



## CBM Asia Development targets Indonesian coalbed methane

Behind the behemoth populaces of China and India, Indonesia sits fourth in world population right after the United States. Often overlooked as a major competitive market, the world's largest Muslim population gained attention last year becoming only the second country in the past two decades to withdraw its membership from OPEC. Citing a transition from exporter status to that of a net importer of petroleum, Indonesia's energy needs continue to grow.

But with examples that harken back to the region's economic crash of the late 1990s, Indonesia's resiliency is showcased in economics textbooks around the world, testament to its ability to adapt. And adapt it has, opening the door to the pursuit of coalbed methane (CBM) through legal changes to national energy policy and the implementation of power plant construction to utilize the country's ample coal supply.

This time last year, the ball started rolling, with the announcement of OPEC withdrawal and the government's passing of Regulation 36 which gave CBM producers an advantage in energy production, offering a 55:45 (government: producers) split compared to the country's current 85:15 take for oil and 70:30 for natural gas. What would have been considered a fringe act in years past, is gaining steam as Indonesia piled up 15 production sharing contracts (PSCs) between May 2008 to August 2009, garnering US \$95.68 million in minimum exploration commitments over the next three years.

Among those interested in the opportunity to develop this overlooked resource are not only heavyweight players such as British Petroleum (BP) and Australia CBM specialists Arrow Energy, but Canadian

entity **CBM Asia Development Corp.** [TCF-TSXV] which came with cash and knowledge in hand to the aid of operating partner Medco Energi International. With three major projects in Sekayu, Kutai West and Kutai-Ephinto, CBM Asia has recently been able to boast participation the country's first official CBM well.

"CBM potential in Indonesia has always been available," says Alan Charuk, President and CEO for CBM Asia Development. "Only the law has changed to unleash these basins' production potential."

Coupling nicely with the potential of the basins themselves are the long-term implications of increased liquid natural gas (LNG) demands in the South East Asian markets that surround Indonesia, including the economic powerhouses of China and Japan. China, specifically, is making strides towards honouring its intention to double its use of gas for power generation as an alternative to straight-up coal, by building more than 10 new LNG terminals and signing a landmark deal with Qatar for 5 million tonnes per annum (tpa) over the next 25 years at a generous rate of US \$15-17/MM BTU. Japan upped the ante further, securing with Indonesia's Bontang plant US \$16/MM BTU prices through 2011, at times paying as high as US \$19/MM BTU.

"It's a very exciting time, especially in Asia," adds Charuk. "The price deck is much more favourable than selling for Henry-hub prices to a North American market."

As of press time, the Henry-hub future price hovers around the US \$4.75 mark, thus emphasizing the discrepancy between Asian and North American markets. With the Bontang plant, located 18 kilometres from the company's Kutai blocks, operating

at less than full potential, and the expansion of gas power production facilities, the sky is the limit on where this trend is going to go.

CBM Asia Development recently drilled Indonesia's first official CBM well with partners PT Medco Energi International Tdk (operator) and Indonesia's PT Ephindo at its Sekayu PSC of the South Sumatra Basin. The resulting coal seam penetrations were as the company expected, and are currently being studied extensively. While the company's two other Indonesian blocks are within a stone's throw of Bontang, the high payout Sekayu block sits patiently in an area where infrastructure still needs to be developed. Fortunately for CBM Asia, to the south and southwest are two other high potential PSCs within 50 kilometres of each other being probed by Australia's Arrow Energy and partners that could bring the early forecasts of commercial production in the region by 2011 to fruition.

"It's a very new industry in Indonesia, so we're starting slow here," adds Charuk. "But you're going to see more drilling and better services. CBM may be new to Indonesia, but it's been established in nearby Australia for nine years where US \$17 billion was spent on merger and acquisitions in 2008 alone."

Unconventional as the idea of Indonesian CBM may have been a year ago, the country's ability to adapt, and its recent favourable invitations to the world's CBM experts may prove to be a game changer in a region hinging its future on adequate energy production. For a country in a transition phase, look for Indonesia to regain a net energy exporter status through its wise innovation of CBM production for a region thirsty for LNG. ■