

Unlocking Oil and Gas Production Potential: Legal Framework for Strategic Cooperation Under MEMR Regulation 14/2025

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To strengthen national energy security, it is essential to enhance domestic oil and gas production. In support of this objective, the Indonesian government has issued Minister of Energy and Mineral Resources Regulation No. 14 of 2025 on Cooperation in the Management of Working Area Segments to Increase Oil and Gas Production ("**MEMR Regulation 14/2025**"). The regulation provides a framework under which oil and gas contractors ("**Contractors**") may enter into cooperative arrangements for the management of working areas with a range of counterparties, including, among others, Regional-Owned Enterprises ("**RoEs**"), cooperatives, and Micro, Small, and Medium Enterprises ("**MSMEs**").

Executive Summary

MEMR Regulation 14/2025 introduces a progressive legal framework that seeks to unlock underutilized oil and gas production potential by enabling strategic cooperation between Contractors and third-party entities, such as RoE, cooperatives, and MSME. The regulation not only provides Contractors with flexible and commercially viable mechanisms to optimize existing assets, through operational or production partnerships, but also enhances local economic participation. While offering tangible incentives such as compensation formulas based on the Indonesian Crude Price ("**ICP**") and adjusted profit-sharing, it maintains regulatory oversight through the Special Task Force for Upstream Oil and Gas (*Satuan Kerja Khusus untuk Minyak dan Gas Bumi* / "**SKK Migas**") and the Aceh Oil and Gas Management Agency (*Badan Pengelola Migas Aceh* / "**BPMA**").

However, the effectiveness of this regulation will largely hinge on the consistency of government approvals and the readiness of local entities to meet required operational standards. In practice, it

reflects a shift toward a more inclusive and commercially oriented approach to upstream oil and gas development, aiming to strike a balance between state oversight and investor interests.

Overview of the Cooperation Framework

Under MEMR Regulation 14/2025, Contractors are permitted to engage in a range of cooperative arrangements, such as¹:

- operational and/or technological cooperation;
- production partnerships of Oil Wells owned by RoE, cooperatives, or MSME(s) ("**Oil Wells**")²;
- collaboration for the exploitation of Old Wells³; and
- other business-to-business partnerships, subject to approval from SKK Migas or BPMA.

Operational and Technological Cooperation

Contractors can cooperate with third-party partners ("**Partners**")⁴ by virtue of a cooperation agreement⁵ to conduct operation and technical cooperation on idle wells, active wells, idle structures and/or active structures. The operation and technical

¹Article 2(2) and (3) of MEMR Regulation 14/2025.

²Article 1(4) of MEMR Regulations 14/2025 defines Oil Wells Managed by RoE, Cooperatives, MSME, as specific oil wells that can be made productive and whose management can be improved in accordance with good engineering practices, occupational health and safety standards, and environmental management principles.

³Article 1(15) of MEMR Regulation 14/2025 defines Old Wells as oil wells that were drilled prior to 1970, have previously been made productive, and are located in fields that are not being operated within a Working Area under a Cooperation Contract and are no longer being operated by the Contractor.

⁴Article 1(13) of MEMR Regulation 14/2025 defines Mitra as a business entity or a permanent establishment that engages in operational and/or technological cooperation with the Contractor.

⁵Article 3(2) of MEMR Regulation 14/2025

cooperation may include side-tracking, well stimulation, tertiary recovery, or deepening activities.⁶ These activities will be carried out based on the results of evaluation and technical considerations of the Contractor and/or SKK Migas or BPMA.⁷

All costs arising from operational and technical cooperation must be borne by the Partner⁸, except in the case of full-scale tertiary recovery, where they may be borne jointly with the Contractor⁹. If oil and gas production increases as a result of the operational and technical cooperation, the Contractor shall provide compensation to the Partner.¹⁰ Such compensation shall be calculated based on an “alpha (%)” factor applied to the ICP, where:¹¹

- a. for cost recovery-based contracts, the alpha factor shall be a maximum of 70% or 85%, depending on the type of well; and
- b. for gross split schemes, the Contractor’s profit sharing-portion will be adjusted to 89%.

Production Partnerships for Oil Wells

Contractors may enter into oil well production cooperation agreements with RoE, cooperatives, or MSMEs for wells located within their Working Area¹² and beyond the designated Operation Area.¹³ This cooperation must be initiated within 4 (four) years from the enactment of MEMR Regulation No. 14 of 2025, or by 10 June 2029 (“**Temporary Handling Period**”).¹⁴ Following the expiry of the Temporary Handling Period, production cooperation may continue under a new agreement, provided that the implementation of the new production cooperation is reported to SKK Migas or BPMA.¹⁵

The production cooperation must be carried out based on the following stages:¹⁶

a. Inventory of Oil Wells¹⁷

An inventory is conducted by a joint team, Governor, Regent/Mayor, SKK Migas, or Head of BPMA to identify oil wells and record the findings in an official minutes of meeting.

b. Appointment of Oil Wells Operator¹⁸

The Governor, based on the recommendation of the Regent/Mayor, appoints oil well operators within their administrative regions. Each regency/municipality may appoint a maximum of 3 (three) operators.

c. Submission of Production Cooperation Proposal¹⁹

RoEs, cooperatives, or MSMEs may submit proposals for production cooperation to the Contractor, attaching the required permits. The Contractor evaluates the proposal, and if deemed suitable, submits the cooperation request to the MEMR through the Head of SKK Migas or Head of BPMA. The Head of SKK Migas or BPMA then provides technical considerations, based on which the MEMR issues an approval or rejection.

d. Production Cooperation Agreement²⁰

A production cooperation agreement is executed, with a term not exceeding the Temporary Handling Period. The implementation of the agreement does not require an amendment to the Production Sharing Contract between the Government and the Contractor. The Contractor is obligated to provide compensation to the RoE, cooperative, or MSME for the transfer of the entire production from the Oil Wells, with the compensation determined as follows:

- i. For cost recovery contracts: 80% of the ICP;
- ii. For gross split contracts: the Contractor’s share of production is adjusted to 93%.

Additionally, if the RoE, cooperative, or MSME involving community groups, it must provide a reasonable portion of the production to those community groups. This portion should be based on mutual agreement between the parties, with an upper limit of 70% for the community group, as calculated based on the ICP.²¹

⁶Article 3(3) and (4) of MEMR Regulation 14/2025.

⁷Article 3(5) of MEMR Regulation 14/2025.

⁸Article 6(1) of MEMR Regulation 14/2025.

⁹Article 6(2) of MEMR Regulation 14/2025.

¹⁰Article 6(3) of MEMR Regulation 14/2025.

¹¹Article 7 and 8 of MEMR Regulation 14/2025.

¹²Article 1(5) of MEMR Regulation 14/2025 defines Working Area as a specific area within the Indonesian mining jurisdiction for the implementation of exploration and exploitation.

¹³Article 1(6) of MEMR Regulation 14/2025 defines Operation Area as a specific area within the working area that is currently being directly utilized by the contractor in carrying out oil and gas business activities.

¹⁴Article 13(3) of MEMR Regulation 14/2025.

¹⁵Article 29 of MEMR Regulation 14/2025.

¹⁶Article 16 of MEMR Regulation 14/2025.

¹⁷Article 17 of MEMR Regulation 14/2025.

¹⁸Article 18 of MEMR Regulation 14/2025.

¹⁹Article 19 of MEMR Regulation 14/2025.

²⁰Article 20, 21, 22 of MEMR Regulation 14/2025.

²¹Article 23 of MEMR Regulation 14/2025.

e. Supervision and Reporting²²

SKK Migas or BPMA, within their respective competencies, shall supervise the implementation of the production cooperation and report the results of such supervision to the MEMR. The RoE, cooperative, or MSME is required to submit reports to the Head of SKK Migas or Head of BPMA at the end of each semester and/or upon request.

²²Article 24 of MEMR Regulation 14/2025.

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The article above was prepared by Dentons HPRP's lawyers

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