



# Legal Aspects of Extension of Time in PLN Transmission Construction Project in Central Sumatra

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## ABSTRACT

**Objective** -This study aims to analyze the legal and contractual aspects related to the dispute over the extension of time in the PLN transmission project in Central Sumatra. This study focuses on the process, obstacles, and challenges faced in resolving the dispute.

**Methodology/Approach**– The study uses a case study approach by analyzing contract documents, mediation processes, and related agreements between PLN and contractors. This study also examines the main elements of contracts within the Engineering, Procurement, and Construction (EPC) framework and evaluates the mediation process facilitated by the Financial and Development Supervisory Agency (BPKP). **Findings**– The results of the study showed that the delay in project completion, which was mostly caused by contractor inefficiency and external factors, resulted in disputes related to time extensions. Although contractors submitted justifications such as design changes, additional work, and external constraints, these reasons were considered inadequate by PLN. Mediation efforts provided a partial solution but also revealed systemic problems in contract management and dispute resolution mechanisms. **Novelty/Benefits**– This study contributes to the understanding of time extension disputes in large-scale infrastructure projects, and offers insights into effective dispute resolution strategies. The findings can serve as practical guidance for stakeholders in managing similar conflicts in the future while maintaining professional relationships.

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## INTRODUCTION

The development of electricity infrastructure in Indonesia is currently experiencing rapid development. PT PLN (Persero), as a state-owned electricity company, has an important role in planning and implementing electricity projects that require a long implementation period. The development of this long-term electricity system is driven by PLN's need to have an efficient investment plan, where this project is designed to meet the increasing electricity needs along with economic growth.

The Central Sumatra Main Development Unit (UIP) was tasked with implementing the construction of electricity infrastructure that produces electricity networks and substations with the right cost, quality, and time. Although the physical work is progressing according to plan, the project is facing several contractual constraints that need to be resolved. The PLN transmission construction project in Central Sumatra aims to:

1. Providing a power evacuation route from low-cost generators in the Southern and Central Sumatra Subsystems to load centers in the Northern Sumatra Subsystem.
2. Addressing debottlenecking in 275 kV transmission on the West side of Sumatra due to optimization of cheap energy in the Central and South Sumatra Subsystems.
3. Reducing the Cost of Providing Energy (BPP).
4. Improving the reliability of the electricity system in Sumatra.

If this project is not implemented, there will be significant impacts, including:

1. Debottlenecking on 150 kV and 275 kV transmission in the Central and Southern Sumatra Subsystem.
2. Increase in BPP Sumatra.

Based on these objectives, the contract used in this project is an EPC (Engineering, Procurement, Construction) contract, where providers of goods and services are selected based on their competence in three main aspects: design, material procurement, and civil and electrical construction work.

The contract between PLN and the contractor has a duration of 36 months starting on May 23, 2016 and ending on May 23, 2019, with the scope of work covering design, licensing, land acquisition, construction, and commissioning. However, the transmission project experienced a 42-month delay, where the contractor failed to fulfill its obligations in accordance with the Side Agreement regarding credit installment payments and VAT.

In this project, a dispute arose regarding the contractual clause for extending the implementation time. The contractor was unable to complete the work within the agreed time frame and applied for an extension to avoid a fine for delay. The contractor submitted contractual arguments to obtain an extension of the implementation time, citing design changes, additional work, delays caused by PLN, and problems beyond the contractor's control. However, the application was not approved because the cause of the delay was considered entirely the contractor's responsibility. This dispute was then resolved through mediation facilitated by the Financial and Development Supervisory Agency (BPKP).

This study aims to analyze the process of resolving disputes over time extensions in construction projects, including identifying the main obstacles and challenges faced. The results of the study are expected to be a strategic guide in resolving similar conflicts in the future, as well as contributing to maintaining constructive professional relationships between the disputing parties.

## LITERATURE REVIEW

In the construction world, the legal aspect plays a very important role in regulating the relationship between the employer and the contractor. One important element that is often a source of dispute is the clause regarding the extension of time in the construction contract. Large projects, such as the construction of electricity infrastructure, have the risk of delays that cannot always be avoided. Therefore, this extension clause is designed to provide space for contractors to overcome delays caused by external and internal factors.

### **Construction Contracts in Indonesia**

In Indonesia, construction contracts are regulated by various laws and regulations governing the procurement of goods and services, including Presidential Regulation No. 16 of 2018 concerning Government Procurement of Goods/Services. The contract used in the PLN transmission project in Central Sumatra is an EPC (Engineering, Procurement, and Construction) contract, which has a higher complexity compared to a lump sum or fixed price contract. In an EPC contract, the goods and services provider must be responsible for three main elements, namely design, material procurement, and civil and electrical construction work. The clauses contained in this contract often include provisions related to the project implementation time and extensions to anticipate delays caused by certain factors such as design changes, force majeure, or problems beyond the contractor's control.

Widodo (2019) highlighted the importance of mediation as an effective method in resolving disputes over time extensions, especially in large-scale projects such as PLN transmission projects, which involve many parties and the complexity of EPC contracts. One way is to conduct mediation, which is an alternative dispute resolution without going through the courts. Mediation can help both parties reach a fair agreement and minimize losses arising from delays.<sup>1</sup>

### **Extension of Time in Construction Projects**

Extension of time (EOT) is additional time given to a contractor to complete a project due to a special event or cause. Most construction contracts today contain detailed extension of time provisions that specify the event or cause that entitles the contractor to an extension of time and the procedural requirements that are essential to the implementation of these provisions. Typical grounds for extension of time are adverse weather conditions, additional work, delays by the service user in handing over control of the land to the contractor, obstacles by other parties in the field and obstructive actions or breaches of contract by the service user or his/her representative. An extension of time reduces, in whole or in part, the contractor's potential for penalties due to delays in completing the work. As a result, a new completion date must be determined and new penalties will be imposed if there is a delay again after the new completion date. An extension of time may be granted if the delay that occurs is categorized as an excusable delay.<sup>2</sup>

In the context of PLN transmission projects, this clause is important because the timeliness of project completion greatly affects the electricity system in Sumatra. However, disputes often arise when contractors apply for an extension of time, and the employer does not approve the claim on the grounds that the delay was caused by factors that are entirely the contractor's responsibility.

According to Sulistyawati (2021), it was found that disputes related to time extensions are often caused by differences in interpretation of the contract clauses governing time extensions. Dispute resolution through mediation or arbitration is one effective way to resolve this problem, because it can provide space for the disputing parties to dialogue with each other and reach a better agreement.<sup>3</sup>

One example of the application of dispute resolution in a large construction project is the PLN transmission project in Central Sumatra. This project was delayed for 42 months, and the contractor filed a claim for an extension of time for reasons that were considered not entirely valid by PLN. As an alternative dispute resolution, Hadi (2020) explained that mediation by an independent third party, such as the Financial and Development Supervisory Agency (BPKP), can be an effective solution to resolve the dispute. BPKP plays a role in providing objective assessments and helping both parties reach an agreement without damaging the existing working relationship.<sup>4</sup>

According to Sami'an (2024), construction claims refer to demands filed by one party in a construction project against another party, usually related to changes in scope, scheduling, costs, or other issues that arise during the construction process. Construction claims often require legal or arbitration settlement to resolve them. <sup>5</sup>

In construction projects, disputes related to claims for extension of time often require resolution through established mechanisms, such as mediation or arbitration, to avoid negative impacts on project sustainability.

### **Dispute Resolution in Construction Contracts**

Construction dispute resolution in Indonesia, including those related to claims for extension of time, is regulated in various regulations. One mechanism that is often used is mediation, which according to Tjandra (2018) has proven effective because it can reduce costs, time, and the risk of conflict escalation. In the context of the PLN transmission project, mediation by an independent party such as the Financial and Development Supervisory Agency (BPKP) plays an important role in maintaining professional relations between the disputing parties. Mediation also ensures that both parties can maintain good professional relations, even if there is a dispute in the implementation of the project.<sup>6</sup>

## **METHOD**

This study uses a normative legal method, which focuses on the analysis of legal norms contained in laws and regulations and construction contract documents, especially in the context of the PLN Transmission Development project in Sumatra. This normative approach was chosen because this study focuses on the analysis of the contents of the contract and related legal regulations, without conducting direct observation of the project implementation. This approach allows the identification of weaknesses in contract law while offering solutions based on existing legal theories and regulations. In addition, this study also involves an empirical study of the PLN transmission case in Central Sumatra to strengthen the normative analysis. This study uses several data sources to provide a comprehensive analysis of the legal issues in the PLN transmission contract in Central Sumatra.

### **Research Approach**

#### **1. Conceptual Approach**

This approach is used to analyze legal theories, including the principle of *pacta sunt servanda*, the principle of good faith, and contract law. This approach provides theoretical understanding to develop a framework for resolving disputes over unapproved extensions of time.

#### **2. Case Approach**

A case study on the PLN Transmission Project in Central Sumatra is used to identify legal issues, obstacles to contract implementation, and their potential impacts on project sustainability.

### **Data collection technique**

#### **1. Document Study**

Data was obtained through a literature review, such as the PLN Transmission Development Project Contract in Central Sumatra between PLN and the Contractor, Contract Amendment Documents, and Meeting Minutes.

#### **2. Literature Study**

Additional data was collected from relevant journals, books, and scientific articles to support the normative analysis.

### **Data Analysis Techniques**

#### **1. Identify Legal Problems**

Legal issues arising from the non-approval of the extension of time are analyzed based on documents and regulations.

#### **2. Regulatory Analysis**

Regulations relating to contracts and principles of construction law are interpreted to understand the legal position of each party.

**3. Evaluation of Alternative Solutions**

Alternative dispute resolution options, such as mediation or arbitration, are evaluated to determine the best mechanism for maintaining working relationships and resolving disputes.

**RESULT AND DISCUSSION**

In this context, the Contractor is working on a PLN transmission project in Central Sumatra with a duration of 36 months since the effective date of the contract on May 23, 2016 and ending on May 23, 2019, with the scope of work consisting of: design, licensing, land acquisition and ROW, construction and commissioning with construction funding sources of 70% Banking Syndication and 30% Contractor Equity and APLN funding sources for Land Acquisition and ROW.

The analysis in this study was conducted systematically to identify legal issues in the PLN transmission construction project contract in Central Sumatra and to conduct a study of relevant regulations. The focus is on the dispute resolution mechanism.

**I. Analysis of PLN Transmission Contract Clauses in Sumatra**

Table 1. Contract Clause Analysis

<b>Basis for Proposed Extension of Time</b>	<b>Basis of Contract</b>
Termination of Work by another Company in Jambi	<ul style="list-style-type: none"> <li>Referring to Article 1 of the Agreement on the Scope of Work and Source of Funds, it is stated that the scope of work includes survey work, design, licensing, land acquisition for tower sites and Right of Way compensation.</li> <li>Referring to Book A CHAPTER I Instructions to Prospective Providers of Goods/Services point 1.2.2 Description of Work which states, "Land acquisition for tower sites and compensation for planting and buildings (ROW) as well as compensation for access roads are carried out in accordance with applicable laws and regulations."</li> </ul>
Weather Conditions (Flood)	<ul style="list-style-type: none"> <li>Referring to Article 10 of the agreement regarding Force Majeure, it is stated that in the event of force majeure, the Second Party is required to notify the First Party in writing no later than 3x24 hours from the time of the incident in question. If within the time period as referred to, the Second Party does not notify the existence of the force majeure event, then the delay in handing over the work is not considered a force majeure event and the notification of the force majeure event must be accompanied by a statement from the authorized party.</li> </ul>
Community Demands in Production Forest Areas	<ul style="list-style-type: none"> <li>Referring to Article 1 of the Agreement on the Scope of Work and Source of Funds, it is stated that the scope of work includes survey work, design, licensing, land acquisition for tower sites</li> </ul>

	<p>and Right of Way compensation.</p> <ul style="list-style-type: none"><li>Referring to Book A CHAPTER I Instructions to Prospective Providers of Goods/Services point 1.2.2 Description of Work which states, "The acquisition of land for tower sites and compensation for planting and buildings (ROW) as well as compensation for access roads are carried out in accordance with applicable laws and regulations.</li></ul>
Implementation of PPKM	<ul style="list-style-type: none"><li>The implementation of PPKM starts on April 17, 2020 (PSBB Pekanbaru City), and in other districts it starts on May 12, 2020.</li><li>There is no implementation of PSBB at the work location by the local government.</li><li>In accordance with RIAU GOVERNOR Regulation No. 27 of 2020 PPKM PSBB Guidelines Article 10 paragraph 1b and 1d, PSBB Exceptions with the category of National Strategic Project Implementation (PSN)</li></ul>

The Contractor's failure to fulfill contractual obligations ultimately resulted in a Default on September 18, 2020 as stipulated in the contract. The stages of the warning letter and warning letter before the Default is determined include:

1. Letter of warning regarding completion of 500 kV transmission dated August 28, 2020
2. First Warning Letter (SP-1) dated August 28, 2020
3. Second Warning Letter (SP-2) dated September 16, 2020

A Letter of Default is a form of final or third warning, where the Contractor is deemed to have failed to fulfill his obligations.

## II. Impact of Violation

The completion of the PLN Transmission work in Sumatra experienced a delay of 42 months and the Contractor defaulted in fulfilling its obligations in accordance with the Side Agreement for payment of credit installments and VAT for the following reasons:

- a. The Contractor was unable to complete the work according to the agreed time duration of 36 months, resulting in the postponement of the take-over date, transfer of credit for the loan for a portion of 70% of the funding from the Contractor to PLN as of December 31, 2019, PLN had to pay VAT early, and the Contractor submitted a request for Extension of Time (EoT) to avoid late fines (Liquidated Damages/ LD);
- b. There has been no determination of the completion date of the work (Taking Over Certificate/ TOC) which will affect the party that bears the extension interest and other financial consequences; and

- c. There is additional work (Variation Order/ VO) that has been reviewed by BPKP and has become an amendment (A02/2019) that cannot be paid in full, it is necessary to determine the completion date of the work (Taking Over Certificate/ TOC), the amount of potential LD and financial charges that are the responsibility of the Contractor.

### **III. Alternative Solutions**

There are several non-litigation methods used to resolve construction disputes, including:

- a. Negotiation
- b. Mediation
- c. Conciliation
- d. Arbitration
- e. Adjudication
- f. Dispute Board (Dispute Resolution Board)
- g. Expert Assessment (Expert Determination)

### **IV. Selected solution**

PLN and the Contractor agreed to mediate in resolving the dispute and the results or decisions obtained from the mediation by the Financial and Development Supervisory Agency (BPKP). This agreement was conveyed directly through a meeting on October 21, 2022, in the discussion of the follow-up to the plan to discuss the settlement of the dispute. Thus, the author is of the opinion that the settlement of disputes in the 2017 Construction Services Law is still on the right track. The settlement of construction disputes is directed outside the court (non-litigation) with the aim of achieving a "win-win solution" The 2017 Construction Services Law contains an article that authorizes the Government to encourage the use of Alternative Dispute Resolution (alternative dispute resolution) for the implementation of construction services outside the court (non-litigation).

### **V. Relevant Theoretical Framework and Legal Principles**

#### **a. The Treaty of Our Lord**

The principle of *pacta sunt servanda* is a basic principle in contract law which states that every agreement made legally applies as a law for the parties who make it (Article 1338 of the Civil Code).<sup>7</sup> In this context, the contractor failed to fulfill its obligations regarding the extension of the work implementation time. Failure to comply with the terms of the contract caused significant losses for PLN, including delays in the completion of the electricity transmission project in Central Sumatra. This principle emphasizes the importance of complying with the contents of the contract to maintain trust and the sustainability of the working relationship.<sup>8</sup>

#### **b. Principle of Good Faith**

The principle of good faith (Article 1338 paragraph 3 of the Civil Code) requires the parties to an agreement to act honestly and support each other in achieving the objectives of the agreement.<sup>9</sup> This principle is reflected in the efforts of PLN and the contractor to find a solution to the project delay through a consensus meeting and mediation on a certain date.<sup>10</sup> Even though there was a breach of contract, both parties tried to maintain a professional relationship by continuing to prioritize solutions for the sustainability of the project. This shows the importance of maintaining trust and focus on the objectives of the project, even though there is disagreement in the implementation of the contract.

**c. Principle of Proportionality in Dispute Resolution**

The principle of proportionality refers to the balance between the rights and obligations of the parties in a contract, as well as fair and equitable dispute resolution.<sup>11</sup> In this case, PLN did not agree to the extension of time requested by the contractor. However, the dispute resolution step through mediation facilitated by the Financial and Development Supervisory Agency (BPKP) was considered a proportional action.<sup>12</sup> This approach reflects the desire to resolve the problem without worsening the situation or relationship between the two parties.

**d. Legal studies**

Legally, violations committed by contractors have legal consequences in accordance with Article 1243 of the Civil Code, which states that a party in default can be asked to compensate for losses after an official warning (summons).<sup>13</sup> In this case, the contractor is considered to be in default because he failed to complete the project within the specified time, even though the reasons given by the contractor are considered not strong enough to justify the delay.<sup>14</sup>

**e. Application and Implications**

As an application of existing contract theory and legal principles, PLN takes steps based on:

1. *The promise of our service*, to ensure the contractor is held accountable for breach of contract.
2. The principle of good faith, by keeping space open for discussion and mediation to find the best solution.
3. The principle of proportionality, by using mediation as an efficient dispute resolution step and maintaining professional relations between the parties.<sup>15</sup>

The application of these principles provides a solid foundation for fair dispute resolution. The alternative dispute resolution through mediation by BPKP has proven to be able to speed up the process without having to involve longer legal mechanisms, such as arbitration or litigation.<sup>16</sup>

## CONCLUSION

This study analyzes the legal issues arising in the PLN transmission construction project contract in Central Sumatra, especially related to the extension of the project implementation period and dispute resolution mechanisms. Based on the results of the analysis of the contract clauses and applicable regulations, it can be concluded that:

1. **Extra time:** The extension of the project time proposed by the contractor could not be approved by PLN, even though there were several external factors such as work stoppages by other companies in Jambi, bad weather conditions (floods), and community demands that affected land acquisition. This shows the importance of a deep understanding of the force majeure provisions in the contract and the obligation to provide timely notification.

2. **Default:** The delay that occurred resulted in a breach of contract (default) by the contractor, which was reflected through the stages of warning letters and warnings before the contractor was declared in default. This had an impact on the delay in project completion, credit transfer, and financial consequences that must be borne by PLN.

3. **Dispute Resolution:** Based on relevant contract law principles, such as *pacta sunt servanda*, good faith, and proportionality, the project dispute resolution was conducted through mediation facilitated by the Financial and Development Supervisory Agency (BPKP). This non-litigation dispute resolution succeeded in providing a fair and efficient solution, with the aim of achieving a "win-win solution" for both parties.

4. **Legal and Financial Implications:** Legal implications of a breach of contract by the contractor in the form of an obligation to compensate for losses in accordance with the provisions of the Civil Code. Financially, this delay resulted in PLN having to pay VAT early and divert the payment of extension interest to the contractor. This emphasizes the importance of continuing contractual relationships based on clear and fair provisions. Overall, this study shows that construction dispute resolution should be carried out through alternative approaches such as mediation, which are in accordance with the principles of the 2017 Construction Services Law, to ensure that the relationship between the provider and recipient of work remains professional and does not harm any party.

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