

Building Credible and Independent Water Regulator and Reforming Tariffs for Better Water Services



PALYJA

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Bali conference on 29th Aug – 3rd Sep, 2005

A Subsidiary of SUEZ ENVIRONNEMENT

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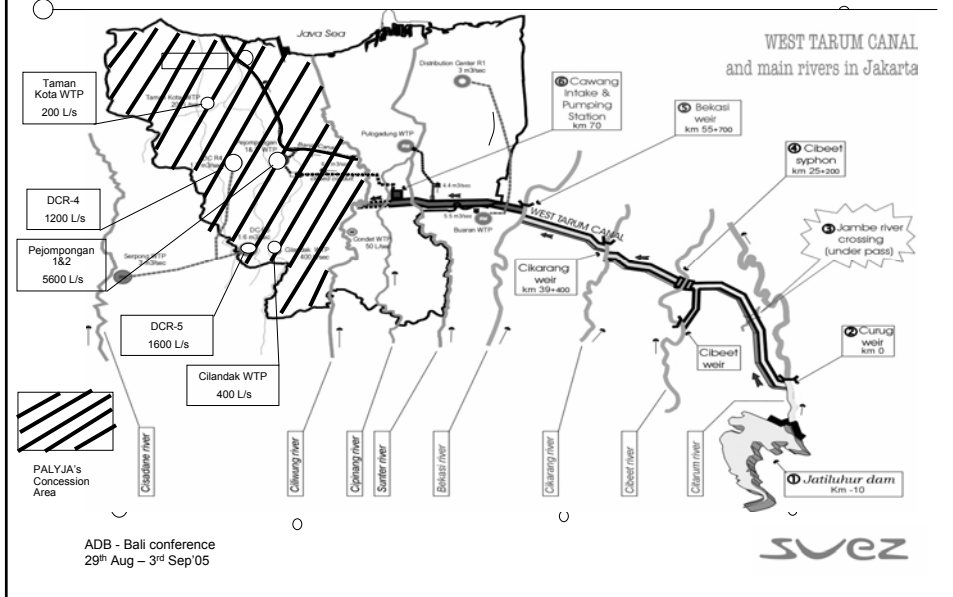
PRESENTATION OF PALYJA AND OF THE CONCESSION CONTRACT

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PALYJA's Concession in West DKI Jakarta



PALYJA in a Snapshot

- 25 years concession contract for production and distribution of clean water in West Jakarta (5 million inhabitants)
- Contract signed in 1997 and effective since the 1st of February 1998
- Production capacity of 5.8 m³/s
- 5,000 Km of distribution networks
- 340,000 service connections equivalent to 2.5 million inhabitants.
- 1,340 employees (early 2005) of which 950 are “Seconded”
- Annual revenue in 2004 of 560 Billion IDR.
- PALYJA is one of the largest water service provider in the Republic of Indonesia (total 300 PDAMs).

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Contractual Performance Objectives

Technical Targets

- Volume of water billed.
- Water production.
- Unaccounted for water.
- Number of connections.
- Service coverage ratio.

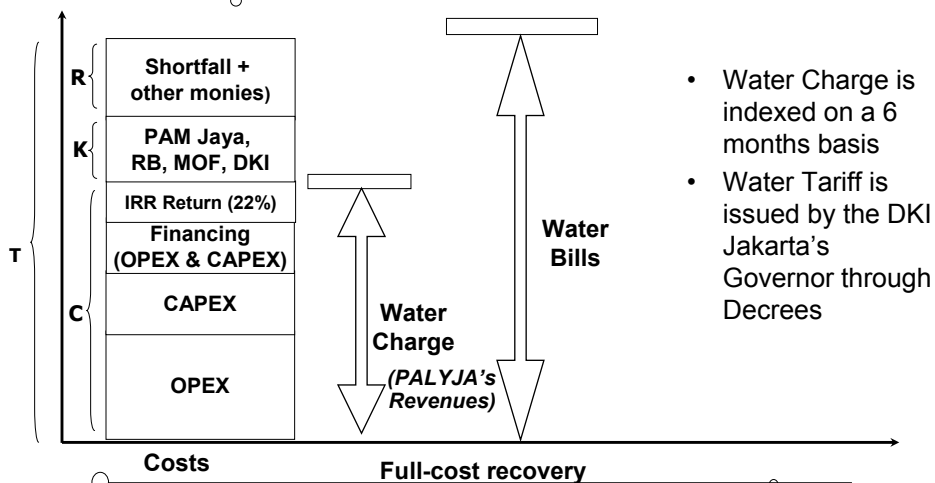
Service Standards

- Quality of water supplied to the customers.
- Pressure at customers connection level.
- Customer care.
- Routine interruption in distribution network.
- New connection.

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Balance of Economical Costs



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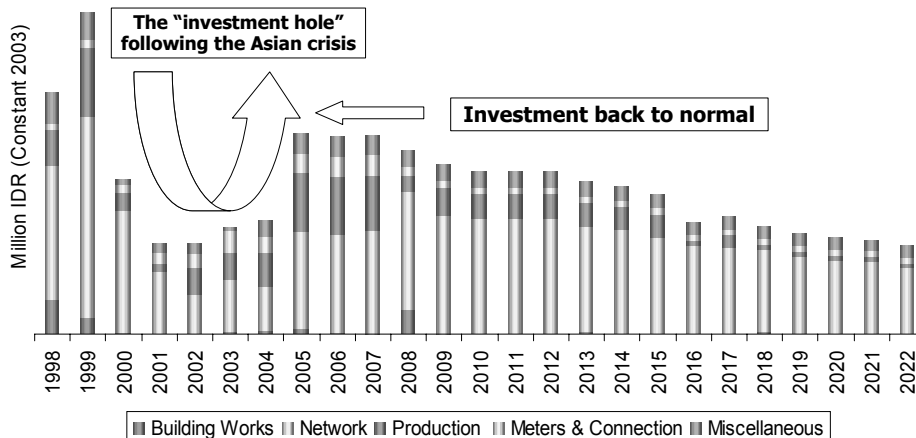
KEY ACHIEVEMENTS OF PALYJA IN 7 YEARS OF OPERATION

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Investments - Past and Future



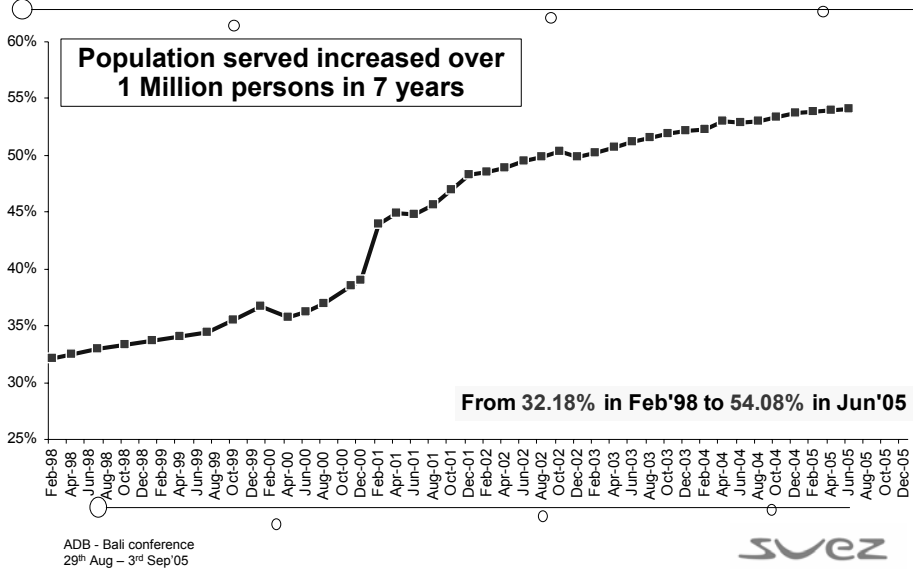
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**Cumulative Investment 1998-2004
around 800 BIDR (USD 80 M)**

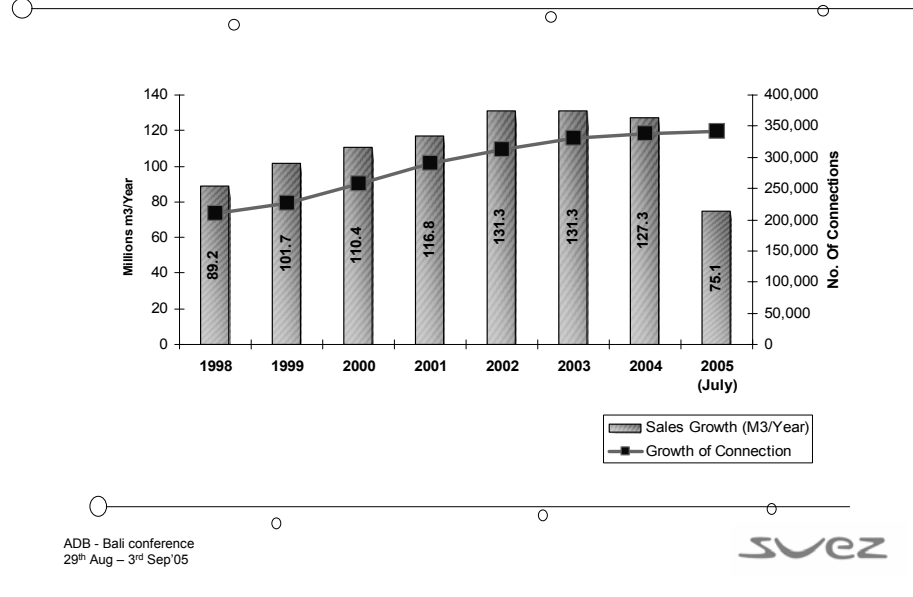




Service Coverage Ratio

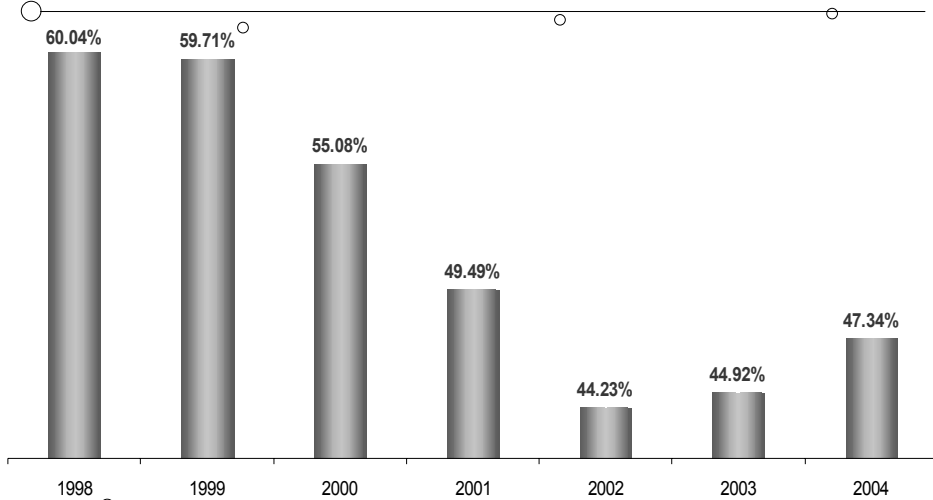


Growth of Sales and Growth of New Connections





Reduction of Water Loss



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WATER SUPPLY TO URBAN POOR COMMUNITIES

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Tariff Structure

(1st August 2005)

Category	Description	Tariff (IDR/m ³)			Sales June'05 (m ³)
		0-10 m ³	11-20 m ³	>20 m ³	
K1	Social customers	900	900	900	657,534
K2	Low income domestic	900	900	1,350	1,620,853
K3A	Middle class	3,000	3,900	4,550	1,846,743
K3B	Upper class and Small business	4,100	5,000	6,200	1,501,701
K4A		5,700	6,800	8,150	2,631,501
K4B	Non-Domestic	10,400	10,400	10,400	2,842,995

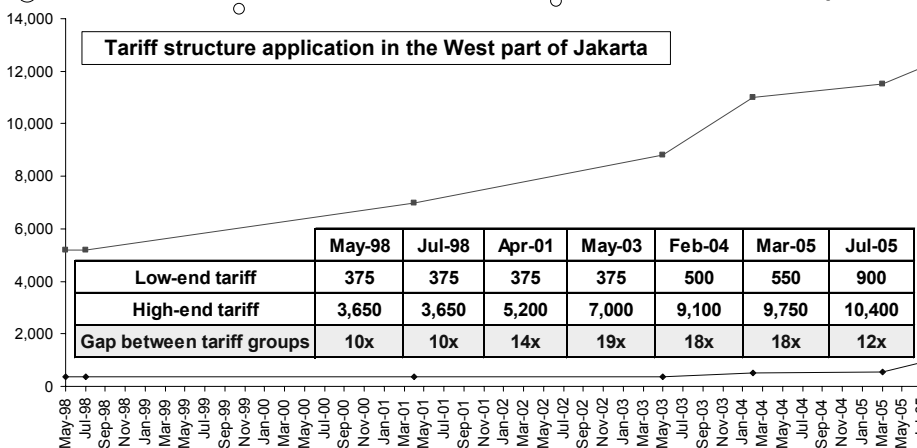
Note : The above average tariff is based on volumetric calculation only and does not include fixed costs

PALYJA's Average water tariff (based on consumption of Mar-Jun'05) will be 6,407.42 IDR/m³ compared with 5,862 IDR/m³ for the period Jan-May 05 with the previous tariff grid

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Level of Cross Subsidy in Tariff Setting

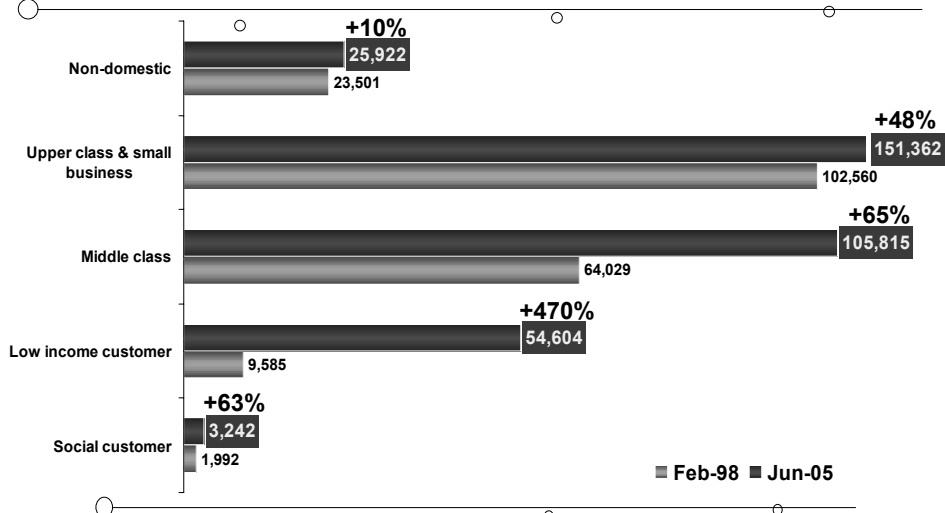


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Growth of Customer 1998 vs. 2005



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Public Hydrants & Water Terminals



Water distribution by pushcarts from Public Hydrants.



Water terminals operate in areas unconnected to network pipeline.

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BONDS ISSUANCE

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Historical Movement IDR vs. USD



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Elimination of the Currency Risk

- **Nature of the risk**
 - PALYJA's USD debt amounted to about 61 million
 - Due to the structure of PALYJA business (Revenues in IDR and Debt in USD), a variation in the exchange rate affected the availability of cash flow to service the project while impacting the Water Charge.
- **Risk mitigation**
 - Eliminate the Currency Risk (match PALYJA's Debt to the Revenue) that will benefit to the population of Jakarta
 - Refinancing PALYJA's US\$ debt through issuance of local bonds as PALYJA offers low risk & stability and local market is favorable .
 - Multi-tranches, with various maturities from 2 to 7 years
 - Amount : IDR 650 Billion (to refinance current USD debt)
 - Fixed interest rate : 12.4 to 13.9 %

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Key milestones of the Bonds Issuance process

- Legal and financial audits
- PALYJA rated **A-** for the period 13/05/05 up to 1/06/06
 - Single A Minus; Stable Outlook
- Prospectus published in the press on 18/05
- Public Exposé took place on 26/05/05
- Book building early June 2005
- BAPEPAM (Stock Exchange Regulatory Body) final authorization on June 30th 2005
- Payment by the joint lead underwriters of IDR 650 Billion on July 12th 2005
- Late July 2005, re-imburement of the USD loan from European Investment Bank Ltd and of a syndicated loan

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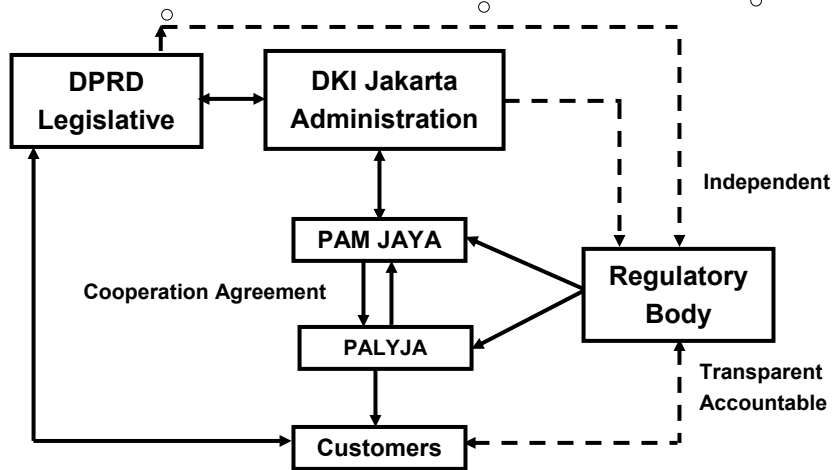


CONTRACT REGULATION

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Institutional Mapping



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Regulatory Body History

- Originally, the Initial Cooperation Agreement signed in 1997 had no provision for a third party regulation
- RB first implemented as a Tariff Committee by the DKI Jakarta early 2001 to investigate tariff increase
- Fully created by the Restated Cooperation Agreement dated 22nd October 2001 (e.g. Article 51) setting up its functions and powers
- Regulatory Body's role strengthened through the DKI Jakarta Governor's Decree no. 54/2005 dated 11th May 2005
- New RB's team appointed early 2005 through a transparent process by a joint commission (DKI, PAM, operators, consultant)

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Regulatory Body Mission Statement

- To maintain the implementation of the Cooperation Agreement by taking into account the rights and obligations and the principles of interdependence, fairness, consistency, transparency and accountability accordingly and to be able to justify them to the public.
- To maintain the implementation of drinking water supply and distribution which meet the standard of quality, quantity and continuity, economic and affordable to the people.

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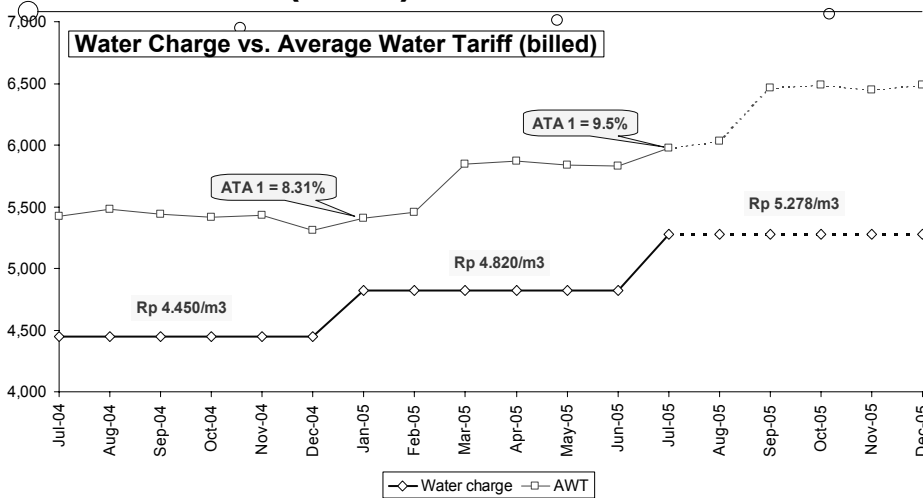
Positive contribution of Regulatory Body to Date

- Facilitating the negotiation of the 5 year rebasing between PAM Jaya and the concessionaire.
- Driving force behind the definition and implementation of the Automatic Tariff Adjustment.
- Taking the lead in evaluating the tariff increase and presenting the different options to the Government.
- Representing the interest of the customers through active socialization with community representatives and consumers groups.

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Automatic Tariff Adjustment (ATA) Mechanism



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CONCLUSION

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Conclusion

- The Cooperation Agreement allowed PALYJA to withstand the economical and socio-political crisis in Indonesia from 1998 to 2000 onwards
- The quality of the water services and its access to the population were significantly improved over the last 8 years in spite of the hardship faced by Indonesia
- The bonds issuance allowed to eliminate the currency risk that was affecting PALYJA's customers and will allow bondholders to become new stakeholders of the Concession.
- The contribution of the Regulatory Body has been a key factor of success in completing the 5 years re-basing and implementing the Automatic Tariff Adjustment that guarantees the contract sustainability
- The Regulatory Body' role will continue to be essential in the future

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