



Republic of the Philippines  
**DEPARTMENT OF ENERGY**

**DEPARTMENT CIRCULAR NO. \_\_\_\_\_**

**ADOPTING GENERAL GUIDELINES FOR THE CONDUCT OF PERFORMANCE  
ASSESSMENT AND AUDIT FOR THE ELECTRIC POWER INDUSTRY  
PARTICIPANTS**

**WHEREAS**, Republic Act No. 7638, otherwise known as “Department of Energy Act of 1992” declares the policy of the State to “ensure a continuous, adequate and economic supply of energy with the end in view of ultimately achieving self-reliance in the country’s energy requirements through the integrated and intensive exploration, production, management, and development of the country’s indigenous resources, and through the judicious conservation, renewal and efficient utilization of energy to keep pace with the country’s growth and economic development and taking into consideration the active participation of the private sector in the various areas of energy resource development;

**WHEREAS**, pursuant to Section 4 of the Department of Energy Act of 1992, the Department of Energy is mandated to prepare, integrate, coordinate, supervise, and control all plans, programs, projects, and activities of the Government relative to energy exploration, development, utilization, distribution, and conservation;

**WHEREAS**, Republic Act No. 9136, otherwise known as “The Electric Power Industry Reform Act of 2001” or “EPIRA” declares, among others, the policy of the State to “ensure the quality, reliability, security and affordability of the supply of electric power and protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power”;

**WHEREAS**, pursuant to Section 37 of the EPIRA, the Department of Energy (DOE) is specifically mandated, among others, to:

- (1) formulate policies for the planning and implementation of comprehensive program for the efficient supply and economical use of energy consistent with the approved national economic plan and with the policies on environmental protection and conservation and maintenance of ecological balance, and provide a mechanism for the integration, rationalization, and coordination of the various energy programs of the Government;
- (2) ensure the reliability, quality and security of supply of electric power and to facilitate and encourage reforms in the structure and operations of distribution utilities for greater efficiency and lower costs;
- (3) exercise supervision and control over all government activities relative to energy projects in order to attain the goals embodied in Section 2 of RA 7638;

- (4) monitor private sector activities relative to energy projects in order to attain the goals of the restructuring, privatization, and modernization of the power sector as provided for under existing laws: Provided, that the Department shall endeavor to provide for an environment conducive to free and active private sector participation and investment in all energy activities; and
- (5) formulate such rules and regulations as may be necessary to implement the objectives of this EPIRA;

**WHEREAS**, the Energy Regulatory Commission (ERC), in compliance with its mandate under the EPIRA, promulgated the Philippine Grid Code (PGC) and the Philippine Distribution Code (PDC), prescribing, among others, the technical and financial performance standards that govern the operations of Generation Companies, Transmission Service Provider/Operator and Distribution Utilities, respectively;

**WHEREAS**, pursuant to Section 5 of the Republic Act No. 10531, otherwise known as “National Electrification Administration Reform Act of 2013”, the National Electrification Administration (NEA) is authorized and empowered among others, to:

- (a) supervise the management and operations of all electric cooperatives; and
- (b) develop, set and enforce institutional and governance standards for the efficient operation of electric cooperatives such as, but not limited to, the observance of appropriate procurement procedure, including transparent and competitive bidding. Such standards shall be enforced through a mechanism of incentives and disincentives to complying and non-complying electric cooperatives, respectively;

**WHEREAS**, Section 43 of the EPIRA, the ERC is mandated, among others, to:

- (a) enforce the implementing rules and regulations of the EPIRA;
- (b) promulgate and enforce, in accordance with law, a National Grid Code and a Distribution Code which shall include, but not limited to, the following:
  - (i) Performance standards for TRANSCO O & M Concessionaire, distribution utilities and suppliers: Provided, That in the establishment of the performance standards, the nature and function of the entities shall be considered; and
  - (ii) Financial capability standards for the generating companies, the TRANSCO, distribution utilities and suppliers: Provided, further, That such standards are set to ensure that the electric power industry participants meet the minimum financial standards to protect the public interest. Determine, fix, and approve, after due notice and public hearings the universal charge, to be imposed on all electricity end-users pursuant to Section 34 hereof.
- (c) In the public interest, establish and enforce a methodology for setting transmission and distribution wheeling rates and retail rates for the captive market of a distribution utility, taking into account all relevant considerations, including the efficiency or inefficiency of the regulated entities;

- (d) Impose fines or penalties for any non-compliance with or breach of this Act, the IRR of this Act and the rules and regulations which it promulgates or administers;
- (e) Inspect, on its own or through duly authorized representatives, the premises, books of accounts and records of any person or entity at any time, in the exercise of its quasi-judicial power for purposes of determining the existence of any anti-competitive behavior and/or market power abuse and any violation of rules and regulations issued by the ERC;

**WHEREAS**, the DOE promulgated Department Circular No. DC2017-05-0008 which provides for policies and guidelines, and mandates the conduct of performance assessment and audit of all Power Generation, Transmission and Distribution Systems and Facilities;

**WHEREAS**, the DOE promulgated supplementary Department Circular No. DC2017-12-0016 which adopts guidelines and provides relevant entities for continuing conduct of respective Performance Assessment and Audit to direct Electric Power Industry Participants to implement Performance Assessment and Audit activities;

**WHEREAS**, in cognizant of the abolition of ERC's technical arms, i.e. Grid Management Committee and Distribution Management Committee; Government's limited human power and expertise; numerous number of Electric Power Industry Participants, voluminous compliance reports; credibility, reliability and independency of assessment and audit findings; and streamlining processes of compliance, the DOE commenced study on the development of guidelines and parameters which was subjected to series of presentation to public and consultation;

**WHEREAS**, the DOE deemed it necessary to institutionalize the conduct of Performance Assessment and Audit on Power Generation, Transmission and Distribution Systems and Facilities through the entities mandated by law, specifically the ERC and the NEA;

**NOW, THEREFORE**, premises considered, based on the review of existing laws, regulations and codes, to establish a comprehensive and sustainable mechanism to confirm and validate the level of compliance, the DOE hereby adopts following policies and guidelines on the conduct of Performance Assessment and Audit:

**Section 1. Guiding Principles.** The conduct of Performance Assessment and Audit shall be in accordance with the following:

- 1.1 The Performance Assessment and Audit shall serve as basis for the DOE, ERC and other relevant agencies in developing policies to attain secure, reliable and affordable supply of electricity;
- 1.2 The Performance Assessment and Audit shall be conducted in transparent and timely manner with results thereof to be used for improving operations and performance of generation companies, transmission service provider and distribution utilities;

1.3 The Performance Assessment and Audit shall form part of the industry best practices and compliance of all generation, transmission and distribution systems and facilities to ensure compliance to the periodic conduct of performance assessment and audit;

1.4 The PAA shall only be conducted by the ERC or its duly accredited third party, or in the case of Electric Cooperatives, the NEA consistent with the policies provided hereunder this Circular;

**Section 2. Scope of Coverage.** This Circular shall be applicable to the following:

2.1 All Generation Companies owning and/or operating Generation Facilities that grid-connected or embedded except for Self-Generating Entities;

2.2 Transmission Service Provider / System Operator;

2.3 All Distribution Utilities in grid and off-grid areas; and

2.4 All Small Grid Operators;

**Section 3. Guidelines on the Performance Assessment and Audit.** The Performance Assessment and Audit shall, among others, be conducted consistent with the following:

3.1 *Methodology.* The ERC shall adopt a methodology for the conduct of Performance Assessment and Audit. In the development of Performance Assessment and Audit methodology the ERC may consider the following:

3.1.1 Perform off-site and on-site activities to verify the data provided by the auditee and to assess the level of compliances against parameters applicable;

3.1.2. Select appropriate sample size for respective parameters, which is statistically significant. In case of critical parameters, (e.g. outages, incidents etc.), significantly impacting the power systems/ facilities and consumers, cover all significant / material instances as part of the audit;

3.1.3 Measurements and verifications to be undertaken in the conduct of assessments shall in no circumstance lead to an outage/ disruption of supply;

3.1.4 As part of the ocular/ field inspections, visit sites and facilities where measuring equipment are installed, and corroborate the facts made available by cross verifying the same from log-books maintained at such sites, noting down instantaneous parameters, appropriateness of the measuring equipment, adherence to its last calibration/ testing date etc.;

3.1.5 To the extent possible, make use of portable and non-intrusive measurement devices to cross-check any data/ fact and to gather evidence for assessing the extent of compliance to any parameter; and

- 3.1.6 Prepare a report consisting of, among others, the summary of findings; key recommendations for gaps, issues, non-compliance, opportunities for improvement; scope of work; and performance summary.
- 3.2 *Period and Frequency.* The ERC shall ensure the completion of Performance Assessment and Audit for all the Generation, Transmission and Distribution Systems and Facilities within a reasonable period and frequency as follows:
- 3.2.1. Generation – every five (5) years
  - 3.2.2. Transmission – every five (5) years
  - 3.2.3. Distribution – every four (4) years
- 3.3 *Independent Auditor.* The ERC may commission the conduct of Performance Assessment and Audit through an Independent Accredited Auditor. In such case, the ERC shall adopt accreditation rules. In the development of accreditation rules the ERC shall observe the following:
- 3.4.1 Provide clear, transparent and efficient process of accrediting interested parties to become Independent Third Party Auditor for the Generation, Transmission and Distribution Systems and Facilities;
  - 3.4.2 Ensure timely issuance by concerned parties of the Accreditation Certificates for qualified entities interested parties to become Independent Third Party Auditor for the Generation, Transmission and Distribution Systems and Facilities;
  - 3.4.3 Establish criteria and qualifications for accreditation of Independent Third Party Auditor; and
  - 3.4.4 Establish basis and procedures for disqualification and imposition of penalties and sanctions for Independent Third Party Auditor.
- 3.4 *Parameters and Standards.* The ERC shall cover parameters and standards that are vital to the operations of the participants and have impact on power systems/facilities and consumers. In its development of the parameters, the ERC may consider the following functional areas with details attached as annex A:

Functional Area	Description
Compliance	Parameters which apply certain compliance obligations of G/T/D entities on aspects such as reporting, certifications, ownership restrictions etc.
Environment, Health and Safety (EHS)	Parameters related to aspects of environment protection, occupational health and safety, and resiliency
Operational	Parameters related to effective and efficient processes impacting operations of power system and facilities
Technical	Parameters related to quality of supply, reliability of the power system, grid safety and other technical obligations of G/T/D entity
Customer Services	Parameters related to aspects such as performance standards, connections, metering and billing etc. impacting customer services
Information Technology	Parameters related to adoption of new technologies, cyber security and process automation to improve efficiency, reliability and security
Management Effectiveness	Parameters related to corporate governance, ethics, anti-corruption, strategy and planning

3.5 *Performance Assessment and Audit by NEA.* The NEA may conduct its Performance Assessment and Audit over the Electric Cooperatives in coordination with the ERC. Towards this end, the ERC and NEA, shall arrive with harmonized standards on parameters for all Distribution Utility to achieve efficiency in the conduct of audit.

**Section 4. Reporting.** In the exercise of DOE's function to supervise the restructuring of the Electric Power Industry, the ERC and NEA shall submit all audit report to the DOE on the Performance Assessment and Audit in aid of policy development and formulation of Philippine Energy Plan;

**Section 5. Special Audits.** The ERC and NEA, on its cause or as may be recommended by the DOE, shall conduct special audit on the basis of, but not limited to the following:

5.1 Occurrence of following significant incidents:

- 5.1.1 Multiple transmission facility tripping;
- 5.1.2 Generation plant tripping resulting to Automatic Load Dropping;
- 5.1.3 Yellow and red alert status;
- 5.1.4 Loss of large Load resulting in Frequency higher than 61 hertz;
- 5.1.5 Islanding Operation;
- 5.1.6 Partial System Blackout or Total System Blackout;
- 5.1.7 Tripping of 500 kV, 350 kV HVDC, 230 kV or 138 kV circuit;

- 5.1.8 Outage of a 500 kV, 230 kV or 138 kV power Transformer;
- 5.1.9 Tripping of a Large Generating Plant whether or not it resulted to Automatic or Manual Load Dropping;
- 5.1.10 Outage of at least one substation, whose primary voltage is 69 kV and above and owned by an distribution entity, for at least one hour;
- 5.1.11 Service interruption for at least 15 minutes affecting at least 25% of previous month's customers; and/or
- 5.1.12 Service interruption for at least 15 minutes affecting at least 25% of previous year's peak demand.

5.2 Incidents and threats to the overall security of the system;

5.3 Verification of recurring complaints by electricity consumers on the services and operations of an electric power industry participant; and

5.4 Verification of compliance to previous audit findings which materially affect the performance of the electric power industry participant concern.

**Section 6. Publication of Performance.** The ERC and NEA are hereby mandated to publish on their respective websites regularly, the results of the Performance Assessment and Audit report immediately after the conclusion thereof . Likewise, the electric power industry participant that was subjected to the Performance Assessment and Audit shall post on its website the copy of the report by the ERC and/or NEA fifteen (15) days upon receipt of the copy of the final Report.

**Section 7. Cost.** The cost of Performance Assessment and Audit may be sourced from budget of the ERC, other available funds or mechanisms that may be determined by the ERC, but should not result in excessive cost recovery from the electricity consumers.

**Section 8. Fines and Penalties.** Pursuant to its mandate, the ERC shall impose fines and penalties to Electric Power Industry Participants in the following instances:

- a. Non-compliance with the conduct of regular performance assessment and audit as applicable;
- b. Failure to rectify or address audit findings within a reasonable period of time as may be determined by the ERC;
- c. Other reasons, as may be identified by the ERC.

**Section 9. Regulatory Support.** The Energy Regulatory Commission (ERC) is hereby directed to issue the relevant Rules and Regulations necessary to implement this Circular within thirty (30) calendar days from its effectivity.

**Section 10. Separability Clause.** If any provision of this Circular is declared invalid or unconstitutional, the other provisions not affected thereby shall remain valid and subsisting.

**Section 11. Repealing Clause.** All issuances inconsistent with the provisions of this Circular are hereby repealed or amended accordingly.

**Section 12. Effectivity.** This Circular shall take effect fifteen (15) days following its publication in two (2) newspapers of general circulation and submission to the University of the Philippines Law Center – Office of National Administrative Register (UPLC-ONAR).

Issued on \_\_\_\_\_ at Energy Center, Bonifacio Global City, Taguig City.

**ALFONSO G. CUSI**  
Secretary