

## PLN TO ESTABLISH FOSSIL FUELLED HOLDING COMPANY

In the past couple of months, we have seen significant progress in the government's climate change policy. In May 2021, the State Electricity Company (PT Perusahaan Listrik Negara – “**PLN**”) has announced in the parliamentary hearing of its plan to retire most of its fossil fuelled powered power plants to achieve net zero carbon by 2060. The Government then proposed the same in the Long-term Strategy on Low Carbon and Climate Resilience 2050 (LTS-LCCR 2050) to UNFCCC (the United Nations entity tasked with supporting the global response to the threat of climate change).

Despite the Indonesian government being very optimistic to this commitment, achieving net zero carbon by 2060 may not be an easy task for the Indonesian government, especially for PLN. Currently, around 86.45% of electricity used in Indonesia are sourced from fossil fuelled power plants while only 13.51 is sourced from renewable energy. What needs to be done to achieve the 2060 decarbonization? In general, strategies set out by the government involves (a) stopping discussions or tender process for the fossil fuelled power plants; (b) retiring fossil fuelled power plants and developing more clean energy; (c) putting in place policies to allow use and commercialisation of renewable energy to their full potential in order to replace the fossil fuelled power plants.

Putting a stop on a discussion for PPAs for Independent Power Producer with fossil fuelled power plants seems to be logical approach to reduce PLN's reliance on fossil fuelled energy. The President of the Republic of Indonesia already issued an instruction that no more fossil fuelled energy in the 2021 – 2030 National Electricity Supply Business Plan (RUPTL) unless those which were already in the construction or financial close.

Suspending new coal fired power plants development is one thing, but replacing the existing fossil fuelled power plants with renewable may be a more challenging task and requires a lot of considerations from PLN and the government.

If existing fossil fuelled power plant is going to be phased out and replaced by new renewable energy power plants, millions of dollars of investment by PLN will go down the drain. Replacing the fossil fuel energy completely with renewable energy may also have significant impacts to the Indonesian economy foundation because to date, coal industries play a significant role in supporting the Indonesian economy. As the temporary solution, PLN and government are considering the use of Carbon Capture, Utilization, Storage (CCUS) technology in fossil fuelled power plants so that the plants can still be in operation yet still significantly reduce the carbon emission. Note to worth that this also comes with the issue of costs. PLN may also not have the financial capacity to retrofit CCUS technology to PLN's existing fossil fuelled power plants and it may also be difficult to require the existing IPPs to retrofit CCUS in their power plant. For IPPs, this additional requirement will be considered as a triggering event under the PPA and will result in the IPPs charging higher tariffs to PLN.

PLN is doing one step at the time to overcome this situation, starting with its own plants that have been outdated, have availability factors of less than 80% in the past 5 years and are projected to have a capacity factor of less than 50% in the next 5 years. A new holding company will be established to hold PLN's fossil fuelled power plant assets. We believe that this is driven by PLN's plan to monetize PLN's unproductive coal fired power plants asset as indicated by PLN in various occasions.

Not yet a lot of information on this holding structure at the moment, but in our view the monetization can be done by PLN setting a up joint venture company with a strategic investor (“**SPC**”) where the SPC will purchase PLN's asset and will then act as an IPP and sell electricity to PLN under a PPA. That way PLN will receive fresh capital from the sales of the asset that can be used by PLN to develop new renewable energy power plants.

However, with a trend for investors to shift away from carbon-based energies portfolio in favour of renewable or green portfolio, the question is whether there are any investors that is interested in investing in brownfield fossil fuelled power plants. To make it more appealing to investors, we see that PLN may consider offering the SPC a first right in developing a renewable energy power plant either by offering a bundling package or by giving priorities for the SPCs that have committed on cooperating with PLN in the future renewable energy procurements. To enable this holding structure, a significant change to the regulations will be required particularly on the tender requirements and procedures. Considering the end of the fossil fuelled energy trend, it becomes the homework for PLN and the government to formulate structures that on one side can attract the investors while on the other side will not cause loss to PLN as the sole offtaker.

## Lawyers in charge

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Adi is one of the newest Partner at Guido Hidayanto & Partners specializing in infrastructure and construction projects. Prior to joining Guido Hidayanto & Partners, he worked for top tier firm in Indonesia as a senior associate. He has acted for both Indonesian and foreign clients in a variety of projects and commercial transactions His experience includes representing foreign sponsors in the development of ultra super critical electric power plants in Indonesia including the preparation and negotiations of the project documents (for example EPC and O&M contracts, coal supply agreements).

Adi was also extensively involved in various EPC projects for construction of commercial buildings, factories and smelters.

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