Focus Group Discussion: Corporate sourcing of renewables to spur new economic activity and foreign investment
13 October 2020 • 8h00-11h00 CEST/13h00-16h00 WIB

Background

The OECD Clean Energy Finance and Investment Mobilisation (CEFIM) Programme aims to support Indonesia in strengthening its policy frameworks to accelerate investment in clean energy. This focus group discussion (FGD) is one in a series of virtual events that are part of the OECD Clean Energy Finance and Investment Review of Indonesia. These FGDs call upon Indonesian and international experiences in topical areas, which will help produce insights and provide recommendations on the enabling conditions to mobilise clean energy finance and investment in Indonesia.

This FGD considered policies to enable corporate sourcing of renewable energy, taking into account expansion of industrial zones in Indonesia and pulling from international experiences in renewable energy sourcing (e.g. through renewable energy certificates and via direct investment in renewable energy production). The FGD discussed the state of play and experiences in corporate engagement for renewable energy finance and investment in Indonesia, as well as lessons learned from other countries. These discussions served as background for recommendations of steps Indonesia can take to accelerate its clean energy transition through support for and engagement of corporate sourcing of renewables.

Summary of Discussions

Indonesia has committed to reduce its CO₂ emissions by 29% by 2030, or up to 41% with international support. The country also has pledged to have a renewable energy share of 23% in total primary energy supply by 2025, including deploying 45 gigawatts (GW) of renewable energy capacity by then. There is much to do to achieve these ambitions: the energy mix in 2019 was only around 9% renewables, and meeting clean energy targets will require accelerating renewable energy investments, including international capital flows to meet the estimated USD 95-100 billion of needed investments by 2025 (and more than USD 525 billion to 2050)¹.

The global Covid-19 crisis adds an additional layer of complexity. Clean energy will be all the more important to supporting Indonesia’s long-term economic recovery and sustainable development. The Government will continue to implement its strategy to increase renewable energy capacity, with a number of initiatives on green growth, renewables in industry, solar-wind hybrid technologies, biomass, municipal waste power generation and clean fuel development, amongst others. The forthcoming Omnibus law will also help to increase opportunities for investments in clean energy, as well as create jobs.

Yet, there are still a number of barriers to renewable energy development, including lack of commercial business models, long lead times (e.g. from land acquisition and permitting) and high capital expenses for renewable energy project development. There are also barriers related to the current electricity tariff structure, regulations and procurement process. For commercial banks in Indonesia, renewables are still considered risky, and overall there is a lack of renewable energy project finance. While renewable energy prices are increasingly competitive compared to fossil fuels, viable economic models are needed, with a long-term vision behind clean energy investments. Other issues include lack of incentives (including possible

¹ Renewable energy investment needs as presented by Pak Suryadarma, Chairman of METI-Indonesia Renewable Energy Association, in his presentation to the CEFIM Virtual Review Mission in the Focus Group Discussion on Corporate Sourcing of Renewables (13 October 2020).
subsidiaries) to encourage and/or facilitate increased corporate sourcing. There also is limited green financing, and the existing green certificate offered by the state power utility PLN needs to meet international standards.

On a positive note, around 70 companies in Indonesia have already pledged to commit to renewables. Despite the Covid-19 crisis, PLN is dedicated to achieving its 35 GW renewables capacity target, and it is looking at how to tap into Indonesia’s estimated 462 GW of potential renewable electricity capacity. One such effort includes a new PLN Service Product being developed with the Clean Energy Investment Accelerator (CEIA) to provide a tracking system and (bundled or unbundled) Renewable Energy Certificates (RECs) for customers looking to procure clean electricity, following international standards (and valid for 1 year, matched yearly with consumption). PLN is also collaborating with the Ministry of Energy and Mineral Resources (MEMR) to develop renewable energy capacity in remote areas with energy storage and energy charging stations, and they offer two installation schemes (metering solutions) for grid-connected renewables production and consumption.

Efforts are also being made to accelerate industrial development, increase environmentally-friendly industry and improve industrial investment competitiveness, with a view to next generation development for industry 4.0. This will require enabling infrastructure (e.g. for renewable electricity capacity) and supporting business development. Industrial parks, which doubled in number since 2015 to 121 in 2020, (and 38 more under construction) remain in the early stages of clean energy adoption today. Focus is needed on renewable (and non-renewable) resources, as well as logistic efficiency (particularly outside Java), advanced technologies and low-water consumption.

Current efforts will need to be complemented with additional measures to facilitate corporate sourcing of renewables. For example, there currently are no technical guidelines for implementation of power wheeling (where 3rd party access rules are needed to facilitate the physical transfer of power). The 2015 MEMR Regulation addressing cooperation on the utilisation of power grid (for transmission or distribution) accounts for this, in principle, but power wheeling is still uncommon and the process could be improved (e.g. considering a tripartite agreement with PLN to allow corporate buyers to find a suitable model). The 2018 and 2019 MEMR Regulations on rooftop solar PV (including an agreed capacity charge for exporting power to grid) have also helped to facilitate renewable energy development, with the number of rooftop customers growing from 351 in 2018 to more than 2000 in June 2020. However, the pricing structure (accounting for facility services with respect to reliability and power quality) may be a deterrent for some corporate customers. The grid fee for independent power producers (IPPs) may also detract from corporate investment.

Compared to other countries, Indonesia’s options for corporate buyers are not where they could be. Off-grid captive and on-site captive connected renewables may work well for some companies, but for companies without nearby access to renewable energy, there are limitations. Even for those that are able to do captive production, it is still challenging to meet 100% of their electricity needs, given constraints in total production capacity locally – generally only around 10-15% of electricity needs. RECs are important to companies, but so are power purchase agreements (PPAs) and green tariffs, which are not really available in Indonesia and are limiting broad sources of electricity supply for customers looking to meet their renewables targets. Reliability is also another consideration alongside sustainability by companies looking to source renewables. Measures to address these concerns and barriers can attract greater amounts and different types of corporate investors, while improving Indonesia’s competitiveness and ability to attract foreign investments.

A clear denominating factor internationally is that companies engage most in renewables procurement in countries where it is easy to do so. This is supported by a stable policy framework as well as a credible, transparent energy attribute certificate (EAC) system. A “carrot and stick” approach can also help in engaging corporate sourcing of renewables, as was the case in Australia’s Renewable Energy Target (RET) with financial incentives (e.g. solar subsidies) and industry obligations, which helped bring spot prices down for renewable electricity generation certificates and led to 3.5 GW of new capacity in 2020 supported by corporate PPAs.

Additionally, the breadth of financing instruments and investor types for corporate sourcing of renewables in Indonesia can be improved. Most projects today are through equity finance by developers, debt finance by
international financial institutions, and some risk capital (e.g. from venture capitalists). One example from Danone included a leasing model used for renewable energy procurement. Options suggested to broaden the pool of investors include mezzanine financing or third party financing. Another option is pursue the proposed creation of a renewable energy fund as part of the draft renewable energy law.

Conclusions and recommendations

- Facilitating/encouraging corporate renewable energy procurement begets development of renewable energy capacity, as was shown by Australia’s experience. With the right “carrots and sticks”, this can achieve competitively priced renewable energy as well as to unlock further private investments in renewables, including foreign direct investments.
- Indonesia can promote corporate sourcing and investments in renewable energy projects by creating a level playing field (e.g. energy subsidy and price reforms, where appropriate) and by removing regulatory or procedural barriers (e.g. facilitating land acquisition and permitting processes). The OSS system is a right step towards simplifying procedures and investment permits, although effort can be made to evaluate the effectiveness of the new system. Overall, a clear, stable policy framework with long-term signals to clean energy project developers and investors is critical.
- Consistency is also important. Changes in policies/regulations or differences across authorities (e.g. local governments) can be challenging for corporates to make long-term engagement. An umbrella policy, such as a renewable energy law, could help address these issues, where until presently, regulations have changed with ministers and can be different across islands.
- A credible and transparent EAC/REC system is critical: buyers want to know what they are buying and what that means. Work by PLN with CEIA is promising, especially if it aligns with international norms.
- Lastly, a portfolio of options is needed to increase the size and scope of corporate engagement and investments. Power wheeling, behind-the-meter production and RECS are all important. There are still challenges to make this work in Indonesia, including for instance the need for technical guidance on power wheeling. Efforts should aim to create a market structure that allows for direct trade and that works with utilities or suppliers to provide options for renewable energy sourcing.