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CAPTURING THE INVESTMENT POTENTIAL IN RENEWABLE ENERGY BASED POWER PLANTS IN INDONESIA



Great Potential, Small Exploitation

Indonesia has enormous potential in the field of renewable energy, but, only 6-7% of the potential sources are already being exploited as yet. As quoted from the OECD Economic Survey Overview of 2016, Indonesia's potential energy from geothermal energy reaches nearly 30 gigawatts (GW) – or almost 40% of worldwide capacity - but only 5% is being exploited. For hydropower, of the potential 75 GW, only 4% is being exploited. This small amount of exploitation has had an impact on the electricity shortages faced by Indonesia to date.

So, what causes the small amount of exploitation of renewable energy resources? Aside from the need for tremendous amount of investment, complicated bureaucratic processes can also be considered as one of the causes. The government is well aware of this situation, and continues to increase potential utilization of renewable energy in overcoming electricity shortage problems in Indonesia.

Improvement of Bureaucratic Procedures

In 2015 President Joko Widodo (Jokowi) inaugurated the launch of a program called “35000 Mega Watts of Electricity for Indonesia”, which targeted the construction of power plants with capacities of 35,000 megawatts (MW) throughout Indonesia. This

The Minister of Energy and Mineral Resources (ESDM) of Indonesia issued Regulation of the Minister of ESDM No. 12 of 2017 concerning the Exploitation of Renewable Energy Resources for the Supply of Electricity, as amended with Regulation of the Minister of ESDM No. 43 of 2017 (hereinafter referred to as Regulation of the Minister of ESDM No. 43 of 2017). In Article 2 of this regulation, the government set an obligation for PT PLN (Persero) to purchase electricity from power plants utilizing renewable energy. Renewable energy, as defined in Article 1 of the regulation means energy resources generated from energy sources, which, if well maintained are renewable, such as: geothermal energy, wind, bio-energy, sunlight, hydropower, and ocean thermal energy conversion.

This target is expected to be achieved by 2019. The government has reserved a slot for renewable energy of around 25% of the 35,000 MW, or approximately of 9,000MW. Further details can be found in the Decree of the Minister of ESDM No. 1415 K/20/MEM/2017 concerning Ratification of the Electricity Supply Business Plan of PT PLN for the Period 2017 to 2026.

The government understands that tortuous bureaucracy needs to be improved to actualize the planned 35,000 MW program. Hence, the government, through the Indonesian Investment Coordinating Board continues to simplify licensing procedures for power businesses. As part of its commitment in prioritizing the development of power plants from renewable energy sources, the government has also issued several regulations, one of which is Regulation of the Minister of ESDM No. 43 of 2017.

Nevertheless, business actors also need to scrutinize the provision on electricity rates for renewable energy in Regulation of the Minister of ESDM No. 43 of 2017. The regulation states that if the local generation cost is above the average national generation cost, then the energy purchase price will be a maximum of 85% of the local generation cost, except for energy generated from water garbage and geothermal energy, the purchase price of which is set at 100% of the local generation cost. The maximum energy purchase price of 85% is deemed to be too low by some business actors.

As reported in an article on Bisnis.com on 19 April 2017 under the headline “*Diprotas Pelaku Usaha, Begini Respons ESDM*”, three business associations: the Association of Indonesian Private Electricity Producers (APLSI), the Chamber of Commerce and Industry (KADIN), and Indonesian Renewable Energy Community (METI) have all asked the government to re-evaluate the price determination under this regulation. Due to this protest, the government is considering providing fiscal incentives for renewable energy projects.

Foreign Investment in the Development of Renewable Energy Based Power Plants

The development of renewable energy based power plants is subject to a foreign investment limitation under Presidential Regulation Number 44 of 2016 concerning List of Businesses Closed and Open with Conditions in the Field of Investment. The foreign investment limitation under the regulation is as follows:

Power Plant < 1 MW	100% local ownership.
Small Scale Power Plant (1 – 10MW)	Maximum of 49% foreign ownership.
Geothermal Power Plant with capacity of ≤ 10 MW	Maximum of 67% foreign ownership.
Power Plant > 10MW	Maximum of 95% foreign ownership (maximum of 100% in public private partnership during concession period).

Opportunity for the Investors

With the enactment of Regulation of the Minister of ESDM No. 43 of 2017 and the fiscal incentives being discussed by the government for renewable energy power plant developers, it appears that the government wants to realize the 35,000 MW program launched by President Joko Widodo. This would be a great opportunity for business actors in the energy sector, and hopefully all of these government efforts can attract more investors to participate in the development of power plants with renewable energy in Indonesia.

*The article above was prepared by **Abraham Sylvester Harryandi** (Associate) and edited by **Hendra Ong** (Partner).*

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