



How the Indonesian Oil & Gas Regulator manages capital budgeting and cost recovery related to production sharing compensation

Case Study

AFE Manager | Regulator Edition

The Client

SKKMigas is the Indonesian upstream oil and gas regulatory. They are responsible for managing the development, planning, capital project budgeting and spending for the entire oil and gas industry in Indonesia. SKKMigas represents the government of Indonesia as the owner and guardian of all the oil and gas assets in Indonesia. All operators work under the regulatory supervision of SKKMigas in Indonesia.

All of the upstream oil and gas reserves in Indonesia are explored, developed and exploited under the terms

of production sharing contracts (PSC's) with these companies (most often as consortiums). Companies recover exploration, development and exploitation costs under the associated cost recovery program as regulated by Indonesian law. As the regulatory authority, SKKMigas controls the entire capital expenditure of the oil and gas industry in Indonesia managing around USD \$26B in annual spending.



Oil and Gas Industry In
Indonesia Managing Approx.,

\$26B In Annual
Spending



The Problem

Historically, Indonesia has been challenged with the many difficulties related to regulatory compliance and control where significant capital spending is incurred to establish major critical infrastructure. These challenges include:

1. Seeking Tighter Control
2. Better Operating Conditions
3. Stronger Compliance With Regulations
4. More Certainty
5. Less Risk Regarding Delivery of Critical Infrastructure Projects

These key benefits must also drive massive cost savings for the whole upstream oil and gas industry.

Under Indonesian law, operating companies cannot own oil and gas assets. They simply provide the upfront

funding to establish and operate these assets for the duration of the PSC (typically 20 years or more) and ultimately hand over ownership to the government of Indonesia.

In the past, each of the over 85 operators had their own process of submissions and management of production, and the Indonesian government had no real system or insight for management and approvals. This was creating confusion, inefficiency and conflict as well as inhibiting the cost recovery process from being administered accurately and reliably, for all concerned parties. Another problematic aspect was the sheer volume of paper and manual processes that were difficult to supervise, difficult to administer and impossible to audit.

The Solution

SKKMigas decided to address all of the challenges in conjunction with Resource Energy Solutions. Since then, SKKMigas and RES have been working together to vastly improve the following:

1. AFE Submission
2. Cost Recovery Management System
3. Production Sharing

The resulting project has been very high profile for the Indonesian government and has garnered support from the highest levels in the country. This includes transparency mandates from both ministers and the president of Indonesia.

AFE Manager Regulator Edition manages all levels of “authorization for expenditure”. The solution handles the business processes for both capital budgeting and fiscal close-out in respect to all critical oil and gas exploration, development and exploitation projects in Indonesia. Operating companies propose an initial plan of development (POD), followed by an annual work program and budget (WP&B) and then a separate multi-year AFE capital budget for each and every project in all phases of the upstream oil and gas lifecycle. Projects and their associated AFE’s are then evaluated by several parties inside SKKMigas and other agencies using several established criteria for fiscal, legal, technical, community and other aspects as well as alignment with the approved POD and WP&B.

The extensive workflow of the system incorporates many additional documents and information from multiple sources so that all aspects of projects are

transparently evaluated from inception through to fiscal close-out. Approvals may be cycled backward and forward, to and from the operating companies and the regulator several times prior to final budget approval and also prior to fiscal close-out.

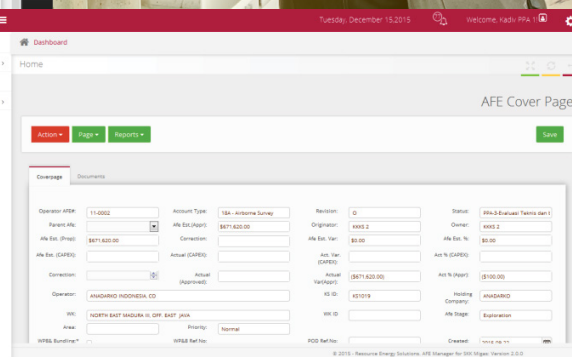
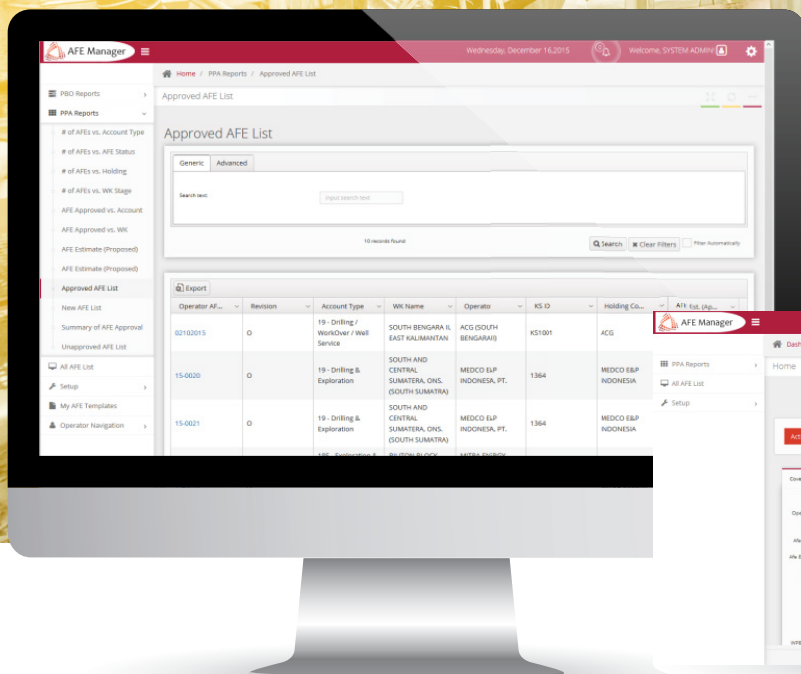
The prior process of AFE submission, evaluation, and approval was mostly done manually through spreadsheets, and printed documents, making it very costly, time consuming and difficult to manage. With the AFE Manager system, all processes are executed online, with fully automated workflow and reporting, to provide increased accountability and control of all related processes and activities.

“With AFE Manager, we will be able to gradually speed up the work flow and interaction with KKS Contractors”

said SKKMigas Chairman Amien Sunaryadi in a town hall meeting event with KKS Contractors that took place mid 2016.



Amien Sunaryadi
Chairman, SKK Migas



In addition to speeding up the work flow, the AFE Manager system also helps KKKS Contractors monitor progress of the AFE they have submitted. ***"The acceleration in the AFE process of submission, evaluation, and approval is expected to speed up the implementation of upstream oil and gas projects, and in the end it will contribute to an increase of oil and gas production".***says ***"Amien Sunaryadi"***

SKKMigas has adopted AFE Manager Regulators Edition to ensure compliance and control across the entire industry in Indonesia with stringent fiscal, technical, legal and project review processes. This involves thousands of users that are managing the operations of over 85 E&P companies.

A significant benefit of the new AFE Manager system is that SKKMigas will have more control of capital spending, while providing fiscal transparency for both the government and the operating companies. The new AFE Manager system has also been audited and approved for use by the Indonesian Government department of

state audit, earning it the strongest endorsement available in government.

SKKMigas now mandates that all operating companies in Indonesia submit AFE's into the system via a web user interface with document attachments for approval of all budgets for all projects that qualify for cost recovery. A similar process is also now mandated for fiscal close-out of projects prior to qualifying for final cost recovery.

Many of these E&P companies are now in the process of adopting AFE Manager (Oil and Gas Edition) themselves to help them comply with the controls implemented by SKKMigas.

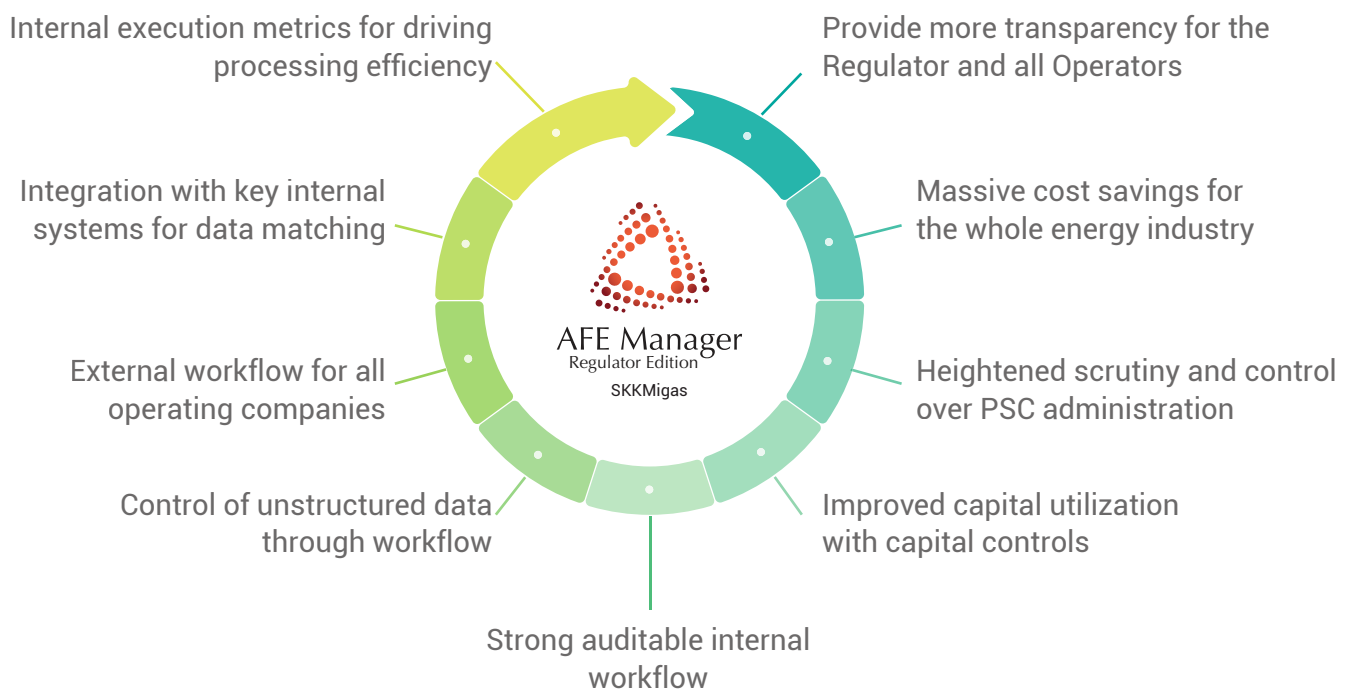
From inception to implementation and beyond, SKKMigas is leveraging RES to deliver a world class solution that really works, and has been successfully implemented for the entire upstream oil and gas industry in Indonesia.

About Resource Energy Solutions

Resource Energy Solutions (RES), is the world's fastest growing well data management provider to the oil and gas industry.

RES provides upstream, midstream, and regulatory compliance, project and cost activity management software solutions to the Oil and Gas industry and regulators.

Our software suite provides the tools and processes to manage capital expenditures, projects activity, daily costs and spending.





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