

## 2. Change in MOPS x forex of 2nd week

This formula was suggested by an economics expert since information on international prices of petroleum products available to the public is limited. This refers to the DOE Oil Monitor posted in the DOE website ([www.doe.gov.ph](http://www.doe.gov.ph)) every Tuesday for the change in MOPS and the value of the peso-dollar exchange rate. The result of this computation would be the estimated adjustment for the week.

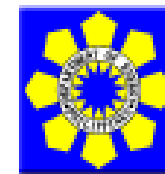
## 3. Change in MOPS x 0.3 + Change in forex x 0.6

This formula considers both the change in international prices of oil and the change in peso-dollar exchange rate with each item having its respective factor. As in the previous formulas, the factors are valid for a range of FOB prices and peso-dollar exchange rates.

Like Alternative Formula 1, any significant change in variables will no longer make the formula reliable.

## Conclusion

Consistent with the regime of deregulation, the Oil Deregulation Law did not prescribe a specific formula. The market is expected to set the prices. Notwithstanding deregulation however, players in the industry must adhere to the fundamental principle of fair prices as provided under the Oil Deregulation Law. We assure the public that the Department of Energy will continue to actively monitor the oil price movement to ensure that the price adjustment is reasonable.



# UNDERSTANDING OIL PRICING



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## Philippines' Benchmark is MOPS not WTI

The local oil industry uses Mean of Platts Singapore (MOPS) which is the daily average of all trading transactions between buyer and seller of petroleum products as assessed and summarized by Standard and Poor's Platts, a Singapore-based market wire service.

The Philippine oil industry has stopped benchmarking local pump prices on crude since there are only two refineries with capacities lower than national oil demand. Thus, the industry imports finished products amounting to about half of the national requirement.

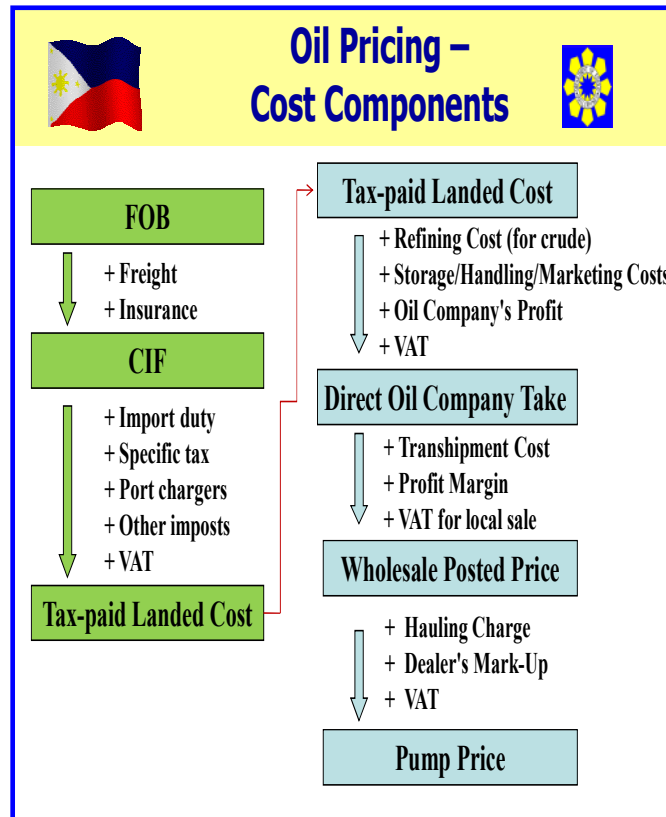
The shift to MOPS was undertaken to become more responsive to the movements in the international market and local demand for fuel products. Before, the country uses Dubai crude as benchmark for pricing of local products. However, this translates to one to two months lag time in reflecting the cost of products as it entails three weeks of travel time and another week or two for refining the crude and transporting the products to the pump.

The Philippines cannot also use the West Texas Intermediate (WTI) crude as benchmark since the country is not directly connected to the WTI pipeline in the US. Thus, the steep drop in the price of WTI has no bearing on local pump prices.

Whereas, basing price of products on MOPS will only entail five days for importation travel time and transfer to the pumps.

## Pricing Components

Basis in Computing Estimated Price Adjustment



## ERB Formula

Computation of the Estimated Adjustment for the Week

Landed Cost (Product)	Past Week	Present Week
US \$ PER BARREL		
FOB (MOPS)	$a_1$	$a_2$
FREIGHT PLUS	$b_1$	$b_2$
CNF	$c_1 = a_1 + b_1$	$c_2 = a_2 + b_2$
EXCHANGE RATE	$d_1$	$d_2$
PESO LANDED COST		
CNF	$e_1 = c_1 * d_1$	$e_2 = c_2 * d_2$
DUTY	$f_1 = e_1 * \_ \%$	$f_2 = e_2 * \_ \%$

Landed Cost (Product)	Past Week	Present Week
OCEAN LOSS	$g_1 = e_1 * 0.5\%$	$g_2 = e_2 * 0.5\%$
TOTAL (without VAT)	$h_1 = e_1 + f_1 + g_1$	$h_2 = e_2 + f_2 + g_2$
TOTAL (with VAT)	$i_1 = h_1 * 1.12$	$i_2 = h_2 * 1.12$
PESO LANDED COST, P/li	$j_1 = i_1 / 159$	$j_2 = i_2 / 159$
DIFFERENCE		
Peso/barrel		$k_2 = i_2 - i_1$
Peso/liter		$l_2 = k_2 / 159$

In this formula, the Department of Energy compares the peso landed cost of bringing in the finished oil products to the domestic market on a week-on-week basis using the price build-up.

## ALTERNATIVE Formulas

1. Change in MOPS (Mean of Platts Singapore) (P1.00 for every \$3.00)

This formula is simple in that it assumes a P1.00/liter increase or decrease in domestic oil price for every \$3.00 change in MOPS. Although simplified and easy to calculate, this formula has many assumed variables such that a significant change in any variable will no longer make the formula reliable. For example, this formula may be valid for a certain \$/bbl FOB range and peso-dollar exchange rate range.