

## Energy & Natural Resources

Issue 2773, 1/12/2015

Versi Bahasa Indonesia

### Enforcement Date

23 November 2015

### Related ILB

- Oil and Gas Account
- Minister Delegates Issuance of Oil and Gas Licenses to BKPM
- Govt Optimizes the Mandatory Use of Letters of Credit for the Export of Minerals and Energy Products
- Draft Bill on Oil and Gas
- New Provisions on Management of Oil and Gas Working Areas

## Natural Gas: Allocation, Utilization and Pricing

The Minister of Energy and Natural Resources (“Minister”) has issued Regulation [No. 37 of 2015](#) on Provisions and Procedures for Determining the Allocation, Utilization and Price of Natural Gas (“2015 Regulation”). In bid to ensure the ongoing availability of natural gas for domestic consumption, the 2015 Regulation prioritizes state-owned enterprises, as well as regionally owned enterprises looking to obtain and utilize natural gas.<sup>1</sup>

Prior to the 2015 Regulation, similar provisions were stipulated under Ministerial Regulation [No. 3 of 2010](#) on the Allocation and Utilization of Natural Gas for Domestic Needs (“2010 Regulation”).

The 2015 Regulation is of relevance to all companies currently involved in or intending to become involved in natural-gas activities.

### Domestic Needs

The Minister will directly appoint state-owned enterprises and regionally owned enterprises (located in exploration areas) to explore and utilize natural-gas fields.<sup>2</sup> Note that these companies must prioritize domestic needs by taking the following points into account:<sup>3</sup>

1. the government’s transportation, household, and small-customer programs;
2. any improvements made to national oil and natural-gas production;
3. the fertilizer industry;
4. natural-gas based industry;
5. electrical-power supply; and
6. natural-gas fueled industries.

If all of the above-mentioned conditions have been fulfilled, then any unused natural gas can be auctioned off by natural-gas contractors (“Contractor”)<sup>4</sup> to private enterprises.<sup>5</sup>

<sup>1</sup> Art. 2 (1), 2015 Regulation.

<sup>2</sup> Art. 6 – Art. 12, 2015 Regulation.

<sup>3</sup> Art. 5, 2015 Regulation. Previously, prioritizations relating to the allocation and utilization of natural gas were only aimed at improving national oil and natural-gas production, as well as the fertilizer industry, and electrical power supply. See Art. 6 (3), 2010 Regulation.

<sup>4</sup> A contractor is a business entity involved in the exploration and exploitation of a Working Area based on a cooperative contract with the Task Force for Upstream Oil and Gas Business Activities (*Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi* – “**SKK Migas**”). See Art. 1 (7), 2015 Regulation.

<sup>5</sup> Art. 13 (1), 2015 Regulation.

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### Procedures for the Allocation, Utilization and Pricing of Natural Gas

A Contractor must submit an application relating to the allocation and utilization, or pricing, of natural gas to SKK Migas. Applications should also include the following documents:

| No. | Allocation and Utilization <sup>6</sup>   | Pricing <sup>7</sup>                            |
|-----|---|---|
| 1.  | Copy of a relevant Plan of Development ("POD") <sup>8</sup>                                   | The proposed sale price                         |
| 2.  | Production test results   | Copy of a relevant POD                          |
| 3.  | Description of planned and existing production facilities                                     | National gas-price statistics                   |
| 4.  | Estimation of gas deliverability  | Copy of national gas-price negotiation document |
| 5.  | other supporting documents which elaborate upon the prospective buyer and national gas volume | Copy of a national gas-trade agreement document |

Upon receipt of an application, SKK Migas must deliver the application in question along with a recommendation to the Minister within 60 calendar days (for allocation and utilization applications),<sup>9</sup> and within 30 calendar days (for pricing applications).<sup>10</sup>

Applications are then to be assessed by the Director General of Oil and Gas ("Director General") in coordination with SKK Migas.<sup>11</sup> The Minister will then either accept or decline an application, based upon the assessment which has been made.<sup>12</sup>

After an application has been approved, the Contractor may then enter into an agreement with a buyer. If this agreement is to be extended, then the Contractor should submit another application to the Minister through SKK Migas six months (for allocation and utilization applications),<sup>13</sup> and three months (for pricing applications) before the agreement expires.<sup>14</sup>

Finally, Contractors should submit an implementation report relating to the agreement to the Minister through SKK Migas every six months, or at any time deemed necessary.<sup>15</sup>

Note that prospective buyers may also submit allocation and utilization applications which take domestic needs into account to the Minister via the Director General.<sup>16</sup> Prospective buyers must submit this application along with a breakdown of the planned use of national gas, national gas volume, purchasing power, and infrastructure.<sup>17</sup>

<sup>6</sup> For a complete list of documents, see Art. 18 (2), 2015 Regulation.

<sup>7</sup> For a complete list of documents, see Art. 23 (2), 2015 Regulation.

<sup>8</sup> A POD is a document that sets out a development plan for oil and gas production over the course of one year or more. A POD is to be formulated by the Contractor after the prospective Working Area has been decided upon. A POD should contain a technical and economic analysis that relates to the development plan.

<sup>9</sup> Art. 18 (4), 2015 Regulation.

<sup>10</sup> Art. 23 (3), 2015 Regulation.

<sup>11</sup> Art. 20 (1) and (2), 2015 Regulation.

<sup>12</sup> Art. 20 (4), 2015 Regulation.

<sup>13</sup> Art. 22 (1), 2015 Regulation.

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### Sanctions

Failure to comply with the 2015 Regulation, such as noncompliance with the obligation to submit an implementation report, will result in administrative sanctions, including written warnings and/or revocations of allocation and utilization, or gas-pricing approvals being enforced.<sup>18</sup>

The 2015 Regulation repeals and replaces the 2010 Regulation.

The 2015 Regulation has been in force since 23 November 2015.

<sup>14</sup> Art. 25 (1), 2015 Regulation.

<sup>15</sup> Art. 28, 2015 Regulation.

<sup>16</sup> Art. 19 (1), 2015 Regulation.

<sup>17</sup> Art. 19 (2), 2015 Regulation.

<sup>18</sup> Art. 29 (1) and (2), 2015 Regulation.

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