

Client Alert

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Indonesian Government publishes 2018 Cost of Generation (BPP) figures

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The Minister of Energy and Mineral Resources recently issued Decree No. 55 K/20/MEM/2019 on the Amount of Cost of Generation Provision (commonly referred to by its Indonesian acronym, **BPP**) of PLN in 2018 ("**2018 BPP Decree**"), which with effect from 1 April 2019 supersedes Decree of Minister of Energy and Mineral Resources No. 1772 K/20/MEM/2018 on the Amount of BPP of PLN in 2017 ("**2017 BPP Decree**").

What is the BPP?

The BPP figures represent the cost to PLN of procuring power from the different systems/sub-systems listed in the 2018 BPP Decree. PLN's cost of procuring power is a combination of (i) the costs of PLN generating this power itself through PLN's own power generation plants, and (ii) the cost of PLN procuring power from third party suppliers (such as Independent Power Producers (**IPPs**) and power rental companies).

What is the BPP used for?

As highlighted in our previous Client Alerts, the Indonesian Government has set tariff ceilings for both coal fired projects and renewable energy projects based on the applicable BPP at the time. For example, if a developer wanted to sign a Power Purchase Agreement with PLN today for a solar project in Aceh, the maximum tariff permitted is USD 9.979 cents/kWh, being 85% of the Aceh BPP (which is USD 11.74 cents/kWh).

Under applicable regulations, the Minister of Energy and Mineral Resources is required annually to publish the annual BPP numbers for the systems and sub-systems across the country. The 2018 BPP Decree contains these figures for the 2018 calendar year. The figures are to be used to determine the tariff ceilings in the period from 1 April 2019 to 31 March 2020 (by which time a new set of annual BPP numbers for the 2019 calendar year will be published).

How do the 2017 BPP and 2018 BPP numbers compare?

In general and nationally, the 2018 BPP Decree shows an increase in the average BPP, although some areas such as Palu, Belitung, Western Flores, Ternate and and some areas in Papua have shown decreases in the BPP. Some areas have seen significant jumps in BPP, such as South Kalimantan increasing by 37% and a 13% increase in South Sulawesi.



The national average BPP increased to USD 7.86 cent /kWh or IDR 1,119/kWh (approximately a 2.6% increase on last year in USD terms and 9% in IDR terms). We have set out in Annex 1 a comparison of the 2016, 2017 and 2018 BPP numbers.

The increase in average BPP is caused by the increase of primary energy price (gas, coal and oil-based fuel) between 2017 and 2018. The significant increase of the national BPP in IDR terms is attributable to the continued IDR devaluation against USD over 2018. The cap on coal prices for PLN power plants and IPPs introduced in 2018 through MEMR Decree No. 1395 K/30/MEM/2018 did not have a marked effect on reducing the BPP in the coal-fired power plant hotspots of Java and South Sumatera. Our client alert on this regulation can be seen [here](#).

As is the case with the 2017 BPP Decree, the 2018 BPP Decree provides that the BPP for any particular area not yet supplied with electricity by PLN, or any area that does not have an average BPP determination, will be equal to the highest average BPP provided in the 2018 BPP Decree (which is US\$21.34cent /kWh or IDR 3,041/kWh).

As mentioned above, this newly published average BPP is valid until 31 March 2020. If no new average BPP is published after 31 March 2020, the average BPP in the 2018 Decree will continue to be valid until a new average BPP is published.

Conclusion

There have been very slight increase in the very coal-fired IPP heavy regions of West Java, East Java and South Sumatera. The continued low BPP numbers in these areas continue to make it economically challenging to implement renewable projects in these areas. However a number of the outer regions of Indonesia and some of the island systems continue to present significant opportunities for developers looking at developing smaller scale renewables and hybrid power systems.

The stark increases or decreases from the 2018 BPP compared to the 2017 BPP does continue to highlight the flaw in the BPP tariff ceiling system. If a developer is looking to sign a 20-year Power Purchase Agreement on a solar project in South Sulawesi on 28 March 2019 (when the 2017 BPP Decree applied), the tariff ceiling that it is required to meet would be USD 7.293 cents/kWh. The same Power Purchase Agreement on the same project signed five days later on 2 April 2019 would give rise to a tariff ceiling of USD 10.03 cents/kWh. The difference in the project's fate would be largely driven by coal and diesel price changes from year to year and whether you get lucky on the USD/IDR exchange rate from year to year. This logical conflict between determining the viability of a 20-year long term project by looking backwards 12 months at fuel prices and currency impacts will give rise to these types of anomalies, and may continue to result in a particular project being economically viable on one particular day of the year, and not economically viable on another day of the year.

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Annex 1

No.	AREA/DISTRIBUTION/ SYSTEM/SUBSYSTEM	BPP 2016		BPP 2017		BPP 2018	
		IDR /kWh	USD cents/kWh	IDR /kWh	USD cents/kWh	IDR /kWh	USD cents/kWh
I.	SUMATRA	1,194	8.98				
	A. NORTHERN SUMATRA						
	1. Aceh	1,383	10.39	1,491	11.14	1,673	11.74
	a. Weh Island	1,733	13.02	1,818	13.58	2,303	16.16
	b. Simeuleu Island	1,817	13.65	1,602	11.97	2,650	18.60
	2. North Sumatra	1,235	9.28	1,308	9.77	1,451	10.18
	Nias	2,049	15.40	2,677	20.00	3,041	21.34
	B. CENTRAL AND SOUTHERN SUMATRA						
	1. West Sumatra	1,074	8.07	971	7.25	1,058	7.43
	Mentawai Archipelago	2,096	15.75	2,583	19.30	3,041	21.34
	2. Riau and Riau Archipelago	1,349	10.14	1,470	10.98	1,655	11.61
	a. Bintan	1,583	11.90	2,052	15.34	1,786	12.53
	b. Tanjung Balai Karimun	1,706	12.82	1,682	12.57	2,110	14.81
	c. Natuna	2,089	15.70	2,060	15.39	2,239	15.71
	d. Anambas	2,149	16.15	2,677	20.00	2,267	15.91
	3. South Sumatra, Jambi, Bengkulu (S2JB)	1,046	7.86	961	7.18	1,061	7.45
	Eggano Island	2,322	17.45	2,677	20.00	3,041	21.34
	4. Lampung	1,034	7.77	936	6.99	1,039	7.29
	C. BANGKA	1,817	13.66	2,247	16.79	2,681	18.82
	D. BELITUNG	1,619	12.17	1,887	14.10	1,799	12.63
	E. OTHER SMALL ARCHIPELAGO SUBSYSTEM	2,096	15.75	2,677	20.00	3,041	21.34
II.	JAVA - BALI	868	6.52				
	A. SPECIAL CAPITAL CITY OF DISTRICT OF JAKARTA (DKI JAKARTA)	867	6.51	911	6.81	985	6.91
	Thousand Island (<i>Kepulauan Seribu</i>)	2,332	17.52	2,677	20.00	1,164	8.17****
	B. BANTEN	866	6.51	911	6.81	985	6.91
	Panjang Island	2,332	17.52	2,677	20.00	3,041	21.34
	C. WEST JAVA	866	6.51	911	6.81	984	6.91
	D. CENTRAL JAVA	868	6.52	911	6.81	984	6.91
	Karimun Jawa	2,332	17.52	2,677	20.00	3,041	21.34
	E. EAST JAVA	870	6.54	914	6.83	989	6.94
	1. Madura Isolated	2,332	17.52	2,677	20.00	3,041	21.34
	2. Bawean	1,964	14.76	1,699	12.69	3,041	21.34
	3. Gili Ketapang	2,332	17.52	2,677	20.00	3,041	21.34
	F. BALI	881	6.62	911	6.81	985	6.91
	Three Nusa System (<i>Sistem Tiga Nusa</i>) (Nusa Penida, Nusa Lembongan, Nusa Ceningan)	1,745	13.11	2,425	18.12	2,762	19.39
G. OTHER SMALL SUBSYSTEM	2,332	17.52	2,677	20.00	3,041	21.34	
III.	KALIMANTAN	1,373	10.31				
	A. WEST KALIMANTAN	1,655	12.43	1,692	12.64	1,525	10.70
	B. SOUTH AND CENTRAL KALIMANTAN	1,203	9.04	1,149	8.58	1,682	11.80
	C. EAST AND NORTH KALIMANTAN	1,357	10.20	1,481	11.07	1,507	10.58
	D. OTHER SMALL SUBSYSTEM	2,332	17.52	2,677	20.00	3,041	21.34

No.	AREA/DISTRIBUTION/ SYSTEM/SUBSYSTEM	BPP 2016		BPP 2017		BPP 2018		
		IDR /kWh	USD cents/kWh	IDR /kWh	USD cents/kWh	IDR /kWh	USD cents/kWh	
IV.	SULAWESI^{*)}	1,421	10.68					
	A. NORTH AND CENTRAL SULAWESI AND GORONTALO	1,696	12.75					
	1. Northern Sulawesi (Manado, Gorontalo, Kotamobagu)	1,669	12.54	1,739	13.00	1,918	13.46	
	2. Toli- Toli	2,026	15.22	2,225	16.62	2,894	20.32	
	3. Tahuna	2,332	17.52	2,564	19.15	2,929	20.56	
	4. Palu (Grid Sulbagesel)	1,016	7.63	1,130	8.44	1,171	8.22	
	5. Luwuk	1,759	13.22	2,099	15.69	2,403	16.87	
	B. SOUTH, SOUTHEAST AND WEST SULAWESI	1,078	8.10					
	1. Southern Sulawesi	1,016	7.63	974	7.28	1,175	8.25	
	2. Kendari	1,801	13.53	1,925	14.38	2,321	16.29	
	3. Bau- Bau	2,137	16.06	2,169	16.21	2,369	16.63	
	4. Selayar	2,114	15.88	2,043	15.26	2,445	17.16	
	C. OTHER SMALL SUBSYSTEM^{**)}	2,332	17.52	2,677	20.00	2,994	21.02	
V.	NUSA TENGGARA	1,421	10.68					
	A. WEST NUSA TENGGARA	1,821	13.68					
	1. Bima (Tambora) ^{***)}	1,880	14.12	2,239	16.73	2,733	19.18	
	2. Lombok	1,629	12.24	1,861	13.90	2,044	14.35	
	3. Sumbawa (Tambora) ^{***)}	1,978	14.87	2,239	16.73			
	B. EAST NUSA TENGGARA	2,332	17.52					
	1. Sumba	1,887	14.18	2,275	17.00	2,964	20.81	
	2. Timor	2,226	16.73	2,421	18.09	2,588	18.17	
	3. Western Flores	1,751	13.16	2,372	17.72	2,504	17.58	
	4. Eastern Flores	2,070	15.55	2,207	16.49	3,031	21.28	
	C. OTHER SMALL SUBSYSTEM	2,332	17.52	2,677	20.00	3,041	21.34	
	VI.	MALUKU AND PAPUA	2,008	15.09				
		A. MALUKU AND NORTH MALUKU	2,305	17.32				
1. Ambon		1,680	12.62	2,677	20.00	3,010	21.13	
2. Seram		2,330	17.51	2,677	20.00	2,971	20.85	
3. Saparua		1,626	12.22	2,221	16.59	2,993	21.01	
4. Buru		1,728	12.98	2,206	16.48	3,019	21.19	
5. Ternate - Tidore		1,971	14.81	2,677	20.00	2,299	16.13	
6. Sanana		1,811	13.61	1,871	13.98	2,486	17.45	
7. Bacan		1,811	13.61	1,885	14.08	2,674	18.77	
8. Halmahera (Tobelo, Malifut, Jailolo, Sofifi, Maba)		1,685	12.67	2,677	20.00	2,963	20.80	
9. Daruba		1,587	11.93	2,677	20.00	3,041	21.34	
10. Tual		1,657	12.45	2,677	20.00	3,041	21.34	
11. Dobo		2,063	15.50	2,677	20.00	3,041	21.34	
12. Saumlaki		1,686	12.67	2,239	16.73	2,384	16.74	
B. PAPUA AND WEST PAPUA		1,802	13.54					
1. Jayapura		1,959	14.72	1,844	13.78	2,162	15.17	
2. Sarmi		2,332	17.52	1,871	13.98	3,041	21.34	
3. Biak		1,753	13.17	2,139	15.99	2,389	16.77	
4. Serui		1,778	13.36	1,976	14.77	2,882	20.23	
5. Nabire		1,604	12.06	1,849	13.81	2,191	15.38	
6. Wamena		2,332	17.52	2,677	20.00	3,041	21.34	
7. Timika		1,786	13.42	2,210	16.51	2,736	19.21	
8. Merauke		1,704	12.80	2,059	15.39	2,593	18.20	
9. Tanah Merah	1,704	12.80	1,915	14.31	3,041	21.34		
10. Manokwari	1,760	13.23	1,978	14.78	2,013	14.17		
11. Sorong	1,305	9.81	1,753	13.10	1,465	10.28		



No.	AREA/DISTRIBUTION/ SYSTEM/SUBSYSTEM	BPP 2016		BPP 2017		BPP 2018	
		IDR /kWh	USD cents/kWh	IDR /kWh	USD cents/kWh	IDR /kWh	USD cents/kWh
	12. Teminabuan	2,332	17.52	1,868	13.96	2,783	19.53
	13. Fak Fak	2,332	17.52	2,677	20.00	2,483	17.43
	14. Kaimana	2,332	17.52	2,677	20.00	3,041	21.34
	15. Bintuni	2,332	17.52	2,677	20.00	1,812	12.72
	16. Raja Ampat	2,332	17.52	2,677	20.00	3,041	21.34
	C. OTHER SMALL SUBSYSTEM	2,332	17.52	2,677	20.00	3,041	21.34
	NATIONAL BPP	983	7.39	1,025	7.66	1,119	7.86

*) Sulawesi and Nusa Tenggara used to be combined in Decree 2017, but are separated in Decree 2018.

**) The "other small subsystem" of Sulawesi and Nusa Tenggara was combined in Decree 2017, but are separated in Decree 2018.

***) Bima and Sumbawa are combined in the Decree 2018 to become Tambora.

****) Thousand Islands have now been interconnected with Java grid system, hence significant drop.