
Comprehensive Legal Brief: The New Regulations for Local Content Requirement on the Electricity Infrastructure Development

I. Introduction

Recently, Indonesia's legal regulations particularly in relation to the local content requirement (*Tingkat Komponen Dalam Negeri - TKDN*) on electricity infrastructure development have showcased a significant change. This change was initiated by Government of Indonesia (**GOI**) to provide stable investment climate in Indonesia. It is important to note that there are several key GOI authorities involved in this particular sector including the Ministry of Energy and Mineral Resources (**MEMR**), the Ministry of Industry (**MOI**), and the Coordinating Ministry for Maritime and Investment Affairs (**Marves**).

As initial matter, the purpose of the local content requirement is to promote the development of goods and services in Indonesia. The first regulation concerning local content requirement for goods and services in the electricity infrastructure development was issued more than decades ago by the issuance of MOI Regulation No. 54/M-IND/PER/3/2012 (**MOI 54/2012**) which govern the minimum threshold for goods and services in the electricity infrastructure development sector. However, there are two significant challenges regarding the issuance of MOI 54/2012. First, it seems the minimum threshold for the local content requirement set in Chapter II MOI 54/2012 was relatively high to achieve for government institutions and business entities. Second, there is also a rapid development in renewable energy projects across Indonesia which further escalate the need for change regarding the local content requirement in the electricity infrastructure development to accommodate these challenges.

In view of the above, the MEMR issued Regulation No. 11 of 2024 on the Use of Domestic Products for the Development of Electricity Infrastructure (**MEMR 11/2024**) to provide more clarity and certainty in the electricity infrastructure development sector. In addition to this regulation, MEMR also issued a Decree No.191.K/EK.01/MEM.E/2024 on the Minimum Domestic Component Threshold for Combined Goods and Services in the Scope of Electricity Infrastructure Development Project (**MEMR Decree 191/2024**) which provide detailed information regarding the local content thresholds for each type of electricity infrastructure. Those two legal frameworks are expected to bring a stable investment and provide a security to the investors in Indonesia.

We have noted that the main differences between MOI 54/2012 and MEMR Decree 191/2024 is the percentage of minimum threshold. It is essential to understand that the thresholds stipulated under MEMR Decree 191/2024 are lower compared to MOI 54/2012. We are in the opine that these changes will attract lucrative foreign investment in electricity infrastructure due to its promising lower thresholds percentage for the local content requirement. In this article, we will also elaborate the insight and discuss a comprehensive legal impact concerning the new legal framework follow by how the changes will influence the investors decision on the development of electricity infrastructure.

II. Type of Electricity Infrastructure and Parties

It is important to note that MEMR 11/2024 mandates the use of domestic goods and services (local content requirement) in the development of electricity infrastructure. In accordance with Article 2 of MEMR 11/2024 there are three type of electricity infrastructure as follows:

- a) Renewable Energy Power Plants
 - i. Hydro (*Pembangkit Listrik Tenaga Air - PLTA*)
 - ii. Geothermal (*Pembangkit Listrik Tenaga Panas Bumi - PLTP*)
 - iii. Solar (*Pembangkit Listrik Tenaga Surya - PLTS*)
 - iv. Wind (*Pembangkit Listrik Tenaga Bayu - PLTB*)
 - v. Biomass (*Pembangkit Listrik Tenaga Biomassa - PLTBm*)
 - vi. Biogas (*Pembangkit Listrik Tenaga Biogas - PLTBg*)
 - vii. Waste-to-Energy (*Pembangkit Listrik Tenaga Sampah - PLTSa*)
- b) Non-Renewable Energy Power Plants
 - i. Coal-fired (*Pembangkit Listrik Tenaga Uap - PLTU*)
 - ii. Gas-fired (*Pembangkit Listrik Tenaga Gas - PLTG*)
 - iii. Combine cycle (*Pembangkit Listrik Tenaga Gas Uap - PLTGU*)
 - iv. Gas Engine (*Pembangkit Listrik Tenaga Mesin Gas - PLTMG*)
- c) Transmission Network
 - i. Transmission network (*Jaringan Transmisi*)
 - ii. Distribution Network (*Jaringan Distribusi*)
 - iii. Substations (*Gardu Induk*)

Furthermore, Article 3 (2) of MEMR 11/2024 also categorized parties involved in the electricity infrastructure development into two major categories such government institutions and business entities.

Government Institutions classification as follow:

- i. state institutions;
- ii. ministries;
- iii. non-ministerial government institutions; and
- iv. other government agencies.

Business Entities classification as follow:

- i. stated-owned enterprises (SOEs);

- ii. other entities owned by the state;
- iii. region-owned enterprises (ROEs); and
- iv. private business entities.

III. Local Content Requirement

In accordance with Article 4(1) of MEMR 11/2024, it is stipulated that the local content requirement is included in procurement document for electricity infrastructure. Furthermore, align with Article 8 of MEMR 11/2024 the fulfillment of the local content requirement is to be determined based on the local content value of each good and/or service consisting of any:

- i. any applicable local content thresholds for goods;
- ii. any applicable local content thresholds for services; and
- iii. a local content threshold for goods and services combined (as further explained below)

a) Minimum Combined Local Content Thresholds

We herein provide a table concerning comparison of minimum combined local content requirement stipulated under MEMR Decree 191/2024 and MOI 54/2012 as follows:

Electricity Infrastructure	Minimum Combined Local Content Threshold (Goods and Services)	
	MEMR Decree 191/2024	MOI 54/2012
Hydro Power Plant	Installed Capacity: 1. Up to 10 MW: 45% 2. 10 MV - 50 MW: 35% 3. More than 50 MW: 23%	Installed Capacity: 1. Up to 15 MW: 70.76% 2. 15 MW - 50 MW: 51.60% 3. 50 MW - 150 MW: 49.00% 4. More than 150 MW: 47.60%
Geothermal Power Plant	Installed Capacity: 1. Up to 60 MW: 24% 2. More than 60 MW: 29% 3. Partial/Separated Geothermal Project: 20%	Installed Capacity: 1. Up to 5 MW: 42.00% 2. 5 MW - 10 MW: 40.45% 3. 10 MW - 60 MW: 33.24% 4. 60 MW - 110 MW: 29.21% 5. More than 110 MW: 28.95%
Solar Power Plant	20%	1. Distributed: 45.90% 2. Stand-alone centralized: 43.72% 3. Connected centralized: 40%
Wind Power Plant	15%	N/A
Biomass Power Plant	21%	N/A
Biogas Power Plant	25.19%	N/A
Waste-to-	16.53%	N/A

Energy Power Plant		
Coal-fired Power Plant	Installed Capacity: 1. Up to 600 MW: 27.18% 2. More than 600 MW: 18.83%	Installed Capacity: 1. Up to 15 MW/Unit: 70.79% 2. 15-25 MW: 49.09% 3. 25-100 MW: 44.14% 4. 100-600 MW: 40.00% 5. More than 600 MW: 38.21%
Gas-fired Power Plant	10.39%	Installed capacity up to 100MW: 48.96%
Combined Cycle Power Plant	21.93%	Installed Capacity: 1. Up to 50 MW: 47.88% 2. 50-100 MW: 40% 3. 100-300 MW: 34.76% 4. More than 300 MW: 30.22%
Gas Engine Power Plant	23.96%	N/A
Transmission Network	1. High Voltage Overhead Line 150 kV: 60.71% 2. Extra High Voltage Overhead Line 275 kV: 65.65% 3. Extra High Voltage Overhead Line 500 kV: 38.13% 4. High Voltage Ground Cable Line 150 kV: 56.40%	1. High Voltage Overhead Line 70 kV: 76.17% 2. High Voltage Overhead Line 150 kV: 76, 17% 3. Extra High Voltage Overhead Line 275 kV: 74.59% 4. Extra High Voltage Overhead Line 500 kV: 74.59% 5. High Voltage Sea Cable Line 150 kV: 28.60% 6. High Voltage Ground Cable Line 70 kV: 56.40% 7. High Voltage Ground Cable Line 150 kV : 56.40%
Substation	1. High Voltage Substation 150 kV: 39.87% 2. Extra High Voltage Substation 275 kV: 24.79% 3. Extra High Voltage Substation 500 kV: 13.28% 4. 4. Gas Insulated Switchgear (GIS) High Voltage 150 kV: 12.95% 5. Gas Insulated Switchgear (GIS) Extra High Voltage up to 500 kV: 17.38%	1. High Voltage Substation 70 kV: 65.14% 2. High Voltage Substation 150 kV: 64.39% 3. Extra High Voltage Substation 275 kV: 43.27% 4. Extra High Voltage Substation 500 kV: 42.77% 5. High Voltage GIS 150 kV: 19.237% 6. Extra High Voltage GIS 150 kV: 17.389%

b) Enforcement of Local Content Requirement

It is true that the enforcement of any laws and regulations including the local content requirement on the electricity infrastructure development is always the hardest to implement. In this regard, we have provided a general enforcement procedure in relation to the new regulation. First, there is a verification of the minimum combined local content requirement shall be verified by the independent. However, it is worth

noting that MEMR 11/2024 and MEMR Decree 191/2024 do not yet stipulate procedure for the calculation of the local content requirement. Second, failure to achieve the minimum threshold based on the verification there may be a sanction such as written warning, temporary suspension, administrative fines, and revocation of electricity supply business license. Third, the MEMR may provide certain reward for achievement of minimum of local content requirement. In a nutshell, the above simple explanation provides a valuable insight regarding how the enforcement of local content requirement on the electricity infrastructure development.

IV. Relaxation to the Local Content Requirement

This relaxation to the local content requirement is one of the significant changes in the new regulations. In accordance with Article 4 (2) - (5) of MEMR 11/2024, the import of goods for electricity infrastructure development is allowed under the following conditions:

- i. the goods are not produced domestically;
- ii. the technical specifications of domestically produced goods do not meet the project requirements; and/or
- iii. domestic production cannot meet the demand as confirmed by the relevant manufacturer or association of manufacturers.

In accordance with Article 17 of MEMR 11/2024, the relaxation for the local content requirement is also applicable if the electricity infrastructure project is financed by foreign loans/grants at least 50% (fifty percent). In this regard, the local content requirements may follow those set out by the relevant financing documents. Furthermore, the relaxation of local content requirement is also applicable to solar power plant which is available until 30 June 2025. This relaxation is subject to approval from MEMR.

V. Conclusion

The new regulations on local content for electricity infrastructure development in Indonesia bring several significant changes. It is true that MEMR 11/2024 effectively expands the scope of local content requirement to include a wider range of technologies and projects, specifically several additions to renewable energies. These important changes should lead to a more conducive environment for investments and allow to its energy transition within Indonesia.

It is also notable that the MEMR set the minimum combined local content thresholds on the MEMR Decree 191/2024 which is quite low in term of the percentages compared with MO1 54/2012. We believe that these changes will attract lucrative foreign investment in electricity infrastructure due to its promising lower thresholds for the local content requirement.

Finally, the relaxation for local content requirement in electricity infrastructure development, specifically the solar power plant will become a key opportunity for foreign investors who keen on to invest in Indonesia. Not only that, but this also will also boost the transfer knowledge for the Indonesia for its smooth energy transitions to renewable energy.