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Indonesia

RENEWABLE ENERGY

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This country-specific Q&A provides an overview of renewable energy laws and regulations applicable in Indonesia.

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INDONESIA
RENEWABLE ENERGY

1. Does your jurisdiction have an established renewable energy industry? What are the main types and sizes of current and planned renewable energy projects? What are the current production levels?

Yes, Indonesia generally has an established renewable energy industry. The main types of renewable energy projects that are developed in Indonesia are hydro, geothermal, solar PV, wind and biomass with total capacity of the projects that has entered into operation phase in 2022 is 223 MW. The total production level in 2022 is around 12,557 MW. In 2023, the target or capacity projection is around 12,925 MW, which is expected from wind power plant (154.3 MW), solar PV (432.6 MW), bioenergy (3,144.8 MW), geothermal (2,368.4 MW) and hydro (6,852.2MW).

2. What are your country's net zero/carbon reduction targets? Are they law or an aspiration?

The government's target in 2030 is to reduce emission by 31,89% (which previously was set at 29%) and 43,20% (which previously was set at 41%) with international support and to achieve net zero emissions by 2060. The target is set out in Law No. 16 of 2016 on ratification of Paris Agreement to the United Nations Framework Convention on Climate Change. The government has also issued several national regulations to support the achievement of net zero emissions target.

3. Is there a legal definition of 'renewable energy' in your jurisdiction?

Renewable energy is defined as any source of energy generated from energy resources that are sustainable if managed properly, including geothermal energy, wind, bioenergy, solar energy, hydro-energy (streams or waterfalls) and movement and temperature difference of ocean layers.

4. Who are the key political and regulatory influencers for renewables industry in your jurisdiction and who are the key private sector players that are driving the green renewable energy transition in your jurisdiction?

MEMR and PLN are the key political and regulatory influencers for renewables industry and energy transition in Indonesia. Participation of private investors in renewable energy projects depends on the active role of MEMR and PLN in implementing the government's policy and regulation in the energy transition.

5. What are the approaches businesses are taking to access renewable energy? Are some solutions easier to implement than others?

Many businesses are taking the approach of installing rooftop solar PV or developed solar PV plants for own use. With the issuance of Presidential Regulation No. 112 of 2022 on Acceleration of Renewable Energy Development for Electricity Provision, the development of renewable energy power plant has become government's priority and with the commitment under the regulation to decommissioning existing coal fired power plants (CFPP) and limit development of new CFPP thus hopefully access to the renewable energy becomes easier.

Further, as evidence that the business player uses electricity from renewable energy power plant, PLN issues a Renewable Energy Certificate for businesses that purchase PLN's electricity generated from renewable energy power plant i.e. from Lahendong geothermal power plant, Kamojang geothermal power plant, Bakaru hydro power plant, and Ulubelu geothermal power plant.

6. Has the business approach noticeably changed in the last year in its engagement with renewable energy? If it has why is this (e.g. because of ESG, Paris Agreement, price spikes, political or regulatory change)?

There has not been any noticeable change in the last year with the approach. However, we expect some changes in the upcoming years with the issuance of regulations to accelerate the development of renewable energy, carbon tax and carbon trading, as well as government's policy to implement ESG especially in infrastructure projects.

7. How visible and mature are discussions in business around reducing carbon emissions; and how much support is being given from a political and regulatory perspective to this area (including energy efficiency)?

The discussion on reducing carbon emissions both from private sector and government has become more mature and visible. Minister of Energy and Mineral Resources (MEMR) and Minister of Environment and Forestry (MOEF) have started to issue ministerial regulations to implement the government's commitment under Paris Agreement to reduce carbon emission. MEMR and MOEF has issued ministerial regulation on procedures for implementing carbon economic value which also regulate, among others, issuance of Emission Reduction Certificate and the carbon trading mechanism. Other ministry such as Ministry of Transportation has also issued regulations for the implementation of Environmental, Social and Governance (ESG) in transportation projects which also includes implementation of energy efficiency.

8. How are rights to explore/set up or transfer renewable energy projects, such as solar or wind farms, granted? How do these differ based on the source of energy, i.e. solar, wind (on and offshore), nuclear, carbon capture, hydrogen, CHP, hydropower, geothermal and biomass?

The procurement or renewable energy power projects with PLN as the off-taker from wind (both offshore and onshore), solar, hydro and biomass is to be done through direct selection or direct appointment (applicable in certain circumstance such as expansion of existing power project). In the geothermal power project, the MEMR tender the geothermal working area where the tender winner will be granted the Geothermal Permit and PLN is mandated by the government to purchase the electricity from the Geothermal Permit holder. Currently, there is no regulation on procurement of nuclear power plant and nuclear utilisation in Indonesia is still within the framework of research and not in utility and commercial scale. At the moment there is no specific regulation for the rights to explore CHP and hydrogen. With respect to carbon capture, it is part of the oil and gas exploration and exploitation activities and thus based on the regulation, oil and gas contractor that is planning to conduct carbon capture to reduce the GHG emission during the oil and gas mining activities must obtain approval from MEMR based on recommendation from SKK Migas.

9. Is the government directly involved with the renewables industry? Is there a government-owned renewables company or are there plans for one?

The government acts as a regulator in the renewables industry. However, there are state-owned companies and their subsidiaries that are directly involved in the renewables industry such as PT Indonesia Power, PT Pembangkitan Jawa Bali, PT Pertamina Geothermal Energi and PT Pertamina Power Indonesia.

10. What are the government's plans and strategies in terms of the renewables industry? Please also provide a brief overview of key legislation and regulation in the renewable energy sector, including any anticipated legislative proposals?

The government always stated that it is committed to supporting the renewable energy industry. The government (through MEMR) has set a target of achieving 15.7% of renewable energy in the energy mix and will continue to increase the installed capacity of renewable energy-based power plants. MEMR also stated that it is planning to complete the regulations on renewable energy that has been delayed in particular the new energy and renewable energy bill and presidential regulation draft on the purchase price of electricity produced by renewable energy.

Under the current key legislation i.e., Presidential Regulation No. 112 of 2022 on Acceleration of Renewable Energy Development for Electricity Provision, the electricity purchase price from renewable energy-

based power plants is not set on an exact price or feed-in tariff, instead, the regulation provides ceiling price for electricity purchased from renewable energy power plants based on the type of energy sources and locations. Further, Presidential Regulation No. 112 of 2022 mandates PLN to decommission its existing CFPPs and those developed by IPP by way of shortening the period of power purchase agreements taking into account the supply and demand conditions. The regulation also limit the development of new CFPP.

Furthermore, implementing regulations with respect to carbon economic value, carbon tax, carbon trading and in several sectors, ESG related regulation have been issued, which intended to encourage development of renewable industry and accelerate energy transition in Indonesia. It is expected that more implementing regulations with respect to carbon market to be issued by the relevant ministries.

11. Are there any government incentive schemes promoting renewable energy (direct or indirect)? For example, are there any special tax deductions or subsidies offered? Equally, are there any disincentives?

To promote and increase investment in renewable energy, the government provides the following fiscal facilities:

- income tax facilities in the form of a 30% reduction of net income for six years, escalated depreciation and amortization, and compensation for any loss that occurred for more than 5 years but not more than 10 years tax holiday.
- Tax holiday in the form of exemption from tax from 5-10 years as of the commercial operation of the power plant and 50% reduction of tax from outstanding income tax for 2 years).
- VAT exemption and exemption of import duty for capital goods.

12. Has your Government had to help with the basic cost of energy over the last year and has that led to any discussion about de-linking the gas price and renewables prices?

The government provide subsidy to PLN to make up the difference between the cost of electricity generation and supply by PLN and the electricity tariff charged by PLN to the public/end consumer. The renewable energy prices under the Presidential Regulation No. 112 of 2022 is not directly linked to gas price.

13. If there was one emerging example of how businesses are engaging in renewable energy, what would that be? For example, purchasing green power from a supplier, direct corporate PPAs or use of assets like roofs to generate solar or wind?

Since PLN is still the main supplier of electricity for businesses, it is difficult to directly source renewable energy from a supplier by way of direct corporate PPAs since the supplier must initially obtain business area. Thus, one emerging example on how businesses are engaging or using renewable energy is by way of use of assets like Solar PV rooftop with a lease scheme.

14. What are the significant barriers that impede both the renewables industry and businesses' access to renewable energy? For example, permitting, grid delays, credit worthiness of counterparties, restrictions on foreign investment.

The significant barriers that impede the renewable energy and also businesses’ access to renewable energy in Indonesia is mostly related to permitting and grid delays. For IPP projects, PLN has to go through procurement steps or direct selection process (and the fact that direct appointment is only allowed in certain conditions). Meanwhile, private sector cannot sell electricity from renewable energy sources without obtaining business area and most area in Indonesia is under PLN’s monopoly and the regulation only allows a single holder of business area within the same area.

15. What are the key contracts you typically expect to see in a new-build renewable energy project?

Typically, the key contracts in renewable energy projects are the EPC contract, drilling contract for the geothermal project, offtake contract (power purchase agreement), and operation and maintenance contract. Recently, renewable projects that have achieved commercial operation also started to enter into Emission Reduction Purchase Agreement (ERPA).

16. Are there any restrictions on the export of renewable energy, local content obligations or domestic supply obligations?

There are no restrictions on the export of renewable energy. However, it requires certain approval or licenses to export renewable energy. For example, the export of electricity (including that generated from a renewable energy-based power plant) requires approval and permit from MEMR. The permit to export renewable energy is valid for 5 years and can be renewed. The relatively short-term permit may not be practical for a long-term export power purchase agreement. Renewable energy projects are also subject to local content obligations and each type and capacity of renewable energy is subject to different levels of local content under the regulations.

17. Has deployment of renewables been impacted in the last year by any non-country specific factors: For example, financing costs, supply chain or Covid 19?

Covid-19 pandemic seems to cause some delay in the procurement of renewable energy in Indonesia although there is no formal statement from PLN that the lack of new procurement is due to Covid-19. We understand that generally Covid-19 cause delay in development of other sector such as industry and restriction on the operation of existing industry. Consequently, the demand of electricity including from renewable energy power plant is also decreased during this situation and there is an oversupply which cause PLN to delay development of new renewable energy.

Although it is not explicitly stated by PLN, however, procurement of new renewable projects has been delayed pending the issuance of the new presidential regulation on renewable energy which eventually issued (i.e., the Presidential Regulation No. 112 of 2022).

18. Could you provide a brief overview of the major projects that are currently happening in your jurisdiction?

Currently there are several new major renewable energy projects are underway with floating solar PV with PLN's subsidiaries being the landmark projects. PLN is also actively resume the procurement of other new renewable energy projects such as hydro and wind.

19. How confident are you that your jurisdiction can become a leader in newer areas like offshore wind or hydrogen?

The government encourages the development of these new areas. MEMR and Ministry of Industry support hydrogen as one of the energy carriers for energy transition in Indonesia. We also understand that there are feasibility studies conducted for the development of offshore wind.

20. How are renewables projects commonly financed in your jurisdiction?

Renewable projects commonly financed by way of non-recourse project financing and for smaller projects sometimes it is financed purely from equity.

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