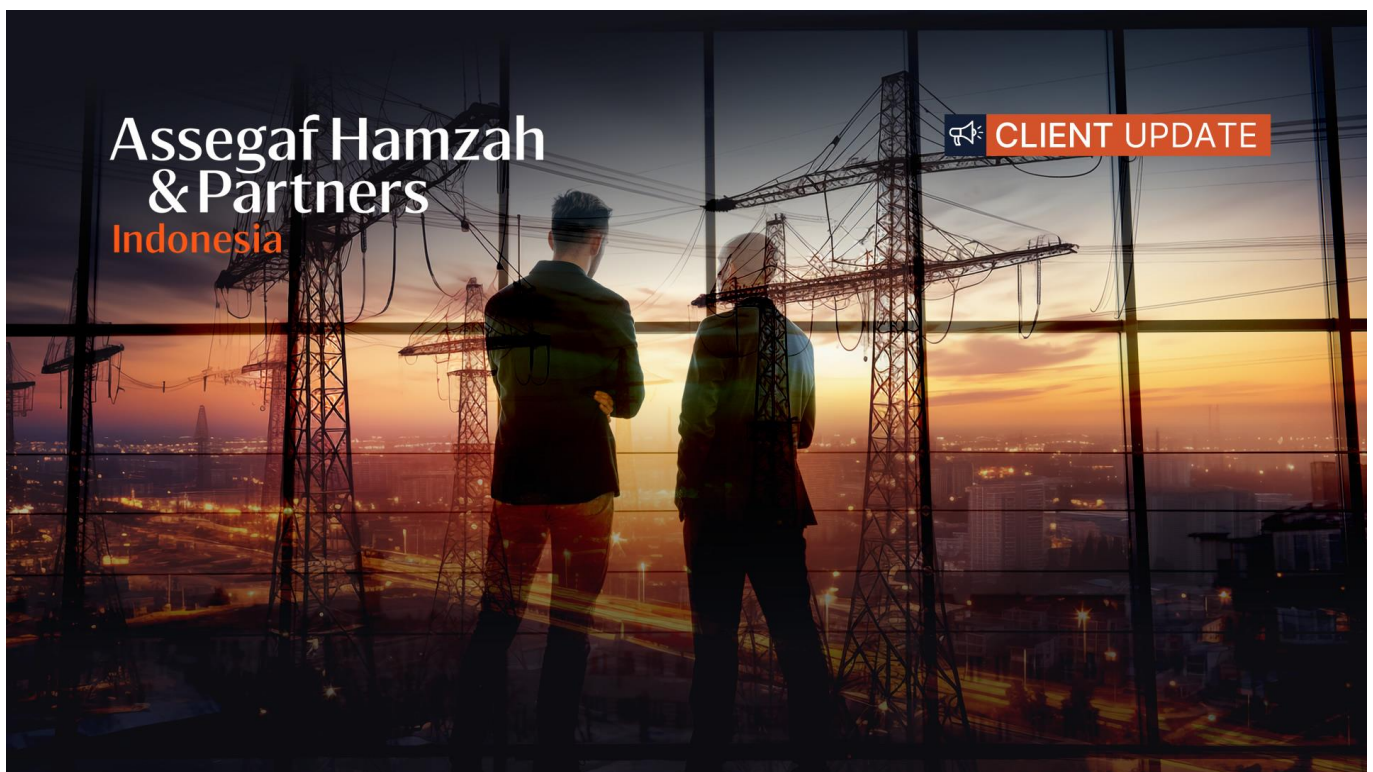


BANKING, FINANCE & PROJECTS

# Powering Indonesia: How the New Local Content Policy Will Benefit Electricity Infrastructure



The Indonesian government has taken a significant step in promoting domestic participation in the energy sector with the recent enactment of Minister of Energy and Mineral Resources Regulation No. 11 of 2024 on Utilisation of Domestic Products for the Construction of Electrical Infrastructure (“**Regulation**”). This new Regulation sets the new local content requirements for the energy sector as the previous regulation on local content, Minister of Industry Regulation No. 54 of 2012, has been revoked.

## Exemption to the Local Content Requirements

Under the Regulation, power projects may secure an exemption from the local content requirement if they are funded by offshore loans/grants from multilateral or bilateral creditors. This exemption recognises the complexities of

international financing and aims to strike a balance between encouraging domestic participation and enabling project viability.

To qualify for the exemption, two key conditions must be met:

1. **Offshore loan/grant agreement**

- The agreement must explicitly waive the local content threshold outlined in the Regulation.
- Alternatively, the agreement may stipulate a specific local content threshold that the project company must comply with.

2. **Financing**

- At least 50% of the total project financing must come from multilateral or bilateral creditors (development banks or financial institutions) through:
  - Offshore loans/grants to the government.
  - On lending of offshore loans/grants to the government; or
  - Direct offshore loans/grants to the project company.

The exemption allows internationally funded projects to proceed, while still contributing to Indonesia's infrastructure development goals. Moreover, it encourages the participation of both local and foreign investment in Indonesia's power sector.

## Relaxation of the Local Content Requirements

The Regulation also introduces a significant relaxation of local content rules specifically for solar power plants. This relaxation, valid until 30 June 2025, aims to accelerate solar energy adoption while fostering domestic manufacturing capabilities.

To qualify for this relaxation, solar power projects must meet the following criteria:

1. **Power Purchase Agreement (PPA):** The PPAs must be signed by 31 December 2024.
2. **Commercial operation:** The project must commence commercial operations by 30 June 2026, as outlined in the Electricity Supply Business Plan (*Rencana Usaha Penyediaan Tenaga Listrik* or RUPTL).
3. **Solar module assembly:** The solar modules must be either:
  - Assembled domestically; or
  - Imported by a foreign solar module company committed to investing in domestic solar module production and complying with the local content requirements. The production of solar modules must be completed by 31 December 2025.

The Coordinating Minister of Maritime Affairs and Investment will play a crucial role in identifying eligible solar projects through coordination meetings with the relevant stakeholders. Like the exemption, this relaxation provides a chance for solar projects to benefit from both international experience and local growth.

## Lower Cumulative Local Content Threshold

The Regulation stipulates that the local content threshold will be decided by the Minister of Energy and Mineral Resources. Accordingly, the Minister has issued Decision No. 191.K/EK.01/MEM.E/2024 on Minimum Local Content Value of Combined Goods and Services in Electricity Infrastructure Development Project ("**Decision**"). The thresholds are derived from various existing, commercially operational, and verified power plants.

Generally, the minimum local content thresholds under the Decision are lower compared to those stipulated in the 2012 regulation. For ease of reference, the current and previous minimum local content thresholds for each power plant is provided in the table below:

Type of Power Plants	Ministry of Energy and Mineral Resources Decision No. 191.K/EK.01/MEM.E/2024	Ministry of Industry Regulation No. 54 of 2012
Steam Power Plants ( <i>Pembangkit Listrik Tenaga Uap</i> or PLTU)	<ol style="list-style-type: none"> <li>1. Installed capacity up to 600 MW: 27.18%</li> <li>2. Installed capacity more than 600 MW: 18.83%</li> </ol>	<ol style="list-style-type: none"> <li>1. Installed capacity up to 15 MW per unit: 70.79%</li> <li>2. 15-25 MW: 49.09%</li> <li>3. 25-100 MW: 44.14%</li> <li>4. 100-600 MW: 40.00%</li> <li>5. More than 600 MW: 38.21%</li> </ol>
Gas Power Plants ( <i>Pembangkit Listrik Tenaga Gas</i> or PLTG)	10.39%	Installed capacity up to 100 MW: 48.96%
Combined Cycle Power Plants ( <i>Pembangkit Listrik Tenaga Gas Uap</i> or PLTGU)	21.93%	<ol style="list-style-type: none"> <li>1. Installed capacity up to 50 MW: 47.88%</li> <li>2. 50-100 MW: 40%</li> <li>3. 100-300 MW: 34.76%</li> <li>4. More than 300 MW: 30.22%</li> </ol>
Gas Engine Power Plants ( <i>Pembangkit Listrik Tenaga Mesin Gas</i> or PLTMG)	23.96%	Not regulated
Solar Power Plants ( <i>Pembangkit Listrik Tenaga Surya</i> or PLTS)	20%	<ol style="list-style-type: none"> <li>1. Distributed solar power plants: 45.90%</li> <li>2. Standalone centralised solar power plants: 43.72%</li> <li>3. Connected centralised solar power plants: 40.68%</li> </ol>
Geothermal Power Plants ( <i>Pembangkit Listrik Tenaga Panas Bumi</i> or PLTP)	<ol style="list-style-type: none"> <li>1. Installed capacity up to 60 MW: 24%</li> <li>2. Installed capacity more than 60 MW: 29%</li> <li>3. Separate geothermal business activity (Partial project): 20%</li> </ol>	<ol style="list-style-type: none"> <li>1. Installed capacity up to 5MW: 42.00%</li> <li>2. 5-10 MW: 40.45%</li> <li>3. 10-60 MW: 33.24%</li> <li>4. 60-110 MW: 29.21%</li> <li>5. More than 110 MW: 28.95%</li> </ol>

Type of Power Plants	Ministry of Energy and Mineral Resources Decision No. 191.K/EK.01/MEM.E/2024	Ministry of Industry Regulation No. 54 of 2012
Hydroelectric Power Plants ( <i>Pembangkit Listrik Tenaga Air</i> or PLTA)	<ol style="list-style-type: none"> <li>1. Installed capacity up to 10 MW: 45%</li> <li>2. Installed capacity more than 10 MW up to 50 MW: 35%</li> <li>3. Installed capacity more than 50 MW: 23%</li> </ol>	<ol style="list-style-type: none"> <li>1. Installed capacity up to 15 MW: 70.76%</li> <li>2. 15-50 MW: 51.60%</li> <li>3. 50-150 MW: 49.00%</li> <li>4. More than 150 MW: 47.60%</li> </ol>
Wind Power Plants ( <i>Pembangkit Listrik Tenaga Bayu</i> or PLTB)	15%	Not regulated
Biomass Power Plants ( <i>Pembangkit Listrik Tenaga Biomassa</i> or PLTBm)	21%	Not regulated
Biogas Power Plants ( <i>Pembangkit Listrik Tenaga Biogas</i> or PLTBg)	25.19%	Not regulated
Waste to Energy Power Plants ( <i>Pembangkit Listrik Tenaga Sampah</i> or PLTSa)	16.53%	Not regulated

An independent verification agency with an Electricity Support Services License (*Izin Usaha Jasa Penunjang Tenaga Listrik* or IUJPTL) will assess whether a project meets the local content threshold. This crucial step happens before the project is handed over. The assessment results carry a significant weight, determining whether sanctions will be imposed or awards granted. When sanctions are imposed, it can be in the form of a fine, suspension of the project, or revocation of license.

## Key Takeaways

Both the Regulation and Decision represent a pivotal shift in Indonesia's energy strategy, creating an environment where local industry and infrastructure can thrive together. By strategically balancing local content goals with the practical needs of project implementation, the government has paved the way for a more robust and sustainable energy future. It also sets the stage for local and foreign players to seize the opportunities presented by this new regulatory framework.

## Contacts

### Banking, Finance & Projects



Ibrahim Sjarief Assegaf

**MANAGING PARTNER**

D +62 21 2555 7825  
[ibrahim.asegaf@ahp.id](mailto:ibrahim.asegaf@ahp.id)



Kanya Satwika

**PARTNER**

D +62 21 2555 7807  
[kanya.satwika@ahp.id](mailto:kanya.satwika@ahp.id)



Ilham F. Raaziy

**PARTNER**

D +62 21 2555 7804  
[ilham.raaziy@ahp.id](mailto:ilham.raaziy@ahp.id)



Tracy Tania

**PARTNER**

D +62 21 2555 7836  
[tracy.tania@ahp.id](mailto:tracy.tania@ahp.id)

[Zessica Yuniartha Ronaully Nababan](#), [Michelle Gracia Susilo](#), and [Suci Fitria Ardhiyany](#) also contributed to this alert.

Please feel free to also contact Knowledge Management at [RTApublications@rajahtann.com](mailto:RTApublications@rajahtann.com).

## Regional Contacts

### Cambodia

Rajah & Tann Sok & Heng Law Office

T +855 23 963 112 / 113  
kh.rajahtannasia.com

### China

Rajah & Tann Singapore LLP  
Shanghai & Shenzhen Representative Offices

T +86 21 6120 8818  
F +86 21 6120 8820  
cn.rajahtannasia.com

### Indonesia

Assegaf Hamzah & Partners

#### Jakarta Office

T +62 21 2555 7800  
F +62 21 2555 7899

#### Surabaya Office

T +62 31 5116 4550  
F +62 31 5116 4560  
www.ahp.co.id

### Lao PDR

Rajah & Tann (Laos) Co., Ltd.

T +856 21 454 239  
F +856 21 285 261  
la.rajahtannasia.com

### Malaysia

Christopher & Lee Ong

T +603 2273 1919  
F +603 2273 8310  
www.christopherleeong.com

### Myanmar

Rajah & Tann Myanmar Company Limited

T +951 9253750  
mm.rajahtannasia.com

### Philippines

Gatmaytan Yap Patacsil Gutierrez & Protacio  
(C&G Law)

T +632 8894 0377 to 79 / +632 8894 4931 to 32  
F +632 8552 1977 to 78  
www.cagatlaw.com

### Singapore

Rajah & Tann Singapore LLP

T +65 6535 3600  
sg.rajahtannasia.com

### Thailand

Rajah & Tann (Thailand) Limited

T +66 2656 1991  
F +66 2656 0833  
th.rajahtannasia.com

### Vietnam

Rajah & Tann LCT Lawyers

#### Ho Chi Minh City Office

T +84 28 3821 2382  
F +84 28 3520 8206

#### Hanoi Office

T +84 24 3267 6127  
F +84 24 3267 6128  
vn.rajahtannasia.com

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