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Unlocking Indonesia's Renewable Energy Investment Potential

Challenges and opportunities for accelerating renewable energy investment

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26 July 2024

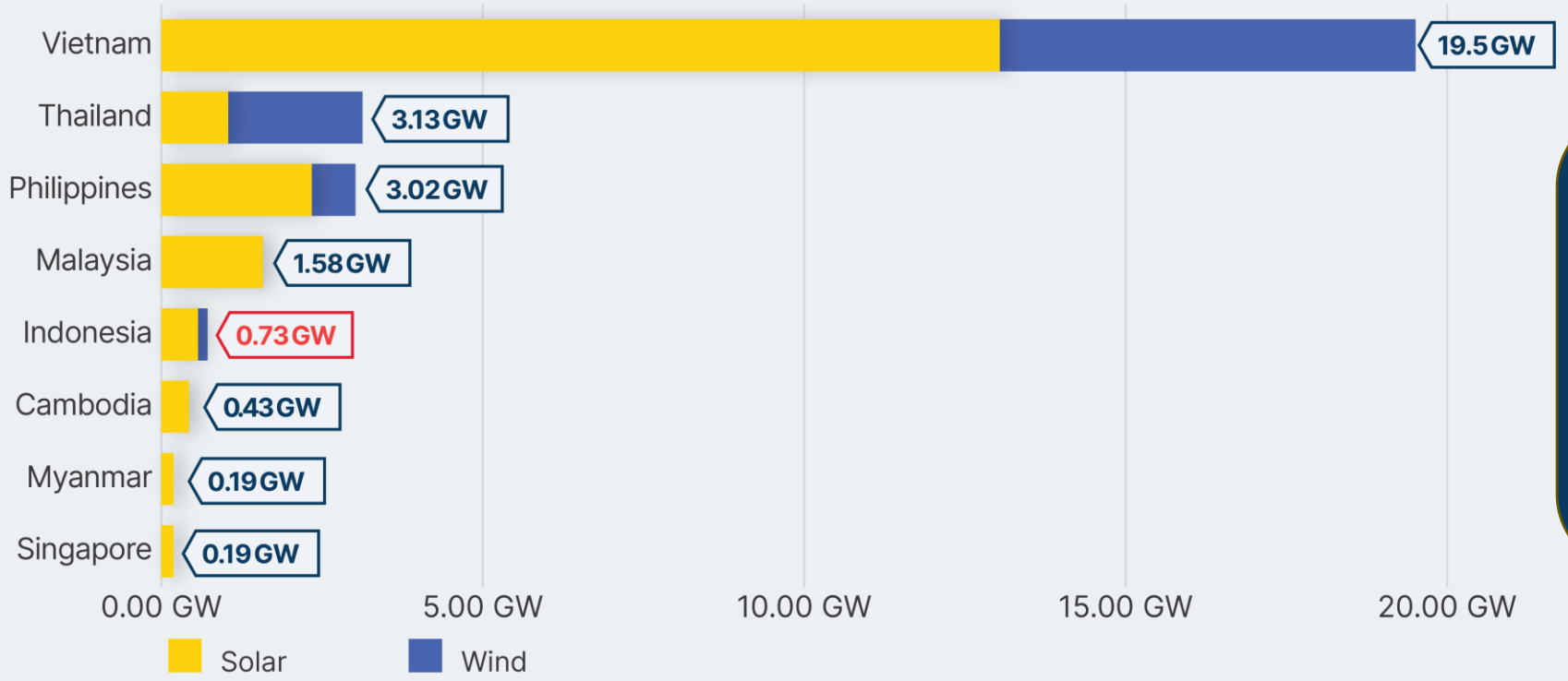
Overview

Investment in renewable energy in Indonesia has stagnated for the past seven years. In 2023, it attracted a mere US$1.5 billion, lagging far behind its Southeast Asian neighbors.

Indonesia needs to attract US$146 billion in near-term renewable energy investment to meet the country's 2030 climate target.

Current policies and onerous contractual requirements towards solar and wind power raise costs and **discourage private investment.**

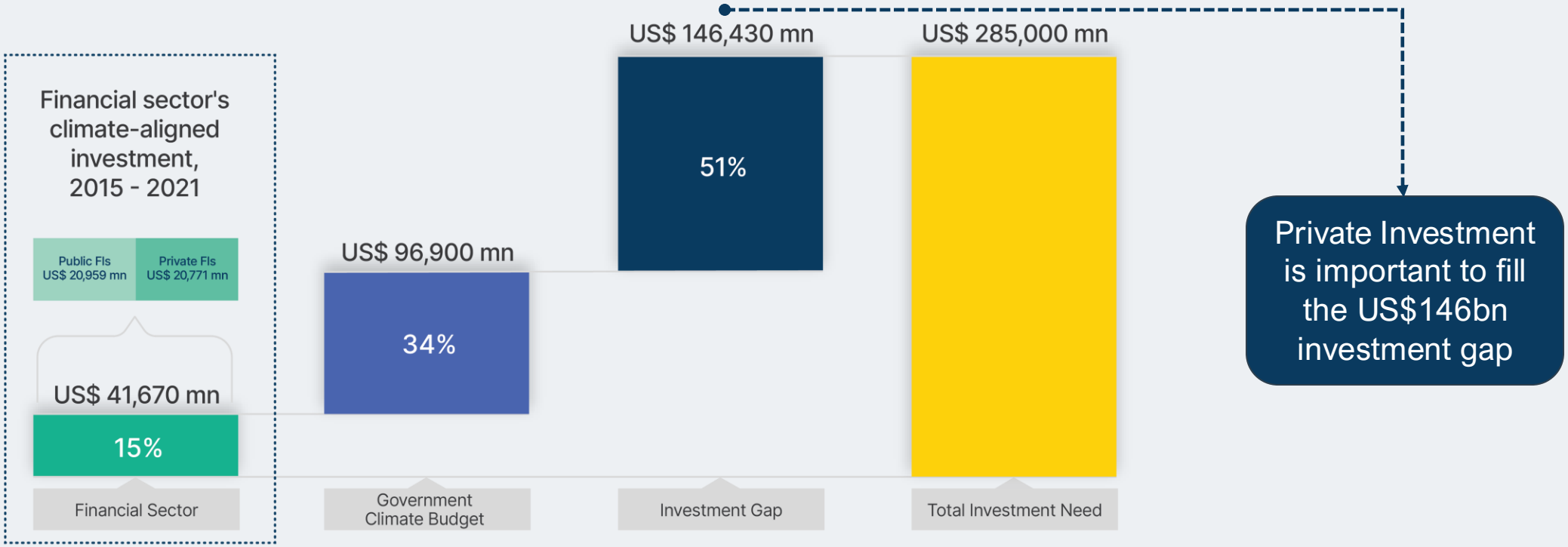
Sluggish Renewable Energy Development



In 2023, Indonesia only attracted around US$1.5bn in investments, translating to a mere 574MW of additional renewable energy capacity.

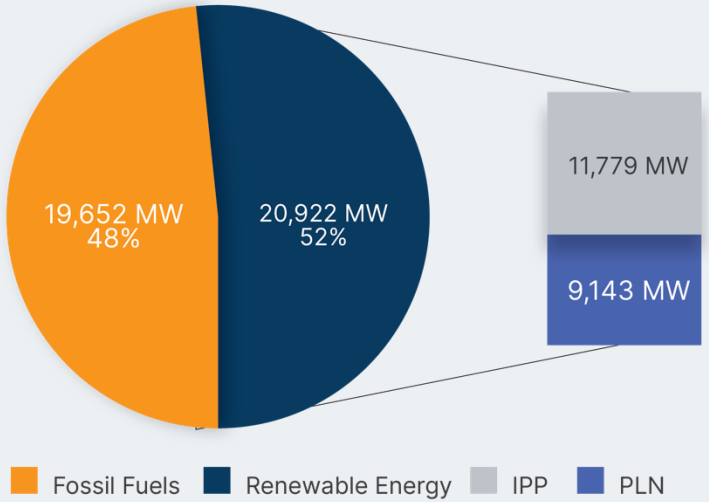
Source: Global Energy Monitor. A Race to the Top: Southeast Asia 2024. January 2024; IEEFA

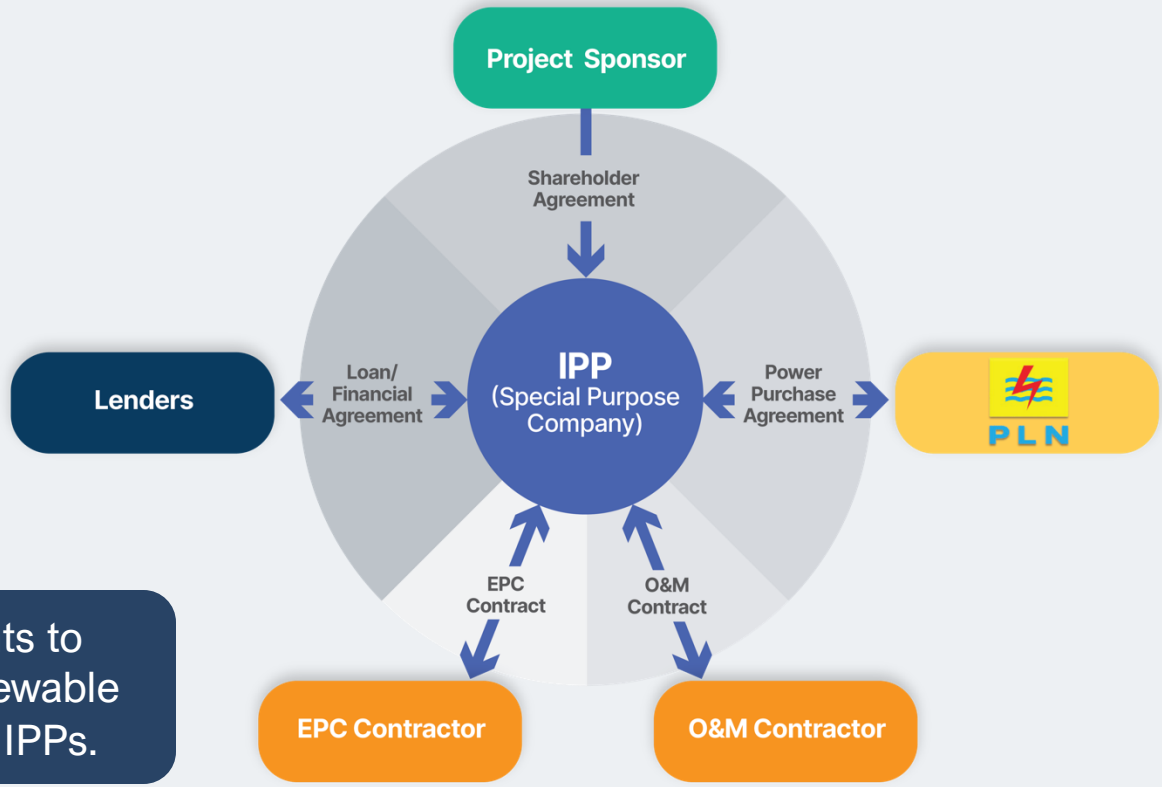
Investment Needed to Achieve 2030 Climate Target



Source: Climate Policy Initiative. Landscape of Climate-Aligned Investment in Indonesia's Financial Sector. Page 8. December 2023.

The Critical Role of Independent Power Producers (IPP)





According to RUPTL 2021 – 2030, Indonesia wants to achieve an additional capacity of 20.9GW from renewable energy; 56% of which was expected to be built by IPPs.

Source: RUPTL 2021 – 2030, PLN


Is Indonesia an attractive country for renewable energy investors?
Yes!
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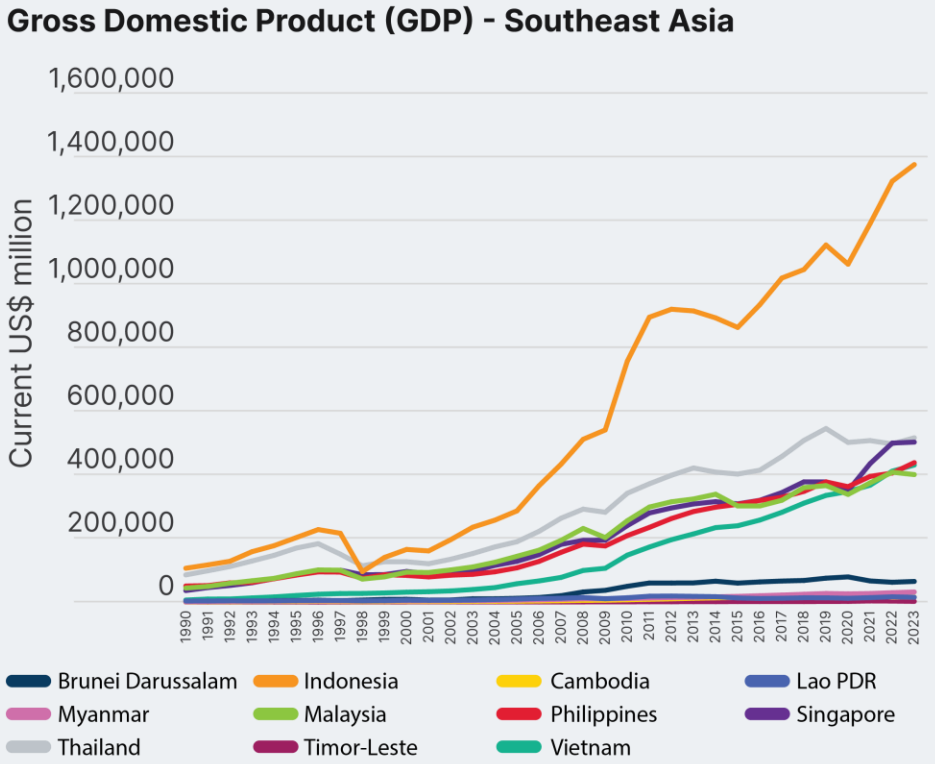
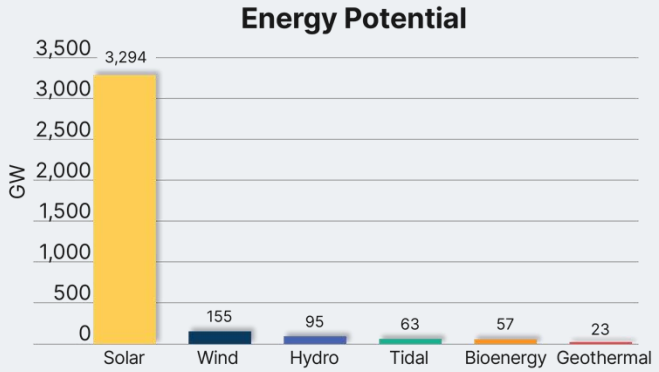
Potential for Economic Growth

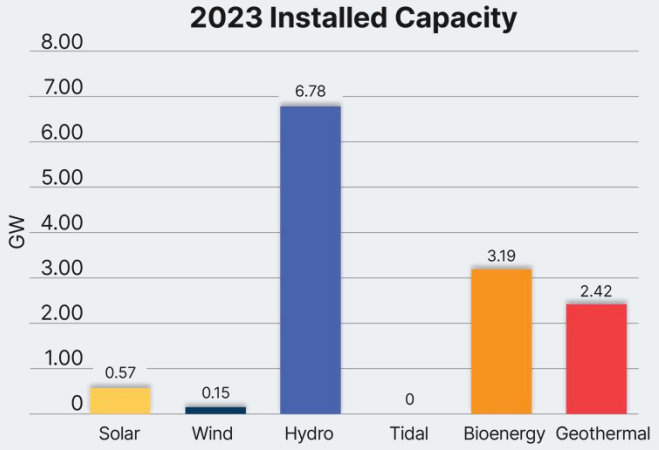
Indonesia shows **strong economic fundamentals** with a 5% annual growth rate, stable inflation (2.8% in 2023) and exchange rates

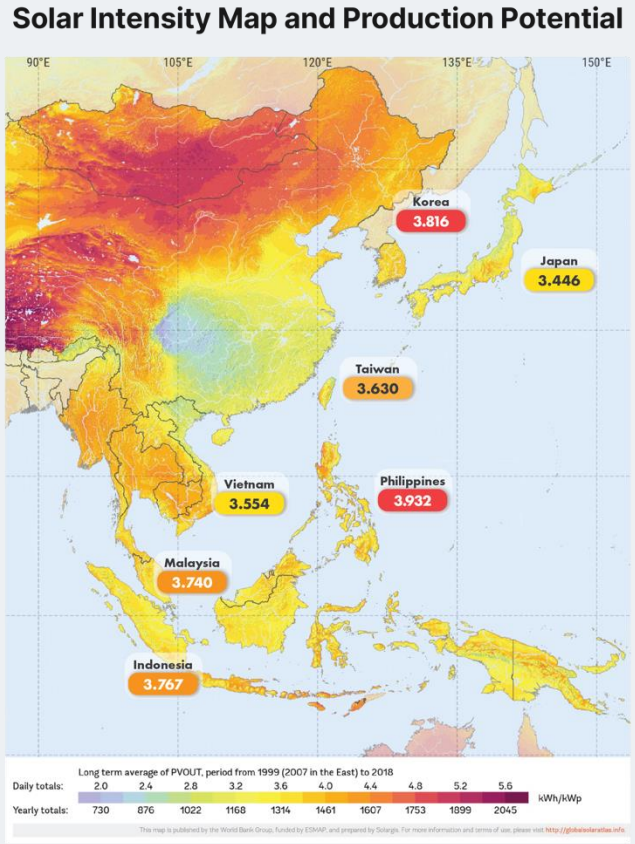


Source: World Bank. GDP Indonesia.

Vast Untapped Renewable Energy Potential







- Indonesia, ranked third in the region for solar potential, has only added 574MW solar capacity from **3,294GW of solar potential** *(0.017% of total potential).*
- Indonesia has also only developed 154MW of wind power from **155GW of wind power potential** *(0.001% of total potential).*

Indonesia's untapped renewable energy potential offers a promising landscape for investors

Source: National Energy Council (DEN); MEMR; IEEFA.

Indonesia needs to reevaluate its planning, procurement, and investment processes

Challenges and Barriers in Renewable Energy Investment

Mandatory partner and 51% majority shareholders' scheme

Restrictions on the transfer of ownership rights

Deliver-or-pay scheme

Renewable energy tariffs

Local content requirements

Carbon credit incentives

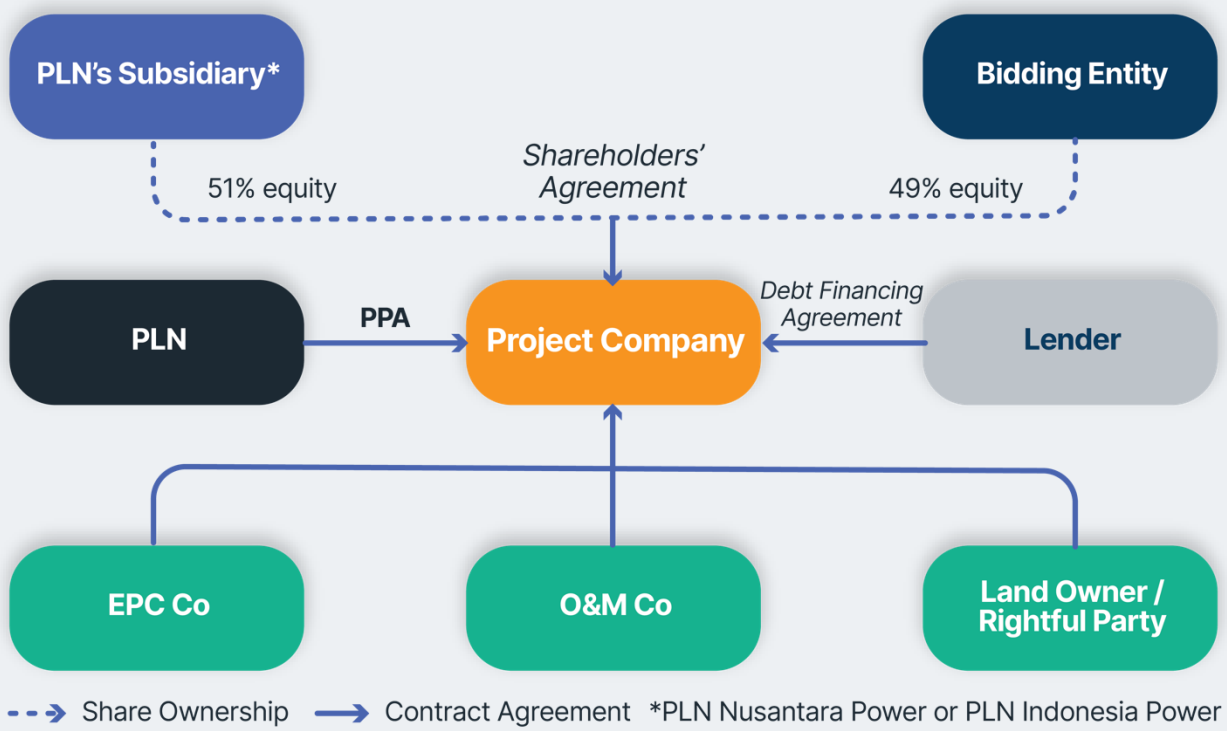
Renewable energy procurement procedures

1

Mandatory Partner and 51% Majority Shareholders' Scheme

PLN's subsidiary appointed as a mandatory partner and 51% owner of the project company

PR No. 14 of 2017



PLN has applied the same structure with a lower ownership percentage (**up to 35% equity**) for projects under the **direct selection procurement mechanism**.

This scheme raises risks and negatively impacts equity returns for investors.

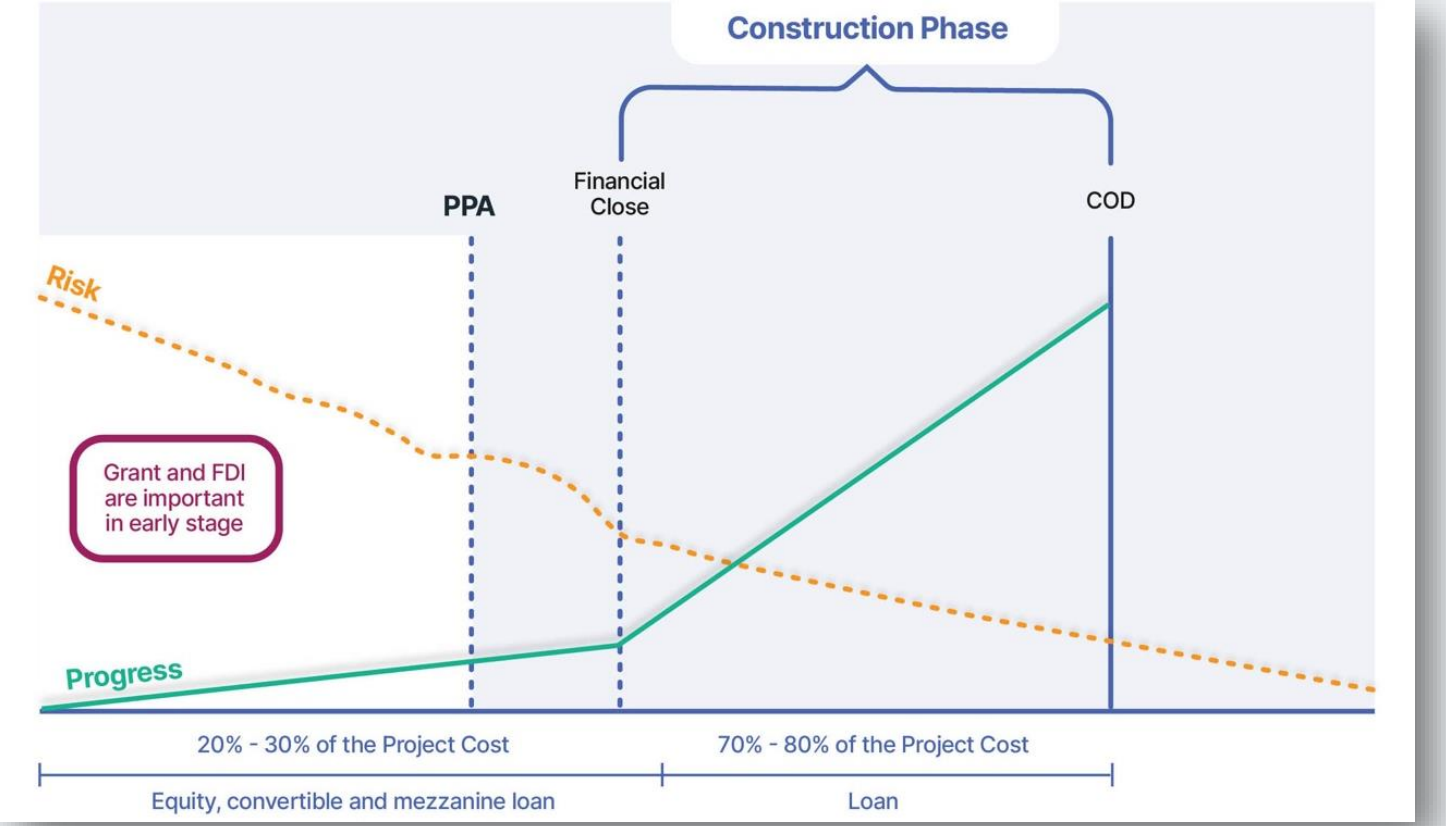
It also has impact for GOI and PLN:

- PLN would have to accept the project's **financing risk**.
- PLN would have to **raise cash equity** for the investment or provide some other value-in-kind contribution instead of cash.
- **Conflict of interest** between PLN's role as project owner and off-taker

2

Restrictions on the Transfer of Ownership Rights

GOI has restricted the transfer of project ownership rights before the commercial operation date (COD)



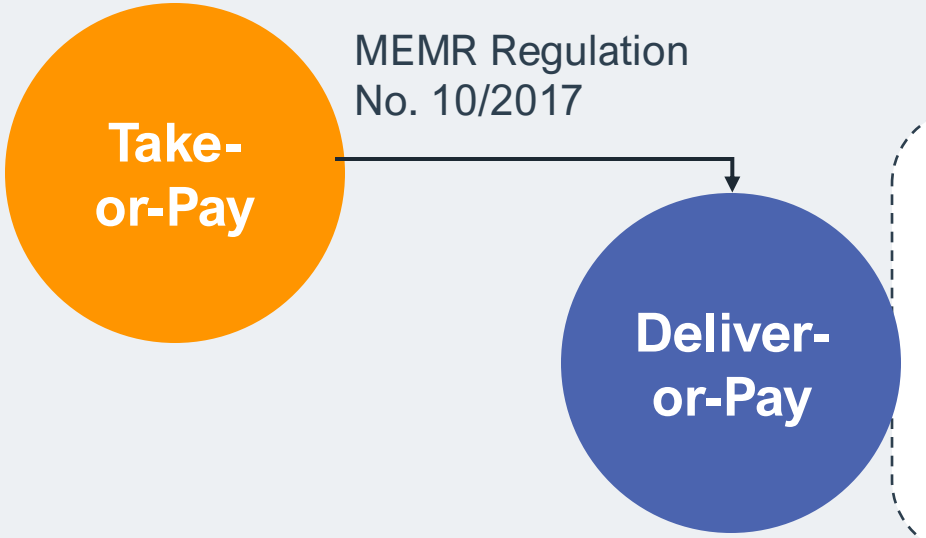
Transfer of project ownership is restricted before COD and GOI only allows the transfer to an affiliate where the sponsor owns more than 90% of shares.

This restriction limits the private sector's ability to obtain additional capital and technical expertise during project delivery.

3

Deliver-or-pay Scheme

Deliver-or-pay scheme is considered less attractive than the take-or-pay commitment for fossil fuel plants



- Obligation to supply a certain amount of electricity or pay a fine if Power Purchase Agreement (PPA) obligations are not met, or there is a delay in the COD, or ACE requirements are not met due to generator disruption.
- Penalties directed at renewable energy investors **increase the risk** of investing in renewable energy investment.

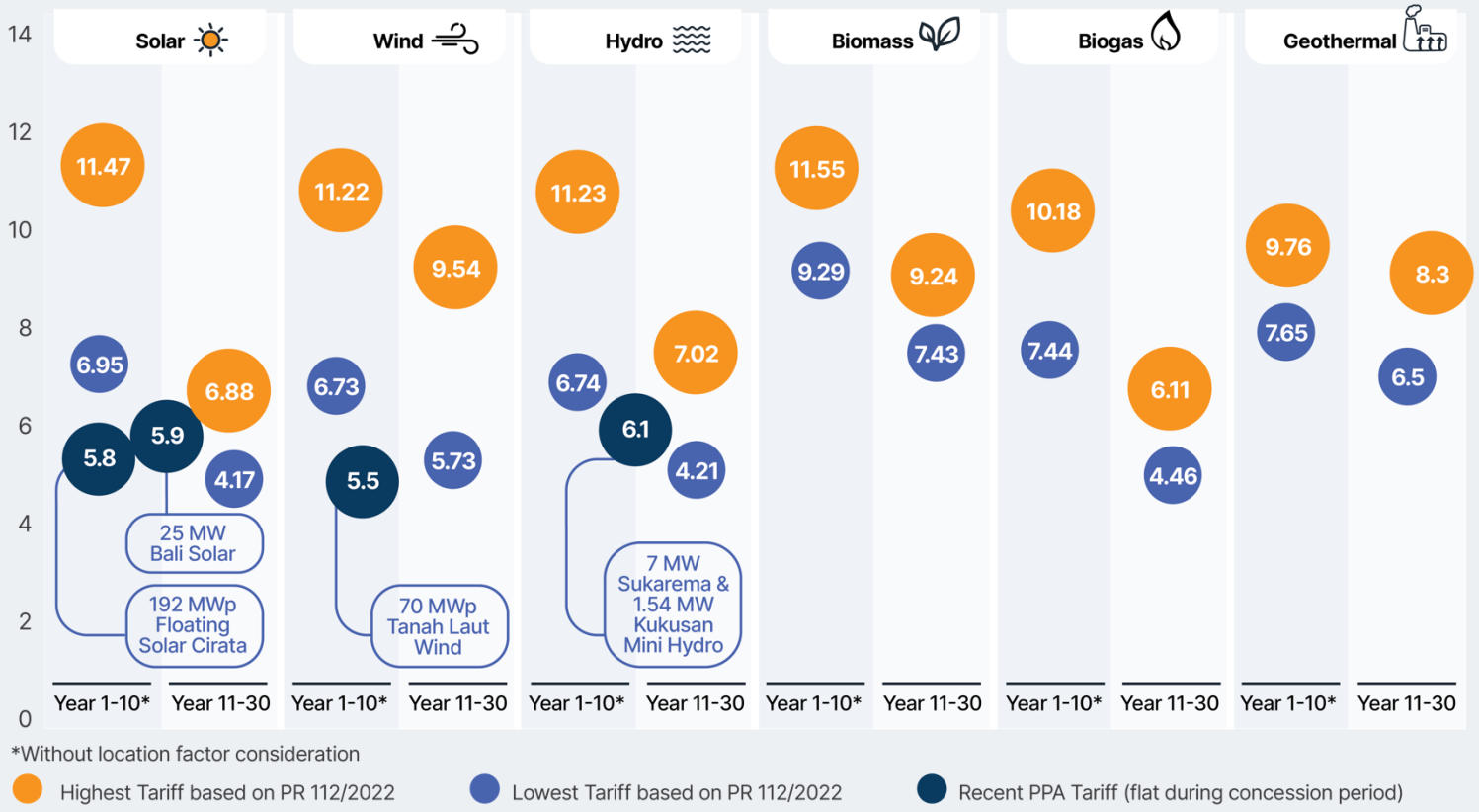
The terms and conditions of this policy and the calculation of penalties should be reviewed.

Investors should be involved in determining formulas and indicators of the penalty.

4

Renewable Energy Tariffs

The new ceiling tariff is considered too low and the competitive method under the direct selection process leads to even lower, unattractive tariffs



Under PR 112/2022 GOI introduced a new ceiling tariff, staggered over two periods, with a higher ceiling tariff for the first period (years 1 – 10) and lower for the second period (years 11 – 30).

Renewable energy project procurement through direct selection or direct appointment results in even lower tariff, making it **difficult for investors to achieve profit targets**.

5

Renewable Energy Procurement Procedures

There is a lack of transparency in PLN's procurement of renewable energy projects

1 **DPT**

E- procurement Registration → Account Activation by PLN → DPT Documents Submission → Feedback from PLN & DPT Documents Verification → DPT Listed

No clear timeline for the DPT approval

2 **Tender Process**

Procurement Process → Financing → Construction

Issuance of the RfP

PPA

180 days (based on PR 112/2022)

6 - 12 months

No guarantee that the procurement process will adhere to the timeframes provided.

Tenders can also be canceled without explanation, leaving investors to record expenses as sunk costs.


Transparent and well-defined procedures in renewable energy procurement, supported by commercially balanced contractual terms and conditions, will provide assurance and certainty for potential investors.
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THANK YOU

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