

## LETTER OF INTENT

between

**THE MINISTRY OF ENERGY AND MINERAL RESOURCES (MEMR)  
THE REPUBLIC OF INDONESIA**

and

**THE INTERNATIONAL ENERGY AGENCY (IEA)**

### **ON A NATIONAL ENERGY POLICY REVIEW OF INDONESIA**

THE MINISTRY OF ENERGY AND MINERAL RESOURCES (MEMR) of the Republic of Indonesia and THE INTERNATIONAL ENERGY AGENCY (IEA), an autonomous agency of the Organisation for Economic Co-operation and Development (OECD) (hereinafter referred to as "the Parties");

BEARING IN MIND the importance of transparent and comprehensive energy policy based on international 'best practice' for MEMR's optimal planning and management of Indonesia's energy

CONSIDERING that the IEA undertakes an In-depth Energy Policy Review program of each of its 26 Member countries every 4-5 years to strengthen their national policy and to share 'best practice' policy experience, and that this program is based on an objective peer review of a country's energy situation by an expert IEA Policy Review Team selected from across IEA Member countries, and;

REFERRING that the IEA has utilised its In-depth Energy Policy Review program to collaboratively and objectively review national energy policy with key IEA non-Member countries including Russia, China, India, Ukraine, and Angola;

DESIRING that the Parties wish to have a framework for co-operation for undertaking a National Energy Policy Review of Indonesia;

HAVE AGREED as follows:

#### **ARTICLE I OBJECTIVES**

The objective of this Letter of Intent (LoI) is provide a framework for co-operation for undertaking a National Energy Policy Review of Indonesia's energy situation. This Review will utilise the IEA's In-depth Energy Policy Review approach to provide 'best practice' recommendations for future Indonesian energy policy for consideration by the Government of Indonesia, and to enhance international understanding of Indonesia's energy policy and its potential for future trade and investment.

#### **ARTICLE 2 SCOPE OF CO-OPERATION AND ACTIVITY**

The Parties agree that the scope of co-operation and activities shall be as follows:

1. to evaluate and analyse of Indonesian current energy policy;

2. to accomplish in-country consultations with relevant Indonesian Ministries, industry, NGOs, etc. on energy related issues including fiscal, environmental, regional autonomy and forestry;
3. to provide policy recommendations and recommendations for their implementation based on **international** best practice; and
4. to present the preliminary findings of the IEA Policy Review Team for further discussion.

### **ARTICLE 3 CO-ORDINATION**

The Center for Data and Information for Energy and Mineral Resources (Pusdatin) within MEMR shall be responsible for overall co-ordination of the Review on the part of MEMR.

The Office of Non-Member Countries of the IEA shall be responsible for overall co-ordination of the Review on behalf of the IEA.

### **ARTICLE 4 CONTRIBUTION**

The Parties agree that the contributions of each Party shall be as follows:

- (a) the MEMR will provide the IEA, in English, all the information and publicly available data necessary to fully clarify the Indonesian energy situation for the IEA and the IEA Policy Review Team;
- (b) the MEMR will facilitate the subsequent in-depth discussions by the IEA Policy Review Team with officials of the MEMR and other relevant Indonesian Ministries, and Indonesian industry, relevant NGOs, and others to be mutually determined;
- (c) the IEA Policy Review Team will subsequently provide policy recommendations and recommendations for their implementation based on their experience and international best practice, and these and the situational background will be made available to MEMR and more broadly in a suitable IEA publication in both English and Bahasa Indonesian;
- (d) unless otherwise agreed, the Parties will each bear the costs they respectively incur in carrying out the Review. For the IEA, such costs shall be the cost of airfare, food and accommodation, translation of the Review to Bahasa Indonesian and the publication of the Review in both English and Bahasa Indonesian; and
- (e) any other manner as may be agreed by the Parties.

### **ARTICLE 5 IMPLEMENTATION AND POLICY PRIORITIES**

An outline of the anticipated implementation stages and duration of the Review is attached as Attachment 1 as a guide to the Parties for the timely conduct of the Review.

An outline of possible policy priorities for consideration by the IEA Policy Review Team is attached as Attachment 2 as a guide to the Parties for the scope of the Review.

These Attachments shall be regarded as an integral part of this Lol.

IN WITNESS WHEREOF the undersigned duly authorized by the respective Parties have signed this  
LoI.

Done in duplicate in Jakarta this tenth day of July 2006, in the English language all text being equally  
authentic.

FOR THE MINISTRY OF ENERGY AND  
MINERAL RESOURCES

FOR THE INTERNATIONAL ENERGY  
AGENCY

**Signed**

**Signed**

SUKMA SALEH HASIBUAN

WILLIAM C. RAMSAY /

**ATTACHMENT 1**  
**REVIEW IMPLEMENTATION, DURATION, AND SCHEDULE**

The IEA will undertake the Review, in co-ordination with MEMR, using their best endeavours, in the following manner and schedule:

**IMPLEMENTATION STAGES**

- (a) Detailed IEA/MEMR co-ordination discussions, Jakarta
- closer definition of policy priorities
  - breakdown of all following tasks into their subcomponents
  - detailed project phasing and scheduling by subcomponent
    - .. timeline for the full project
    - .. include all visits/missions
    - .. include all quarterly progress reporting to respective agency heads
  - division of IEA/MEMR responsibilities for each subcomponent
  - resource requirements for each subcomponent, such as translation requirements
  - information exchange requirements for each subcomponent
  - review the IEA In-depth Policy Review Country Submission questionnaire for appropriate content for Indonesia
    - .. send to MEMR beforehand for their review
  - collect all available information from MEMR to enable project start.

Detailed discussions with Asia Development Bank (Manila) and World Bank (Jakarta)

- both institutions likely to be interested in Review findings and recommendations.
- (b) MEMR to begin co-ordination discussions with energy related institutions
- canvass of Review proposal with each.
- (c) Revision by IEA of IEA In-depth Policy Review Country Submission questionnaire
- to reflect Indonesia energy situation and anticipated policy priorities
  - translation to Bahasa
  - pass to MEMR.
- (d) Based on the revised IEA In-depth Policy Review Country Submission questionnaire, the exchange of detailed energy sector information and associated legislation by MEMR to the IEA
- to provide complete background to the Review
  - to ensure the fullest understanding and accurate deliberation of the IEA Policy Review Team and its consequent best recommendations
  - this exchange may take some time but it is pivotal to the outcome of the Review
  - some or most of the information will require translation from Bahasa Indonesia to English by MEMR.

- (e) IEA drafting of sectoral chapters
  - based on exchanged information
  - highlighting major issues and challenges to be reviewed in-country
  - this is then provided for the IEA Review Team's background information
  - will also provide input to the final Policy Review document.
- (f) Selection of IEA Review Team of approximately 10-12 IEA Member country experts, to reflect policy priorities
  - provision of background information to Team.
- (g) Selection of relevant Indonesia Ministries, industry, NGOs, etc, for in-country consultation meetings with the IEA Review Team
  - of the order of 20-25 organisations
  - scheduling and co-ordination of appointments for meetings by MEMR.
- (h) First mission of IEA Review Team for in-country consultations with relevant Indonesian Ministries, industry, NGOs, etc,
  - 1.5 weeks in Jakarta of intensive meetings schedule
  - to be held, whenever possible, at MEMR
  - necessitates effective transport and communications, and close co-ordination
  - ongoing drafting and IEA/MEMR discussion/feedback throughout Mission
  - presentation of preliminary findings and recommendations (10-15 pages) to MEMR and other Ministries by each IEA Review Team member
  - MEMR and other Ministries to provide comments.
- (i) Drafting of report
  - IEA Review Team findings and recommendations and MEMR/other Ministries comments are input to relevant chapters of the Review
  - drafting of chapters
  - internal review, Team review, and MEMR review.
- (k) Second mission of IEA Review Team to Jakarta
  - to present draft Review findings and recommendations to MEMR and relevant Ministries and to hear comment/feedback
  - 2 days of detailed presentations.
- (l) Final drafting of report.
- (m) Report production
  - editing, copy editing, typesetting, proofs, and printing
  - translation into Bahasa Indonesia
  - print runs in Bahasa Indonesia (500 copies) and English (3,000 copies)
  - 250-300 pages, 20x27 format, 4 colour maps
  - acknowledgement of IEA Member country co-funders and Review Team.
- (n) Ministerial level public release of Review publication
  - to be released by both MEMR and IEA
  - with Press Release and selected briefings.
- (o) Correspondence:  
All notices and other communication required under this LoI will be sent to the Parties at the following respective address by mail, e-mail, telephone or facsimile:

**MEMR:**

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## **DURATION AND SCHEDULE**

The Review duration will be approximately 2 years, based on IEA experience with recent non-IEA Member country Policy Reviews and that an Indonesia Review has not been undertaken previously and will require considerable information translation and exchange by MEMR. Additionally, the Indonesia Review is going one step further to provide recommendations for measures to support the implementation of the policy recommendations.

The Review will be scheduled accordingly:

July 2006: Detailed IEA/MEMR co-ordination discussions.

August 2006: Translation by IEA of IEA In-depth Policy Review Country Submission questionnaire into Bahasa Indonesia.

Aug.-Oct. 2006: Provision of detailed energy sector information by MEMR to the IEA via Country Submission questionnaire.

Sep. 2006-Feb. 2007: IEA drafting of situational information for sectoral chapters and for briefing of IEA Review Team.

1st Q. 2007: Selection by IEA of IEA Review Team experts from IEA Member countries.

1st Q. 2007: Arrangement of appointments by MEMR of relevant Indonesia Ministries, industry, NGOs, etc, with the IEA Review Team for in-country consultation meetings.

1st Q. 2007: Organisation of First IEA Review Team Mission for in-country consultations.

2nd Q. 2007: First Review Team Mission to Jakarta, for approx. 1.5-2 weeks.

Jun. 2007-Jan. 2008: Report drafting by IEA, plus ongoing internal review, Team review, and Indonesia/MEMR review.

Jan. 2008: Second IEA Review Team Mission to Jakarta for detailed presentation to MEMR and relevant Indonesia Ministries, industry, NGOs, etc of review findings.

Feb.-Jun. 2008: Publication editing, copy editing, typesetting, translation and printing.

Jul.-Aug. 2008: Ministerial release of Review publication.

## ATTACHMENT 2

### POSSIBLE POLICY PRIORITIES FOR REVIEW

To ensure the correct focus of the Review and the accurate deliberation of the IEA Review Team, the Review will require comprehensive background on Indonesia's energy situation and existing policy and legislation

- the information will be specified by the IEA In-depth Policy Review Country Submission questionnaire
- the information exchange from the MEMR to the IEA will take some time but it is pivotal to the targeting and ultimate usefulness of the Review
- it is anticipated that most of the information will require translation by MEMR from Bahasa Indonesia to English.

The Review will recognise

- current Indonesia policy documents, including 'The National Energy Policy 2003-2020' and the 'Blueprint of National Energy Management 2005-2025'
- existing and imminent legislation, including the 2001 Oil and Gas Law, other energy sector laws, and laws related to regional administration of energy projects.

The following issues are suggested as possible policy priorities for the Review for consideration by the MEMR and the IEA. The In-depth Policy Review Country Submission questionnaire will clarify the policy priorities to be considered.

#### **. Enhancing community confidence in Government energy policy and planning**

- sustainable energy policy, sectoral governance, and independent regulation as pillars in the energy sector reform process
- strengthening of Government's energy sector reform through policy transparency and increased community awareness, timetable and consistent implementation of policy
- strengthening policy implementation through the establishment of a senior policy implementation monitoring unit in MEMR, with institutional links to other economic Ministries
- maintaining the momentum on energy price reform and subsidy removal for petroleum, gas and electricity, while ameliorating the impact on Indonesia's low income community
- instituting transparent and automatic price adjustment mechanisms that maintain international parity
- capacity-enhancing priorities in MEMR, including a more centralised energy information system, and capacity building in energy demand forecasting, long-term scenario analysis, and least-cost policy scenario analysis
- establishing a gateway for international 'best practices' and policy input.

#### **. Increasing oil/gas and petroleum product self-sufficiency and competitiveness**

- recognising the key importance of the oil and gas sector to meeting indigenous needs and export income over the long term
- implementation of outstanding Oil and Gas Law 2001 and other sectoral legislation
- improving the oil and gas investment environment through improved corporate governance and transparency of investment/licensing provisions and implementation of fiscal and tax regimes
  - .. how have recent oil and gas producers achieved this?
- improving investor/licensor dispute resolution mechanisms
- continued opening of downstream market to refining and retailing investors
- clarifying the relationship of PERTAMINA and oil/gas producers within the oil and gas sector restructuring.

#### **. Increasing gas penetration into the domestic market**

- recognising the key role of indigenous gas to reducing national petroleum demand and enhancing self-sufficiency
- improving gas market penetration and the investment environment for gas market expansion through tariff reform, and transparency of investment/licensing provisions
- gas sector reform and restructuring, and the future role of PGN (National gas distributor) and gas producers within sector restructuring.

#### **. Developing national emergency preparedness measures against supply disruption**

- review of international best practice in emergency preparedness measures including the financing, establishing, maintaining, and releasing of strategic reserves
- establish appropriate emergency preparedness agency and measures, including strategic reserves.

#### **. Improving the reliability and competitiveness of electricity supply**

- improving the investment environment through tariff reform, improved corporate governance and transparency of investment/licensing provisions, such as
  - .. long term power purchase agreements with fixed tariffs
  - .. resolution of and improving investor/licensor dispute resolution mechanisms
  - .. provision for foreign currency exchange and remittance
- implementation of electricity sector reform and restructuring
- implementation of fuel switching away from oil firing
- clarifying the relationship of PLN (National electricity producer and distributor) and Independent Power Producers within the electricity sector reform.

#### **. Establishing independent, transparent, and authoritative regulatory agencies**

- strong and independent regulators to ensure an attractive investment environment
- increasing community awareness of non-politicised regulators, to enhance industry and community confidence
- establishing a regulatory framework that anticipates the need for regional harmonisation and best practice as the TAGP (Trans ASEAN Gas Pipeline) and APG (ASEAN Power Grid) develop.

#### **. Diversifying and strengthening the national energy mix and introducing new and sustainable technologies**

- improving the investment environment for implementation of clean coal technologies, including coal liquefaction, upgrading brown coal (UBC), coal gasification, and carbon capture and storage
- review of the potential for nuclear power, including the framework for a nuclear safety regulatory agency
- improving the investment environment for renewable technologies, including the review and removal of institutional and pricing barriers to utilisation of competitive renewable energy, particularly biomass for cogeneration and geothermal power
- creating an investment framework for alternative transport fuels, particularly biofuels.

#### **. Role of federal and regional authority and institutions**

- relationship for energy sector management and entitlements
  - .. oil and gas is federal responsibility?
  - .. electricity and coal?

#### **. Focusing on cost-effective reductions in Indonesia's energy intensity**

- what are the most easily won and cost-effective efficiency options for Indonesia?
- review of international best practices in energy efficiency standards and demand-side management programs, technologies, and retrofit, including regulation, financing mechanisms, and incentives
- removing incentives for energy wastage, including pursuing full cost pricing to consumers



- creating an investment environment for cost-effective energy efficient programs, technologies, and retrofit
- implementation and regulation of industry energy efficiency standards, focusing initially on energy intensive industry sectors
  - .. petroleum refineries
  - .. petrochemical industries
  - .. fertiliser industries
- implementation and regulation of building efficiency standards
- implementation and regulation of vehicle efficiency standards
- strengthening community awareness and participation in residential energy efficiency programs
- implementation and regulation of appliance standards and labelling, focussing both on energy efficiency and impacts on appliance export.

**. Establishing sustainable energy and environment policy**

- review of international standards and practices in sustainable energy and environment policy, including the various instruments and measures intended to internalise the full cost of energy and technology options
- creating an energy sector investment framework to implement and regulate appropriate standards and practices
- ensuring community awareness of Government energy and environment policy.

**. Ensuring best outcomes in energy research and development and technology transfer**

- maintaining awareness of international developments in energy R&D through strong links and information exchange with international institutions and Governments
- participating in collaborative energy R&D programs with international institutions and Governments
- establishing R&D and technology transfer links with national energy institutions and industry.