



Republic of the Philippines
DEPARTMENT OF ENERGY

DEPARTMENT ORDER NO. DO2006-03-0005

IMPLEMENTING EXECUTIVE ORDER NO. 473 AND CREATING THE OVERSIGHT AND COORDINATION COMMITTEE FOR THE RE-APPRAISAL, DEVELOPMENT AND PRODUCTION OF CRUDE OIL FROM THE CAMAGO-MALAMPAYA OIL LEG (CMOL)

WHEREAS, on 29 November 2005, the President issued Executive Order No. 473 ("EO 473") directing "the Department of Energy, on behalf of the State, to immediately pursue the exploration, development and production of crude or black oil from the CMOL, respecting the existing rights of the SC 38 Contractor over the area and with paramount consideration of the national interest;"

WHEREAS, EO 473 further provided that the DOE shall undertake the said activities through PNOC or its subsidiaries and, for this purpose, the Parties were directed to at once commence discussion on and define the terms of service for the exploration, development and production of crude or black oil from the CMOL;

WHEREAS, EO 473 also provides that "[i]n defining the terms of service, DOE and PNOC/PNOC subsidiary may consult the SC 38 Contractor with the end in view of optimizing the joint operations for the production of natural gas and crude or black oil from the Camago-Malampaya Reservoir;"

WHEREAS, the DOE and PNOC then immediately commenced discussions for the definition of the terms of service and conducted consultations with Shell Exploration B.V., Shell Philippines LLC, Chevron Malampaya LLC and PNOC-Exploration Corporation, as the Contractor for Service Contract No. 38 ("SC 38"), particularly in relation to the parallel operations for the natural gas and crude oil reserves in the Camago-Malampaya Reservoir;

WHEREAS, on 17 March 2006, the DOE and PNOC executed the Terms of Service ("Service Terms") for the re-appraisal, development and production crude oil from the CMOL;

WHEREAS, in order to ensure proper and effective coordination of the petroleum operations and in the interest of optimizing the operations for the production of natural gas and crude or black oil from the Camago-Malampaya Reservoir pursuant to the Service Terms and the mandate of EO 473, there is a need to set out certain principles and parameters governing the services performed or to be performed by PNOC and the SC 38 Contractor, and create a committee for coordination and information sharing;

NOW, THEREFORE, premises considered, the DOE hereby issues these Implementation Instructions to govern the crude oil operations in the CMOL in respect of and to the extent that it affects the natural gas operations in the Camago-Malampaya area.

SECTION 1. Scope. This Department Order shall apply to: (a) PNOC, or its designated subsidiary pursuant to EO 473, and its Third Party Contractor/s as selected, appointed and approved by the DOE pursuant to the Service Terms, and (b) the SC 38 Contractor.

SECTION 2. Principles and parameters. Pursuant to Republic Act No. 7638 (as amended); Presidential Decree No. 87 (as amended); Proclamation No. 72, s. 2001; DOE Department Circular Nos. 95-06-006 and 2005-07-006; and EO 473, the following considerations shall be observed for the parallel operations and resolution of issues or concerns arising from the crude oil operations in the CMOL and natural gas operations by the SC 38 Contractor, as defined in the CMOL Terms of Service:

- (a) It is the policy of the State to ensure continuous, adequate and economic supply of energy with the end in view of ultimately achieving self-reliance in the country's energy requirements through the integrated and intensive exploration, production, management and development of the country's indigenous energy resources.
- (b) The development of indigenous petroleum resources is essential to the long-term stability of fuel and energy prices, as well as to national security and competitiveness.
- (c) Among the indigenous petroleum resources, natural gas has been recognized as the most environment-friendly source of energy. To this end, the development of the Philippine natural gas industry shall primarily promote the policy of utilizing indigenous energy resources to stabilize energy prices.
- (d) Presently, the uninterrupted operation and production of natural gas from the Malampaya Gas-to-Power Project accounts for twenty-five (25%) of the dependable capacity or about 2,700MW of electricity to industrial, commercial and residential end-users in the Luzon Grid and, since 2002, resulted in at least PhP17.3 Billion in revenues for the State.
- (e) Natural gas produced under SC 38 is also earmarked for non-power uses, particularly as alternative fuel for motor vehicles. For instance, one of the key components of the natural gas vehicle program for public transport (NGVPPT), pursuant to Executive Order No. 290, issued on 24 February 2004, is the supply of compressed natural gas (CNG) through indigenous gas resources such as gas from Malampaya.
- (f) At present, the Philippines imports almost all of its domestic oil requirements and about fifty (50%) of its oil-based products requirements. In 2004, the Philippines net oil import bill of 126 million barrels amounted to US\$4.57 Billion.
- (g) Initial DOE studies indicated that the CMOL contains an estimated recoverable oil resources of 33 million barrels.
- (h) In view of increasing prices of imported oil and petroleum products and the position of the SC 38 Contractor that it will not undertake the development of the CMOL, the President, under EO 473, mandated the development and production of crude oil from the CMOL by the DOE, through PNOC.
- (i) The SC 38 Contractor, pursuant to PD 87 and SC 38, shall retain its exclusive rights to explore, develop and produce all petroleum within the SC 38 contract area, including any solution gas or gas produced from the crude oil, but excluding the crude oil from the CMOL.
- (j) As provided further in EO 473, to undertake the activities herein required, PNOC or its designated subsidiary may, as necessary, engage the participation of third parties in the exploration, development and production of the crude or black oil from the

Camago-Malampaya Reservoir, subject to the requirements of applicable laws and with prior approval of the DOE.

SECTION 3. Creation of the Oversight and Coordination Committee. There is hereby created an Oversight and Coordination Committee (the "Committee") that shall meet regularly to ensure efficient, timely and effective coordination in the implementation of the operations of PNOC and the SC 38 Contractor. Immediately upon the effectivity of the Service Terms:

- (a) The Committee shall provide a venue for cooperative efforts to avoid one Petroleum operation adversely affecting the other and, to the extent necessary, provide inputs and recommendations to the DOE Secretary for any suspension of operations or adoption of other risk-mitigation measures that ensure optimal value of the Petroleum resources for the State.
- (b) In resolving issues or preparing recommendations to the DOE Secretary, the Committee shall be guided by the principles set forth in Section 2 of this Department Order.
- (c) Unless otherwise provided in an agreement amongst the DOE, PNOC and the SC 38 Contractor, the DOE shall prescribe the Committee's scope of coordination and information-sharing, schedule and venue of meetings, and procedure for resolution of issues.
- (d) The Committee shall be composed of the following:

Chair	DOE, represented by the Undersecretary in charge of the Energy Resources Development Bureau (ERDB) or, as his alternate, the Director of ERDB
Members	One (1) representative each from the members of the SC 38 consortium One (1) representative from PNOC One (1) representative each from PNOC's Third Party Contractor/s, as the case may be

**Each representative may designate an alternate. The Chair and each member of the Committee may bring staff or consultant/s in meetings, as necessary, provided that only the named representative (or his alternate, as the case may be) shall be issued notices and recognized in meetings.*

SECTION 4. Standard of Operations. Each of the SC 38 Contractor and PNOC, including PNOC's Third Party Participant/s, as the case may be, shall adhere to the highest standards of efficiency and safety in conducting their respective operations in accordance with internationally accepted oil and gas field practices.

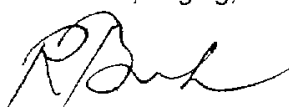
- (a) Notwithstanding any reporting schedule or procedure provided by the Committee created in Section 3 above, PNOC shall immediately report to the DOE any activity, event or action in its crude oil operations in the CMOL that may be reasonably expected to impede or have an adverse or negative effect in the natural gas operations by the SC 38 Contractor. In the same manner, the SC 38 Contractor shall

- immediately report to the DOE any activity, event or action in its natural gas operations that may be reasonably expected to impede or have an adverse or negative effect in the crude oil operations in the CMOL.
- (b) Such report shall be provided in writing unless the urgency of the matter require that an advance notice by telephone, facsimile or electronic mail be made to prevent or mitigate the expected effect; in which case, the verbal notice shall be confirmed in writing as soon as practicable.
 - (c) For information purposes, a copy of the report or a similar verbal notice given to the DOE in the above sub-clauses shall simultaneously be provided by PNOC to the SC 38 Contractor, or the SC 38 Contractor to PNOC.
 - (d) Should the DOE determine that the activity, event or action subject of the notice or report above requires a temporary suspension of either the crude oil or natural gas operation to prevent impeding the operations or any adverse effect on the other, the DOE shall: (i) immediately inform PNOC and the SC 38 Contractor accordingly of any temporary suspension, and (ii) within such reasonable time thereafter to be determined by the Committee and communicated to the DOE not later than the commencement of On-site Crude Oil Operations, convene the Committee to determine such other measures to prevent or mitigate the expected adverse effect, including adjustments in the respective operations of PNOC and the SC 38 Contractor.
 - (e) In determining the need for temporary suspension of operations, the DOE shall be guided by the principles enunciated in Section 2 above.
 - (f) Nothing in this Section shall limit or prevent the DOE, PNOC and the SC 38 Contractor from agreeing on or adopting such other measures that will prevent any adverse effect on operations or will allow each of the natural gas and crude oil operations to proceed unhampered.

SECTION 5. Effectivity and term. This Department Order shall take effect fifteen (15) days after its publication in the Official Gazette or the National Administrative Register. It shall remain in effect until otherwise revoked by the DOE Secretary, provided that revocation or repeal cannot take place earlier than the termination or expiration of the CMOL Service Terms.

SECTION 6. No amendment or repeal of existing laws. Nothing in this Department Order shall be construed to amend, supplant, or repeal any of the mechanisms or institutions already existing or responsibilities already allocated and provided for under any existing law, rule or contract. However, to the extent necessary, previous issuances by this Department in relation to the subject matter herein shall be deemed amended accordingly.

Fort Bonifacio, Taguig, Metro Manila, 20 MARCH 2006


RAPHAEL P. M. LOTILLA
Secretary