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3 **PRESCRIBING THE OMNIBUS GUIDELINES IN ENSURING THE SECURITY,**  
4 **RELIABILITY, ADEQUACY, QUALITY AND AFFORDABILITY OF ELECTRIC POWER**  
5 **SERVICES IN MISSIONARY ELECTRIFICATION THROUGH PRIVATE SECTOR**  
6 **PARTICIPATION, COMPLIANCE TO TECHNICAL STANDARDS AND ADOPTION OF**  
7 **APPROPRIATE TARIFF AND SUBSIDY POLICIES**  
8

9 **WHEREAS**, Section 2 of Republic Act No. 9136, otherwise known as the Electric  
10 Power Industry Reform Act of 2001 (EPIRA), declares the policy of the State to: (i) ensure and  
11 accelerate the total electrification of the country; (ii) ensure the quality, reliability, security, and  
12 affordability of the supply of electric power; and (iii) enhance the inflow of private capital and  
13 broaden the ownership base of the power generation, transmission and distribution sectors;  
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15 **WHEREAS**, Section 23 of the EPIRA recognizes the importance of sustaining the  
16 economic viability of the distribution utilities (DUs) in the performance of their social obligation  
17 within their franchise to supply electricity in the least-cost manner to their captive market and  
18 to provide universal service to its franchise area, including unviable areas;  
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20 **WHEREAS**, Section 70 of the EPIRA mandates the National Power Corporation  
21 through the Small Power Utilities Group (NPC-SPUG) to perform the missionary electrification  
22 function with the responsibility of providing power generation and its associated power delivery  
23 systems in areas not connected to the transmission system and with funding from the  
24 revenues from sales in missionary areas and from the Universal Charge for Missionary  
25 Electrification (UC-ME);  
26

27 **WHEREAS**, Rule 13 and 14 of the Implementing Rules and Regulations of EPIRA  
28 (EPIRA-IRR) articulate the guiding principles of missionary electrification and provision of  
29 electric services in remote and unviable areas through the following: (i) formulation of a  
30 Missionary Electrification Development Plan (MEDP); (ii) establishment of specific guidelines  
31 on how to encourage the inflow of private capital and the manner whereby other parties,  
32 including DUs and qualified third parties (QTP), can participate in missionary electrification;  
33 (iii) additional responsibilities of NPC-SPUG such as the provision of transmission lines in off-  
34 grid areas, (iv) privatization of its generation assets and other associated facilities, and (v)  
35 cessation of UC-ME subsidy to SPUG-serviced areas upon their interconnection to the Grid,  
36 among others;  
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38 **WHEREAS**, the Department of Energy (DOE) issued Department Circular No.  
39 DC2004-01-001 entitled "**Prescribing the Rules and Procedures for Private Sector**  
40 **Participation in Existing NPC-SPUG Areas Pursuant to Rule 13 of the Implementing**  
41 **Rules and Regulations of EPIRA (EPIRA-IRR),"** which prescribes the procedures in the  
42 privatization of electric power generation in areas that are served by NPC-SPUG through a  
43 Competitive Selection Process (CSP), disposal of NPC-SPUG generation and sub-  
44 transmission assets, and graduation from missionary electrification, among others;  
45

46 **WHEREAS**, Republic Act. No. 9513, otherwise known as the Renewable Energy (RE)  
47 Act of 2008, has promulgated the implementation of minimum percentage of RE generation for  
48 missionary electrification as well as the provision of RE Developers' Cash Incentives (REDCI)  
49 to be charged against the UC-ME subsidy as additional fiscal incentives to RE project  
50 developers utilizing eligible renewable energy resources;  
51

52 **WHEREAS**, Republic Act No. 10531, otherwise known as the National Electrification  
53 Administration (NEA) Reform Act of 2013, bestows electric cooperatives (ECs) the power to

1 construct, acquire, own, operate and maintain generating facilities and allows an EC to bid on  
2 existing NPC-SPUG generating facilities within its franchise area, among others;

3  
4 **WHEREAS**, the DOE issued DOE Department Circular No. 2017-12-0016 entitled  
5 “**Adopting the Guidelines for the Performance Assessment and Audit of Power**  
6 **Generation, Transmission, Distribution Systems and Facilities**” for the purpose of  
7 ensuring the security, reliability and quality of electric power services in the country, including  
8 off-grid areas;

9  
10 **WHEREAS**, the DOE issued Department Circular Nos. DC2015-06-008 and DC2018-  
11 02-003 which provide specific guidelines for the conduct of CSP by DUs in order to procure  
12 their power supply for their captive market at least cost manner;

13  
14 **WHEREAS**, there is a need to amend existing issuances of the Government and to  
15 prescribe an omnibus set of guidelines that incorporate and interrelate existing and new  
16 policies and directives of the Government for the purposes of attaining the total electrification  
17 at earliest possible time, promoting greater reliability, adequacy, quality and affordability of  
18 electric power services on missionary electrification, and providing greater opportunities for  
19 private sector participation while reducing UC-ME subsidies;

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21 **NOW THEREFORE, FOR AND IN CONSIDERATION OF THE FOREGOING**  
22 **PREMISES**, the DOE hereby issues the following omnibus policy guidelines on missionary  
23 electrification, to wit:

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26 **RULE 1.**  
27 **COVERAGE**

- 28  
29 1.1. These Guidelines shall apply to the following entities performing off-grid electrification:  
30  
31 1.1.1. National Power Corporation (NPC);  
32  
33 1.1.2. Distribution Utilities (DUs);  
34  
35 1.1.3. New Power Providers (NPPs) and other generators;  
36  
37 1.1.4. Qualified Third Parties (QTPs);  
38  
39 1.1.5. Renewable Energy Developers; and  
40  
41 1.1.6. Other service providers, government or private entities, engaged in the  
42 provision of electricity services.  
43  
44 1.2. Service areas covered by these Guidelines shall include:  
45  
46 1.2.1. Small Grids;  
47  
48 1.2.2. All unviable areas declared by the DOE under Section 59 of the EPIRA and  
49 Rule 14 of the EPIRA-IRR;  
50  
51 1.2.3. New areas, whether or not covered by a franchise, being served or planned to  
52 be served by NPC or other service providers; and  
53

1 1.2.4. New off-grid areas, as may be identified under the total electrification program  
2 of the Government and included in the MEDP.  
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6 **RULE 2.**  
7 **DEFINITION OF TERMS**  
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- 9 2.1. **“Commercially Viable”** refers to an area or service where the resultant True Cost of  
10 Generation Rate is equal or less than the Subsidized Approved Generation Rate;  
11
- 12 2.2. **“Emergency Power”** refers to the power required by a DU in the event that its actual  
13 power supply falls below its load demand due to force majeure or fortuitous events or  
14 other analogous circumstances that are beyond the control of the DU and such  
15 shortfall cannot be addressed through any reasonable means within a month, subject  
16 to the final determination by the DOE;  
17
- 18 2.3. **“Full Cost Recovery Rate”** or **“FCRR”** refers to the rate, expressed in Peso per  
19 kilowatt-hour, that recovers the full efficient costs of generating, distributing and  
20 supplying electricity in remote and unviable areas;  
21
- 22 2.4. **“Graduation”** refers to the cessation of provision of missionary electrification subsidy  
23 in an area, by reason that the area or service is deemed commercially viable or when  
24 the area is interconnected into the Grid;  
25
- 26 2.5. **“Grid”** refers to the high voltage backbone system of interconnected transmission lines  
27 substations and related facilities, located each in Luzon, Visayas and Mindanao;  
28
- 29 2.6. **“Missionary Area”** refers to an off-grid area that is deemed eligible for missionary  
30 electrification subsidy by the DOE by reason that the provision of basic electricity  
31 services is not commercially viable;  
32
- 33 2.7. **“Missionary Electrification”** refers to the provision of basic electricity services in  
34 unviable areas with the ultimate aim of bringing the operations in these areas to  
35 viability levels, and, for the purposes of Section 70 of the EPIRA, the provision of  
36 power generation and associated power delivery systems in areas that are not  
37 connected to the Grid;  
38
- 39 2.8. **“Missionary Electrification Development Plan”** or **“MEDP”** refers to the plan of the  
40 DOE, updated annually, detailing the Government’s plans and programs for missionary  
41 electrification, including capital investment and operation in off-grid areas;  
42
- 43 2.9. **“New Power Provider”** or **“NPP”** refers to a private entity duly selected through a  
44 competitive selection to provide power generation services in a missionary area;  
45
- 46 2.10. **“National Power Corporation – Small Power Utilities Group”** or **“NPC-SPUG”**  
47 refers to the unit of NPC mandated under the EPIRA to perform missionary  
48 electrification;  
49
- 50 2.11. **“Off-Grid Area”** refers to an area that is not connected to the Grid;  
51
- 52 2.12. **“Power Sector Assets and Liabilities Management Corporation”** or **“PSALM”**  
53 refers to the government-owned and controlled corporation created under the EPIRA to  
54 administer the universal charge fund, among others;

- 1  
2 2.13. **“Power Supply Agreement” or “PSA”** refers to an Agreement between a power  
3 producer and a DU for supply of power;  
4  
5 2.14. **“Private Sector Participation”** refers to the installation of the power generation  
6 facilities and associated delivery systems in order to meet the demand requirements of  
7 an off-grid area by the concerned DU, NPP, QTP, and other eligible private entities,  
8 thus performing the functions of the NPC-SPUG as defined in Section 70 of the EPIRA.  
9  
10 2.15. **“Qualified Third Party” or “QTP”** refers to the alternative service provider duly  
11 qualified and authorized by the ERC to provide electricity services to particular unviable  
12 area/s;  
13  
14 2.16. **“Small Grid”** refers to the interconnected high voltage or medium voltage Off-Grid  
15 systems;  
16  
17 2.17. **“Subsidized Approved Generation Rate” or “SAGR”** refers to the rate, expressed in  
18 Peso per kilowatt-hour, which the ERC has determined would be desirable, on social  
19 acceptability grounds, for a DU to pay for missionary generation services. SAGR is  
20 further modified by this Circular as the generation rates approved by the ERC per area  
21 and customer class basis. The SAGR combined with the UC-ME Subsidy should be  
22 equal to the TCGR;  
23  
24 2.18. **“Subsidized Approved Retail Rate” or “SARR”** refers to the rate, expressed in Peso  
25 per kilowatt-hour, which the ERC has determined would be the maximum that an end-  
26 user should pay for power supplied by a QTP. SARR is further modified by this Circular  
27 as the actual retail rates approved by the ERC per customer class basis in a QTP area.  
28 The SARR combined with the UC-ME Subsidy should equal to the FCRR.  
29  
30 2.19. **“System Operator” or “SO”** refers to the party responsible for generation dispatch, or  
31 the implementation of Generation Dispatch Schedule based on the nomination of the  
32 DU from its PSAs with the Generators, the provision of Ancillary Services and  
33 operation to ensure safety, power quality, stability, reliability and security of the Small  
34 Grid;  
35  
36 2.20. **“True Cost of Generation Rate” or “TCGR”** refers to the full efficient costs of  
37 generating power in an area;  
38  
39 2.21. **“Universal Charge for Missionary Electrification” or “UC-ME”** refers to the portion  
40 of the Universal Charge which is designated for Missionary Electrification;  
41  
42 2.22. **“Unviable Area”** refers to a geographical area within the franchise area of a DU where  
43 immediate extension of a distribution line is not feasible;  
44

45 Other words and phrases have the same meanings as in the EPIRA and its EPIRA-IRR.  
46  
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### 48 **RULE 3.**

#### 49 **MISSIONARY ELECTRIFICATION DEVELOPMENT PLAN (MEDP).**

- 50  
51 3.1. **Policy Objectives of MEDP.** Consistent with Rule 13 of the EPIRA-IRR, the following  
52 are the specific policy objectives to be observed in the formulation of the MEDP:  
53

- 1 3.1.1. Ensure the provision of secured, reliable, adequate, quality and sustainable  
2 provision of electricity in missionary and other off-grid areas at reasonable rates;  
3
- 4 3.1.2. Promote greater economic development and investments in off-grid and  
5 missionary areas within the limits of their carrying capacity such as productive  
6 use and conservation of natural resources and sustainable tourism through the  
7 provision of reliable electric power system;  
8
- 9 3.1.3. Encourage the entry of advanced and more efficient power technologies  
10 towards the provision of more flexible and adaptive power systems and low-cost  
11 electricity services in missionary areas;  
12
- 13 3.1.4. Rationalize the provision of UC-ME subsidy and gradually reduce public funding  
14 of UC-ME subsidy in the overall electricity tariff;  
15
- 16 3.1.5. Assess the economic feasibility and timeline for the eventual interconnection of  
17 off-grid areas into the Grid, thus enabling the cessation of the UC-ME subsidy  
18 provision; and  
19
- 20 3.1.6. Strengthen the capacity of all stakeholders involved in missionary electrification  
21 to proficiently perform their respective roles and responsibilities, through the  
22 conduct of trainings, workshops and other forms of capacity building and  
23 institutional strengthening activities, among others.  
24
- 25 3.2. **Scope of MEDP.** The MEDP shall integrate the following plans and programs of the  
26 Government and stakeholders on missionary electrification:  
27
- 28 3.2.1. **Updated Policies and Strategies.** The DOE shall determine various strategies  
29 to support the policy objectives as envisioned in Rule 3.1 of this Circular.  
30
- 31 3.2.2. **NPC Corporate Plans and Programs.** In accordance with Section 70 of the  
32 EPIRA, NPC shall submit to the DOE its 5-year plans and programs related to  
33 its generation, associated facilities, and activities in missionary areas, including  
34 the following:  
35
- 36 3.2.2.1. Annual capacity addition per area;  
37
- 38 3.2.2.2. Increase of service hours;  
39
- 40 3.2.2.3. Improvements in the operation and maintenance;  
41
- 42 3.2.2.4. Renewable energy development program;  
43
- 44 3.2.2.5. Efficiency improvement and fuel management program for power  
45 system facilities;  
46
- 47 3.2.2.6. Disposal of power generation and associated power delivery systems  
48 in missionary areas upon the entry of the private sector;  
49
- 50 3.2.2.7. Backbone power lines and other associated facilities;  
51
- 52 3.2.2.8. Interconnection to the Grid;  
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- 54 3.2.2.9. Intra-connection of two or more off-grid areas;

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3.2.2.10. Activities in support to the electrification of the unviable areas; and

3.2.2.11. Forecasts of effective SAGRs, SARRs, and TCGRs in missionary areas with methodology and assumptions, among others.

3.2.3. **Plans and Programs of DUs Serving Off-Grid Areas.** The MEDP shall integrate the plans and forecasts of DUs serving off-grid areas as specified in their respective Distribution Development Plans (DDPs). These include, among others, the following:

3.2.3.1. Historical and projected supply and demand;

3.2.3.2. Power Supply Procurement Plan defining the transition from diesel-based systems into emerging power technologies;

3.2.3.3. Compliance to minimum renewable energy requirements for off-grid areas in accordance with the Renewable Energy Act;

3.2.3.4. Capital expenditure projects, such as expansion, rehabilitation, control and automation, and modernization, etc.;

3.2.3.5. System loss reduction, vegetation management, and other programs to improve the electric power services;

3.2.3.6. All projects in support to total electrification of their franchise area, including unviable areas, down to the household level, among others.

3.2.4. **Program for Interconnection of the Small Grids.** The National Transmission Corporation (TRANSCO), its buyer, concessionaire or successor-in-interest shall submit its programs for interconnection of off-grid areas into the Grid as described in Rule 9 of this Circular. Said submission shall include the proposed interconnection projects, including the design details and corresponding schedules.

3.2.5. **Power Development Plan (PDP) for Major Small Grids.** Based on the plans of DUs, a 10-year power development plan for major Small Grids or provinces shall be included in the MEDP as explained in Rule 6 of this Circular.

3.2.6. **Unviable Area Electrification.** In support to total electrification, the MEDP shall incorporate all activities involving the electrification of unviable areas by the QTPs and other eligible entities.

3.2.7. **Subsidy Requirements.** Allotment of UC-ME or Government Subsidy for NPC-SPUG, NPPs, QTPs, DUs and RE developers for the next five (5) years shall be consolidated and presented in the MEDP on an annual basis.

3.3. **Preparation of the MEDP.** The DOE shall formulate the annual MEDP based on the submissions of the NPC, concerned DUs, and other stakeholders. The general procedure for the preparation of the MEDP shall follow the following timelines:

3.3.1. NPC and NEA shall submit to the DOE their corporate plans and programs including planning parameters and assumptions not later than January of the year;

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2 3.3.2. All DUs shall submit their individual DDPs not later than March of the year.  
3 Other information required from the DUs under Rule 3.2.3 shall be submitted  
4 not later than June of the year; and  
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6 3.3.3. DOE shall conduct consultations with all concerned stakeholders to update  
7 policies and to finalize the MEDP.  
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9 3.4. **Annual Preparation of the MEDP.** The DOE shall annually prepare the MEDP which  
10 shall incorporate the relevant submissions of the stakeholders.  
11

12 3.5. **Publication of the MEDP.** Every three years, DOE shall publish the MEDP not later  
13 than December covering a three (3) year period. DOE may choose to publish an  
14 abridged version of the annual MEDP or update only relevant sections of the previous  
15 year's publication.  
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18 **RULE 4.**  
19 **PRIVATE SECTOR PARTICIPATION IN OFF-GRID AREAS**  
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21 4.1. **Role of the NPC.** Consistent with the EPIRA and the EPIRA-IRR, NPC is mandated  
22 to provide missionary electrification to unviable areas declared by the DOE and to  
23 provide power generation, including the associated facilities in off-grid areas prior to  
24 the entry of the private sector.  
25

26 4.2. **Private Sector Participation in Off-grid Areas.** All off-grid areas in the country are  
27 declared open for private sector participation with the following objectives:  
28

29 4.2.1. To provide electricity end-users in off-grid areas with greater opportunities and  
30 options for obtaining more efficient, low-cost and more reliable supply of power;  
31

32 4.2.2. To reduce financial burden to the Government by allowing the inflow of private  
33 capital to power generation and electrification in off-grid areas; and  
34

35 4.2.3. To rationalize and ultimately remove the UC-ME subsidy.  
36

37 4.3. **Options for Private Sector Participation.** Private sector participation in missionary  
38 electrification shall include the following activities:  
39

40 4.3.1. Full take-over of the generation function in a missionary area by the NPP/s  
41 through the phase-out of NPC-SPUG power plants;  
42

43 4.3.2. Provision of new or additional generation capacity; and  
44

45 4.3.3. Provision of power generation and/or distribution system services in existing or  
46 new missionary areas.  
47

48 4.4. **Procurement of PSAs.** DUs currently sourcing their power from NPC-SPUG are  
49 enjoined to procure their PSAs from NPPs through a competitive selection process in  
50 accordance with Section 23 of EPIRA and other relevant issuances of the DOE and/or  
51 the ERC.  
52

- 1 4.5. **Selection and Authorization of QTPs.** The process of authorizing entities as QTP to  
2 perform unviable area electrification shall be in accordance to the guidelines and  
3 regulations issued by the DOE and ERC.  
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6 **RULE 5.**

7 **PRIVATIZATION AND DISPOSAL OF NPC-SPUG ASSETS IN OFF-GRID AREAS**  
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- 9 5.1. **Program for Privatization.** NPC shall prepare an annual program and schedule for  
10 the privatization and disposal of assets in off-grid areas.  
11

- 12 5.2. **Treatment of Assets in Good Working Conditions.** In cases of displaced assets in  
13 good working condition, NPC may dispose of the assets through competitive bidding or  
14 redeploy the assets to serve other areas.  
15

- 16 5.3. **Procedure for Disposal.** In accordance with applicable laws, the NPC shall formulate  
17 procedures for the valuation and methods for the disposal of its assets in off-grid areas  
18 to be approved by the National Power Board and submitted to the DOE, ERC, and  
19 other relevant Government agencies.  
20

- 21 5.4. **Disposal of Generation Assets Displaced by PSP.**

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23 5.4.1. The NPP shall have the option to bid on the NPC-SPUG Assets displaced or to  
24 be displaced by the PSP program in the off-grid area.  
25

26 5.4.2. The NPP shall specify its intent to use the assets acquired from NPC in its bid  
27 proposal during the procurement of PSA by the DU in the off-grid area. Said  
28 assets must also be clearly stated in the PSA of the NPP with the DU.  
29

30 5.4.3. The DU/s shall also have the option to bid on the asset for the same purposes.  
31

32 5.4.4. In case of a tie in the bid proposal between the DU and the NPP, the qualified  
33 bid of the DU shall have preference over the other bids.  
34

- 35 5.5. **Disposal of Other Assets.**  
36

37 5.5.1. In the event of interconnection of the off-grid area to the Grid or for any other  
38 justifiable reasons, the NPC shall dispose its other associated facilities in  
39 accordance with existing laws and regulations.  
40

41 5.5.2. The DU shall have the option to acquire the power lines and associated assets  
42 being disposed by the NPC within its franchise area.  
43  
44

45 **RULE 6.**

46 **ENSURING CAPACITY ADEQUACY IN OFF-GRID AREAS**  
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- 48 6.1. **Declaration and Reporting of the Net Capability.** For purposes of operational and  
49 long-term capacity expansion planning and consistent with the Philippine Grid Code  
50 and Distribution Code, the DOE and the ERC shall be responsible to assess and audit  
51 the actual capability of the power plants in the off-grid areas in accordance with its  
52 guidelines and other issuances.  
53



- 1 6.2. **Quarterly Supply Adequacy Assessment Report.** To facilitate continuous monitoring  
2 of supply adequacy in off-grid areas and verify the need for additional capacity, the  
3 following reportorial requirements shall be instituted:  
4
- 5 6.2.1. The DU and NPC in a particular off-grid area shall submit a quarterly report to  
6 DOE, ERC, and NEA containing the following:  
7
- 8 6.2.1.1. Historical supply-demand balance in the last three (3) months; and  
9
- 10 6.2.1.2. Projected balance for the next twelve (12) months for each off-grid  
11 area.  
12
- 13 6.2.2. NPPs/QTPs and other generators in a particular off-grid area shall submit to  
14 DOE and ERC the quarterly updates on the following:  
15
- 16 6.2.2.1. Declaration Net Plant Capability based on the ERC guidelines; and  
17
- 18 6.2.2.2. Schedule of preventive and corrective maintenance plans of each  
19 power plant in the next twelve (12) months.  
20
- 21 6.3. **Load Forecasting.** The DU shall diligently forecast the load in accordance with  
22 prescribed guidelines, through the use of accurate data and appropriate forecasting  
23 tools.  
24
- 25 6.4. **Treatment of Power Shortage.** The rules for assessing existing and potential power  
26 shortage in an off-grid area shall be as follows:  
27
- 28 6.4.1. A DU in off-grid area experiencing capacity shortage, or is expecting capacity  
29 shortage in next 12 months, shall immediately inform the DOE and the ERC  
30 through the submission of the following:  
31
- 32 6.4.1.1. Updated Power Supply Procurement Plan;  
33
- 34 6.4.1.2. Declaration of net capability of all existing generation facilities;  
35
- 36 6.4.1.3. Capacities of incoming generation plants in next 12 months, if any;  
37 and  
38
- 39 6.4.1.4. Six-month historical supply-demand balance and twelve-month  
40 projection of supply-demand balance indicating power shortage or  
41 imminent shortage in the next twelve (12) months.  
42
- 43 6.4.2. The NPC shall recommend to DOE for the approval for emergency power in  
44 accordance to DOE CSP Policy Circular.  
45
- 46 6.5. **Generation Planning for Large Off-Grid Provinces.** DOE shall be responsible to  
47 formulate a long-term power development plan for off-grid provinces with demand  
48 requirements of **more than 5 MW**. Said plan shall be developed in close collaboration  
49 with NEA, NPC and the concerned ECs. Said plan per province shall have the  
50 following objectives:  
51
- 52 6.5.1. Formulate least-cost capacity expansion plan for the province;  
53

- 1 6.5.2. Determine optimal energy mix taking into account available indigenous and RE  
2 resources in the area;  
3  
4 6.5.3. Formulate least-cost compliance to Minimum RE Requirement under RE Act;  
5  
6 6.5.4. Assess scenarios of eventual interconnection of the province into the Grid and  
7  
8 6.5.5. Develop program the adoption of advanced and more efficient power  
9 technologies for both baseload and regulating applications as replacement to  
10 existing high-speed diesel generator set in off-grid areas.  
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13 **RULE 7.**  
14 **SYSTEM OPERATION FOR SMALL GRIDS**  
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16 **7.1. General Provisions**  
17

- 18 7.1.1. The System Operator (SO) for a particular Small Grid shall be responsible to  
19 operate and manage the system in accordance to standards set under relevant  
20 issuances from competent Government agencies.  
21  
22 7.1.2. In a Small Grid with one distribution entity and one generator, the distribution  
23 entity shall be the Default SO. Otherwise, a competent third party SO shall be  
24 engaged.  
25  
26 7.1.3. In accordance with the relevant issuances from competent Government  
27 agencies, the SO in a particular Small Grid shall formulate its own area-specific  
28 Dispatch Protocol based on the actual configuration of the Small Grid which  
29 shall be prepared within a one-year period from initial operation.  
30  
31 7.1.4. Such area-specific Dispatch Protocol shall be developed in coordination with  
32 distribution entities, NPC, NPPs, and other generators connected to the Small  
33 Grid and shall be approved by the ERC.  
34  
35 7.1.5. The NEA shall be responsible to provide technical assistance and financing  
36 support to ECs serving off-grid areas in order to enhance its capability as  
37 Default SO. The NEA's support for capital expenditure shall include the  
38 acquisition of control and communication facilities, software tools, and other  
39 monitoring and coordination systems for the system operation.  
40

41 **7.2. Engagement of Third Party SO.** The ERC shall issue relevant guidelines and other  
42 rules for the engagement of a third party SO.  
43

- 44 7.2.1. The ERC shall review the capability of the distribution entity as Default SO in  
45 accordance with relevant issuances from competent Government agencies.  
46  
47 7.2.2. When the distribution entity is deemed not capable to perform its SO functions  
48 for any reason, the ERC shall direct the engagement of a third party to perform  
49 the SO responsibilities in the area.  
50  
51 7.2.3. The Third Party SO may be NPC-SPUG or any Independent System Operator  
52 (ISO) duly accredited by the ERC.  
53

- 1 7.3. **Minimum Qualifications of a Third Party SO.** The third party SO to be accredited  
2 must meet the following minimum requirements:  
3
- 4 7.3.1. **No conflict of interest.** The Entity must have no interest in the generation  
5 business. To ensure non-discriminatory performance of its functions, the Third  
6 Party and its personnel must have no other business relation with the DU and  
7 generation companies in the area;  
8
- 9 7.3.2. **Technical Capacity.** The Entity must have sufficient experience as well as  
10 qualified technical manpower to properly perform the functions of an SO;  
11
- 12 7.3.3. **Financial Capacity.** The Entity must have sufficient wherewithal for the capital  
13 investment and working capital necessary to perform the functions of the SO;  
14 and  
15
- 16 7.3.4. **Ownership of power lines.** The owner of the backbone system of the Small  
17 Grid, either wholly or partly, shall be the preferred Third Party SO in the area.  
18
- 19 7.4. **Role of NPC as Third Party SO.** The NPC shall develop a Standard SO Contract with  
20 corresponding TOR to be offered to the DUs in off-grid areas. Said Standard SO  
21 Contracts shall be published for reference by the stakeholders.  
22
- 23 7.5. **Terms of Reference (TOR) for the ISO.** As a minimum requirement, the TOR must  
24 contain:  
25
- 26 7.5.1. Minimum Qualifications as specified in Rule 7.3 of this Circular;  
27
- 28 7.5.2. Scope of Work, defining all the functions of the SO in accordance with the  
29 relevant issuances from competent Government agencies;  
30
- 31 7.5.3. Access of the ISO to vital facilities, meters, and other equipment of the DU as  
32 well as relevant information on the operations of the DU and the generators in  
33 the Small Grid for the successful performance of its functions and duties as SO  
34 of the Small Grid;  
35
- 36 7.5.4. Establishment of a Dedicated Office by the ISO near or within the premises of  
37 the DU;  
38
- 39 7.5.5. Reportorial requirements, as may be necessary;  
40
- 41 7.5.6. Funds or capital that may be infused by the ISO in performing its functions and  
42 duties, including facility improvements which are compatible for interconnection  
43 to the grid; and  
44
- 45 7.5.7. Proposed payment mechanism for the recovery of cost of the ISO services as  
46 defined in the TOR.  
47
- 48 7.6. **Dedicated SO Office.** Each System Operator of the Small Grid shall be required to  
49 set up a dedicated SO office.  
50
- 51 7.7. **Reportorial Requirements.** Each System Operator of the Small Grid shall submit a  
52 quarterly operational report to the DOE and the ERC for the purposes of the  
53 assessment and audit of the Small Grid.  
54

1 7.8. **Regulatory Guidelines.** As regulator, the ERC shall issue the necessary guidelines for  
2 the regulation of Third Party SO of Small Grid systems including the review and  
3 approval of the SO contracts, and the rate-making for cost recovery.  
4  
5

6 **RULE 8.**  
7 **PROMOTING RELIABILITY AND EFFICIENCY OF SMALL GRID AND OTHER OFF-GRID**  
8 **POWER SYSTEMS**  
9

10 8.1. **Monitoring and Analysis of Reliability Data.** The DOE and the ERC shall monitor  
11 and analyze all operational data and other information to facilitate accurate  
12 assessment and audit of the operational performance of all utilities, plant owners, and  
13 their facilities according to applicable standards and best practices.  
14

15 8.2. **Modernization of the Small Grids.** Each DU in the off-grid areas shall prepare a long-  
16 term system development and modernization program with the objective of  
17 modernizing existing distribution systems for resiliency, reliability, and quality of electric  
18 power services, which shall be integrated into the DDP.  
19

20 8.3. **Efficiency Improvement of NPC-SPUG Power Plants.** NPC-SPUG shall submit to  
21 the DOE a quarterly monitoring report on the generation, outages, heat rate of  
22 generating units, fuel and lube utilization, as well as breakdown of plant operational  
23 expenses per power plant. NPC-SPUG shall develop its own efficiency and reliability  
24 improvement program for its power plants and systems in off-grid areas to form part of  
25 the MEDP.  
26  
27

28 **RULE 9.**  
29 **INTERCONNECTION AND INTRA-CONNECTION OF OFF-GRID AREAS**  
30

31 9.1. **Definition and Scope of Interconnection of Small Grids.** For the purpose of this  
32 Circular, the term "**Interconnection of an Off-Grid Area into the Grid**" shall be limited  
33 to the construction of transmission line and associated facilities in order to connect a  
34 particular off-grid area into the Grid with the ultimate purpose of serving all captive  
35 customers in the area. It excludes the construction of similar facilities to provide point-  
36 to-point connection of a particular generation facility in an off-grid area into the Grid.  
37

38 9.2. **Objectives of Interconnection.** The interconnection of off-grid areas shall:

39 9.2.1. Improve the reliability and adequacy of power supply in off-grid areas;

40 9.2.2. Reduce the burden of high power rates in off-grid areas; and

41 9.2.3. Lead to the graduation of said areas from UC-ME subsidy.  
42  
43  
44

45 9.3. **Program for Interconnection.** The TRANSCO, its buyer, concessionaire or  
46 successor-in-interest shall submit to the DOE its annual program for the  
47 interconnection of off-grid areas.  
48

49 9.3.1. All interconnection projects shall be incorporated into the annual updating of the  
50 Transmission Development Plan.  
51

52 9.3.2. The TRANSCO, its buyer, concessionaire or successor-in-interest, shall be  
53 responsible for the engineering design, financing and implementation of an  
54

1 interconnection project, which may consist of multiple off-grid areas. Each  
2 project must be supported by techno-economic feasibility studies;  
3

4 9.3.3. As part of overall due diligence, the TRANSCO, its buyer, concessionaire or  
5 successor-in-interest shall undertake the necessary program to seek support of  
6 the local stakeholders and to prepare all the concerned parties on the  
7 implications of interconnection to existing arrangements in the area.  
8

9 9.3.4. The TRANSCO, its buyer, concessionaire or successor-in-interest, in  
10 coordination with the NPC, shall prepare, design, and facilitate the transition  
11 from off-grid to a grid-connected area. For this purpose, the TRANSCO, its  
12 buyer, concessionaire or successor-in-interest shall provide transmission  
13 services in areas identified by the DOE for interconnection.  
14

15 9.3.5. The ERC shall issue the necessary guidelines for the interconnection of off-grid  
16 areas.  
17

18 9.4. **Sources of Funds for Interconnection.** Financing of interconnection projects shall  
19 be sourced out from:  
20

21 9.4.1. Corporate financing by the TRANSCO, its buyer, concessionaire or successor-  
22 in-interest;  
23

24 9.4.2. Appropriations from the National Government through the TRANSCO;  
25

26 9.4.3. Grant contributions from the concerned local government units; and  
27

28 9.4.4. Grants, donations and other similar sources.  
29

30 9.5. **Cost Recovery for Interconnection Projects.** The ERC shall be responsible for the  
31 necessary adjustments to transmission charges or any other mechanism that will allow  
32 for the recovery of costs of the interconnection projects implemented or to be  
33 implemented by the TRANSCO, its buyer, concessionaire or successor-in-interest.  
34

35 9.6. **Intra-connection of Off-Grid Systems.** The NPC, in coordination with the  
36 TRANSCO, its buyer, concessionaire or successor-in-interest, shall undertake the  
37 necessary studies, actual financing and implementation of connecting two or more  
38 existing off-grid areas to form a larger power system. Each intra-connection project  
39 must be supported by detailed techno-economic feasibility studies and must require the  
40 approval of the DOE Secretary prior to implementation.  
41

## 42 **RULE 10.**

### 43 **RATIONALIZATION ON TARIFFS AND PHASE OUT OF UC-ME SUBSIDY IN** 44 **MISSIONARY AREAS** 45

46  
47 10.1. **Policy Objectives.** The policy objectives of the Government in rationalizing the tariff  
48 and subsidy system in missionary areas are to:  
49

50 10.1.1. Maximize the recovery of cost of electricity services through innovative tariff  
51 mechanisms to reflect the capacity to pay of the electricity end-users;  
52

- 1 10.1.2. Encourage and enable the entry of emerging power technologies, including but  
2 not limited to, hybrid RE systems, smart systems for the purpose of providing  
3 quality, reliable, secure, and affordable delivery of electricity services; and  
4
- 5 10.1.3. Pursue, whenever feasible, the intra-connection of off-grid areas and  
6 interconnection of off-grid areas into the Grid towards the graduation from  
7 missionary electrification.  
8
- 9 **10.2. Full Cost Recovery in Off-grid Areas.** The policy of full cost recovery shall be  
10 implemented as follows:  
11
- 12 10.2.1. The Government, through the ERC, shall pursue a new regime of tariff  
13 mechanism to maximize the recovery of all costs of electricity services from  
14 consumers in off-grid areas, without the UC-ME;  
15
- 16 10.2.2. The ERC shall issue a new rate structure for off-grid areas with cost allocation  
17 according to each customer class to the total cost of generation;  
18
- 19 10.2.3. Based on the allocation of generation costs per customer class, the DU in off-  
20 grid areas shall submit its effective SAGR to NPC-SPUG for the determination  
21 of the level of subsidy from the appropriation of the Government;  
22
- 23 10.2.4. An NPP with existing PSA for subsidy shall be entitled to full recovery of its  
24 ERC-approved TCGR through receipts from DU of the effective SAGR  
25 collected from customers and the corresponding UC-ME Subsidy, subject to  
26 thorough and comprehensive review by the ERC;  
27
- 28 10.2.5. A QTP with existing QSC for subsidy shall be entitled for full recovery of its  
29 ERC-approved FCRR through the collection of the effective SARR from its  
30 customers in unviable area and corresponding UC-ME Subsidy, subject to  
31 thorough and comprehensive review by the ERC;  
32
- 33 10.2.6. System Operators in off-grid areas shall assist the DUs in designing rates for  
34 the recovery of cost of system operation and ancillary services; and  
35
- 36 10.2.7. The NPC-SPUG shall finance its full operations from the revenues from sales,  
37 government allocation, grants, and donations.  
38
- 39 **10.3. Eligibility for Subsidy.** The eligibility rules for the provision of subsidy are as follows:  
40
- 41 10.3.1. The following shall be eligible to the Government and UC-ME subsidy:  
42
- 43 10.3.1.1. All NPC activities related to missionary electrification;  
44
- 45 10.3.1.2. All marginalized customers in off-grid areas; and  
46
- 47 10.3.1.3. Existing PSAs and QSCs of NPPs and QTPs duly approved by the  
48 ERC.  
49
- 50 10.3.2. The following are not entitled to the Government and UC-ME subsidy:  
51
- 52 10.3.2.1. All non-marginalized customers in missionary areas;  
53
- 54 10.3.2.2. Marginalized end-users receiving lifeline subsidy;

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10.3.2.3. Economic zones and highly-commercialized areas in off-grid areas;  
and

10.3.2.4. New PSAs of NPPs and other generators in off-grid areas.

10.3.3. Households that are deemed marginalized end-users shall be subsidized according to the lifeline policy. However, the generation component of the subsidy accorded to the marginalized household shall be charged from the UC-ME, subject to the graduation policy in this Circular; and

10.3.4. The verification of marginalized households shall be made through the issuance of the **Certificate of Indigency** by the local Social Welfare Officer in the off-grid area. The same must be consistent with the "Listahan" database being maintained by the Department of Social Welfare and Development.

10.4. **UC-ME Rationalization and Conclusion Program.** The rules governing the rationalization and conclusion of the UC-ME subsidy shall be as follows:

10.4.1. With the assistance of the DOE, ERC, NPC, and NEA, in cases of ECs, the DUs serving missionary areas shall prepare a transition plan for the rationalization that will gradually phase out the provision of UC-ME subsidy **not later than six (6) months upon the effectivity of this Circular.** The transition shall specify the following:

10.4.1.1. The prioritization of areas for rationalization;

10.4.1.2. The start year and phase-out period/s the subsidy per area; and

10.4.1.3. Subsidy reduction scheme per area.

10.4.2. **Not later than two (3) months thereafter**, the NPC shall submit to the DOE the consolidated rationalization program containing the schedule of phase-out of UC-ME subsidy. The DOE shall assess the rationalization program and approve its incorporation into the MEDP for implementation. The program shall specify the following:

10.4.2.1. Projected Rate Adjustments and UC-ME subsidy reduction per area;  
and

10.4.2.2. Compliance and Impact Mitigation Plans by the NPC and the concerned DU.

10.4.3. Missionary areas will be prioritized for rationalization using the following criteria:

10.4.3.1. Current level of commercial viability of the area;

10.4.3.2. Municipality or city classification;

10.4.3.3. Demand and consumption in the previous year;

10.4.3.4. Projected demand growth; and

1 10.4.3.5. Share of commercial and industrial customers in the overall  
2 consumption in the previous year, among others.  
3

4 10.4.4. **Default Scheme for Subsidy Reduction.** Based on the start year of removal,  
5 the default scheme for gradual removal of subsidies shall be as follows:

| <b>Customer Type According to Monthly Electricity Consumption</b> | <b>Subsidy Reduction Scheme</b>   |
|---|---|
| more than 100 kWh but less than 1,000 kWh                         | <ul style="list-style-type: none"><li>• Removal of subsidies in 2 years.</li><li>• Year-1 reduction shall not be less than 50%.</li></ul>             |
| between 35 kWh and 100 kWh  | <ul style="list-style-type: none"><li>• Removal of subsidies in 3 years.</li><li>• Year-1 reduction shall not be less than 25%.</li></ul>             |
| Other customers excluding lifeline and poor households            | <ul style="list-style-type: none"><li>• Removal of consumption subsidies in 5 years.</li><li>• Year-1 reduction shall not be more than 10%.</li></ul> |

6  
7 10.4.5. **Alternative Scheme.** The concerned DU may propose to the DOE an  
8 alternative scheme for subsidy reduction that is deemed more socio-politically  
9 acceptable in its franchise area with proper justification.  
10

11 10.4.6. **Delay and Temporary Postponement of Subsidy Removal.** The DOE  
12 Secretary may approve the delay or temporary postponement of the  
13 implementation of the subsidy rationalization in a particular area in the case of  
14 calamities, force majeure, and other analogous circumstances.  
15

16 10.4.7. **Measures to Mitigate the Impacts of Subsidy Rationalization.** The DOE, in  
17 cooperation with the ERC, NPC and NEA, shall conduct an Information  
18 Education and Communication (IEC) Program to educate the electricity end-  
19 users in off-grid areas on the economic reasons for the subsidy rationalization  
20 program. The NPC and NEA, in coordination with concerned DUs, shall submit  
21 to the DOE an assessment report on the potential impacts of the gradual  
22 removal of generation subsidies highlighting the following:  
23

24 10.4.7.1. Potential adverse impacts of the rationalization to a particular sector  
25 or class of customers and to the financial conditions of the DU; and  
26

27 10.4.7.2. Measures to mitigate the impacts of the subsidy removal.  
28

29 10.4.8. **Conclusion Program.** PSAs and QSCs must include specific provisions for  
30 the conclusion program, i.e., the event of graduation of the area from UC-ME  
31 Subsidy. An area shall be deemed to have “graduated” upon:  
32

33 10.4.8.1. Attainment of parity between TCGR and effective SAGR per off-grid  
34 area;  
35

36 10.4.8.2. Interconnection of an off-grid area into the Grid; or  
37

38 10.4.8.3. Extension of distribution lines to an area being served by a QTP.  
39

40 10.5. **Monitoring of UC-ME Subsidy.** The reporting of rates and subsidies are as follows:  
41



- 1 10.5.1. Each NPP shall submit a quarterly report to the NPC and its off-taker DU  
2 containing the monthly computation of its TCGR based on the ERC-approved  
3 PSA;  
4
- 5 10.5.2. The DU shall submit a quarterly report to the NPC on the computation of its  
6 effective SAGR per area based on the ERC-approved rates per customer  
7 class;  
8
- 9 10.5.3. The NPC shall submit a semi-annual report to PSALM detailing the utilization  
10 of the UC-ME subsidy and disbursement to eligible areas and entities in the  
11 last six (6) months and the projected estimates in the next (6) months;  
12
- 13 10.5.4. Copy of the above reports shall be provided to the DOE, ERC, and NEA for  
14 reference; and  
15
- 16 10.5.5. PSALM shall submit to the DOE and ERC the status of the remittances and  
17 disbursement of UC-ME subsidy on a quarterly basis.  
18  
19

20 **RULE 11.**  
21 **GOVERNMENT SUBSIDIES**

22  
23 The Government shall allocate annual appropriation to the NPC in providing the subsidy to  
24 fund all NPC activities related to missionary electrification and all marginalized customers in  
25 off-grid areas, in accordance to Rule 10.3.4 of this Circular.  
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27

28 **RULE 12.**  
29 **REGULATORY SUPPORT AND OTHER PROVISIONS**

30  
31 The ERC shall, within 90 days upon the effectivity of this Circular, immediately act upon the  
32 following pending applications of the NPC including, but not limited to, UC-ME Requirement,  
33 including the Renewable Energy Cash Incentive, for one (1) calendar year and UC-ME true-up  
34 adjustments for the previous year(s); and, Incremental currency exchange rate adjustment  
35 and generation rate adjustment mechanism over and above the SAGR.  
36  
37

38 **RULE 13.**  
39 **SEPARABILITY CLAUSE**

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41 If, for any reason, any provision of this Circular is declared unconstitutional or invalid, the other  
42 parts of provisions hereof which are not affected thereby shall continue to be in full force and  
43 effect.  
44  
45

46 **RULE 14.**  
47 **REPEALING CLAUSE**

- 48  
49 14.1. Department Circular No. 2004-01-001 is hereby repealed.  
50  
51 14.2. Any department circular or issuance, contrary or inconsistent with these Rules is  
52 hereby repealed, modified or amended accordingly.  
53

1 14.3. Nothing in this Circular shall be construed to amend, supersede, or repeal any of the  
2 mechanism or institutions already existing or responsibilities already allocated or  
3 provided for under any existing law, rule or contract.  
4

5  
6 **RULE 15.**  
7 **EFFECTIVITY**  
8

9 This Circular shall take effect fifteen (15) days after its publication in at least two (2)  
10 newspapers of general circulation and shall remain in effect until otherwise revoked.  
11

12  
13 Signed this \_\_\_ day of \_\_\_\_\_ 2018 at the Department of Energy, Energy Center, Bonifacio  
14 Global City, Taguig City, Metro Manila.  
15

16  
17  
18 **ALFONSO G. CUSI**  
19 Secretary  
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DRAFT