Overview

Indonesia’s upstream oil and gas industry utilizes the Production Sharing Contract (“PSC”) through a mechanism of returning contractors’ operating costs (“Cost Recovery PSC”). This scheme optimizes state revenues while protecting against high risk exposure in this industry. In January 2017, the Government issued a regulation with respect to Gross Split mechanism (“Gross Split PSC”) in which the basic principle is to divide gross production without a returning mechanism of the operating costs of oil and gas contractors. In this new regulation, production sharing for oil and gas contractors will be the gross level by employing basic components (base splits) which will be adjusted to variable components (variable splits) and progressive components (progressive splits).

Indonesia’s upstream oil and gas industry is slowly shifting their fiscal mechanism from Cost Recovery PSC into Gross Split PSC. The objective of the research is to assess and evaluate the economic level of oil and gas’ upstream projects that are currently undertaken by using Cost Recovery PSC as compared to Gross Split PSC.

Research approach

This study employed both quantitative and qualitative analysis to yield more credible approaches.

1. Quantitative research to analyze the level of economic of the tested oil and gas field and/or working areas between the use of Cost Recovery PSC and Gross Split PSC by using Net Present Value (NPV) and/or Internal Rate of Return (IRR) as the profit level indicators. There are 30 samples of fields and working areas taken into account with respect to the simulation in this paper.

2. Qualitative analysis by conducting in depth interviews the selected experts; both practitioners, consultants and oil and gas contractors related to the issuance and implementation of Gross Split PSC.

Research results

Based on the samples taken, our analysis on the NPV/IRR calculated (both contractors and Government) leads to various results, which means that the use of Gross Split PSC may increase NPV/IRR to certain Fields/Working Areas while the use of Gross Split PSC to some other fields/working areas may decrease the NPV/IRR of contractors.
This is mainly caused by the condition of the tested field or workings areas (brownfield or greenfield developments), operating costs associated with the exploration and production activities (both capital and non-capital costs) as well as contractors’ business strategies that are different from one to another. Moreover, for the mature fields that require extensive investment costs, Gross Split PSC may not yield a better NPV/IRR result for the contractor than the PSC Cost Recovery. This is because the high investment costs and costs for producing oil and gas must be entirely borne by the contractors in a first place.

Conclusions and recommendations for further research

The study concludes that the NPV/IRR results of both contractor and Government are very dynamic upon the simulation from Cost Recovery PSC mechanism to Gross Split PSC mechanism. For oil and gas fields at the premier production stage, the investment costs needed are tend to be lower than the oil and gas fields that are at the tertiary production stage. This can surely affect the economic level of oil and gas investments due to its massive investment costs required to be spent by oil and gas contractors during their exploration and exploitation. Whereas, for oil and gas fields that are at tertiary production stages, the investment costs needed to produce oil and gas are tend to be higher due to the conditions in the field.

The study is also expected to provide insights and additional information to the law makers (Indonesia Government) and other technical knowledge relevant for the upstream oil and gas industry by having a comparative data for future policy making. As for oil and gas contractors or companies, this study could be used as supporting reference to have an insight of kind of investment plans that would be carried out by considering the factors that would affect the economic level of oil and gas contractor projects.

Please note that this research has some limitations due to the possibility of secondary data’s volatility used by the researcher, changes in income tax rate, changes or modification in the prevailing Gross Split PSC regulations, etc. Having said that, continuous analysis, review and updates are required to make this research remain valid and relevant.

References


Ministry of Energy and Mining Regulation No. 8 Year 2017 regarding Gross Split Production Sharing Contract.

Ministry of Energy and Mining Regulation No. 52 Year 2017 regarding The Amendment of Gross Split Production Sharing Contract.

