



More Favourable Local Content Requirements for Power Producers

August 2024



Overview

The Minister of Energy and Mineral Resources (“**MEMR**”) and the Minister of Industry (“**MOI**”) recently introduced three new regulations and one new decree relating to local content for electricity infrastructure construction, which are:

- > MEMR No. 11 of 2024 on the Use of Domestic Products for Electricity Infrastructure Construction (“**MEMR Regulation 11/2024**”);
- > MEMR Decree No. 191.K/EK.01/MEM.E/2024 on the Minimum Threshold for Local Content Value of Combined Goods and Services within the Scope of Electricity Infrastructure Construction Projects (“**MEMR Decree 191/2024**”);
- > MOI Regulation No. 33 of 2024 on the Revocation of MOI Regulation No. 54/M-IND/PER/3/2012 (“**MOI Regulation 33/2024**”); and
- > MOI Regulation No. 34 of 2024 on the Procedure for the Calculation of Solar Modules Domestic Component Level (“**MOI Regulation 34/2024**”).

These regulations essentially replace the MOI Regulation No. 54/M-IND/PER/3/2012 of 2012 on the Guideline for the Use of Domestic Products for Electricity Infrastructure Projects, as lastly amended by MOI Regulation No. 23 of 2023 (“**MOI Regulation 54/2012**”), as the previously prevailing regulation on local content for electricity infrastructure construction. The new regulations mark the assumption of authority by MEMR for regulating local content requirements for the combined goods and services for power projects (previously regulated by MOI) and provide more favourable local content requirements for power producers in contrast to the requirements under MOI Regulation 54/2012, which had become a barrier to progressing a number of planned power project developments, particularly solar power projects.

This publication sets out the key provisions of the newly issued regulations.



MEMR Regulation 11/2024 and MEMR Decree 191/2024

Overview of local content requirements

Local content requirements under MEMR Regulation 11/2024 applies to all electrical infrastructure for public purposes. MEMR Decree 191/2024 as the implementing regulation stipulates the latest requirements on local content for combined electrical infrastructure/ components and services, as elaborated further below. These requirements are to be reviewed at least once every 3 years, or otherwise as required. For individual industrial components, MEMR Regulation 11/2024 requires compliance with applicable MOI regulations governing such components, which for solar modules is regulated under MOI Regulation 34/2024.

A key change from the MOI Regulation 54/2012 is that MEMR Regulation 11/2024 provides a possible exemption from local content requirements (with no minimum threshold) for electrical infrastructure supplying domestic electricity which are financed at least 50% by foreign loans/grants from development banks or financial institutions, allowing these projects to follow the requirements set out in the relevant loan/grant agreement. While the origins of this exemption were to address roadblocks to the development of SOE projects under eg, two step government loans/grants, the definition is on the face of it broad enough to capture direct lending to projects developed by (private) business entities.

MEMR Regulation 11/2024 expressly states that electricity infrastructure for exports will also be subject to local content requirements. The specific local content percentage for electricity infrastructure for export will be governed under a separate MEMR regulation/decreed.

Verification

MEMR Regulation 11/2024 requires verification of the fulfilment of the minimum local content of combined goods and services by a licensed independent surveyor. The verification should be completed prior to the handover of an electricity infrastructure construction.

MEMR Regulation 11/2024 imposes administrative sanctions for non-compliance (ranging from written warnings, suspensions, administrative fines, to revocation of General Electricity Supply Business Licence/IUPTLU).

Price preference

MEMR Regulation 11/2024 provides that MEMR may grant a “price preference” for local content, whereby a bidder’s price offering in an electrical infrastructure tender will be deemed adjusted in the bidder’s favour. The value of the price preference will be determined by Directorate General of New and Renewable Energy and Energy Conservation (for renewable energy) / Directorate General of Electricity (for non-renewable energy and transmission/ distribution facilities).

Roadmap

MEMR Regulation 11/2024 provides that the MEMR will issue roadmaps for the achievement of combined goods and services local content for electrical infrastructure.

Relaxation of domestic products requirement for solar projects

MEMR Regulation 11/2024 incentivises domestic and foreign solar module manufacturers that are committed to producing solar modules locally and in compliance with local content regulations by 31 December 2025 by giving relaxation from the use of domestic products up to 30 June 2025. The relaxation will be granted to projects which procure their solar modules from such manufacturers (either assembled domestically or entirely imported).

The relaxation applies to solar projects, the PPA for which is signed by 31 December 2024 and which are planned to achieve commercial operations by 30 June 2026 in line with the relevant electricity supply business plan.

The list of projects entitled to the relaxation will be determined by a coordination meeting held by the Coordinating Minister of Maritime and Investment.

Application of MEMR Regulation 11/2024

Hydro, geothermal, solar, steam, gas, combined-cycle plants, transmission lines, and substations which are in the planning stage, construction stage or have achieved commercial operations since 2021 but have not been subject to independent verification will be subject to MEMR Regulation 11/2024.

MEMR Regulation 11/2024 governs five new energy sources, being: (i) wind, (ii) biomass, (iii) biogas, (iv) waste-to-energy, and (v) gas engine. However, these power sources and any distribution lines which are already in the planning, construction or commercial operations stage would not be subject to MEMR Regulation 11/2024.

New minimum local content requirements

MEMR Decree 191/2024 provides significantly lower minimum local content requirements for combined goods and services for electricity infrastructure as compared to those mandated under MOI Regulation 54/2012. For example, the applicable minimum local content for combined-cycle gas power plants previously ranged from 30.22% – 47.88% depending on the capacity of the plant. Meanwhile under MEMR Decree 191/2024, this requirement has been lowered to 21.93% regardless of the power plant's capacity.

Combined local content requirements for renewable IPPs have also been significantly relaxed under Decree 191/2024 in many cases where there are existing requirements, and, as noted above, has now been stipulated for the five new types of renewables IPPs where no requirement had been specifically stipulated. Key examples, along with the comparisons under MOI Regulation 54/2012, are set out in the table below.

| Project type | MOI Regulation 54/2012 | MEMR Decree 191/2024 |
|------------------------|---|--|
| Solar PV | <ul style="list-style-type: none"> > Distributed Standalone Solar PV – 45.90%; > Centralised Standalone Solar PV – 43.72%; and > Centralised Interconnected Solar PV – 40.68%. | 20%. |
| Hydro | <ul style="list-style-type: none"> > Up to 15 MW installed capacity – 70.76%; > More than 15 MW up to 50 MW installed capacity – 51.60%; > More than 50 MW up to 150 MW installed capacity – 49%; and > More than 150 MW installed capacity – 47.6%. | <ul style="list-style-type: none"> > Up to 10 MW installed capacity – 45%; > More than 10 MW up to 50 MW installed capacity – 35%; and > More than 50 MW installed capacity – 23%. |
| Geothermal | <ul style="list-style-type: none"> > Up to 5 MW installed capacity – 42%; > More than 5 MW up to 10 MW installed capacity – 40.45%; and > More than 10 MW up to 60 MW installed capacity – 33.24%; > More than 60 MW up to 110 MW installed capacity – 29.21%; and > More than 110M MW installed capacity – 28.95%. | <ul style="list-style-type: none"> > Up to 60 MW installed capacity – 24%; > More than 60 MW installed capacity – 29%; and > Partial projects – 20%. |
| Wind | Not stipulated. | 15%. |
| Biomass | Not stipulated. | 21%. |
| Biogas | Not stipulated. | 25.19%. |
| Waste-to-energy | Not stipulated. | 16.53%. |

Further implementation on the methodology for the calculation of the combined goods and services local content requirements set out above will be stipulated by the Director General of Electricity (for conventional power projects) and the Director General of New and Renewable Energy for renewable IPPs.



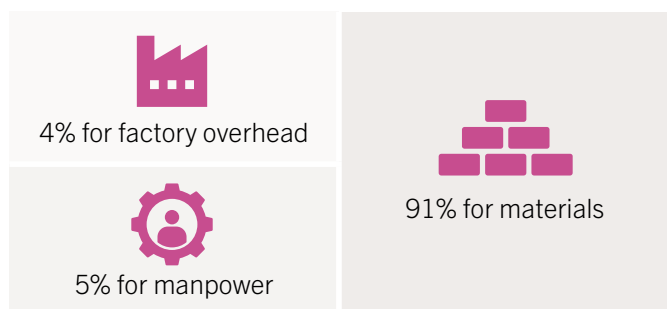
Calculation for solar modules

MOI Regulation 34/2024 regulates the calculation of solar modules local content.

This regulation revokes and supersedes MOI Regulation No. 04/M-IND/PER/2/2017 of 2017 on the Terms and Procedures for the Assessment of Domestic Component for Solar PV (“**MOI Regulation 4/2017**”), which governed local content calculation of solar modules and centralised/distributed PV systems. However, MEMR Regulation 34/2024 only regulates the local content of solar modules.

Calculation of solar modules local content

MOI Regulation 34/2024 assigns similar weight to production factors (*pembobotan faktor produksi*) in calculating the local content of solar modules as MOI Regulation 4/2017, being:



In calculating factory overhead, MOI Regulation 34/2024 takes into account the local content of opex, land and building tax, insurance premiums, and SLF certification fees.

MOI Regulation 34/2024 provides more favourable provisions in that all local content components of manpower and factory overhead are taken into account in calculating the aggregate local content percentage.

Calculation of “manpower” component for solar modules local content

The calculation of “manpower” production factor under MOI Regulation 34/2024 is based on the percentage of the Indonesian manpower against the total manpower.

Calculation of “factory overhead” component for solar modules local content

The calculation of “factory overhead” production factor (comprising equipment costs and other utility costs) under MOI Regulation 34/2024 shall be based on the percentage of the domestic factory overhead against the total factory overhead.



Impact and future developments

Impact on ongoing projects

As noted above, MEMR 11/2024 is applicable to ongoing hydro, geothermal, solar, steam, gas, combined-cycle plants, transmission lines, and substations projects, including those that have achieved commercial operations since 2021 which have not been subject to the independent verification process, making these projects subject to the new requirements under MEMR 11/2024.

Domestic supply and export

Electricity exports will be subjected to separate minimum local content requirements under a future MEMR regulation/decreree. It remains to be seen how the government will implement its desire to ensure these export projects deliver benefits to Indonesia’s solar module manufacturing sector, and the extent to which the temporary dispensations for those foreign manufacturers investing in Indonesia will be extended to these export projects on similar terms as the temporary dispensations for IPPs under the MEMR 11/2024. MEMR 11/2024 also does not address the scenario where a power plant only exports part of its capacity. Finally, it remains to be seen whether export projects may also be afforded an exemption or dispensation if financed wholly or partly by foreign loans/grants from development banks or financial institutions.

Future developments

MEMR Regulation 11/2024 mentions that there are some corresponding and implementing regulations, decrees and/or guidelines to be issued which will further stipulate and elaborate the basic provisions of MEMR Regulation 11/2024 (which cover, among others, minimum local content for electricity infrastructure for export and roadmaps for the achievement of combined goods and services local content for electricity infrastructure). Therefore, further implementation of the local content requirements under MEMR Regulation 11/2024 (and accordingly, its impact on the commerciality of power projects) will be driven by such regulatory policies.

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