CHRISTIAN TEO & PARTNERS
(in association with Stephenson Harwood)

RENEWABLE ENERGY PROJECTS – POSSIBLE RETHINK OF LOCAL CONTENT REQUIREMENTS[1][2][3][4][5]

INTRODUCTION

The Government is considering changing the local content requirements for renewable energy projects in light of recently reported statements by a senior official of the State electricity company that unrealistic local content requirements have proven to be a material impediment to obtaining the financing needed for Indonesia's renewable energy projects.

The recently expressed concerns, about the negative financing impact of local content requirements on Indonesia's renewable energy projects, have resulted in a more wide-ranging Government debate, as to whether or not Indonesia needs to rethink its entire approach to local content requirements across all industry sectors, "spilling" into the public domain.

Local content requirements, like domestic processing and refining obligations in respect of metal minerals, intuitively seem like a good idea in terms of ensuring that Indonesia has a more broad-based economy that is focused on higher value-added activities. However, the reality may, in fact, be quite different if the existence of local content requirements actually discourages investment in key sectors of the Indonesian economy. Foreign investors, in particular, often see Indonesia's local content requirements as being unrealistic and counterproductive.

In this article the writer will review the existing local content requirements for renewable energy projects and possible changes to these local content requirements before considering the bigger issue of to what extent unrealistic local content requirements are likely to be the principal reason for the slow development of Indonesia's renewable energy resources.

BACKGROUND

Local content requirements, which mandate the use of locally produced goods as well as the use of locally provided services, exist in numerous Indonesian industry sectors including construction, electric battery manufacturing, energy, mining, oil & gas, steel making and textile manufacturing (**TKDN Requirements**).

The TKDN Requirements, currently applicable to Indonesia's renewable energy industry, are both comprehensive and complicated.

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[2] Bill Sullivan is the author of "*Mining Law & Regulatory Practice in Indonesia – A Primary Reference Source*" (Wiley, New York & Singapore 2013), the first internationally published, comprehensive book on Indonesia's 2009 Mining Law and its implementing regulations.

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[5] An earlier version of this article appeared in the July - August 2024 issue of Coal Asia Magazine.

Indonesia has renewable energy resources equivalent to 418 GW of electricity generating capacity, comprising (i) 23.9 GW from geothermal, (ii) 75GW from hydro, (iii) **207.8 GW from solar**, (iv) 60.6 GW from wind, (v) 17.6 GW from tidal and (vi) 32.6 GW from biomass/biogas/biofuel or "bioenergy".

As the above estimates make clear, **solar** is the renewable energy resource which has the greatest potential to contribute to Indonesia's green energy transition, representing as it does nearly 50% of the additional electricity generating capacity that **could be** achieved utilizing Indonesia's renewable energy resources. This may well explain why solar power plants (**PLTS**) are the subject of particularly comprehensive and complicated TKDN Requirements.

In late May 2024, a senior executive of the State Electricity Company (**PLN**) was widely quoted in the popular media as having said that Indonesia's TKDN Requirements were making it impossible for PLN to obtain funding from the Asian Development Bank, the World Bank and the Japan International Cooperation Agency for nine renewable energy projects worth US$3.21 billion.

In late May 2024, it was announced that the Ministry of Industry is proposing to reduce the TKDN Requirements applicable to renewable energy projects and, to this end, intends to revoke Minister of Industry (**MoI**) Regulation No. 54 of 2012 re Guidelines for Utilization of Domestic Products for the Development of Electricity Infrastructure as lastly amended by MoI Regulation No. 23 of 20 (**MoI Regulation 54/2012**).

MoI Regulation 54/2012 is only part of the regulatory environment when it comes to the TKDN Requirements applicable to renewable energy projects generally and, more particularly, to PLTS. Various other regulations also have important provisions dealing with TKDN Requirements applicable to renewable energy projects including PLTS.

Given the above, it is important to understand the total regulatory "picture" when it comes to TKDN Requirements applicable to renewable energy projects. It is also important to consider what other factors, apart from the TKDN Requirements, may be responsible for the slow development of Indonesia's renewable energy resources. Otherwise, it is impossible to make an informed assessment of how significant or otherwise the proposed revocation of MoI Regulation 54/2012 is likely to be in encouraging the "fast track" development of Indonesia's renewable energy resources including solar.

ANALYSIS AND DISCUSSION

1. Review of Existing TKDN Requirements applicable to Renewable Energy Projects

1.1 Overview

MoI Regulation 54/2012 is concerned with TKDN Requirements applicable to electricity infrastructure generally rather than with TKDN Requirements applicable to renewable energy projects per se.

More particularly, MoI Regulation 54/2012 sets out the TKDN Requirements applicable to the construction of **all** forms of electricity infrastructure (i) to be used for the public interest, (ii) undertaken by State-owned enterprises (**BUMN**), Regional Government-owned

enterprises (**BUMD**), private enterprises and cooperatives and (iii) whether using funds from the State budget, Regional Government budgets, grants or foreign loans.

Relevant electricity infrastructure, covered by MoI Regulation 54/2012, includes (i) steam power plants, (ii) hydroelectric power plants (**PLTA**), (iii) geothermal power plants (**PLTP**), (iv) gas power plants, (v) steam gas power plants, (vi) PLTS and (vii) transmission networks, main substations and electrical distribution networks.

The TKDN Requirements applicable to PLTS are further broken down as between (i) Stand-alone Distributed PLTS – PLTS directly connected to "load-users" (**i.e.**, resulting electricity users which are not part of a relevant distribution network), (ii) Stang-alone Centralized PLTS – PLTS where the resulting electricity users are "off-grid" (**i.e.**, not connected to the PLN network) and (iii) Centralized Connected PLTS – PLTS where the resulting electricity users are "on-grid" (**i.e.**, connected to the PLN network).

Very specific provisions, with regard to the application of TKDN Requirements to PLTS only, are also to be found in MoI Regulation No. 4 of 2017 re Provisions and Procedures for Assessment of TKDN Levels in respect of PLTS (**MoI Regulation 4/2017**).

Government Regulation No. 29 of 2018 re Industrial Empowerment (GR 29/2018) imposes a much more general TKDN Requirement in the case of the utilization of "*resources controlled by the State*", which expression is to be understood as referring to, among other things, Indonesia's renewable energy resources generally and not just to solar.

1.2 MoI Regulation 54/2012

The TKDN Requirements, that MoI Regulation 54/2012 imposes on the construction of (i) PLTA, (ii) PLTP and (iii) PLTS, may be summarized as follows:

(a) Hydroelectric Power Plants (PLTA)[6]

Non-storage Pump PLTA				
No.	**Capacity**	**Minimum Goods TKDN (%)**	**Minimum Services TKDN (%)**	**Minimum Combined Goods and Services TKDN (%)**
1.	Installed capacity up to 15 MW per unit	64.20	86.06	70.76
2.	Installed capacity of more than 15 MW up to 50 MW per unit	49.84	55.54	51.60
3.	Installed capacity of more than 50 MW up to 150 MW per unit	48.11	51.10	49.00
4.	Installed capacity of more than 150 MW per unit	47.82	46.98	47.60

[6] Article 7 of MoI Regulation 54/2012.

Non-storage Pump PLTA				
No.	**Capacity**	**Minimum Goods TKDN (%)**	**Minimum Services TKDN (%)**	**Minimum Combined Goods and Services TKDN (%)**
Relevant "Goods" consist of civil works, metalwork, turbines, generators, electrical equipment, instruments and control panels				
Relevant "Services" consist of consultancy services in respect of feasibility studies, integrated construction services (**i.e.,** engineering, procurement and construction), inspection, testing, certification services and support services				

(b) Geothermal Power Plants (PLTP)[7]

PLTP				
No.	**Capacity**	**Minimum Goods TKDN (%)**	**Minimum Services TKDN (%)**	**Minimum Combined Goods and Services TKDN (%)**
1.	Installed capacity up to 5 MW per unit	31.30	89.18	42.00
2.	Installed capacity of more than 5 MW up to 10 MW per unit	21.00	82.30	40.45
3.	Installed capacity of more than 10 MW up to 60 MW per unit	15.70	74.10	33.24
4.	Installed capacity of more than 60 MW up to 110 MW per unit	16.30	60.10	29.21
5.	Installed capacity of more than 110 MW per unit	16.00	58.40	28.95
Relevant "Goods" consist of steam turbines, boilers, generators, electrical equipment, instruments and control panels, other plant and civil works and steel structures				
Relevant "Services" consist of consultancy services in respect of feasibility studies, integrated construction services (**i.e.,** engineering, procurement and construction), inspection, testing, certification services and support services				

(c) Solar Power Plants (PLTS)

(i) Stand-alone Distributed PLTS[8]

[7] Article 8 of MoI Regulation 54/2012.
[8] Article 12 of MoI Regulation 54/2012.

Stand-alone Distributed PLTS			
No.	**Minimum Goods TKDN (%)**	**Minimum Services TKDN (%)**	**Minimum Combined Goods and Services TKDN (%)**
1.	39.87	100	45.90
	• Solar modules = 40% • Battery = 40% • Battery Control Unit = 10% • Module Buffer = 42.40% • Cable = 90.00%	-	-
Relevant "Goods" consist of solar modules, batteries, battery control units, module supports, cables and accessories			
Relevant "Services" consist of delivery services and installation services			

(ii) Stand-alone Centralized PLTS[9]

Stand-alone Centralized PLTS			
No.	**Minimum Goods TKDN (%)**	**Minimum Services TKDN (%)**	**Minimum Combined Goods and Services TKDN (%)**
1.	37.47	100	43.72
	• Solar modules = 40% • DC Combiner Boxes = 20% • Distribution Panels = 40% • Batteries = 40% • Cables = 90.00% • Protection Systems = 20% • Module Buffers = 42.40% • Energy Limiters = 40%	-	-
Relevant "Goods" consist of solar modules, inverters and solar charge controllers, DC combiner boxes, distributions panels, batteries, cables (AC and DC), protection systems, module supports and energy limiters			
Relevant "Services" consist of delivery services, installation services and construction services			

(iii) Centralized Connected PLTS[10]

[9] Article 13 of MoI Regulation 54/2012.
[10] Article 13A of MoI Regulation 54/2012.

Centralized Connected PLTS			
No.	**Minimum Goods TKDN (%)**	**Minimum Services TKDN (%)**	**Minimum Combined Goods and Services TKDN (%)**
1.	34.09	100	40.68
	• Solar modules = 40% • DC Combiner Boxes = 20% • Distribution Panels = 40% • Transformers = 40% • Cables = 90.00% • Protection Systems = 20% • Module Buffers = 42.40%	-	-
Relevant "Goods" consist of solar modules, inverters, DC combiner boxes, distributions panels, transformers, cables (AC and DC), protection systems and module supports			
Relevant "Services" consist of delivery services, installation services and construction services			
Note: The minimum TKDN value for **solar modules** is to be increased to **60%**, starting **1 January 2025**.			

1.3 MoI Regulation 4/2017

MoI Regulation 4/2017 contains a "wealth of detail" as to how the actual TKDN levels of individual PLTSs are to be calculated for compliance determination purposes. These guidelines, for the calculation of actual TKDN levels in respect of individual PLTS, may be summarized as follows:

(a) Stand-alone Distributed PLTS[11]

- Calculation of actual Goods TKDN levels is to be carried out assuming the following PLTS Goods composition:

No.	Relevant Goods	Composition (%)
1.	Solar Modules	40.50
2.	Batteries	22.05
3.	Battery Control Units	10.59
4.	Cables	7.94
5.	Module Docks	6.30
6.	Accessories	2.65

- Calculation of actual Services TKDN levels is to be carried out assuming the following PLTS Services composition:

[11] Articles 2 and 3 of MoI Regulation 4/2017.

No.	Relevant Services	Composition (%)
1.	Delivery	6.67
2.	Installation	3.33

(b) Stand-alone Centralized PLTS[12]

- Calculation of actual Goods TKDN levels is to be carried out assuming the following PLTS Goods composition:

No.	Relevant Goods	Composition (%)
1.	Batteries	25.20
2.	Module Docks	20.70
3.	Inverter and Solar Charge Controllers	13.50
4.	Solar Modules	13.14
5.	Cables (AC and DC)	7.20
6.	DC Combiner Boxes	3.06
7.	Distribution Panels	2.70
8.	Energy Limiters	2.70
9.	Protection Systems	1.80

- Calculation of actual Services TKDN levels is to be carried out assuming the following PLTS Services composition:

No.	Relevant Services	Composition (%)
1.	Delivery	4.67
2.	Installation	3.33
3.	Construction	2.00

(c) Centralized Connected PLTS[13]

- Calculation of actual Goods TKDN levels is to be carried out assuming the following PLTS Goods composition:

No.	Relevant Goods	Composition (%)
1.	Solar Modules	40.50
2.	Inverters	13.50
3.	Module Docks	10.80
4.	Distribution Panels	6.30
5.	Transformers	5.40
6.	DC Combiner Boxes	5.40
7.	Protection Systems	4.50
8.	Cables (AC and DC)	3.60

- Calculation of actual Services TKDN levels is to be carried out assuming the following PLTS Services composition:

[12] Articles 5 and 6 of MoI Regulation 4/2017.
[13] Articles 8 and 9 of MoI Regulation 4/2017.

No.	Relevant Services	Composition (%)
1.	Delivery	2.20
2.	Installation	5.40
3.	Construction	2.40

(d) All PLTS Types[14]

In the case of **all** types of PLTS (**i.e.**, Stand-alone Distributed PLTS, Stand-alone Centralized PLTS **and** Centralized Connected PLTS), the actual Services TKDN level is determined to be in the case of:

- Delivery services:

  1. 100% if carried out by domestic business entities and using working tools that are owned by domestic business entities; and

  2. 0% if not carried out by domestic business entities and/or using working tools that are not owned by domestic business entities.

- Installation services:

  1. 100% if carried out by domestic business entities; and

  2. 0% if not carried out by domestic business entities.

- Construction services:

  1. 100% if carried out by domestic business entities; and

  2. 0% if not carried out by domestic business entities.

(e) Solar Modules and Solar Cells[15]

Detailed provision is also made for the assumed goods and services (**i.e.**, manpower) composition of solar modules and solar cells in calculating the actual TKDN levels of solar modules and solar cells, being part of every PLTS.

1.4 GR 29/2018

GR 29/2018 requires the use of so-called "*Domestic Products*" by[16]:

(a) State institutions, ministries, non-ministerial government institutions, other government institutions and regional working units in the procurement of goods/services if their financing comes from the State and/or regional budgets, including domestic or offshore loans or grants; and

[14] Articles 3(2), 3(3), 6(2), 6(3), 6(4), 9(2), 9(3) and 9(4) of MoI Regulation 4/2017.
[15] Articles 11, 12, 13, 14, and 15 of MoI Regulation 4/2017.
[16] Article 57 of GR 29/2018.

(b) BUMNs, other legal entities owned by the State, BUMDs and **private business entities** in connection with projects which:

(i) with financing from the State and regional budgets;

(ii) where relevant work activities are carried out by way of cooperation between Central Government and/or Regional Governments and private business entities; and/or

(iii) **utilize "*resources controlled by the State*"** (**i.e.**, including renewable energy resources).

"Domestic Products" comprise goods and services (including design and engineering services) (i) produced or performed by companies, (ii) which carry out investments and production in Indonesia, (iii) have at least some Indonesian employees and (iv) use at least some domestic raw materials or components.[17]

Relevant parties must prioritize the use of "*Domestic Products*" with a minimum combined TKDN value and "*Company Benefit Weight*" of 40%.[18] Although far from clear, the introduction of the novel concept of "*Company Benefit Weight*" seems to be part of an endeavor to "reward" certain producers of "*Domestic Products*" by requiring that priority be given to the purchase of their "*Domestic Products*" over the purchase of Domestic Products produced by other parties.

The "*Company Benefit Weight"* is a maximum of 15% and is determined, for individual producers of Domestic Products, on the basis of MoI's consideration of 4 factors, being the individual producer's (i) empowerment of micro and small size enterprises, (ii) occupational health & safety and environmental management certification, (iii) empowerment of community development and (iv) after-sales service facility availability.[19]

The applicable TKDN value for "*Domestic Products*" is a minimum of 25%.[20]

2. Proposed Changes to TKDN Requirements

It is important to understand that, even if the proposed revocation of MoI Regulation 54/2012 proceeds as planned, this almost certainly does **not** mean that, henceforth, there will be no TKDN Requirements applicable to renewable energy projects.

The announcement of the proposed revocation of MoI Regulation 54/2012 was followed shortly thereafter by reports in the popular press, on 5 June 2024, that an unnamed Government minister had, during the course of a limited cabinet meeting with the President, "*floated*" the idea of abolishing TKDN Requirements altogether. The unnamed Government minister was quoted as describing TKDN Requirements as "*outdated*" and appears to have

[17] Article 1.21 of GR 29/2018.
[18] Article 61(1) of GR 29/2018.
[19] Article 1(11) of MoI Regulation No.16/2011 re Provisions and Procedures for Calculation of Domestic Component Level.
[20] Article 61(2) of GR 29/2018.

been referring to TKDN Requirements generally rather than just to those TKDN Requirements applicable to the renewable energy sector.

The suggestion that TKDN Requirements generally are "*outdated*" proved to be the catalyst for an outpouring of support, for the continuation of TKDN Requirements in at least some industry sectors, including from the Minister of Industry and notwithstanding the proposed revocation of MoI Regulation 54/2012. Both the Minister of Industry and the Coordinating Economy Minister were quoted, in the 5 June 2024 edition, of The Jakarta Post as defending TKDN Requirements on the basis that they have "*helped build [local] industrial supply chains and added value to goods made by local manufacturers*".

Given the above, the most likely outcome is that the TKDN Requirements, applicable to renewable energy projects, will, at most, be reduced. Ministry of Industry officials have, in fact, indicated that their present expectation/intention is that renewable energy projects will still have to comply with the TKDN Requirements in GR 29/2018 (**i.e.**, a minimum TKDN value of 25%). As, however, the TKDN Requirements in GR 29/2018 are very general in nature and lacking all of the implementation details found in MoI Regulation 54/2012 and MoI Regulation 4/2017, at least some aspects of MoI Regulation 54/2012 and MoI Regulation 4/2017 will almost certainly have to be included in new or amended Ministry of Industry regulations.

It is also questionable whether or not it would make sense for GR 29/2018's "flat" TKDN value of not less than 25% to apply equally to all renewable energy projects and without allowing for any variations to reflect the particular characteristics of different types of renewable energy projects. Variations in the applicable TKDN values for different types of renewable energy projects will, inevitably, require new or amended regulations. While GR 29/2018 contemplates that the Minister of Industry may stipulate different TKDN values for different industries[21], **no** provision is made for the Minister to specify different TKDN values for different categories of projects in the **same** industry.

3. Assessment of Impact of TKDN Requirements on Renewable Energy Development

It should be very obvious to readers from Part 1 above that the TKDN Requirements, applicable to renewable energy projects in general and to PLTS in particular, are detailed, exacting and, potentially, onerous to comply with. Unless the required components for renewable energy projects are readily available locally, of a quality and at price points competitive with equivalent components available internationally, compliance with the TKDN Requirements will, inevitably, impose additional costs on sponsors of Indonesian renewable energy projects.

The Just Energy Transition Partnership highlighted in its November 2023 Comprehensive Investment & Policy Plan that, while the international cost of components for renewable energy projects has fallen rapidly in recent years, Indonesia's TKDN Requirements oblige investors, in local renewable energy projects, to source much of the needed components domestically at a much higher cost than that which prevails internationally.

More generally, the American Chamber of Commerce in Indonesia has previously expressed concern that Indonesia's TKDN Requirements have resulted in higher production costs for all

[21] Article 61(5) of GR 29/2018

producers in relevant industry sectors and, as a consequence, could discourage foreign investment in those industry sectors.

This anecdotal evidence indicates that those locally available components for renewable energy projects are, in fact, **not** competitive (at least in terms of cost) with equivalent components available internationally. As such, compliance with the TKDN Requirements almost certainly does impose an additional cost on sponsors/developers of renewable energy projects in Indonesia that may well be a deterrent to potential investors in and financiers of Indonesian renewable energy projects. This is quite apart from the likely very considerable management time and associated cost involved in applying and ensuring compliance with the TKDN Requirements on an ongoing basis.

It has also been highlighted that, in addition to the high cost that Indonesia's TKDN Requirements impose on project sponsors/developers, the complexity and uncertain application of these TKDN Requirements are a major concern to foreign investors, particularly from Europe. This latter point was emphasized, by the executive director of the EU-ASEAN Business Council during a discourse, on impediments to the realization of an Indonesia – European Union Comprehensive Economic Partnership Agreement, which discourse was published in the 29 May 2024 edition of The Jakarta Post. The EU-ASEAN Business Council executive director might well have had in mind some of the provisions of GR 29/2018 referenced in Part 1.4 above when he highlighted this particular concern. Things such as "*Company Benefit Weights*", for certain producers of "*Domestic Products*", would seem particularly problematic.

Given the above, the recent claim by a senior PLN executive that the TKDN Requirements are preventing PLN from obtaining funding for renewable energy projects is certainly consistent with the TKDN Requirements being a contributing factor to the reported slow pace of investment realization in the renewable energy sector. Investment realization in the renewable energy sector was only US$1.55 billion in 2023 or just 33.6% of the targeted investment realization of US$4.39 billion for that year while targeted investment realization, in the renewable energy sector, for 2024 has been reduced to US$2.6 billion.

Notwithstanding the foregoing, it is important to be careful **not** to assume that, merely because the TKDN Requirements are clearly a problem, this necessarily means that the TKDN Requirements are the main cause of the low investment realization, to date, in the renewable energy sector. The writer would suggest that the slow pace of investment realization in the renewable energy sector is actually due to multiple reasons that extend far beyond the existence of unrealistic and difficult to apply/comply with TKDN Requirements. The TKDN Requirements may well, in fact, be one of the less important reasons for the slow pace of investment realization in the renewable energy sector.

As the writer has explained elsewhere, the Government's continuing failure to put (i) PLN on a sufficiently sound financial footing for it to be able to actively promote renewable energy resource projects and (ii) otherwise show it is sufficiently serious in its commitment to the early development of Indonesia's renewable energy resources, may well be much more important reasons for the slow pace of investment realization in the renewable energy sector. In this regard, interested readers are referred to the writer's earlier article "*Rooftop Solar and the Green Energy Transition – PLN Keeps Getting in the Way*", Coal Asia Magazine, March - April 2024, Petromindo.

Other reasons for the slow pace of investment realization in the renewable energy sector almost certainly include (i) insufficient financing being available, on acceptable terms, for renewable energy projects, (ii) an overly complicated licensing system for renewable energy power plants, (iii) unresolved spatial planning issues in building renewable energy power plants and (iv) the need to upgrade the existing PLN electricity grid in order to enable it to cope with the intermitted nature of the power generated by at least some renewable energy power plants.

SUMMARY & CONCLUSIONS

The TKDN Requirements, applicable to renewable energy projects in general and to PLTS in particular, are detailed, exacting and, potentially, onerous to comply with. As such, the TKDN Requirements may well be one reason for the slow pace of investment realization in the Indonesian renewable energy sector.

The slow pace, however, of investment realization in the Indonesian renewable energy sector is almost certainly due to a combination of reasons and not just to the existence of unrealistic and difficult to apply/comply with TKDN Requirements. As a consequence, it is likely to be a mistake to assume that removing the TKDN Requirements, applicable to renewable energy projects, will necessarily result in an immediate improvement in investment realization in the renewable energy sector. The reality is that there is no simple solution for ensuring the fast-track development of Indonesia's renewable energy resources. Accordingly, parties looking for a "magic bullet", in the form of the proposed revocation of MoI Regulation 54/2012, will almost certainly be disappointed with what is actually accomplished as a result of the revocation of MoI Regulation 54/2012 if it proceeds.

It is, in any case, most unlikely that, going forward, there will be no TKDN Requirements applicable to renewable energy projects or even just to power plants utilizing renewable energy resources. The reality is that too much political capital has been invested in promoting TKDN Requirements, as a viable means of promoting the development of local industrial capacity and local supply chains, for the Government to simply acknowledge that the TKDN Requirements were always a bad idea and then "walk away" from the same altogether.

Potential sponsors/developers of, as well as potential investors in and financiers of, Indonesian renewable energy projects should assume that TKDN Requirements will continue to apply to Indonesian renewable energy projects although, most probably, at a reduced level.

Material improvement in the level of investment realization, in Indonesia's renewable energy sector, requires a "holistic" approach that starts with evidence of a genuine and properly funded commitment, on the part of the Government and PLN, to "fast track" the development of Indonesia's renewable energy resources now rather than at some indefinite time in the future.

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