FiT Regime for Indonesian Biomass and Biogas Projects

December 2016

A new regulation promoting biogas and biomass power projects through feed-in-tariffs ("**FiTs**") was issued by the Indonesian government on 4 August 2016 ("**FiT Regulation**"), replacing the previous biomass/biogas Regulation No.27 of 2014.

The FiT Regulation sets out (i) the applicable FiT levels and (ii) the application procedure, for new and existing biogas and biomass projects in Indonesia – and flows out of the Governments' drive to build 35GW of new power capacity by 2019.

Key takeaways can be found below.

Subsidy - price and term

Tables 1 and 2 (see Appendix) set out the tariff levels for both biogas and biomass power plants .

Preferential tariffs apply for projects:

a) connected to the state owned electricity distributors' (PT Perusahaan Listrik Negara (PLN)) low voltage (as opposed to high voltage) transmission network;

b) with a capacity of up to 20MW, with tariffs reduced on a sliding scale for projects between 20MW and 50 MW and above 50MW respectively;

c) within certain geographical areas using the "F" multiplier applicable to each respective area.

The FiT is for a term of 20 years from commercial operations date ("**COD**") and is:

a) set in US$, but paid in Rupiah based on the Jakarta Interbank Spot Dollar Rate at the time agreed in the PPA;

b) fixed and not subject to escalation (the position as to inflation is not confirmed); and

c) inclusive of PLN's cost of procurement and offtake of the electricity from the facility to the grid.

Separate tariff levels are set out in the Schedule to the FiT Regulation for the sale of excess electricity to PLN.

Process for FiT application

Developers looking to apply for a FiT must submit certain documents to the Minister for Energy and Mineral Resources ("**MEMR**") through the Directorate General of New and Renewable Energy and Energy Conservation ("**EBTKE**"). These include a feasibility study (already verified by PLN) which must set out:

a) an estimate of the development costs;

b) a construction timetable up to COD;

c) a study in to interconnection capacity in the relevant area;

d) confirmation that local goods and services will be prioritised during the development; and

e) plans by the developer to finance the development.

This application is reviewed by an evaluation team (formed by EBTKE) who must issue a report to MEMR within 7 days of receipt of a developer's application.

MEMR (through EBTKE) issues its approval or rejection within a maximum of 7 days of receipt of the evaluations teams' report. If approved, there are then some speedy timeframes to comply with:

a) a PPA (the form of which is yet to be confirmed and issued by PLN) must be signed within 30 days of the approval;

b) financial close must occur within one year of signing the PPA, failing which the developer's application is repealed;

c) COD must occur within 36 months of signing the PPA, otherwise tariffs are incrementally reduced; and

d) if COD does not occur by a longstop date of 48 months after singing the PPA, the developer's application is repealed.

Developers who have had an application revoked are barred from applying for a similar FiT for 2 years from the revocation date.

There are also provisions in the FiT Regulations allowing existing biomass and biogas projects (operational and non-operational) to apply for the FiT under the FiT Regulations.

Developer risks – select issues

Project Timelines

A key concern (in a country where, historically, projects get delayed) will be the short timeframe to reach Financial Close ("**FC**"). IPPs by their nature are complicated (in particular EfW/biomass plants with fuel supply considerations) – and banks will need to get comfortable as to bankability in what looks like an aggressive 12-month timeframe. Projects will need to be at advanced stages with funders and EPC contractors at the time of a FiT application as the (i) FC and (ii) COD clock starts to run once the PPA is signed.

Bankability of PPA

The PPA form has not yet been made public – and once published, is non-negotiable. The extent to which it is in an internationally recognised, market standard form will influence a project's bankability.

Currency and Inflation

No details have been provided as to whether the FiT is adjusted in line with inflation. The fixing of returns from US$ to local Rupiah at a set date (as agreed in the PPA) may also expose the project to currency risk if the value of the Rupiah subsequently falls against dollar denominated debt, unless the currency fixing date aligns to each payment period under the PPA.

Covenant of Offtaker

As sole offtaker, the covenant strength of PLN will be looked at by funders, against the backdrop of current market conditions and track record in previous renewable energy/conventional power schemes. Whether a government guarantee is offered (or procured by PLN) to backstop PLN's payment obligations will be a consideration.

For further information, please contact:

Marius Toime
Partner
Singapore
T:+65 6571 6603
Marius.toime@blplaw.com

Gavin Doyle
Associate
London
T:+44 (0)20 3400 3774
Gavin.doyle@blplaw.com

APPENDIX

Table 1: Biomass Tariffs

		Purchase Price (cent USD/kWh)				
No.	**Location**	Capacity up to 20 MW		20 MW < Capacity s50 MW	Capacity > 50 MW	**Factor F**
		Low Voltage	Medium or High Voltage	High Voltage	High Voltage	
1	Java	16.00 x F	13.50 x F	11.48 x F	10.80 x F	1.00
2	Sumatra	16.00 x F	13.50 x F	11.48 x F	10.80 x F	1.15
3	Sulawesi	16.00 x F	13.50 x F	11.48 x F	10.80 x F	1.25
4	Kalimantan	16.00 x F	13.50 x F	11.48 x F	10.80 x F	1.30
5	Bali, Bangka Belitung and Lombok	16.00 x F	13.50 x F	11.48 x F	10.80 x F	1.50
6	Riau, Nusa Tenggara and Lainnya	16.00 x F	13.50 x F	11.48 x F	10.80 x F	1.60
7	Muluku and Papua	16.00 x F	13.50 x F	11.48 x F	10.80 x F	1.70

Table 2: Biogas Tariffs

		Purchase Price (cent USD/kWh)				
No.	**Location**	Capacity up to 20 MW		20 MW < Capacity s50 MW	Capacity > 50 MW	**Factor F**
		Low Voltage	Medium or High Voltage	High Voltage	High Voltage	
1	Java	13.14 x F	10.64 x F	9.05 x F	8.51 x F	1.00
2	Sumatra	13.14 x F	10.64 x F	9.05 x F	8.51 x F	1.15
3	Sulawesi	13.14 x F	10.64 x F	9.05 x F	8.51 x F	1.25
4	Kalimantan	13.14 x F	10.64 x F	9.05 x F	8.51 x F	1.30
5	Bali, Bangka Belitung and Lombok	13.14 x F	10.64 x F	9.05 x F	8.51 x F	1.50
6	Riau, Nusa Tenggara and Lainnya	13.14 x F	10.64 x F	9.05 x F	8.51 x F	1.60
7	Muluku and Papua	13.14 x F	10.64 x F	9.05 x F	8.51 x F	1.70