



# Client Alert

Indonesia's Offering of New Oil and Gas  
Working Areas: Opportunities and  
Challenges Ahead




*The Indonesian Government's plan to offer new oil and gas Working Areas marks an important milestone in the country's energy strategy. This initiative reflects a clear commitment to strengthening energy security and attracting investment, while also requiring market participants to understand the auction process and incentive schemes that will shape participation. In this context, it presents both opportunities and challenges for current PSC Contractors and potential new entrants, and is expected to drive a more dynamic and competitive upstream oil and gas sector in Indonesia.*

## 1. Strategic overview and market dynamics

At the 49th Indonesian Petroleum Association Convention and Exhibition ("**IPA Convex**") held in May 2025, the Minister of Energy and Mineral Resources ("**MEMR**") stated that there are ten (10) Working Areas for which the Plans of Development have already been approved, with potential production of up to 51 million barrels of oil and 600 BCF of gas, yet remain idle. In view of this, there is a plan to reassign the management of these idle oil and gas Working Areas to Cooperation Contract Contractors/*Kontraktor Kontrak Kerja Sama* ("**PSC Contractors**") that are genuinely ready and capable of managing them.

The MEMR's statement can be regarded as a demonstration of the Government of the Republic of Indonesia's commitment to implementing the Minister of Energy and Mineral Resources Decree Number 110.K/MG.01/MEM.M/2024 ("**MEMR Decree 110/2024**"). In essence, MEMR Decree 110/2024 stipulates that any portion of a Working Area deemed potential but not being utilised by PSC Contractors must be relinquished, based on the recommendation of the Special Task Force for Upstream Oil and Gas Business Activities/*Satuan Kerja Khusus Pelaksana*



*Kegiatan Usaha Hulu Minyak dan Gas Bumi* (“**SKK Migas**”) or the Aceh Oil and Gas Management Agency/*Badan Pengelola Migas Aceh* (“**BPMA**”) to the MEMR.

In the same event, the Head of SKK Migas announced that Indonesia plans to offer sixty (60) new Working Areas over the next two (2) years, as part of efforts to ensure energy sustainability and the expansion of investment. So far in 2025, three (3) Working Areas have been offered, namely:

- a. Gagah Working Area (onshore South Sumatra) with potential reserves of approximately 173 million barrels of oil and 1.1 TCF of gas.
- b. Perkasa Working Area (onshore and offshore East Java) with potential reserves of approximately 228 million barrels of oil and 1.3 TCF of gas.
- c. Lavender Working Area (onshore and offshore South Sulawesi and Southeast Sulawesi) with potential reserves of up to 10 TCF of gas.

To enhance interest in the auction process, the minimum signature bonus payable by PSC Contractors has been reduced to USD200,000 – USD300,000, a significant decrease compared to previous years when it ranged from USD1,000,000 to USD2,000,000. In addition, it is also noted that the Lavender Working Area is directly offered to PT Pertamina (Persero).

## **2. Mechanism for the offering of oil and gas Working Areas**

### **2.1. Types of Working Area auction**

In 2021, the MEMR Regulation Number 35 of 2021 on the Procedures for Stipulating and Offering Oil and Gas Working Areas (“**MEMR Reg. 35/2021**”) was enacted. Pursuant to Article 26 of MEMR Reg. 35/2021, the offering of Working Areas is conducted through:

- a. Regular Auction<sup>1</sup>; and/or
- b. Direct Offer Auction<sup>2</sup>.

The key distinction between a Regular Auction and a Direct Offer Auction lies in the origin of the area being auctioned. In a Regular Auction, the Working Area is prepared and determined by the Government, which then opens it for bidding. By contrast, a Direct Offer Auction involves Working Areas that are initially proposed by a business entity or permanent establishment, either through a Joint Study<sup>3</sup> or without one.

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<sup>1</sup> Regular Auction is a mechanism for offering Working Areas prepared by the Government of the Republic of Indonesia.

<sup>2</sup> Direct Offer Auction is a mechanism for offering Working Areas proposed by business entities and/or permanent establishments through a Joint Study or without a Joint Study.

<sup>3</sup> Joint Study is an activity conducted jointly between a business entity or permanent establishment and the Directorate General of Oil and Gas of the Ministry of Energy and Mineral Resources with the objective of identifying oil and gas potential.



## 2.2. The auction process of Working Areas

The stages of auction for oil and gas Working Areas under MEMR Reg. 35/2021, in general, are as follows:

**a. Preparation and issuance of Bid Documents by the Director General of Oil and Gas/Direktur Jenderal Minyak dan Gas Bumi (“DGOG”)**

The DGOG prepares and issues the Bid Documents for the Working Areas to be offered. The Bid Documents include, among others: (i) procedures and schedule of the auction; (ii) geological and oil and gas potential information; and (iii) the concept of Cooperation Contract.

**b. Purchase of Bid Documents and submission of Participating Documents by the bidders**

Following the issuance of the Bid Documents, business entities or permanent establishments intending to participate in the auction must purchase the Bid Documents. In the event that a consortium is formed, each consortium member must purchase the Bid Documents.

Subsequently, bidders must submit Participating Documents, which include, among others: (i) work plan and budget for the six (6) years of the exploration period; and (ii) a bid bond in the amount of one hundred percent (100%) of the offered signature bonus value.

**c. Examination and evaluation of Participating Documents**

The opening and examination of Participating Documents are carried out by the auction committee/evaluation team. If, upon opening and examination, the Participating Documents are found to be incomplete, the bidder will be disqualified and no further evaluation will be conducted. On the contrary, if the Participating Documents are complete, the evaluation will proceed based on technical, financial, and performance criteria.

**Notes**

- i. If there is only one (1) participant in the auction, such participant will not automatically be designated as the prospective winner unless it meets the evaluation criteria.
- ii. In relation to a Direct Offer Auction, the business entity or permanent establishment that carried out the Joint Study is granted the right to match in the event another bidder submits a higher offer.

**d. Determination of the auction winner and the signing of the Cooperation Contract**

Based on the designation of the winner by the MEMR, the auction winner must submit a statement letter confirming its ability to satisfy all commitments in the Participating Documents to the DGOG. Upon receipt of such confirmation and before the signing of the Cooperation Contract, the MEMR through the DGOG will require the winner to submit the documents necessary for contract signing, such as: (i) organizational structure of the company that will execute the Cooperation Contract; and (ii) performance bond.

### 3. Incentive structure for PSC Contractors

#### 3.1. Types of incentive

The regulation on the granting of incentives in upstream oil and gas business activities is set out in MEMR Decree Number 199.K/HK.02/MEM.M/2021. Pursuant to this Decree, the types of incentives that may generally be granted are as follows:

For PSC under the Cost Recovery Scheme	For PSC under Gross Split Scheme
a. Portion of oil and gas production sharing.	Additional share of oil and gas production.
b. Amount of First Tranche Petroleum (FTP). <sup>4</sup>	
c. Investment Credit. <sup>5</sup>	
d. The amount of Domestic Market Obligation (DMO) Fee. <sup>6</sup>	
e. Accelerated depreciation.	

#### 3.2. The criteria for the granting of incentives

The criteria for the granting of incentives consist of general criteria and specific criteria, as follows:

**a. General criteria**

General criteria refer to the eligibility to be granted incentives with reference to a reasonable range of Internal Rate of Return (IRR) or Profitability Index (PI), and the determination of economic classification derived from the mapping of the PSC Contractors' IRR or PI calculation against the Revenue Over Cost (R/C) ratio based on the data from the implementation of the Cooperation Contract.

**b. Specific criteria**

Specific criteria parameters relate to technical and non-technical aspects, including but not limited to the following: (i) located in deep water; (ii) having hydrocarbon potential in a reservoir depth with certain characteristics; and (iii) field location situated in frontier/remote/underdeveloped areas.

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<sup>4</sup> FTP refers to a certain portion of crude oil and/or natural gas produced from a Working Area in a calendar year, which may be taken and received by SKK Migas and/or PSC Contractors in each calendar year, before deduction of operating cost recovery and production handling (own use).

<sup>5</sup> Investment Credit refers to an additional recovery of Capital Costs in a certain amount, directly related to production facilities, granted as an incentive for the development of certain oil and/or gas fields.

<sup>6</sup> DMO Fee refers to the compensation paid by the Government to the Contractor for the delivery of oil and/or natural gas to meet domestic demand, using a price determined by the MEMR.

#### 4. Considerations for current and prospective PSC Contractors

This strategic shift in Indonesia's oil and gas sector has significant implications for both existing PSC Contractors and those considering entering the market:

Status	Implications
Current PSC Contractors	<ul style="list-style-type: none"><li>a. <b><u>Performance Scrutiny</u></b> The Government's willingness to reassign idle Working Areas puts pressure on current contractors to maximize production and efficiency.</li><li>b. <b><u>Competitive Pressure</u></b> The influx of new players could intensify competition, necessitating operational improvements and cost optimization.</li><li>c. <b><u>Regulatory Compliance</u></b> Existing PSC Contractors must ensure strict adherence to the new regulatory framework, particularly regarding the utilization of Working Areas.</li></ul>
Prospective PSC Contractors	<ul style="list-style-type: none"><li>a. <b><u>Market Entry Opportunities</u></b> The offering of new Working Areas presents a significant opportunity for new players to enter the Indonesian market.</li><li>b. <b><u>Diverse Portfolio Options</u></b> With offerings ranging from onshore to offshore and conventional to potentially unconventional resources, new entrants can strategically select Working Areas that align with their expertise and risk appetite.</li><li>c. <b><u>Regulatory Navigation</u></b> Prospective PSC Contractors must carefully navigate the complex regulatory environment, including the nuances of the Regular Auction and Direct Offer Auction.</li></ul>
Both Current and Prospective Contractors	<ul style="list-style-type: none"><li>a. <b><u>Investment Climate Assessment</u></b> Both groups need to carefully evaluate Indonesia's overall investment climate, considering factors such as regulatory stability, fiscal terms, and operational challenges.</li><li>b. <b><u>Local Content and Partnership Strategies</u></b> Developing strong local partnerships and meeting local content requirements will be crucial for success in the Indonesian market.</li><li>c. <b><u>Environmental and Social Governance (ESG)</u></b> Increasing global focus on ESG factors necessitates a robust strategy for sustainable and responsible resource development.</li></ul>



## References

1. Ministry of Energy and Mineral Resources of the Republic of Indonesia (2025, 20 May). *Tumbuhkan Investasi Migas, Pemerintah Tawarkan Paket Insentif Menarik di Lelang WK Migas*. Accessed on 18 August 2025 - <https://www.esdm.go.id/id/media-center/arsip-berita/tumbuhkan-investasi-migas-pemerintah-tawarkan-paket-insentif-menarik-di-lelang-wk-migas>.
2. Ministry of Energy and Mineral Resources of the Republic of Indonesia (2025, 21 May). *Menteri Bahlil Tegaskan Alihkan Pengelolaan Lapangan Migas Terbengkalai*. Accessed on 18 August 2025 - <https://www.esdm.go.id/en/media-center/news-archives/menteri-bahlil-tegaskan-alihkan-pengelolaan-lapangan-migas-terbengkalai?>.

We will continue to follow the developments of this topic. Should you have any queries on this topic, please contact our consultant



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