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Summary of MEMR Regulation No. 13 of 2024: Key changes to profit-sharing contracts in the oil and gas sector ^{P1}

Summary of MEMR Regulation No. 13 of 2024: Key changes to profit-sharing contracts in the oil and gas sector

On 6 August 2024, the Minister of Energy and Mineral Resources (“MEMR”) issued Regulation No. 13 of 2024 (“MEMR Regulation 13/2024”) concerning Gross-split Profit-sharing Contracts (“GS-PSC”), which has been in effect since 12 August 2024. MEMR Regulation 13/2024 updates the regulatory framework for the gross-split profit-sharing mechanism, previously governed by MEMR Regulation No. 8 of 2017, as lastly amended by MEMR Regulation No. 12 of 2020. Additionally, it repeals Article 34 of MEMR Regulation No. 23 of 2021 on the Management of Oil and Gas Work Areas for Expiring Cooperation Contracts.

In line with and for implementing MEMR Regulation 13/2024, the MEMR issued Decree No. 230 of 2024 on Guidelines for the Implementation and Components of GS-PSC (“MEMR Decree 230/2024”). This regulatory update aims to enhance the efficiency and effectiveness of the profit-sharing model in Indonesia's oil and gas production. Below are the key changes:

1. New defined terms

MEMR Regulation 13/2024 introduces new terms used in relation to GS-PSC that were not stipulated in previous regulations. The newly terms and definitions are as follows:

MEMR Regulation 13/2024 (Art)	New terms and definitions
Art. 1 number (4)	Non-conventional oil and gas is oil and gas which is formed and confined in fine-grained and low permeability reservoir rocks within the maturity zone which will be economical if produced through horizontal drilling using the technique of hydraulic fracturing stimulation, amongst others, shale oil, shale gas, tight sand oil, tight sand gas, coal methane gas and methane hydrate.
Art. 1 number (5)	Conventional oil and gas is oil and gas other than non-conventional oil and gas (as defined above).

MEMR Regulation 13/2024 (Art)	New terms and definitions
Art. 1 number (6)	Crude oil is crude oil including condensate.
Art. 1 number (7)	Indonesian crude oil is crude oil produced from Indonesian mining jurisdiction.
Art. 1 number (8)	Indonesian crude oil price is the Indonesian crude oil price issued every month by the Government.
Art. 1 number (9)	Natural gas price is the price of natural gas determined by the Minister who organises government affairs in the oil and gas sector which is used as the basis for the calculation of profit-sharing in the cooperation contract and calculation basis for natural gas sales originating from the implementation of oil and gas cooperation contracts.
Art. 1 number (10)	Price of certain natural gas is the price of natural gas determined by the Minister who organises government affairs in the oil and gas sector to natural gas users operating in certain sectors.
Art. 1 number (11)	Upstream business activities are business activities which are cored or based on exploration and exploitation business activities.
Art. 1 number (14)	Potential studies are geological, geophysical and reservoir studies conducted by conventional oil and gas contractors or non-conventional oil and gas contractors which aims to determine the potential in the context of non-conventional oil and gas or conventional oil and gas in their working areas.
Art. 1 number (19)	Definite work commitment is an investment made by contractors to increase reserves and/or production within the first 5 (five) years through exploration and exploitation activities based on cooperation contracts.
Art. 1 number (20)	Data are all facts, instructions, indications and information in the form of writing (characters), numbers (digital), pictures (analog), magnetic media, documents, rock samples, fluids and other forms obtained from the results of general surveys, exploration, and oil and gas exploitation.

2. Separating conventional and non-conventional oil-and-gas and the base-split adjustment for GS-PSC

MEMR Regulation 13/2024 differentiates the type of oil and gas to conventional and non-conventional according to the methods used during the extraction process. This differentiation affects base split calculation for the GS-PSC, as under MEMR Regulation 13/2024, the calculation for conventional and non-conventional oil and gas uses different components for the base split calculation. This change consequently affects the profit-share calculation in which the calculation updates are detailed in the appendix below. The base split calculation (*bagi hasil awal*) will further be used as a basis to determine and adjustment of profit sharing for the following occasions:

- a. the determination of the form and main provisions of the cooperation contract (*kontrak kerja sama*),
- b. approval of field or fields development plan, and/or
- c. the determination of cooperation contract extension or working area management for cooperation contract that will expire.

The expiring working area covered by the conditions above comprises of:

- a. working area derived from the extension of cooperation contract,
- b. transfer of management of working areas whose cooperation contracts are about to expire, or
- c. working areas whose cooperation contracts are about to expire and will be auctioned off.

Meanwhile, the update highlights on GS-PSC are as follows:

No.	Matter	MEMR Regulation No. 8/2017 and its amendments	MEMR Regulation 13/2024 and MEMR Decree 230/2024	
			Conventional	Non-conventional
1.	Base split percentage	Petroleum/Oil: comprised of 57% for State and 43% for contractor Natural gas: comprised of 52% for State take and 48% for contractor	Petroleum/Oil: comprised of 53% for State and 47% for contractor Natural gas: comprised of 51% for State take and 49% for contractor	
2.	Base split adjustment	The base split must be adjusted to: Variable components: a. Status of working area b. Field location c. Depth of reservoirs d. Availability of infrastructure e. Type of reservoir f. CO2 content g. H2S content h. Specific gravity (<i>berat jenis</i>) of petroleum Domestic component level during the field development stage Production stage Progressive components: a. Oil prices b. Gas prices c. The cumulative amount of oil and gas production	The amount of profit sharing will be determined at the time of approval for each field or fields development plan based on the base split which may be adjusted by the following components: Variable components: a. Reserve amount b. Field location c. Availability of infrastructure Progressive components: a. Oil prices b. Natural gas prices	The amount of production sharing will be determined for the entire field or fields development plan based on the base split adjustments to the non-conventional oil and gas fixed variable components which is set to be 46% for contractor.
3.	Stipulation period	At the time of approval of the field development plan.	At the time of approval of the field or fields development plan.	At the time of stipulation for: a. forms and main provisions of cooperation contract, or b. extension of cooperation contract or management of working area for cooperation contract that is about to expire.
4.	Form of profit-sharing	Approval of field development plan	Determined as part of: a. approval of the first field development plan, or	Stipulated as part of: a. forms and main provisions of the

No.	Matter	MEMR Regulation No. 8/2017 and its amendments	MEMR Regulation 13/2024 and MEMR Decree 230/2024	
			Conventional	Non-conventional
			b. determination of cooperation contract extensions or the management of working areas for expiring cooperation contracts.	cooperation contract, or b. extension of cooperation contract or management of working area for cooperation contract which is about to expire.

3. Additional profit-sharing percentage

MEMR Regulation 13/2024 regulates two conditions which may affect the profit-sharing percentage between the Government and the contractors. The additional percentage will be determined by the MEMR in consideration of the recommendation by the Head of SKK Migas resulting from the evaluation of performance, technical and economic aspects. The additional profit-sharing percentage may be granted at the time of the approval of the first field development plan and/or the amendments, the approval of further field development plan and/or the amendments, and/or at the determination of the cooperation contract extension or the management of working areas for expiring cooperation contract.

According to Article 11 of the MEMR Regulation 13/2024, allocation of the additional profit-sharing percentage is determined by whether a certain economic value is met for the commercialisation calculation. **Exceeding** the reasonable economic value would entail additional profit-sharing percentage to the Government, whereas **failure** would add additional percentage to the contractors. Advance production activities such as enhanced oil/gas recovery and carbon capture utilisation storage may also be considered for allocation additional profit sharing to contractors.

4. Profit-sharing for supplementary products

Oil and gas business operations may include sales of supplementary products which generate additional income or revenue. Article 17 paragraph (2) and (3) of the MEMR Regulation 13/2024 stipulates that the additional income obtained from the sales of the by-products or other forms during the oil operations is to be shared between the State and contractors using the base split calculation. Furthermore, the revenue is also subject to the contractor's income tax obligations in accordance with the applicable Indonesian laws and regulations.

5. Responsibilities of related governmental entities

MEMR Regulation 13/2024 specifies the responsibilities of the MEMR, the Director General and SKK Migas regarding product sharing contracts. The details are as follows:

- MEMR**
- Stipulate the form and main provisions of GS-PSC for non-conventional oil and gas business.
 - Determine the amount of profit-sharing for GS-PSC based on the recommendation from the Head of SKK Migas.
 - May provide additional profit-sharing percentage by taking into account the recommendation of the Head of SKK Migas.

- Determine the natural gas price.
 - Give approval to changes in the form or provisions of cooperation contract.
 - Approving the production-sharing allocation based on the consideration and recommendation from SKK Migas.
- Director General**
- Receive commitment bond from contractors during cooperation contract conversions in the exploitation stage.
 - Assess application for changes in the cooperation contract.
 - Submit the result of assessment to the Minister to be considered for the contract conversion.
- SKK Migas**
- Determine and report to the Minister the approval of the amount of production sharing for subsequent field development.
 - Evaluate and adjust the amount of profit-sharing.
 - Conduct evaluation of performance, technical and economic aspects of the first field development plan.
 - Report on the approval of implementation of the control and supervision of the implementation of the GS-PSC.
 - Give approval regarding the field development plan and report the approval to the Minister.
 - Manage the development of goods and equipment.

6. Assessment to the prioritisation of domestic resources

MEMR Regulation 13/2024 re-emphasises the contractor's obligation to allocate 25% of their production for the domestic market, as well as to prioritise Indonesian labour and domestic goods and services as previously regulated under MEMR Regulation No. 8/2017 as lastly amended by MEMR Regulation No. 12/2020. The MEMR Regulation 13/2024 introduces an assessment to fulfil the 25% threshold with the conditions of:

- a. using the Indonesian crude oil price for the sale of petroleum/oil, and
- b. using the natural gas price determined by the Minister for the sale of natural gas.

7. Contract conversion mechanism

MEMR regulations reaffirm mechanism for contract conversion to allow changes and conversions of cooperation contract to be made. The changes could be made in the form or main provisions of the cooperation contract with the following mechanism:

No.	Matter	Gross-split to cost recovery	Cost recovery to gross-split
1.	Application	Conversion contract application is submitted to MEMR through SKK Migas by providing: <ol style="list-style-type: none"> a. supporting data of the comparison of economic calculations of the work area before and after the change, b. justification, such as increased exploration or exploitation activities, potential production increases or potential state revenue increases. 	
2.	General requirements	Contract conversion applicable to: <ol style="list-style-type: none"> a. contractors of non-conventional oil and gas working areas, b. contractors of conventional oil and gas working areas for the exploration stage who have not yet obtained approval for the first field development plan, and c. contractors of gross-split production-sharing contracts for conventional oil and gas working areas in the exploitation stage who will exploit the potential of non-conventional oil and gas resources in one cooperation contract, with amendments only 	

No.	Matter	Gross-split to cost recovery	Cost recovery to gross-split
		to the main provisions of non-conventional oil and gas business.	
	For exploration stage	<ul style="list-style-type: none"> a. Obtain an acknowledgment or stipulation from SKK Migas confirming the discovery of crude oil and/or natural gas. b. First field development plan approval application. c. Evaluation for the acceleration of non-conventional oil and gas from potential studies in conventional oil and gas working areas. 	
	For exploitation stage	<ul style="list-style-type: none"> a. Propose additional commitments under the conditions of: <ul style="list-style-type: none"> 1. may take the form of 2D/3D seismic acquisition, drilling, advanced production activities and/or infrastructure development, 2. may be made in open areas to support the preparation of new working areas and/or infrastructure development, 3. submit an additional commitment bond amounting to 10% of the total additional commitments upon the approval of contract conversion, 4. stipulate provisions on the handover period and deduction of additional commitment guarantees in the approval of cooperation contract conversion. b. A confirmation from SKK Migas regarding the discovery of non-conventional oil and gas or the completion of potential study. 	
3.	Amount of profit sharing	Will be determined based on the evaluation and economic assessment, considering the justification and the criteria of economic fairness of the project in accordance with the guidelines for the granting of incentives for upstream oil and gas business activities and the guidelines for the acceleration of non-conventional oil and gas businesses.	Will be determined in accordance with the GS-PSC calculation.
4.	Cost (Non-retroactivity)	<ul style="list-style-type: none"> a. Costs for the implementation of firm commitments or fixed work commitments that have been issued and have been charged as operating costs in the GS-PSC, cannot be submitted as a refund of operational costs. b. Capital costs that have been issued and have not been charged as operating costs in the GS-PSC may be submitted as a reimbursement of operational costs. c. Costs to be incurred after the approval of the change of the cooperation contract may be submitted as operational cost refund. 	<ul style="list-style-type: none"> a. Operational costs that have been issued and submitted as a refund of operational costs but have not yet been returned, shall not be reimbursed after the approval of the change of cooperation contract to GS-PSC. b. The cost shall be calculated as a deduction from the contractor's share of income in the calculation of income tax under the GS-PSC.

No.	Matter	Gross-split to cost recovery	Cost recovery to gross-split
5.	Special condition	For GS-PSC signed before MEMR Regulation 13/2024 comes into force in which the working area is in the commercial production period, calculation and verification of <i>tingkat kandungan dalam negeri</i> (TKDN) must be carried out within three years after the stipulation of contract conversion using independent surveyor for all procurement contracts prior to the stipulation.	



APPENDIX

Update on GS-PSC calculation

The determination of the amount of base split calculations for profit-sharing purposes will follow the calculation guideline under the MEMR Decree 230/2024 with details as follows:

A. Base split calculations

Type of oil and gas	Type of component	Component	Parameter value assumption	Component classification	Base split percentage State	Base split percentage contractor
All type	Base split	Petroleum/Oil	-	-		
		Gas	-	-		
Conventional	Variable component	Reserve amount	[amount]	High/mid/low	[adjustment]	
		Field location	[location]	Location	[adjustment]	
		Infrastructure availability	[percentage]	High/mid/low	[adjustment]	
	Progressive component	Crude oil price	[price]	High/mid/low		
		Natural gas price	[insert price]	High/mid/low		
Non-conventional	Fixed variable component	Fixed variable for contractor	N/A			[adjustment] 46%
Additional profit sharing (if applicable)					[additional percentage]	[additional percentage]
Total assumption of contractor's share of profit						

B. Parameter values and amount of adjustment for contractor's profit sharing for variable and progressive components

1. The parameter values and the amount of adjustments to the contractor's share of the profits for the variable component are determined as follows:

No.	Component	Component classification	Parameter value	Amount of contractor's profit-sharing adjustment (%)
1.	Reserve amount (X* = amount of commercial reserves, mmmboe)	High	(X > 45)	12
		Mid	(40 ≤ X ≤ 60)	13
		Low	(X < 20)	14
2.	Field location (h* deepest sea depth from well location, metres)	Onshore	-	11
		Shallow offshore	(h < 500)	12
		Deep offshore	(500 ≤ h ≤ 1000)	13
		Very deep offshore	(h>1000)	14
3.	Infrastructure availability (X*= comparison percentage of the availability of existing oil and/or natural gas infrastructure that can be used against the need for production infrastructure up to lifting in the field development plan)	Available	X>50%	10
		Partially available	0%<X≤50%	11
		Not yet available	X=0%	13

Explanation

Reserve amount is the amount of commercial reserves used in economic calculations in approving development plans for a field or fields.

Field location is classified into:

- a. Onshore: When in a field or fields development all oil and/or gas wells are located on land, and
- b. Offshore (shallow, deep and very deep): When in a field or fields development there are oil and/or gas wells located offshore or in swampy areas. Offshore measurements use the deepest sea depth from the location of the exploration or exploitation wells drilled when the sea level is highest.

Infrastructure availability is classified into:

- a. Available: When there is existing petroleum/oil and/or natural gas infrastructure (pipes and/or production facilities) that can be used for the majority of production infrastructure needs up to the lifting of petroleum/oil and/or natural gas from the development plan for the field or fields,
- b. Partially available: When there is existing petroleum/oil and/or natural gas infrastructure (pipes and/or production facilities) that can be used but does not meet the majority of production infrastructure needs up to the lifting of petroleum/oil and/or natural gas from the development plan for the field or fields, and

- c. Not yet available: Existing petroleum/oil and/or natural gas (pipes and/or production facilities) that can be used for production infrastructure needs up to the lifting of petroleum/oil and/or natural gas from the development plan for the field or fields.

2. The parameter values and the amount of adjustments to the contractor's share of the profits for the progressive component are determined as follows:

No.	Component	Component classification	Parameter value	Amount of contractor's profit-sharing adjustment (%)
1.	Crude oil price (X*: monthly weighted average price of crude oil US\$/barrel)	Very low	$(X \leq 45)$	5
		Low	$(45 < X < 65)$	$(-0,25 * X) + 16,25$
		Mid	$(65 \leq X \leq 85)$	0
		High	$(85 < X < 105)$	$(-0,25 * X) + 21,25$
		Very high	$(X \geq 105)$	-5
2.	Natural gas price (X*:monthly weighted average price of natural gas US\$/mmbtu)	Very low	$(X \leq 4)$	5
		Low	$(4 < X < 7)$	$(-1,6667 * X) + 11,6667$
		Mid	$(7 \leq X \leq 10)$	0
		High	$(10 < X < 13)$	$(-1,6667 * X) + 16,6667$
		Very high	$(X \geq 13)$	-5

Explanation:

Crude oil price: The monthly weighted average price of sales of all types of crude oil in all fields in a field development plan based on the Indonesian crude oil price set by the Minister of Energy and Mineral Resources.

Gas price: The monthly weighted average price of sales of all types of natural gas in all fields in a field development plan based on the natural gas price set by the Minister of Energy and Mineral Resources.

C. Parameter values of the components of reserves amount, crude oil price and natural gas price

1. Parameter value formula reserve amount

Classification of reserve amount components	Parameter value formula	Contractor's profit-sharing adjustment formula (%)
High	$X > (x' + s)$	12
Mid	$(x') \leq X \leq (x' + s)$	13
Low	$X < (x')$	14

2. Petroleum or gas price parameter value formula

Classification of natural gas price components	Parameter value formula	Contractor's profit-sharing adjustment formula (%)
Very low	$X \leq (x' - s)$	5
Low	$(x' - s) < X < (x')$	$((-5/s) * X) + (5 * (x'/s))$
Mid	$(x') \leq X \leq (x' + s)$	0
High	$(x' + s) < X < (x' + 2*s)$	$((-5-s) * X) + (5 * (x' /s)/s)$
Very high	$X \geq (x' + 2*s)$	-5

Note:

s: Standard deviation

x': Average (mean)

X: Crude oil price (US\$/barrel) or natural gas price (US\$/mmbtu).

D. Parameter values of variable components and progressive components in the gross-split profit-sharing contract fiscal system

The Director General of Oil and Natural Gas calculates the mean and standard deviation values of the results of sorting each recapitulation data on the amount of reserves, crude oil price and natural gas price, using the following formula:

No.	Matters	Formula	Explanation
	Mean	$\bar{x} = \sum x / n$ <p>x: average (mean) x: data set n: amount of data</p>	The average value of the realised statistical data set
	Standard deviation	$s = \sqrt{\frac{\sum_{i=1}^n (x_i - \bar{x})^2}{n - 1}}$ <p>s: standard deviation x: data in question x: average (mean) n: amount of data</p>	The value of the highest level of data spread/deviation against the average value of the data

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