

## Client Alert

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## Indonesian Government publishes 2017 Cost of Generation (BPP) figures

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The Minister of Energy and Mineral Resources recently issued Decree No. 1772 K/20/MEM/2018 on the Amount of Cost of Generation Provision (commonly referred to by its Indonesian acronym, **BPP**) of PLN in 2017 ("**2017 BPP Decree**"), which with effect from 1 April 2018 supersedes Decree of Minister of Energy and Mineral Resources No. 1404 K/20/MEM/2017 on the Amount of BPP of PLN in 2016 ("**2016 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 2017 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 9.469 cents/kWh, being 85% of the Aceh BPP (which is USD 11.14 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 2017 BPP Decree contains these figures for the 2017 calendar year. The figures are to be used to determine the tariff ceilings in the period from 1 April 2018 to 31 March 2019 (by which time a new set of annual BPP numbers for the 2018 calendar year will be published).

### How do the 2016 BPP and 2017 BPP numbers compare?

In general and nationally, the 2017 BPP Decree shows an increase in the average BPP, although some areas such as West Sumatra, South and Central Kalimantan, southern Sulawesi, and some areas in Papua have shown decreases in the BPP.



The national average BPP increased to USD 7.66 cent /kWh or IDR 1,025/kWh (approximately a 4% increase on last year). We have set out in Annex 1 a comparison of the 2016 and 2017 BPP numbers.

The increase in average BPP is caused by the increase of primary energy price (gas, coal and oil-based fuel) between 2016 and 2017, as well as the weakening exchange rate of IDR against USD. The government is now looking to cap the price on primary energy for electricity for public use, as can be seen from the issuance of MEMR Decree No. 1395 K/30/MEM/2018, which caps coal prices for public interest electricity supply. Our client alert on this regulation can be seen [here](#).

It is worth noting that aside from increases or decreases in the BPP numbers between 2016 and 2017, there are some changes in the way in which the grid systems are defined in the 2017 BPP Decree:

- Firstly, unlike in the 2016 BPP Decree, the 2017 BPP Decree no longer sets out the average BPP for each island. For example, the average BPP for 2016 in Sumatra was USD 8.98 cent /kWh or IDR 1,194/kWh. The 2017 BPP Decree no longer sets an island-wide BPP value. The same goes for the other islands (Java, Bali, Kalimantan, Sulawesi, etc.).
- Secondly, not all areas previously defined as a separate system/sub-system in the 2016 BPP Decree appear in the 2017 BPP Decree.

These changes appear to be directed at removing some of the confusion that previously existed as to which BPP should apply to a particular project.

As is the case with the 2016 BPP Decree, the 2017 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 2017 BPP Decree (which is USD 20.00 cent /kWh or IDR 2,677/kWh).

As mentioned above, this newly published average BPP is valid until 31 March 2019. If no new average BPP is published after 31 March 2019, the average BPP in the 2018 Decree will continue to be valid until a new average BPP is published.

## Conclusion

The good news for a large number of developers is that the higher coal prices over the last year have resulted in developers being able to bid higher tariffs for projects than they would have had to bid on the same project last year.

However, it does highlight the flaw in the tariff ceiling system. If a developer is looking to sign a 20-year Power Purchase Agreement on a solar project in Halmahera on 28 March 2018 (when the 2016 BPP Decree applied), the tariff ceiling that it is required to meet would be USD 10.761 cents/kWh. The same Power Purchase Agreement on the same project signed five days later on 2 April 2018 would give rise to a tariff ceiling of USD 17 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	
		IDR /kWh	USD cents/kWh	IDR /kWh	USD cents/kWh
I.	<b>SUMATRA</b>	<b>1,194</b>	<b>8.98</b>		
	<b>A. NORTHERN SUMATRA</b>				
	1. Aceh	1,383	10.39	1,491	11.14
	a. Weh Island	1,733	13.02	1,818	13.58
	b. Simeuleu Island	1,817	13.65	1,602	11.97
	2. North Sumatra	1,235	9.28	1,308	9.77
	Nias	2,049	15.40	2,677	20.00
	<b>B. CENTRAL AND SOUTHERN SUMATRA</b>				
	1. West Sumatra	1,074	8.07	971	7.25
	Mentawai Archipelago	2,096	15.75	2,583	19.30
	2. Riau and Riau Archipelago	1,349	10.14	1,470	10.98
	a. Bintan	1,583	11.90	2,052	15.34
	b. Tanjung Balai Karimun	1,706	12.82	1,682	12.57
	c. Natuna	2,089	15.70	2,060	15.39
	d. Anambas	2,149	16.15	2,677	20.00
	3. South Sumatra, Jambi, Bengkulu (S2JB)	1,046	7.86	961	7.18
	Enggano Island	2,322	17.45	2,677	20.00
	4. Lampung	1,034	7.77	936	6.99
	C. BANGKA	1,817	13.66	2,247	16.79
	D. BELITUNG	1,619	12.17	1,887	14.10
	E. OTHER SMALL ARCHIPELAGO SUBSYSTEM	2,096	15.75	2,677	20.00
II.	<b>JAVA - BALI</b>	<b>868</b>	<b>6.52</b>		
	<b>A. SPECIAL CAPITAL CITY OF DISTRICT OF JAKARTA (DKI JAKARTA)</b>	<b>867</b>	<b>6.51</b>	<b>911</b>	<b>6.81</b>
	Thousand Island ( <i>Kepulauan Seribu</i> ) (Non-connection cable Java Bali Sea)	2,332	17.52	2,677	20.00
	<b>B. BANTEN</b>	<b>866</b>	<b>6.51</b>	<b>911</b>	<b>6.81</b>
	Panjang Island	2,332	17.52	2,677	20.00
	<b>C. WEST JAVA</b>	<b>866</b>	<b>6.51</b>	<b>911</b>	<b>6.81</b>
	<b>D. CENTRAL JAVA</b>	<b>868</b>	<b>6.52</b>	<b>911</b>	<b>6.81</b>
	Karimun Jawa	2,332	17.52	2,677	20.00
	<b>E. EAST JAVA</b>	<b>870</b>	<b>6.54</b>	<b>914</b>	<b>6.83</b>
	1. Madura Isolated	2,332	17.52	2,677	20.00
	2. Bawean	1,964	14.76	1,699	12.69
	3. Gili Ketapang	2,332	17.52	2,677	20.00
	<b>F. BALI</b>	<b>881</b>	<b>6.62</b>	<b>911</b>	<b>6.81</b>
	Three Nusa System ( <i>Sistem Tiga Nusa</i> ) (Nusa Penida, Nusa Lembongan, Nusa Ceningan)	1,745	13.11	2,425	18.12
	<b>G. OTHER SMALL SUBSYSTEM</b>	<b>2,332</b>	<b>17.52</b>	<b>2,677</b>	<b>20.00</b>
III.	<b>KALIMANTAN</b>	<b>1,373</b>	<b>10.31</b>		
	<b>A. WEST KALIMANTAN</b>	<b>1,655</b>	<b>12.43</b>	<b>1,692</b>	<b>12.64</b>
	<b>B. SOUTH AND CENTRAL KALIMANTAN</b>	<b>1,203</b>	<b>9.04</b>	<b>1,149</b>	<b>8.58</b>
	<b>C. EAST AND NORTH KALIMANTAN</b>	<b>1,357</b>	<b>10.20</b>	<b>1,481</b>	<b>11.07</b>
	<b>D. OTHER SMALL SUBSYSTEM</b>	<b>2,332</b>	<b>17.52</b>	<b>2,677</b>	<b>20.00</b>
IV.	<b>SULAWESI<sup>1)</sup></b>	<b>1,421</b>	<b>10.68</b>		
	<b>A. NORTH AND CENTRAL SULAWESI AND GORONTALO</b>	<b>1,696</b>	<b>12.75</b>		
	1. Northern Sulawesi (Manado, Gorontalo, Kotamobagu)	1,669	12.54	1,739	13.00
	2. Toli- Toli	2,026	15.22	2,225	16.62
	3. Tahuna	2,332	17.52	2,564	19.15



V.	4. Palu (Grid Sulbagsel)	1,016	7.63	1,130	8.44
	5. Luwuk	1,759	13.22	2,099	15.69
	<b>B. SOUTH, SOUTHEAST AND WEST SULAWESI</b>	<b>1,078</b>	<b>8.10</b>		
	1. Southern Sulawesi	1,016	7.63	974	7.28
	2. Kendari	1,801	13.53	1,925	14.38
	3. Bau- Bau	2,137	16.06	2,169	16.21
	4. Selayar	2,114	15.88	2,043	15.26
	<b>C. OTHER SMALL SUBSYSTEM**)</b>	<b>2,332</b>	<b>17.52</b>	<b>2,677</b>	<b>20.00</b>
	<b>NUSA TENGGARA</b>	<b>1,421</b>	<b>10.68</b>		
	<b>A. WEST NUSA TENGGARA</b>	<b>1,821</b>	<b>13.68</b>		
	1. Bima (Tambora)***)	1,880	14.12	2,239	16.73
	2. Lombok	1,629	12.24	1,861	13.90
	3. Sumbawa (Tambora)***)	1,978	14.87	2,239	16.73
	<b>B. EAST NUSA TENGGARA</b>	<b>2,332</b>	<b>17.52</b>		
	1. Sumba	1,887	14.18	2,275	17.00
	2. Timor	2,226	16.73	2,421	18.09
	3. Western Flores	1,751	13.16	2,372	17.72
	4. Eastern Flores	2,070	15.55	2,207	16.49
	<b>C. OTHER SMALL SUBSYSTEM</b>	<b>2,332</b>	<b>17.52</b>	<b>2,677</b>	<b>20.00</b>
VI.	<b>MALUKU AND PAPUA</b>	<b>2,008</b>	<b>15.09</b>		
	<b>A. MALUKU AND NORTH MALUKU</b>	<b>2,305</b>	<b>17.32</b>		
	1. Ambon	1,680	12.62	2,677	20.00
	2. Seram	2,330	17.51	2,677	20.00
	3. Saparua	1,626	12.22	2,221	16.59
	4. Buru	1,728	12.98	2,206	16.48
	5. Ternate - Tidore	1,971	14.81	2,677	20.00
	6. Sanana	1,811	13.61	1,871	13.98
	7. Bacan	1,811	13.61	1,885	14.08
	8. Halmahera (Tobelo, Malifut, Jailolo, Sofifi, Maba)	1,685	12.67	2,677	20.00
	9. Daruba	1,587	11.93	2,677	20.00
	10. Tual	1,657	12.45	2,677	20.00
	11. Dobo	2,063	15.50	2,677	20.00
	12. Saumlaki	1,686	12.67	2,239	16.73
	<b>B. PAPUA AND WEST PAPUA</b>	<b>1,802</b>	<b>13.54</b>		
	1. Jayapura	1,959	14.72	1,844	13.78
	2. Sarmi	2,332	17.52	1,871	13.98
	3. Biak	1,753	13.17	2,139	15.99
	4. Serui	1,778	13.36	1,976	14.77
	5. Nabire	1,604	12.06	1,849	13.81
	6. Wamena	2,332	17.52	2,677	20.00
	7. Timika	1,786	13.42	2,210	16.51
	8. Merauke	1,704	12.80	2,059	15.39
	9. Tanah Merah	1,704	12.80	1,915	14.31
	10. Manokwari	1,760	13.23	1,978	14.78
	11. Sorong	1,305	9.81	1,753	13.10
	12. Teminabuan	2,332	17.52	1,868	13.96
	13. Fak Fak	2,332	17.52	2,677	20.00
	14. Kaimana	2,332	17.52	2,677	20.00
	15. Bintuni	2,332	17.52	2,677	20.00
	16. Raja Ampat	2,332	17.52	2,677	20.00
	<b>C. OTHER SMALL SUBSYSTEM</b>	<b>2,332</b>	<b>17.52</b>	<b>2,677</b>	<b>20.00</b>
	<b>NATIONAL BPP</b>	<b>983</b>	<b>7.39</b>	<b>1,025</b>	<b>7.66</b>

\*) 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 Decree 2018 to become Tambora.