



INDONESIA: ENERGY HIGHLIGHTS FEBRUARY 2007

Summary:

- Pertamina delayed naming the tender winners for partial equity in its stake of 12 oil and gas blocks on February 27. Pertamina also announced it will work with foreign companies to develop biodiesel technology.
- The GOI said 12 of 20 oil and gas blocks it offered for the latest tender round attracted bidders.
- State-owned electricity firm PLN said on February 24 that it would extend a High Speed Diesel fuel supply tender deadline.
- On February 27, the GOI questioned the capacity of four of five coal suppliers for the electricity fast track program. The fast track program chief also announced delays for several power projects.
- State gas company PGN increased business activity in South Sumatra in anticipation of a new pipeline coming online.
- On February 27, the GOI rebuffed gold mining company Newmont's request to delay its required divestment plan.
- The GOI approved an export permit for the state-owned tin mining company PT Timah on February 23.
- The GOI said on February 22 it intends to require mining firms to make up front compensation payments for any potential environmental damage.
- Local coal miner PT Bumi Resources said its profits soared 66% during 2006.
- This report uses an exchange rate of Rp 9,125 per US dollar.

Pertamina Delays Partial Equity Sales

State petroleum company Pertamina on February 27 announced a delay until mid-March in naming the tender winners for partial equity in its stake of 12 oil and gas blocks. Upstream Director Sukusen Soemarinda told press that the tender winners would receive 15% of Pertamina's 40% share for the 12 blocks: Bangkudulis (East Kalimantan); Ibul Tenggara (South Sumatra); Tebat Agung (South Sumatra); Perlak (South Sumatra); Tanjung Tiga Timur (South Sumatra); Sungai Lilin (South Sumatra); Rayu (South Sumatra); Sambidoyong (West Java); Wiriagar (Irian Jaya); Kamundan (Papua); Kendal (South Sumatra); and Suci (East Java). He attributed the delay to unspecified complications in the tender evaluation process.

Pertamina Announces Biofuels Partnership

Pertamina officials told journalists on February 23 that they will work with companies from Brazil, the United States, Italy, and Germany to develop Indonesia's biodiesel industry. They said they plan to concentrate their cooperation in developing hydrogenation technology for refineries in Balikpapan, Dumai and Balongan. Pertamina said it will require technological advances in the refining process to make biodiesel economically feasible due to the current high market price for biodiesel feed stock. According to Pertamina, it has brought in experts from Brazil's Petrobras to produce biodiesel on a trial basis.

12 Oil and Gas Blocks Attract Bidders

On February 16, Director General of Oil and Gas Luluk Sumiarso told reporters that 12 of the 20 oil and gas blocks the GOI offered for the latest tender round attracted bidders. The 12 blocks are South East Mahakam(Kalimantan); West Air Komerling (Sumatra); Karama (Makassar Strait); Mandar (Makassar Strait); Sageri (Makassar Strait); Ujung Kulon (West Java); Cucut (Natuna); Tuna (Natuna); Cakalang (Natuna); Baronang (Natuna); Enrekang (West Sulawesi) and Lampung 1 (Lampung). Companies that participated in bidding included long-time players in Indonesia such as France's Total, UK's Premier Oil, Malaysia's Petronas, U.S.'s Esso Exploration, Canada's Talisman, Pertamina, U.S.'s Anadarko, and Norway's Statoil ASA, in addition to possible new entrants. Sumiarso said the GOI plans to offer about 40 blocks for tender during 2007.

PLN Extends Fuel Supply Deadline

PLN said on February 24 that it would extend the tender deadline for those companies interested in supplying High Speed Diesel (HSD) fuel to the state electricity company during 2007. PLN Vice Chairman Widayanto told press that bidders broached the request for an extension on February 19. Widayanto added that Pertamina has already passed the pre-qualification phase and is therefore not one of the 46 companies to receive more time to prepare its bid. PLN plans to announce the winners of the minimum one-year fuel supply contracts by May 2007. Shell, BP, and Petronas have expressed interest in joining the tender competition, according to press reports and industry analysts. PLN spokesmen

said the power company needs to source fuel for multiple plants so several of the 46 competitors may eventually win contracts. PLN said it is still analyzing its fuel requirements for each of its power plants and was therefore unsure of the total size of the tender. On February 8, Pertamina said that the electricity company owes Pertamina Rp 13 trillion (\$1.4 billion) in unpaid fuel bills.

Separately, state-owned Bank Mandiri said on February 1 that the bank will allocate Rp 3 trillion (\$328 million) this year for loans to finance construction of PLN power plants and conversion of their diesel-fired power plants to coal. PLN Chief Commissioner Alhail Hamdi added that PLN will also issue bonds to finance its power projects.

PLN Coal Supplies Questioned, Fast Track Program Delays

On February 27, the Ministry of Energy and Mineral Resources (MEMR) raised doubts about the capacity of four of five coal producers for the GOI's electricity fast track program. Director of Coal and Mineral Enterprises M.S. Marpaung told reporters that a ministry study found that the four consortia lacked clarity on the amount of proven reserves, have reserves that are located in protected forests or that overlap with the mining areas of other companies. Only PT Arutmin Indonesia has the clear capacity to fulfill its commitment, according to Marpaung. In October 2006 PLN signed letters of intent with five consortia to supply 21 million tons per annum (MTPA) of low-rank coal to company's existing power plants, as well as for proposed power projects scheduled to commence operation in 2009 and 2010. PLN signed agreements with a consortia including PT Arutmin Indonesia and Darma Henwa, both of which are controlled by the family of Coordinating Minister Aburizal Bakrie, to supply 10 MTPA. Jambi-based coal miner Titan Energi is to supply 3.5 MTPA. The consortium of Kasih Industri Indonesia and Senamas Energindo will supply 4.5 MTPA. Baramutiara Prima is contracted to supply 2.3 MTPA, while Surya Sakti Darma Kencana will provide 0.52 MTPA.

Separately on February 15, fast-track program chief Yogo Pratomo said several of the 600 and 700 MW power plants planned for Java would be delayed from their original target of August 2009 to February 2010. He said that several of the smaller 300 and 400 MW projects in Java, which had been scheduled to begin operations in June 2009, will now come online in August 2009. Pratomo attributed the delays to difficulties in the tendering process and contract negotiations for the PLTU Suralaya, PLTU Paiton, PLTU Tanjung Awar, PLTU Rembang, PLTU Indramayu and PLTU Labuhan projects.

PGN Seeks New Customers in West Java

State gas company PGN President Director Sutikno on February 21 said that PGN seeks to add 100 West Java companies as new customers as it nears completion of the first stage of the South Sumatra-West Java (SSWJ) pipeline project. Sutikno said that 30 million cubic feet per day (MMCFD) will begin flowing in March 2007. PGN will raise the volume to 60 MMCFD in May 2007 with a goal of 250 MMCFD by 2008, he said. President Susilo Bambang Yudhoyono and Japanese Prime Minister Shinzo Abe are scheduled to inaugurate the Bojonegoro gas transmission station in April.

Separately, PGN said it signed a memorandum of understanding (MOU) on February 1 with the Muara Enim regency administration to manage coal-bed methane (CBM) and natural gas in the South Sumatra province. PGN said the close proximity of the SSWJ pipeline now under construction made the regency's CBM potential particularly attractive. A PGN spokesman said South Sumatra potentially has one trillion cubic feet of CBM, equivalent to 180 million barrels of oil, if they can achieve a 60% recovery rate.

Newmont Divestment Delay Request Rebuffed

According to press reports on February 27, an MEMR spokesman rejected as "premature" a request by PT Newmont Nusa Tenggara (NTT) to delay divestment of its 7% stake to the GOI, a move which must be completed by March 2008. An NTT spokesman said the miner made the request so that it can first complete the required sale of a 3% stake, valued at \$109 million, to the Nusa Tenggara provincial administration and the West Sumbawa regency. Current NTT's shareholders are Newmont Mining Corp with 45%, local company PT Pukuafu Indah with 20%, and a consortium led by Japan's Sumitomo holding 35%.

Timah Gets Tin Export License

PT Timah President Director Thobrani Alwi said on February 23 that the GOI has approved a tin export permit for the state-owned tin mining firm under new export rules. The new rules took effect February 23 and include requirements that a GOI-appointed surveyor verify the source of ore, as well as purity checks for ingots. A trade ministry official said on February 23 that eight companies including PT Timah sought to register as tin exporters. He added that only PT Timah's permit has been approved with the remaining ones still under review. Indonesia's Tin Industry Association, which represents 22 smelters, had earlier warned on February 15 that its members could lose as much as 60,000 tons of exports if the GOI failed to grant permits. Industry analysts have predicted up to a 10% decline in global tin production as a result of the slowing of supply from illegal smelters and PT Koba Tin. PT Koba Tin, Indonesia's second largest tin miner and smelter, halted all production on February 10 after three company directors were held by police investigating illegal ore purchases. Global tin prices reached 18-year highs during late 2006 and early 2007, trading well above \$12,000 per ton.

Miners To Pay Compensation Up Front

Forestry Minister Kaban said on February 22 the GOI intends to require mining firms operating in plantation and protected forests to make up front compensation payments for any potential environmental damage their activities might cause. He said the GOI will also revoke a mining company's lease, which is generally renewable every five years, and rehabilitate the work area if the GOI decides a firm has abandoned its site. Kaban said the new policy will be put into effect through a ministry regulation issued in line with the proposed new mining law, currently under consideration in Parliament. Kaban said the amount of compensation the GOI will require will be assessed on a case-by-case basis.

depending on the amount of forest destroyed. Energy and Mineral Resources Minister Purnomo said that an inter-ministerial team coordinated by the Vice President will conduct the assessments to avoid conflicts of interest.

Bumi Profit Surges on Higher Coal Production

Local mining firm PT Bumi Resources said on February 27 that its net profit increased 66% in 2006 to about \$200 million from about \$123.3 million the previous year. The company attributed the sharp rise to the surging coal production, which rose by 19% to 53.5 million tons during the year from about 45 million tons in 2005. Their coal sale prices reached an average of about \$40.80 per ton in 2006, compared to \$40.12 in 2005. Bumi operates the two major coal mining companies: Arutmin Indonesia and Kaltim Prima Coal (KPC), both in East Kalimantan.

Separately, Bumi on February 19 said it will announce in March the buyers of the 30% stake it has on offer in KPC and Arutmin Indonesia. Only 6 of 13 companies passed the initial selection process in January. The six will be conducting the final stages of due diligence until February 28 before submitting their bids. Press reports suggested on February 14 that the bidders are valuing the 30% share at around \$1.6 billion.

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