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Pertamina haggles over Mahakam price tag

Pertamina's upstream ambitions could make it harder for Indonesia to reverse its declining production. (PA)

Damon Evans in Singapore

France's Total and Japan's Inpex remain in negotiations with Pertamina to extend their partnership in Indonesia's giant Mahakam gas block beyond the end of 2017. But the Indonesian NOC will not make a deal without an independent appraisal to recalculate the value of the block's remaining reserves to help fix the sales price.

At the end of December 2015, when Pertamina was officially appointed operator of Mahakam from 2018, Indonesia's upstream regulator SKKMigas put the asset value of the block at $4.79 billion. This will shrink by 28%, to $3.45 billion, by the time Pertamina takes the helm, data from the agency shows. Total and Inpex are being offered a maximum 30% stake split between them, which would be worth around $1.04 billion.

Pertamina Upstream Director Syamsu Alam told local media an independent appraisal would ensure a fairer calculation of the block's remaining reserves. Although the company has yet to select an appraiser, it has several candidates. "We're going to discuss this matter with the potential partners," he said.

Pertamina wants the best deal possible, and while Jakarta-based sources have said Inpex and Total may be concerned about the integrity of the appraisal, the NOC will not want to jeopardise the end of the current agreement as a smooth transition will be crucial to avoiding a steeper decline in production from the block.

Proven reserves at Mahakam, which is a major supplier to the nearby Bontang LNG plant, will slide to 76.5-85 billion cubic metres by 2017 and fall further to around 41 bcm in 2018. The block's reserves came to 120 bcm at the end of 2012.

Mahakam is Indonesia's largest producing gas block and has been operating since 1967, with output steadily declining in recent years.

The block is expected to pump 17% less gas this year, at a rate of 40 million cubic metres per day. Liquids production will drop by 20%, to 54,000 barrels per day, Total said in early February.

Massive investment is needed to ensure the block's output will remain stable. Low global crude prices have forced the Total-Inpex joint venture to cut investment by 45% this year, to $1.1 billion, as they postpone development drilling. If the oil price averages around $50 per barrel for the rest of the year then the pair will spud 40 new wells.

The JV has been spending an average of $2 billion per year, equivalent to nearly half of Pertamina's $5 billion annual spend, underscoring the significance of the proposed partnership.

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Pertamina is making it a priority to finalise the deal with Total and Inpex during the first half of 2016, Wianda Pusponegoro, the company's head of corporate communications, told *Natural Gas Daily*.

A new 'revenue over cost' mechanism will be implemented as part of Pertamina's production-sharing contract (PSC) for Mahakam. It will be the first time such a scheme has been used in Indonesia. The share of output for the government and contractors will be dynamic and based on production cost, at a range of 80/20 to 90/10 for oil and 65/35 to 75/25 for gas. Under the current PSC, the government's share of Mahakam's output is set at 85% for oil and 70% for gas.

National resources

The appointment of Pertamina as operator at Mahakam illustrates Indonesia's aim to take a firmer grip on the nation's natural resources. Pertamina will be given first right of refusal on blocks with expiring contracts.

Pertamina now has its sights set on a number of other expiring legacy PSCs – including Total's Central Block in East Kalimantan, which expires in 2018.

The Central Block – which is operated by Total with a 22.5% stake on behalf of partners Pertamina (50%) and Inpex (22.5%) – is close to Mahakam, which would make it easier and more cost-efficient for the NOC to manage both blocks, claimed Syamsu.

The Sanga-Sanga block – which is operated by VICO Indonesia and has a licence that expires in 2018 – is also on Pertamina's radar. Dwi Soetjipto, Pertamina's chief executive, recently said he is interested in buying a stake in the block before the licence expires.

VICO, a JV led by BP and Eni, has operated Sanga-Sanga for almost 50 years. The block is one of Indonesia's main gas producers and supplies Bontang LNG.

Other major contracts due to expire in 2018 include Pertamina and Talisman's Ogan Komering Block, China National Offshore Oil Corp.'s South East Sumatra Block, ExxonMobil's NSO Extension and B Block, Total's Tengah Block, and Chevron's East Kalimantan Block. Only VICO has so far expressed an interest in renewing its contract.

But Pertamina's aspirations, both upstream and downstream, could be held back by its lack of financial muscle. The NOC's balance sheet and earnings performance are relatively weak. Pusponegoro said the company's capital expenditure is undergoing a strict review in the wake of the global oil price crash.

Pertamina's upstream ambitions also raise uncertainties for existing and potential investors, which could dent Jakarta's plans to reverse the country's declining production profile. Some 27 PSCs are due to expire over the next five years, representing 30% of Indonesia's hydrocarbon production. ■

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