OFFSETTING OF RENTALS ON RETAINED AREA UNDER SECTION 9 (E) OF P.D. NO. 87 AS AGAINST EXPLORATION EXPENDITURES ACTUALLY SPENT ON SUCH RETAINED AREA

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WHEREAS, pursuant to Sections 5 (d) and (e) of R.A. No. 7638, the Department of Energy has been mandated to exercise supervision and control over all government activities relative to energy projects and to regulate private sector activities relative to said energy projects;

WHEREAS, the Secretary of the Department of Energy is tasked under Section 7 (3) of Chapter 2, Book IV of Executive Order No. 292, known as the “Administrative Code of 1987,” to promulgate rules and regulations necessary to carry out department objectives, policies functions, plans, program and projects;

WHEREAS, Section 9 (e) of P.D. No. 87, which is formally incorporated in all the petroleum Service Contracts, specifically provides that: "If petroleum in commercial quantity has been discovered, the contractor may retain after the exploration period and during the effectivity of the contract twelve and one-half percent (12.5%) of the initial area in addition to the delineated production area: Provided, however, that the contractor shall pay annual rentals on such retained area which shall not be less than ten pesos (P10.00) per hectare or fraction thereof for onshore areas and not less than twenty pesos (P20.00) as determined by the Petroleum Board (now, Department of Energy) per hectare or fraction thereof for offshore areas: Provided, further, that such rentals can be offset against exploration expenditures actually spent on such area;"

WHEREAS, there is an urgent need to further strengthen and rationalize the implementation of the said Section;

NOW, THEREFORE, the following guidelines are hereby promulgated:

SECTION 1. Exploration Expenditures on 12.5% Retained Area — In order to determine the expenditures incurred under the retained area, which will be offset against the annual rental due, the Contractor shall submit to the Department of Energy the summary of exploration expenditures actually spent on the said retained area. These exploration expenditures shall be incorporated in the monthly Expenditures Report required under BED Circular NO. 81-01-01, and shall consist of the following:

1. Direct Survey Expenditures which shall include all geological and geophysical expenditures incurred in activities such as geological studies, mapping and geophysical prospecting, the various phases of which activities cover data acquisition, data processing, interpretation and restudies.

2. Direct Well Costs which shall include exploration drilling costs such as the cost of preparation for drilling, the cost of drilling, the cost of well servicing and the cost of installing subsurface well equipment up to and including the well head. It shall also include the costs of materials installed in connection with drilling equipment and completing a well.

SECTION 2. Rental Due —

1. In the event that the annual rental due exceeds the total exploration expenditures as determined under Section 1 above the Contractor shall remit to the Department of Energy the balance of the rental due after deducting these

exploration expenditures, within thirty (30) calendar days after the end of each Calendar Year.

2. In case the total exploration expenditures exceed the annual rental due, the balance of the exploration expenditures shall be cost recoverable.

SECTION 3. Effectivity — This circular shall take effect fifteen (15) days after its complete publication in a newspaper of general circulation.

Adopted: 17 Jan. 1996

(SGD.) FRANCISCO L. VIRAY
Secretary

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