

Masela spat delays Indonesian mega-project



A rig off the Indonesian coast. The country is facing delays in developing the offshore Masela Block. (SKKMigas)

Damon Evans / Denpasar

DEVELOPMENT OF THE gas-rich Masela Block off Indonesia remains stalled, despite a senior Indonesian minister telling the press that a deal had been made with Inpex, the block's operator.

The government and the Japanese company are understood to be negotiating mutually acceptable contract terms. Sources close to the project told *Interfax Natural Gas Daily* that Inpex and Shell, which are developing Masela as a joint venture, want approval for a 9.5 mtpa LNG plant – larger than Inpex's 8.9 mtpa Ichthys project in Australia, which cost \$34 billion.

However, Inpex and Shell also want a 10-year extension to their contract as

compensation for the delays caused by the Indonesian government's decision to cancel the plan for a floating LNG facility in favour of an onshore plant. Jakarta approved the original plan – which was for a 2.5 mtpa FLNG project – in 2010, but the discovery of much more gas led Inpex to submit a revised proposal in 2015 that increased the unit's capacity to 7.5 mtpa.

The government initially agreed Inpex's spending for FLNG studies in 2007, meaning that 10 years will have lapsed if the onshore route is approved in 2017.

Indonesian Energy and Mineral Resources Minister Ignasius Jonan said the government will not back down and

would offer only a seven-year contract extension as compensation for the delays. But accelerating development of Masela, which would be Indonesia's largest deepwater project, will be crucial in helping to offset the projected decline in Indonesia's gas production.

The Inpex-led JV's production-sharing contract was signed in 1998 and is set to expire in 2028. The request to extend the contract follows a series of delays caused by the government's objections to the JV's proposed development plans. Luhut Pandjaitan, Indonesia's coordinating maritime affairs minister, told local media that gas from Masela would be sold locally under a domestic offtake agreement.

Verbal agreement

Inpex has verbally agreed to the proposed deal, said Pandjaitan, who was speaking before Japanese Prime Minister Shinzo Abe's visit to Indonesia on 15 January. However, no deal was announced while Abe was in the country. Despite this, Indonesian President Joko Widodo and Abe both affirmed the importance of accelerating and concluding negotiations on Masela as soon as possible in a mutually beneficial way, Indonesia's Foreign Ministry said.

Jakarta-based Inpex spokesman Usman Slamet told *Interfax Natural Gas Daily* the company is still negotiating with the government about the size of the proposed LNG plant and its location, as well as the contract extension. "We hope to soon find

CONTINUED ON PAGE 2

Contents

Gas on the agenda for Putin-Orbán meeting **5**

The upcoming summit between the Hungarian and Russian leaders may spark closer cooperation between the two countries on energy.

6 Monetisation tussle delaying Etinde's development

3 Editorial / Brexit: build bridges, not borders

4 Infographic / Gas investments worth \$7 tln needed by 2040 – GECF

7 In Brief / Breaking news from around the world

9 This Week / Winners & Losers, Verbatim, People Moves



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CONTINUED FROM PAGE 1

certainty, as we want to immediately start this project for the good of all," he added.

Masela's proven reserves are estimated at 169.9-339.8 billion cubic metres – two-to-four-times the size of Mahakam, Indonesia's largest producing block.

Jeffrey Feynman, an independent United States-based oil and gas consultant who has worked on various projects in the region, told *Interfax Natural Gas Daily* that the most logical site for an onshore development would be Selaru, an island southwest of Yamdena in the Tanimbar island group.

Feynman estimates the cost for an onshore plant could be as high as \$19 billion and that production of 10 mtpa of LNG, as well as 35,000 barrels of condensate per day, will be needed to make the project economically feasible. He also believes Inpex and Shell are waiting for the government to agree to build the necessary infrastructure at Selaru.

"[Shell and Inpex] were not, and cannot, be forced on one or other option. The government can reject their offer, but [the JV can also] reject the government's demands and relinquish the lease. Besides, whatever the option, in the current market I don't think the project will ever go ahead," he told *Interfax Natural Gas Daily*.

The government estimates the maximum cost of Masela will be \$16 billion compared

with Inpex's previous projection of \$22 billion. The Japanese company is re-evaluating the feasibility and costs of an onshore development, which the government hopes will provide a multiplier effect for the local economy in eastern Indonesia. But analysts agree Jakarta will need to give the JV serious incentives to make the project economically attractive.

The government hopes an agreement will be reached this year, with commercial production slated to start in 2022. But most analysts do not expect a final investment decision before that date.

Inpex and Shell have already spent \$1.2 billion on the project, highlighting the risks for investors in Indonesia's oil and gas sector. Inpex has a 65% stake in Masela, which lies in the Arafura Sea, and operates it on behalf of Shell. ■

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	Closing date	Close	High	Low	% change
Brent Crude , \$/bbl	19 Jan	54.16	54.77	53.90	0.45
WTI Crude , \$/bbl	19 Jan	51.37	51.87	51.02	0.57
Henry Hub , \$/MMBtu	19 Jan	3.37	3.40	3.26	2.00
NBP , p/th	19 Jan	53.61	55.00	53.45	0.73
TTF , €/MWh	19 Jan	19.84	19.84	19.84	0.69
Gaspool , €/MWh	19 Jan	19.43	–	–	1.51
NCG , €/MWh	19 Jan	19.80	–	–	0.66
CSX Coal , \$/t	19 Jan	58.25	–	–	-1.10
Newcastle Coal , \$/t	19 Jan	83.45	–	–	-0.48
South China Coal , \$/t	19 Jan	72.20	–	–	-0.55

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