

# Indonesia weighs up its LNG options

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INDONESIA is considering importing US liquefied natural gas (LNG) and is weighing up overseas investment opportunities as it tries to plug the gap between falling domestic output and rising demand.

With development projects stalling at home, domestic LNG demand is expected to hit 8 million tonnes per year (t/y) by 2020, up from around 1.5 million tonnes this year, according to forecasts from energy research firm Wood Mackenzie.

The recent announcement that US major Chevron will delay its \$12 billion Indonesia Deepwater Development (IDD) project will exacerbate the former Opec member's demand for imported LNG, Zhi Xin Chong, an Asian LNG specialist at Wood Mackenzie told *Petroleum Economist*.

## Missed deadlines

National oil company Pertamina had expected to begin receiving gas from the IDD project as early as 2016. But with potential delays of two to three years, Pertamina expects to cover the shortfall with more LNG imports, possibly an extra 1.5 million t/y, the company's general manager for LNG trading, Arief Basuki, told Reuters.

"The (demand) number is getting bigger and bigger. Today we are targeting more than 5 million tonnes of LNG by 2020," he said.

With gas demand expanding at around 10% per year, demand for LNG could also increase further if Indonesia can bring more liquefaction capacity and pipelines on line to carry gas to markets.

Indonesia, the world's fourth-biggest LNG exporter, is increasingly turning to gas for industrial power generation, as well as a transport fuel.

But industrial buyers will not be able to procure LNG directly, as state-owned companies Pertamina, gas distributor PGN and utility PLN, are the only companies with government approval to import LNG.

Indonesia's LNG demand, the bulk of which stems from West Java, is forecast to hit 2 million t/y by 2015. For now, volumes are supplied from the local liquefaction plants – Bontang and Tangguh – with

domestic contracts totalling about 2.5 million t/y extending to 2020.

But by 2018, Indonesia will have to import LNG. To bolster supplies, Pertamina, which hopes to take a leading role in managing Indonesia's LNG portfolio, has already sealed two contracts, due to start in 2018 and 2020, to buy a total of 1.52 million t/y of LNG from US-based Cheniere Energy's Corpus Christi plant.

Pertamina is hoping to secure further offtake contracts as it targets total imports of at least 3.5 million t/y between 2018 and 2020. It is negotiating with another US-based LNG project to fix an additional import deal for 1 million t/y, it said.

The company's vice-president of LNG, Didik Sasongko Widi, added Pertamina is trying to buy a stake in a US shale-gas producer and will eventually seek to buy into US LNG export terminals.

By doing this, Pertamina first aims to shore up LNG supply, before moving upstream to mitigate its price risk, and finally tying up the value chain by investing in liquefaction.

It is also assessing investment opportunities in unconventional gas projects in Canada and South America, intending to acquire much-needed technical skills to develop Indonesia's potentially significant coal-bed methane and shale-gas resources.

Taking stakes in producing LNG projects in East Africa, Australia and Asia is also an option, Didik said.

The country, once the largest LNG producer in the world, has seen its LNG exports fall 40% since 1999, when it supplied one-third of global consumption.

It has been limiting the amount of gas available for export as production waned and consumption climbed. Total LNG production will be 17 million t/y in 2014 and will only reach 21 million t/y at most by 2020, said Chong.

The potential for an increase in LNG exports looks bleak as the country's business and operating environment has deterred operators from making further investments to boost gas production, he added.

Existing export contracts cannot be reallocated for domestic use. And expiring contracts cannot be extended for more than one year at a time, depending on the pace of domestic demand expansion.

Didik believes the government will

not sanction new gas exports if a development can sell LNG at \$10 per million British thermal units (Btu) locally.

Indonesian industry is willing to pay for the gas and is ready to compete with regional LNG prices which hover between \$15-\$16/million Btu, he said.

For the past two years, the government has been storing spare volumes of LNG in case demand picks up suddenly. If demand is met, then this spare LNG can be sold into the short-term markets.

The Arun LNG export complex in Aceh, northern Sumatra, stopped producing LNG in October and is being converted into a receiving and regasification terminal.

The six-train plant – owned by Pertamina, along with minority partners ExxonMobil and Japan Indonesia LNG Company – had been operating since 1977. It will become Indonesia's first land-based receiving and regasification plant.

## Primary source

With first LNG shipments expected to arrive from BP's Tangguh project in eastern Indonesia next year. It will also become the main terminal for Indonesia's first LNG imports, expected to come from the US in 2018.

Arun will have an import capacity of 3 million t/y, as well as extra tanks that can be used by third parties as part of an open-access storage system.

Another land-based import terminal, Bojonegara, in West Java, is due to start up by the end of 2018. Initial capacity would be 3.5 million t/y, rising to 7 million t/y in 2020.

Further floating storage and regasification units (FSRUs) will be needed around Java as the island is densely populated, making it difficult to build pipelines.

Scattered demand in eastern Indonesia, where it is tricky to ship gas by pipeline, will likely see small-scale LNG take off as well.

Pertamina believes several integrated small-scale projects will prove to be both more reliable and more economic compared to a traditional stand-alone facility. Small-scale LNG would also tie in nicely with floating LNG production, which can be used to develop smaller stranded gas fields, which would otherwise be uneconomic. ●