United States-Indonesia
Energy Investment Roundtable

Natural Gas Pricing and Policy
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Cautionary Note to U.S. Investors – The U.S. Securities and Exchange Commission permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. We may use certain terms in this presentation such as “oil/gas resources,” “oil in place,” “recoverable bitumen,” “exploitable bitumen in place,” and “bitumen in place” that the SEC’s guidelines strictly prohibit us from including in filings with the SEC. The term “reserves,” as used in this presentation, includes proved reserves from Syncrude oil sands operations in Canada which are currently reported separately as mining operations in our SEC reports. Under amendments to the SEC rules, mining oil sands reserves will no longer be reported separately. U.S. investors are urged to consider closely the oil and gas disclosures in our Form 10-K for the year ended December 31, 2009.
US Lower 48 Natural Gas Production

15 years of growth enabled by:
• Market based pricing
• Tax incentives for tight gas and Unconventional CBM

Government ceilings on gas pricing reduced supply

Technology innovated from 1980’s incentives helped drive further shale success

Enabling Policy and Regulations
• Deregulating Prices
• Incentives for unconventional gas

Source: US Department of Energy, Energy Information Administration
US Natural Gas Supply Sources

Billion cubic feet per day

Source: EIA, Annual Energy Outlook 2011
U.S Natural Gas Pipeline Infrastructure

Over 300,000 miles of Pipelines

Legend
- Blue = Interstate Pipelines
- Red = Intrastate Pipelines

Source: Energy Information Administration, Office of Oil & Gas, Natural Gas Division, Gas Transportation Information System
US Infrastructure Growth

Market Responsive Infrastructure Additions
Major Gas Pipeline Projects Certificated (MMcf/d)
January 2000 to February 2011

Source: INGAA Foundation, Inc.
The "Unconventional Reservoir" Revolution: Impact on the North American Natural Gas Market

- Rapid supply growth
- Supply greater than demand
- Natural gas price collapse
- LNG imports no longer needed
- Arctic pipelines no longer needed
- Increase in exports to Mexico
- LNG exports being considered
- >> share of electric gen. market
- Chemical industry rejuvenation
Unconventional Reservoirs Produce Liquids Also

U.S. = World’s Largest Producer (11,300 MBOPD Peak Rate)

Uncon. Res.\(^2\) (+600)
Deep Water (+100)

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\(^1\) Data from BP 2011 Statistical Review of World Energy; Oil includes condensate & NGLs; split between Unconv. Res. and Deep Water is approximate

\(^2\) “Uncon. Res.” = Unconventional Reservoirs, which include shale and carbonate source rocks, CBM and ultra-tight sandstones and carbonates
- More rigs are drilling for oil than gas for first time since early 1990’s
- Over 1,000 rigs are drilling for oil; highest number in over 25 years
- Additional rigs being deployed for oil drilling at a rapid pace

Drilling Rig Count

Gas Wells

Liquids from Unconventional Reservoirs Breakthrough

Oil Wells

$150 per barrel oil

From Baker Hughes’ website
Gas Infrastructure in Indonesia
**PRINCIPAL INDUSTRY ISSUES TO BE ADDRESSED**

- **GR NO. 79/2010 ON COST RECOVERY AND INCOME TAX**
  - Opposes existing PSCs and creates uncertainty of future PSCs

- **AMENDMENT TO LAW NO.22/2011 ON OIL AND GAS**
  - Minimal changes required

- **APPROVAL AND REGULATORY ENVIRONMENT**
  - Move from managing costs to managing production

- **MARKET BASED GAS PRICING NEEDED TO BE COMPETITIVE**
  - To ensure investment is made to explore for and develop gas the price needs to be competitive

- **LICENSE EXTENSIONS NEED TO BE TRANSPARENT AND EARLY**
  - Delays in extension process put investment and production

- **BANK INDONESIA REGULATION OF FOREIGN EXCHANGE PROCEEDS**
  - PSC rights should be preserved
CONCLUSIONS

- **INDONESIA HAS STRONG ECONOMIC GROWTH OF 6.5% in 2011**
  - Economy’s energy needs are growing and more oil and gas are needed
  - Transitioning from revenue generator to economic enabler will take time

- **HYDROCARBON PRODUCTION HAS BECOME MORE DIFFICULT**
  - Mature fields are declining
  - New opportunities are in more challenging areas (remote, offshore, East)
  - Unconventional developments are untested and require a lot of wells, technology and infrastructure

- **EXPLORATION INVESTMENT AND PRODUCTION HAS DECLINED**
  - Fiscal policies need to be competitive to attract necessary investment

- **MANAGING COST RECOVERY IS NOT SUPPORTING PRODUCTION INCREASES**

- **MARKET BASED PRICING, SUPPORTING REGULATIONS AND INCENTIVES HAS GENERATED SIGNIFICANT INVESTMENT AND NEW SUPPLIES OF NATURAL GAS AND LIQUIDS PRODUCTION IN THE US**

- **THE CREATION OF NEW SUPPLIES OF OIL AND GAS CAN BENEFIT ECONOMIC GROWTH & THE PEOPLE OF INDONESIA**
TERIMA KASIH
Lower-48 Natural Gas Production

Source: US Department of Energy, Energy Information Administration
U.S Natural Gas Storage Infrastructure

Over 4 Trillion Cubic Feet of Working Gas Storage Capability

Long-Term History: Average Annual Wellhead Price
Utilization of the U.S. Rig Fleet: Gas versus Oil

- More rigs drilling for oil than gas for first time since early 1990's
- Fleet switched from 90% gas / 10% oil in 2005, to 54% oil / 46% gas today

From Baker Hughes’ website