

**U.S. Position on ADB's
Rantau Dedap Geothermal Power Project (Phase 2) in Indonesia**
March 23, 2018

The United States appreciates ADB's close work with the client to prepare this complex Environment Category A project. The United States, in accordance with legislative mandates, must abstain on this project for reasons that are laid out below, but the United States wishes to acknowledge staff's significant environmental safeguards work, including after the release of the draft environmental and social impact assessment (ESIA) over a year ago. The improvements made in the intervening period are well-documented in the compliance audits and demonstrate ADB value addition on environmental safeguards for complex and high-risk Category A projects.

Indonesia's power infrastructure and supply have struggled to keep up with the country's growth and energy access remains a cornerstone of Indonesia's inclusive growth strategy. This project will contribute to Indonesia's goals to expand geothermal power generation from just under 1,900 MW in 2017 to around 7,250 MW by 2025, and to increase the share of renewables in its energy mix to 33 percent. With both sovereign and non-sovereign support to the energy sector, ADB has been a reliable partner to Indonesia in meeting these laudable goals with robust safeguard standards and the capacity to implement these standards.

ADB implemented a \$50 million exploratory loan fully financed through the Clean Technology Fund (CTF) in 2014 to identify potential geothermal resources. That effort has now led to the development of these geothermal resources in Phase 2. The project entails the construction of a power generation station, six drilling stations and pipes, and access roads. PLN, Indonesia's state-owned power utility, is constructing the 39-km 150-kv transmission line to feed the power to the Lahat grid. The project's construction work has already commenced.

The project is rated Category A for environment because of the scope of generation facility construction and the associated transmission lines in the South Sumatra Province. Specifically, the project is sited along the Bukit Jambul Gunung Patah Protection Forest, a critical habitat that is home to at least eight endangered species on the International Union for Conservation of Nature list. Accordingly, the project includes a biodiversity action plan, part of a \$5.5 million biodiversity offset strategy to avoid any adverse impact on critical habitat.

The project includes an ESIA, a critical habitat assessment, and a biodiversity action plan, which were first released in March 2017. Since that time, the ESIA and biodiversity action plan were strengthened and re-released in February 2018. While it is best practice to update ESIA's for new information, the United States is required to evaluate the documentation that was available 120 days prior to the Board date.

There are several areas where the 2017 ESIA fell short of what is expected, as well as the stringent environmental tests the United States applies. First, the extent of the baseline data on many of the affected species collected before construction commenced under Phase 1 resulted in a highly uncertain understanding of biodiversity prior to construction. While the updated 2018

ESIA maps the occurrence of endangered species and has clear criteria for “No Net Loss,” the United States wants to underscore the importance placed on having strong data when working in a critical habitat and when a biodiversity offset is being considered. Second, while the 2018 compliance audit found that the 2018 cumulative impacts assessment is adequate, the United States is concerned that the 2017 ESIA did not go far enough in measuring cumulative impact or fragmentation impact on habitat. There are critically endangered species in the area, and a thorough understanding of cumulative impacts is fundamental to ensuring that the project poses no harm to them. Third, the 2017 ESIA does not include an analysis for the associated 39-km transmission line because PLN is still in the process of preparing the ESIA for this portion of the project. The gaps on baseline data and associated facilities render the project inconsistent with U.S. legislative requirements. Experts have provided suggestions on how to address some of these issues, but, broadly, monitoring of the endangered and critically-endangered species in the region must continue and be expertly verified. Establishing a biodiversity offset is an inherently difficult undertaking, requiring rigorous analysis, consultation, data, and funding.

The United States is pleased that the alternatives analysis considers other energy sources, sites, and access routes, as well as the no-project alternative. On resettlement, for which the project is rated Category B, the 2018 social safeguard compliance audit confirmed that no physical displacement was required, all households were compensated, and no outstanding grievances were in place. The audit also notes livelihood compensation is compliant with bank safeguards and that the existing resettlement policy framework is adequate to address resettlement impacts.

With these comments, the United States abstains on the the project.