

[**PRESIDENTIAL DECREE NO. 1857, January 01, 1983**]

AN ACT GRANTING NEW INCENTIVES TO PETROLEUM SERVICE CONTRACTORS, AND FOR THIS PURPOSE AMENDING CERTAIN SECTIONS OF PRESIDENTIAL DECREE NUMBERED EIGHTY-SEVEN, AS AMENDED, OTHERWISE KNOWN AS "THE OIL EXPLORATION AND DEVELOPMENT ACT OF 1972"

WHEREAS, one of the more important policy decisions in the area of oil and gas exploration and development is the adoption of the service contract system embodied in Presidential Decree No. 87, as amended, also known and cited as the "Oil Exploration and Development Act of 1972 ";

WHEREAS, the service contract system which attracted foreign capital and expertise in an area where local resources are not adequate, allows maximum benefits to the Philippine Government and at the same time providing reasonable returns to companies that render financial and technical services and assume all the risk of oil exploration;

WHEREAS, while the results from the implementation of the service contract system has so far been encouraging giving the country several hydrocarbon discoveries and three producing oil-fields, it is necessary that we offer improved fiscal and contractual terms to service contractors in order for the Philippines to continue her oil exploration momentum in the light of current world-wide developments that has caused drastic cutbacks in exploration budgets of most exploration companies;

WHEREAS, eight (8) exploratory wells have been drilled so far in waters deeper than 200 meters or 600 feet, of which two (2) are discoveries, which give deep-water drilling new significance in Philippine petroleum operations;

WHEREAS, there is a need to provide for a new set of incentives to revitalize interest and encourage more drilling activity in our country, with special reference to deep water oil exploration;

NOW, THEREFORE, I, FERDINAND E. MARCOS, President of the Philippines, by virtue of the powers vested in me by the Constitution, do hereby decree as follows:

SECTION 1. Section Three of Presidential Decree numbered Eighty-Seven, is hereby amended by adding, after subparagraph (u) thereof, three new subparagraphs to be known as subparagraphs (v), (w) and (x) to read as follows:

"(v) "Deepwater Contract" refers to a service contract at least eighty-five percent (85%) of the total contract area are in water depths beyond 200 meters.

"(w) "Deepwater Contractor" means the contractor in a deepwater contract, whether acting alone or in consortium with others.

"(x) "Deepwater Well" refers to a well drilled on Water depths beyond 200 meters, whether within or without a deep-water contract."

SEC. 2. Subparagraph (1) of the second paragraph of Section 8 of the same decree, is hereby amended to read as follows:

"(1) On behalf of the Government, reimburse the Contractor for all operating expenses not exceeding seventy percent (70%) of the gross proceeds from production in any year: *Provided*, that if in any year, the operating expenses exceed seventy percent (70%) of gross proceeds from production, then the unrecovered expenses shall be recovered from the operations of succeeding years.

"The provisions of Sections 21, 22 and 23 hereof to the contrary notwithstanding, reimbursement of all operating expenses of the contractor includes amortization, depreciation and interest as *provided* hereunder:

"(a) *Amortization and Depreciation.*—Intangible exploration costs may be reimbursed in full. All tangible exploration costs such as capital expenditures and other recoverable capital assets are to be depreciated for a period of five (5) years under the straight-line or double-declining balance method of depreciation at the option of the contractor."

"(b) Any interest or other consideration paid or suffered in respect of the financing as approved by the Government of its development and production operations shall be reimbursed to the extent of two-thirds (2/3) of the amount thereof, except interest on loans or indebtedness incurred to finance exploration operations.

SEC. 3. A new section to be known as Section Ten-A, is hereby inserted between sections ten and eleven of the same decree to read as follows:

"SECTION 10-A. Deepwater Contract, Deepwater Contractor and Deepwater Well.

"(a) *Cross Recovery Allowed.*—Subject to cost recovery limitation as *provided* in the Contract, there shall be allowed the cross recovery of the operating expenses incurred by a deepwater contractor or its affiliate in two or more areas under different deepwater contracts and in the drilling of deepwater well as if they are covered by a single contract.

"(b) Cross Recovery Rules

1. *Year to Which Cross Recovery May be Carried.* —Operating expenses incurred preceding the date of production shall be cross-recoverable starting on the date of production:
2. *Amount of Cross Recovery* —
 - a. The entire amount of operating expenses incurred within ten (10) years preceding the date of production shall be cross-recoverable;
 - b. Operating expenses incurred more than 10 years preceding the date of production shall be reduced by an amount equal to twenty percent (20%) thereof, for each year beyond ten (10) years preceding the date of production.
3. *Time to Avail Incentive.*— Cross Recovery of operating expenses set forth in this section shall be allowed for a period of ten (10) years