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## REVISED GUIDELINES ON INDEX-BASED PRICING FOR PROCUREMENT OF PETROLEUM, OIL, AND LUBRICANT PRODUCTS

### 1. SCOPE AND APPLICATION

These guidelines shall govern the use, under extraordinary circumstances, of an index-based pricing scheme for procurement of petroleum, oil, and lubricants (POL) in accordance with Section 61 of Republic Act No. 9184 (R.A. 9184), otherwise known as “Government Procurement Reform Act” and its Implementing Rules and Regulations Part A (IRR-A), and the GPPB Guidelines for Contract Price Escalation.

These rules and procedures shall govern the procurement of POL by the national government, its departments, bureaus, offices and agencies, including state universities and colleges, government-owned and/or controlled corporations, government financial institutions and local government units when POL is a major operational requirement necessary for the prosecution of their principal mandate. Procurement of POL from retailers or dealers other than major suppliers as hereafter defined, or from those who are engaged in the business of selling the same to the general public for ultimate consumption and which are sold at pump prices shall not be subject to these guidelines.

### 2. PURPOSE

These guidelines are formulated to meet the following objectives:

- 2.1. To identify the conditions for the applicability of the index-based pricing scheme in the procurement of POL products by a procuring entity.
- 2.2. To prescribe the rules and procedures on the use of index-based pricing scheme for the procurement of POL.

### 3. DEFINITION OF TERMS

- a. **Bid Price-** refers to the difference of the WPP of the prospective supplier less discounts given plus delivery cost, in case of procurement using the WPP index; and the sum of MOPS or ICIS-LOR assessments, the premium imposed and delivery cost, in case of procurement using the MOPS or ICIS-LOR index;

- b. **Bulk Procurement** – refers to any procurement which, by the totality of its POL requirements and by their sheer volume, necessitates procurement from major suppliers for purpose of economies of scale.
- c. **Total Contract Price** - refers to the aggregate of the amounts set by a procuring entity, as the ceiling, to meet the volume requirement for each type of POL product; the value of which shall not exceed the approved budget for the contract (ABC).
- d. **Delivery Cost** - refers to cost of freight incurred by the Supplier from the source to the delivery point, i.e., refinery to delivery point for deliveries ex-refinery, or oil terminal/depot to delivery point for deliveries ex-depot
- e. **Discounts** - refers to the total deductions from the WPP.
- f. **Expanded Value Added Tax (E-VAT)** - refers to a consumption tax on the sale or importation of goods and services in the ordinary course of business.
- g. **Extraordinary Circumstance** - refers to an event or occurrence, or series of events or occurrences, before or during contract implementation, which give(s) rise to price movements in petroleum and its derivative products.
- h. **Independent Commodity Information System – London Oil Report or ICIS-LOR-** refers to an information provider for the chemical and oil industry, and is part of the Reed Business Information Ltd., a private entity, based in London with office in Singapore
- i. **Major Suppliers** - refer to POL wholesale suppliers and who, in the operation of their business, either maintains a refinery in the Philippines or directly imports POL products from production or trading venues.
- j. **Mean of Platts Singapore or MOPS** - refers to the mean of the high and low components of a Platts assessment for oil cargoes loading from Singapore as officially released by Platts, a publishing/trading house based in Singapore which publishes daily information on oil price and shipping rates.
- k. **Petroleum, Oil, and Lubricant or POL Products** - for purposes of these guidelines, shall refer to those enumerated in Section 5 hereof.
- l. **Premium** - refers to all applicable and reasonable cost or expenses (i.e. ocean freight, marine insurance, bank charges, ocean loss,

storage/handling/throughput fees, profit, margin, etc.) to arrive at a landed cost of petroleum, oil and lubricant in the Philippines.

- m. **Wholesale Posted Price or WPP**- refers to the reference fuel prices individually set by local refiners and traders subject to periodic changes based on the movement in crude oil prices, foreign exchange, and all other costs as verified and confirmed by the Department of Energy (DOE).

#### 4. **CONDITIONS FOR APPLICABILITY OF THESE GUIDELINES**

These guidelines shall be applicable in cases of bulk procurement of POL by the national government, its departments, bureaus, offices and agencies, including state universities and colleges, government-owned and/or controlled corporations, government financial institutions and local government units where POL procurement is a major requirement in their operations. For this purpose, procuring entities intending to use these guidelines for their POL procurement shall notify the Government Procurement Policy Board (GPPB) in writing.

POL requirements shall be considered major if the use of the same are necessary in the primary operation of the procuring entity and in the prosecution of its principal mandate. The duration of the contract to cover the POL requirement of the procuring entity shall not exceed one (1) year, without prejudice to the applicability of any guidelines that may govern multi-year contracts.

#### 5. **INDEX-BASED PRICING FOR PETROLEUM, OIL AND LUBRICANT PRODUCTS**

5.1. The WPP index shall be used in the procurement of the following products:

- i. Premium, Unleaded or Regular Gasoline;
- ii. Automotive Diesel Oil
- iii. Jet A-1;
- iv. AVGAS

5.2. The MOPS index shall be used in the procurement of the following products:

- i. Industrial Fuel Oil;
- ii. Low Sulfur Fuel Oil; and

iii. Industrial Diesel Oil.

- 5.3. In the procurement of all types of lubricant products, the procuring entity may adopt either a fixed or index-based pricing. If its assessment or cost-benefit analysis indicates that index-based pricing is more advantageous, then it shall adopt the ICIS-LOR index.
- 5.4. The foregoing list shall be subject to annual review, modification or re-classification by the GPPB, or as often as it deems necessary.

**6. WPP, MOPS AND ICIS-LOR-BASED PRICING SCHEME**

- 6.1. For the procurement of products using the WPP index, the Bid Price shall be determined based on the prospective supplier's WPP ten (10) days prior to the date of bid opening as verified with the Oil Industry Management Bureau of the Department of Energy, subject to the rules under Item 7 hereunder.
- 6.2. For the procurement of products using the MOPS index, the Bid Price shall be determined based on the average MOPS of the immediately preceding calendar month prior to the date of bid opening, subject to the rules under Item 7 hereunder.
- 6.3. For the procurement of lubricant products using the ICIS-LOR index, the Bid Price shall be determined based on the average ICIS-LOR assessments of the immediately preceding calendar month prior to the date of bid opening as officially released by ICIS-LOR, Singapore.

**7. BID AND CONTRACT PRICES**

- 7.1. Bid Prices for procurement using the WPP index shall be the individual WPP of the prospective supplier less the discounts given, if any, plus delivery cost. On the other hand, the Bid Price for procurement using the MOPS and ICIS-LOR indices in accordance with Sections 5.2 and 5.3 hereof shall be the MOPS or ICIS-LOR plus premium and delivery cost charged by the bidder.
- 7.2. Cost for E-VAT and other governmental costs which fall equally on all prospective suppliers are presumed to be included in the computation of the bid price.

**8. BID EVALUATION AND COMPARISON OF BIDS**

- 8.1. For purposes of bid evaluation and/or comparison of bids, regardless of the index used, the Lowest Calculated Bid shall be determined by identifying the bidder who offered the lowest Bid Price.
- 8.2. For purposes of payment, the discount or premium and the delivery cost stated in the contract shall be fixed from the time of the bidding through the term of the contract.

## **9. ACTUAL PRICES PAYABLE**

- 9.1. The amount to be paid by the procuring entity for POL requirements actually delivered and duly received by it shall be: (i) the WPP less the discounts offered, if any, plus the delivery cost charged, at the date of actual delivery; or (ii) the MOPS or ICIS-LOR, plus the premium imposed and the delivery cost charged, referenced to the average of the MOPS or ICIS-LOR of the calendar month immediately preceding the date of actual delivery.
- 9.2. For staggered deliveries, the procuring entity shall make, after every delivery, an accounting of the amount actually payable based on the date of the delivery receipt to determine the allowable unit/volume that may still be ordered from the remaining amount allotted for each POL product. The procuring entity shall be allowed to make adjustments in the units/volume to be delivered per type of product to conform to the remaining amount in the total contract price.
- 9.3. For contracts stipulating consignment whereby a supplier makes a delivery of POL products to a procuring entity's holding area and payment is based on volume consumed, the actual price payable shall be determined based on the weighted average of the applicable index from the date the order is placed up until the cut-off date for payments agreed upon by the parties. The same rule shall apply for contracts where a major supplier delivers the POL products to the procuring entity through its authorized stations and/or distribution centers.
- 9.4. If during contract implementation, the total contract price for the project would have been consumed notwithstanding that the requirements were not fully delivered in the units/volume contemplated, no further order and payments shall be made. This provision shall form part of the bidding documents.

## **10. EFFECTIVITY**

These Guidelines amend GPPB Resolution No. 09-2006, dated 10 April 2006 and



## Annex “A”

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shall take effect fifteen (15) days after publication in the Official Gazette or in a newspaper of general nationwide circulation and upon filing with the University of the Philippines Law Center of three (3) certified copies.