

Republic of the Philippines
DEPARTMENT OF ENERGY

DEPARTMENT CIRCULAR No.: 2004-05-005

**STREAMLINING AND RATIONALIZING THE GRANT OF SUBSIDIES
IN THE ELECTRIFICATION OF MISSIONARY AREAS
USING SOLAR PHOTOVOLTAIC SYSTEMS**

WHEREAS, Section 2 of Republic Act No. 9136, otherwise known as the “Electric Power Industry Reform Act of 2001” or “EPIRA,” declares that it is the policy of the State to ensure and accelerate the total electrification of the country as well as to ensure the quality, reliability, security and affordability of the supply of electric power;

WHEREAS, the Department of Energy (“DOE”), in pursuance of the above policies of the State has targeted the attainment of 100 percent barangay electrification level by 2006 and energization of 90 percent of total potential households by 2017;

WHEREAS, Rule 13 of the Implementing Rules and Regulations of EPIRA or “EPIRA-IRR” mandates the DOE to formulate a Missionary Electrification Development Plan (MEDP) which shall include a program for the provision of capital investment and operations regarding capacity additions in existing missionary areas and the facilities to be provided in other areas not connected to the transmission system;

WHEREAS, the same rule directs the DOE to issue specific guidelines on how to encourage the inflow of private capital and the manner whereby other parties including distribution utilities and qualified third parties (“QTPs”) can participate in the missionary electrification projects set forth in the MEDP;

WHEREAS, to achieve the formidable task of providing electricity to unenergized areas, the DOE in partnership with other government agencies and industry stakeholders, has committed to implement the MEDP in a holistic and sustainable manner, which includes among others, rationalization of tariff and subsidy policy, opening up areas that cannot be served by the distribution utilities to alternative electric service providers such as QTPs;

WHEREAS, the Government, despite its limited public resources, is currently providing various forms of subsidies to rural electrification projects and other energy intensive activities;

WHEREAS, the DOE considers Solar Photovoltaic (“PV”) to be cost-effective and environment-friendly technology in providing electricity service and other community services to sparsely populated, remote, unserved and dispersed areas;

WHEREAS, there are various projects that are currently implementing solar Photovoltaic (PV) systems to provide electricity services to sparsely populated, remote, unserved, and dispersed markets that do not give due consideration to economic efficiency, financial prudence, and institutional capacity;

WHEREAS, to ensure the effective implementation of the solar PV projects in an integrated and sustainable manner, there is an imperative need to rationalize the grant of subsidies to missionary electrification projects using PV systems;

NOW, THEREFORE, the DOE hereby adopts and promulgates the following policies on the grant of subsidies to missionary electrification projects using PV systems.

Section 1. **Scope of Coverage.**

This Circular shall apply to DOE, NEA, SPUG, and other government agencies as well as donor entities providing solar PV subsidies in unenergized, remote, dispersed and unviable areas suitable for solar PV systems.

Section 2. **Definition of Terms.**

For the purposes of this Circular, the term:

- (a) **“Consumers”** refers to any of the following types of consumers:
 - (1) Single household or establishment availing of a solar home system;
 - (2) Community groups and public institutions availing of Solar PV systems such as solar battery charging station and PV street-lights for community lighting, health clinics, schools, water supply and other community services;
- (b) **“Donor Entities”** refers to any of the following:
 - (1) Multilateral and bilateral agencies such as World Bank, USAID, UNDP, ADB, JICA, foreign governments and other similar agencies providing assistance to the government or directly to the consumers;
 - (2) Private and civic groups engaged in rural and community development;

- (c) ***Missionary Electrification***” refers to the provision of basic electricity service in unviable areas with the ultimate aim of bringing the operations in these areas to viable levels;
- (d) ***“Missionary Electrification Development Program (MEDP)”*** refers to the five-(5) year plan of the DOE, updated annually, to implement missionary electrification projects funded through the share of Missionary Electrification in the Universal Charge (ME-UC). The MEDP serves as the country's blueprint for electrification and one of the bases for the determination by the ERC of the ME-UC;
- (e) ***“Qualified Third Party”*** or ***“QTP”*** refers to the alternative electric service provider authorized to serve remote and unviable areas pursuant to Section 59 of the EPIRA and Rule 14 of the EPIRA-IRR;
- (f) ***“Solar Battery Charging Station”*** refers to a solar PV system consisting of several PV modules that provides battery charging services to a group of consumers or community for generation of electricity;
- (g) ***“Solar Home System”*** refers to a scheme of solar PV system consisting of one or more PV modules that provides electricity services, to a single household or establishment;
- (h) ***“Solar Photovoltaic System”*** or ***“Solar PV System”*** refers to a system that uses a semi-conductor device called Photovoltaic modules to convert solar energy directly into electrical energy, which include among others solar battery charging station, solar home system and other similar solar PV applications;
- (i) ***“Solar PV Dealer”*** refers to a Person engaged in direct dealership business which sells PV equipment to households in unenergized and remote rural areas;
- (j) ***“Solar PV Service Provider”*** refers to a variant of Qualified Third Party engaged in fee-for-service business that installs solar PV systems and, in turn, collects fees for services to consumers in unenergized or remote rural areas;
- (k) ***“Solar PV Subsidy”*** refers to the direct or indirect assistance provided by the government and/or donor entities for reducing the cost of providing electricity services and other community services using solar PV systems in unenergized remote, dispersed and unviable areas suitable for solar PV systems.

Section 3. Sources of Solar PV Subsidy.

The solar PV subsidy shall be funded from, but not limited to, the following:

- (a) Missionary Electrification Component of the Universal Charge (ME-UC);
- (b) Budgetary allocations of DOE, NEA, SPUG and other energy related government agencies appropriated for rural electrification such as but not limited to grants and aids received from other agencies of the government, private sector or international institutions and internally-generated funds;
- (c) DOE administered funds appropriated for rural electrification; and,
- (d) Funds from donor entities.

Section 4. Beneficiaries of the Solar PV Subsidy.

Consumers within an unenergized, remote, dispersed and unviable area, suitable for solar PV systems shall be eligible beneficiaries of the solar PV subsidy; provided that priority shall be given to consumers in areas identified in the MEDP, and/or unenergized areas that have potential market for solar PV systems.

Section 5. Guide, Policies and Strategies on Solar PV Subsidy.

- (a) The utilization of solar PV systems shall be on a least-cost approach and shall be consistent with the overall government program for missionary electrification as formulated and defined in the MEDP.
- (b) The solar PV subsidy shall be made available in a rational, transparent, predictable and technology-neutral manner in order to make solar PV systems more affordable to the poor consumers.
- (c) The amount of solar PV subsidy sourced from government shall be determined by the DOE in consultation with other energy related government agencies, donor entities as well as solar PV dealers and service providers. The determination of solar PV subsidy shall take into account the following:
 - (1) Electricity consumption of consumers;
 - (2) Size/capacity and number of installations of solar PV systems;
 - (3) Cost of solar PV systems;
 - (4) Consumer's willingness to pay;

- (5) Potential contribution of the household electrification to the Community development;
 - (6) Innovative delivery mechanisms of solar PV systems such as but not limited to direct dealership and fee-for-service schemes; and
 - (7) Cost of developing and marketing solar PV systems.
- (d) The scheme of delivering the solar PV subsidy sourced from the government shall likewise be designed by the DOE. The DOE shall endeavor to implement an output-based approach (i.e. the provision of subsidy based on specific accomplishments performance for a specific period of time) in the use of all available government funds allocated for solar PV subsidy.
 - (e) The DOE shall optimize the use of the solar PV subsidy sourced from the government through appropriate schemes such as joint undertakings with donor entities and/or with private capital from solar PV dealers and service providers.
 - (f) To ensure consistency with the MEDP and optimized use of solar PV subsidies, all donor entities that shall provide direct or indirect assistance in the provision of electricity and other community services using solar PV systems shall be enjoined to coordinate all plans and programs with the DOE from its inception. To this end, the DOE shall coordinate with NEDA and concerned government agencies the implementation of all new projects related to the use of solar PV systems.
 - (g) The entry of solar PV dealers and service providers shall be encouraged to develop and market solar PV systems in unenergized, remote, dispersed and unviable area. The DOE shall issue accreditation guidelines for solar PV dealers and service providers.
 - (h) The DOE shall establish and issue business/operating guidelines for all accredited solar PV dealers/service providers in a manner that shall foster market competition for solar PV systems, promote commercially available products and services using solar PV systems in unenergized and remote rural areas and ensure that solar PV subsidy is passed on to consumers in the form of a lower price.

Section 6. Administration of Solar PV Subsidy.

- (a) The DOE shall have the overall responsibility in the implementation of the solar PV subsidy program, which shall include, among others, the following:
 - (1) Formulation of the overall framework and clearinghouse for all initiatives related to solar PV system electrification;
 - (2) Setting of technical and performance standards for all solar PV Systems;

- (3) Accreditation of solar PV systems dealers/service providers;
 - (4) Establishment and oversight of solar PV dealers/service providers network;
 - (5) Identification and specifying the source of solar PV subsidy which shall be based on the amount of subsidy required to implement solar PV systems projects, extent of installation of solar PV systems, specific programs of donor entities, etc.;
 - (6) Establishment of a computerized database/information system to track and monitor the recipients of subsidies for use of solar PV systems;
 - (7) Coordination with various government agencies implementing solar PV systems projects; and,
 - (8) Project monitoring, evaluation and impact analysis of solar PV subsidy.
- (b) The DOE, in consultation with other concerned government agencies, donor entities and the solar PV industry, shall formulate implementing guidelines for the administration of solar PV subsidies within one (1) month from the effectivity of the Circular.

The implementing guidelines shall contain the following, among others:

- (1) Methodology for the determination of solar PV subsidy for various types of consumers, applications and sources of subsidy;
 - (2) Procedure of availing solar PV subsidies; and,
 - (3) Accreditation procedures for solar PV dealers and service providers.
- (c) The DOE, in partnership with the solar PV industry and donor entities shall embark an information campaign to hasten the market acceptability of the solar PV systems within two (2) years upon the effectivity of this Circular. The said information campaign shall be directed to prospective solar PV systems dealers/providers and targeted consumers.
- (d) A Unified Electrification Subsidy Committee is hereby established to operate under the Expanded Rural Electrification (ER) Program Team, created pursuant to Department Circular No. 2003-04-004 issued on April 01, 2003. The DOE shall chair the said Committee which shall have the following functions and responsibilities:

- (1) Identify all rural electrification projects including solar PV systems installations for inclusion in the MEDP; and,
- (2) Formulate, recommend and regularly update appropriate guidelines for the provision of subsidy to rural electrification projects including those using solar PV systems,

Section 7. Reparability.

If for any reason, any section of this Circular is declared unconstitutional or invalid, the other parts or sections hereof which are not affected thereby shall continue to be in full force and effect.

Section 8. Repealing Clause.

All rules, guidelines and issuances or parts thereof which are inconsistent with this Circular are hereby repealed or modified accordingly.

Section 9. Effectivity.

This Circular shall take effect one (1) week following its publication in a newspaper of general circulation.

(Sgd.)
VINCENT S. PÉREZ, JR.
Secretary

Fort Bonifacio, Taguig, Metro Manila, 28 May 2004.