



Republic of the Philippines  
**DEPARTMENT OF ENERGY**  
(Kagawaran ng Enerhiya)

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**MEMORANDUM**

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TO : ALL CONCERNED DISTRIBUTION UTILITIES AND OTHER  
STAKEHOLDERS IN OFF-GRID AREAS

SUBJECT : GUIDELINES IN THE RATIONALIZATION OF TARIFFS IN OFF-  
GRID AREAS PURSUANT TO RULE 10 OF DEPARTMENT  
CIRCULAR NO. DC2019-01-0001

DATE : 24 May 2019

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Pursuant to Rule 10 of Department Circular No. DC2019-01-0001 entitled "*Prescribing The Omnibus Guidelines on Enhancing Off Grid Power Development and Operation*", the Department of Energy (DOE), in consultation with the concerned stakeholders, shall study and formulate new policies and programs to rationalize existing tariffs in off-grid areas.

For this purpose, the DOE will be conducting a public consultation in July 2019. The rationale of the proposed subsidy rationalization policy is anchored on:

- a. **Uncontrolled Increases to UC-ME Requirements under Existing Policies.** Based on the current policy of uniform subsidy per kilowatt-hour of electricity consumption in off-grid areas, the total annual Universal Charge for Missionary Electrification (UC-ME) requirements is estimated to increase from the 2011 level of Php 7.784 billion to Php 28.373 billion by end of 2021. This can only be cushioned by a formulation of new well-targeted and efficient subsidy policy for off-grid areas; and
- b. **Social Inequity.** As a universal levy, the UC-ME is being collected from all electricity consumers in the country, including the average households and poor household consumers in the main grids of Luzon, Visayas and Mindanao and in off-grid areas. However, the existing subsidy policy involves uniform pricing, such that the same level of subsidy per kilowatt-hour is being provided to residential, commercial and other electricity consumers in off-grid areas. In effect, poor electricity consumers in the main grids are also paying for the UC-ME to subsidize the electricity consumption of large commercial and even industrial consumers in off-grid areas. This inequity must be immediately addressed.

In formulating the said guidelines, the DOE proposes the following strategies for the new Subsidy Rationalization Policy, to wit:



1. **Replacement of diesel and bunker fuel-fired power plants with low-cost, clean, indigenous and renewable power system in off-grid areas.** Phasing out of traditional diesel power plants with renewable plants such as hydro, wind and solar energy can significantly reduce the cost of generation in off-grid areas, thus, immediately resulting in lower UC-ME subsidy. The DOE will be at the forefront in the formulation of Island Power Development Plan to provide guidance and roadmap to ECs and LGUs for the eventual entry of low-cost and advanced generation technologies in the long-term.
2. **Efficient and least-cost dispatch of power plants.** Improving system operation in off-grid areas and dispatch of power plants according to least-cost order are expected to lower actual cost of generation, even without replacement.
3. **Modernization of Small Grids and Distribution Systems.** Fast-tracking of the modernization and expansion of existing small grids and facilities in off-grid areas will result in greater capability to transmit power with minimal losses. This will maximize the use of existing generation facilities and enable the entry of low-cost and locally-compatible renewable power systems whose resources are often located in areas far from the load centers.
4. **Efficient targeting of UC-ME subsidy for poor electricity consumers in off-grid areas.** If subsidies are still necessary despite the above-mentioned mechanisms, the poor and eligible households will continue to receive UC-ME subsidy as safety net. This will require greater responsibility of the LGUs, social welfare offices, and ECs towards coordinated thinking on integrated area development planning for the efficient dispensation of UC-ME subsidy.
5. **Removal of automatic subsidies to commercial and industrial customers in the off-grid areas.** This will address the current situation that poor electric consumers in the main grid are also paying UC-ME that subsidizes the power bills of commercial and industrial customers of ECs in off-grid areas such as the first class cities and municipalities of Palawan and Mindoro. Subsidies and incentives to economic development of the off-grid areas, including electricity subsidies, are more appropriate to be funded through other means.
6. **Provision of government funds in the form of electricity subsidies to economic activities and services that contribute to the integrated and inclusive development of off-grid areas within the limits of their carrying capacity.** The DOE does not discount the need to promote private investment in off-grid areas through the provision of lower or competitive electricity rates. In particular, Rule 11 of Department Circular No. DC2019-01-0001 aims to develop a new subsidy mechanism in form of annual allotment to provide subsidies to eligible economic activities and basic service, in addition to the operations of the National Power Corporation. Economic activities and basic services such as agriculture,




fishing, health, education, preservation of heritage arts and tourism which contribute to the sustainable development of an off-grid area can still be supported by subsidies through the General Appropriation Act subject to preconditions as may be determined through consultations with local communities and stakeholders. Other forms of incentives may include reduction of taxes to electricity production and consumption in off-grid areas. If properly designed, said mechanism will shift the subsidy burden from all electricity consumers into the General Appropriation Act. The DOE shall be coordinating with the Department of Agriculture, Department of Environment and Natural Resources, Department of Finance, Department of Interior and Local Government, Department of Tourism, Department of Trade and Industry, National Economic and Development Authority and the concerned Regional Development Councils, to design the said new mechanism.

7. **Intra-connection of existing contiguous small grids and micro-grids.** Intra-connection strategy is expected to result in optimal system operation and eventually in lowering of cost of generation. Department Circular No. DC2019-01-0001 has also tasked the NPC for develop and implement techno-economically feasible intra-connection projects.
8. **Interconnection of Small Grids into the Main Grid.** As provided in Republic Act No. 9136 and its Implementing Rules and Regulations, the UC-ME subsidy shall cease upon the interconnection of an off-grid area into the main grids. The National Transmission Corporation and its concessionaire, the National Grid Corporation of the Philippines, are also mandated to fast-track and finance techno-economically feasible interconnection projects.

Notwithstanding any policy changes, the DOE will ensure that there will be no abrupt removal of UC-ME subsidy without appropriate safety nets to mitigate the effect of the rationalization to the household consumers in off-grid areas.

The DOE therefore, urges the concerned stakeholders to join and participate in these public consultations which we will announce through our website or by invitation. May we also request for your initial comments, suggestions or strategies that may help the DOE in formulating a more reasonable and equitable subsidy rationalization program in off-grid areas. Please send it through courier or electronic mail at [ppdd.smeds@gmail.com](mailto:ppdd.smeds@gmail.com).

Thank you.

  
**FELIX WILLIAM B. FUENTEBELLA**  
Undersecretary