

RUPTL 2018 – A STEP BACK FOR THE FUTURE?



The long awaited Electricity Supply Business Plan 2018 – 2027 (Rencana Umum Penyediaan Tenaga Listrik – “RUPTL 2018”) was finally issued by the Minister of Energy and Mineral Resources (“MEMR”) through MEMR Decree No. 1567 K/21/MEM/2018 on 13 March 2018. RUPTL 2018 is a 10-year development plan for Indonesia’s electricity infrastructure which sets out several changes from the previous RUPTL 2017, such as, among others, fuel mix targets, power capacity forecasts, and electricity demand forecasts. We have pointed out several essential changes worth noting as set out below.

Highlights

RUPTL 2018 provides the following as a quick summary of the planned electricity infrastructure development for the next 10 (ten) years:

- average projection of national electricity demands growth of 6.86%;
- total construction plans for 56,024 MW power plant;
- target of end-energy power mix by 2025 from coal 54.4%, new and renewable energy (“NRE”) 23.0%, gas 22.2%, and fuel 0.4%
- total planned construction of transmission grid of 63,855 km;
- total planned construction of substations of 151,424 MVA; total planned construction of distribution grid of 526,390 km; and
- total planned construction of distribution substations of 50,216 MVA.

New power plant construction slashed

Previously, in the RUPTL 2017, PT Perusahaan Listrik Negara (Persero) (“PLN”) and Independent Power Producer (“IPP”) was expected to construct about 77,873 MW of generating capacity by 2026. In contrast, in the RUPTL 2018, the total allocated number of new power plants construction has been cut to 56,024 MW, with 16,571 MW of plants planned to be constructed by PLN and 32,059 MW by IPPs, or approximately a 28% reduction from the previous 2017 target.

The main reason for this adjustment is sluggish economic growth which has directly affected the electricity demand. This step was taken to anticipate the increased production of electricity that will result in financial losses to the government due to the oversupply of electricity which will not be consumed by the customers.

In the RUPTL 2017, PLN projected 8.27% growth in national electricity demand. However, due to the rationalization of macro economy indicators and assuming the average economic growth in the next 10 (ten) years will be about 6.3% per year, PLN is now projecting annual growth of 6.86% in national electricity demands in RUPTL 2018. Investors should be aware that this plan might be amended in various circumstances, subject to the approval of MEMR, if needed.

King coal still burning

Although in terms of capacity coal-fired power plants have been slashed by approximately 5 GW, the coal-fired power plants have been given a significant increase of 6% of the total share of allocated capacity and will still play a dominant role in the country’s power plant development with 26.8 GW or 47.8% of the total 56 GW capacity of power plants planned to be constructed.

At the same time, some of the other types of power plant experienced a reduction in capacity allocation, details of which are set out below:

Type of Power Plant	RUPTL 2017		RUPTL 2018	
	Allocated Capacity	Percentage (from 77.8 GW)	Allocated Capacity	Percentage (from 56 GW)
Coal-fired Power Plant	31.9 GW	41%	26.8 GW	47.8%
Gas-fired Power Plant	24.4 GW	31.3%	14.2 GW	25.4%
Hydro Power Plant (including Mini Hydro and Pump Storage)	14 GW	18%	8.3 GW	14.8%
Thermal Power Plant	6.3 GW	8.1%	4.6 GW	8.2%
Others	1.2 GW	1.6%	2.1 GW	3.8%
	77.8 GW	100%	56 GW	100%

From the above we can see that due to its relatively cheap price coal will continue to play an essential part in our country's electricity development rather than other types of power plant, with priority allocated to the coal mine-mouth power plants pursuant to the RUPTL 2018. Government support for coal-fired power plants is also shown by the issuance of MEMR Decree No. 1395 K/30/MEM/2018 concerning Coal Sale Prices for Electricity Supply for Public Interests as lastly amended by MEMR Decision No. 1410 K/30/MEM/2018, which set out the maximum price of coal supplied for power plants. *Please find a further explanation in this new regulation on another HPRP's article here. <https://bit.ly/2wagZsV>*

(A not so) Bigger role for new and renewable energy

As foreshadowed in the foregoing paragraph, the capacity of both thermal and hydro power plants has been slashed by approximately 1.7 GW and 5.7 GW respectively from the previous allocated capacity, while other types of power plants such as biomass, biogas and solar-based have enjoyed a 1.5% of increase or approximately 0.9 GW of capacity.

Further, pursuant to Government Regulation No. 79 of 2014 on National Energy Policy (*Kebijakan Energi Nasional* or "KEN") and Presidential Regulation No. 22 of 2017 on the General Planning for National Energy (*Rencana Umum Energi Nasional* or "RUEN"), NRE is projected to achieve 23% of the energy mix for the generation of electricity, with 22.2% from gas, 54.4% from coal and 0.4% from fuel.

Although in the previous RUPTL 2017 the MEMR had slightly decreased the share to 22.5%, in the latest RUPTL 2018 such share is returned to its original target of 23% by the end of 2025.

Given the above, it is worth noting that despite the huge cut in the power generation capacity target, the government is still persistent with its target of 23% NRE in the energy mix in accordance with the KEN and RUEN.

The MEMR has also ensured that the slashed capacity will not be permanently cut off since it will be put on the potential list and be developed once the demand is there. It is interesting to see how this slashed allocation will actually be developed and practically implemented based on the potential list as stated by the MEMR, Mr. Ignasius Jonan during the dissemination of the RUPTL 2018 in March 2018.

Construction of several power plants is put on hold

As a result of the scrapped capacity in planned power plant construction, PLN has also halted the construction of several power plants, among others, PLTGU Jawa 4 2x800 MW, PLTGU Jawa 5 2x800 MW, PLTGU/MG Tanjung Pinang 2 100 MW, PLTA Kluet-1, PLTA Jambu Aye and PLTMG Bau-Bau. The halt in construction of these power plants is mainly due to the projected lower electricity demand projection in RUPTL 2018 and will be postponed until post-2027. We are of the view that investors, both current and potential, should not be worried by the postponement of construction several power plants since the RUPTL 2018, from time to time, may be revised depends on the country's electricity demand and economic growth.

Conclusion

It is undeniable that the issuance of RUPTL 2018 has pros and cons for the stakeholders, some of whom have serious concerns over the big allocation for coal-fired power plants instead of focus more on the NRE. However, from PLN's point of view, we can understand that it is impossible to avoid capacity cuts.

The priority given to coal-fired power plants should be viewed in a wider perspective that: (i) it is still the cheapest, (ii) construction is relatively much longer than for other types of power plant, e.g., gas power plants and (iii) it takes time and big funds to build a sustainable and affordable NRE power plant, while (iv) subsequently still have the task of ensures an affordable electricity access for all Indonesians.

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