

DEPARTMENT CIRCULAR NO. DC2023-___ - _____

**PRESCRIBING THE POLICY FRAMEWORK ON THE DEVELOPMENT
OF NATURAL GAS POWER GENERATION FACILITIES
IN THE LUZON MAIN GRID IN SUPPORT TO
ENERGY TRANSITION**

WHEREAS, Section 5 of Republic Act (RA) No. 7638 or the Department of Energy Act of 1992, as amended by Section 37 of RA 9136 or the Electric Power Industry Reform Act of 2001 (EPIRA), mandates the Department of Energy (DOE), among others, to:

1. Develop and update annually the existing Philippine Energy Plan (PEP), which shall provide for an integrated and comprehensive exploration, development, utilization, distribution, and conservation of energy resources;
2. Ensure the reliability, quality, and supply of electric power;
3. Encourage private sector investments in the electricity sector;
4. Establish and administer programs for the exploration, transportation, marketing, distribution, utilization, conservation, stockpiling, and storage of energy resources of all forms, whether conventional or non-conventional;
5. Develop policies and procedures and, as appropriate, promote a system of energy development incentives to enable and encourage electric power industry participants to provide adequate capacity to meet demand including, among others, reserve requirements; and
6. Endeavor to provide for an environment conducive to free and active private sector participation and investment in all energy activities.

WHEREAS, the DOE, in the PEP 2020-2040, recognized the need to develop natural gas as transition fuel to address the increasing demand for electricity (1) to ensure sustainability and availability of energy and (2) to wean away from traditional sources and development of alternative fuels;

WHEREAS, the DOE, in line with its mandate and the objective of the PEP 2020-2040, supports the importation of natural gas and likewise aims to make the Philippines as a major player in the Asia-Pacific Region through the development and operation of LNG facilities. This strategy is aligned with the natural gas industry development in the country to ensure the continued operation of existing natural gas-fired power plants, as well as future natural gas projects;

WHEREAS, the natural gas-fired power plants share a total dependable capacity of 3,281 MW which is 13.3% of the country's share and 18.8% of the Luzon grid's share;

WHEREAS, EPIRA provides that all Distribution Utilities (DUs) shall have the obligation to supply electricity in the least-cost manner to its Captive Market, subject

to the collection of retail rate duty approved by the Energy Regulatory Commission (ERC):

WHEREAS, the un-contracted energy requirements of DUs provide the window of opportunity for the existing and potential private investors to contract these out and invest in additional power generation capacities, both conventional and renewable energy (RE);

WHEREAS, adequate and proper power supply contracting by the DUs ensures electricity demand is met, while electricity end-users are protected from unnecessary exposure in the volatility of spot prices in the Wholesale Electricity Spot Market (WESM);

WHEREAS, in consideration of the ample supply of indigenous natural gas that can be produced from the Malampaya, President Ferdinand R. Marcos, Jr. has signed on 15 May 2023 the Renewal Agreement for the Malampaya Service Contract No. 38 (SC 38) with contract period of fifteen (15) years or until 22 February 2039, allowing for the continued production of the Malampaya gas field and ensuring that the remaining gas reserves are further explored and utilized;

WHEREAS, the DOE has established that the price of indigenous gas from Malampaya is less volatile and is cheaper compared to LNG, thus, deems it necessary to promulgate a policy for the electricity consumers equitable access to lower cost of fuel from Malampaya;

WHEREAS, the DOE has issued Department Order No. DO2023-05-0015 entitled, *“Enjoining the Energy Regulatory Commission (ERC) and Other Concerned Entities to Ensure Non-discriminatory Treatment of Generation Facilities Utilizing LNG in Accordance with their Respective Mandates”*, which declares the following:

1. The LNG is recognized as different from indigenous natural gas in terms of pricing structure, hence, the corresponding generation cost of LNG fuel should differ from the latter;
2. The ERC is enjoined to have non-discriminatory treatment to LNG-fired power plants in terms of pass-through cost; and
3. The Market Operator, the System Operator, and the Wholesale Electricity Spot Market Governance Arm shall ensure that all LNG-fired power plants are afforded a level playing field;

NOW THEREFORE, in consideration of the foregoing, the DOE hereby issues and promulgates the following guidelines for the development of natural gas power generation facilities in the Luzon main grid in support to energy transition.

Section 1. General Principles Objectives. This Circular is hereby promulgated to:

- 1.1. Ensure optimal allocation of indigenous natural gas for the provision of reasonably priced and reliable supply of electric power;

- 1.2. Encourage the further development of natural gas industry, both indigenous and imported, which may include the aggregation of the demand market;
- 1.3. Ensure transparent and competitive environment among natural gas stakeholders;
- 1.4. Support and facilitate immediate, non-discriminatory and timely investments in new or additional natural gas capacities; and
- 1.5. Ensure adequate supply and reasonably priced electricity in the country from natural gas-fired power generation facilities.

Section 2. Scope. This Circular shall apply to all natural gas stakeholders engaged in the generation, distribution and transmission of natural gas-fired power in the Luzon main grid.

Section 3. Responsibilities of DUs

- 3.1. All DUs shall source a percentage of their demand as determined by the DOE, from natural gas-fired power generation facilities.
- 3.2. All DUs shall prepare and submit the Distribution Development Plan (DDP) and Power Supply Procurement Plan (PSPP) integrating the mandated percentage power supply sourced from the natural gas-fired power generation facilities.

In case a DU is fully contracted, it shall reflect in its DDP and the PSPP the mandated percentage to be sourced from natural gas-fired power generation facilities for its future power supply.

- 3.3. The DUs shall source their mandated natural gas requirements through auction, WESM or Competitive Selection Process (CSP).

Section 4. Responsibilities of owners and/or operators of natural gas-fired power generation facilities

- 4.1. The natural gas-fired power generation owners and/or operators shall ensure compliance with their reportorial requirements and submissions to the DOE and concerned agencies such as ERC, the Market Operator and System Operator, among others.
- 4.2. All natural gas-fired power generation owners and/or operators may be mandated by the DOE to participate in the auction.

Section 5. Responsibilities of the DOE

- 5.1. Determine the mandated minimum percentage (MMP) that DUs are required to source from natural gas-fired power generation facilities.
- 5.2. Determine the aggregated demand of all DUs based on the MMP referred to in Section 5.1. hereof.

- 5.3. Prepare an inventory of available natural gas-fired power generation capacity.
- 5.4. Design the mechanism, processes, protocols and requirements for the procurement of capacity from natural gas-fired power generation facilities, which may include, but not limited to, auction and power market.
- 5.5. Coordinate with its attached agencies and other relevant government entities in the implementation of this Circular.
- 5.6. Other necessary and incidental activities to achieve the objectives of this Policy.

Within sixty (60) days from the effectivity of this Circular, and after due determination, the DOE shall issue the detailed guidelines, processes, and requirements to further execute these responsibilities under this Policy.

Section 6. Responsibilities of the National Electrification Administration (NEA)

- 6.1. The NEA shall ensure that all electric cooperatives (ECs) shall submit their respective DDP and PSPP, integrating the mandated percentage power supply sourced from the natural gas-fired power generation facilities.
- 6.2. The NEA shall monitor and supervise compliance by the ECs of their responsibilities under Section 3 hereof.

Section 7. Responsibilities of the ERC

- 7.1. The ERC shall determine the generation rates for natural gas-fired power.
- 7.2. Issue corresponding rules and guidelines for the proper implementation of the provisions of this Circular.
- 7.3. Establish and impose fines and penalties for non-compliance of natural gas stakeholders with this Circular.

Section 8. Exemption from the conduct of CSP. The procurement of power supply through auction, as provided in this Circular and in the subsequent guidelines to be issued by the DOE, shall be exempt from the conduct of Competitive Selection Process mandated under Department Circular No. DC2023-06-0021.

Section 9. Repealing Clause. All rules and regulations, or any portion thereof, that are inconsistent with this Circular are hereby repealed or modified accordingly.

Section 9. Separability Clause. If for any reason that any section or provision of this Circular is declared unconstitutional or invalid, such parts or provisions not affected shall remain in full force and effect.

Section 10. Effectivity. This Department Circular shall take effect fifteen (15) calendar days upon its publication in two (2) newspapers of general circulation. A copy

of this Circular shall be filed with the University of the Philippines Law Center-Office of the National Administrative Register.

Issued this _____ at the DOE, Energy Center, Rizal Drive corner 34th St., Bonifacio Global City, Taguig City.

RAPHAEL P.M. LOTILLA
Secretary