



INDONESIA: ENERGY HIGHLIGHTS JUNE 2006

Summary

- On June 2, the Ministry of Energy and Mineral Resources' Directorate of Oil and Gas announced four foreign companies as winners in the 2005 oil and gas regular tender round.
- On June 15 the Minister of Energy and Mineral Resources issued revised regulations designed to increase the transparency and clarity of the oil and gas tender processes.
- The private Indonesian energy firms Bumi Resources and Energi Mega Persada (EMP) officially announced their long-rumored merger plan on June 14.
- Throughout the month of June, EMP subsidiary Lapindo Brantas battled a well-head accident that is having significant environmental consequences in the communities surrounding the Brantas Production Sharing Contract (PSC) near Sidoarjo, East Java.
- On June 26, Britain's Sound Oil announced its acquisition of Indonesian oil and gas firm Mitra Energia Limited, an interest holder in the Bangkanai and Citarum PSCs.
- State petroleum company Pertamina raised unsubsidized fuel prices in June by an average of 7.7 percent.
- On June 12, BP resumed supplying gas to Jakarta's Muara Karang and Tanjung Priok power plants after pipeline maintenance interrupted gas flows.
- On June 14, Australia's Amerod Resources Limited and Indonesia's Bayan Resources entered into a joint venture agreement to develop a coal briquette plant in East Kalimantan.

Note: This report uses an exchange rate of Rp 9,300/USD

Oil and Gas Tender Winners

On June 2, the Directorate of Oil and Gas announced four winners of the 2005 regular tender round (Table 1). During the first three years of development the four companies said they plan to spend up to a collective USD 203 million for exploration activities, including geological studies, seismic surveys and the drilling of 11 wells. The winners will also pay signature bonuses to the government totaling USD 13 million. Companies entered bids for seven of the 14 blocks put out for tender, according to the directorate. Industry observers noted the results of the round signal a positive trend in the upstream investment climate.

Table 1: Oil and Gas Tender Winner

Winners	Block Name	Location	Size (Kms)
Petronas	Lampung II	South Sumatra	4,140
ExxonMobil	Surumana	Makassar Strait	
Husky Marathon/	East Bawean II	East Java	4,155
Talisman	Pasangkayu	Makassar Strait	4,708

Source: Directorate of Oil and Gas

Tender Regulation Revisions

On June 15, Minister of Energy and Mineral Resources Purnomo Yusgiantoro issued Ministry Regulation 40/2006 on Procedures for Oil and Gas Blocks Allocation and Offering. The new regulation effectively replaced the previous Ministerial Decree 1480/2004. It aims to provide increased transparency and clarity regarding tender procedures, including the selection criteria for tender winners. The regulation also includes provisions aimed at securing exploration commitments from tender winners. Tender participants now must provide at least a 20 percent bank guarantee of the proposed value of the signature bonus when bidding for an oil and gas block under the regular tender process or USD 500,000 for a direct offer bid. A winning bidder must also provide an additional bank guarantee equal to the value of the budget for three years of seismic surveys.

Bumi and EMP Announce Merger Plan

On June 14, the private Indonesian energy firms Bumi Resources and Energi Mega Persada (EMP) officially announced their long-rumored merger plan. EMP is Indonesia's second largest oil and gas producer; Bumi was Indonesia's leading coal exporter in 2005. Bumi is in the process of divesting coal subsidiaries Kaltim Prima Coal and Arutmin to

Borneo Lumbung Energy. Bumi and EMP are closely affiliated with the Bakrie Group, though it does not have a majority stake in either firm. When completed, the merger will create Indonesia's largest energy company with more than USD 2 billion in assets. The companies said they expect to complete the merger by August 2006.

Mud Flow Continues from East Java Well

EMP subsidiary Lapindo Brantas continued to battle a well-head accident that is having significant environmental consequences in the communities surrounding the Brantas Production Sharing Contract (PSC). Since May 2006, mud has flooded roads and villages near a Lapindo gas well in Sidoarjo, East Java, 38 kilometers from Indonesia's second largest city, Surabaya. On June 15, the Ministry of Energy and Mineral Resources formed a special team to investigate the mud breach. A preliminary investigation reportedly found that a mud breach happened at a depth of 6,000 meters below the company's Banjar Panji-1 well. So far Lapindo has built a mud confinement dam in the area and said it plans to bring in a mud snubbing unit to try to control the breach. Lapindo owns a 50 percent interest in the PSC, while Indonesia's Medco Energy and Australia's Santos own 32 and 18 percent respectively.

Acquisition Update

On June 26, UK-based Sound Oil announced the acquisition of local energy firm Mitra Energia Limited. Mitra has 34 and 20 percent interests respectively in the Bangkanai and Citarum PSCs, located in Central Kalimantan and Central provinces. Sound Oil's shareholders must still approve the acquisition, reportedly worth 16.2 million pounds sterling (USD 28.5 million). Mitra is currently exploring in both PSCs and has drilled six wells.

Pertamina subsidiary Elnusa Bangkanai Energy won the Bangkanai PSC in 2003. It contains the undeveloped Karendan gas field with estimated gas reserves of up to 400 billion cubic feet (BCF). Elnusa now holds a 51 percent interest in the block with Medco Energy owning 15 percent to Mitra's 34 percent. The Indonesian-Malaysian joint venture company Bumi Parahyangan Ranhill Energy Citarum (BPREC) won the Citarum PSC last year through a direct offer tender. Malaysia's Ranhill Berhad owns a 60 percent stake in BPREC, with Indonesia's Bumi Parahyangan and Mitra each owning 20 percent.

Fuel Market Update

State petroleum company Pertamina raised industry fuel prices in June by an average 7.7 percent based on a rise in global crude benchmarks. At the same time, the company continued its strategy of selling its premium unleaded Pertamina and Pertamina Plus fuels

at a lower price in selected fuel stations in the greater Jakarta area in response to competition from nearby Shell and Petronas retail stations. Pertamina sells Pertamina and Pertamina Plus at an average discount of 2.5 percent in these locations compared to stations where no competition exists.

In a sign that Indonesia's higher domestic fuel prices continue to crimp consumption, Pertamina has reduced its daily fuel sales target for the summer holiday period to 175,000 kiloliters (KL) from its initial target of 185,000 KL. The company also reported lower than anticipated consumption for the June, which currently stands at 144,000KL per day.

Table 2: Unsubsidized Fuel Price Changes

Fuel Type	Apr-06	May-06	Jun-06	Changes
Transport**				
Pertamax	5,300	5,800	6,150	6.0
Pertamax Plus	5,400	6,050	6,250	3.3
Pertamina DEX	5,800	6,100	6,400	4.9
Industry***				
Premium	5,099	5,469	6,174	12.9
Kerosene	5,507	5,664	6,182	9.1
Gasoil	5,129	5,512	6,288	14.1
Diesel Oil	4,983	5,327	5,789	8.7
Fuel Oil	3,673	3,662	3,745	2.3

*Percent change between May 2006 and June 2006.

** Pertamina and Pertamina plus are unleaded gasoline fuel with 92 and 95 octane level respectively. Pertamina DEX is a Euro 2 standard diesel fuel. All fuels are available at regular retail outlets. Quoted prices are valid for Java Island.

*** Industry wholesale price.

Table 3: Pump Price Comparison (USD/gallon)

Country	Unleaded Gasoline	Auto Diesel
Indonesia	1.83	1.75
Philippine	3.07	2.59
Thailand	2.73	2.84
Singapore	4.31	3.27
USA	3.07	2.87

Sources: Pertamina, EPPO, Philippine DOE, EIA
Prices as of 30 June 2006.

BP Resumes Gas Supply

On June 12, BP completed maintenance of the underwater pipeline from its offshore South East Sumatra (SES) fields to West Java, resuming gas supply to Jakarta's Tanjung Priok and Muara Karang power plants. A pipeline leak in May 2006 cut gas supply to the two power plants to half of the normal flow capacity of 260 million standard cubic feet per day (mmcf). As a result, the electric power reserve margin in the Java-Bali grid shrank by almost 300 megawatts during the past month. The resumption of BP's gas in part helped to increase the reserve margin to an average of 1,500 megawatt (MW) or an 8 percent margin during June.

Coal Briquette Joint Venture

On June 14, Australia's Amerod Resources Limited and Indonesia's Bayan Resources signed a joint venture agreement to build a coal briquette plant in East Kalimantan. Bayan and White Energy Technology Limited said they intend to exploit a patented briquetting process using coal from Bayan's Tabang Mine in East Kalimantan. The two companies hope to use the process to convert relatively poor quality coal into a higher quality and more environmentally friendly coal briquette. The plant will have an initial capacity of 1 million tons of coal briquettes per year with a possible upgrade up to 3 million tons capacity per year in the offing. The joint venture also includes a 5-year off-take agreement by Bayan for USD 100 million of coal briquette. Both companies are now completing a feasibility study of the project. Amerod owns 51 percent of the joint venture while Bayan holds the remainder.

Pertamina Starts Biofuel Distribution

On May 20, Pertamina began selling the country's first biodiesel fuel, Bio-Solar, at selected fuel stations in Jakarta. Biosolar is also known as B-5 biofuel and contains 95 percent diesel fuel and five percent Fatty Acid Methyl Ester (FAME), which is derived from the processed extract of crude palm oil (CPO) or the seeds of *Jatropha Curcas* plants. Currently Pertamina sources its biodiesel supply from the Gresik, East Java plant of local chemical producer Eterindo Wahanatama. Pertamina is also developing its own biodiesel plant at the Balongan refinery, West Java. The company set the Biosolar price identical to regular subsidized diesel fuel price at IDR 4,300 (USD 47 cents) per liter.

Selected Energy, Mining and Power Statistics

Suppliers	Mar-06	Apr-06	May-06
Mining			
Coal production (million tons)	11.3	10.3	-
Coal export (million tons)	9.3	7.3	-
Copper concentrate ('000 dmt)	198.5	191.2	206.8
Copper ('000 ton)	53.1	50.6	51.3
Oil			
Oil production (mmbpd)	1.04	1.03	1.03
ICP average (USD/barrel)	61.3	70.3	70.0
Power (Java-Bali)			
Peak load (MW)	14,285	14,178	14,279
Average reserve (MW)	1,488	590	825
Average reserve margin (MW)	8.1	3.2	4.4

Note: Preliminary 2006 figures, except for ICP and power.

* Indonesian Crude Price; dmt (dry metric ton); mmbpd (million barrels per day); MW (megawatt)

Sources: Directorate of Coal Enterprise, MIGAS, PETRAL, PLN