

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

- 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

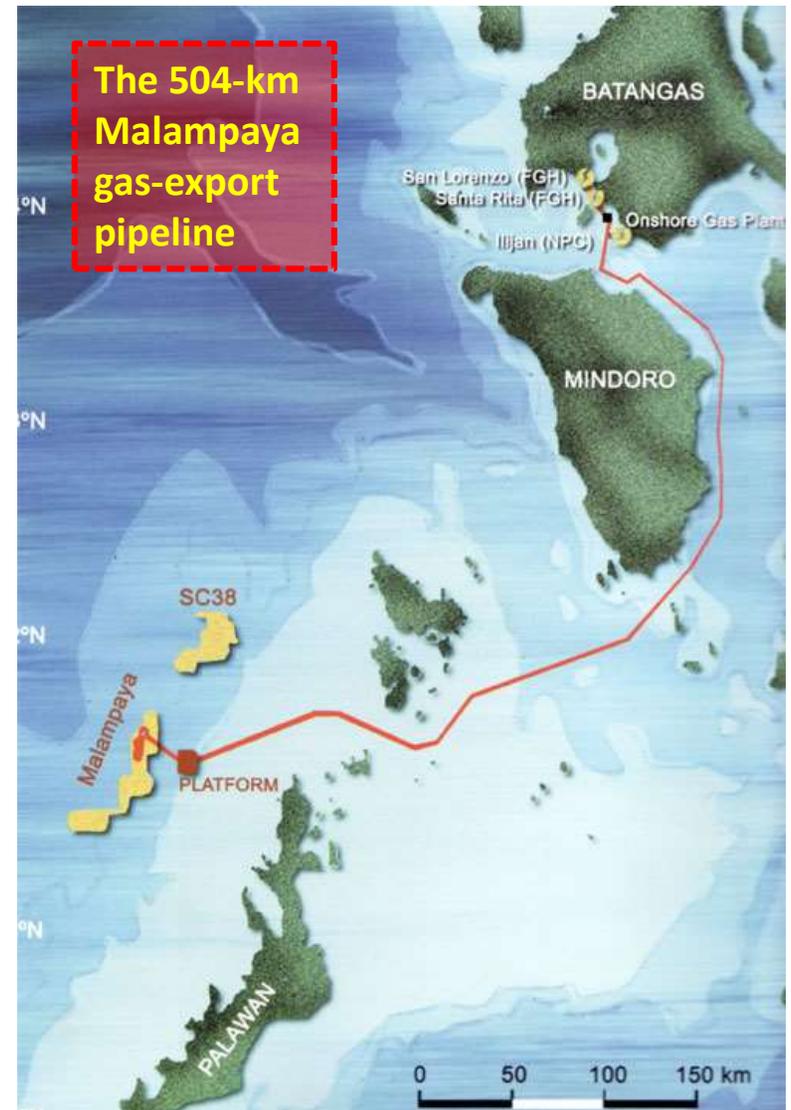


Producing Gas Fields in the Philippines

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?

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



The Petroleum Service Contract (PSC) System

Contract Area	Onshore	50,000 to 750,000 hectares
	Offshore	80,000 to 1,500,000 hectares
Nationality of Operator	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>	
Contract Duration	Exploration	Initially 7 years <i>(can be extended up to 3 years)</i>
	Production	Initially 25 years <i>(can be extended up to 15 years)</i>
	Note: Total Contract term shall not exceed 50 years	

The Petroleum Service Contract (PSC) System

Production Sharing	Government	60% of net proceeds
	Contractor	40% of net proceeds

Financial Incentives	FPIA	Filipino Participation Incentive Allowance (FPIA) 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	
	Cost Recovery	Cost Recovery 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.	
	Importation	Exemption from all levies, tariffs, duties, compensating tax and value added tax.	
	Special Income Tax	Subcontractor	8% of gross Philippine Tax
Foreign Employees		15% of gross Philippine Tax <i>(subject to TRAIN Law)</i>	



Breakdown of Proceeds from Production

Gross Proceeds		\$	100.00
Less:	Filipino Participation Incentive Allowance (FPIA) if applicable		7.50*
	Cost Recovery		70.00**

Net Proceeds			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

Net Government Share			9.64
	National Government Share (60%)		5.78

	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

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

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*

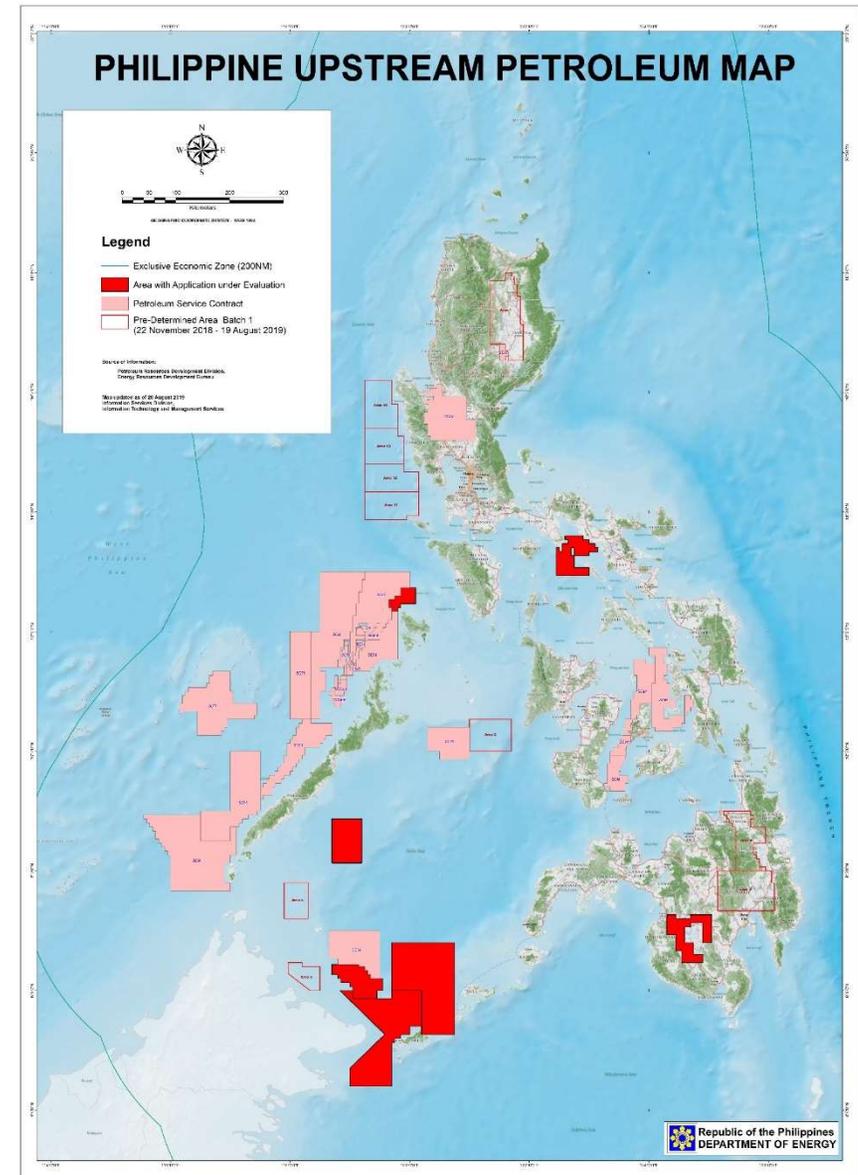
- Submitted by applicants for DOE's approval;
- Published by nominating parties at their own expense
- Php 200,000 application fee (nominating applicants, non-refundable)
- 60-day challenge period
- Php 1,000,000 challenge fee (other applicants, non-refundable)
- *Any time of the year*



The Industry Thus Far

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

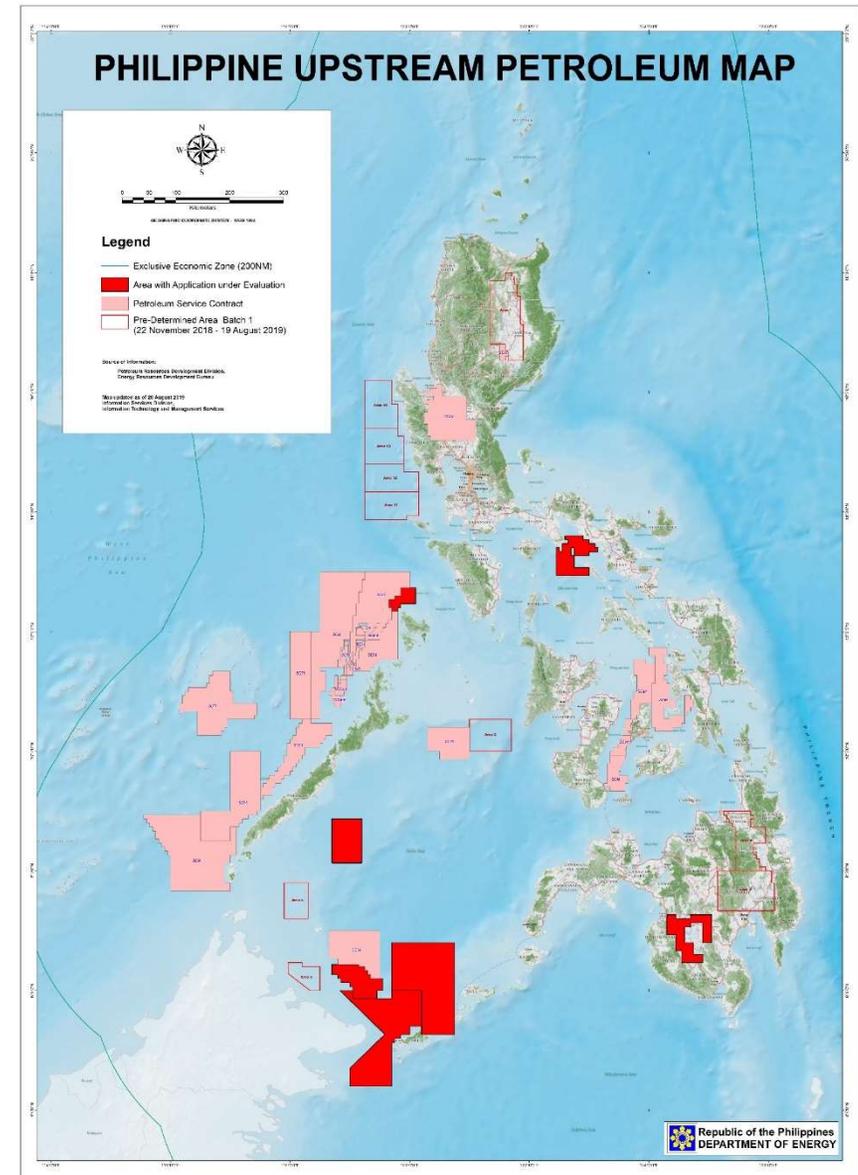
There are still applications for other areas via the nomination mode, specifically in the Sulu Sea, Southeast Luzon and Northwest Palawan areas.



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



Thank you!

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