CASE STUDIES: SOUTHEAST ASIA GAS SALES AND PIPELINE GAS TRANSPORTATION PROJECTS

We have reviewed our separate case studies about the various Southeast Asia gas sales and pipeline jobs that our lawyers have done from 1997 to 2005 and combined them into a single, evolving story about our progressive involvement in the major gas commercialization projects in this region in that period. Apart from demonstrating our experience in this area, it also shows how we have built successful repeat business relationships with many major players in this sector.

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1997 – 1999 THE WEST NATUNA SEA GAS PIPELINE PROJECT

CLIENTS:
Premier Oil, Kuwait Foreign Petroleum Exploration Company (Kufpec)

PROJECT BRIEF:
$8 billion project involving commercialization of multi-PSC
gas and development of the first export gas pipeline between
Indonesia and Singapore (a multi-shipper pipeline)
Between 1997 and 1999 we acted for Premier Oil and Kuwait Foreign Petroleum Exploration Company (Kufpec) in commercializing their share of approximately 2.6 tcf of associated and non-associated gas and the development of a new-build gas pipeline between the West Natuna Sea (Indonesia) and Singapore.

This US$8 billion project was the first export gas sales agreement between Indonesia and Singapore (and Indonesia’s first cross-border gas export pipeline). It involved the purchase of gas over a 20-year period by SembCorp Gas Pte Ltd (SembGas) from the then Indonesian state oil company, Pertamina. The project entailed concession negotiations; the financing, construction and development of an offshore subsea gathering system and a multi-user pipeline system from Indonesia to Singapore (650 km); and structuring long-term gas sales arrangements between the government of Indonesia and a Singapore government-linked company aggregator (including assessment of downstream sales arrangements and credit support).

The project documents were signed in January 1999. On the supply side the West Natuna Sea gas project supply consortium consists of three Indonesian production sharing contract (PSC) groups: the South Natuna Sea Block B PSC (then operated by Conoco Indonesia); the Kakap Block PSC (then operated by Gulf Indonesia); and the Natuna Sea Block A PSC (operated by Premier Oil). The PSC groups supply gas from their respective PSC contract areas to Pertamina under the terms of a single multiparty gas supply agreement.

Pertamina sells the gas under the terms of a gas sales agreement to SembGas, which acts as an onshore aggregator and is in turn on-selling the gas to various power generation and petrochemical production end users.

The project required the construction of an extensive offshore gas pipeline system. Gas extracted is compressed on offshore production platforms and sent through pressurized subsea pipelines which connect the various platforms into a 28-inch mainline pipe. The pipeline is 480 km in length from the West Natuna Sea to Singapore, and is 650 km in length in total including the inter-field pipelines connecting the production platforms to the mainline.

Operation and maintenance of the pipeline is managed by ConocoPhillips on behalf of Pertamina and the West Natuna supply group members. The pipeline was designed with an extended life to ensure it is available for gas transportation following expiration of the West Natuna Sea gas sales arrangements, to enable the pipeline to form an integral part of the proposed trans-ASEAN gas pipeline grid.

The pipeline currently only carries gas required for delivery into Singapore under the West Natuna Sea gas sales arrangements. The project documents allow for the transportation of gas for third parties, with the shippers of such gas (under a system standard gas transportation agreement, entered into by the capacity owners in their capacity as the transporter and by the capacity owners in their capacity as shippers) being required to adhere to the rules prescribed under a suppliers’ agreement and the buyers of such gas being required to adhere to the rules under a buyers’ agreement.
CLIENT:
Petroliam Nasional Berhad (Petronas)

PROJECT BRIEF:
$8.5 billion natural gas purchase and pipeline project, the first sale of gas by pipeline from Indonesia to Malaysia and a major stage of the planned trans-ASEAN gas pipeline project
Between 2000 and 2001 we acted for the Malaysian state oil and gas company Petroliam Nasional Berhad (Petronas) in realizing the first step in its strategy for developing a Southeast Asia gas pipeline network.

In March 2001, Petronas signed the project documents for the US$8.5 billion Block B gas purchase project. The gas is produced and supplied from the South Natuna Sea Block B (Belanak) fields offshore Indonesia, by the Block B PSC operator Conoco Indonesia and its partners INPEX and Texaco. The gas is produced through a floating production storage and offtake vessel before being piped 100 km to a movable offshore gas production unit (MOgPU), used to process gas for the Block B project as well.

The gas is then exported via a 96 km new-build pipeline from the MOgPU to Petronas’s Duyong Complex offshore Malaysia, from which it is piped onshore, landing at Petronas’s natural gas processing and integrated petrochemicals complex at Kerteh before entering Malaysia’s domestic Peninsular Gas Utilisation pipeline system.

We acted for Petronas in its purchase from Pertamina of approximately 1.6 tcf of natural gas over 20 years, the construction of pipeline and other infrastructure for the production and shipment of the gas and the establishment of “club rules” for the new-build multi-user pipeline system.

Delivery of gas commenced on August 8, 2002. It is the first sale of gas by pipeline from Indonesia to Malaysia and will form an important part of the planned trans-ASEAN integrated gas pipeline project.

We advised Petronas on all aspects of the project, including drafting, negotiating and concluding the gas sales agreement, pipeline construction coordination agreement and multi-user pipeline “club rules.”

The new-build 96 km pipeline from the MOgPU to the Duyong Complex lies in both Indonesian and Malaysian waters. The Indonesian segment is operated and maintained by Conoco Indonesia as operator of the Block B PSC, and the Malaysian segment is owned, operated and maintained by Petronas Carigali Sdn Bhd, a subsidiary of Petronas. We advised Petronas Carigali on the pipeline system operating and services arrangements.

CLIENT:
Transasia Pipeline Company Pte Ltd (a consortium of ConocoPhillips, Petronas, Talisman Energy, Singapore Petroleum)

PROJECT BRIEF:
Acquisition of a 40% equity interest in PT Transgasindo – the first private investment in Indonesia’s gas transport sector under the new oil and gas law – and development and financing of the Grissik-Singapore gas pipeline
Between 2002 and 2003 we acted for Transasia Pipeline Company Pte Ltd (a consortium of ConocoPhillips, Petronas, Talisman Energy and Singapore Petroleum) in acquiring a 40% equity interest in PT Transgasindo, owner and developer of the Trans-Central Sumatra and Grissik-Singapore gas transmission pipelines (the first such acquisition under the new Indonesian oil and gas law).

Two pipelines make up Transasia’s investment interests:

The **Trans-Central Sumatra** pipeline runs approximately 540 km from South Sumatra to Central Sumatra and transports gas to Duri where it is used by Caltex for steamflood operations in the recovery of crude oil. The pipeline was commissioned and came into operation in October 1998.

The **Grissik-Singapore** pipeline covers the approximate 500 km distance from Grissik to Batam and then on to Singapore, and is intended to supply gas as feedstock for power generation. Completion of the construction of this pipeline took place in mid-2003.

In order to fund the construction of these two pipelines, the Indonesian state gas company PGN enlisted the assistance of, among others, the Asian Development Bank. As a condition of the ADB’s investment, PGN was required to undertake a partial divestment of equity in the project to a suitably experienced strategic investor.

Towards the end of 2001, PGN announced a competitive bidding process for potential investors, and early in 2002 four bidders were short-listed from an initial list of 20 or so bidders. One of the short-listed bidders was Transasia.

We advised Transasia, the successful bidder, on all aspects of the project, including consortium arrangements, comprehensive asset due diligence, pipeline construction supervision and operation arrangements, share acquisition documentation and the overall project partnership agreement.

In this project we developed a regime whereby the owners of the capacity rights in the pipelines established a standard set of pipeline system rules to bind all shippers of gas in the Grissik-Singapore pipeline and, after a testing period and interconnection of the two pipelines, shippers of gas in the Trans-Central Sumatra pipeline.

In September 2003 we were also appointed as counsel to PT Transgasindo, the transportation company, and have been advising the company on developing a standard gas transportation agreement for all future shippers of gas to sign up to.
2003 – 2004 THE SOUTH SUMATRA TO WEST JAVA AND BATAM GAS PIPELINE PROJECTS

CLIENTS:
ConocoPhillips, Talisman Energy, PT Pertamina (Persero)

PROJECT BRIEF:
Sale of gas to PLN and development and negotiation of pipeline system rules and gas transportation agreement with PGN
During 2003 and 2004 we acted for ConocoPhillips, Talisman Energy and PT Pertamina (Persero) on several gas sales and transportation projects for the commercialization of gas reserves in the Corridor Block PSC contract area at Grissik in South Sumatra.

**West Java gas sale:** This project involved the sale of approximately 2.3 tcf of gas to Indonesian state power company PLN for fuel supply to the Muara Karang, Muara Tawar and Tanjung Priok power plants in West Java. The project also required the development and negotiation of pipeline gas transportation arrangements with the Indonesian state gas transportation company, PGN, for the carriage of gas from South Sumatra to West Java through a new-build, multi-user gas pipeline.

The project entails the expansion of the Corridor Block production and in-field facilities, construction by the Indonesian state gas transportation company PGN of a multi-user gas transmission pipeline from Grissik to Jakarta in West Java (690 km) and the negotiation of a long-term gas transportation agreement with PGN and system rules to apply to the carriage of gas through the multi-user pipeline.

Ultimately the sale was re-structured as a plant gate sale to PGN, who will transport the gas through its own pipeline and on-sell to PLN for delivery at its power plants in the Jakarta area.

We advised ConocoPhillips in the development and negotiation of all the transaction documents for the proposed gas sale to PLN and gas transportation arrangements with PGN, and on the development, negotiation and finalization of the plant gate gas sale agreement with PGN.

**Batam gas sales:** We also advised ConocoPhillips, Talisman and PT Pertamina (Persero) on two gas sales from Grissik to Batam, one for the sale of gas to PGN for the Batam gas distribution network and for on-sale to industrial users, and the second for the sale of gas to PGN for on-sale to a PLN power plant on Batam Island. Both gas sales are plant gate sales to PGN. PGN will enter into transportation arrangements for the delivery of gas through part of the Sumatra-Batam-Singapore pipeline (operated by PT Transgasindo).
2004 – 2005 THE KEPODANG-CENTRAL JAVA GAS PIPELINE PROJECT

CLIENT:
Petronas

PROJECT BRIEF:
Sale of gas to PLN for the Tambak Lorok power plant
During 2004 and 2005 we acted for Petronas as operator of the Muriah PSC in the sale of gas from the 480 bcf Kepodang gas field to Indonesian state power company PT PLN (Persero). The deal covers the supply of 145 mmscfd of gas over a 12-year period beginning in 2007. Gas sold under the agreement will be used by PLN for power generation at the 300 mW Tambak Lorok power plant in Central Java. Petronas acquired the entire participating interest in the Muriah PSC from BP in July 2004, after the Kepodang field had been fully appraised.

The project includes the long-term sale of gas; construction of production and in-field infrastructure; and the construction of a 205 km subsea pipeline and 2.5 km onshore pipeline to transport the natural gas from offshore production facilities for delivery at the power plant. The onshore segment of the Kepodang-Tambak Lorok pipeline will be adjacent to the landing point for the proposed East Kalimantan to Central Java pipeline and the planned Cirebon-Semarang-Surabaya pipeline, providing potential access to wider markets from the northwest to northeast of Java.
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