

Energy & Natural Resources

Versi Bahasa Indonesia

Enforcement Date

30 January 2017

Related ILB

- New Gross-Split Scheme for the Upstream Oil-and-Gas Industry
- New Provisions on 10% Participating Interest for Upstream Oil-and-Gas Businesses
- New Procedures for the Granting of Government Guarantees for the Acceleration of Electrical Infrastructure Development
- Procedure for the Securing of Natural-Gas Pricing for Certain Industrial Sectors
- Natural Gas: Allocation, Utilization and Pricing

Government Regulates Natural Gas Utilization by Power Plants

In a bid to increase the utilization of natural gas by power plants while ensuring supplies of natural gas at fair and competitive prices for purchase by the electrical power sector, the Ministry of Energy and Mineral Resources (“**Ministry**”) has issued Regulation [No. 11 of 2017](#) on the Utilization of Natural Gas by Power Plants (“**Regulation 11/2017**”).¹

With these ultimate objectives in mind, Regulation 11/2017 sets out a number of provisions which address the following matters:

1. Natural gas supplies to power plants owned by the State Power Company (“**PT PLN**”) as well as to other businesses which also run power plants and which are bound by power purchase agreements with PT PLN (“**Businesses**”), including

the obligation of these parties to ensure the availability of such supplies during a certain period of the construction of a given power plant;

2. Natural gas sale-and-purchase agreements (“**SPA**”);

3. The procurement of power plants that utilize natural gas in wellheads; and

4. Natural gas prices and distribution tariffs.

¹ Recitals, Regulation 11/2017.

Energy & Natural Resources

Natural Gas Supplies for Power Plants

In order to support and ensure the fulfillment of the domestic need for electricity, Regulation 11/2017 requires PT PLN or Businesses to have access to the allocation of natural gas supplies.² Currently, such allocations are regulated under Ministry Regulation [No. 6/2016](#) on Provisions and Procedures for Stipulating Allocations, Utilizations and Pricing for Natural Gas.

Alternatively, PT PLN or Businesses may purchase natural gas from parties who possess business licenses for natural gas trading (“**Natural Gas Traders**”) and who are entitled to receive certain allocations of natural gas from the Ministry, provided that such Natural Gas Traders are able to provide the relevant natural gas facilities or infrastructure. During any such transactions, Natural Gas Traders must guarantee their ability to supply and transport natural gas, while PT PLN or Businesses must guarantee their ability to pay for the supplies in a timely manner.³

Furthermore, Regulation 11/2017 requires that PT PLN or any Businesses which are building power plants to ensure the availability of natural gas supplies for a period of 20 years. Such supplies may be purchased from natural gas contractors (“**Contractors**”), or other sources, if such Contractors are unable to provide the relevant supplies over this period.⁴

Natural Gas SPA

When purchasing natural gas, PT PLN or Businesses are required to enter into an SPA with the natural gas seller: either a Contractor or a Natural Gas Trader. The SPA must encompass the following information at the least: the source of supplies, as well as their volume and specification, the agreement period, pricing and a pricing review for the natural gas, the relevant distribution mechanism, as well as the rights and obligations of the contracting parties.⁵

If the objects of the SPA are Liquefied Natural Gas (“**LNG**”) and Compressed Natural Gas (“**CNG**”), then the SPA must be executed based on a review of the daily volume as set out in the merit order of a power plant which is a part of the electrical network system. In order to meet this merit order, PT PLN or Businesses may provide the infrastructure necessary in order to transform natural gas into CNG.⁶

Note that PT PLN may determine that the SPA applies to power plants in a number of locations (multi-destination).⁷

² Art. 3 (1-2), Regulation 11/2017.

³ Arts. 3 (3) and 12, Regulation 11/2017.

⁴ Art. 1 (3), and Art. 4 Regulation 11/2017.

⁵ Art. 13 (1-2), Regulation 11/2017.

⁶ Art. 13 (3-4), Regulation 11/2017.

⁷ Art. 13 (5), Regulation 11/2017.

Energy & Natural Resources

Procurement of Power Plants Utilizing Natural Gas in Wellheads

In order to ensure the utilization of natural gas in wellheads by power plants, Regulation 11/2017 sets out two procurement mechanisms for such power plants, as described in the table below:⁸

Procurement Mechanism	Description
Direct appointment	<p>This mechanism is to be implemented under the following conditions:</p> <ol style="list-style-type: none">1. The maximum price of the natural gas is 8% of the Indonesian Crude Price (“ICP”) per Million British Thermal Units (“MMBTU”) at the power plant;2. The security of any natural allocation/supply availability is in line with the SPA’s validity period;3. The investment cost calculations for a power plant are to be depreciated for a period of at least 20 years; and4. The efficiency of a power plant which has a specific rate of fuel consumption must be equal to high-speed diesel of 0.25 liters/kilowatt hour.
Public tender	<p>This mechanism is to be implemented if the natural gas price is higher than 8% of ICP per MMBTU.</p>

Note that the interconnection point for power plants utilizing natural gas in wellheads must be at the nearest electrical main-station (*gardu induk*).⁹

⁸ Art. 5 (1-3), Regulation 11/2017.

⁹ Art. 5 (4), Regulation 11/2017.

Energy & Natural Resources

Natural Gas Prices

Regulation 11/2017 mandates that the Ministry should determine the pricing of any natural gas which is utilized by power plants.¹⁰ Regulation 11/2017 then goes on to set out various scenarios in regard to such pricing, as described in the table below:¹¹

Conditions	Consequences
If the power plant is already equipped with the relevant infrastructure for downstream natural gas activities	A natural gas price is applicable to the plant and should comprise of the upstream natural gas price and the distribution costs of the natural gas
If there is no upstream natural gas infrastructure at the power plant	The applicable price is simply the upstream natural gas price
If the power plant is not located in a wellhead	PT PLN or Businesses may buy natural gas at a maximum price of 11.5% of ICP per MMBTU
If the gas is sold at a higher price than 11.5% of ICP per MMBTU	PT PLN or Businesses may utilize LNG for their power plants, the price of which is to be determined based on the economic situation in the field, as well as through the use of the agreed formula for the Fee-on-Board (FoB) price.

If the price of domestic LNG is higher than 11.5% of ICP per MMBTU (parity to oil) FoB, then PT PLN or Business may then import LNG at a maximum price of 11.5% of ICP/MMBTU from the buyer's re-gasification terminal (landed price). If the price of imported LNG is then higher than 11.5% of ICP per MMBTU, then PT PLN or Businesses may purchase piped gas at a higher price than 11.5% of ICP per MMBTU or purchase domestic LNG at a higher price than 11.5% of ICP per MMBTU FoB.¹²

Natural Gas Distribution Tariffs

Natural gas can be distributed through piped or non-piped channels (e.g. through the use of vessels, barges [*tongkang*], trucks or other transportation methods). The applicable tariffs for each channel are as described below:¹³

1. For piped channels: the tariffs are as regulated under Ministerial Regulation [No. 19 of 2009](#) on Piped Natural Gas Businesses; and
2. For non-piped channels: the tariffs are as stipulated based on the economic value or competitive market pricing.

Regulation 11/2017 has been in force since 30 January 2017.^{AP2}

¹⁰ Art. 6, Regulation 11/2017.

¹¹ Arts. 8 (1, 2 and 4) and 9 (1-3), Regulation 11/2017.

¹² Art. 9 (4-5), Regulation 11/2017.

¹³ Art. 11, Regulation 11/2017.

Energy & Natural Resources

RECENTLY PUBLISHED ILB

- Ministry of Transportation Relaxes Age Limitations for Commercial Aircraft
- Ministry of Finance Tightens up Provisions Relating to Primary Dealers
- OJK Redefines Regulation on the Business Activities of Guarantee Institutions
- E-Commerce Undertaken Through User-Generated Content Platforms Regulated

• RECENT REGULATION

- Ministry of Finance Regulation [No. 260/PMK.08/2016](#) on Payment Procedures for the Servicing of Public-Private Partnerships Undertaken with Business Entities for the Procurement of Infrastructure
- Ministry of Finance Regulation [No. 261/PMK.03/2016](#) on Procedures for Income-Tax Deposits, Reporting and Exemptions for Income Generated Through Transfer and Conditional Sale and Purchase Agreements for Land and/or Buildings and Their Amendments
- Ministry of Energy and Mineral Resources Regulation [No. 44 of 2016](#) on Formatting and Procedures for the Deposit and Disbursement of Geothermal Exploration Commitments
- Ministry of Energy and Mineral Resources Regulation [No. 1 of 2017](#) on Parallel Operations of Electrical Power Plants Through the PT State Electricity Company (Persero) Electrical-Power Network

Indonesian Legal Brief is a service of PT Justika Siar Publika owner and operator of www.hukumonline.com, www.hukumpedia.com, and en.hukumonline.com
Puri Imperium Office Plaza G-7 Kuningan, Jakarta 12980
to subscribe, call 62-21-83701827 or fax to 62-21 83701826 or email layanan@hukumonline.com
for feedback email english@hukumonline.com

Editor-In-Chief: **Robert Sidauruk** | Editors: **Simon Pitchforth**; **Christina Desy Butarbutar**
Analyst: **Ari Pramudya**; **Aditiya Putra** | **Ricky Pratomo** | **Elizabeth James** | Researcher: **Marcell Sihombing**
Librarian and Data Coordinator: **Dedi Rosyadi**

Disclaimer: All data and information contain in this service is compiled from various reliable sources. We have taken every effort to ensure the accuracy and completeness of data and information in these services; however, we are not responsible for any errors or omissions as well as translation mistakes from the source language. Hukumonline English may change, modify, add or remove any errors or omissions on Hukumonline English website without notification. These services are not intended and should not be taken as legal advice or opinion.
No action should be taken in reliance of information contained in these services without first seeking professional services.