



Client Alert

New Regime of Local Content
Requirements for Electricity
Infrastructure Development



The Ministry of Energy and Mineral Resources has taken steps to take on more pivotal roles in the enforcement of local content requirements in the development of electricity infrastructure. With the issuance of the MEMR 11/2024, which replaces the preceding MOI Reg 54/2012, the Ministry of Energy and Mineral Resources introduces a new regime for local content enforcement in the electricity sector. This new regulation provides a broader scope of local content requirements and introduces new relaxation measures to stimulate foreign investment.

I. Introduction

Earlier this year, the Ministry of Industrial Affairs (“**MOI**”) has stated its intention to revoke the regulation on local content requirements (*persyaratan Tingkat Komponen Dalam Negeri*; “**TKDN**”) for the development of electricity infrastructure, being the MOI Regulation No. 54/M-IND/PER/3/2012 regarding the Guidelines on the Utilization of Domestic Products for the Development of Electricity Infrastructure and its amendments (“**MOI Reg 54/2012**”). As covered under [our previous Client Alert](#), one of the reasoning expressed by the MOI is that the substance of MOI Reg 54/2012 is more well suited to fall under the authority of the Ministry of Energy and Mineral Resources (“**MEMR**”).

As of 31 July 2024, the MOI Reg 54/2012 has been revoked by virtue of the Minister of Industry Regulation No. 33 of 2024 (“**MOI Reg 33/2024**”) and the new regime of TKDN requirements for the development of electricity infrastructure has been introduced through:

- a. the MEMR Regulation No. 11 of 2024 regarding Utilization of Domestic Products for the Development of Electricity Infrastructure (“**MEMR Reg 11/2024**”); and
- b. the MEMR Decree No. 191.K/EK.01/MEM.E/2024 on the Minimum Threshold of Local Content Value for the Combination of Goods and Services in the Scope of Electricity Infrastructure Development Projects (“**MEMR Decree 191/2024**”).

These regulations mark the shift in authority over the regulation of TKDN requirements for the development of electricity infrastructure.

Under this publication, we will provide our view on key policies set out under MEMR 11/2024. Please note that this publication is not intended to neglect the importance and the gist of other



relevant regulations regarding local content requirements in the development of electricity infrastructure.

There might be certain legal issues that are not covered with the explanations provided hereunder, hence, to get the accurate views and understanding of the current conditions, please contact our legal consultants (the details are provided on the last page).

II. Shift in Authority: Determination of Minimum TKDN Requirements

The issuance of MEMR Reg 11/2024 gave way of the MEMR to hold a significant role in the enforcement of TKDN requirements in the development of electricity infrastructure. Although the MOI still has a role in determining the TKDN value for the respective goods and services of industrial components used, under MEMR Reg 11/2024, the MEMR is now authorized to determine the minimum value of TKDN for the combination of goods and services.

In contrast to MOI Reg 54/2012, the determination of minimum TKDN requirements under MEMR Reg 11/2024 can be seen in the following table:

Category	MOI Reg 54/2012	MEMR Reg 11/2024
Goods	Determined by the MOI.	Determined by the MOI, for industrial components.
Services	Determined by the MOI.	Determined by the MOI, for industrial components.
Combination of Goods and Services	Determined by the MOI.	Determined by the MEMR.

MEMR Reg 11/2024 had also broadened the scope of electricity infrastructure development which has specific TKDN requirements as follows:

Category	MOI Reg 54/2012	MEMR Reg 11/2024
Plant	<ul style="list-style-type: none"> a. Steam-Fired Power Plants b. Hydropower Plants c. Geothermal Power Plants d. Gas-Fired Power Plant e. Gas Steam-Fired Power Plant f. Solar Photovoltaic Power Plants 	<p>Renewables:</p> <ul style="list-style-type: none"> a. Hydropower Plants b. Geothermal Power Plants c. Solar Photovoltaic Power Plants d. Wind Power Plants e. Biomass Power Plants f. Biogas Power Plants g. Waste-based Power Plants <p>Thermal:</p> <ul style="list-style-type: none"> a. Steam-Fired Power Plants b. Gas-Fired Power Plants c. Gas Steam-Fired Power Plants d. Gas Engine Power Plants
Supporting Facilities	Transmission Line, Switchyard, and Distribution Line	Transmission Line, Switchyard, and Distribution Line

III. New Minimum Threshold for TKDN Value

In implementing its authority to determine the minimum threshold of TKDN value for the combination of goods and services in the development of electricity infrastructure, the MEMR has issued the MEMR Decree 191/2024 which sets out the following:

Type of Infrastructure	Minimum TKDN Value for Combination of Goods and Services
Steam-Fired Power Plants	a. ≤ 600MW Installed Capacity: 27,18% b. > 600 MW Installed Capacity: 18,83%
Gas-Fired Power Plants	10,39%
Gas Steam-Fired Power Plants	21,93%
Gas Engine Power Plants	23,96%
Hydropower Plants	a. ≤ 10 MW Installed Capacity: 45% b. 10 MW ≤ 50 MW Installed Capacity: 35% c. > 50 MW Installed Capacity: 23%
Geothermal Power Plants	a. ≤ 60 MW Installed Capacity: 24% b. > 60 MW Installed Capacity: 29% c. Partial Project: 20%
Solar Photovoltaic Power Plants	20%
Wind Power Plants	15%
Biomass Power Plants	21%
Biogas Power Plants	25,19%
Waste-based Power Plants	16,53%
Transmission Line	a. 150 kV High Voltage Overhead Line: 60,71% b. 275 kV Extra High Voltage Overhead Line: 65,65% c. 500 kV Extra High Voltage Overhead Line: 38,13% d. 150 kV High Voltage Underground Cable Line: 56,40%
Switchyard	a. 150 kV High Voltage Switchyard: 39,87% b. 275 kV Extra High Voltage Switchyard: 24,79% c. 500 kV Extra High Voltage Switchyard: 13,28% d. 150 kV High Voltage Gas Insulated Switchgear: 12,95% e. Up to 50 kV Extra High Voltage Gas Insulated Switchgear: 17,38%

In contrast to MOI Reg 54/2012, we see a significant relaxation for the minimum threshold of TKDN value for the combination of goods and services under the MEMR Decree 191/2024.

However, the minimum TKDN value for the respective goods and services components are not further specified in the MEMR Decree 191/2024. In line with our explanation in Section II above, the minimum TKDN value for the respective goods and services components will be determined by the MOI. Having the MOI Reg 54/2012 revoked, we expect the minimum TKDN value for the respective goods and services within the scope of industrial components used in the electricity infrastructure development to be further determined by the MOI. Based on the information that we received, such further determination is still being drafted.

IV. Enforcement of TKDN Requirements

Under the MEMR Reg 11/2024, the enforcement of TKDN requirements by the MEMR is as follows:

1. Verification of Minimum TKDN Requirements

Fulfillment of the minimum TKDN value for the combination of goods and services shall be verified by an independent verification body equipped with electricity supporting activities business license. Verification shall be carried out prior to the taking over of the electricity infrastructure.



However, to be noted that the MEMR 11/2024 and the MEMR Decree 191/2024 do not yet stipulate specific procedure for the calculation of TKDN value for the combination of goods and services of electricity infrastructure projects, including designated weightages.

Previously, specific procedure for the calculation of TKDN value was applicable for Solar Photovoltaic Power Plants under MOI Regulation No. 4/M-IND/PER/2/2017 regarding Provisions and Procedures of Local Content Calculation for Solar Photovoltaic Power Plants (“**MOI Reg 4/2017**”). As of now, the MOI Reg 4/2017 has been revoked and replaced by MOI Regulation No. 34 of 2024 regarding Local Content Calculation Procedures of Solar Modules, which is only applicable for the Solar Photovoltaic Module component. Noting that the procedure for the calculation of TKDN value for the overall plant is not further specified under MEMR 11/2024 or MEMR Decree 191/2024, verification process for Solar Photovoltaic Power Plant projects may now be more streamlined.

2. **Sanctions**

Failure to achieve the minimum TKDN value based on the verification results may be sanctioned with: (a) written warning; (b) temporary suspension of activities; (c) administrative fines; and/or (d) revocation of electricity supply business license.

Typically, the project development agreements would implement indemnification mechanism in the face of these sanctions in a back-to-back manner (i.e., independent power producer shall indemnify the off taker in the Power Purchase Agreement, and the EPC contractor shall indemnify the independent power producer in the EPC Contract).

3. **Reward**

The MEMR may provide certain reward for achievement of minimum TKDN value. A technical guideline regarding the provision of reward shall further be issued by the Directorate General of New Renewable Energy and Energy Conservation and/or the Directorate General of Electricity of the MEMR.

4. **Preferential Pricing**

The MEMR 11/2024 also indicates that preferential pricing (i.e., the value of the adjustment or normalization of the price against the bidding price in the procurement process in the electricity infrastructure development projects) may be rewarded by the MEMR as a form of appreciation for the utilization of domestic goods and services.

A technical guideline regarding the preferential pricing shall further be issued by the Directorate General of New Renewable Energy and Energy Conservation and/or the Directorate General of Electricity of the MEMR.

5. **Applicability of TKDN Requirements**

The TKDN requirements set under MEMR Reg 11/2024 is applied retroactively for the following types of electricity infrastructure development currently in the phases of planning, construction, or operational since 2021 but have not been verified by an independent surveyor:

- | | |
|----------------------------|-----------------------------|
| a. Hydropower Plants | c. Solar PV Power Plants |
| b. Geothermal Power Plants | d. Steam-Fired Power Plants |



- e. Gas-Fired Power Plants
- f. Gas Steam-Fired Power Plants
- g. Transmission Lines
- h. Switchyards

However, applicability of the TKDN requirements set under MEMR Reg 11/2024 is exempted for the following types of electricity infrastructure development currently in the phases of planning, construction, or operational:

- a. Wind Power Plants
- b. Biomass Power Plants
- c. Biogas Power Plants
- d. Waste-based Power Plants
- e. Gas Engine Power Plants
- f. Distribution Lines

V. Relaxation of TKDN Requirements

1. Relaxation for Offshore Loans/Grants Funded Projects

The Asian Development Bank has previously identified project cost-efficiency concerns due to stringent local content requirements as a challenge in power projects financing in Indonesia.¹ In the face of these bankability concerns from offshore lenders, the MEMR 11/2024 has yielded more flexibility for local content compliance for offshore lender-funded projects.

Under MEMR 11/2024, for electricity infrastructure development funded by offshore loans or grants (either direct lending or on-lending from the Indonesian government), the local content requirements may follow those set out by the relevant financing documents.

However, this incentive is only applicable for loans/grants granted for one project which is purposed to fulfill domestic electricity demand. Further, the amounts of such loans/grants shall also be at least 50% (fifty percent) sourced from multilateral or bilateral lenders (development banks or financial institutions).

2. Relaxation for Solar Photovoltaic Power Plants

One of the recurring challenges in the development of Solar Photovoltaic (“PV”) Power Plant projects is the difficulty to meet the minimum TKDN value for the Solar PV Modules component. Initially, the MOI Reg 54/2012 had planned to escalate the threshold of TKDN value of Solar PV Modules to 60% (sixty percent) starting 1 January 2025. This stringent requirement was often seen to be imbalanced with the growth of the domestic Solar PV Module manufacturing capability in Indonesia.

As a response to the challenge above, the MEMR Reg 11/2024 has now opened the pathway for relaxation of TKDN requirements for the development of Solar PV Power Plants, which is available until 30 June 2025.

A Solar PV Power Plant project is eligible for such relaxation if: (i) having the power purchase agreement signed at the latest on 31 December 2024; and (ii) having the planned commercial operation date at the latest on 30 June 2026. Further, the granting of such relaxation is conditional on the following requirements:

¹ Asian Development Bank (2019). *Renewable Energy Financing Schemes for Indonesia*. Accessed on 6 Agustus 2023 from <https://www.adb.org/sites/default/files/publication/541531/renewable-energy-financing-indonesia.pdf>. Page 15.



- a. The list of Solar PV Power Plant projects shall be exhaustive as determined through a coordination meeting organized by the Coordinating Ministry for Maritime and Investment Affairs.
- b. The development of Solar PV Power Plant projects utilizes: (i) Solar PV Modules that are assembled domestically; or (ii) Solar PV Modules imported in their entirety by a Solar PV Module manufacturing company (either domestic or foreign), which has investment commitment for establishing a manufacturing plant for TKDN-compliant Solar PV Modules in Indonesia and shall have achieved production at the latest by 31 December 2025.

This investment commitment shall be evidenced by a statement of ability addressed to the MEMR qq. Directorate General of New Renewable Energy and Energy Conservation and the Directorate General of Electricity as well as the MOI qq. Directorate General Metals, Machineries, Transportation Equipment, and Electronic Industry. Failure to fulfil the statement of ability may be sanctioned with blacklisting by the user of goods and services.

This effort of the MEMR showcases its intention to offset the imbalance between local content requirements and domestic production capability, by temporarily reducing local content requirements to accelerate the growth of the domestic Solar PV Module manufacturing capability in Indonesia.

We will continue to follow the developments of this topic. Should you have any queries on this topic, please contact our consultants



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