

DEPARTMENT CIRCULAR NO. DC 2003-05-006

AMENDING CERTAIN PROVISIONS OF PETROLEUM BOARD CIRCULAR NOS. 15 AND 2, SERIES OF 1975 AND 1976, RESPECTIVELY, PROVIDING GUIDELINES TO THE FINANCIAL AND TECHNICAL CAPABILITIES OF A VIABLE PETROLEUM EXPLORATION AND PRODUCTION COMPANY

WHEREAS, the former Petroleum Board now Department of Energy issued Circular Nos. 15 and 2 , Series of 1975 and 1976 , respectively, providing guidelines related primarily to the financial and technical capabilities of a viable petroleum exploration and production company.

WHEREAS, it is necessary to amend certain provisions of the said Circular to make it attuned to the conditions under which it is being implemented and considering that petroleum exploration and production is highly capital intensive.

NOW, THEREFORE, the DEPARTMENT hereby adopts and promulgates the following amendments to certain provisions of Petroleum Board Circular Nos. 15 and 2 , Series of 1975 and 1976, respectively:

Section 1. 3rd and 5th Paragraphs of Circular No. 15 is hereby amended to read as follows:

Considering that establishing the capitalized value of a company differs in different countries, a company who will engage in onshore exploration and offshore exploration ventures may be considered as a viable exploration company if the DEPARTMENT is satisfied in the adequacy of its financial resources. Likewise, the exploration company should show that it has sufficient resources to meet future requirements.

Section 2. Paragraph *a.* of Circular No. 2 on the *Financial Qualification* is hereby amended to read as follows:

a) Financial Qualification

A company to be financially qualified to **enter** into a service contract must have a minimum working capital **equivalent to one hundred percent (100%) of the cost of the firm Work Obligation on the area being applied for.** In case of consortium, **to qualify, each member's working capital shall be pro-rata based on its participating interest in the service contract.** "Working Capital," in the concept of the guidelines, refers to the company's net liquid assets (Liquid Assets less Current Liabilities) consisting primarily of cash, temporary investments (marketable securities), short-term receivables and deposits **which are free for investment in petroleum operation.**

It is understood that the **available working capital should be net of the financial commitment from other existing service contracts. In addition, each consortium member should have an acid-test ratio of 1.5:1 and a debt/equity ratio of 3:1.**

Section 3. Additional Provisions are hereby inserted between paragraph (C) and the penultimate paragraph of Petroleum Board Circular No. 2, series of 1976, to read as follows:

- a) **In case of a newly organized subsidiary company which is willing to engage in petroleum operations but its capital is not sufficient to meet the minimum requirement, its parent company shall be required to submit its financial statements and provide support to a subsidiary through a parent guarantee.**
- b) **Past exploration expenditures incurred by a contractor shall be included in the new service contract as an operating expense and cost recoverable in case of production subject to the validation of the DEPARTMENT. Such expense however, shall be limited to the past expense relative to the same area subject of the application and participating interest of the contractor. In the event, that the area covered by prior service contract is bigger than the area applied for, such expense shall be pro-rated to effect the actual expenses to be carried in the new service contract.**

Section 4. Repealing Clause

All other circulars, rules and regulations inconsistent with this Department Circular are hereby modified, amended and repealed accordingly.

Section 5. Effectivity

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

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

VINCENT S. PÉREZ
Secretary