

**Republic of the Philippines
DEPARTMENT OF ENERGY
Taguig City
Metro Manila, Philippines**

Annex “B”

ACCOUNTING PROCEDURES

Attached to and made an integral part of the _____ [Service/Operating] Contract (____ No. _____) (the “RE Contract”) between the Republic of the Philippines, acting through the Department of Energy (“DEPARTMENT”), and _____ (“RE DEVELOPER”), dated _____.

**ARTICLE I
GENERAL PROVISIONS**

1. Definitions

The Accounting Procedures herein provided for is to be followed and observed in the performance of all obligations under the RE Contract. Unless otherwise specified, the terms used herein shall have the same meaning as those defined in the RE Contract, subject to the International Accounting Standards as adopted in the Philippines (IAS), Philippine Financial Reporting Standards (PFRS), the National Internal Revenue Code (NIRC), as amended, and other applicable accounting rules.

2. Purpose

Generally, the purpose of this Accounting Procedures is to set out principles and procedures of accounting that will enable the DEPARTMENT to effectively monitor the RE DEVELOPER’s Gross Income resulting from the sale of renewable energy produced and such other income incidental to and arising from the renewable energy generation, transmission, and sale of electric power and thereby determine the corresponding Government Share pursuant to the Act and Department Circular No. DC2009-05-0008, or the Rules and Regulations Implementing Republic Act No. 9513 (RE Act IRR), as may be amended, and compliance by the RE DEVELOPER with its fiscal obligations under the RE Contract.

3. Working Language and Units of Account

The RE DEVELOPER shall maintain all accounts, records, books, reports, and statements for the RE Operations in the English language. The amounts shall be recorded in the United States Dollars and/or Philippine Pesos by the RE DEVELOPER in accordance with the International Accounting Standards as adopted in the Philippines.

4. Currency Translation

To determine the Philippine peso-equivalent of transactions denominated in United States dollars or any other currency, the applicable exchange rate shall be the average exchange rate for the same month of disbursement or receipt as quoted by the *Bangko Sentral ng Pilipinas*.

It is agreed, however, that any adjustments resulting from the exchange of currency required for the use of this RE Operations or from translation above mentioned, shall

be charged or credited to the Operating Expenses. The matter of translation rates will be reconsidered if it is determined that the above methods result in inequities.

5. Accounting Records and Statements

The RE DEVELOPER shall establish and maintain within the Philippines all accounting records directly related to the RE Operations which Statement shall conform to IAS and/or PFRS.

The RE DEVELOPER shall submit to the DEPARTMENT a Statement of All Charges and Credits to the RE Operations, summarized by appropriate classifications indicative of the nature thereof.

In addition, the RE DEVELOPER shall make regular statements relating to the RE Operations as follows:

- a) Expenditure Reports/Investments; and
- b) Statement of Revenues and Government Share.

The Operations Return and other financial reports for this RE Contract shall be accomplished by the RE DEVELOPER and submitted to the DEPARTMENT within sixty (60) calendar days after the end of every Contract Year beginning on the Effective Date of the RE Contract.

All accounts, entries and statements relating to any Contract Year prior to Commercial Operations shall not be binding upon the DEPARTMENT and shall be subject to audit after commencement of Commercial Operations.

6. Audit and Inspection

- a) The DEPARTMENT shall have the right to inspect the RE DEVELOPER's books and accounts directly relating to the RE Contract for any Contract Year.
- b) The period to conduct audit, the prescriptive period of audit, and the review and appeal process of audit and/or assessments shall be in accordance with the Guidelines on the Conduct of Audit and Reportorial and Remittance Obligations of Energy Contractors and/or Energy Resource Developers of the DEPARTMENT.
- c) The DEPARTMENT shall conduct the audit through its own representatives. The RE DEVELOPER shall not be required to incur any cost and expenses as a consequence of the audit: *Provided*, That the RE DEVELOPER, if requested by the DEPARTMENT, shall provide reasonable assistance and logistical support (including, without limitation, suitable office space, equipment, stationery, local area transportation, and other like resources) to its authorized representatives.

In conducting the audit, the DEPARTMENT's authorized representatives shall have the right to examine and verify, at reasonable times, all books, accounts, records, accounting entries, material records and inventories, vouchers, payrolls, invoices, pieces of correspondence, and any other document reasonably deemed by the DEPARTMENT to be necessary, material and relevant for the proper determination of the Government Share for the Contract Year subject of the audit.

The DEPARTMENT's authorized representatives shall also have the right, in connection with such audit, to visit and inspect, at reasonable times, all sites, plants, facilities, warehouses, and offices of the RE DEVELOPER directly serving and/or involved in the RE Operations, and to physically examine other

properties, facilities, and materials inventories used in RE Operations, wherever located, and to question personnel associated with those operations: *Provided further*, That, the DEPARTMENT shall hold in confidentiality all data and information in relation to the RE DEVELOPER's RE Operations in accordance with the provisions on Confidentiality of the RE Contract.

7. Adjustments

All statements rendered to the DEPARTMENT shall be subject to any or such adjustments made by the RE DEVELOPER to assure the correctness and reasonableness of the said statements.

Adjustments shall be made to the accounts, entries and statements relating to any Contract Year after Commercial Operations after due audit thereof by the DEPARTMENT and/or resolution of the exceptions thereto in accordance with the RE Contract.

8. Revision of the Accounting Procedures

In the event of change in accounting standards, both Parties will immediately recognize and implement such change.

ARTICLE II CLASSIFICATION AND DEFINITION OF COST AND EXPENDITURES

1. Segregation of Cost

The cost shall be segregated in accordance with the purposes for which such cost and expenditures are made. All cost and expenditures allowable under Article III hereof, relating to RE Operations, shall be classified, defined, and allocated as set out below in this Article. Expenditure records shall be maintained in such a way as to enable proper recording by the RE DEVELOPER. The cost shall cover the whole process of exploration, development, production, and utilization of RE up to its conversion into electricity, and actual production and/or operation of RE Systems and/or Generation Facilities of the RE DEVELOPER.

The RE DEVELOPER shall reflect in the Statement of All Charges and Credits accounts classified into: (a) exploration, development and production stage expenditures, (b) Cost of Goods Sold, (c) Tangible Investments and (g) other income. Only those classified under these accounts will be subject to audit and inspection stated in Article I, Section 7 (Audit and Inspection), of this Accounting Procedures.

2. Depreciable/Amortizable Tangible Investments

Tangible Investments

Tangible investments include a Generation Facility, property, and equipment including production, processing, storage, transmission lines, transportation, and other facilities and equipment used directly in the RE Operations (the "Tangible Investment/s"). Cost of an item of Tangible Investments shall include:

- i. Cost of construction of the Generation Facility;
- ii. Purchase price of RE materials, equipment or machinery and spare parts, including import duties, subject to proof of payment thereof, and non-refundable purchase taxes, after deducting trade discounts and rebates;

- iii. Any interest charges, fees, or other consideration duly substantiated to have been paid or suffered in respect of financing the Tangible Investments during the construction operations of the Generation Facility: Provided, that any interest charges, fees and other consideration which are not duly substantiated shall not be included as cost of the Tangible Investments;
- iv. Actual restoration cost incurred in accordance with the requirements of the Environment Compliance Certificate (ECC) as may be duly substantiated in coordination with REMB/field office; and
- v. Actual major rehabilitation cost.

3. Pre-Development Stage Expenditures

Pre-Development Stage expenditures shall include: project development cost, comprehensive feasibility studies (scoping, preliminary or investigation, and economic) and reconnaissance survey.

4. Development Cost

All cost attributable to development cost such as ~~but not limited to~~ mechanical, electrical and civil repairs and maintenance, generation, replacement, in-house maintenance activities, overhaul, refurbishment, rehabilitation expenses, expansions, and other cost required for the continuance of the RE Operations.

5. Production Cost

Production cost is generally regarded as those expenditures that are absolutely essential to the production operations. This includes the set of activities, which involves the actual extraction of fluid for commercialization and power generation.

Direct production expenses should be allocated to the functional grouping or classification such as the following:

- i. Power generation costs such as cost of water (water fees), direct labor, plant overhead, plant depreciation and operation and maintenance costs and other charges which are necessary for the generation and transmission of electricity;
- ii. Land and land rights;
- iii. Structures and improvements;
- iv. Cost of facilities in place used for impounding, collecting, storage, diversion regulation and delivery of water;
- v. Cost of installed water turbines (from connection with penstock of flume to tailrace) and generators driven thereby devoted to the production of electricity by water power;
- vi. Cost of installed auxiliary generating apparatus, conversion equipment, and equipment used primarily in connection with the control and switching of electric produced by Hydropower and the protection of electric circuits and equipment;

- vii. Cost of installed miscellaneous equipment in and about the Generation Facility that is devoted to general station use and is not properly includible in other Hydropower production accounts; and
- viii. Cost of roads, railroads, bridges, and trestles used primarily as production facilities; and
- ix. Transmission of electricity up to point of metering/grid.

**ARTICLE III
GROSS INCOME, COST OF GOODS SOLD, AND
EXPENDITURES OF THE RE DEVELOPER**

1. Gross Income and Other Income

- a) Gross Income—shall include those resulting from the sale of RE produced and such other income incidental to and arising from the RE generation, transmission, and sale of electric power. Without prejudice to the foregoing and consistent with IAS and PFRS, Gross Income refers to income derived by the RE DEVELOPER equivalent to gross sales less sales returns, discounts and allowances, and Cost of Goods Sold, excluding other allowable deductions from such gross income authorized by the National Internal Revenue Code of 1997, as amended.
- b) Other incidental income from the RE utilization, generation, transmission, and sale of electric power shall include:
 - i. Revenue received from third parties for the use of the Generation Facility/ies, the cost of which has been charged to the accounts under the RE Contract, including ancillary, but not purchased power from the Wholesale Electricity Spot Market;
 - ii. Other income that is directly attributed to RE Operations, excluding those generally considered gains from activities not involving the RE Resources;
 - iii. Income received incidental to electricity sales such as but not limited to interest received from late collection of receivables; and
 - iv. Any other income similar or analogous to the above.

2. Expenditures allowable as Cost of Goods Sold

The cost and expenditures declared as Cost of Goods Sold shall be subject to audit as provided herein. The Cost of Goods Sold shall be segregated in accordance with the purposes for which the respective Cost of Goods Sold are made. The Cost of Goods Sold shall include all business expenses directly incurred by the RE DEVELOPER to produce the electricity, excluding expenses related to or involving the sale thereof: *Provided*, That the Cost of Goods Sold shall include:

- a) Salaries and wages including benefits and other bonuses of technical personnel directly assigned to the Contract Area;
- b) Direct Materials, Equipment and Supplies;
- c) Other Direct Cost such as depreciation, insurance, damages incurred not covered by insurance, plant utilities expense, repairs and maintenance expense;

and

- d) All other expenses that will directly generate revenues.

3. Items not considered or allowed as Cost of Goods Sold

The following cost and expenditures shall not be considered or allowed as part of the Cost of Goods Sold for the purpose of the computation of the Government Share:

- a) Processing or application fees, bonuses, and other payments made to the DEPARTMENT, such as payments for signature bonus, discovery bonus, production bonus, tax exemption certificates and other DOE-administered funds;
- b) Registration/Application fees with other government agencies;
- c) Fines, penalties, costs and expenditures incurred as a result of willful misconduct or negligence of the RE DEVELOPER;
- d) Membership and club dues not related to professional organizations;
- e) Cost incurred as a result of failure to insure, where insurance is required pursuant to the RE Contract, or where the RE DEVELOPER has under-insured;
- f) Costs incurred to avail of all fiscal and non-fiscal incentives granted under the Act;
- g) Spot market costs and downstream related charges;
- h) Any interest charges, fees, or other consideration paid or suffered in respect of financing the Tangible Investments during the construction operations of the Generation Facility which are not capitalized and/or are treated as outright expense.

4. Other Income

All other income and proceeds received under the RE Contract, including but not limited to the items below, shall be credited to the accounts under the RE Contract, and shall be treated as:

As offset against Cost of Goods Sold:

- i. Proceeds from any insurance or claim or judicial awards in connection with the Operations under the RE Contract;
- ii. Any adjustment, refunds or other credits received by the RE DEVELOPER from the suppliers or manufacturers or their agents in connection with defective materials, the cost of which was previously charged by the RE DEVELOPER to the accounts under the RE Contract; and
- iii. Cost originally charged to the accounts under the RE Contract for materials subsequently exported from the Philippines but not used in the Operations under the RE Contract.
- iv. Rental income of equipment for which cost was charged to particular RE Contract.

*** Nothing follows ***