

# The Philippine Conventional Energy Contracting Program (PCECP) for Petroleum

Presented by the:

**DEPARTMENT OF ENERGY**

**Republic of the Philippines**



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Department of Energy  
*Empowering the Filipino*



# PHILIPPINE ECONOMY

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- Upgraded Country Credit Rating :

**BBB**

FitchRatings

S&P Global  
Ratings

MOODY'S  
INVESTORS SERVICE

- One of the fastest growing economies in the world (**6.2% in 2018**)
- Focus of Duterte Administration:  
**Build, Build, Build.**
- For Petroleum: **Explore, Explore, Explore**



# Energy Sector Agenda: Energy Security



- Malampaya dominating current natural gas production
- Galoc oil production is a major contributor to the country's oil production



**DOE targets energy security and sustainability**



# Producing Gas Fields in the Philippines

## The Malampaya Project (SC38)



- Meets 40-45% of Luzon's power generation requirements (3,200 MW)
- Investment of USD 2.1 billion cost-recovered in four (4) years





# Why explore in the Philippines?

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- Underexplored hydrocarbon potential **(10% explored areas)**
- Very attractive fiscal terms
- Expanding internal energy market
- Technology-neutral policy



# The Petroleum Service Contract (PSC) System

<b>Contract Area</b>	<b>Onshore</b>	50,000 to 750,000 hectares
	<b>Offshore</b>	80,000 to 1,500,000 hectares
<b>Nationality of Operator</b>	Either Foreign or Local <i>(must be financially, legally and technically qualified; and will provide the necessary services, financing and technology and fully assume all exploration risks)</i>	
<b>Contract Duration</b>	<b>Exploration</b>	Initially 7 years <i>(can be extended up to 3 years)</i>
	<b>Production</b>	Initially 25 years <i>(can be extended up to 15 years)</i>
	<i>Note: Total Contract term shall not exceed 50 years</i>	

# The Petroleum Service Contract (PSC) System

<b>Production Sharing</b>	<b>Government</b>	60% of net proceeds	
	<b>Contractor</b>	40% of net proceeds	
<b>Financial Incentives</b>	<b>FPIA</b>	<a href="#">Filipino Participation Incentive Allowance (FPIA)</a> with a minimum of 1.5% up to a maximum of 7.5% of gross proceeds for service contractors allows at least 15% participation by Filipino companies	
	<b>Cost Recovery</b>	<a href="#">Cost Recovery</a> of up to 70% of gross income from petroleum production in any calendar year with the unrecovered costs to be carried over in the succeeding calendar year(s). Capital expenditures are depreciated over 5-10 years.	
	<b>Importation</b>	Exemption from all levies, tariffs, duties, compensating tax and value added tax.	
	<b>Special Income Tax</b>	Subcontractor	8% of gross Philippine Tax
		Foreign Employees	15% of gross Philippine Tax <i>(subject to TRAIN Law)</i>

## Breakdown of Proceeds from Production

<b>Gross Proceeds</b>	\$	100.00
Less: Filipino Participation Incentive Allowance (FPIA) if applicable		7.50*
Cost Recovery		70.00**
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<b>Net Proceeds</b>		22.50
Less: Contractor's Share (40%)		9.00
		-----
Government Share (60%)		13.50
Less: Income Tax (Contractor's Share / 70%) x 30%***		3.86
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<b>Net Government Share</b>		9.64
National Government Share (60%)		5.78
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Local Government Unit Share (40%)		3.86
		=====

\* Percentage of FPIA varies from 1.5% to a maximum of 7.5%, depending of the participating interest of the Filipino partners

\*\* 70% of Gross Income or actual recoverable cost whichever is lower

\*\*\* Income Tax Rate starting January 2009 (Tax Code)



# New Contracting / Licensing Scheme

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## The Philippine Conventional Energy Contracting Program (PCECP) for Petroleum

*Adopts Two (2) Modes of Awarding Petroleum Service Contracts (PSCs):*

- (1) **By competitive selection process** – DOE may publish a set of Pre-Determined Areas (PDAs) for bidding;
- (2) **By nomination** - Applicant/s may nominate and publish their respective area/s of interest



# PCECP: Modes of Application

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## 1. **Pre-Determined Areas (PDAs)**

- Offered and published by the DOE;
- Includes a data package per PDA offered;
- Php 200,000 application fee (all applicants, non-refundable)
- 180-day application period
- *Next batch of PDA offerings to be announced by the DOE*

## 2. **Nominated Areas**

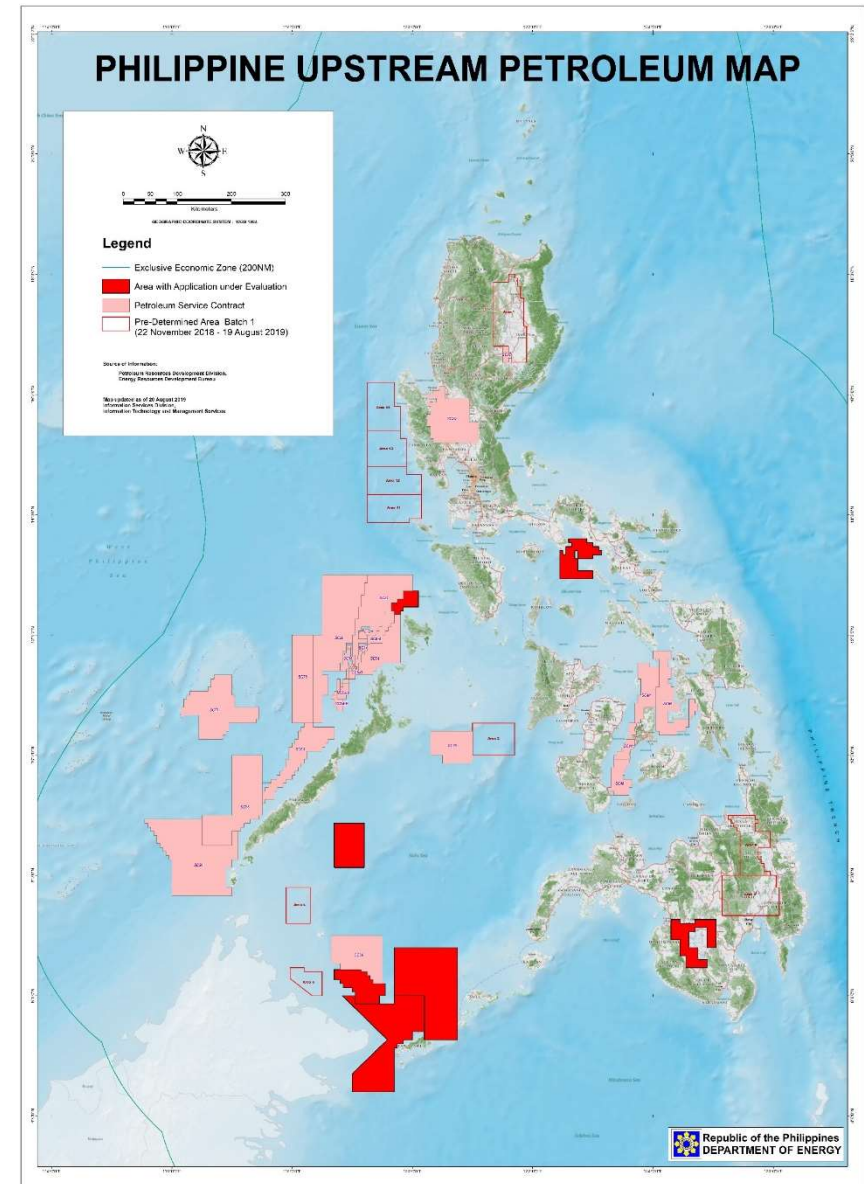
- Submitted by applicants for DOE's approval;
- Published by nominating parties at their own expense
- Php 200,000 application fee (nominating applicants, non-refundable)
- 60-day challenge period
- Php 1,000,000 challenge fee (other applicants, non-refundable)
- *Any time of the year*



# The Industry Thus Far

We are currently evaluating applications for Petroleum Service Contracts over 7 blocks/areas.

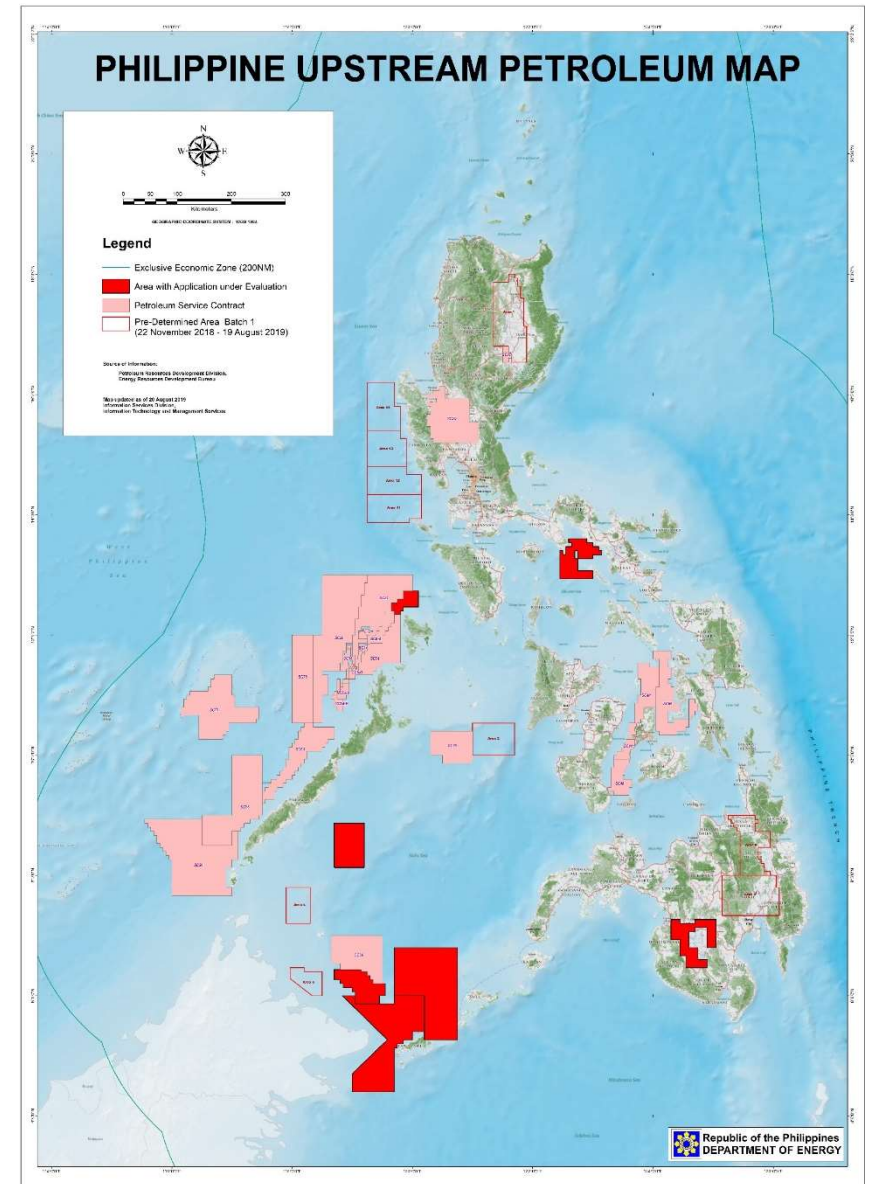
There are still applications for other areas via the nomination mode, specifically in the Sulu Sea, Southeast Luzon and Northwest Palawan areas.



# The Industry Thus Far

Pre-Determined Areas without applications are open for applications via nomination until their inclusion in a new batch of Pre-Determined Areas offered by the DOE.

Currently, there are 21 active Petroleum Service Contracts in the Philippines



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# Thank you!

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