interfax
Natural Gas Daily

Natural gas insight, analysis and intelligence
Volume 5 Issue 228
Tuesday, 24 November 2015

Interfax Information Services Group
interfaxenergy.com

Indonesian aggregator could dent upstream value

Indonesian pipeline infrastructure. The country is considering creating an aggregator as part of its gas reforms. (PGN)

Damon Evans in Jakarta

INDONESIA is planning to introduce a gas aggregator scheme as part of wider plans to revise its oil and gas law, but foreign players fear it could significantly alter the value of their upstream investments in the Southeast Asian country.

Under the proposal, national or regional gas aggregators would be responsible for buying gas, calculating the gas sales price, and managing allocation and transmission – effectively nationalising the midstream.

The aggregator would also take over existing domestic gas sales agreements (GSAs), create new GSAs and export any excess gas. Both Pertamina and PGN are understood to be lobbying hard for the role of aggregator, while the government appears to be considering splitting responsibilities between the two companies.

If the draft gas regulation is implemented, the purchase price upstream producers receive will be based on the economics of a field's development, not taking into consideration the risks involved or exploration spend. The energy ministry will ultimately decide the purchase price and be responsible for approving the aggregator's sales price.

One of the drivers behind the policy is to avoid competition between Indonesia's state-owned Pertamina and state-backed gas distributor Perusahaan Gas Negara in the mid- and downstream sectors. The proposed aggregator would buy gas from different suppliers and come up with a pool price to harmonise domestic gas prices for different end-users.

Regulated prices would be set for key sectors such as power generation, fertiliser production and other industries, Andrew Harwood, an Indonesia-focused specialist at energy research company Wood Mackenzie, told *Interfax*.

IOCs concerned

However, given the increasing rhetoric in favour of economic nationalism, foreign investors – which include Chevron, ConocoPhillips, ExxonMobil, BP, Total, Shell and Inpex – are worried the aggregator concept could be used to extract value from their upstream positions.

Sampe Purba, vice president of gas commercialisation at upstream regulator SKKMigas, said the aggregator would be "just short of a monopoly buyer".

Nevertheless, Purba told *Interfax* that "investors should be happy, as we're guaranteeing them a market for their gas".

Agus Cahyono Adi, a director at the energy ministry, said the aggregator concept is ▶

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designed to help solve the inefficient market distribution of gas and simultaneously encourage investment in new infrastructure.

An estimated $32 billion is needed over the next 10 years, data from the ministry shows – including $8 billion for mini LNG plants and floating regasification terminals to connect reserves with markets across the sprawling archipelago.

Despite this, Ananda Idris, an independent oil and gas consultant based in Jakarta, told *Interfax*: "I honestly don't think the aggregator is a good idea. Can you imagine the power a monopoly buyer would have? It would be a setback for the industry."

Best of intentions

Sammy Hamzah, chief executive of local gas developer Ephindo Energy, believes the intention behind the gas aggregator is genuinely good and not an out-and-out margin grab targeted at foreign upstream investors.

"They are trying to remove the risk of bringing gas to markets while also eliminating the speculators between the gas buyer and producer. They also want to force the aggregator to invest in infrastructure," he told *Interfax*.

However, Hamzah noted the execution still requires some work: "It's just been miscalculated from the upstream perspective," he said.

The industry appears to agree on these shortcomings and is fighting against the aggregator proposal in its present form, as it would deter further investment in the upstream. But Hamzah is confident the government will recognise the flaws in the policy and that the issue will eventually be resolved.

Indonesia's upstream is in dire need of investment to revive production growth and avoid a looming energy crunch. Analysts estimate the country will have a supply shortfall of 2.5 million barrels of oil equivalent per day in 2025.

William Simadiputra, a Jakarta-based analyst at research agency DBS Vickers, does not think the proposed gas regulation will be a key issue for the upstream sector as the government will not radically interfere with existing production-sharing contracts.

"The government will likely reduce its revenue portion to subsidise the gas price, as well as cutting third-party gas distributor margins, while not sacrificing the contractors' take," Simadiputra added.

However, how the gas regulation will play out remains unclear, as it will form part of a new oil and gas law Energy Minister Sudirman Said previously said would be finalised by the end of the year. However, as policymakers are still debating the draft bill, it seems it will not be ready until next year at the earliest. ■

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