, transit and other hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation; and for such insurance any indemnity shall be payable in a currency freely usable by PLN to replace or repair such goods.

SECTION 2.09. PLN shall, commencing with the accounts relating to the first full fiscal year of PLN following the valuation of assets referred to in Section 2.02(b) of this Agreement, have its accounts audited annually by independent auditors acceptable to the Association, and shall transmit to the Association not later than four months after the end of each of PLN's fiscal years, certified copies of its balance sheet and statement of profit and loss and the auditors' report thereon.

SECTION 2.10. (a) PLN shall at all times operate and maintain its plants, equipment and property, and from time to time make all necessary renewals and repairs thereof, and plan its future expansion and maintain its financial position, all in accordance with sound engineering, public utility, administrative and financial practices.

(b) PLN shall maintain its existence and right to carry on operations and shall, except as the Association may otherwise agree in writing, maintain and renew all rights, powers, privileges and franchises owned or held by it and necessary or useful in the conduct of its business.

(c) Except as the Association shall otherwise agree, PLN shall not sell, lease, transfer or assign any of its property or assets, except in the normal course of its business.

(d) PLN shall take all action required on its part to ensure that all customs duties and other charges, if any, imposed on the goods imported for the Project are paid promptly.

ARTICLE III

Effective Date; Termination

SECTION 3.01. This Project Agreement shall come into force and effect on the Effective Date.

SECTION 3.02. This Project Agreement and all of the obligations of the parties hereunder shall forthwith terminate on a date twenty-five years from the date of this Agreement or upon termination of the Development Credit Agreement, whichever is earlier.

ARTICLE IV

Miscellaneous Provisions

SECTION 4.01. Any notice, demand or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable or radio-

caused this Project Agreement to be signed in their respective names and to be delivered in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ J. BURKE KNAPP
Vice President

PERUSAHAAN LISTRIK NEGARA

By /s/ AMIR HOESEIN ABDILLAH
Authorized Representative