Unfortunately, hopes that the new oil and gas law could kick-start investment appear dim.

The future of production-sharing contracts (PSCs) remains unclear. Some 27 PSCs are due to expire over the next five years, representing 30% of Indonesia's total production. But Pertamina will get right of first refusal on the blocks as the law aims to tighten the state's grip on the upstream sector.

The new draft law also establishes the compulsory sale and purchase of oil and gas, through a new state operator, in quantities that satisfy domestic market needs. This is set at 25% of production under existing PSCs. But it's not clear how much production investors will be forced to sell – it seems it will fluctuate with demand – nor at what price.

Positively, the new law looks set to streamline the regulatory and supervisory roles of the various government agencies, which would have an immediately positive effect on production, said Winzenried.

Indonesia's investment coordinating board (BKPM) will become a one-stop permitting shop for the industry, rather than operators having to obtain hundreds of permits from 17 government agencies, which has resulted in severe delays, as well as increased costs.

The draft law will also create a new upstream cooperation organiser known as BUMN-K, which will take over the functions of SKKMigas. Private companies will enter into cooperation contracts with BUMN-K to explore and produce oil and gas in the working areas. However, the new draft is silent on any particular cost-recovery mechanisms.

Under the draft law, upstream oil and gas operations will be controlled through the BUMN-K, which owns the upstream business licence. As a result, private investors will see their activities severely curtailed, since they are limited to providing capital and technology under cooperation agreements, said Ball.

To boot, upstream licences will no longer be awarded directly, but via individual special purpose vehicles, which limit investors' legal recourse.

The Canadian think-tank Fraser Institute's global petroleum survey found Indonesia's oil and gas sector was among the worst in the world for investors, scoring even lower than neighboring Timor Leste, Dr Kurtubi, a lawmaker involved in assessing the draft law, told *PE*. The upstream sector will be hoping that Kurtubi will help revise the new law so that it attracts investment, rather than deters it. It is due to be implemented by 2016. ●

Conoco sells Indonesian assets

US major ConocoPhillips is seeking buyers for its legacy Block B fields in the Natuna Sea, along with its transportation infrastructure and onshore receiving plant.

The potential pullback comes only four months after ConocoPhillips' chief executive Ryan Lance visited Indonesia's president, Joko Widodo, and pledged to increase investment in the country.

At the time, energy and mineral resources minister Sudirman Said revealed the US company planned to invest $2.5bn over the next three to four years, a similar amount as in the previous four years.

ConocoPhillips dismissed suggestions that the move was in response to low oil prices. Some analysts believe the uncertain fiscal and regulatory environment in south-east Asia's largest oil and gas producer could be to blame.

The sector was thrown into turmoil when the then upstream regulator BPMigas was disbanded by the constitutional court in 2012.

As a result, a new oil and gas law is in the works, that investors hope will improve the business environment.

Under control

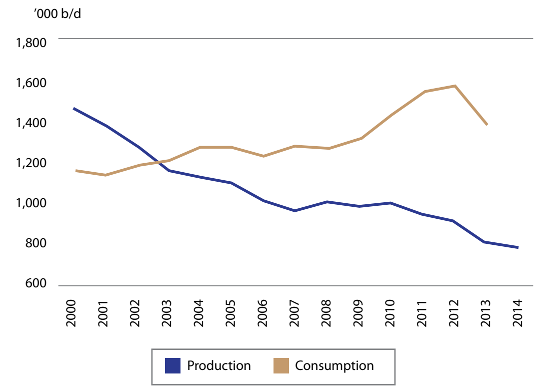
ConocoPhillips has held the block for 47 years and is entitled to run it until 2028. It operates the South Natuna Block B with a 40% interest on behalf of partners Inpex of Japan (35%) and US major Chevron (25%).

The block is expected to produce 335mn ft³/day of gas and 30,000 b/d of liquids this year, according to data from Upstream Oil and Gas Regulatory Special Task Force (SKKMigas), which temporarily replaces BPMigas.

Block B sits under about 300 ft of water and has 11 offshore platforms, four producing subsea fields, and one FPSO in addition to two dedicated floating storage and offloading vessels.

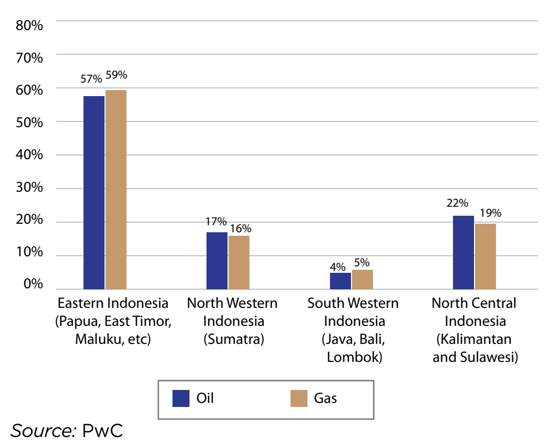
The infrastructure supports three producing oilfields, as well as 16 natural gasfields. Eight of the gasfields are

Indonesia oil production and consumption



Source: BP Statistical Review of World Energy, SKK Migas

Figure 2: Oil and gas reserves in Indonesia



Source: PwC

in production, of which five have associated recoverable oil or condensate volumes.

Several analysts *Petroleum Economist* spoke to said that the block is a quality asset and would have no problem attracting buyers.

A spokesman for ConocoPhillips, which produces almost a fifth of Indonesia's total gas output, said the decision did not mean the company was seeking to exit the country.

ConocoPhillips was recently awarded the Kualakurun Block in Kalimantan and is continuing operations in the Corridor Block in South Sumatra – which is expected to produce 956mn ft³/d of gas this year.

It also has stakes in the South Jambi B Block in South Sumatra, the Warim Block in Papua and the frontier Palangkaraya Block in Kalimantan.

Wood Mackenzie estimates Indonesia's remaining reserves at 27.8bn boe, of which 10.4bn boe are either already onstream, under development or likely to be sanctioned for development in the next few years.

A further 2.7bn boe could be potentially developed, based on the energy research company's estimates. ●

Damon Evans
JAKARTA

Nuclear restart hangs over Japan

Japan has brought back the first of its nuclear plants which were closed in the wake of the Fukushima disaster. However, analysts doubt if this will affect LNG imports

JAPAN will start producing nuclear energy for the first time in almost two years as Kyushu Electric Power prepares to restart its number one reactor at its Sendai plant in September.

But this will only have a marginal effect on the liquefied natural gas (LNG) trade in the short term.

Japan, the world's biggest buyer of LNG, imported a record 89mn metric tons (mt) in the fiscal year ending March 31, up 1.5% over the year before. The country paid a record $65bn for the imports, as the effects of lower crude prices, which are tied to LNG deals, had yet to trickle through.

Still, restarting one of the Sendai nuclear plant's two 30-year old reactors marks a victory for the prime minister, Shinzo Abe, who insists that without nuclear energy the Japanese economy will crumble under the weight of expensive fossil fuel imports. Japanese utilities have incurred tens of billions of dollars in losses.

Kyushu Electric Power, which received a yen 100bn ($800mn) bailout from a state-owned bank last August to survive, estimates that putting one reactor back online would help it cut the cost of burning fossil fuels by around yen 7.4bn/month.

LNG is at the top of the list of fuel imports. Before the Fukushima accident the super-cooled fuel made up a little less than 30% of Japan's electricity mix. Nuclear shutdowns propelled LNG use to nearly 50% by end 2011.

Abe plans to push ahead with the restart of nuclear reactors, which have all been closed since the disaster, despite strong public opposition.

A total of 25 plants have applied to be restarted but all are facing legal challenges from concerned locals. Japan's Nuclear Regulation Authority approved two reactors at the Sendai plant last September under stricter safety rules. The second reactor is due to be restarted in October.

In the longer run, under the government's 2030 plan, nuclear energy will make up 20-22% of the nation's electricity mix, down from around 30% before the Fukushima crisis. LNG is targeted at 27%, coal at 26% and renewables at 22-24%.

The return of nuclear power would appear mainly at the expense of burning fuel oil and crude for power generation. The 2030 plan, announced in June, leaves little room for any generation from oil.

According to the 2030 plan, generation from oil will fall to nearly zero, while the share of gas will fall by 12% from its 2013 level, and coal will drop 6%.

Wood Mackenzie's Michael Jones points out that Kyushu Electric has relied heavily on oil-fired power generation to make up for lost nuclear, so the restart of Sendai unit 1 should first back out crude and diesel burn in power.

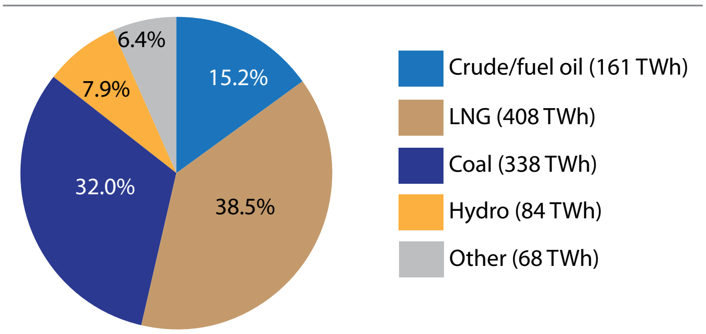
"Second, while Kyushu Electric initially increased LNG use right after Fukushima, the dramatic increase in solar generation and declining end-use demand in the Kyushu area has steadily backed out some of this LNG starting in 2013. In May 2015, for example, Kyushu Electric's solar purchases from Independent pPower Producers amounted to over 7% of the company's total power supply. So, in isolation, we actually do not think this will have a significant impact on total LNG demand," he said.

WoodMac's view is that in the long term, Japan will struggle to ramp up nuclear capacity and it only sees about 30% of Japan's pre-Fukushima capacity coming back online, the rest struggling to meet new, stricter safety standards or facing legal challenge.

But power savings and solar generation have already backed out LNG over the past two years. So the impact on LNG will much more muted than might otherwise be the case. ●

Damon Evans
JAKARTA

Japan's power mix



Source: Japanese government