The Malampaya Deepwater Gas-to-Power Project

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Topics

- Project background
- Gas market – Contract volume
- Gas transportation
- Gas price
- Incentives, subsidies and taxes
- Role of government
Malampaya Project Description

- US$ 4.5 B project – single biggest investment in the country
- Undertaken by a consortium (SC 38) composed of:
  - Shell - 45%
  - Texaco - 45%
  - PNOC-Exploration Corp. -10%
- SC 38 signed in December 1990
- Malampaya discovery in 1991
- Recoverable reserves:
  - 3.2 TCF of natural gas
  - 118 MMB of condensate
  - 30 MMB of oil (19-57 MMB of oil)

Project Milestones (Discovery – First gas)
Project Schematic Diagram

Malampaya Gas Market

- Will initially fuel 2700 MW power plants for 20 years:
  - 1200 MW Ilijan (NPC)
  - 1000 MW Sta.Rita (First Gas Power Corp.)
  - 500MW San Lorenzo (FGP Corp)
- 400 MMSCFGPD production
Gas Price

- US$ 3.3 – 4/GJ
- Price applied to the Gross Calorific Value of the natural gas
- Pricing formula factors:
  - US Consumer Price Index
  - Prices of
    - Fuel Oil
    - Gasoil
    - Dubai Crude Oil
    - Oman Crude Oil

Incentives, subsidies and taxes

PRIVILEGES OF THE CONTRACTOR

- Service fee of up to 40% of net production
- Cost reimbursement of up to 70% gross production with carry-forward of unrecovered costs
- Filipino Participation Incentive Allowance (FPIA) grants of up to 7.5% of the gross proceeds for service contract with minimum Filipino company participation of 15%
- Exemption from all taxes except income tax
- Income tax obligation paid out of government's share
PRIVILEGES OF THE CONTRACTOR

- Exemption from all taxes and duties for importation of Materials and equipment for petroleum operations
- Easy repatriation of investments and profits
- Free market determination of crude oil prices, i.e., prices realized in a transaction between independent persons dealing at arms-length
- Special income tax rate of 8% of gross Philippine income for subcontractors
- Special income tax rate of 15% of Philippine income for foreign employees of service contractors and subcontractors

Benefits from Malampaya

- To generate about 30% of Luzon’s total electricity Supply in 2002 (assuming full gas utilization)
- To displace around 18 MMBFOE in 2002 which is worth US$ 462MM (using 2000 price of US$ 25.8/bbl)
- Equivalent to around 7% of 2002 energy mix
- Revenue (2002-2021): US$ 8.1 B
Government Role

Proclamation No. 72 (July 2001)

- Establishment of safety and exclusion zones for offshore natural gas wells, flowlines, platform, pipelines, loading buoys and other related facilities for the Malampaya Deepwater Gas-to-Power Project over certain waters and submerged lands adjacent to Batangas, Mindoro and Palawan

- Establishment of the Inter-Agency Committee (IAC) with the following subcommittees:
  - Security – DND, AFP, PCG, PNP
  - Enforcement – DILG, AFP, PCG, PNP, BFAR, ATO, PPA, NTC, MGB, MARINA
  - Information, Education & Communications – DOE, DILG, DENR, MARINA, ATO, BFAR