**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 RE Service Contract (GSC No.) (the “RE Contract”) between the Republic of the Philippines, acting through the Department of Energy, and <***Company Name***> 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 consistent with the NIRC and subject to the rules, regulations and policies of the Bureau of Internal Revenue (BIR).

1. **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 derived from the generation and sale of electricity from RE Resources, and the transmission of the same to its intended location and use for purposes of determining the corresponding Government Share pursuant to the terms of the RE Contract, and compliance by the RE DEVELOPER with its fiscal obligations under the Act consistent with the NIRC, and subject to the rules, regulations and policies of the BIR.

**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**

For the conversion purposes for transactions between United States Dollars and Philippines Pesos or any other currency, the applicable exchange rate shall be the exchange rate as quoted by the Philippine Dealing Systems at the close of business on the last banking day of the same month of disbursement or receipt or if there were such quotations  on that day, then such rates on the most recent day in such preceding month during which such quotations or on such basis as may be agreed upon by the parties:  Provided, however, That in the event of a significant change in the rate of exchange after the end of the preceding month, then all transactions after such re-evaluation until the end of that month shall be translated at the rates in effect on the day of the transactions.

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**

All accounting records directly related to the RE Operations shall be established and maintained by the RE DEVELOPER within the Philippines.

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

Notwithstanding the generality of the foregoing, 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 should be accomplished and submitted by the RE Developer to the DEPARTMENT on a per contract basis within sixty (60) days after the end of each quarter of a Calendar Year.

**6. Adjustments**

Subject to the provisions of Books of Accounts and Audits of the RE Contract, all statements rendered to the DEPARTMENT by the RE DEVELOPER during any Calendar Year shall conclusively be presumed to be true and correct and reasonable, unless within the period provided in said Section, the DEPARTMENT takes written exception thereto and makes claim on the RE DEVELOPER for adjustment. Failure on the part of the DEPARTMENT to make a written claim on the RE DEVELOPER for adjustment within such period shall establish the correctness and reasonableness thereof and preclude the filing of exceptions thereto or making claims for adjustment thereon. 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.

**7.** **Audit and Inspection**

The DEPARTMENT shall undertake the conduct of the audit through its own representatives. The RE DEVELOPER shall not be required to incur any cost and expenses as a consequence of any such access: *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 the representatives authorized by the DEPARTMENT using its existing resources. The cost of such audit shall be borne by the RE DEVELOPER.

In conducting the audit, the auditors shall be entitled to examine and verify, at reasonable times, all charges and credits relating to the RE DEVELOPER’s activities under the RE Contract, and all books of accounts, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other documents, pieces of correspondence, and records considered necessary by the DEPARTMENT to audit and verify the charges and credits. The auditors 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 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 of Confidentiality of the RE Contract.

**8. Revision of the Accounting Procedures**

By agreement between the Parties, this Accounting Procedures may be revised from time to time, in writing and signed by the Parties, stating the date upon which the amendments shall become effective.

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, 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 point of metering/grid, 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:

1. Cost of construction of the Generation Facility;
2. Purchase price, including import duties, and non-refundable purchase taxes, after deducting trade discounts and rebates;
3. 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;
4. Any cost directly attributable to bringing the property in commercial operation or ready to use;
5. Actual restoration cost incurred in accordance with the requirements of the Environment Compliance Certificate (ECC); and
6. Actual major rehabilitation cost.
7. **Pre-Development Stage Expenditures**

Pre-Development Stage expenditures shall include but not be limited to: project development cost, comprehensive feasibility studies (scooping, preliminary or investigation, and economic), permits and endorsements, geological, geochemical and geophysical surveys, drilling of exploratory wells, resource assessment, Grid Impact Study (GIS), Transmission and Connection Agreement, Detailed Engineering Design , plant design.

**4. Development Cost**

All cost attributable to development cost such as but not limited to resource management, drilling of production and injection wells, steamfield facilities, 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 Geothermal 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:

1. Well operations and maintenance;
2. Land and land rights;
3. Separation and measurement
4. Structures and improvements;
5. Fluid Collection and Re-injection System (Steam Gathering and Waste Disposal)
6. Cost of installation of steam turbine and generators driven thereby devoted to the production of electricity;
7. Cost of installed auxiliary generating apparatus, conversion equipment, and equipment used primarily in connection with the control and switching of electric produced and the protection of electric circuits and equipment;
8. 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 energy production accounts;
9. Cost of roads, railroads, bridges, and trestles used primarily as production facilities;
10. Labor and overhead costs; and
11. 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 Revenues and Other Income**

1. Gross Revenues shall be valued in accordance with the RE Contract.
2. Other incidental income from the RE utilization, generation, transmission, and sale of electric power are as follows:
3. 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; and
4. Other income that is directly attributed to RE Operations, excluding those generally considered gains from activities not involving the RE Resources.
5. Income received incidental to electricity sales such as but not limited to interest received from late collection of receivables.

**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 any and all cost and expenditures directly incurred, by the RE DEVELOPER further or in relation to the conduct of its RE Operations pursuant to the RE Contract: *Provided*, That the Cost of Goods Sold shall include the following:

1. **Amortization** **of Surface** **rights, lease rights, and easement rights**

Surface rights, lease rights, and easement rights shall refer to all direct cost attributed to the acquisition, renewal, or relinquishment of surface rights, lease rights, and easement rights acquired and maintained in force for the RE Operations when paid by the RE DEVELOPER in accordance with the provisions of the RE Contract.

**b) Labor Cost – Regular and Contracted**

i. Salaries, wages, and benefits of the RE DEVELOPER’s technical employees directly assigned to the Contract Area shall include everything constituting gross pay to employees as reflected on the RE DEVELOPER’s payroll including, but not limited to, overtime pay, rest day pay, holiday pay, vacation pay, and vacation travel pay, sickness and disability benefits, bonuses, and customary allowances;

1. The cost of expenditures or contributions made pursuant to obligations imposed by governmental authority on the labor cost or salaries and wages of technical employees directly assigned to the Contract Area;
2. The cost in relation to training and development of technical employees with functions, directly related to the operations of the Generation Facility/ies;

iv. Personal income and fringe benefit taxes of technical employees directly assigned to the Contract Area when they are paid by the RE DEVELOPER to the Government of the Philippines for the employee, in accordance with the RE DEVELOPER’s standard personnel policies;

v. The RE DEVELOPER’s cost of established plans for technical employee’s group life and accident insurance, health insurance, pension retirement, and thrift and other benefits of like nature for employees directly assigned to the Contract Area; and

vi. For home office-based Technical employees, salaries, wages, and benefits shall be charged as part of Direct Labor Cost based on the percentage of time directly spent in the RE Operations of the Generation Facility/ies.

**c) Materials, Equipment, and Supplies**

i. General

 As far as it is reasonable, practicable, and consistent with efficient and economical operation, only such materials as may be required for use in the reasonably foreseeable future shall be purchased or furnished by the RE DEVELOPER for use in the RE Operations. Materials and equipment held in inventory shall only be charged as Cost of Goods Sold when such materials and equipment are removed from inventory and used in the RE Operations.

ii. Value of materials charged to the account under the RE Contract

 Materials, equipment, or supplies purchased by the RE DEVELOPER for use in the RE Operations shall be valued to include invoice price less trade and cash discounts, if any, plus purchase and procurement fees, freight, and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, custom duties, consular fees, brokerage fees, other items chargeable against imported material and, where applicable, handling and transportation cost from point of importation to warehouse or operating site, installation cost and in-transit losses not recovered through insurance, and these cost shall not exceed those currently prevailing in normal arm’s length transactions in the open market.

 Any adjustment received by the RE DEVELOPER from the suppliers or manufacturers or their agents in connection with defective materials shall be adjusted accordingly against the cost of the materials, equipment, and supplies previously charged under the RE Contract.

**d) Rental Expenditures**

The rental expenditures shall include rent incurred by the RE DEVELOPER relative to the land rental of both private and public lands, building and facilities, RE equipment, machineries, other computer peripherals, transportation vehicles, software programs and licenses, including land rental of both private and public lands adjacent to the Contract Area.

**e) Transportation Cost**

i. Reasonable transportation and travel expenses of consultants and third parties performing work in relation to the RE Operations, and employees directly assigned to the Contract Area including but not limited to those made for travel and relocation of the Expatriate Employees; and

ii. Reasonable cost of transportation of equipment, materials and supplies, including those directly related cost, such as unloading charges, dock fees and inland and ocean freight charges for such equipment, materials, and supplies directly related to the RE Operations.

**f) Services**

The actual cost of contract services, services of professional consultants, utilities, and other services, such as engineering, operations, maintenance, and technical advisory services that are directly necessary for or incidental to the RE Operations performed by third parties and Affiliates.

**g) Damages and Losses**

Damages and losses shall include, in compliance with accounting standards, all cost or expenses necessary to replace or repair damages or losses directly related to RE Operations not recovered from insurance incurred by Force Majeure. The RE DEVELOPER shall furnish the DEPARTMENT with written notice of damages or losses incurred as soon as practicable after report of the same has been received by the RE DEVELOPER. The RE DEVELOPER may be allowed to immediately claim expenses arising from such cost or expenditure prior to actual recovery of insurance proceeds.

**h) Communication**

i. The cost of leasing, operating, repairing, and maintaining communication systems, including radio and satellite communication facilities directly related to the RE Operations; and

ii. For home office-based Technical employees, the cost of the communication facilities shall be charged based on the percentage of usage of these facilities directly related to the RE Operations.

**i) Depreciation of Tangible Investment**

The cost of physical assets classified as depreciable in accordance with the International Accounting Standards as adopted in the Philippines as may be applicable to or relevant to the RE industry and as defined in Article II, Section 2 (Depreciable/Amortizable Tangible Investments), incurred and purchased and/or fabricated by the RE DEVELOPER, and used by the RE DEVELOPER in its RE Operations shall include such cost as export broker’s fees, purchasing agent’s fees, transportation charges, loading and unloading fees, license fees associated with the procurement of materials and equipment, duties and customs fees, in-transit losses not recovered through insurance, and installation cost necessary to put the property ready for use. All Tangible Investment acquired during the Pre-Development Stage or Development/Commercial Stage shall be allocated as part of the Cost of Goods Sold over the estimated useful life of the assets, including the cost of the following:

1. Production and injection wells
2. Well testing equipment
3. Fluid gathering equipment
4. Fluid separation equipment
5. Power Plant and civil works
6. Pipelines
7. Laboratory equipment
8. Field survey equipment
9. Site Office furniture and fixtures/equipment used in direct support of Geothermal Operations
10. Tools and equipment
11. Automotive equipment
12. Communication facilities
13. Housing facilities used in direct support of Geothermal Operations
14. Leasehold improvements with estimated life of over one (1) year
15. Other capital expenditures classified as tangible investments following generally accepted RE industry accounting principles and practices.

**j) Amortization of Leasehold Improvements**

Improvements and betterments on leasehold that are directly used in the RE Operations can be capitalized in accordance with the International Accounting Standards as adopted in the Philippines. Such expenditures shall be amortized over its estimated economic life.

**k) Amortization of Intangible Investments Software Licenses**

Notwithstanding any other provision of this Accounting Procedures software licenses directly related to the RE Operations shall be amortized based on RE Developer’s policy or ten (10) years whichever is shorter and, shall form part of the Cost of Goods Sold.

**l) Other Plant Overhead** directly related to the operations of the Generation Facilities, such as plant insurance, safety expense, freight and handling expense, reforestation and environmental expense, gas and oil, permits, and licenses.

**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:

1. 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;
2. Registration/Application fees with other government agencies;
3. Expenditures in respect of any financial transaction to negotiate, float, or otherwise obtain or secure funds;
4. Fines penalties, costs and expenditures incurred as a result of willful misconduct or negligence of the RE DEVELOPER;
5. Cost incurred in the creation of any partnership or joint venture arrangement;
6. Membership and club dues not related to professional organizations;
7. 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; and
8. Spot market costs and downstream related charges.

**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:

Proceeds from any insurance or claim or judicial awards in connection with the Operations under the RE Contract;

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;

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.