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The Implementation of the New Presidential Regulation on Renewable Energy

On 13 September 2022, the Indonesian Government enacted Presidential Regulation No. 112 of 2022 on The Acceleration of Renewable Energy Development for Power Supply (“PR 112/2022”). The PR covers essentially 4 main topics: (i) energy transition and the early retirement of Coal-Fired Power Plants (CFPPs); (2) the pricing regime for the purchase of electricity from power plants that are entirely built by the business entity or wholly or partially built by the government using renewable energy projects; (3) the tendering schemes for the procurement of renewable energy projects by PLN; and (4) incentives available to such projects.

Overview

Indonesia contributes the largest economy in Southeast Asia, ranking 8th on GDP based on the purchasing power parity and is the 16th world’s largest economy. During the past few years, Indonesia’s economy has remained in steady growth averaging over 5%. To boost economic growth in Indonesia, improvements in infrastructures, economic diversification, and barriers reduction to doing business in Indonesia are necessities to be unlocked.

In achieving these goals, increasing investment in Indonesia has been the Indonesian Government’s constant target. Renewable energy development opens a bigger window for investment in Indonesia due to its attractiveness, especially foreign investment. According to PR 112/2022, renewable energy is produced from sustainable sources, including geothermal, wind, bioenergy, sunlight, water flows, waterfalls, and movements and differences in temperature of sea layers. The enactment of PR 112/2022 aims to expedite the development of renewable energy in Indonesia and attract investors to perform its business activities in the sector of power supply to boost Indonesia’s economic growth.

Energy Transition

The Indonesian Government has been encouraging the transition of energy to renewable energy to increase investment rates and accelerate the achievement of the renewable energy mix in the national scope. To conduct energy transition and achieve the target, the prevailing laws and regulations related to the development of renewable energy play an important role. Thus, PR 112/2022 is enacted to support the Government’s goal.

For the purpose of the energy transition, a roadmap shall be prepared by the Minister of Energy and Mineral Resources to accelerate the termination process of CFPPs operations which shall be coordinated with the Minister of Finance and Minister of State-Owned Enterprise. The acceleration roadmap, as described, shall consist of at least (i) CFPPs greenhouse gas emissions reduction; (ii) CFPPs operational period termination acceleration strategy; and (iii) alignment between various policies.

In increasing the proportion of renewable energy in the electric energy mix, PT PLN (Persero) shall accelerate the termination of (a) self-owned CFPPs operation; and/or (b) the Power Purchase Agreement of CFPPs, which is developed by the Power Plant Developer (PPL), by considering the conditions of electricity supply and demand. In relation to such termination, the Government may provide fiscal support in the form of funding and financing, including blended finance from state revenue and expenditures budget and/or any other sources with prior approval from the government. However, the implementing regulation is still not yet available.

According to the PR 112/2022, the development of CFPPs is recently prohibited except for:

- a. CFPPs which have been determined in the RUPTL prior to the enforcement of PR 112/2022; or
- b. CFPPs fulfil the following requirements:
 - (i) Integrated with built-in industries which are oriented towards increasing the value added of natural resources or are included in National Strategic Projects which have a major contribution to the creation of employment opportunities and/or national economic growth;
 - (ii) Committed to reducing greenhouse gas emission by at least thirty-five percent (35%) within a period of ten (10) years from the operation of the CFPPs compared to the average CFPPs emission in Indonesia in 2021 through the development of technology, carbon offset, and/or renewable energy mix; and
 - (iii) Shall be operated until 2050.

In the event that the acceleration of the termination of CFPPs operation requires the replacement of electric energy, renewable energy is suitable energy to substitute CFPPs operation. The purchase of electric power by PT PLN (Persero) shall be exercised from power plants that utilize renewable sources. Power plants using renewable energy sources shall be power plants that: (a) are entirely built by business entity; or (b) are entirely or partially built by the government.

Purchase Price of Electric Power

The purchase price of electric power is governed under Chapter II of PR 112/2022, which stipulates that it shall consist of a maximum benchmark price or agreement price (with or without location factor). The maximum benchmark price will be evaluated annually starting from the effective date of PR 112/2022, such evaluation is to be conducted by the Minister of Energy and Mineral Resources coordinating with the Minister of Finance and the Minister of State-Owned Enterprise and any changes in the purchase price shall be governed under the Minister of Energy and Mineral Resources Regulation.

There are several conditions to be considered for the purchase price as stated above is as described in the table below:

	Maximum Benchmark Price	Agreement Price
Conditions	<ul style="list-style-type: none"> a. Negotiation with ceiling limit based on maximum benchmark; b. Without escalation during PPA terms; 	<ul style="list-style-type: none"> a. Negotiation; and b. Price approval from the Minister of Energy and Mineral Resources

	c. Apply as a price approval from the Minister of Energy and Mineral Resources.	
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Furthermore, the purchase price of electric power is categorized into 2 different characteristics of the power plant, one of which is entirely built by business entities and entirely or partially built by the government or regional governments (including those from grants). Both the maximum benchmark price and agreed price applies to both types of power plants but in accordance with the source of renewable energy of the power plants. Following are detailed list related to the electricity purchase price either built by business entities and entirely or partially built by the government:

	Maximum Benchmark Price	Agreement price
Power Plants Entirely Built by Business Entities	<ul style="list-style-type: none"> a. Hydroelectric Power Plants; b. Geothermal Power Plants; c. Photovoltaic Solar Power Plants or Wind Power Plant; d. Biomass or Biofuel Power Plants; e. Hydroelectric power plants f. addition of generating capacity (expansion) from Hydroelectric Power Plants, Photovoltaic Solar Power Plants, or Wind Power Plants; g. addition of generating capacity (expansion) from Biomass Power Plants or Biogas Power Plants; h. addition of generating capacity (expansion) from Geothermal Power Plants; and i. excess power from Geothermal Power Plant, Hydroelectric Power Plant, Biomass Power Plants or Biogas Power Plants. 	<ul style="list-style-type: none"> a. Hydroelectric Power Plants; b. Biofuel Power Plants; and c. Tidal Power Plants
Power Plants Entirely or Partially Built by Government or Regional Government (including from Grants)	<ul style="list-style-type: none"> a. Hydroelectric Power Plants; b. Photovoltaic Solar Power Plants; c. Wind Power Plants; d. Biomass Power Plants; e. Biogas Power Plants; f. Geothermal Power Plants 	<ul style="list-style-type: none"> a. Tidal Power Plants; and b. Biofuel Power Plants

Implementation of the Purchase of Electric Power

The purchase of electricity using renewable energy by PT PLN (Persero) can be carried out from power plants that are constructed entirely by the business entity or power plants that are built either entirely or partially by the government. The purchase of electric power shall be conducted through: (a) direct appointment; or (b) direct selection. Specifically, the distribution of the implementation of the sale and purchase of electric power built by the business entity is described as follows:

	Energy Types	Procurement Period	Initial Selection
Direct Appointment	<ol style="list-style-type: none"> 1. Hydroelectric Power Plants which utilizes hydroelectric from reservoirs or irrigation canals listed as the state-owned asset by the Ministry of Public Works and Housing; 2. Geothermal Power Plants from the holder of Geothermal Permit or the holders permits for the exploitation of geothermal resources; 3. addition of capacity expansion from Geothermal Power Plants, Hydroelectric Power Plants, Photovoltaic Solar Power Plants, Wind Power Plants, Biomass Power Plants, or Biogas Power Plants; and 4. excess power from Geothermal Power Plants, Hydroelectric Power Plants, Biomass Power Plants, or Biogas Power Plants. 	90 calendar days	Included in PT PLN (Persero)'s list of suppliers
Direct Selection	<ol style="list-style-type: none"> 1. Hydroelectric Power Plants; 2. Photovoltaic Solar Power Plants or Wind Power Plants which are equipped or not equipped with batteries or electric energy storage facilities, whether the land is provided by the government using their own land; 3. Biomass Power Plants or Biogas Power Plants; and 4. Hydroelectric Power Plants which functions as a peaker, Biofuel Power Plants, or Tidal Power Plants 	180 calendar days <i>(If there is only 1 bidder after the tender process through the direct selection method, the purchase shall be carried out through a direct appointment)</i>	

Incentives and Government Support

The incentives and Government's support in relation to the development of electric power plants utilizing renewable energy are categorized into two different incentives, which are fiscal and non-fiscal. Both fiscal and non-fiscal incentives are to be granted to the business entities as follows:

- a. Fiscal incentives: income tax facilities, import facility (exemption of import duty and/or tax), land and building tax facilities, geothermal development support, and financing support and/or guarantee facilities through state-owned enterprises appointed by the government.
- b. Non-fiscal incentives: to be granted by central government and/or regional government.

The granting of both fiscal and non-fiscal incentives shall be in accordance with the laws and regulations. However, in case there are no provisions regulating such incentives, the minister or regional governments are required to enact the regulation on the grant mechanism on fiscal and non-fiscal incentives within 1 (one) year after PR 112/2022 became effective.

Key Takeaways

- a. Aside from the investment target, the newly enacted regulation governs the provision on acceleration on termination of CFPPs operations to help boost the development of renewable energy which eventually will attract foreign investment to Indonesia. It is intended to increase the proportion of renewable energy in the electric energy mix through the acceleration of the termination of CFPP's operation of both the PT PLN (Persero)'s CFPPs and PPL's CFPPs.
- b. Undoubtedly, PR 112/2022 introduces several new provisions aimed at encouraging energy source transition especially from CFPPs to renewable energy power plants, including the government's commitment to end the development of new CFPPs and early retirement of existing CFPPs, a new tariff structure for renewable energy and several incentives by the government for the development of renewable energy. However, there is still a need to unpack the implementing regulation to accelerate the transition.

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