

INDONESIA ENERGY SUBSIDY BRIEFING

A bi-monthly review of developments in Indonesian energy subsidy policy and energy markets

January 2016

As part of its work on energy policy and sustainable development in Indonesia, the Global Subsidies Initiative (GSI) of the International Institute for Sustainable Development (IISD) publishes a regular briefing on issues related to energy subsidies. For more information, contact Lucky Lontoh at lucky.lontoh@iisd.org and Lasse Toft at ltchristensen@iisd.org.

Highlights

- On 29 December 2015, Indonesia's state-owned electricity company, PT PLN, announced a range of price reductions to non-subsidized tariff classes.
- On 4 January 2016, Dwi Soetjipto, CEO, PT Pertamina, announced a range of fuel price decreases. Price changes were applied to both subsidized and non-subsidized fuels.
- The government recently re-confirmed its policy to revisit domestic fuel prices on a three-monthly basis.
- The government's plan to create an Energy Security Fund levy has become center of considerable public debate, primarily concerning the judicial basis for its implementation.

2016 Fuel Price Changes

On 4 January 2016, Dwi Soetjipto, CEO, PT Pertamina announced a range of fuel price decreases. The price changes were applied to both subsidized and non-subsidized fuels as a response to falling international oil prices, a strengthened rupiah and the government's decision to postpone the implementation of the Energy Security Fund levy which was originally planned for early 2016 (KOMPAS, 2016).

The price changes follow a period of intense public discussion around the new Energy Security Fund. On 23 December Minister of Energy and Natural Resources, Sudirman Said, announced the government's plan to add a levy to subsidized gasoline and diesel from early 2016 in order to bring in revenue for the new fund. More specifically, that government intended to impose a levy of IDR 200 per liter of subsidized gasoline and IDR 300 per liter of subsidized diesel (Republika, 2015). The government's plan to create an Energy Security Fund has been developed throughout 2015, primarily as a means to support oil and gas exploration and development of new renewable energy sources.

According to Minister Said, the legal framework for the fund was established via Energy Act Number 30/2007, which stipulates that "Development and utilization of research output on new and renewable energy shall be financed from state revenue from non-renewable energy". Nevertheless, in response to the announcement from Minister Said, the Energy Security Fund levy has become center of considerable public debate, primarily concerning the judicial basis for its implementation (KataData, 2015).

Rinaldy Dalimi, Commissioner, National Energy Council (DEN), argued publicly that the legal basis refers only to upstream operators and does not provide the legal ground to impose a levy on consumer retail prices as intended by the government. According to Mr. Dalimi, the creation of the fund needs a policy of its own, determining how funds will be collected and how the fund will function. Mr. Dalimi also suggested that the levy should be imposed on all fossil fuel products and not only subsidized fuels (CNN Indonesia, 2015).

Mr. Tulus Abadi, Chairman of Indonesian Consumers Association (YLKI), argued that the Energy Security Fund would be exposed to risks of revenue misalloca-

tion if the funds collected are pooled with regular state revenue and not specifically linked to energy security issues. At the same time, however, Mr. Abadi acknowledged the need to provide disincentives for the use of fossil fuels and advised that the fund needs a strong institutional setup around it, including clearly defined procedures to manage the fund, as well as a clear plan for how to increase energy security (GATRA News, 2015).

Table 1: Recent Fuel Price changes (IDR per liter)

Fuel Type / Brand	Price before 5 January 2016	Price after 5 January 2016
Premium (RON 88 Gasoline) – Java, Madura, and	7,400 (USD 0.518)	7,050 (USD 0.486)
Premium (RON 88 Gasoline) – Outside Java, Madura, and Bali	7,300 (USD 0.511)	6,950 (USD 0.486)
Solar (Automotive diesel)	6,700 (USD 0.469)	5,650 (USD 0.395)

Source: (PT Pertamina, 2016).

Table 2: Prices of Indonesian Non-Subsidized Fuel after 5 January 2016 (IDR per liter)

Fuel Type / Brand	Price before 5 January 2016	Price after 5 January 2016
Gasoline RON 90 “Pertalite”	8,250 (USD 0.577)	7,900 (USD 0.553)
Gasoline RON 92 “Pertamax” for Jakarta and West Java	8,750 (USD 0.612)	8,600 (USD 0.602)
Gasoline RON 95 “Pertamax Plus” for Jakarta	9,650 (USD 0.602)	9,400 (USD 0.658)
Automotive Diesel “Solar” (non-subsidized)	8,300 (USD 0.581)	8,050 (USD 0.563)
Automotive Diesel “Pertamina Dex” (non-Subsidized) for Jakarta	9,850 (USD 0.689)	9,600 (USD 0.672)
LPG 12kg (national average price decrease per cylinder)		5,800 (USD 0.406)
LPG 12kg Greater Jakarta Area (average price decrease per cylinder)		5,600 (USD 0.392)

Source: (PT Pertamina, 2016).

New pricing mechanism for subsidized fuels

Since the government introduced a new pricing mechanism as part of fuel subsidy reforms in early 2015, the government has been deliberating over how often to adjust fuel prices. After an initial period of frequent price changes, primarily downward, the government first prolonged the time interval between price changes and then decided not to apply planned adjustments to consumer retail prices. Prices for subsidized gasoline (brand premium) therefore remained stable from 28 March until the recent price adjustments. Solar Diesel was adjusted once during this period when it was lowered by IDR 200 on 7 October 2015 alongside a range of price adjustments to non-subsidized fuels. When announcing the recent price adjustments, Minister Said also re-confirmed the government’s policy to revisit domestic fuel prices on a three-monthly basis going forward.

Table 3: Price adjustments for subsidized fuels since November 2014 (IDR per liter)

Date	Premium Gasoline (non Jamali)	Solar Diesel
November 2014	6,500 (USD 0.455)	5,500 (USD 0.385)
18 November 2014	8,500 (USD 0.595)	7,500 (USD 0.525)
1 January 2015	7,600 (USD 0.532)	7,250 (USD 0.507)
19 January 2015	6,600 (USD 0.462)	6,400 (USD 0.448)
1 March 2015	6,800 (USD 0.467)	6,400 (USD 0.448)
28 March 2015	7,300 (USD 0.511)	6,900 (USD 0.483)
7 October 2015	7,300 (USD 0.511)	6,700 (USD 0.469)
5 January 2016	6,950 (USD 0.486)	5,650 (USD 0.395)

Source: GSI 2015.

Reduction of Electricity Tariffs in 2016

On 29 December 2015, Indonesia’s state owned electricity company, PT PLN (PT Perusahaan Listrik Negara), announced a range of price reductions to non-subsidized tariff classes. The price reductions are part of regular monthly price adjustments to non-subsidized electricity and according to PT PLN the changes were due to falling

international oil prices and a strengthened rupiah (PT PLN, 2015).

Indonesia's electricity market is divided into 12 non-subsidized and two subsidized tariff classes of which the 12 non-subsidized tariff classes are subcategorized as: Residential (R), Business (B), Industry (I), Government, Public Service and Lighting (P), and Special Purposes (L). The government is still providing subsidized electricity to the two lowest connection classes, 450VA and 900VA, but the scheme is expected to be reformed later this year. Electricity subsidy reform was originally planned for early 2016, but in November 2015 the government announced its decision to postpone its implementation until July due to the technical reasons. As reported by the GSI in November 2015, electricity subsidy reform is expected to significantly reduce the number of subsidy recipients and target subsidies to poor and vulnerable households only.

Table 4: Electricity Tariff Adjustments

Tariff Class	Power Connection	Tariff (IDR/kWh) December 2015	Tariff (IDR/kWh) January 2016
R1	1,300VA	1,509.38 (USD 0.10)	1,409.16 (USD 0.09)
R1	2,200VA	1,509.38 (USD 0.10)	1,409.16 (USD 0.09)
R2	3,500VA– 5,500VA	1,509.38 (USD 0.10)	1,409.16 (USD 0.09)
R3	> 6,600VA	1,509.38 (USD 0.10)	1,409.16 (USD 0.09)
B2	6,600VA– 200kVA	1,509.38 (USD 0.10)	NA
B3	> 200kVA	1,104.73 (USD 0.07)	1,007.15 (USD 0.07)
I3	> 200kVA	1,104.73 (USD 0.07)	1,007.15 (USD 0.07)
I4	> 30,000kVA	1,059.99 (USD 0.07)	970.35 (USD 0.06)
P1	6,600VA– 200kVA	1,509.38 (USD 0.10)	NA
P2	> 200kVA	1,104.73 (USD 0.07)	1,007.15 (USD 0.07)
P3	-	1,509.38 (USD 0.10)	NA
L/TR, TM, TT	-	1,644.82 (USD 0.11)	NA
Subsidized Class	450VA	415 (USD 0.02)	415 (USD 0.02)
Subsidized Class	900VA	605 (USD 0.04)	605 (USD 0.04)

Source: (PT PLN, 2015), (Tempo, 2016), (Beritagar, 2016).

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