



Renewable Energy: PLN seeks Select Developers Club

November 2017

A week is a long time in politics. To regular followers of the renewables sector in Indonesia, the recent flurry of announcements relating to ESDM's Regulation No 50/2017 will come as no surprise.

We take a look at the key implications for renewables developers, including: (i) how to qualify for a PLN PPA; and (ii) what is the offtake price.

Offtake Price

The key change for investors under Regulation 50/2017 revolves around PPA pricing.

For solar, wind, hydro, biomass, biogas and tidal (marine power) projects in regions where the regional BPP (*Biaya Pokok Penyediaan Pembangkitan*) or average cost of generation is less than the national average BPP (US\$ 0.0739 kWh), the electricity price will now be set by mutual agreement between the developer and PLN (as opposed to the developer being paid at 100% of the regional BPP under Regulation 12/2017). Municipal waste and geothermal power generation will continue (as before) to be exempted from the 85% cap and may negotiate directly with PLN.

A developer is still paid at 85% of the regional BPP where the regional BPP is higher than the national average BPP, other than hydro, which will now be paid out at 100% of the local BPP rate.

Notwithstanding the above, all offtake prices payable by PLN under a PPA's must be approved by ESDM.

Quite how this will be interpreted by investors remains to be seen. On the bright side, developers of projects in regions where the regional BPP is less than the national average BPP have an opportunity to directly negotiate a higher price with PLN.

On the down side, building an investment case for a project may be challenging with no firm offtake price on the table (and any negotiated price with PLN being subject to ESDM approval).

Procurement process

There was some confusion around the procurement process across different technologies under Regulation 12/2017. In particular, three difference procurement routes were outlined:

- (a) an auction based process for solar PV and wind projects (as implemented by a limited capacity quota solar auction conducted in May 2017);
- (b) a reference price selection process for hydro, biogas, WtE and geothermal, with very little detail provided on how the process is implemented; and
- (c) a direct selection process for hydro, biomass and biogas (running in parallel to the reference price process). Direct selection has historically meant a limited competitive tender process carried out by PLN to a pool of pre-selected participants.

Regulation 50/2017 however now requires PLN to carry out a direct selection process for wind, solar PV, hydro, biomass, biogas and sea-water (tidal) IPP's. To this end, an important prequalification announcement was made by PLN on 12 October 2017 for developers looking to participate in future renewable energy IPP's in Indonesia (the "**Announcement**").

The Announcement covered solar PV, wind, hybrid power, biomass, biogas, municipal waste and tidal wave (in essence all technologies other than hydro or geothermal) and invited developers to apply to be listed on PLN's "list of selected providers" by no later than 3.00 p.m. on 14 November 2017.

This implies that – for the moment – successfully prequalified companies only will be invited to participate in direct selection renewable energy bidding rounds by PLN. It is also unclear at this stage when the next pre-qualification round will be carried out.

The full Announcement can be found [here](#).

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