Power Sector Restructuring and Public Benefits*

By Agus P. Sari

Introduction

Presently, countries throughout the world are restructuring their power sectors as part of the larger economic trends that, among others, encourage privatization of state-owned enterprises. Many developing countries have little choice but to restructure their power sectors, as multilateral development banks (MDBs) and other international financial institutions (IFIs) have often made future loans contingent upon energy sector restructuring within a broader structural adjustment program. These institutions have clearly argued that public funds are insufficient to cover the needed investment by the rapidly growing power sector in developing countries.

In Indonesia, the state-run company, the Electric Utility Company (Perusahaan Listrik Nasional or PLN) is currently being restructured. This massive, vertically-integrated, company, is to be broken into pieces, and in turn will be privatized. This paper uses Indonesia as a case study to explore the following questions. How is restructuring undertaken in Indonesia? What are the dynamics? How influential are the IFIs in steering the direction of restructuring? What are the perceived implications of restructuring on public benefits such as social and environmental benefits? Who attempt to guard these public benefits in the restructuring process?

Power Sector Restructuring

The Emergence of Restructuring

Public utilities in developing countries have for the most part invested in the creation of greater generating capacity to meet their ever-increasing demands for electricity. Until early 1990, multilateral development banks were the largest — if not the sole — financiers of such investments in developing countries. Beyond the 1990s, however, multilateral development banks (MDBs) have changed their policies, making it clear that public funds are no longer available to finance such investments. In 1993, the World Bank made power sector restructuring an explicit condition for continued lending to the power sector in borrower countries. The new policy stated that the Bank should only lend to countries that demonstrated a commitment to the restructuring principles.

To keep a secure level of growth in the power sector, the MDBs such as the World Bank and the Asian Development Bank advocate private sector participation in this traditionally government-run area. In a separate paper, the World Bank laid out a four-point program to

** Agus P. Sari is Executive Director of Pelangi, a Jakarta, Indonesia, based think tank on environment and sustainable development. Pelangi can be reached at the following address: Jalan Danau Tondano A4, Pejompongan, Jakarta 10210, Indonesia. Tel. (62-21)-573-5020. Fax. (62-21)-573-2503. Email. apsari@pelangi.or.id. Website. www.pelangi.or.id.


encourage energy efficiency in borrower countries. In reality, however, only a small fraction of the Bank’s portfolio since the release of the policy paper actually supported energy efficiency projects while the overwhelming majority of the Bank’s funding still went to the business-as-usual supply-side investments.  

The MDBs typically argue that restructuring the power sector will uncover the true costs of electricity by ridding the state-run companies of their gross inefficiencies. Restructuring, theoretically, will also enhance competition, thereby lowering production costs. In Indonesia, the state-run PLN has, for various reasons, maintained a subsidized monopoly in the power sector. According to MDBs, these subsidies must also be eliminated to reveal true costs and enhance competition. Emphasizing power sector reform in developing countries is not unique to the World Bank, but is shared by a range of other international financial institutions (IFIs). Multilateral and bilateral development agencies also play significant roles in promoting power sector restructuring in many developing countries as they are the only sources of financing for governments wishing to implement broad policy reforms. There have been 3 models of private sector involvement in the power sector in Indonesia: the IPP model, the utility model, and the captive power model. In the IPP model, a private producer sells electricity to a natural-monopoly transmission company (pool) which in turn resells to distribution companies for either retail or bulk purchases. Paiton I and II, are examples of the IPP model. The utility model is a vertically-integrated electric utility granted a territorial concession to sell its electricity, mainly in places where transmission grid is non-existent. The Muara Karang utility is an example of such a model. Captive power — also called self-generation — is power generation for self-use by major industries. The latter two models have been mainly a response to the low-quality and poor availability of electricity provided by PLN.  

The State of Power Sector in Indonesia

The Electricity System

Besides supplying domestic demand for energy, energy sector plays a important role in the national economy as a major foreign exchange earner. In 1998, the contribution of the energy and mining sector to Indonesia’s export was 21 percent, or more than US$ 10 billion, while its contribution to the Gross Domestic Product was 14 percent, or Rp. 52 trillion — a largest share of which is oil.  

But while Indonesia is a member of the Organization of Petroleum Exporting Country (OPEC), its non-renewable energy reserves cannot be considered extraordinary. Indonesia’s oil deposit is only 0.6 percent of the world total, its gas deposit is 1.4 percent, and its coal

---


The deposit is 3.1 percent, in a country that houses 3.5 percent of the world population. The latest estimates of the remaining oil deposits in Indonesia are about 10 trillion barrel. With production of approximately 500 million barrel per year, the remaining deposit can last only for the next 20 years.

The extraordinarily high growth rate of electricity development in Indonesia was only dampened by the recent crisis. Prior to the economic and financial crises, the power sector showed both steady profit and increased growth of installed capacity, peaking at 10 percent per year between 1990 and 1998. Even when the economy was contracted at negative 15 percent in 1998, the power sector remained growing at 4 percent per year. Given that the market is still far from exhaustion, with about 67 percent electrification rate, future growth is expected to increase at high rates similar to that prior to the crisis. By the end of 1998, Indonesia had 35.5 GW total installed generating capacity, 20.5 Gigawatts (GW, 58 percent) of which were owned by the State-owned Electricity Company (Perusahaan Listrik Nasional, PLN). Three-quarters of PLN’s installed capacity were in the Jawa (Java)-Bali system, run by its two operators, PT Pembangkitan Listrik Jawa-Bali I and II. The remaining 5.3 GW were distributed among the 12 electrification regions outside Java. The non-PLN generating capacity, about 15 GW, were owned by private power producers (IPPs), cooperatives, and captive power — self-generating electricity sources installed mainly by industries without easy access to PLN’s distribution grid.

In PLN’s Jawa-Bali system, gas and coal are the dominant sources of electricity. The gas combined cycle dominated the system with about 6.5 GW (about 32 percent), followed closely by coal-fired steam with 6 GW (about 29 percent) in 1998. These two sources already constituted 85 percent of the total Jawa-Bali system. Large hydropower projects, at 2.4 GW capacity, are believed to have reached their peak in energy production. Both coal- and gas-fired power plants will continue to be the main sources of electricity in Java, but their development will depend on the prices of the two sources. Currently, coal is sold in Indonesian rupiah, whereas natural gas in US dollar. With the current weakening of the rupiah against the greenback, coal may gain support. Natural gas can compete in the future only if its domestic sales are denominated in rupiah.

IPPs covered about only 2 percent of the countrywide installed energy capacity in 1998. 62 percent of the IPP capacities were in Java, while 18 percent were in Irian Jaya. The electricity produced that was sold to PLN amounted 2.9 Terawatt-hours (TWH), constituted about 4 percent of the electricity sold by PLN through its distribution network. Meanwhile, captive power constituted more than one third (40 percent) of the total in 1998. Obtaining accurate information about the installed capacity of the captive power is difficult as only those with an output larger than 200 KVA need registration. A study estimated, however, that from 1980-1986, the installed capacity of captive power was larger than that of PLN. Between 1982 - 1989, PLN’s installed capacity surpassed that of the captive power due to the high growth rate of PLN’s installed capacity, 15 percent per year between 1982 -

---


By the end of 1997, the installed capacity of the captive power plants were estimated at about 11 – 13 GW. Approximately 60 percent of this capacity came from diesel generators while one quarter was cogeneration plants. It was estimated that roughly 77 percent were installed by manufacturing industries, about 52 percent of which were on Java and Bali. While one-third of the installed capacity was back-up generators, two-thirds were utilized as the main electricity supply. The electricity produced by the captive power was 39 GWH, more than half of the electricity generated by PLN during the same year.

Currently, the entire transmission and distribution networks are owned and operated by PLN. By 1998, the total length of the transmission network was 24 thousand kilometers (km), whereas the length of the distribution system was 460 thousand km. More than 70 percent of the transmission network and about half of the distribution network exist in Java, with a sophisticated load dispatch center in Gandul, near Jakarta, to undertake integrated load planning and operations, and activate the Extra-High Voltage transmission network. Only the Jawa-Bali system has such a load dispatch center.

### Table 1:
**Projected Electricity Demand (in Terawatt-hour, TWH), 2000 - 2010**

<table>
<thead>
<tr>
<th>Regions</th>
<th>2000</th>
<th>2005</th>
<th>2010</th>
<th>Growth/year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Java-Bali</td>
<td>63.1</td>
<td>97.4</td>
<td>147.1</td>
<td>9 percent</td>
</tr>
<tr>
<td>Outside Java-Bali</td>
<td>15.0</td>
<td>23.7</td>
<td>39.5</td>
<td>11 percent</td>
</tr>
</tbody>
</table>


It is expected that Indonesia’s economy will recover soon. If this occurs, Indonesia will have to produce even more electricity to meet the increasing demand. It is predicted that electricity demand will grow almost at 10 percent per year in the next 10 years. Demand in Java-Bali will increase by almost 9 percent per year, whereas that outside of Java-Bali will increase by more than 11 percent per year.

### The Pricing System

For those producers not connected to the PLN system, those that produce electricity and sell it directly to the end consumers, prices are determined independently from the PLN pricing policy. For the non-PLN generation facilities that sell their electricity through PLN, the price is determined based on their capacity. Small-scale private generations, cooperatives, and community self-generation who sell their electricity to PLN use selling price that is determined by the government, in line with the marginal costs of the PLN’s equivalent generating capacity. Large-scale private generations, or IPPs, use selling price that is defined through negotiation with Ministerial Approval, in the form of a Power Purchase Agreement (PPA) or an Energy Sales Contract (ESC). In most cases, these agreements allow the IPPs to sell electricity at a higher price than PLN can resell it to the customers.


Ibid.

changes in exchange rate, inflation, fuel prices, and private power purchase. This mechanism was abandoned due to the complication and bureaucracy as well as the prohibitively high tariff adjustments due to the devaluation of the rupiah against the greenback.

Electric subsidies come in the following forms: cross-subsidy within one tariff group, cross-subsidy between tariff groups, cross-subsidies between regions, lifeline rate, and levies. 17 During the fiscal year of 1999/2000, fuel subsidy amounted Rp. 28.2 trillion and electricity subsidy Rp. 10 trillion. These subsidies were to be reduced to less than Rp. 19 trillion on fuel and about Rp. 3.9 trillion on electricity. 18

**Power Sector Restructuring Agenda**

The restructuring agenda involves transforming the electricity sector from state-led monopoly into an entirely competitive but regulated, multibuyer-multiseller sector. While the participation of the private sector is allowed under Law No. 15/1985, and a private power plant was operational in 1992, the first sign of real restructuring happened with the issuance of a policy paper by the Indonesian Government, titled Goals and Policies for the Development of the Electric Power Subsector, which was the basis for the enactment of the Governmental Decree No 37/1992, also known as the Private Power Decree.

Under the leadership of the World Bank, the framework for unbundling PLN began in 1993 with the commissioning of a study for an institutional framework by Norplan A/S, which led to the separation of the generation, transmission, and distribution functions of PLN. 19 The unbundling only gained momentum in 1997, largely due to the need to cash-in state assets through privatization, including pieces of PLN, amid the economic crisis. With the August 1998 “White Paper” (or Power Sector Restructuring Policy), a full-blown restructuring process gained momentum, and a new Electricity Law is to be drafted to support the process. 20 Throughout this section, therefore, the restructuring agenda refers largely to the latest agenda stipulated in the White Paper and the subsequent Draft Electricity Law.

**A Historical Account: The Pre-Crisis Restructuring**

Prior to 1985, power sector was entirely a government-led sector. All segments in the power sector — generation, transmission, and distribution — were undertaken by the state-owned PLN. Law No. 15/1985 allowed private sector participation in electricity generation, both for own use and for reselling. In Indonesia, Laws cannot be enacted without the necessary accompanying regulations. Therefore only after the Presidential Decree No. 37/1992 has private sector involvement in the Indonesian power sector started to materialize.

This decree, also known as the Private Power Decree, encouraged the participation of private sector enterprises for electricity generation, transmission, and distribution. The pronouncement was followed by the changing of PLN’s status from a public utility

---

17 Winarso, B.A. 1999. Subsidi Listrik [Electricity Subsidy], unpublished manuscript.


to a public company (perseroan terbatas, PT) through Decree No. 23/1994, marking the corporatization of PLN.

IPPs have proliferated remarkably since the enactment of the Private Power Decree. Prior to its enactment, on April 24, 1990, then-President Suharto agreed to develop part of Paiton I coal-fired power plant as the first private power project. The controversial Paiton I was the first IPP under a build-own-operate (BOO) scheme. During the period 1994 – 1997, 26 more power-purchasing agreements (PPAs) or Energy Sales Contracts (ESCs) were issued and signed, including Paiton II. The majority of these contracts were based on unsolicited, non-transparent bidding processes, and resulted in overpriced, dollar-pegged, “take-or-pay” conditions that greatly favored project investors. With the signing of the first Power Purchase Agreement (PPA) in 1994, Paiton I was the first IPP in Indonesia. Soon thereafter, PPA for Paiton II was also signed. 25 other IPPs came on line producing electricity that — under all agreements — PLN will have to “take or pay” (i.e., PLN will have to buy the electricity produced by the IPP, regardless whether PLN needs it or not) for 30 years. These new IPPs have imposed additional burden to PLN. Even without the additional generating capacity of the IPPs, PLN has experienced over-capacity. The high reserve margin — about 51 percent of the existing installed capacity — is one of the highest in the world.

Currently, the IPPs sell electricity at rates that are higher than the resell tariff of PLN. This is especially so in the context of the current crisis, since the take-or-pay agreements are dominated in US dollar. Paiton I, for example, sells electricity at 8.5 cents, and gradually reduces the price to 5.4 cents. Paiton II sells for 6.6 cents. Sarulla, a 330 MW geothermal power plant, is the cheapest with 4.3 cents. At current exchange rate, PLN sells electricity at about 2.5 – 3.5 cents. Thus, even the cheapest price the IPPs sell to PLN is already higher than PLN’s current tariff. Renegotiation with the IPPs and integrating them into the larger restructuring process are currently underway, and are part of the restructuring plan.

The Crisis Factor

The economic crisis began in 1997 when Indonesia’s currency, the Rupiah, was allowed to float and be traded freely. Immediately its value plummeted to about one-fourth of the pre-crisis value — it once even sank deeper to about one-eighth. The severe El Niño-induced droughts exacerbated the crisis. The economy entered a deep depression, with a negative growth rate of 15 percent.

The economic crisis was possibly the worst ever in the Indonesian history. Indonesia had already been burdened with more than $100 billion external debt before the crisis. More than half of these non-performing loans belonged to the private sector, who took on the debts in a frenzy of overconfidence in the stability and security of the nation. Prices soared, with inflation reaching a staggering 400 percent. Unprecedented levels of capital fled the unstable country. Unemployment increased as factories closed or fired workers to stay afloat. The number of people below the poverty line increased from roughly 15 to over 40 percent, the equivalent of 80 million people. Approximately 50 million people became poor overnight. This dire situation led former President Suharto to sign the first Letter of Intent (LOI) with the IMF on January 15, 1998, at his private residence in Jakarta.

But the financial and economic crisis was apparently beyond control of the Suharto administration. Riots and protests spread. Tens of thousands of students took over the streets, eventually taking-over the parliament building and halting the entire nation’s activities. The political implications of the crisis were so volatile that it forced Suharto to give up his presidency.

In May 1998, B.J. Habibie, the Vice President, ascended the presidency by default. The Habibie government commenced a new agreement with the IMF about a month after taking the office. By the fourth quarter of 1998, the exchange rate had begun to stabilize and inflationary pressures abated. Despite some incidents of exchange rate instability, the rupiah

remained below Rp. 10,000/US$, inflation continued to be low or negative, and initiatives were launched to address pressing financial and corporate sector problems. In November 1998, a Special Session of the People’s Consultative Assembly (Majelis Permusyawaratan Rakyat, MPR, the nation’s highest legislative body) approved early General Elections. On June 7, 1999, the election was held, and on October 1, 1999, the first democratically-elected People’s Consultative Assembly was convened. The Assembly elected Abdurrahman Wahid as President and Megawati Sukarnoputri as Vice President for 1999-2004.

Historically, major changes in the direction of trade and industrial policy are linked to major political and economic crises. Thus it seems the 1997 economic downturn will lead to the restructuring and privatization as it provides the desperately needed hard currency to service the enormous debt during the crisis.

From another perspective, however, the crisis is also important because it allows radical political and governance changes in the power sector in Indonesia. Public scrutiny has intensified regarding public benefits, especially the provision of basic electricity and the implications of tariff adjustments on the poor. The government is no longer a dominant and decisive player in this arena. This was not the case in the period prior to the political “reform”. Some reformist figures, especially young economists, have been promoting the use of international liberalization brought in by the International Monetary Fund (IMF) as a vehicle to break monopolistic, corrupt practices of Suharto’s family members and cronies.

Throughout the last years of the Suharto presidency, to Habibie through the administration of Abdurrahman Wahid, restructuring the power sector remains high on the government’s policy. But the multidimensional crises changed the pace and prominence of power sector restructuring in Indonesia while it has been an ongoing process.

The IMF and Its Role in Fostering Restructuring

Amid the crises, the IMF came to the rescue with a $46 billion bailout package. The World Bank offered a $2.4 billion structural adjustment loan (SAL) — one of the largest ever SALs given by the World Bank, second only after the one given to Brazil. Out of the $2.4 billion, there is a $1.5 billion earmarked as a Policy Reform Support Loan. The Asian Development Bank (ADB) also chipped in with $1.8 billion support package, of which includes a $400 million Power Sector Restructuring Program. In addition, Japanese Government also gave $3.8 million as part of the IMF bailout package. In a series of Letters of Intent (LOI) and supplementing documents, these global lending institutions have placed requirements on reforming and restructuring the Indonesian power sector.

According to supplements to the LOI of March 16, 1999, the Government of Indonesia must undertake a number of programs related to the power sector restructuring. They include: establishing the legal and regulatory framework to create competitive electricity market; restructuring of the organization of PLN; adjustment of electricity tariffs; and rationalizing of power purchases from private sector power projects. The IMF also urged the government to re-negotiate with the IPPs regarding the cancellation of their PPAs. Also in the LOI, the government was also expected to finish and pass the new Electricity Law by December 1999.


In the LOI dated May 14, 1999, the ADB and the World Bank will provide technical assistance to the restructuring process. The short-term strategy towards a competitive electricity market includes the system on the islands of Java and Bali as a transitional region. In this LOI, it is also stated that the negotiation between PLN and the IPPs has to be based on business interests, without any government involvement. Two months later, another LOI was issued questioning the electricity tariff that was still below the production costs of PLN. 24

In the LOI of January 20, 2000, the government stated its commitment to speed up the restructuring process of a number of state-owned corporations, including Pertamina (the state-owned oil company) and PLN. Meanwhile, the results of the independent audit were to be followed-up through a financial rehabilitation program in PLN. 25 This LOI mentioned specifically that the government will implement the restructuring policy set in the White Paper of August 1998. Yet, the May 17, 2000, LOI, mentions that PLN has been in agreement with the IPPs to overcome the negotiating deadlock by issuing an Interim Agreement. In this Interim Agreement, PLN can postpone the payment to the IPPs. 26 This Interim Agreement only buys time, however, and does not address the real problem. Also mentioned in the LOI is that the Export Credit Agencies (ECA) and the restructuring team have resolved a financial mechanism of the IPP.

The White Paper and the Draft Electricity Law

Contemporary restructuring agenda prominently features references to the so-called “August 1998 White Paper.” This work is a comprehensive framework on how the restructuring process is to be undertaken, partially responding to the multidimensional crises that hit the power sector, especially PLN, in 1997. 27 According to the White Paper, the four objectives of the restructuring policy are: the restoration of financial viability, competition, transparency, and more efficient private sector participation. Six areas of reform are: industry restructuring and unbundling; introduction of competition; tariff setting, cost recovery, and removal of subsidies; rationalization and expansion of the private sector participation; redefinition of the Government’s role; and strengthening of legal and regulatory framework. 28 The White Paper cites the dual function of PLN — its commercial and social functions — as a hindrance for the development of PLN. In the restructured power sector, the electricity producers are to operate commercially and be financially independent from the government. The social functions will be taken up by the government. It also addresses the multiple but conflicting roles of the government as owner, policy-maker, and regulator. A crucial aspect of the restructuring agenda is the creation of an independent regulatory body. The White Paper stipulates that this autonomous regulatory body reports to the Minister of Mines and Energy (currently Minister of Energy and Mineral Resources), but be outside of the Directorate General of Electricity and Energy Development. This regulatory agency will supervise all electricity companies through the issuance of licenses and supervision of compliance with the licenses. Recent change of ownership, where PLN is currently under the supervision of the


28 Ibid.
Coordinating Ministry for Economic Affairs has left the Ministry of Energy and Mineral Resources as policy maker is a step in the restructuring process.

One of the six components of the restructuring was the strengthening of the legal basis for reorganization in the energy sector. Law No. 15/1985 was deemed inadequate, thus a replacement has been sought. The White Paper suggested passing a new law in 1999. Until the writing of this paper, however, the Draft Electricity Law was not yet scheduled for public hearing. The new law will, among others, provide for the establishment of the position of Energy Regulator as distinct from the Minister of Energy and Mineral Resources; remove the requirement of a mandatory central planning for all regions in Indonesia; establish licenses as the key instruments of regulation; and establish the basic principles for tariff setting and provision of subsidies.

The Unbundling of PLN

In 2000, according to the White Paper, an independent regulatory body, an independent transmission company, and an independent regional company would begin operation, while subsidies are gradually removed. Generation and distribution companies will operate under the supervision of JBEC. The PLN Services company will be the only functioning aspect of the former monopoly. It was further planned that in 2001 – 2002, some independent generation and distribution companies (IPPs) would begin to emerge, while the ones still controlled by the JBEC were either privatized or in direct competition with the IPPs (Figure 1, below). Finally, as the plan goes, a complete multi-seller-multi-buyer market will emerge in 2003, as all generation and distribution companies are fully independent, and JBEC is privatized.

As of today, little has been undertaken towards the planned restructuring activities beyond the pre-crisis functional unbundling, and the division of the generation subset of PLN into JBEC I and II. Eventually, the JBEC I and II will be divided further into approximately 5 companies (JBEC I was later on renamed to Indonesia Power). Similarly, the single distribution entity will also be divided into 5 distribution companies (discos), and may still be divided further into smaller companies as deemed necessary. Figure 1, below, shows the evolution from the current system to become a multibuyer-multiseller system scheduled to take place in 2003-2004.

Figure 1:
Evolution of the Jawa-Bali Electricity System

Current System

Multibuyer-multiseller system (2004)
While generation, transmission, and distribution functions are to be clearly separated, the transmission aspect will remain a monopoly, either in the hands of the government or a private company with strict regulatory limitations. The White Paper cites a number of objectives of tariff setting. First, the existing tariff structure should allow cost-recovery. When cost-recovery is not possible, subsidies should be made transparent. Outside Java, regional subsidies will still be given “to promote national unity and development.” Tariff setting will have to take into account the purchasing power of the poor. Tariff structure will have to be consistent with the new competitive sector structure. Finally, tariff structure will have to provide incentives for ongoing efficiency improvements.

Electricity tariff has been a political commodity for the longest time, thus tariff increases will have to be phased over several years to avoid popular unrest. Rather than through tariff, subsidies will be provided through a new fund, namely the Social Electricity Development Fund, for regional subsidies and subsidies for the poor. Originally, there were 3 agencies to directly implement the restructuring agenda, the Ministry of Mines and Energy, the Ministry for Empowerment of State Enterprises, and the Ministry of Finance. The Ministry of Mines and Energy was in charge of a wide range of activities including: developing the Draft Electricity Law with a technical assistance from the ADB, developing new tariff code and tariff increase, new codes and Governmental Regulations, initiating and establishing a regulatory agency and undertaking capacity building through technical assistance for regulatory implementation, and renegotiation of IPPs and other contracts, which involves rationalization and integration of the IPPs into the new industrial structure.

The Ministry for Empowerment of State Enterprises was in charge of the restructuring, corporatization, and privatization of PLN, and enhancing its financial viability. The Ministry of Finance was in charge of subsidies and issues related to the government finance.

The Ministry of Mines and Energy later became the Ministry of Energy and Mineral Resources, while the Ministry for Empowerment of State Enterprises was later dissolved and became part of the Coordinating Ministry of Economic Affairs.

**PLN in Crisis**

Notwithstanding the second wind of restructuring amid the economic crisis, PLN was already in trouble even before the crisis. Until mid-1997 PLN had a one billion rupiah per annum profit rate. The crisis put PLN into critical financial position with losses of approximately $6 billion rupiah until 1998. While the crisis exacerbated PLN's problems, it also showed its weaknesses once hidden by the booming economy. The August 1998 White

---


Paper states that “while the monetary crisis is responsible for the severity of PLN’s immediate cash flow problems, a range of problems internal to the sector were already impeding its efficient operation and development well before the onset of the crisis”. 31 PLN faced increasing problems as the rupiah lost value against the dollar. While PLN’s revenue is in Indonesian rupiah, its expenses, including debt obligations, are mostly in foreign currencies. PLN’s income from selling power to consumers is of course in rupiah. As the rupiah has lost value, PLN’s profits have decreased significantly in US Dollar terms. Actually, it has been even worse. Demand for electricity decreased from a steady 15 – 17 percent per year when the economy had a steady economic growth of 7 percent, to about 2 – 3 percent during the crisis. As a result, the equity-to-asset ratio (EAR) was decreased from 31 percent in 1998 to 17 percent in 1999. In the first semester of 2000, the EAR declined even more sharply to a mere 3 percent. This demonstrates an alarming practice at PLN, namely financing expansion almost entirely through debt. PLN faces other difficulties from the weakening of the rupiah. Unlike oil- and coal-based plants developed by PLN, foreign investors own the natural gas- and geothermal-based power companies. PLN must purchase these fuels in foreign currency. In addition, PLN must import spare parts for plant maintenance and again pay in foreign currency.

This situation is made worse by the $133 billion that PLN is obliged to pay to the IPPs through the “take-or-pay” scheme, partly due to the cancellation of some PPAs, along the lifetime of the IPPs. The mark-up practices in many PLN projects have also made the debt heavier on PLN. Private companies often obtain projects without any transparent bidding process. Public Benefits

The social, environmental, and good governance aspects are summarized broadly as follows: tariff increases in general and subsidies for the poor, renegotiation of PPAs for fairer tariff, anti-trust and consumer protection laws, community participation in decision making including the rights to information and in the new energy sector loans and loan disbursements, fighting corruption and establishment of transparency in general, the establishment of a regulatory body that is independent and powerful, incentives for energy efficiency measures, and support for renewable energy. The Stakeholders and their Institutional “Interplay”

One of the most important characteristics of policy development and implementation in Indonesia is the personal, informal nature of decision making. Almost invariably, the most important factor determining policy is the handful of people at the top. Various interests will try to gain to influence a small group of elite officials effecting policy in a certain area. The most important name in Indonesian power restructuring today is Kuntoro Mangkusubroto. Kuntoro served as Minister of Mining and Energy from 1998 to 1999. Despite its brevity, his ministerial tenure was extraordinarily “productive”. Working toward fulfilling Indonesia’s responsibilities to the IMF, he pushed two major policies: formulation and passage of the Electricity and the Oil and Gas Laws and conducting independent audit to these two major state-owned companies. Kuntoro drafted and passed the new Oil and Mining Law, then championed the formulation of the 1998 White Paper to prepare for the Electricity Law.

Indeed, under his leadership, the pace of the preparation leading towards the August 1998 publication was unprecedented. It was partly due to his own professional leadership style, partly to Habibie’s leadership style. Unlike other Ministers in Indonesia, he was apparently very involved in the formulation of the White Paper; he himself carefully commented and corrected five draft versions. 32 The IMF may have had a role in pushing it through, but Kuntoro was definitely the driving force behind it. During the development the 1998 White


32 Not for attribution interview.
Paper, he had periodic breakfast meetings with key individuals working on power sector issues. These ranged from government officials, business people, and non-governmental (NGO) activists. This attempt, though exclusive in appearance, was among the first attempts to include broader participation from key stakeholders of the power sector. Access to Kuntoro — thus to the restructuring process — started from this so-called “breakfast club” and continued on a more formal level with the establishment of the Indonesian Electricity Society (Masyarakat Kelistrikan Indonesia, MKI) as an outgrowth of this “breakfast club”. MKI derives its influence partially from participating specialists, but also from its access to Kuntoro. The MKI/Kuntoro relationship serves several purposes: while it makes the perspectives of various stakeholder specialists available to an important policy maker, it also provides Kuntoro an avenue for communicating larger issues affecting policy decisions. But it is also possible that Kuntoro may also be interested in keeping the various interest groups happy and to prevent discontent, and so MKI is both a way for stakeholder representatives to voice their views and for Kuntoro to voice his to the stakeholders.

The Opponents of Restructuring

PLN simultaneously contains some of the strongest proponents and opponents of restructuring. In 1993, Nengah Sudja, Head of PLN’s Research Division, estimates that the cost of privately produced electricity must be nearly 50 percent higher than PLN’s cost due to private sector’s required return on equity and higher interest rates on their loans. However, a study found that if all hidden subsidies were taken into account, the true cost of electricity generation by PLN (between 1980 and 1993) would have been 46 percent higher than it was anyway. 35

PLN’s Labor Union remains one of the strongest opponents of restructuring. Its members use Article 33 of the Constitution as the basis for their argument. This article states that “branches of production that have significant implications to the lives of the general public should come under the control of the state”. Through this argument, it advances the paradigm that electricity is a basic need to be provided by the state — hence, commodifying electricity is unconstitutional. After being a secure, monopolistic entity for so long, there would undoubtedly be harsh ramifications as PLN adapted to open-market competition. Combined with the unbundling of the PLN, the whole restructuring process would most likely threaten the job security of the PLN’s workers. The Labor Union, however, never claimed job security as any of its stated reasons for opposing restructuring.

The Cautious NGOs

Electricity restructuring is a powerful, emotional issue in Indonesia. Non-governmental organizations (NGOs) place themselves at risk by involving themselves in the restructuring debate. Most of the NGOs take a public stance on the two issues most visible in the media, namely tariff increases and IPPs. No one has focused on an issue that is less emotional, but perhaps more important to the long-term development of the power sector, that is the structure of the power sector Regulatory Body.

While there is a clear attempt to maintain their stance as advocates of public benefits, some NGOs agree with the merit of tariff increase. They particularly support the elimination of subsidies as the subsidies tend to favor former Suharto associates and hinder the government’s efforts to recover from the economic crisis. Some of these NGOs are part of the

33 Not for attribution interview.
Working Group on Electricity Restructuring. For these reasons, most NGOs pursue a cautious role in the debate, neither rejecting or supporting power restructuring, but rather trying to influence its direction. Among these NGOs are Yayasan Lembaga Konsumen Indonesia (YLKI)38, Institut Bisnis dan Ekonomi Kerakyatan (IBEKA)39, and Pelangi. These NGOs participate in the Working Group on Restructuring, alongside government officials and industry lobbyists. Other prominent NGOs involved to varying degrees in the power sector restructuring issue are the International NGO Forum on Indonesian Development (INFID), Debt Watch, Koalisi Anti Utang (The Anti-Debt Coalition), the Indonesian Corruption Watch, and Wahana Lingkungan Hidup Indonesia (WALHI, the Indonesian Environmental Forum).

Some NGOs are highly respected by the government, although this influence is often not widely acknowledged by other NGOs. Among these NGOs, Yayasan Lembaga Konsumen Indonesia (YLKI) stands out as one of the most influential. In an unprecedented move, PLN officials seeking support for a tariff hike, came to YLKI’s office to show them its balance sheet. YLKI’s influence comes mostly from their ability to influence public opinion and their access to the media. YLKI has gained public trust due to the quality of their public-interest advocacy campaigns. While many NGOs have developed the reputation of making claims that are not well substantiated, YLKI has been able to gain access to necessary analyses. The Indonesian government, therefore, wishes to keep YLKI informed in order to prevent the social unrest that this organization could potentially cause.

However, some media sources have played on the current wave of nationalist sentiment and characterized NGOs participating in the Working Group as being lackeys for international donors and private sector interests.41 They also accuse them of being “biased against the

36 “Tim Pokja Restrukturisasi PLN Beri Masukan Soal Tarif Listrik” [The Working Group on PLN Restructuring Provided Inputs on Electricity Tariff, in Suara Pembaruan (February 8, 2000); “Kenaikan TDL Jangan Pakai Asumsi Rasional” [Tariff Increase Should Not Use Rational Assumptions], in Suara Karya (February 9, 2000); “14 LSM Usulkan Tarif Listrik Naik 55 Persen” [14 NGOs Suggested An Electricity Tariff Increase of 55 Percent], in Bisnis Indonesia (February 9, 2000); “LSM Jangan Ikut Naikkan Tarif Listrik” [NGOs Should Not Participate in Increasing Electricity Tariff], in Rakyat Merdeka (February 9, 2000); “Utak Atik Kenaikan Tarif Listrik A La LSM” [Debunking the Electricity Tariff Increase A La NGOs], in Republika (February 14, 2000); “DPR Akan Tolak Usulan Kenaikan TDL Jika Hasil Audit PLN Tak Diumumkan” [Parliament Will Reject the Tariff Increase Proposal if the Audit on PLN Not Made Public], in Media Indonesia (February 9, 2000); “Rencana Kenaikan Tarif Listrik: Usulan LSM Terlalu Tinggi” [The Plan for Electricity Tariff Increase: Recommendations from NGOs are Too High], in Republika (February 12, 2000); “Kenaikan Tarif Listrik: Mentamben Protes LSM” [Electricity Tariff Increase: The Minister of Mining and Energy Protests to the NGOs], in Rakyat Merdeka (February 12, 2000); “Usulan Kenaikan TDL 55 Persen Ditolak” [Electricity Tariff Increase of 55 Percent Rejected], in Bisnis Indonesia (February 12, 2000).

37 “Usulan Tim Pokja Ketenagalistrikan Dinilai Tak Berpihak kepada Rakyat” [the Recommendations from the Working Group on Electricity Perceived to be Biased Against the People], in Suara Pembaruan, February 9, 2000.

38 (The Institute for the Indonesian Consumer).

39 Institut Bisnis dan Ekonomi Kerakyatan, The People’s Business and Economic Institute

40 Not for attribution interview.

41 “Tim Pokja Restrukturisasi PLN Beri Masukan Soal Tarif Listrik” [The Working Group on PLN Restructuring Provided Inputs on Electricity Tariff, in Suara Pembaruan (February 8, 2000); “Kenaikan TDL Jangan Pakai Asumsi Rasional” [Tariff Increase Should Not Use Rational Assumptions], in Suara Karya (February 9, 2000); “14 LSM Usulkan Tarif Listrik Naik 55 Persen” [14 NGOs Suggested An Electricity Tariff Increase of 55 Percent], in Bisnis Indonesia (February 9, 2000); “LSM Jangan Ikut Naikkan Tarif Listrik” [NGOs Should Not Participate in Increasing Electricity Tariff], in Rakyat
people.” Against this bad publicity, even respected NGOs like INFID and WALHI felt they needed to distance themselves from the Working Group (“that recommended a tariff increase of 55 percent”), by citing the fact that the Working Group was funded by the Asian Development Bank. INFID, YLKI, and WALHI, jointly stated that, while they “support tariff increase”; they demanded that PLN explain the results of its audits to the people and increase its efficiency. They also demanded PLN’s responsibility in creating debts due to apparent corruption in the contracts with the IPPs.

Social Interests: Tariff Increase and Provision of Electricity to the Poor

Tariff increase is the most prominent of the social issues around power restructuring. At least rhetorically, the government is cautious of any price increase decision in the midst of the economic crisis. Indeed, the delays in the process drafting the new Electricity Law and submitting it to the Parliament was due to this concern: a number of key officials within the Department of Energy and Mineral Resources — even the one most responsible for the drafting of the Law — wanted to maintain the social aspects in the draft.

Some members of the parliament have considerable opinion about tariff increase. Among them, Pramono Anung cautiously represents the moderate politicians in the parliament. Amid hyperinflation in Indonesia, promoting price increase may have political backfire. The student movement has been very strong in rejecting the tariff increase. The substantial tariff increase — as recommended by the IMF — in early 1998 was partially responsible for the increased pressure by the students and the protesters against Suharto, which led to his resignation. This populist agenda still lingers and any attempt for any tariff increase even after Suharto’s resignation will be rejected by the students.

Sharing the students’ concerns is the People’s Democratic Party, a small, young left-wing political party, supported by reformist student groups. While seems to use the issue of tariff

Merdeka (February 9, 2000); “Utak Atik Kenaikan Tarif Listrik A La LSM” [Debunking the Electricity Tariff Increase A La NGOs], in Republika (February 14, 2000); “DPR Akan Tolak Usulan Kenaikan TDL Jika Hasil Audit PLN Tak Diumumkan” [Parliament Will Reject the Tariff Increase Proposal if the Audit on PLN Not Made Public], in Media Indonesia (February 9, 2000); “Rencana Kenaikan Tarif Listrik: Usulan LSM Terlalu Tinggi” [The Plan for Electricity Tariff Increase: Recommendations from NGOs are Too High], in Republika (February 12, 2000); “Kenaikan Tarif Listrik: Mentambah Protes LSM” [Electricity Tariff Increase: The Minister of Mining and Energy Protests to the NGOs], in Rakyat Merdeka (February 12, 2000); “Usulan Kenaikan TDL 55 Persen Ditolak” [Electricity Tariff Increase of 55 Percent Rejected], in Bisnis Indonesia (February 12, 2000).

42 “Usulan Tim Pokja Ketenagalistrikan Dinilai Tak Berpihak kepada Rakyat” [the Recommendations from the Working Group on Electricity Perceived to be Biased Against the People], in Suara Pembaruan, February 9, 2000.

43 “INFID Telah Mundur dari Pokja Kenaikan Tarif PLN” [INFID has Resigned from the PLN Electricity Tariff Working Group], in Bisnis Indonesia (February 11, 2000); “Walhi Tak Ikut Pokja Kelistrikan” [WALHI Do Not Participate in the Electricity Working Group], in Republika (February 15, 2000).

44 “Tiga LSM Gebuk PLN” [Three NGOs Attack PLN], in Rakyat Merdeka (February 15, 2000).

45 Not for attribution interview.

46 “Tim Tarif DPR RI Klariifikasi Naiknya Harga Listrik dan BBM” [Parliamentary Team on Tariff Clarified Tariff Increase for Electricity and Fuel], in Suara Pembaruan (March 02, 2000).

47 “Kuntoro Didemo Ativis Gerakh” [The ‘Movement Against Price Increase’ Activists Staged Demonstration Against (PLN President Director) Kuntoro], in Rakyat Merdeka (March 25, 2000).
increase to gain populist political popularity, some of their arguments make some sense. For example, its activists argue that the electricity price hike will increase the price of other commodities, especially staple goods. 48

Interestingly enough, the populists' arguments are strikingly similar with the arguments by the associations of industries. For example, the Indonesian Textile Association (Asosiasi Pertekstilan Indonesia, API) threatened to stop their operation and to lay off their workers if the government raised tariffs. Though not an energy-intensive industry, API has a significant number of workers therefore its threat was accommodated by the government. Some officials from API actually already agreed with the price hike and were willing to make necessary efficiency measures. 49 But others, unfortunately, used API and had the National Business Development Board involved to lobby the Minister of Trade and Industry, the Minister of Labor, and President Abdurrahman Wahid. The success of API created a precedent that was followed suit by other industrial associations. The private sector from railway to hotel companies have been active in protesting the price hike, arguing increase in production costs of their commodities. 50

Conclusion

48 See footnote 39, Suara Pembaruan. They argue that the price hike of the staple goods would be too high that the amount of the cut in subsidies would not be enough to cover the economic losses especially of the poor. To them, it is still more economically feasible to just maintain the subsidies (even for the industrialists) to keep the prices of staple goods low.

49 A non-attributable statement from a senior government official in a Restructuring Working Group meeting.

50 “Kadin: Kenaikan TDL dan BBM Pukul Industri Nonekspor” [The Chamber of Commerce: The Increases in Electricity and Fuel Tariff Hit Nonexportable Industries], in Bisnis Indonesia (February 23, 2000); “Kenaikan TDL Mempengaruhi Daya Saing Produk Indonesia” [Tariff Increase Influence The Competitiveness of Indonesian Products], in Suara Pembaruan (February 22, 2000); “KAI Protes Kenaikan Tarif oleh PLN” [Indonesian Railway Company Protests the Tariff Increase by PLN], in Republika, March 2, 2000); “Industri Hotel Cemaskan Tarif Listrik” [The Hotel Industry Worried About Electricity Tariff], in Bisnis Indonesia (March 4, 2000).

51 Not for attribution interview.

52 “Tim Pokja Restrukturisasi PLN Beri Masukan Soal Tarif Listrik” [The Working Group on PLN Restructuring Provided Inputs on Electricity Tariff], in Suara Pembaruan (February 8, 2000); “Kenaikan TDL Jangan Pakai Asumsi Rasional” [Tariff Increase Should Not Use Rational Assumptions], in Suara Karya (February 9, 2000); “14 LSM Usulkan Tarif Listrik Naik 55 Persen” [14 NGOs Suggested An Electricity Tariff Increase of 55 Percent], in Bisnis Indonesia (February 9, 2000); “LSM Jangan Ikut Naikkan Tarif Listrik” [NGOs Should Not Participate in Increasing Electricity Tariff], in Rakyat Merdeka (February 9, 2000); “Utak Atik Kenaikan Tarif Listrik A La LSM” [Debunking the Electricity Tariff Increase A La NGOs], in Republika (February 14, 2000); “DPR Akan Tolak Usulan Kenaikan TDL Jika Hasil Audit PLN Tak Diumumkan” [Parliament Will Reject the Tariff Increase Proposal if the Audit on PLN Not Made Public], in Media Indonesia (February 9, 2000); “Rencana Kenaikan Tarif Listrik: Usulan LSM Terlalu Tinggi” [The Plan for Electricity Tariff Increase: Recommendations from NGOs are Too High], in Republika (February 12, 2000); “Kenaikan Tarif Listrik: Mentamben Protes LSM” [Electricity Tariff Increase: The Minister of Mining and Energy Protests to the NGOs], in Rakyat Merdeka (February 12, 2000); “Usulan Kenaikan TDL 55 Persen Ditolak” [Electricity Tariff Increase of 55 Percent Rejected], in Bisnis Indonesia (February 12, 2000).

53 “Usulan Tim Pokja Ketenagalistrikan Dinilai Tak Berpihak kepada Rakyat” [the Recommendations from the Working Group on Electricity Perceived to be Biased Against the People], in Suara Pembaruan, February 9, 2000.
“INFID Telah Mundur dari Pokja Kenaikan Tarif PLN” [INFID has Resigned from the PLN Electricity Tariff Working Group], in Bisnis Indonesia (February 11, 2000); “Walhi Tak Ikut Pokja Kelistrikan” [WALHI Do Not Participate in the Electricity Working Group], in Republika (February 15, 2000).

“Tiga LSM Gebuk PLN” [Three NGOs Attack PLN], in Rakyat Merdeka (February 15, 2000).

For a description of how Indonesia was the “jewel in the Bank’s operational crown” in that era, see Kapur, Lewis, and Webb, 1997.

The Bank’s ability to exercise influence through the power of its analysis and its partnership with the technocrats was demonstrated in 1987 when a power struggle came to a head inside the Government of Indonesia over whether or not to invest in nuclear power. Future President Habibie, then Minister of Research and Technology, was the main proponent of the nuclear option. His case was bolstered by a parade of Western heads of state who visited Jakarta peddling agreements on technical cooperation designed to generate business for Western corporations. While these governments and corporations and their partners in the Indonesian nuclear agency produced massive studies in favor of nuclear power, opponents in the Ministry of Finance were able to prevail by utilizing a modest analysis by the World Bank showing the high cost of nuclear compared to coal. A World Bank official described the relative heft of the competing studies as “three big elephants versus a little mule” (not for attribution interview, June 21, 2000).

Information in this and the three subsequent paragraphs is based on a not for attribution interview, July 10, 2000.

“Tim Tarif DPR RI Klarifikasi Naiknya Harga Listrik dan BBM” [Parliamentary Team on Tariff Clarified Tariff Increase for Electricity and Fuel], in Suara Pembaruan (March 02, 2000).
The power sector restructuring is still an ongoing process. Up to this point, however, a number of key trends and conclusions can be drawn, as follows.

First, the power sector in Indonesia is not ready for restructuring: the institutional barriers and inertia to do so remains too strong. The necessary capacity for coping with and managing a big change is not adequate. Undertaking restructuring — in a cure-all manner — in this institutional environment may pose a threat not only to the public benefits, but also to the power sector itself.

Second, among the public benefits in the power sector restructuring, social issues, especially tariff structure, has gained the most interest, partly due to the populist political agenda. Indeed, for both the opponent and the proponent of restructuring alike, populist agenda has been the hardest to go against.

The environmental issues gain the weakest support from its apparent constituencies for a number of reasons. First, the reason is their cautiousness of being involved in any discourse led by international financial institutions. In debt-laden Indonesia, this involvement is not perceived as “politically-correct” for the NGOs, which is the largest constituency for the environmental interests. The international financial institutions, with its surprising role as champions of environmental interests, apparently are doing so due to the pressures from their constituencies in their countries of origin, rather than that from within Indonesia.

---

73 “Kuntoro Didemo Ativis Gerakh” [The ‘Movement Against Price Increase’ Activists Staged Demonstration Against (PLN President Director) Kuntoro], in Rakyat Merdeka (March 25, 2000)

74 See footnote , Suara Pembaruan. They argue that the price hike of the staple goods would be too high that the amount of the cut in subsidies would not be enough to cover the economic losses especially of the poor. To them, it is still more economically feasible to just maintain the subsidies (even for the industrialists) to keep the prices of staple goods low.

75 A non-attributable statement from a senior government official in a Restructuring Working Group meeting.

76 “Kadin: Kenaikan TDL dan BBM Pukul Industri Noneksportor” [The Chamber of Commerce: The Increases in Electricity and Fuel Tariff Hit Nonexportable Industries], in Bisnis Indonesia (February 23, 2000); “Kenaikan TDL Mempengaruhi Daya Saing Produk Indonesia” [Tariff Increase Influence The Competitiveness of Indonesian Products], in Suara Pembaruan (February 22, 2000); “KAI Protes Kenaikan Tarif oleh PLN” [Indonesian Railway Company Protests the Tariff Increase by PLN], in Republika, March 2, 2000); “Industri Hotel Cemaskan Tarif Listrik” [The Hotel Industry Worried About Electricity Tariff], in Bisnis Indonesia (March 4, 2000).


79 Not for attribution interview (December 5, 2000).

80 Latest Draft of the Electricity Law as this article is written.