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

DEPARTMENT CIRCULAR NO. DC2022-05-0016

ADOPTING AND INTEGRATING THE POLICIES AND PROGRAMS FOR THE GRADUATION AND RATIONALIZATION OF THE UNIVERSAL CHARGE FOR MISSIONARY ELECTRIFICATION SUBSIDY PURSUANT TO DEPARTMENT CIRCULAR NO. DC2019-01-0001

WHEREAS, Section 2 of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), declares the policy of the State to: (i) ensure and accelerate the total electrification of the country; (ii) ensure the quality, reliability, security, and affordability of the supply of electric power; (iii) enhance the inflow of private capital and broaden the ownership base of the power generation, transmission and distribution sectors; and (iv) encourage the efficient use of energy and other modalities of demand-side management;

WHEREAS, Section 70 of the EPIRA states that the National Power Corporation (NPC), through the Small Power Utilities Group (SPUG), shall be responsible for providing power generation and its associated power delivery systems in areas that are not connected to the transmission system, which are being funded from the revenues from sales in missionary areas and from the Universal Charge to be collected from all electricity end-users as determined by the Energy Regulatory Commission (ERC);

WHEREAS, Rules 13 and 14 of the EPIRA Implementing Rules and Regulations (EPIRA-IRR) encourage the private sector participation in the missionary electrification program of the Government, especially in the provision of generation by the New Power Providers (NPPs) in the missionary areas and electrification of remote and unviable areas by the Qualified Third Parties (QTPs);

WHEREAS, Section 3(e) of Rule 13 and Section 6(a) of Rule 18 of the EPIRA-IRR mandate the Power Sector Assets and Liabilities Management Corporation (PSALM) as the Universal Charge Administrator and the NPC as the petitioner of Universal Charge for Missionary Electrification (UC-ME);

WHEREAS, Chapter III, Section 9 of the Republic Act No. 10531, otherwise known as the National Electrification Administration (NEA) Reform Act of 2013, mandates all electric cooperatives with off-grid areas to submit their graduation program from the UC-ME subsidy in relation to the acquisition of generation assets of NPC-SPUG and the full takeover of the generation function of such areas from NPC-SPUG;

WHEREAS, Republic Act No. 11646, otherwise known as the Microgrid Systems Act of 2022, aims to accelerate total electrification and promote private sector participation in the electrification of unserved and underserved areas;

WHEREAS, Section 5(g) of Republic Act No. 7638, otherwise known as the Department of Energy Act of 1992, states as one of the powers and functions of the DOE is to formulate and implement programs, including a system of providing incentives and penalties, for the judicious and efficient use of energy in all energy-consuming sectors of the economy;

WHEREAS, Chapter VII, Section 24 of the Republic Act No. 11285 states that the Department of Energy (DOE), with the assistance of the ERC and the Philippine Economic Zone Authority, shall pursue a Demand Side Management (DSM) program for the electric power industry for the reduction of energy consumption through effective load management resulting in the decrease of power demand and the migration of power demand from peak to off-peak periods or such measures undertaken by distribution utilities to encourage end-users to properly manage their loads to achieve efficiency in the utilization of fixed infrastructures in the systems;

WHEREAS, Department Circular No. DC2018-08-0024 entitled, "Promulgating the Rules and Guidelines Governing the Establishment of the Renewable Portfolio Standards for Off-grid Areas", aims to rationalize the efficient use of the UC-ME and improve self-efficiency in power generation through the integration of renewable energy (RE) in the supply mix in off-grid areas;

WHEREAS, Department Circular No. DC-2019-01-0001 entitled, "Prescribing the Omnibus Guidelines in Enhancing Off-Grid Power Development and Operations", provides the overall framework for interconnection of off-grid areas into the Grid, the promotion of capacity adequacy and operational efficiency in small grids, and optimal generation planning in the large island grids;

WHEREAS, Section 2 of Rule 10 of the Department Circular No. DC2019-01-0001 states that the DOE shall formulate a new policy towards the rationalization of subsidies in off-grid areas towards the removal or significant reduction of UC-ME in consultation with the stakeholders;

WHEREAS, the DOE has issued two separate advisories, on 24 May 2019, and on 8 October 2020, that provide detailed explanation and updates on the objectives and strategies of the UC-ME graduation and rationalization program of the Government towards a more efficient, well-targeted provision of subsidy to electricity in missionary areas;

WHEREAS, the DOE has issued Department Circular No. DC2018-02-0003, supplemented by Department Circular No. DC2021-09-0030, which provides the policy for the conduct of Competitive Selection Process in the procurement of power supply of the DUs with off-grid areas;

WHEREAS, the DOE has issued Department Circular No. DC2021-11-0039 entitled, "Mandating the National Transmission Corporation (TRANSCO) as Small Grid System Operator (SO) in Specific Off-grid Areas", to formulate grid interconnection development plans and programs for the off-grid areas and prepare the Distribution Utilities (DUs) and Generation Companies for the assumption of TRANSCO as Small Grid SO and the eventual interconnection of the small grids into the Grid;

WHEREAS, through the assistance of the European Union-funded Access for Sustainable Energy Programme, the DOE conducted a study on the demand-side aspect of the UC-ME rationalization that focuses on the customer-level removal of UC-ME subsidies, which was completed on 19 March 2021;

WHEREAS, the DOE conducted a review of all relevant policies and guidelines, and presented recommendations to the stakeholders through the following consultation meetings conducted on various dates:

- Discussion of the results of the analysis for Oriental Mindoro Electric Cooperative, Inc. and Romblon Electric Cooperative, Inc. demonstrating the options for subsidy rationalization based on the customer-level data and other available economic data with the EU-ASEP, NPC, ERC, NEA, PSALM, TRANSCO, Association of Isolated Electric Cooperatives, House of Representatives, Philippine Rural Electric Cooperatives Association Inc., and Department of Social Welfare and Development on 14 December 2020;

- Focus Group Discussions with the ERC, Busuanga Island Electric Cooperative, Inc., Palawan Electric Cooperative, Occidental Mindoro Electric Cooperative, Inc., Northern Samar Electric Cooperative, Inc., Province of Siquijor Electric Cooperative, Inc., Sulu Electric Cooperative, Inc., Sultan Kudarat Electric Cooperative, Inc. and Powersource Philippines Incorporated on 9 February 2021; and

- Public Consultations with stakeholders on 6 and 7 October 2021.

NOW THEREFORE, FOR AND IN CONSIDERATION OF THE FOREGOING PREMISES, the DOE hereby issues the following policies on the rationalization of subsidies in off-grid areas:

RULE 1. POLICY OBJECTIVES AND SCOPE

1.1. The policy objectives of this Circular in rationalizing the provision of UC-ME subsidy in the missionary areas in a holistic manner are to:

1.1.1. Empower the DUs in off-grid areas to formulate plans and programs for the rationalization of UC-ME subsidy in their respective franchise areas in cooperation and consultation with their respective stakeholders;

1.1.2. Incorporate plans of interconnection to the Grid to the overall UC-ME subsidy rationalization plans and programs of the DUs with off-grid areas;

1.1.3. Institutionalize least-cost generation planning to enable the entry of low-cost generation technologies in small grids and other off-grid power systems, including, but not limited to, RE, hybrid RE systems for advanced baseload technologies, and other emerging technologies while ensuring the provision of resilient, reliable, secure, affordable and quality electricity services in off-grid areas;

1.1.4. Encourage the DUs to practice and promote energy efficiency programs and measures in the off-grid areas, such as but not limited to load aggregators, smart meters, load shedding, and storage of unused energy during off-peak hours using efficient battery systems, including demand-side management (e.g. energy saving tips, minimum energy

performance standards and encouraging the use of off-peak electricity instead of peak-electricity), as options to reduce the electricity bills;

1.1.5. Optimize the recovery of cost of electricity services through innovative tariff mechanisms that reflect the capacity to pay of the electricity end-users;

1.1.6. Set the timeline for the reduction of UC-ME subsidy in consideration of the actual and foreseen socio-economic conditions of the consumers in the missionary areas as well as the measures to mitigate the adverse impacts of the subsidy reduction, as necessary; and

1.1.7. Harmonize the policies and regulations with respect to the setting of tariffs and subsidies in the off-grid areas.

1.2. Consistent with the Department Circular No. DC2019-01-0001, the scope and applicability of this Circular shall govern the following stakeholders in off-grid areas:

1.2.1. Distribution Utilities (DUs);
1.2.2. National Power Corporation (NPC);
1.2.3. National Transmission Corporation (TRANSCO);
1.2.4. New Power Providers (NPPs);
1.2.5. Renewable Energy Developers eligible to Renewable Energy Developers' Cash Incentive in accordance with the Renewable Energy Act of 2008;
1.2.6. Microgrid System Providers (MGSPs); and
1.2.7. All customers in off-grid areas that currently receive the UC-ME subsidy.

RULE 2. DEFINITION OF TERMS

2.1. **"Commercially Viable"** refers to an area or electricity service where the resultant True Cost of Generation Rate is equal or less than the Subsidized Approved Generation Rate;

2.2. **"Department of Energy" or "DOE"** refers to the Government agency created by virtue of Republic Act No. 7638 and mandated by the EPIRA to supervise the restructuring of the electric power industry;

2.3. **"Distribution Development Plan" or "DDP"** refers to the program for expansion, reinforcement and rehabilitation of the distribution system which is prepared by the DU and submitted to the DOE for integration with the Power Development Plan and Philippine Energy Plan. In the case of Electric Cooperatives (ECs), such plans shall be submitted through the NEA for review and consolidation. For the purpose of this Department Circular, the DDP will include the Island Interconnection Development Plan, as defined in the Department Circular No. DC2021-11-0039;

2.4. **"Distribution Utility or "DU"** refers to an EC, private corporation, local government unit or multipurpose cooperative which has an exclusive franchise to operate a Distribution System;

2.5. **"DU-operated microgrid system"** refers to a microgrid system owned and operated by a DU in a DU identified unserved area in its local total electrification roadmap;

2.6. **"Energy Regulatory Commission" or "ERC"** refers to the quasi-judicial regulatory agency created pursuant to the EPIRA;

2.7. **"Full Cost Recovery Rate" or "FCRR"** refers to the rate, expressed in Peso per kilowatt-hour, that recovers the full efficient costs of generating, distributing and supplying electricity in unserved and underserved areas by MGSPs as may be authorized by the ERC;

2.8. **"Graduation"** refers to the cessation of provision of the UC-ME subsidy in an area, by reason that the area or electricity service is deemed commercially viable or when the area is interconnected into the Grid;

2.9. **"Grid"** refers to the high voltage backbone system of interconnected transmission lines, substations and related facilities, located each in Luzon, Visayas and Mindanao or as may be determined by the ERC in accordance with Section 45 of EPIRA;

2.10. **"Least-Cost Generation Planning"** refers to power generation planning activity that will facilitate the entry of low-cost and efficient generation technologies in replacement or hybridization of existing high-cost diesel and bunker fuel systems in consideration to the timeline of the interconnection of small grids to the grid;

2.11. **"Microgrid System Provider" or "MGSP", which is also known as the QTP,** refers to a natural or juridical person whose business includes the installation, operation, and maintenance of microgrid systems in unserved or underserved areas nationwide;

2.12. **"Microgrid System Provider Service Contract" or "MSC"** refers to the contract between the microgrid system provider and the NPC whereby the microgrid system provider performs the missionary electrification function on behalf of the NPC and provides integrated power generation and distribution services in an unserved or underserved area, and to receive subsidy whenever applicable;

2.13. **"Missionary Area"** refers to an off-grid area that is deemed eligible for UC-ME subsidy by the DOE because the provision of basic electricity services is not commercially viable;

2.14. **"Missionary Electrification Development Plan" or "MEDP"** refers to the development plan of the DOE, updated annually, detailing the policies, strategies, plans and programs for missionary electrification, including the capital investment and operation in off-grid areas;

2.15. **"National Electrification Administration" or "NEA"** refers to the Government agency created under Presidential Decree No. 269, as amended, mandated to supervise the ECs;

2.16. **"National Power Corporation" or "NPC"** refers to the government corporation created under Republic Act. No. 6395, as amended by EPIRA, to perform missionary electrification through the Small Power Utilities Group (SPUG) and shall be responsible for providing power generation and its associated power delivery systems in areas that are not connected to the Grid;

2.17. **"National Transmission Corporation" or "TRANSCO"** refers to the corporation organized pursuant to EPIRA, to acquire all transmission assets of the NPC and is mandated pursuant to Department Circular No. DC2021-11-0039 to serve as the Small Grid System Operator in specific off-grid areas;

2.18. **"New Power Provider" or "NPP"** refers to a private entity or government-owned and controlled corporation deemed technically and financially capable to provide generation service in off-grid areas, in accordance with the CSP Rules;

2.19. "**NPC Graduation Plan**" refers to a comprehensive and detailed strategy of the NPC to attract private sector participation in areas served by the NPC;

2.20. **"Off-Grid Area"** refers to an area or system that is not connected to the Grid;

2.21. **"Power Supply Agreement" or "PSA"** refers to an agreement between a power producer and a DU for the supply of power;

2.22. **"Power Supply Procurement Plan" or "PSPP"** refers to the integral part of the DU's DDP for the acquisition of a variety of demand-side and supply-side resources to cost-effectively meet the electricity needs of its customers;

2.23. **"Power Sector Assets and Liabilities Management Corporation" or "PSALM"** refers to the government-owned and controlled corporation created pursuant to the EPIRA;

2.24. **"Private Sector Participation"** refers to the private investment on power generation facilities and associated delivery systems in order to meet the demand requirements of an off-grid area, thus performing the functions of the NPC-SPUG as defined in Section 70 of the EPIRA;

2.25. **"QTP Service Contracts" or "QSC"** refers to the agreement between the DU or NPC and the QTP, defining among others their responsibilities, terms and conditions including the applicable performance and service standards, excluding the Full Cost Recovery Rate, in providing the missionary electrification in QTP Service Area;

2.26. **"Renewable Portfolio Standards" or "RPS"** refers to a market-based policy that requires electric power industry participants, including suppliers, to source

an agreed portion of their energy supply from eligible renewable energy resources;

2.27. **"Subsidized Approved Generation Rate" or "SAGR"** refers to the rate, expressed in peso per kilowatt-hour, which the ERC has determined to be socially acceptable for a DU to pay for generation service. SAGR is further modified by this Circular as the generation rates approved by the ERC on a per area and customer class basis. The SAGR combined with the UC-ME subsidy should be equal to the TCGR;

2.28. **"Subsidized Approved Retail Rate" or "SARR"** refers to the rate, expressed in peso per kilowatt-hour, which the ERC has determined to be the maximum cost that an end-user should pay for an integrated power generation and distribution service by a MGSP. The SARR combined with the UC-ME subsidy should equal to the FCRR;

2.29. **"True Cost of Generation Rate" or "TCGR"** refers to the full efficient cost of generating power in an area;

2.30. **"Underserved area"** refers to an area currently served by home power systems, microgrid systems, or DUs whose supply of electricity is less than twenty-four (24) hours daily because of the non-implementation of approved capital expenditure projects, noncompliance with the service parameters of the Philippine Distribution Code, or any other reason resulting to an overall failing mark based on ERC's latest annual technical evaluation of performance of distribution systems;

2.31. **"Universal Charge for Missionary Electrification" or "UC-ME"** refers to the portion of the Universal Charge which is designated for Missionary Electrification and further defined by the Microgrid Systems Act as the portion of the non-bypassable charge passed on and collected from all end-users on a monthly basis by the DUs pursuant to EPIRA, a portion of which is allocated for the provision of integrated power generation and distribution services in unserved areas and underserved areas not connected to the grid or within a franchise area where the distribution system is not connected to the grid; and

2.32. **"Unserved area"** refers to an area with no electricity access, no distribution system lines, no home power systems, no connection to any microgrid system, or for which no distribution grid extension has been developed or implemented by the DU.

RULE 3. INTERCONNECTION AND INTRA-CONNECTION PROJECTS

3.1. The provision of UC-ME subsidy shall cease upon the interconnection of an off-grid area to the Grid.

3.2. The provision of UC-ME subsidy to DU-operated microgrid system and MGSP operation shall cease upon the interconnection of the unserved and underserved area to the Grid-connected distribution system.

3.3. In accordance with the Rule 9 of the Department Circular No. DC2019-01-0001, the TRANSCO, its buyer, concessionaire or successor-in-interest, in coordination with the concerned DU with off-grid areas, local government units and other off-grid stakeholders, shall prepare and submit to the DOE, copy furnished the ERC, NEA and NPC, not later than sixty (60) days upon the effectivity of this Circular, of its updated Plan of interconnection of off-grid islands into the Grid which contains all scheduled and planned interconnection projects in the next ten years containing the following information:

3.3.1. Brief technical description of each interconnection project;
3.3.2. Ownership structure and sources of funding;
3.3.3. Proposed Operations and Maintenance Plan;
3.3.4. Proposed cost recovery scheme;
3.3.5. Schedule of implementation, after considering alternatives such as micro-grid systems to electrify off-grid with the least cost;
3.3.6. Status of the Project; and
3.3.7. Project risks and other relevant information.

3.4. DUs with potential interconnection projects as listed in Annex "A" shall incorporate its interconnection development plan to the Grid as a component of its annual DDP and PSPP. Additional list of potential Interconnection Projects will be regularly updated and published at the websites of DOE, NEA, NPC and TRANSCO, its buyer, concessionaire or successor-in-interest.

3.5. Each DU with an off-grid area must ensure that the new PSAs resulting from the conduct of Competitive Selection Process upon the effectivity of this Circular that will claim the UC-ME subsidy shall have a cooperation period that will consider the schedule of the implementation of the interconnection project as stated in the Transmission Development Plan as reviewed and endorsed by the TRANSCO to the DOE.

3.6. Consistent with Rule 9 of the Department Circular No. DC2019-01-0001, all transmission lines and associated facilities established from the implementation of an interconnection project connecting an off-grid area into the Grid and resulting in the cessation of provision of UC-ME subsidy shall be deemed as transmission assets. The funds used for such projects obtained as grants from both local and national government or from other donors shall not form part of the cost recovery of the said assets.

3.7. The NPC, through its Missionary Electrification Plan (MEP), shall estimate the corresponding UC-ME subsidy reduction of each interconnection project in the updating of the total UC-ME subsidy requirements.

RULE 4. SUPPLY-SIDE PLANNING FOR LOW-COST AND MODERN GENERATION TECHNOLOGIES

4.1. **Scope of Least-Cost Generation Planning**. Recognizing the contribution of power generation planning in reducing the long-term cost of electricity in off-grid areas, this Circular hereby amends Section 6.5 of the Department Circular No. DC2019-01-0001 such that the conduct of the least-cost generation planning must now cover all off-grid areas, whenever applicable.

4.2. **General Planning Process.** The least-cost generation planning activity shall be an area-based, collaborative and participatory process. Specific planning methodology or approach shall be established according to the demand level as well as local conditions of the area. Initially, a suitable planning tool and template shall be established which will be subjected to periodic review.

4.3. **Planning Parameters**. The least-cost generation planning activity must adequately incorporate the following parameters and aspects, including but not limited to:

4.3.1. Scenarios of the demand forecasts that incorporate the energy efficiency measures and the local socio-economic development plans;
4.3.2. Scenarios for the interconnection of small grids to the Grid;
4.3.3. Existing power supply contracts of the concerned DU with off-grid areas;
4.3.4. Available renewable energy potentials in the area;
4.3.5. Performance and cost profiles of candidate renewable and conventional power technologies, focusing on the advanced and low-cost technologies to replace the existing high-cost diesel power plants;
4.3.6. Potential for renewable-based hybrid micro-grid systems in the case of small communities or islets; and
4.3.7. Compliance with the requirements of the Republic Act No. 9513 or the Renewable Energy Act of 2008, the Republic Act No.11285 or the Energy Efficiency and Conservation Act, and their respective Implementing Rules and Regulations, as well as the environmental and other relevant policy considerations.

4.4. **Responsibilities for Least-Cost Generation Planning**

4.4.1. Sixty (60) days upon the effectivity of this Circular, the DOE, in collaboration with the NEA, NPC, TRANSCO, the concerned DUs and the other service providers in the off-grid areas shall set the general methodology and the planning criteria in relation to the parameters set in Section 4.3 of this Circular.

4.4.2. As its additional responsibility for being the system operator in the small grids, the TRANSCO shall assist the concerned DUs by taking the lead in the conduct of least-cost generation planning in the said areas.

4.4.3. One-hundred eighty (180) days upon the effectivity of this Circular, the following shall submit to the DOE a report including the assumptions and results.

4.4.3.1. The TRANSCO which has responsibility to all the DUs as defined in Rule 3, Section 3.1 of Department Circular No. DC2021-11-0039;
4.4.3.2. Other DUs covered in Rule 3, Section 3.2 of the Department Circular No. DC2021-11-0039, in the case of the ECs with off-grid areas, through the NEA; and

4.4.3.3. A separate report of the NPC, MGSP or any entity operating in off-grid areas for those areas covered in accordance with Rule 3, Section 3.3 of the Department Circular No. DC2021-11-0039, indicating the optimal strategy of the RE-based hybridization of each micro-grid as stated in Section 4.5.6 of this Circular.

4.4.4. All the DUs with off-grid areas shall consider or incorporate the results of the least-cost generation planning activity in the preparation of their individual UC-ME Rationalization Plan as stated in Rule 4 as well as the updating of their respective DDP and PSPP prior to submission to the NEA in the case of the ECs.

4.4.5. All the Mandated Participants in Off-grid areas shall source a percentage of all their energy requirements or supply from the eligible RE in compliance to the implementation of the Renewable Portfolio Standard for off-grid areas.

4.4.6. Within six (6) months upon the effectivity of this Circular, the National Renewable Energy Board shall study a new mechanism on the provision of cash incentives to RE developers and propose recommendations to the ERC and the DOE to ensure the efficient, optimal and sustainable use of RE resources for power and non-power generation, and the reduction of the TCGR.

4.4.7. Not later than 15th of June of every year, the NPC shall submit to the DOE a specific program to implement key strategies towards efficiency improvement and fuel economy of all its power plants. The implementation of the program shall be included by the NPC into its MEP submission by January of the following year. For this purpose, Section 8.3 of the Rule 8 of Department Circular No. DC2019-01-0001 is hereby amended.

4.5. **Promotion of Renewable-based Hybrid Micro-Grid Systems.**

4.5.1. The DOE and the NEA, shall jointly or separately formulate and implement trainings and other similar capacity building activities in order to enhance the technical capability of the DUs with off-grid areas to develop embedded RE-based generation projects, to prepare the Terms of Reference, and to evaluate and select the optimal proposal for unserved and underserved areas.

4.5.2. The DOE, through the Renewable Energy Management Bureau (REMB), and in coordination with the NEA, may provide technical assistance to the DUs in the conduct of RE resource assessment in off-grid areas, including pre-feasibility study for RE-based Hybrid Micro-Grid Systems.

4.5.3. The DOE, through the REMB, shall provide technical assistance to the Mandated Participants under the RPS Off-Grid Rules in simulating typical off-grid power supply configurations and corresponding techno-

economic comparisons per off-grid area using any suitable planning tool.

4.5.4. The NEA shall provide specific financial and technical assistance to the ECs with off-grid areas in the development and implementation of RE-based generation projects within their respective franchise area. Such assistance shall include, but not limited to provision of financial support in the conduct of pre-feasibility, feasibility and pre-investment studies, site-specific resource assessment, etc.

4.5.5. The NEA shall also assist the ECs in the financing of RE-based generation projects to serve the off-grid parts of their franchise areas such as through the provision of loans, loan guarantees and assistance to the ECs in accessing commercial sources of funds, among others.

4.5.6. The NPC, in coordination with the concerned DU with off-grid areas, shall fast-track the conversion and modernization of all its diesel-based generator sets in pocket islets into a RE-based micro-grid system that offers optimal hours of services based on the electricity needs in the said areas.

4.6. **New Business Models for RE-based Embedded Generation Projects and Electrification in Off-grid Areas.**

4.6.1. Within sixty (60) days upon the effectivity of this Circular, the NEA shall issue a policy instrument for the formulation of new modalities or other variants of cooperation between the EC with an off-grid area and the business sector, civil society, local government unit or mandated government-owned and controlled corporation, taking into consideration whether the EC should remain as a non-stock electric cooperative or convert to a stock-cooperative or stock corporation on such cooperation and the limitations imposed by Department Circular No. DC2018-02-003.

RULE 5. DEMAND-SIDE MANAGEMENT (DSM) AND ENERGY EFFICIENCY MEASURES FOR CUSTOMERS IN OFF-GRID AREAS

5.1. **Guiding Principles**.

5.1.1. The customer-level implementation of energy efficiency programs and activities shall be the main strategy of this Circular to mitigate the impacts of the current high cost of generation in off-grid areas and the implementation of UC-ME subsidy rationalization to the electricity consumers in off-grid areas currently receiving UC-ME subsidy;

5.1.2. Priority energy efficiency measures shall be those with greatest net economic benefits to the customers in off-grid areas in terms of costs and reduction of actual electricity bills.

5.2. **Responsibilities for Energy Efficiency Program**.

5.2.1. The DOE shall identify the DSM programs for the energy sector which shall be geared towards: (a) reduction of electricity consumption through effective load management and utilization of energy efficient equipment; (b) promotion of reduction of energy use through the adoption of energy efficiency and conservation programs and the integration of any applicable RE technologies; (c) prevention of power outages by increasing system reliability and resiliency; and (d) encouragement to electricity consumers to change behavior to adopt measures to effect energy consumption and utility load shape in a most effective and cost competitive manner.

5.2.2. All DUs with off-grid areas and MGSPs shall formulate and implement their respective energy efficiency program with the main objective of reducing the cost of electricity tariffs of their captive customers.

5.2.3. The NEA shall be responsible to formulate the guidelines and procedures to assist the ECs with off-grid areas in implementing DSM strategies and other energy efficiency measures that are deemed suitable in their franchise areas. The NEA shall also undertake capacity building of the said ECs in formulating their respective energy efficiency programs.

5.2.4. The NEA shall also be responsible to provide financial assistance to ECs and their respective customers, either in form of grants or concessional financing, to implement DSM and other energy efficiency measures that reduce the electricity bills of the off-grid customers.

5.2.5. All customers in off-grid areas are enjoined to implement energy efficiency measures and participate in DSM and other energy efficiency programs of their respective DUs or MGSPs.

RULE 6. CUSTOMER-LEVEL RATIONALIZATION OF SUBSIDIES

6.1. **General Policies**.

6.1.1. The ERC shall pursue a more appropriate tariff mechanism in off-grid areas that optimizes the recovery of all costs of electricity services from consumers while taking into consideration the socio-economic condition in said areas.

6.1.2. As the regulator, the ERC shall have the sole authority to develop and set a new rate structure that is more appropriate in off-grid areas and will enable an efficient allocation per customer class.

6.1.3. Those customers that have significant contribution to the demand requirements shall pay more than the marginal customers of electricity in the off-grid areas.

6.1.4. To enable its eligible customers to avail of any subsidy, a DU with an off-grid area or MGSP shall submit its ERC-approved SAGR or SARR to the NPC for the allocation of subsidies, either from the UC-ME or from the Government appropriations.

6.1.5. The DU with an off-grid area or MGSP shall assess the capacity to pay of their respective customers and apply to the ERC for the approval of the corresponding SAGR or SARR per level of consumption in accordance with the DOE-accepted Subsidy Rationalization Plan outlined under Section 7.2 of this Circular.

6.1.6. All funds of the Government through the annual General Appropriations Act including funds from donor institutions or organizations received as grants, subsidy or donation to finance projects or activities related to electrification and provision of reliable and resilient electricity services in off-grid areas shall not be recovered through tariffs being charged to the electricity consumers in off-grid areas.

6.2. **Eligibility for UC-ME Subsidy**. The following shall be eligible for the UC-ME subsidy, to wit:

6.2.1. All NPC activities related to missionary electrification, pursuant to Section 70 of the EPIRA, that are approved by the National Power Board of Directors in accordance with the policies stated in this Circular;

6.2.2. Subsidy approved by the ERC as payment to any NPP for the recovery of its TCGR while maintaining the SAGR charged to the DU and its customers, in accordance with the ERC-approved PSA or its equivalent;

6.2.3. Subsidy approved by the ERC as payment to any MGSP with an ERC-approved MSC and any DU-operated microgrid system; and

6.2.4. Cash generation-based incentive approved by the ERC to be paid to any qualified registered RE developers.

6.3. Department Circular No. DC2019-01-0001 is hereby further qualified to mean that non-technical system losses including pilferage shall not be entitled for cost recovery through UC-ME subsidy.

RULE 7. UC-ME RATIONALIZATION PLAN

7.1. General Principles and Strategies

7.1.1. The graduation of an off-grid area from the UC-ME will be realized readily through its interconnection to the Grid.

7.1.2. The DU with off-grid areas shall endeavor to design all its procurement activities to ensure the entry of low-cost and efficient generation

technologies including renewables as well as baseload technologies as alternatives to existing diesel and bunker fuel systems.

7.1.3. To achieve greater recovery of generation costs, this Circular shall pursue a new regulatory mechanism that allows for the differentiation of SAGR being collected to various customers according to demand, level of consumption, customer classification, and socio-economic conditions of the area.

7.1.4. The DU with off-grid areas and MGSP shall ensure that any subsidy reduction scheme shall be supported by energy efficiency programs and other mitigating measures in order to cushion and reduce the potential effects of subsidy rationalization to the consumer.

7.2. **Formulation of UC-ME Rationalization and Graduation Plan**. The NEA, in coordination and with the assistance of any association of DUs and ECs with off-grid areas, the NPC and the TRANSCO, shall enjoin each EC with an off-grid area receiving UC-ME subsidy to prepare its own 10-year Graduation and Rationalization Plan indicating the socially-acceptable reduction and/or phase out of UC-ME subsidy and shall be fully reviewed and updated every 3 years. Optional annual update may be advised by an EC and the NEA. The Graduation and Rationalization Plan shall form part of the DDP and the PSPP to be submitted to the DOE. The Graduation and Rationalization Plan shall specify the following:

7.2.1. Schedule of Interconnection Plan, if any, in order to indicate the full graduation of the area from the UC-ME subsidy;
7.2.2. 10-year Optimal Power Supply Outlook, indicating gradual reduction of the TCGR through procurement of low-cost and advanced technologies;
7.2.3. DSM and Energy Efficiency Program, outlining the potential electricity bill reduction to each type of customer;
7.2.4. Customer-level subsidy reduction or phase-out in accordance with the Rule 6 of this Circular;
7.2.5. Projected Rate Adjustments and UC-ME subsidy reduction per area; and
7.2.6. Compliance and Impact Mitigation Plans.

7.3. The DUs with off-grid areas and the MGSPs in coordination with the Local Government Units, shall develop their Rationalization Plan to indicate their energy efficiency strategies and activities to reduce the UC-ME subsidy to be submitted to the DOE, in case of the ECs, through the NEA.

7.4. The NEA shall collaborate with the TRANSCO and the NPC to review the individual UC-ME Graduation and Rationalization Plans of the DUs with an off-grid area. After the review, the NEA shall consolidate the individual plans and submit the Integrated UC-ME Graduation and Rationalization Plan to the DOE for the updating of the Missionary Electrification Development Plan in line with Section 7.2 of this Circular.

7.5. The NEA shall endorse to the DOE both the individual and integrated UC-ME Graduation and Rationalization Plans of all the ECs with off-grid areas to the DOE in time with the annual submission of DDP and PSPP. As part of its submission, the NEA shall evaluate and recommend the timeline of achieving the following milestones for each EC with an off-grid area whenever applicable:

7.5.1. The most feasible schedule of the interconnection of an off-grid area into the Grid;
7.5.2. The recommended period for the attainment of parity between TCGR and effective SAGR of each off-grid area according to its present socio-economic conditions and future development outlook; and
7.5.3. The most feasible schedule in providing least cost electricity services in the off-grid areas by the EC.

7.6. The DOE shall provide the Integrated UC-ME Rationalization and Development Plan to the ERC and the NPC for their information and reference.

7.7. In accordance to Section 14(a) of the Microgrid Act, the NPC shall prepare and execute an NPC Graduation Plan.

7.8. Implementation Procedure.

7.8.1. Consistent with the DOE-accepted subsidy rationalization plan, a DU with off-grid areas shall petition individually or collectively with other similarly situated DUs to the ERC for the approval of its SAGR adjustments.
7.8.2. The DU with off-grid areas shall provide the NPC a copy of its approved SAGR for the determination of UC-ME subsidy requirements and allocations.
7.8.3. The MGSPs and the DU-operated microgrid systems in off-grid areas having the ERC approval to receive UC-ME subsidy shall also prepare their respective Rationalization Plan. The same shall be incorporated by the concerned DU in its overall Rationalization Plan.
7.8.4. The DU with off-grid areas, with assistance from the NEA, the NPC and the TRANSCO, shall conduct an Information Education and Communication Program to educate the electricity end-users in off-grid areas of its UC-ME Graduation and Rationalization Plan.
7.8.5. The NEA, in coordination with the ECs with off-grid areas, shall submit to the DOE, copy furnished the ERC, an end-year assessment report on the status and results of the implementation of the UC-ME Graduation and Rationalization Plan.

RULE 8. MONITORING OF UC-ME SUBSIDY

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

8.1.1. Each NPP shall submit a monthly report to the NPC and its off-taker DU containing the monthly computation of its TCGR based on the ERC-approved PSA.

8.1.2. The MGSPs shall submit a monthly report to the NPC of its UC-ME requirements.

8.1.3. Pursuant to Section 3(f) of Rule 13 of EPIRA-IRR, the NPC shall submit a semi-annual report to the PSALM detailing the utilization of the UC-ME subsidy and disbursement to eligible areas and entities in the last six (6) months and the projected estimates in the next (6) months, using an appropriate template.

8.1.4. Copy of the above reports shall be provided to the DOE, the Department of Finance (DOF), the ERC and the NEA for reference.

8.1.5. The PSALM shall submit to the DOE, the DOF and the ERC the status of the remittances and disbursement of UC-ME subsidy on a quarterly basis.

RULE 9. REGULATORY SUPPORT AND OTHER PROVISIONS

9.1. The ERC shall issue the appropriate Rules governing the procedure for the filing and evaluation of an application for the approval of the SAGR or SARR, to be undertaken by the DUs with off-grid areas in accordance with Section 6.1.5 of this Circular and the DOE-accepted Subsidy Rationalization Plan, and the UC-ME subsidy petitioned by the NPC in accordance with Section 6.2 of this Circular.

9.2. The ERC shall be responsible for setting the SAGR or SARR adjustments. The ERC shall likewise hear, review and decide applications for the approval of proposed interconnection projects of off-grid areas to the Grid in accordance with the individual UC-ME Rationalization and Graduation Plan of the DU, in accordance with that which was submitted to and accepted by the DOE.

9.3. The ERC may issue other appropriate regulatory rules, guidelines or measures to implement the policies and programs stated in this Circular.

RULE 10. TRANSITORY PROVISION

10.1. All PSAs and QTP Service Contracts that have been procured and executed, including those that have been filed and pending before the ERC, prior to this Circular shall be honored and recognized until their expiration.

RULE 11. SEPARABILITY CLAUSE

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

RULE 12. REPEALING CLAUSE

12.1. Any Department Circular or issuance, contrary or inconsistent with this Circular is hereby repealed, modified or amended accordingly.

12.2. Nothing in this Circular shall be construed to affect any vested rights acquired from institutions or mechanisms existing prior to this Circular.

RULE 13. EFFECTIVITY

13.1. This Circular shall take effect fifteen (15) days after its publication in at least two (2) newspapers of general circulation. Copies thereof shall be filed with the University of the Philippines Law Center – Office of National Administrative Register (UPLC-ONAR).

Signed this ____ day of _____ 2022 at the Department of Energy, Energy Center, Bonifacio Global City, Taguig City, Metro Manila.

ALFONSO G. CUSI
Secretary

Republic of the Philippines
DEPARTMENT OF ENERGY
IN REPLYING PLS. CITE:
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ANNEX A.

In reference to the Chapter 11 of Transmission Development Plan (TDP) 2022-2040[1], the below list of Indicative and Potential Interconnection Projects are as follows:

Project Name	Distribution Utility	Estimated Time of Completion	Remarks
Batangas-Mindoro Interconnection	Oriental Mindoro Electric Cooperative, Inc. (ORMECO) and Occidental Mindoro Electric Cooperative, Inc. (OMECO)	Feb 2026	Filed to ERC
Palawan–Mindoro Interconnection	Oriental Mindoro Electric Cooperative, Inc. (ORMECO), Occidental Mindoro Electric Cooperative, Inc. (OMECO), and Palawan Electric Cooperative (PALECO)	Feb 2028	
Quezon – Marinduque 69kV Interconnection	Marinduque Electric Cooperative, Inc. (MARELCO)	Dec 2025	Filed to ERC
Camarines Sur – Catanduanes 69kV Interconnection	First Catanduanes Electric Cooperative, Inc. (FICELCO)	Dec 2025	
Zamboanga-Basilan 69kV Interconnection	Basilan Electric Cooperative, Inc. (BASELCO)	Dec 2030	
Ticao Island Interconnection	Ticao Island Electric Cooperative, Inc. (TISELCO)		For further study
Masbate Island Interconnection	Masbate Electric Cooperative, Inc. (MASELCO)		For further study
Tablas Island Interconnection	Tablas Island Electric Cooperative, Inc. (TIELCO)		For further study
Lubang Island Interconnection	Lubang Electric Cooperative, Inc. (LUBELCO)		For further study
Busuanga Island Interconnection	Busuanga Island Electric Cooperative, Inc. (BISELCO)		For further study
Bantayan Island Interconnection	Bantayan Island Electric Cooperative, Inc. (BISELCO)		For further study
Siquijor Interconnection	Province of Siquijor Electric Cooperative, Inc. (PROSIELCO)		For further study
Camotes Island Interconnection	Camotes Electric Cooperative, Inc. (CELCO)		For further study

[1] Transmission Development Plan (TDP) 2022-2040. Chapter 11 – Island Interconnection. Page 143-158

Semirara Island Interconnection	Antique Electric Cooperative, Inc. (ANTECO)		For further study
Dinagat Island Interconnection	Dinagat Island Electric Cooperative, Inc. (DIELCO)		For further study
Siasi Island Interconnection	Siasi Electric Cooperative, Inc. (SIASELCO)		For further study
Sulu Island Interconnection	Sulu Electric Cooperative, Inc. (SULECO)		For further study
Tawi-Tawi Interconnection	Tawi-tawi Electric Cooperative, Inc. (TAWELCO)		For further study