

INDONESIA: New and renewable energy bill targeted for October approval

Parliament has decided to restart discussions of the stalled new and renewable energy bill (RUU EBT), with approval possible by the end of October, just ahead of the G20 summit in Bali. The draft bill provides fiscal incentives and state support, possibly including government guarantees, for the development of both new and renewable energy sources. Critics contend that it concedes too much to the coal sector, which would prolong Indonesia's energy transition.

As the bill's name implies, its coverage goes beyond renewables by classifying other sources of energy such as coal-bed methane, hydrogen, liquefied coal and gasified coal as "new," thus potentially allowing their developers to benefit from some of the incentives to be granted by the bill. This is generating criticism that the bill is an indirect way of catering to coal miners and the investments now occurring in downstream coal processing, as well as traditional power generators.

Furthermore, the proposal in the bill is for an increase in the coal domestic market obligation (DMO) to 30% from the current 25%. However, this would sustain or encourage greater use of traditional fuel because the DMO acts as an indirect subsidy for the power sector whenever the international price for coal exceeds the domestic benchmark, currently set at USD 70 per ton. Parliamentary Commission VII on Energy Vice Chair Eddy Soeparno said the increase in the DMO is still "open to discussions."

Related to this is the question of whether the pricing system for renewable energy — currently a key disincentive — would be modified by the bill. Existing regulations link the feed-in tariff for large-scale renewable energy projects to the average price of energy generation within the region, called the BPP. If the BPP is significantly above the national average generation price, then the rate is capped at a percentage of the BPP. Solar, for instance, has a cap of 85%.

This has rendered renewable energy at-scale economically unfeasible in areas where coal is heavily weighted in the energy mix. For instance, on the main island of Java, which is part of the Java-Bali grid that accounts for 50% of Indonesian power use, the BPP is USD 0.062 – 0.063/kwh. For the past three years, the government has been promising a presidential order to improve the economics of renewable energy; it will now wait for the approval of the new bill. In this policy environment, the main opportunity for renewables is in the displacement of expensive diesel-fired power in remote areas.

The bill attempts to compensate by promising subsidies to renewable energy when its generating cost cannot compete with traditional fuels. The bill establishes a renewable energy fund to be funded from the budget, export taxes, carbon trading fees for research, to build the renewable energy infrastructure and provide incentives for developers; whether the fund would also contribute to the subsidy for renewable energy is unclear.

Indonesia will target 2045 for the operation of its first nuclear power plant, but only state enterprises will be allowed to build and operate them. This roughly aligns with the state electricity company's (PLN) plans for nuclear, which start around 2040. Under the bill, a Nuclear Power Plant Advisory Council will develop specific policies for nuclear power.

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