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Steam Power Station Business Opportunities on the Issuance of Regulation of the Minister of Energy and Natural Resources No. 19 of 2017



On the launch of the regulation in a public awareness campaign, the Director General of Electrical Power said that Regulation of the Minister of Energy and Resources No. 19 of 2017 regulated the highest benchmark prices and the mechanism for coal burning power station procurement and the purchase of excess power and that hopefully the regulation would ensure that the local power station Basic Cost of Supply (BPP) would be more effective and efficient so that electricity tariffs would be more competitive.

Coal Availability for Steam Power Station Demand

There are two types of steam power station, mine mouth steam power stations and non mine mouth power stations. A mine mouth steam power station is a power station which is close to the mouth of a coal mine so that no transportation of coal is necessary, while a non mine mouth steam power station is not close to the location of the coal mine. PLN and the Power Station Business Entity must ensure the availability of supplies of coal in accordance with the Electricity Sale and Purchase Agreement between the two of them in that the availability of supplies will be based on a coal sale and purchase agreement between the coal mine company and the Mine Mouth Power Station Company.

One challenge to be faced by Mine Mouth Steam Power Stations is providing sufficient and adequate supplies of coal to meet demand from the Mine Mouth Power Station in the long term. Although under Permen ESDM No. 19 coal may be procured from more than one Mining Company, the preparation from the supplier's side has an important role in the smooth operations of the Mine Mouth Steam Power Station. Therefore the Mining Company must be able to ensure large coal reserves to be able to meet demand from the Mine Mouth Steam Power Station.

The Minister of Energy and Natural Resources has just issued Regulation No. 19 of 2017 concerning the Exploitation of Coal for the Generation of Electricity and the Purchase of Excess Power ("Permen ESDM No. 19"). Hopefully, the issuance of this regulation, which governs mine mouth and non mine mouth Steam Power Station electricity prices, will make power station Basic Costs of Supply (BPP) more efficient and so make electricity tariffs more competitive.

Basic Cost of Supply (BPP) for Power Generation

The BPP for Power Generation takes as a reference Decree of the Minister of Energy and Natural Resources No. 1404 K/20/MEM/2017 concerning Amount of Basic Cost of Supply for Power Generation of PT Perusahaan Listrik Negara (PERSERO) for 2016 ("Kepmen ESDM No. 1404"). This regulation is a derivative of Regulation of the Minister of Energy and Natural Resources No. 24 of 2017 concerning Mechanism for Determining BPP for Power Generation PT PLN (Persero) ("Permen ESDM 24/2017") signed by the Minister of Energy and Natural Resources on 23 March 2017.

Under Permen ESDM 24/2017, in determining the BPP for Power Generation, PT PLN (Persero) must propose to the Minister of Energy and Natural Resources a BPP derived from the BPP for Power Generation for the previous year. The proposal will then be evaluated by the Director General of Electricity. The Minister of Energy and Natural Resources will then determine the amount of the BPP for Power Generation based on the results of the evaluation.

Under Kepmen ESDM No. 1404, the Basic Cost of Supply (BPP) for Power Generation of PT PLN (Persero) for 2016 at the national level underwent a decrease of Rp. 15/kWh from the previous year, i.e., from Rp. 998/kWh (7.45 USD cents/kWh) to Rp. 983/kWh (7.39 USD cents/kWh). This decrease in the National BPP for Power Generation shows that the supply of electricity is getting more efficient. The BPP for Power Generation for 2016 is used as a reference for the purchase of electricity by PT PLN which will also apply for the period 1 April 2017 to 31 March 2018.

Purchase Price of Steam Power Station Electricity

Permen ESDM No. 19/2017 also provides the highest benchmark price for purchases of Steam Power Station electricity.

The reference price for purchases of Mine Mouth Steam Power Station electricity found in Article 5 (3) of Permen ESDM No. 19/2017 is as follows:

- 1.If the local BPP for Generation is lower than the National BPP for Generation, the highest benchmark price is 75% of the local BPP for Generation. Illustration: The BPP in Bali under Decree of the Minister of Energy and Natural Resources No. 1404 K/20/MEM/2017 concerning Amount of Basic Cost of Supply for Power Generation of PT Perusahaan Listrik Negara (PERSERO) for 2016 (“Kepmen ESDM No. 1404”) is Rp. 881/kWh, and so the price of mine mouth Steam Power Station electricity in this region cannot be more than 75% of the local BPP in Bali or Rp. 660.75/kWh.
- 2.If the local BPP for Generation is higher than the National BPP for Generation (currently Rp. 983/kWh), the highest benchmark price is 75% of the National BPP for Generation.
Illustration: If the BPP in Kalimantan Selatan under Kepmen ESDM No. 1404 is Rp. 1,203/kWh (higher than the National BPP for Generation), the National BPP is used as the benchmark. So, the price for mine mouth Steam Power Station electricity in Kalimantan Selatan cannot be more than 75 per cent of Rp. 983/kWh, i.e., Rp. 737.25/kWh.

The purchase price for electricity from Non Mine Mouth Steam Power Station with a capacity greater than 100 MW (Article 8 (1)):

1. If the local BPP for Generation is lower than the National BPP for Generation, the highest benchmark price is the local BPP for Generation;
2. If the local BPP for Generation is higher than the National BPP for Generation, the highest benchmark price is the National BPP for Generation.

Illustration: For example, the BPP in Jawa Timur under Kepmen ESDM No. 1404 is Rp. 870/kWh, so the purchase price for electricity from a non mine mouth Steam Power Station in this region cannot be more than Rp. 870/kWh, while the BPP in Kalimantan Timur under Kepmen ESDM No. 1404 is Rp. 1,357/kWh, and so the national BPP is used as the benchmark price. So, the purchase price for electricity from non mine mouth Steam Power Stations in this region cannot be more than Rp. 983/kWh.

The purchase price for Non Mine Mouth electricity up to 100 MW (Article 8 (2)) is:

1. If the local BPP for Generation is lower than the National BPP for Generation, the highest benchmark price is the local BPP for Generation;
2. If the local BPP for Generation is higher than the National BPP for Generation, the price is based on an auction or business to business mechanism.

Apart from governing the purchase price for electricity from mine mouth and non mine mouth Steam Power Stations, Permen ESDM No. 19 also provides the Highest Benchmark Price (HPT) for the procurement of coal burning electricity generation and excess power. The use of excess power to strengthen the local electricity system is also possible if the power supply is insufficient or to reduce the BPP for Generation in the local electrical system. The highest purchase price for excess power is 90% (ninety per cent) of the BPP for Generation in the local electricity system. Thus, the role of captive power can be increased in safeguarding the supply of electricity in local electricity systems.

Foreign Investment in Steam Power Stations

A number of regulations in the electricity sector which the government of Indonesia has issued recently have no other purpose than to make the price of electricity more affordable and to increase the reach of the national electricity grid so that it can be enjoyed by all of Indonesia’s people. The reduction in the price of the national BPP for Generation under Kepmen ESDM No. 1404 points the way to a more efficient electricity supply business in Indonesia making the price of electricity more competitive.

Nevertheless, an efficient supply of electricity at a competitive price is still expected to take into consideration the investment expended by business actors (IPP) so that it can attract foreign and local investors’ interest in investing in the electricity generation business in Indonesia. It is worth noting that the Indonesian government has opened up opportunities for foreign investors to hold up to 95% of shares in Power Station businesses over 10 MW. This is contained in Presidential Regulation No. 44 of 2016 concerning List of Lines of Business Which Are Closed or Conditionally Open to the Investment Sector.

*The article above was prepared by **Hendra Ong** (Partner) and **Joshua Satyagraha** (Associate Lawyer).*

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