

DEPARTMENT CIRCULAR NO. DC 2003-05-005

**PROCEDURES FOR CONTRACT AREA DEFINITION AND
PUBLIC CONTRACTING ROUNDS IN PETROLEUM
PROSPECTIVE AREAS**

WHEREAS, Section 5 of Presidential Decree No. 87, otherwise known as the “Oil Exploration and Development Act of 1972”, as amended, provides that “every contract herein authorized shall, subject to the approval of the President, be executed by the Petroleum Board (now Department of Energy) created in this Act, after due public notice, pre-qualification and public bidding or concluded through negotiations”;

WHEREAS, the current practice of the Department of Energy (DOE) is to grant all petroleum Geophysical Survey and Exploration Contracts (GSEC) and Service Contracts (SC) through negotiations on a “first-come, first-served basis”;

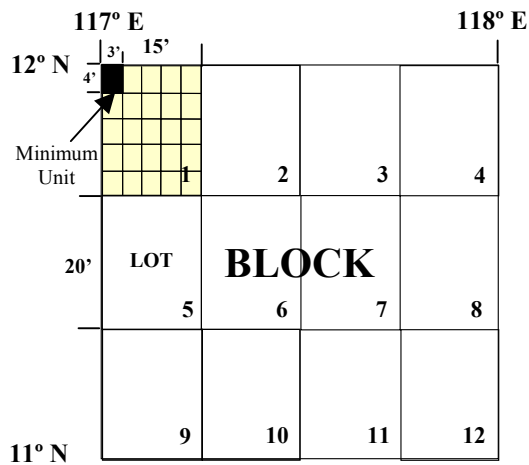
WHEREAS, the DOE desires to change the current practice of granting contract areas freely defined by the Contractor by offering areas predefined by the DOE based on a blocking reference system to facilitate the establishment of the most effective exploration strategy and allow the DOE to evaluate the market value or true value of the acreage that is being offered;

WHEREAS, in order to promote the government’s petroleum exploration and development program, there is a need to attract both local and foreign oil industry investments through competitive public contracting rounds in petroleum prospective areas.

NOW, THEREFORE, in consideration of the aforementioned premises, the following procedures shall govern the competitive system for awarding petroleum exploration, development and production service contracts:

1. Definition of Petroleum Contract Areas - Block Reference System

- 1.1 The Philippine territory and Exclusive Economic Zone shall be subdivided into a block reference system that follows geographical co-ordinates, to wit:



Block

Latitude x longitude = 1° x 1°
 Approximate Area = 12,000 sq. km

Lot

Latitude x longitude = 20' x 15'
 Approximate Area = 1,000 sq. km

Minimum unit

Latitude x longitude = 4' x 3'
 Approximate Area = 40 sq. km

1.2 New petroleum contract areas (Blocks) shall normally be defined using units of 1° latitude and 1° longitude. Where the contract area is limited by boundaries such as to existing contract areas, coastlines or limits of sedimentary basins, the unit of 20' latitude x 15' longitude (Lot) should be used to define the contract area. The minimum unit permitted in the outline of a contract area is 4' latitude x 3' longitude.

The Energy Resource Development Bureau (ERDB) will issue more detailed guidelines for contract area definition as required.

2. Public Contracting Rounds

2.1 The ERDB shall determine certain prospective areas within the Philippine territory and Exclusive Economic Zone for competitive public contracting rounds. The Undersecretary, upon the recommendation of the ERDB Director, shall declare such areas open for service contract (SC) applications only. In the meantime no new application will be accepted and all existing application will be on hold until after the results of the public round is announced.

2.2 The ERDB shall prepare the public contracting round documents, complete with a description of available data over the areas concerned and the petroleum prospectivity of each area. It shall then request the DOE Contract Negotiating Panel to issue public notices for the public contracting round (s). The public notices will include among others the following:

- a. *Map of the area for public contracting round (s)*
- b. *Time schedules including the commencement of the public contracting rounds, and*
- c. *Other information as appropriate.*

2.3 Participants to the public contracting rounds shall submit the following documents for evaluation by the DOE Contracts Negotiating Panel:

- a. Work Program/Economic Documentation
 - a.1 Draft of the proposed Service Contract, with comments, if any.
 - a.2 Geological and geophysical evaluation of the blocks applied for.
 - a.3 Economics and development concepts of possible discoveries.
 - a.4 The proposals for work program and minimum expenditure in respect to the block or blocks specified in the application.

- b. Financial Documentation
 - b.1 Latest audited financial statement of the corporation and annual reports for the last three (3) years
 - b.2 Duly filled-out information sheet of the corporation
 - b.3 Resume/Profile of the corporation/incorporators/offices
 - b.4 Particulars of the kinds of financial resources available to the applicant including capital, credit facilities and guarantees so available

- c. Legal Documentation
 - c.1 Articles of Incorporation
 - c.2 By-laws of the Corporation

- d. Technical Documentation
 - d.1 Particulars of the technical and industrial qualifications of the applicant and his employees' operating experience
 - d.2 Particulars of the technical and industrial resources available to the applicant

The Panel may require the submission of additional information relevant to the evaluation.

2.4 The Panel shall open the public contracting documents one day after the deadline. No contracting documents shall be accepted on the day of the opening of the public contracting rounds.

2.5 The Panel shall evaluate the contracting round documents within four (4) weeks from the opening of the contracting rounds deadline. The following factors will be evaluated in judging the bids:

1. Proposed work program
2. Financial/Legal qualifications
3. Technical qualifications

The Panel, if it deems appropriate, may reject any or all bids submitted.

2.6 The Panel shall formally inform all the applicants of the results of the evaluations and at the same time finalize the service contract for formal execution with the winning applicant. If necessary, service contract negotiations will commence as soon as feasible.

2.7 Areas not awarded after the public contracting rounds will be re-offered in the subsequent contracting rounds. This provision notwithstanding, the DOE may award such areas to any qualified company under such terms and conditions as it may prescribe.

3. Effectivity

This Circular shall take into effect fifteen (15) days after publication in a newspaper of general circulation.

Issued this 19th day of May 2003 in Fort Bonifacio, Taguig, Metro Manila.

(sgd.) **VINCENT S. PÉREZ, JR.**
Secretary