

Indonesia Renewable Energy Update: Indonesia’s National Energy Policy and Fostering Renewable Energy Development

Eight years ago, the Government of Indonesia (“**GOI**”) issued Government Regulation No. 79 of 2014, dated October 17, 2014, regarding National Energy Policy (“**NEP**”), with the aim of achieving an energy mix of a minimum 23% renewable energy and a maximum 30% coal by 2025. According to Indonesia Energy Transition Outlook 2022, from the Institute for Essential Services Reform, Indonesia is still well short of this goal, with renewable energy making up just 11.2% of the primary energy mix. However, the GOI further declared its commitment to boost renewable energy development in 2021, at the 26th Conference of the Parties of the United Nations Framework Convention on Climate Change (“**COP 26 UNFCCC**”).

When the NEP was enacted, there was no clear regulatory framework on how the energy mix target would be achieved. Now the GOI has issued Presidential Regulation No. 112 of 2022, dated September 13, 2022, regarding the Acceleration of Renewable Energy Development for Electricity Supply (“**RE PR**”), which sets in stone the energy transition strategy in Indonesia. Besides an energy transition strategy, RE PR also contains provisions on (i) tendering for renewable projects, (ii) tariff mechanisms, and (iii) incentives provided for renewable energy projects.

We discuss key provisions of RE PR and the implications of this regulation in the first of a planned regular feature called Indonesia Renewable Energy Update.

Energy Transition

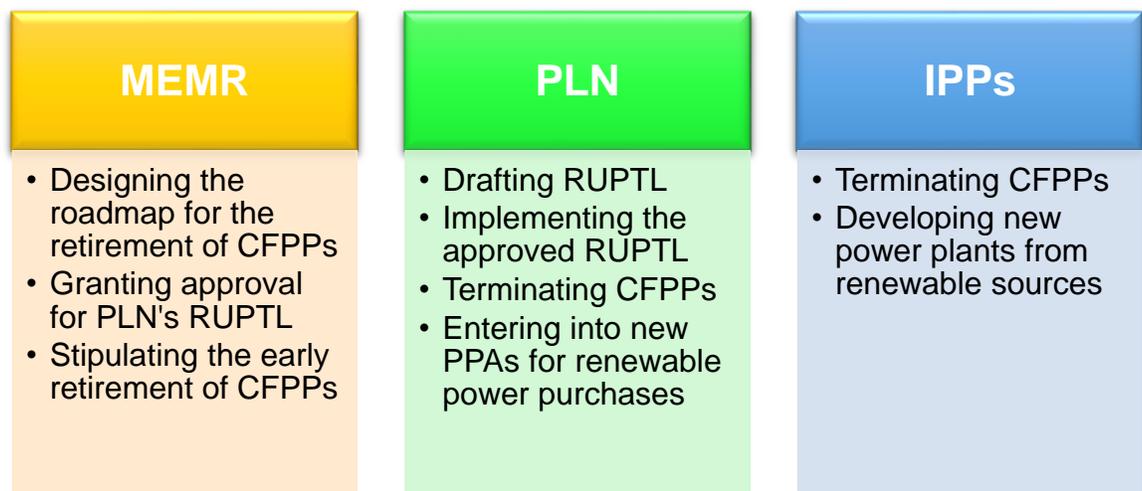


Figure 1 Energy Transition Key Stakeholders and Their Mandates under RE PR

1. Roadmap on Early Retirement of CFPPs

As part of the energy transition, RE PR mandates the Minister of Energy and Mineral Resources (“MEMR”) to develop a roadmap for accelerating the early retirement of Coal-Fired Power Plants (“CFPPs”), in consultation with the Minister of Finance (“MOF”) and the Minister of State-Owned Enterprises (“MSOE”). Article 2 (3) of RE PR mandates that this roadmap shall at least include the following:

- a. Emission reduction strategy for CFPPs;
- b. Strategy on the acceleration of termination of CFPPs; and
- c. Harmonization strategy with other policies.

Further, Article 2 (4) of RE PR explicitly prohibits the new development of CFPPs, with the following exemptions:

No.	Exemptions
1.	Development of CFPPs as already stipulated in the existing Electricity Supply Business Plan (<i>Rencana Usaha Penyediaan Tenaga Listrik</i> or “RUPTL”) prior to the enactment of RE PR; or
2.	CFPPs which satisfy all the following criteria: <ol style="list-style-type: none"> (a) Integrated with increasing added value for the natural resources industry or listed as a National Strategic Project (<i>Proyek Strategis Nasional</i> or “PSN”) and which makes a large contribution to job creation or national economic growth; (b) Committed to a minimum 35% reduction in greenhouse gas (“GHG”) emissions within 10 years as of the CFPP’s operation date in contrast to the average GHG emissions of the CFPP in 2021 through: <ol style="list-style-type: none"> i. Technology development; ii. Carbon offset; and/or iii. Renewable energy mix. (c) Operating until 2050 at the latest.

Table 1 Exempted CFPPs Development

While the prohibition on the development of new CFPPs may seem drastic, the exemptions above cannot be overlooked. First, in the most recent RUPTL of PT Perusahaan Listrik Negara (Persero) (“PLN”), as ratified by MEMR Decree No. 188.K/HK.02/MEM.L/2021, dated September 28, 2021, regarding the Ratification of PLN’s RUPTL 2021-2030 (“RUPTL 2021-2030”), CFPPs still make up the majority of the energy mix. In the optimal scenario, CFPPs’ share of the projected energy mix by 2030 would be 63.95%, equal to 284,637

GWh, while under the low carbon scenario, CFPPs are projected to account for 59.37%, or 264,260 GWh, of the energy mix by 2030. This means there is still a substantial amount of CFPP development in the pipeline.

However, it is also noteworthy that PLN still has the ability to develop CFPPs even further through its annual evaluation of the RUPTL, as stipulated in Article 28 of MEMR Regulation No. 11 of 2021, dated June 11, 2021, regarding the Implementation of Electricity Business (“**MEMR Reg 11/2021**”). This is consistent with PLN’s obligation as a business area holder to make sure that its RUPTL is consistent with the National Electricity General Plan (*Rencana Umum Ketenagalistrikan Nasional* or “**RUKN**”) and ultimately the 23% renewable energy target by 2025 under the NEP, as mandated by Article 25 of MEMR Reg 11/2021 and MEMR Regulation No. 8 of 2021, dated May 18, 2021, regarding Guidelines for Drafting the National Electricity General Plan and Local Electricity General Plan (“**MEMR Reg 8/2021**”).

Besides, the exemption criteria for the new development of CFPPs listed as PSN are also very lenient. Based on Article 4 of Government Regulation No. 42 of 2021, dated February 2, 2021, regarding Facilities for National Strategic Projects (“**GR 42/2021**”), the Coordinating Ministry for Economic Affairs (“**CMEA**”) has the authority to evaluate and adjust the list of PSNs if the President approves. This means the inclusion for CFPPs as National Strategic Projects is at the political discretion of the CMEA and the President.

2. Early Retirement of CFPPs

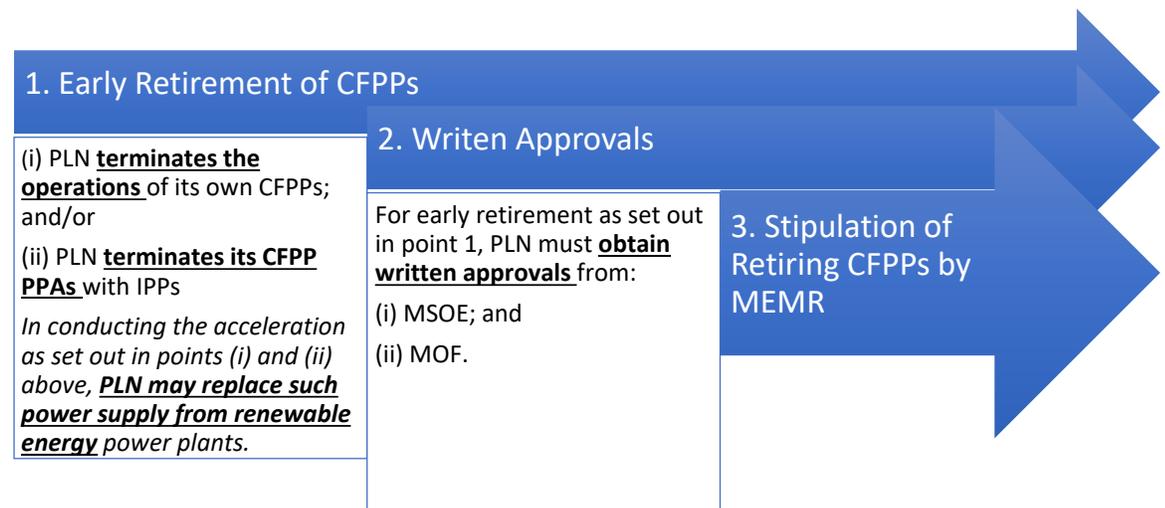


Figure 2 Early Retirement of CFPPs

RE PR instructs PLN to accelerate the early termination of (i) the operation of PLN's CFPPs and/or (ii) the termination of CFPP PPAs with Independent Power Producers ("IPPs"), by considering electricity demand and supply, as well as taking the following matters into account:

- a. Capacity;
- b. Power plant age;
- c. Utilization;
- d. GHG emissions of the CFPP;
- e. Economic added value;
- f. Availability of financial support (domestic and international); and
- g. Availability of technical support (domestic and international).

In such acceleration, PLN may replace the power supply with power supply from renewable energy power plants by also considering electricity demand and supply conditions. The early retirement of CFPPs, with or without replacement power from a renewable energy power plant, must be stipulated by the MEMR after obtaining written approvals from the MSOE and MOF.

Tendering

RE PR affirms the current tendering process for renewable electricity purchases, which begins by shortlisting developers into PLN's list of selected providers (*Daftar Penyedia Terseleksi* or "DPT"). Further, RE PR mandates that the DPT must be reviewed and renewed quarterly. RE PR does waive the requirement to be shortlisted to PLN's DPT for the following types of projects:

- a. Hydropower plants utilizing water resources from a dam or irrigation the construction of which is multiuse as a state asset by the Ministry of Public Works and Housing ("MPWH");
- b. Geothermal power plants developed by a party holding one of the following:
 - (i) Geothermal License;
 - (ii) exploitation of geothermal resources license;
 - (iii) joint operation contract for geothermal resources exploitation;
 - (iv) geothermal resources concession.
- c. Capacity expansion for geothermal, hydro, solar photovoltaic, wind, biomass, or biogas power plant; and
- d. Excess power from geothermal, hydro, biomass, or biogas power plant.

Based on RE PR, the tendering mechanisms are divided into the following:

No.	Direct Appointment	Direct Selection
1.	Hydropower plant utilizing water resources from dam or irrigation the construction of which is multiuse as a state asset by the MPWH	Hydropower plant
2.	Geothermal power plants of parties holding one of the following: (i) Geothermal License; (ii) exploitation of geothermal resources license; (iii) joint operation contract for geothermal resources exploitation; (iv) geothermal resources concession	Solar photovoltaic power plant or wind power plant supplemented with or without battery or any additional storage facility the land for which is provided by the project developer or by the government
3.	Capacity expansion for geothermal, hydro, solar photovoltaic, wind, biomass, or biogas power plant	Biomass or biogas power plant
4.	Excess power from geothermal, hydro, biomass, or biogas power plant	Peaker hydro power, biomass, biofuel, or tidal power plant

Table 2 Tendering Mechanisms for RE Projects

We set out further the respective procedures for each tendering mechanism.

1. Direct Appointment



Figure 3 Direct Appointment Process

Under the direct appointment scheme, the bidder's proposal is evaluated on administrative, technical, and financial criteria. After the evaluation, the bidding IPP and PLN must negotiate the electricity tariff with the ceiling price as the maximum price. After the tariff negotiations are completed, the IPP and PLN

will enter into a Power Purchase Agreement (“PPA”). Kindly note that Article 15 of RE PR caps the time the direct appointment process can take at 90 calendar days from the proposal submission to the execution of the PPA.

2. Direct Selection



Figure 4 Direct Selection Process

Under direct selection, the bidder’s proposal is evaluated based on its tariff proposal. The bidder with the lowest tariff proposal against the maximum ceiling tariff will proceed to negotiate the tariff and execute the PPA with PLN. RE PR caps the time the direct selection process can take at 180 calendar days from the submission of the proposal to the execution of the PPA.

However, if there is only one bidder participating in the direct selection and re-direct selection process, the tendering process will proceed using the direct appointment mechanism.

Please note that the direct selection process for hydropower, solar photovoltaic, wind power, peaker hydro, biofuel, or tidal power plants is based on quota capacity as determined by the MEMR.

Electricity Pricing

RE PR introduces a different electricity pricing regime from PLN’s previous electricity generation cost (*Biaya Pokok Pembangunan* or “BPP”). Under the BPP mechanism, the cost is based on the average BPP at the local and national levels. RE PR introduces two electricity pricing mechanisms as follows:

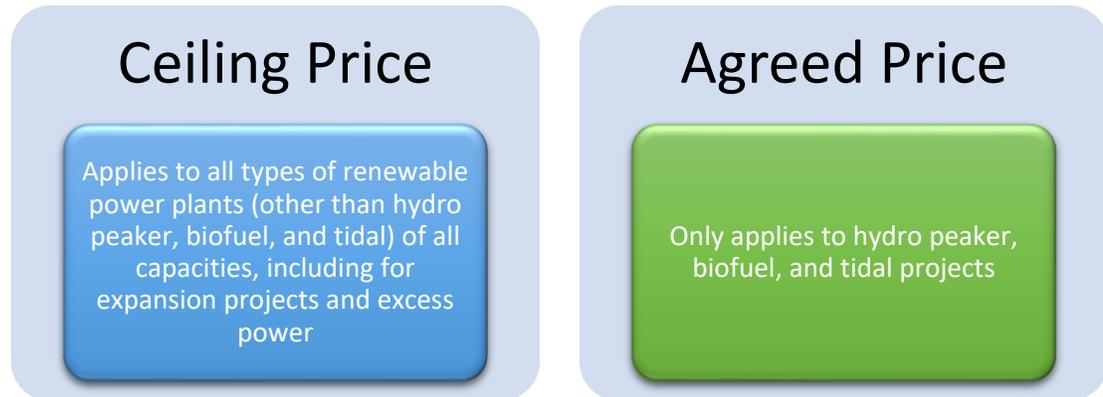


Figure 5 RE Pricing Mechanisms

The MEMR is also mandated to evaluate such price annually by taking into account the average recent contract price of PLN.

1. Ceiling Price

Ceiling Price	Power Plant	Provisions
	<ul style="list-style-type: none"> a. Hydropower b. Solar photovoltaic c. Wind d. Biomass e. Biogas f. Capacity expansion of RE power plant g. Excess power from geothermal, hydro, biomass, and biogas 	<ul style="list-style-type: none"> a. Negotiation for a price lower than the ceiling price b. No escalation during the term of the PPA c. Ceiling price is applicable with the approval of the MEMR
	Geothermal	<ul style="list-style-type: none"> a. Negotiation for a price lower than the ceiling price b. Applicable as a base price c. Price escalation applies during the term of the PPA or Geothermal Steam Purchase Agreement d. Ceiling price is applicable with the approval of the MEMR

Table 3 Ceiling Price Provisions

Based on the table above, the ceiling price provisions depend on the renewable energy technology of the relevant plant and the location of the relevant power plant, as stipulated in Appendix 1 of RE PR. In addition, the staging mechanism under the ceiling price applies starting from year 11 as of the commercial operation date of the plant.

2. Agreed Price

As noted above, the agreed price mechanism applies to hydro peaker, biofuel, and tidal projects. Under this mechanism, the price is negotiated between the parties and subject to further approval from the MEMR.

Incentives

RE PR sets out a number of fiscal and non-fiscal incentives that may be given to business entities that develop renewable energy projects. Article 23 of RE PR mandates the relevant government institutions to provide support in accordance with their relevant authorities as follows:

Government Institutions	Form of Government Support
MEMR	Preparing development plans for renewable energy power plants
MOF	Fiscal incentives
Ministry of Agrarian and Spatial Planning/Head of National Land Agency (“BPN”)	a. Prioritizing renewable energy power plant development in the national spatial plan; and b. Easing the land/spatial planning licensing process for renewable energy power plant development
Ministry of Environment and Forestry (“MOEF”)	a. Easing the licensing process in forest areas for renewable energy power plant development; and b. Waiving the relevant fees for renewable energy power plant development
Ministry of Home Affairs (“MOHA”)	Providing supporting policies for local governments for the development of renewable energy power plants
Ministry of State-Owned Enterprises (“MSOE”)	Stipulating a target for renewable energy utilization in PLN’s performance indicator
Ministry of Industry (“MOI”)	Prioritizing domestic products by way of:

	<ul style="list-style-type: none">a. Creating supply capability which covers the aspects of quality, cost, reasonable shipping, and advancing the industry structure;b. Stipulating import quotas for components for renewable energy power plants by referring to the national supply capability;c. Verifying the local content of renewable energy power plants; andd. Developing a roadmap for the development of a renewable energy supporting industry
Ministry of Investment/Investment Coordinating Authority (“BKPM”)	Providing certainty for the implementation of ease of business licensing and investment facilities
Local Governments	Providing ease of licensing, incentives, and land availability for renewable energy power plant development

Conclusion

The Government of Indonesia has begun to pay more attention to the development of renewable energy, including from a regulatory aspect. The provisions of RE PR undertake to address a couple of key issues in the development of renewable energy by introducing new concepts such as a more assertive energy transition plan and different pricing mechanisms.

More renewable energy-related regulations are set to be issued in the near future, including the New and Renewable Energy Bill and other implementing regulations of RE PR, which will be enacted by the sectoral ministries.

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