Project Insights

Inpex and Jakarta agree $20 bln Masela plan

First gas from the long-delayed Abadi field could flow in 2027 as Japan's Inpex and the Indonesian government look set to agree terms later this month

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A flow station off Indonesia. (SKKMigas)

The key issue: *Japan's Inpex and the Indonesian government are set to sign a final development plan for the long-delayed giant Masela gas project at the G20 Summit in Osaka on 28 June.*

Interfax analysis: While it is positive that Indonesia's Masela scheme appears to be finally gaining traction, an earlier decision on the gas project could have put it at the front of the surge of new global LNG supply projects.

Following meetings with Inpex in mid-May, officials from the Indonesian government have reported that a profit-sharing agreement has finally been struck with the Japanese operator setting out the terms to exploit the Abadi field, which holds some 360 billion cubic metres of gas in Indonesia's Masela block. Much of this will be exported as LNG.

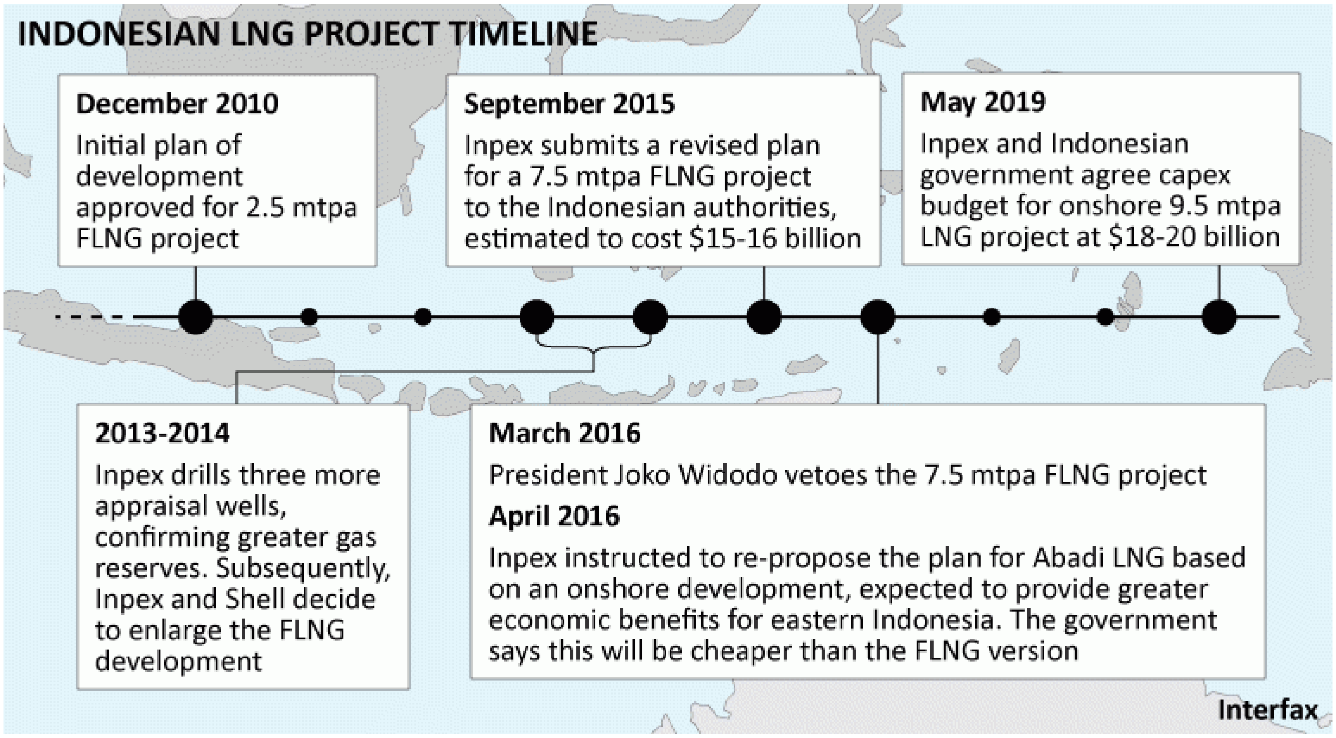
According to the Indonesian Ministry of Energy and Mineral Resources, both parties have agreed on the final structure of the plan of development, which will be based on a traditional production-sharing contract (PSC).

Profit sharing after tax will be based on a 50/50 split between the government and the Inpex-led venture, which includes Shell. This suggests the investors will receive an improved share of profits compared with standard PSC terms.

Development of the 9.5 mtpa onshore liquefaction scheme will be based on cost recovery terms and not on Indonesia's novel gross-split contract terms, as some media reports speculated. The gross-split contract, which puts the onus on investors to bear all the costs and risks, remains hugely unpopular with majors operating in Indonesia. Significantly, the government agreed to an investment budget of $18-20 billion for the deepwater project. The budget has long been a sticking point, with Jakarta insisting that a capital investment of around $15 billion was reasonable.

However, given the scope of the technically tricky scheme the necessary investment was always going to be much higher than Jakarta estimated. It includes a large FPSO unit capable of handling 51 million cubic metres per day of gas and up to 36,000 barrels per day of condensate, as well as a deepwater trunk line from the Abadi field to the liquefaction facilities on Yamdena in the Tanimbar Islands,

Inpex has already started making market enquiries for FEED contracts, underscoring the operator's optimism that the final plan of development will be officially approved 18 years after Abadi was discovered. If all goes to plan, construction could start by 2021, with first gas expected to flow in 2027. Nevertheless, Inpex will want to extend its current PSC – which expires in 2028 – before taking an FID.



Room for doubt

While it is positive that the government has agreed on improved fiscal terms for the project, a move that would have been impossible before the presidential elections in mid-April, there is still room for scepticism regarding the final agreement, which is being touted as being sealed in late June.

It is not yet clear how much the government may have conceded to kickstart the project. If ardent nationalists or the political opposition believe the recently re-elected administration of President Joko Widodo has been too lenient, then it is possible they could try to frustrate progress in an effort to improve their political bargaining power as Widodo forms his new government.

It is also not clear if Shell, which holds a 35% stake in the Masela block, is onboard with the latest proposal. There has been media speculation that the Anglo-Dutch supermajor is seeking to divest its share for a reported $1 billion. However, given the development's chequered history of delays and disagreements with the government, it is hard to envisage investors other than NOCs having the appetite to take over Shell's share.

Shell has declined to comment on the rumours, while Indonesian upstream regulator SKKMigas has reported that the company has informally said it had no plans to sell its equity.

Shell is likely waiting to see the final terms agreed for the project before deciding whether to divest or not. Certainly, an official plan of development approval would boost confidence in the project for potential buyers and help Shell place a value on its share.

As things stand, should Inpex and Jakarta finally nail down the development plan later this month, Masela will be competing in a crowded global construction and LNG marketing environment.

http://interfaxenergy.com/article/34279/inpex-and-jakarta-agree-20-bln-masela-plan