

CLIENT UPDATE

New Provisions to support the use of Renewable Energy for Electricity Generation

Despite the primary role that coal and gas continue to play in meeting Indonesia's electricity needs, the Government of Indonesia ("GoI") seems to be demonstrating a commitment to promote renewable energies.

President Joko Widodo's ambitious infrastructure plan to develop 35GW of new power generation projects includes a policy target for 25% of this power generation capacity to derive from new and renewable energy sources by 2025.

To this end, President Joko Widodo's release of Presidential Regulation (*Peraturan Presiden*) Number 4 of 2016 on the Acceleration of Electricity Infrastructure Development ("PP 4/2016") implemented a number of new forms of government support for renewable energy projects. PP 4/2016 was amended in February 2017 under Presidential Regulation Number 14/2017 ("PP 14/2017") – which clarifies matters such as a requirement for cooperation between the State-owned electricity company, PLN, and a domestic and/or foreign owned power producer to be by way of a sale-purchase agreement. Importantly, however, the incentives for renewable energies introduced under PP 4/2016, as well as other material provisions concerning the acceleration of power infrastructure development, remain intact.

New incentives for renewable energy projects that were introduced in 2016 include the establishment of a new entity to procure electricity from renewable energy sources and on-supply that power to PLN, and the provision of subsidies specifically for renewable energy projects. Renewable energy projects will also benefit from the other measures maintained under PP 14/2017 that are designed to ease the bottlenecks which hamper infrastructure development in Indonesia, such as an additional form of government guarantee for the development of power projects, and shorter license processing times. The Ministry of Energy and Mineral Resources ("MEMR") has also actively been updating its regulatory framework concerning power and renewable power generation. Of note to investors will be that the MEMR has indicated there are approximately 62 renewable energy-based power projects planned for development under this new regulatory regime.

Of particular relevance are the following three MEMR regulations, which concern power purchase agreements between PT PLN (Persero) and independent power producers (IPPs), tariffs, and the utilization of renewable energy and coal for electricity supply:

1. MEMR Regulation No. 12 of 2017 concerning Utilization of Renewable Energy for Electricity Supply Purposes, as amended with MEMR Regulation No. 43 of 2017 concerning Amendment to MEMR Regulation No. 12 of 2017 concerning Utilization of Renewable Energy for Electricity Supply Purposes (“**MEMR Regulation No. 12 of 2017, as amended**”);
2. MEMR Regulation No. 24 of 2017 concerning Mechanism for the Determination of Primary Unit Costs of Power Generation by PT PLN (“**MEMR Regulation No. 24 of 2017**”); and
3. MEMR Decree No. 1404 K/20/MEM/2017 concerning Primary Unit Cost of Power Generation by PT PLN (“**MEMR Decree No. 1404 K/20/MEM/2017**”).

The following discussion summarizes the material provisions to these regulations:

- ❖ Regulation No. 12 of 2017, as amended, imposes on PT PLN the obligation to purchase electricity from power plants which use renewable energy resources. In doing so Regulation No. 12 of 2017 establishes guidelines for the purchase of electricity from a renewable energy power plant, clarifying procedures for the appointment of IPP, and the electricity purchase price or feed-in tariff for each type of the power plant. These are as follows:

1. Solar (Photovoltaics) Power Plants and Wind Power Plants

The selection of an IPP must be conducted by way of tender on the basis of a minimum total capacity quota of 15 MW, which may be drawn from a single power producer or from a project that comprises several plants located separately.

Purchase Prices:

- If the respective power plant/s’ Primary Unit Cost (*Besaran Biaya Pokok*) is above the average National Supply’s Primary Unit Cost, the maximum electricity purchase price is 85% of the plant/s’ Primary Unit Cost.
- If the respective plant/s’ Primary Unit Cost is equal to or below the average National Supply’s Primary Unit Cost, the electricity purchase price is equal to the plant/s’ Primary Unit Cost.

2. Hydropower Plants

- The selection of an IPP must be through either:
 - (i) Determination of a Benchmark Price, with maximum tariff or electricity purchase equal to the Primary Cost of Supply at the local electricity system, in the event that

the Primary Cost of Supply at the local electricity system is above the National Primary Cost of Supply; or

- (ii) based on mutual agreement between the parties, in the event that the Primary Cost of Supply applicable in Sumatera, Java and Bali area or other local electricity system is equal to or below the National Primary Cost of Supply; or
 - (iii) Direct Appointment, where the tariff calculation is determined during the process of appointment.
- Hydropower plants with a maximum capacity of 10 MW must be able to use a minimum of 65% of its capacity in its operation. Hydropower plants with a capacity of more than 10 MW must operate on the basis of the system's demand.
 - Partnership will be through a *Build, Own, Operate and Transfer* scheme.

3. **Biomass & Biogas Power Plants**

- IPPs that are eligible to participate will be those that own sufficient feedstock to support the operations of the respective Biomass/Biogas power plant throughout the lifetime period of the Power Purchase Agreement with PT PLN (Persero).
- Biomass/Biogas power plants with a capacity of up to 10 MW must use the Benchmark Price mechanism for the selection of the IPP, for which the maximum tariff is:
 - 85% of the plant's Primary Unit Cost if the plant's Primary Unit Cost is above the National Supply's Primary Unit Cost ; or
 - 100% of the plant's Primary Unit Cost if the plant's Primary Unit Cost is equal to the National Supply's Primary Unit Cost.
- Biomass/Biogas power plants with a capacity of more than 10 MW must use the Direct Appointment mechanism for the selection of the IPP, for which the tariff is determined during the direct appointment process.

4. **Waste-based Power Plants**

- The IPP selection must be conducted by using the Benchmark Price mechanism, for which the price is as follows:
 - Maximum 100% of the plant's Primary Unit Cost if the plant's Primary Unit Cost is above the National Supply's Primary Unit Cost; or
 - As mutually agreed to between the IPP and PT PLN (Persero) if the Primary Unit Cost of the plant concerned which is located in Sumatera, Java and Bali is equal to or below the National Supply's Primary Unit Cost.
- The Government may provide incentives for the IPPs.

5. Geothermal Power Plants

- IPPs which will be eligible are those that already own a geothermal working area as proven by the reserves they have following their exploration;
- The IPP selection must be conducted by using the Benchmark Price mechanism, for which the price is as follows:
 - Maximum 100% x the plant's Primary Unit Cost if the plant's Primary Unit Cost is above the National Supply's Primary Unit Cost; or
 - As mutually agreed to between the IPP and PT PLN (Persero) if the Primary Unit Cost of the plant concerned which is located in Sumatra, Java and Bali is equal to or below the National Supply's Primary Unit Cost.
- The partnership scheme is the *Build, Own, Operate and Transfer* scheme.

❖ MEMR Decree No. 1404 K/20/MEM/2017 stipulates the following National Supply's Primary Unit Cost and Primary Unit Costs for Supplies in plants in the regions:

No.	Area / Distribution / System / Subsystem	Supply's Primary Unit Cost / kWh (Rp)	Supply's Primary Unit Cost / kWh (cent US\$ / kWh)
I.	Sumatera	1,034 – 2,322	7,77 – 17,45
II.	Java – Bali	866 – 2,332	6,51 – 17,52
III.	Kalimantan	1,203 – 2,332	9,04 – 17,52
IV.	Sulawesi and Nusa Tenggara	1,016 – 2,332	7,63 – 17,52
V.	Maluku and Papua	1,305 – 2,332	9,81 – 17,52
National Supply's Primary		983	7,39

The above Primary Unit Costs are valid from 1 April 2017 to 31 March 2018, and will be applicable throughout 2018 if no new regulations on the same subject matter are issued before 31 March 2018.

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