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Company decision-making for geothermal projects

(GEOCAP course 1.07)

Topic: Highlights of new Geothermal Law 2017

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New regulation No. 42, 2017, for energy & mining sector

- Ref. Minister of Energy and Mineral Resources (No. 42, 2017).
- Many changes compared to the existing business process
- *Opinion AA*: indeed, current existing regulation is not clear / attractive enough (as GTE development stuck), however
 - The new regulation will further discourage geothermal development in Indonesia: too much unrealistic government intervention will only exacerbate the investment climate.
 - For example, new approvals required for changes in shareholding and Board members of Indonesian Power and Geothermal Companies (IPPs)
- See also analysis from Baker McKenzie on the impact of the regulation to electricity and geothermal business in the future.

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Government's geothermal fund

1. New regulation – PMK 62/2017
2. Govt geothermal fund: IDR 3 trillion previously managed by Pusat Investasi Pemerintah (PIP) under SMI mgt
3. Scope of geothermal fund under SMI management:
 - a) Loans to finance geothermal development – exploration, exploitation and development of PLTP (exploration risk mgt still being finalized)
 - b) Equity participation by SMI in geothermal development projects – subject to a maximum threshold
 - c) Data and information development – to improve availability and quality of data and information for potential project sites including exploration (3 hole drilling):
 - i. To support government auctions with data on potential geothermal sites
 - ii. To support SOE's with data to develop potential geothermal sites
- For point 3c outlined above, the latest developments are quite interesting:
 - The World Bank is providing approximately USD 50 million in grants to Indonesia to be channeled via SMI for developing the geothermal sector
 - This will be matched by SMI from existing IDR 3 trillion geothermal fund under its mgt to support WKP prior to issuance and post-issuance WKP
- Pre-issuance of WKP
 - The objective would be to improve availability & quality of data for potential geothermal project sites in support of Badan Geologi, EBTKE and the MoF
 - To support EBTKE auctions for sites identified by Badan Geologi, the MoF via SMI would appoint consultants – funded by the World Bank/SMI fund outlined above – to carry out exploratory drilling and develop improved data for the potential auction site
- Post issuance of WKP
 - The objective would be to reduce the initial risk of exploration drilling for SOE's
 - e.g., PGE would submit a proposal to the MoF for exploratory drilling with funding for consultants provided by SMI
 - Risk distribution would be based on PMK 62/2017, i.e., up to 50% of the SOE exploration costs would be covered by MoF if there are negative/less than positive results from the exploratory drilling

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Special fees and incentives

The **Gross Income Deduction** usually obtained as sum of:

1. Royalty: based on Government Regulation 9/2012 the royalty for geothermal development is 2.5% from gross income
 2. PBB- Subsurface: based on Tax Regulation PER-45/PJ/2013 about the Property Tax for geothermal development. The calculation is different for each geothermal area
 3. Production Bonus: based on Government Regulation 28/2016 is 0.5% from gross income
- The **Exploration/Exploitation fee** is a fee for geothermal exploitation as stated in Government Regulation 9/2012. The amount of exploration fee is USD 2 per ha/year, and for exploitation/production fee is USD 4 per ha/year.

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