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NEWSLETTER

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NEW MEMR REGULATION ON HYBRID POWER PLANTS FOR SMALL ISLANDS OR ISOLATED AREA

Indonesia's renewable energy sector continues to gain significant momentum, with growing policy attention and market activity accelerating the country's energy transition agenda. Hybrid power plants are increasingly promoted as part of the energy transition, supported by MEMR's energy transition roadmap issued through MEMR Reg 10/2025, which formally advances the de-dieselisation program. In parallel, PLN has engaged with three companies to implement de-dieselisation program, and the President has announced an ambitious initiative to develop up to 100 GW of solar power plants equipped with BESS. Against this backdrop of rapid policy and market developments, it is particularly noteworthy that MEMR Reg 19/2025 has introduced a new pricing mechanism that departs from the single-ceiling price approach under PR 112/2022. The regulation adopts a dual structure consisting of both a ceiling price and a floor price—signaling a potentially significant shift with direct implications for the economics and bankability of renewable projects in small-scale electricity grid.

Background

The Ministry of Energy and Mineral Resources (**MEMR**) recently issued a new regulation, namely MEMR Regulation No. 19 of 2025 on Hybrid Power Plants (**MEMR Reg 19/2025**). While the regulation applies to hybrid power plants in small-scale grid, it is specifically issued to accelerate the Indonesia's de-dieselization program.

The de-dieselization program, launched by MEMR in 2020, aims to gradually replace diesel-based power plants in remote and isolated areas across Indonesia with renewable power plants. The program is intended to lower electricity costs and enhance electricity reliability, particularly

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in light of the high cost and logistical challenges associated with fuel oil, while simultaneously supporting Indonesia's 2060 net-zero emissions target. The initiative began to gain momentum in 2023 following PLN's execution of letters of intent with three major energy companies for de-dieselization projects. Nevertheless, its implementation has been slower than anticipated due to the complex financial and commercial dynamics in achieving a bankable outcome, particularly relating to the electricity purchase price.

Recognized as a key component of Indonesia's energy transition agenda under the National Electricity General Plan and PLN's Electricity Generation Business Plan (RUPTL), de-dieselization remains a strategic priority. In this context, the issuance of MEMR Reg 19/2025 is expected to provide a more enabling regulatory framework and help address the challenges associated with de-dieselization projects.

Key Highlights of MEMR Reg 19/2025 – Signalling Next Phase of De-dieselization Efforts

Regulatory Scope

The regulation governs hybrid power plants developed specifically in an independent electricity grid connected to local distribution grid to provide electricity to small islands or isolated area. The hybrid power plants regulated are a combination of renewable energy power plants with:

a. other renewable energy power plant, namely: (i) solar power plants, (ii) wind power plants, (iii) hydropower plants, and (iv) biomass power plant;
b. new energy-based power plants, in the form of hydrogen power plant;
c. BESS; and/or
d. existing non-renewable energy power plants, namely diesel power plants or other power plants using diesel fuel.

The hybrid power plant configurations may take the form of the following combinations:

a. renewable energy power plants combined with other renewable energy power plants;
b. renewable energy power plants combined with BESS;
c. renewable energy power plants combined with renewable energy power plants and BESS;
d. renewable energy power plants combined with new energy power plants and BESS;
e. renewable energy power plants combined with non-renewable energy power plants; or
f. renewable energy power plants and BESS combined with non-renewable energy power plants.

The above hybrid power plant configurations must meet system reliability requirements, consisting of: (i) flexibility to address uncertainty including electricity production deviation and demand, (ii) frequency control stability, and (iii) voltage control stability. Specifically for BESS, it must also meet energy management system that aims to ensure balance between supply and demand, optimize operational cost, and preserve frequency and voltage quality.

MEMR Reg 19/2025 sets out procurement and pricing mechanisms that specifically apply to electricity purchase by PLN. Nevertheless, the regulation may serve as a reference (*acuan*) for electricity purchase from hybrid power plants by non-PLN business area holders.

Electricity Pricing Mechanism

MEMR Reg 19/2025 introduces a ceiling price and a floor price for PLN's electricity purchase from the hybrid power plants. MEMR will determine both the ceiling price and floor price through a ministerial decree, which is currently in development.

Several key notes on the ceiling price and floor price:

a. no escalation during the PPA term;
b. the agreed price serves as a price approval from MEMR;

c. the price will consider location factors – similar with the current pricing mechanism for renewable power plants;
d. the price is used in PPA and is valid since the commercial operation date;
e. the price excludes electricity grid facility price, which is capped at 5% of electricity price. Electricity grid facility price exceeding 5% of electricity price is permitted with the approval from MEMR. The ceiling price for special facilities is significantly lower than the ceiling price set in Presidential Regulation No. 112 of 2022 (**PR 112/2022**) for renewable power plants, namely at 30% of electricity purchase price – which may result from the characteristic of small and isolated area being addressed by the regulation;
f. the price may be evaluated every two years, or at any time if deemed necessary by considering PLN's average contract price and market assessment; and
g. the electricity price is paid in Rupiah using Jakarta Interbank Spot Dollar Rate (JISDOR) exchange rate at the time agreed in the PPA.

It is unclear if the ceiling price and floor price also applies to BESS for the hybrid power plants. Under PR 112/2022, there is a separate ceiling price for BESS installed with solar and wind power plants, namely 60% of the electricity purchase price. Further uncertainty also arises as to whether the PPAs for those hybrid power plants are subject to MEMR Regulation No. 5 of 2025 that sets out key provisions for renewable PPA (**MEMR Reg 5/2025**). Some provisions of MEMR Reg 5/2025 may not be directly applicable to hybrid power plants combining diesel and hydrogen-based generations.

MEMR Reg 19/2025 also seeks to mitigate PLN's exposure by allowing PLN to receive compensation for all costs incurred if the electricity purchase from the hybrid power plants increases PLN's electricity generation cost. However, the compensation is contingent upon the state's financial capabilities pursuant to applicable regulations.

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Electricity Procurement by PLN

MEMR Reg 19/2025 provides that the procurement must be conducted from the following hybrid power plants for all capacities:

a. photovoltaic solar power plants with biomass power plants;
b. hydropower plants with photovoltaic solar power plants;
c. photovoltaic solar power plants with BESS;
d. biomass power plants with photovoltaic solar power plants and BESS;
e. wind power plants with photovoltaic solar power plants and BESS;
f. photovoltaic solar power plants with hydrogen power plants and BESS;
g. diesel power plants with hydrogen power plants and BESS; or
h. other types of power plants as may be determined by MEMR,

Moreover, the procurement of electricity must be carried out as a single and inseparable system configuration.

While the regulation aims to support de-dieselization program, it only expressly governs procurement and pricing mechanisms for diesel power plants combined with hydrogen power plants and BESS. This raises questions of whether MEMR Reg 19/2025 will apply to de-dieselization projects that have undergone procurement - typically involving a combination of diesel and solar power plants that is not listed in the regulation – or whether a formal stipulation from MEMR (e.g: MEMR regulation or decree) would be required to extend the application of this regulation to those ongoing de-dieselization projects. This ambiguity in applicability likewise affects the transitional provisions, which provides a different pricing mechanism as elaborated below.

Nevertheless, the regulation mandates periodic evaluations of the approved hybrid power plant configurations every two years and at any time as deemed necessary, suggesting that adjustments to the stipulated configurations could be introduced earlier as hybrid power plant projects progress through development.

The procurement is conducted by PLN through a direct selection scheme, with priority given to location-based clustering of power plants within a small-scale system. The direct selection process must be completed in 180 calendar days, calculated from the date of the announcement of the direct selection until the signing of the power purchase agreement (PPA).

If only one business entity submits a bid document in the direct selection process, such direct selection must be declared unsuccessful, and a re-direct selection is conducted. If only one business entity submits a bid document in the re-direct selection, the procurement process must proceed.

Impact on Ongoing Procurement

For projects where the procurement process has been completed, the electricity purchase price has been agreed between the business entity and PLN, and MEMR price approval has not yet been obtained, the agreed price may continue to be used, so long as such agreed price is below the local cost of electricity supply of the reference diesel power plant used during the procurement process. If the agreed electricity purchase price exceeds such local electricity supply cost, the procurement from the hybrid power plant at the relevant location is cancelled. Again, questions remain as to whether the transition provisions will apply for hybrid de-dieselization power plants which are not a combination of diesel power plants with hydrogen power plants and BESS.

Closing

MEMR Reg 19/2025 has been issued to support and accelerate Indonesia's de-dieselization program, which seeks to advance the energy transition by gradually replacing diesel-based generation with renewable power plants, particularly in isolated and small-scale systems. While the regulation provides an important regulatory signal, its effectiveness will be highly contingent on the ceiling and floor electricity purchase prices to be stipulated by MEMR through a forthcoming ministerial decree.

At the same time, several issues remain open and will be critical for successful project development, including whether alternative hybrid configurations involving diesel generation require formal approval by MEMR, the pricing treatment for BESS installed as part of such hybrid configurations, and the applicability of the renewable PPA framework under MEMR Reg 5/2025 to these hybrid power plants. The clarity on these aspects will be central to a successful project development and are expected to shape market appetite and investment decisions in the de-dieselization projects going forward.

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