



THE MINISTRY OF ENERGY AND MINERAL RESOURCES
THE REPUBLIC OF INDONESIA

Truthful, Professional, Serving, Innovative, Meaningful



PSC GROSS SPLIT FOR ATTRACTING UPSTREAM OIL AND GAS INVESTORS

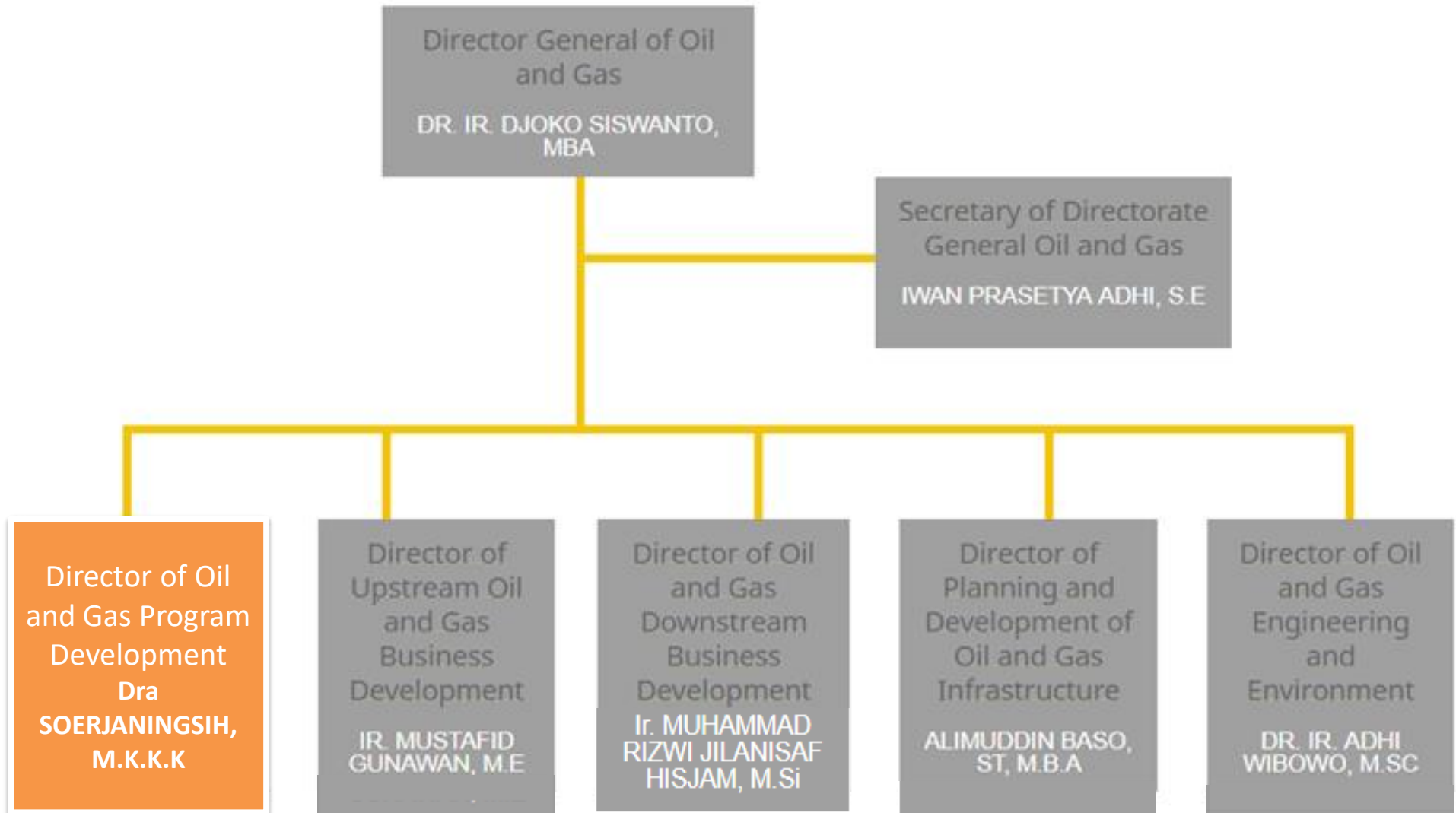
Presented at The 37th JCCP International Symposium



Tokyo, 24 January 2019



Directorate General of Oil and Gas – Ministry of Energy and Mineral Resources



Costs Management By Oil and Gas Contractors



Optimizing Costs and
Best Technology



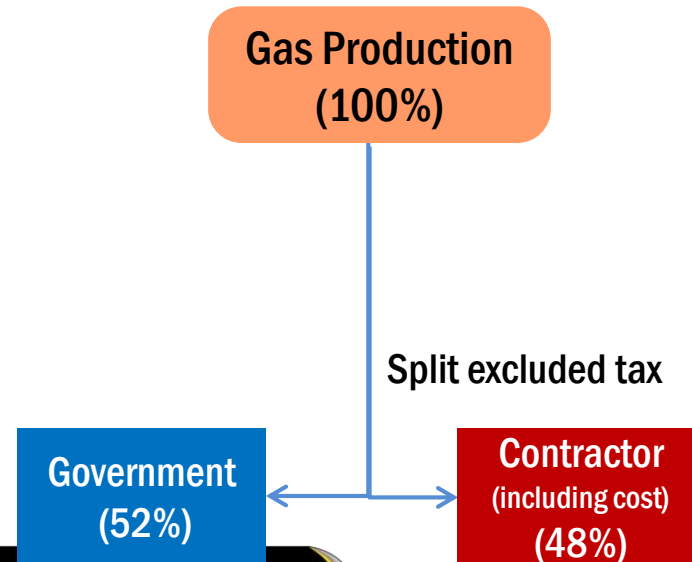
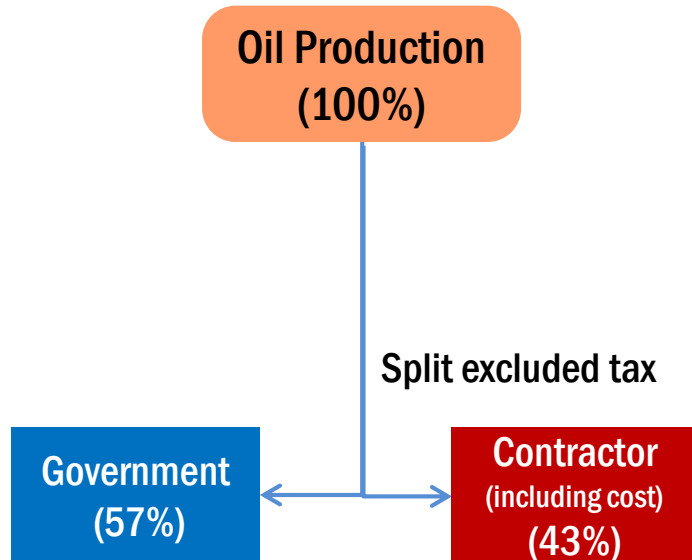
Cost & Risk Management



Investments should be
more **efficient and
effective** to deal with oil
and gas price
fluctuations which are
difficult to predict



GOI Offering Gross Split PSC



The Contractor gets “added % split” from the above base split, depending on components, as follows:

11 Variable Split

1. Block status
2. Field location (onshore or offshore, remote)
3. Reservoir depth
4. Supported Infrastructure
5. Reservoir condition
6. CO₂ content
7. H₂S content
8. Specific Gravity (API)
9. Local Content (TKDN)
10. Production phase
11. Cummulative Production

2 Progressive Split

12. Oil Price
13. Gas Price

Go! get additional income from tax

Ministerial Discretion Split

MR 8/2017

Ministerial Discretion Split is capped at a maximum of $\pm 5\%$

MR 52/2017

Ministerial Discretion Split is UNCAPPED





Gross Split is Better for Indonesia

Comparison of 2 PSC Schemes

Cost Recovery

- **Cost Recovery to be the Government's burden**
Operational cost that initially born by contractor becomes Government's burden (cost recovery)
- **Cost recovery is not efficient**
because eventually it is born by GoI
- Since 2015, Cost Recovery is higher than Oil and Gas State Revenue
- **Cost Recovery approval is complicated and takes a long process**

Gross Split

- **Operational Cost to be a Contractor's burden**
- **Contractor will do more saving**
- **Oil and Gas State Revenue to be more definite**
because it is not affected by cost recovery
- **Bureaucracy is more efficient and simple**
because there is no cost recovery approval by Government

Gross Split WILL NOT Eliminate State's Control Because



Working acreage stipulation in the state control



Stipulation of Production capacity and lifting, as well as oil and gas commercial aspect are made by Government



Sharing result is determined by Government



State revenue to be more definite



Production sharing in in handover point



Incentive in PSC Gross Split – Variable Component (1/2)



① Field Status		② Field Location		③ Reservoir Depth	
Criteria	Cont. Split Correction	Criteria	Cont. Split Correction	Criteria (meter)	Cont. Split Correction
POD 1	5%	Onshore	0.0%	≤ 2500	0%
POD 2 dst	3%	Offshore (0<h≤50m)	8.0%	> 2500	1%
No POD	0%	Offshore (20<h≤50m)	10.0%		
		Offshore (50<h≤150m)	12.0%		
		Offshore (150<h≤1000m)	14.0%		
		Offshore (>1000m)	16.0%		

④ Infrastructure		⑤ Reservoir Condition		⑥ CO ₂ Impurities	
Criteria	Cont. Split Correction	Criteria	Cont. Split Correction	Criteria (%)	Cont. Split Correction
Well developed	0%	Conventional	0%	<5	0.0%
New Frontier Offshore	2%	Non Conventional	16%	5≤x<10	0.5%
New Frontier Onshore	4%			10≤x<20	1.0%
				20≤x<40	1.5%
				40≤x<60	2.0%
				x≥60	4.0%





7 H ₂ S Impurities	
Criteria (ppm)	Cont. Split Correction
<100	0.0%
100 ≤ x < 1000	1.0%
1000 ≤ x < 2000	2.0%
2000 ≤ x < 3000	3.0%
3000 ≤ x < 4000	4.0%
x ≥ 4000	5.0%

8 Specific Gravity Oil (API)	
Criteria	Cont. Split Correction
API < 25	1%
API ≥ 25	0%

9 Local Content	
Criteria (%)	Cont. Split Correction
<30%	0 %
30% ≤ x < 50%	2.0%
50% ≤ x < 70%	3.0%
70% ≤ x < 100%	4.0%

10 Production Phase	
Criteria	Cont. Split Correction
Primer	0%
Sekunder	6%
Tersier	10%

11 Cumulative Production	
Criteria (mmboe)	Cont. Split Correction
<30 mmboe	10.0%
30 ≤ x < 60 mmboe	9.0%
60 ≤ x < 90 mmboe	8.0%
90 ≤ x < 125 mmboe	6.0%
125 ≤ x < 175 mmboe	4.0%
≥ 175 mmboe	0.0%



Oil Price

Split correction from oil price is adjusted based on the formula

$$(85 - \text{ICP}) \times 0.25\%$$

ICP: Indonesia Crude Price

Split Correction Calculation

ICP (US\$/bbl)	Cont. Split
40	11.25%
45	10.00%
55	7.50%
65	5.00%
85	0.00%
95	-2.50%
105	-5.00%
115	-7.50%

Gas Price

Split correction from gas price is adjusted based on the formula

Gas Price (US\$/mmbtu)

Criteria	Cont. Split
<7	(7 - Gas Price) x 2.5%
7 ≤ x ≤ 10	0.0%
>10	(10 - Gas Price) x 2.5%

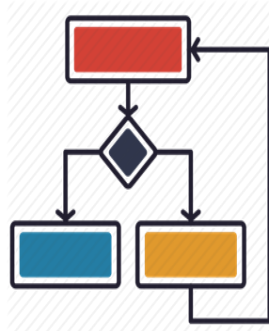
Split Correction Calculation

(US\$/mmbtu)	Cont. Split
5	5.00%
6	2.50%
7	0.00%
10	0.00%
11	-2.50%
12	-5.00%

Gross Split Benefits



Share the pain & Share the gain



Business risk is mitigated through **split incentives**



Local content required as part of incentive



Function strengthening, focusing as a **supervisory and implementing body**



Shorten business processes
Save 2-3 years in the procurement process until Early Production



State revenues guarantee (non tax)



STIMULATE OIL AND GAS INDUSTRIES MORE COMPETITIVE

Investment Certainty in Upstream

Gov. Reg. Num 53 of 2017

on Taxation in Upstream Oil & Gas With Gross Split PSC

7 fiscal incentives
on Gross Split PSC



Duty free
on oil & gas operating goods

Free of VAT & Sales Tax on Luxury Goods
on acquisition & utilization of oil & gas operation goods & services

Free of Article 22 Income Tax
On oil & gas operation imported goods

100% Reduction on Property Tax

Head Office Overhead
Free of VAT

Loss Carry Forward
Operation cost as Income Tax deductibles is extended from 5 to 10 years

Oil & Gas Joint Asset Utilization
(Cost Sharing)
Free of VAT



Oil & Gas Upstream Incentives for Gross Split PSC

MEMR Regulation No. 52/2017 on Gross Split PSC Revision

Gross Split PSC Revision :

Better contractor's cashflow and economic indicators through Cost Recovery PSC economic indicators adjustment.

Calibrated on 12 oil & gas fields on various characteristic.

#PSC Gross Split IRR similar to Cost Recovery PSC



PRODUCTION CUMMULATION

Split Addition up to 10%



PRODUCTION PHASE

Split Addition up to 10%



OIL PRICE

Split Addition (formula based)



H2S CONTENT

Split Addition up to 5%



GAS PRICE

New Progressive split (formula based).
Previously not applicable



INFRASTRUCTURE AVAILABILITY

Split Addition up to 4%



POD-2

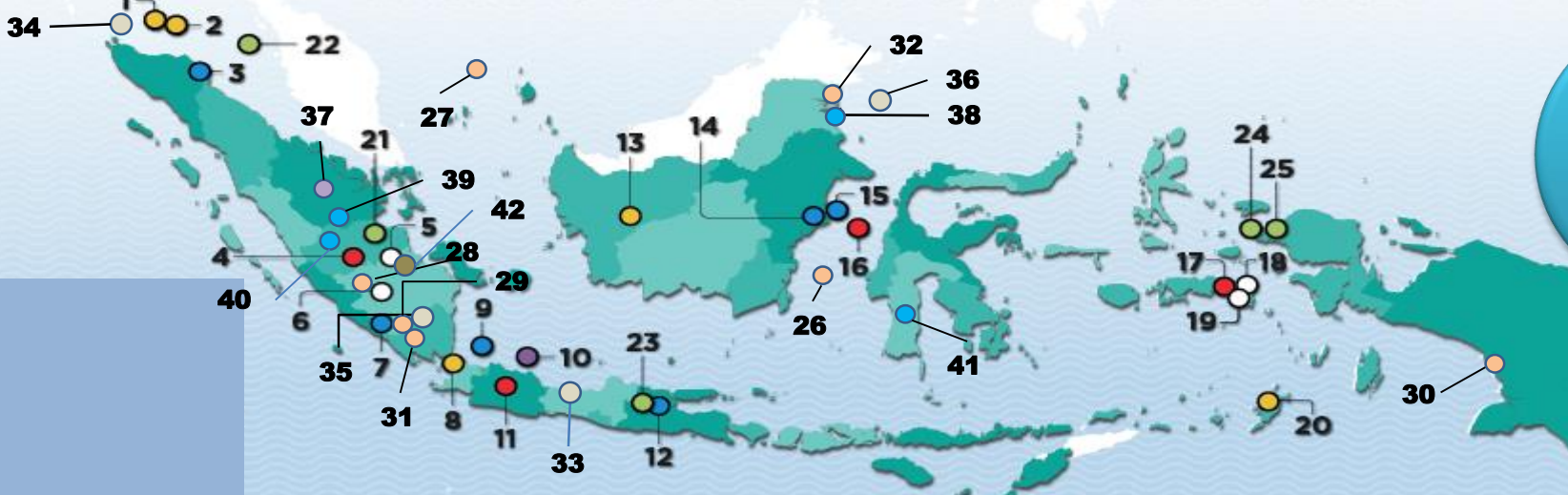
3% Split addition
Previously not applicable



DISCRETION SPLIT

No limit

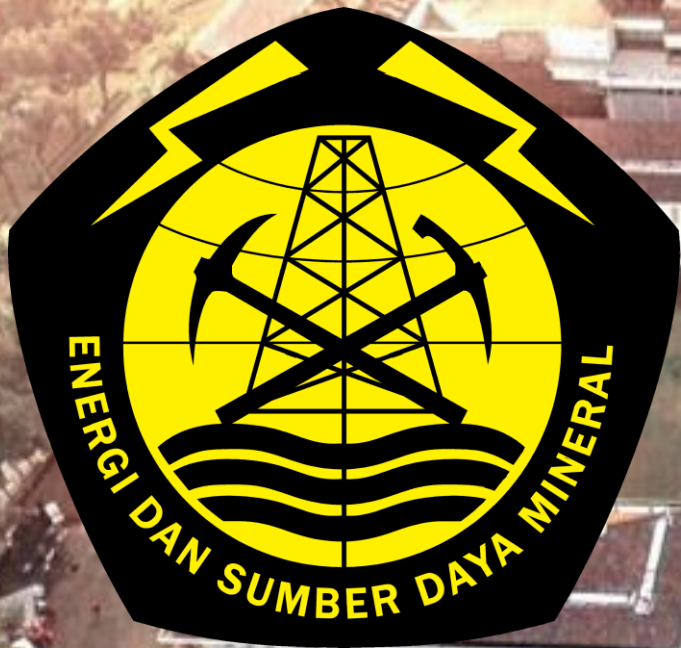
42
Blocks
GS PSC



Per January 2019

1. Andaman I Mubadala Petroleum (SE Asia) Ltd.	2. Andaman II Konsorsium Premier Oil Far East Ltd - Kris Energy (Andaman II) BV - Mubadala Petroleum (Andaman II JSA) Ltd	8. Merak-Lampung PT. Tansri Madjid Energi	13. Pekawai PT. Saka Energi Sepinggan	20. West Yamdena PT. Saka Energi Indonesia	4. Southeast Jambi Konsorsium Talisman West Bengara B.V - MOECO south Sumatra	11. Citarum PT. Cogen Nusantara Energi - PT. Green World Nusantara	16. East Ganai ENI Indonesia Ltd.	
17. East Serang Lion Energy Limited	10. ONWJ PT. Pertamina Hulu Energi	3. North Sumatera Offshore PT Pertamina Hulu Energi NSO	7. Ogan Komering PT Pertamina Hulu Energi Ogan Komering	9. Southeast Sumatera PT Pertamina Hulu Energi Offshore Southeast Sumatera	12. Tuban PHE Tuban East Java	14. Sanga-Sanga PT Pertamina Hulu Sanga Sanga	15. East Kalimantan & Attaka PT Pertamina Hulu Kalimantan Timur	
5. Jambi Merang Pertamina Hulu Energi	6. Pendopo & Raja Pertamina Hulu Energi	18. Bula Kalrez Petroleum (Seram) Ltd	19. Seram-Non Bula Citic Seram Energy Ltd	21. South Jambi B Block ConocoPhillips (South Jambi) Ltd.	22. Malacca Strait EMP Malacca Strait S.A	23. Brantas Lapindo Brantas Inc.	24. Salawati Block JOB Pertamina-PetroChina Salawati Ltd.	25. Kepala Burung Blok A Petrogas (Basin) Ltd.
26. East Sepinggan, Eni East Sepinggan Limited	27. Duyung, Conrad	28. Muralim, Dart Energy	29. Tanjung Enim, Dart Energy	30. North Arafura, Madura Oil	31. Bungamas, Bunga Mas Int'l.	32. Sebatik, Star Energy	33. Banyumas, Minarak Banyumas Gas	
34. South Andaman, PEAROIL (Theralite) Ltd	35. South Sekakemang, Kons. Talisman Java & Mitsui Oil Expl. Co. Ltd	36. Maratua, Pertamina (Persero)	37. Rokan, Pertamina (Persero)	38. Tarakan, Medco E&P Tarakan	39. Coastal Plains and Pekanbaru, Bumi Siak Pusako	40. Tungkal, Montd'or Oil Tungkal		
41. Sengkang, Energy Equity Epic (Sengkang) Pty. Ltd.	42. Rimau, Medco E&P Rimau							

- New Working Area (Tender 2017)
- New Working Area (Tender 2018)
- Terminated Contract 2017
- Terminated Contract 2018
- Terminated Contract 2019
- Terminated Contract 2020
- Amandemen Kontrak
- Additional New Block Signed 2018
- Additional Terminated Block 2021
- Additional Terminated Block 2022
- Additional Terminated Block 2023



Thank You

**MINISTRY OF ENERGY AND MINERAL RESOURCES
JL. MEDAN MERDEKA SELATAN NO. 18
JAKARTA PUSAT 10110**



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ENCOURAGING OIL AND GAS SUB SECTOR INVESTMENT

Conducting efforts to increase oil and gas resources and production :

- a. Open data;
- b. Joint study (simplified) ;
- c. General survey (simplified);
- d. Simplification of Working Acreage Process :
 - Ease terms and condition
 - Open own-estimation
- e. Idle fields to be returned to the state;
- f. Acceleration on POD process;
- g. Gross Split.



Investment is targeted to double in 2018

“ We need to always concern and evaluate to achieve this optimistic target.

-Arcandra Tahar



The low global energy price in 3 latest years also become an oil and gas sector's challenge

Strategy to Increase Investment



* 18 Regulation & 23 Oil and Gas Permits have been revoked as of March 2018



Offer Simplification in
Oil and Gas Business

2015

104

2016

42

2017

6

Number of Permits in
Oil and Gas Activities

OIL AND GAS PERMITS SIMPLIFICATION

(Ministerial Regulation
29/2017)

2 UPSTREAM BUSINESS PERMIT

SURVEY
PERMIT

OIL AND GAS DATA
UTILIZATION
PERMIT

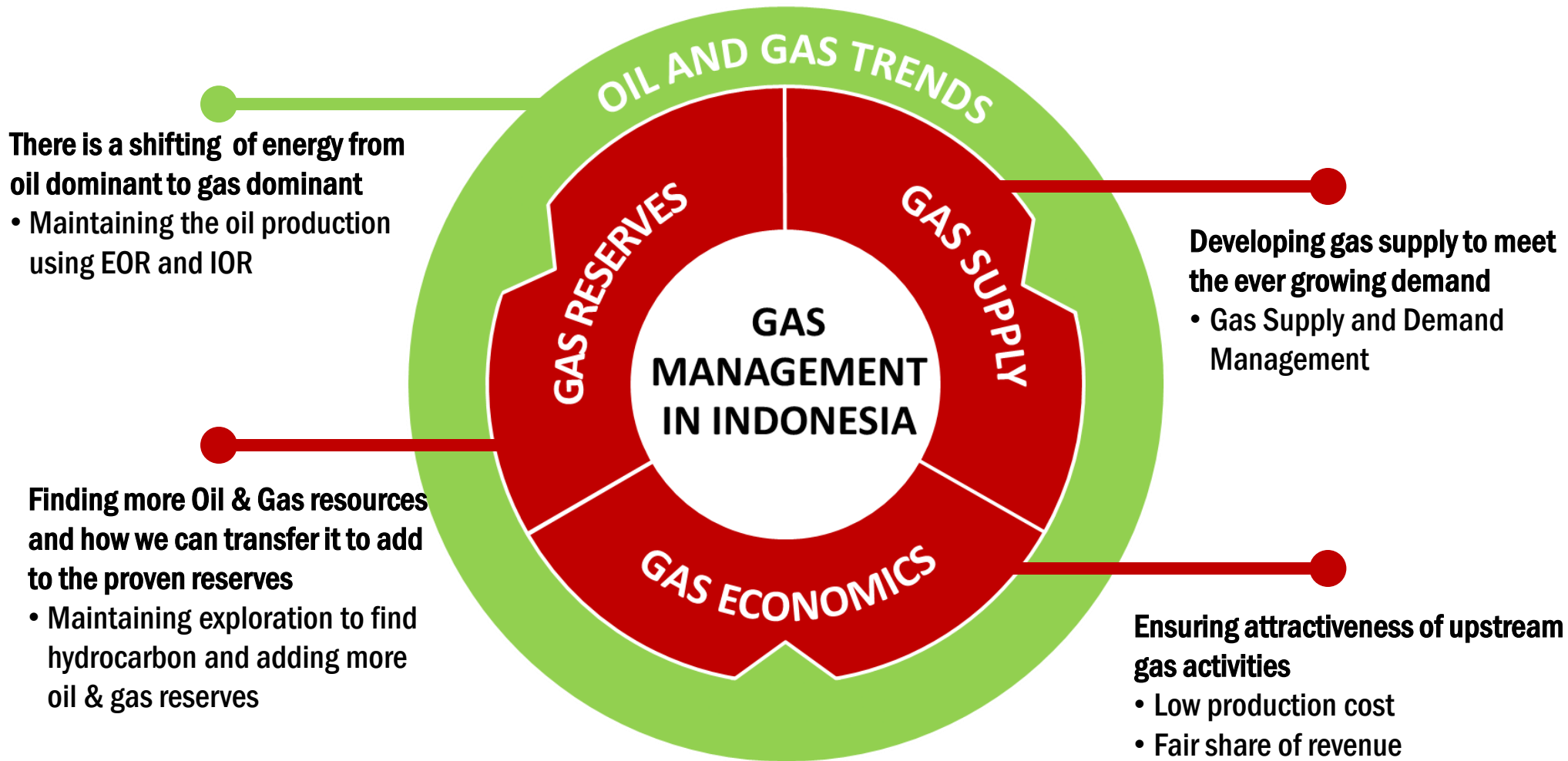
4 DOWNSTREAM BUSINESS PERMIT

PROCESSING
BUSINESS
PERMIT

STORAGE
BUSINESS
PERMIT

TRANSPORTATION
BUSINESS
PERMIT

COMMERCE
BUSINESS
PERMIT



O&G Upstream Activities



“How to improve national capacity in line with Focuses of the upstream O&G industries?”

MULTIPLIER EFFECT

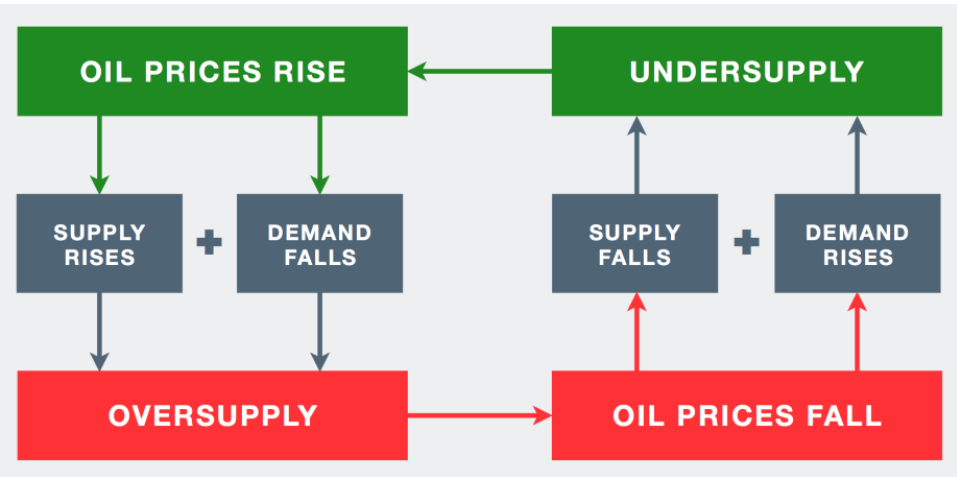


Oil and gas prices are determined by the mechanism of the world market

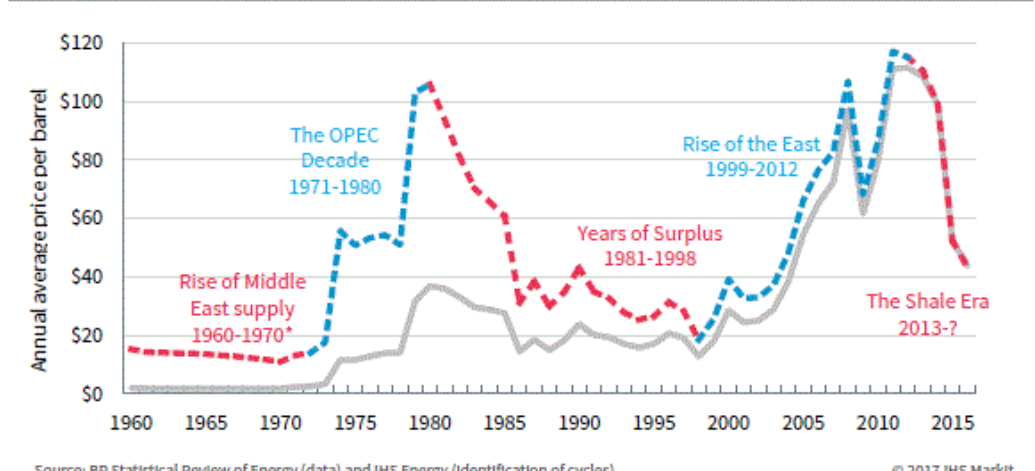


- Production and sale
- The economic situations of significant oil-consuming countries
- The behaviour of the Organization of the Petroleum Exporting Countries (OPEC)
- Speculator's activities & other financial market factors
- Weather
- Wars, terror attacks, and etc.

Economist.com



The five crude oil price cycles since 1960



Notes: 1960-1983 prices are Arabian Light posted at Ras Tanura. 1984 onward prices are for Dated Brent. *Cycle started in 1959.

Gross Split PSC Goals



- ✓ Encouraging more **effective and fast** exploration and exploitation efforts



- ✓ Encouraging the Business Process of O&G Contractors and SKK Migas to be more **simple and accountable**; Reducing the bureaucratic procurement system and debate



- ✓ Encouraging O&G Contractors and supporting industries to be **more efficient** to address oil price fluctuations



- ✓ Encouraging O&G Contractors to manage its operation and investment costs by relying on **the corporate financial system** rather than the state financial system