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Pertamina goes its own way on spending

The LIMA flow station offshore Indonesia. Pertamina is trying to boost domestic output. (SKK Migas)

Damon Evans in Singapore

DESPITE global oil prices slumping to their lowest level in over a decade, Pertamina plans to spend more this year than in 2015, bucking the industry trend. The Indonesian NOC is also unashamedly targeting many of the expiring legacy production contracts operated by IOCs in an effort to boost its domestic output.

Pertamina has said it will spend $5.31 billion on capital investment this year. This is 20% more than in 2015, but down on the $6 billion originally planned. Of the new total, 72% will be channeled into the upstream business with one-third earmarked for mergers and acquisitions, Syamsu Alam, Pertamina's upstream director, told local media. He declined to reveal the acquisition plans, but said they would cover both domestic and overseas fields.

Last year, Pertamina was forced to rationalise its medium-term investment plans amid low oil prices, halving capital spending over the 2015-2018 period to $25.8 billion. This is still a 50% jump from the preceding four years as the national champion battles to reverse Indonesia's declining output.

Pertamina is also pacing itself when it comes to boosting production from existing reserves, cutting its 2016 oil and gas production target to 659,000 barrels of oil equivalent per day (boe/d) from the original 876,000 boe/d. The NOC had pumped 584,000 boe/d by the end of October 2015, up 11% over the same period in 2014.

If oil prices remain under $30 per barrel then the Jakarta-based company, which estimated global crude at $50/bbl this year, will likely have to revisit its medium-term spending plans as well as its lofty production target of 2.5 million boe/d in 2025.

The company aims to cuts its operational costs by 30% in response to declining oil prices. But it will maintain upstream capex as output is lagging demand and a low-price environment is the best time to invest because of low operating costs, said Pertamina's Chief Executive Dwi Soetjipto.

Legacy ambitions

To help it meet the long-term output target, Pertamina has set its sights on expiring legacy production-sharing contracts (PSCs) operated by IOCs. This is largely because they will be the cheapest barrels the company will ever produce, but also because they are generally the easiest to operate.

In December, the NOC was officially appointed the operator of the Mahakam PSC, starting in January 2018 when the current contract with French major Total and

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Japanese company Inpex ends. Pertamina is in talks with the pair about granting an option for a 30% stake in the new PSC to ensure a smooth transition.

Mahakam, the biggest gas block in the country, pumps around 48 million cubic metres per day of gas and 69,000 b/d of oil, representing 25% of national production. But output is waning as the block has been operating since 1967.

Total and Inpex have been spending around $2 billion per year on the block, or nearly half of Pertamina's $4.4 billion spend last year, to stem the decline – underlining the importance of cashed-up partners.

Pertamina aspires to operate other expiring blocks aside from Mahakam, Wianda Pusponegoro, head of corporate communications at the company, told *Interfax*. But its plans create uncertainty for existing and potential investors.

The future of PSCs remains unclear under a new oil and gas law being drafted by the government. Some 27 PSCs are due to expire over the next five years, representing 30% of Indonesia's total production. Pertamina will receive first right of refusal on the blocks as the law aims to tighten the state's grip on the upstream sector.

Pusponegoro said the company is in preliminary discussions over the delayed Masela Block, operated by Inpex, which will be one of the country's biggest gas projects when it comes online around 2024. The PSC is due to expire in 2028, but Inpex wants to secure an extension before committing to developing the block – estimated to hold over 283 billion cubic metres of gas reserves.

Chevron, Talisman and ExxonMobil all have blocks expiring in the next five years. Chevron indicated it would return the East Kalimantan Block to the government in 2018 when the contract ends, as opportunities in the PSC are not competitive within its portfolio.

Pertamina wants strategic partners that can help finance new projects and transfer knowledge, Pusponegoro said. But she added the company is working to strict timelines. "We don't like to be delayed and we don't want too many demands, just a quick final negotiation with potential partners as we need to focus on the job in the field, which is increasing production."

But the NOC's upstream aspirations could be held back by its financial capability – particularly as lower crude prices bite, reckons William Simpadiputra – a Jakarta-based analyst at investment firm DBS Vickers. Pertamina's balance sheet and earnings performance are relatively weak.

Apart from the plan to take over expiring upstream assets, Pertamina offshoot Pertagas is looking to expand in the midstream by developing its LNG storage and distribution network across the archipelago.

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