Evaluation of Gross Split Production Sharing Contract: Case Study of Mature Oil and Gas Fields in Indonesia

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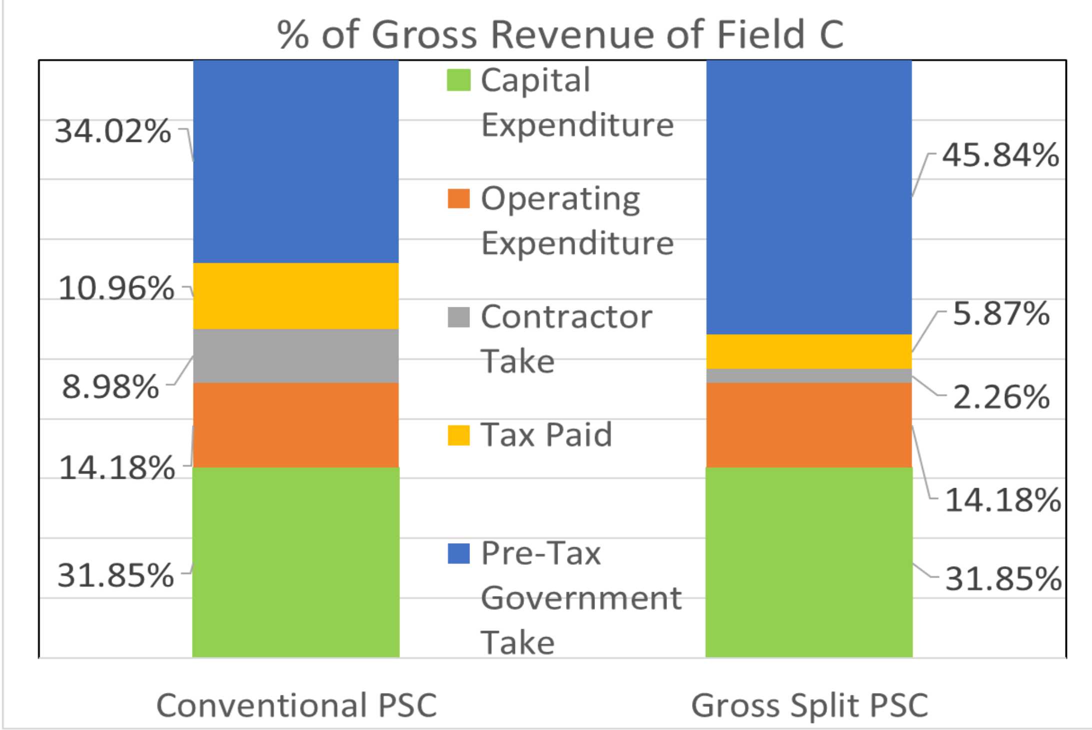
Introduction

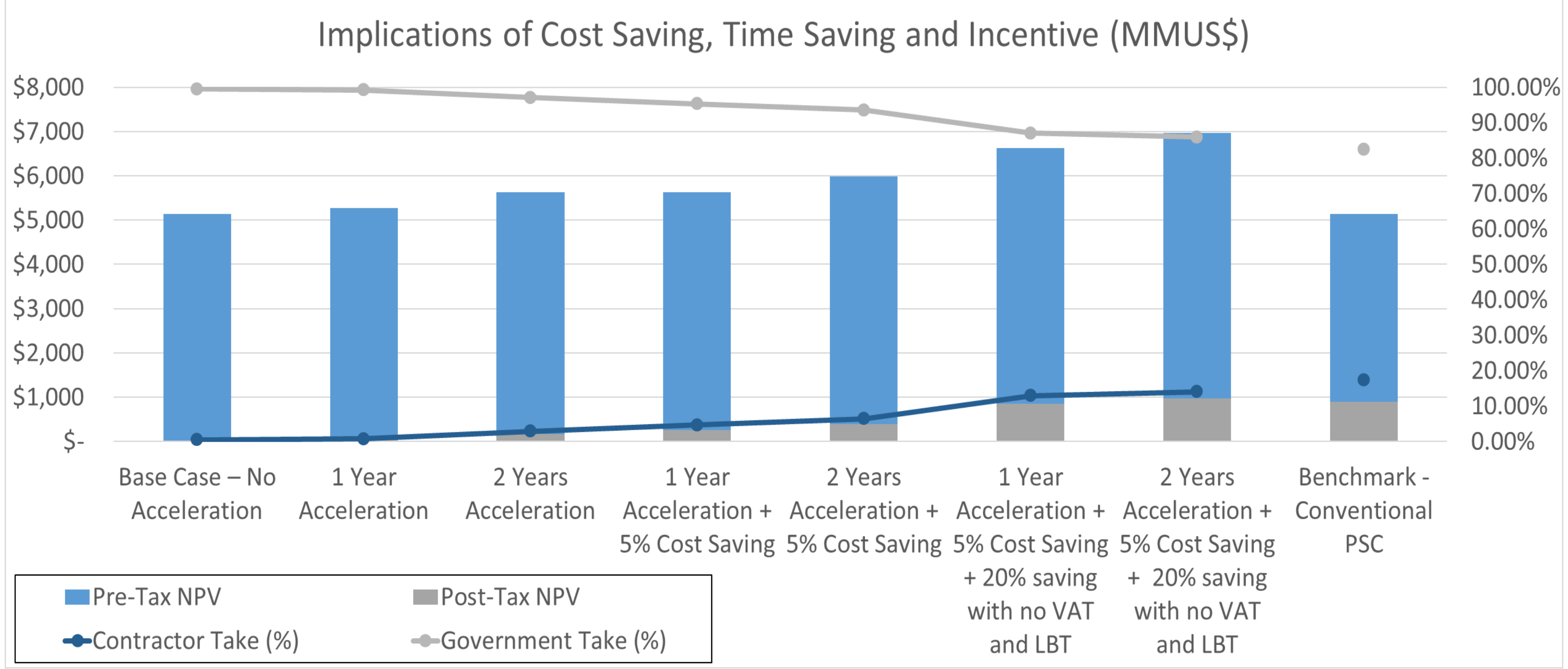
- Indonesia changed its fiscal system from PSC to Gross Split PSC (GS PSC)
- No cost recovery component in GS PSC
- Introduction of new base split and additional split based on variable and progressive components
- Is GS PSC going to be better for the Government of Indonesia (GOI) or the contractors?

	Field A	Field B	Field C
Location	Offshore	Offshore	Onshore
Dominant Production	Oil	Oil	Gas
Oil API Gravity	High	Low	High
Additional Split from Variable Components	14.5%	17.5%	8%
Total Capital Expenditure	6.06 billion USD	192.3 million USD	2.2 billion USD
Total Operating Expenditure	9.8 billion USD	4.08 billion USD	1.1 billion USD
Cumulative Production	560 MMboe	115 MMboe	163 MMboe
Production Years	20	11	16

Data & Methodology

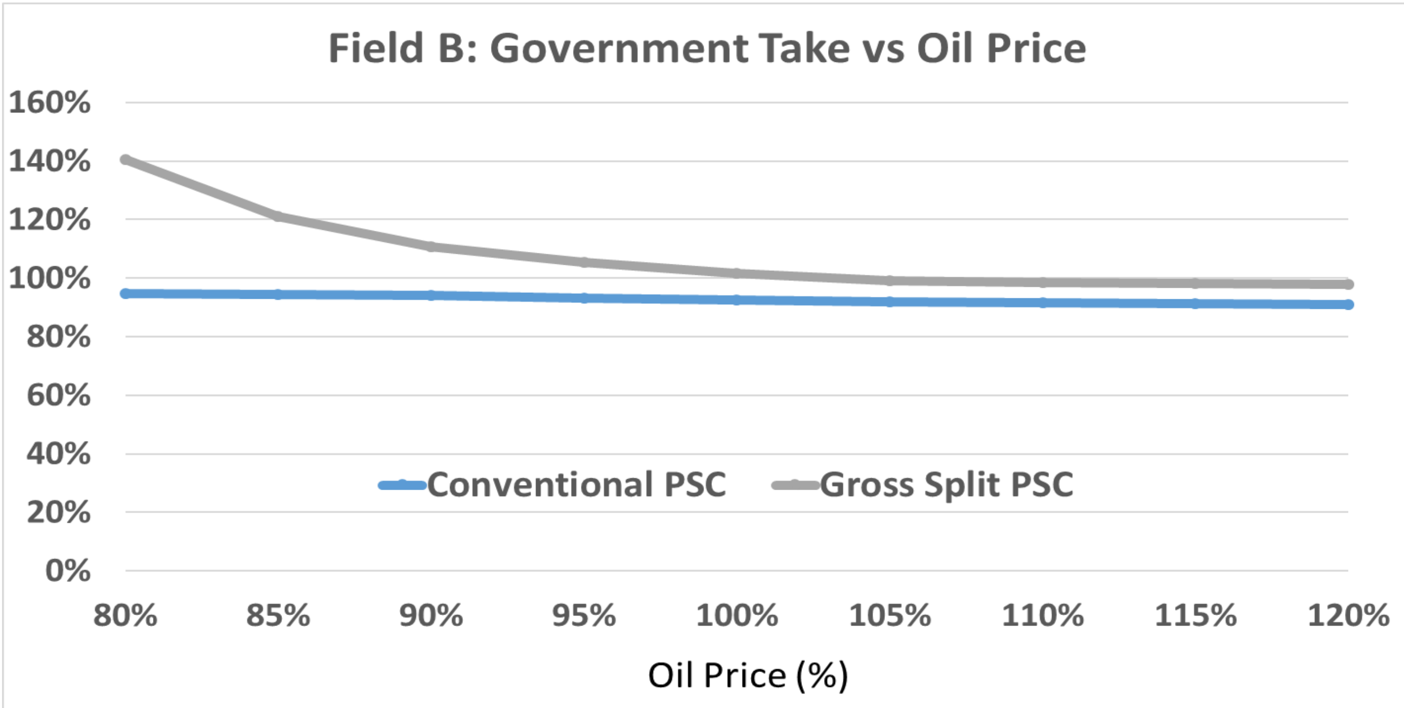
- Data provided by SKK Migas of Indonesia
- Deterministic Sensitivity Analysis
- Probabilistic Analysis using Monte Carlo Simulation
- Variables: Oil and Gas Price, Production, Expenditures, Oil and Gas Split, Effective Tax
- Parameters: Post-Tax NPV, Government Take, Probability of Loss, Coefficient of Variation





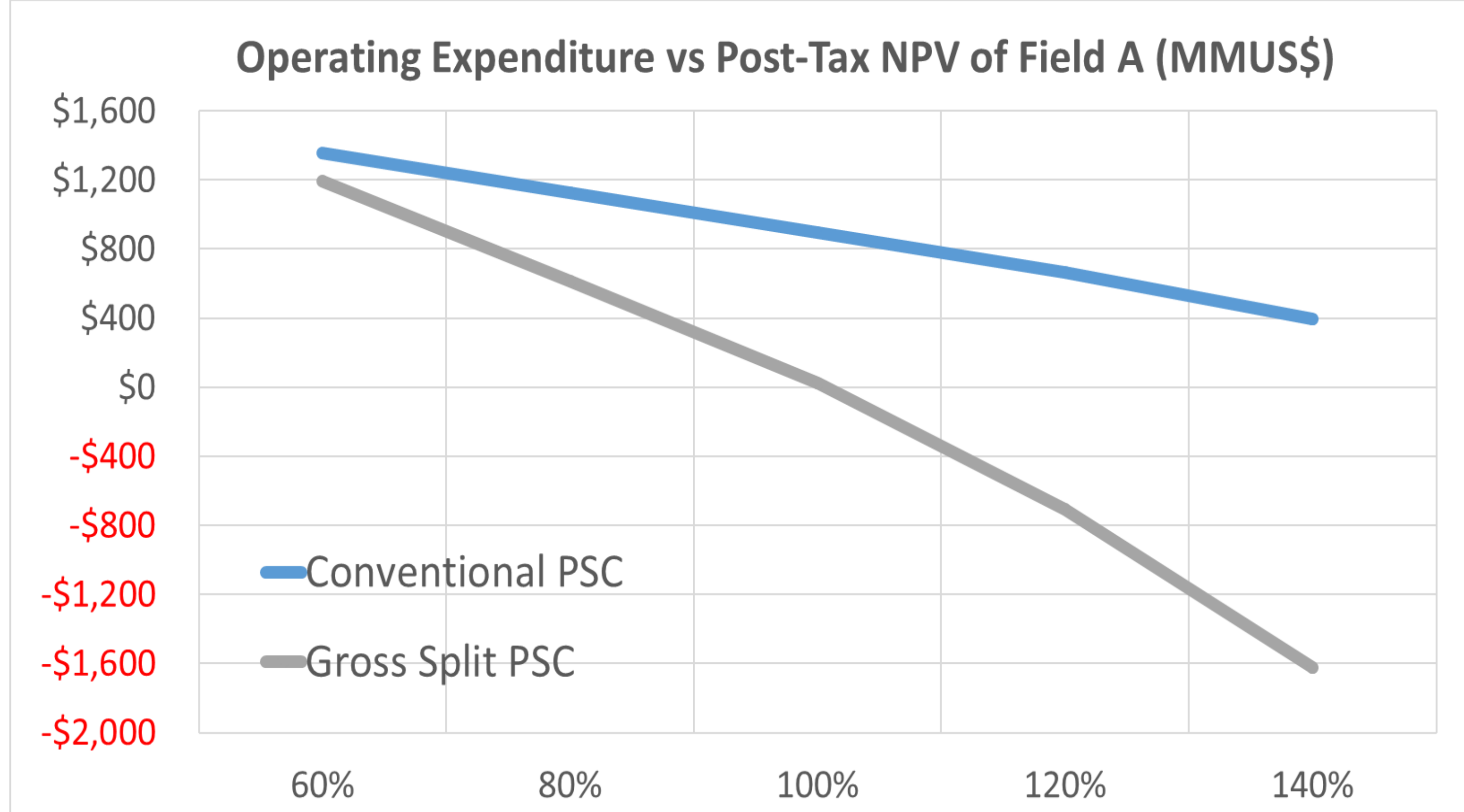
Results

- GS PSC generates higher GT and lower Post-Tax NPV - one field is not profitable to develop under GS PSC
- GS PSC is regressive under low price condition while conventional PSC is proportional
- GS PSC is more susceptible to change in expenditures
- A minimum of 20% reduction in opex or 20 – 25% increase in production could generate similar economic outcome to conventional PSC



Conclusion

- Without any savings and incentives, GS PSC is more challenging to implement
- GS PSC introduces greater risk to the contractor while imposes less risk to the GOI
- Possibility of time and cost saving due to no cost recovery component
- VAT and LBT exemption and additional base split could incentivise development under GS PSC



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