

[**DEPARTMENT CIRCULAR NO. DC2018-08-0024,**
September 25, 2018]

**PROMULGATING THE RULES AND GUIDELINES GOVERNING THE
ESTABLISHMENT OF THE RENEWABLE PORTFOLIO STANDARDS
FOR OFF-GRID AREAS**

Adopted: 24 August 2018
Date Filed: 25 September 2018

WHEREAS, Republic Act (RA) No. 7638, otherwise known as the "Department of Energy (DOE) Act of 1992," declares as a policy of the State to, among others, ensure a continuous, adequate and economic supply of energy through the integrated and intensive exploration, production, management and development of the country's indigenous energy resources;

WHEREAS, RA No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001" or "EPIRA," declares as a policy of the State to, among others: (a) assure socially and environmentally compatible energy sources and infrastructure; and (b) promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;

WHEREAS, Section 37 of the EPIRA mandates the DOE to encourage private sector investments in the electricity sector and promote the development of indigenous and renewable energy (RE) resources;

WHEREAS, RA No. 9513, otherwise known as the "Renewable Energy Act of 2008" or the "RE Act," declares as a policy of the State to increase the utilization of RE by institutionalizing the development of national and local capabilities in the use of RE systems, and promoting their efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives;

WHEREAS, the DOE launched the National Renewable Energy Program (NREP) on 15 June 2011 which aimed to establish a comprehensive approach to encourage greater private sector participation, through investments, in RE development;

WHEREAS, consistent with and pursuant to the objectives set forth under Section 6 of the RE Act, all stakeholders in the electric power industry are required to contribute to the growth of the RE industry in the country;

WHEREAS, Section 12 of the RE Act and Section 12, Rule 4, Part II of the Implementing Rules and Regulations (IRR) of the RE Act provide that the National Power Corporation-Small Power Utilities Group (NPC-SPUG) or its successors-in-interest and/or qualified third parties in Off-Grid Areas shall, in the performance of its mandate to provide missionary electrification, source a minimum percentage of its total annual generation from RE resources available in their

respective areas, as may be determined by the DOE;

WHEREAS, Section 4(ss) of the RE Act defines the Renewable Portfolio Standards (RPS) as “a market-based policy that requires electricity suppliers to source an agreed portion of their energy supply from eligible RE resources;”

WHEREAS, Section 15(h) of the RE Act prescribes that an RE Developer engaged in missionary electrification shall be entitled to a cash generation-based incentive per kilowatt-hour generated equivalent to fifty percent (50%) of the Universal Charge for power needed to service missionary areas where it operates the same, to be chargeable against the Universal Charge for Missionary Electrification (UC-ME);

WHEREAS, the National Renewable Energy Board (NREB) conducted working group meetings and public consultations on the draft rules implementing Section 12 of the RE Act in various locations in the country from 05 October up to 06 November 2017;

WHEREAS, on 04 December 2017, the NREB endorsed to the DOE its proposed version of the RPS Off-Grid Rules;

WHEREAS, the DOE conducted public consultations on 20 February 2018 in Puerto Princesa, Palawan, and on 27 February 2018 in Zamboanga City;

NOW, THEREFORE, the DOE hereby issues, adopts and promulgates the following rules and regulations:

RULE 1 GENERAL PROVISIONS

Section 1. Short Title. This Circular shall be known as the “RPS Rules for Off- Grid Areas” and shall hereinafter be referred to as the “RPS Off-Grid Rules” or “Rules.”

Section 2. Purpose. This RPS Off-Grid Rules is hereby adopted in order to contribute to the growth of the RE industry in the Off-Grid and Missionary Areas by mandating electric power industry participants to source or produce a specified portion of their electricity requirements from eligible RE resources.

The RPS Off-Grid Rules is intended to rationalize the efficient use of the UC-ME and improve self-efficiency in power generation through integration of RE in the supply mix in Off-Grid Areas.

Section 3. Scope. This RPS Off-Grid Rules sets out the policies and guidelines on the following:

- (a) Optimal Supply Mix with operational efficiency improvement and RE development;
- (b) Types of eligible RE resources;
- (c) Annual minimum RE requirements for each area;

- (d) Annual minimum incremental percentage of electricity sold by the NPC- SPUG or its successors-in-interest, New Private Power Providers (NPP), Distribution Utilities (DU) with embedded generation facilities and Qualified Third Parties (QTP), which are required to source from eligible RE resources;
- (e) Minimum requirements for the technical feasibility and stability of Small Grids where RE generation facilities shall be connected;
- (f) Dispatch of RE resources to meet the annual minimum requirements of an area;
- (g) Procurement by the Mandated Participants of the minimum RE requirement for each area or in their respective supply portfolios; and
- (h) Means of compliance by the Mandated Participants of the minimum percentage set herein to meet the baseline RE requirements.

Section 4. Definition of Terms. As used in this Rules, the following terms shall be defined as follows:

- (a) **"Cash Generation-Based Incentive"** refers to the subsidy that any eligible RE Developer is entitled to under the RE Act;
- (b) "Contingency Reserve" refers to that portion of a plant's capacity placed on reserve to cover for the breakdown of the largest unit in the Small Grid or for the regulation and control of the intermittency of RE resources;
- (c) "Embedded Generation" refers to generating units that are directly connected to the distribution system of a DU or indirectly connected to the transmission system;
- (d) Force Majeure" refers to typhoons, storms, tropical depressions, flooding, drought, volcanic eruptions, earthquakes, tidal waves or landslides, or acts of a public enemy, wars (with or without Congressional declaration), riots, insurrections, revolutions, acts of sabotage, blockades or any violent and threatening actions, as well as uncontrollable conditions that may result or would likely lead to the extraordinary disruption

of operations of the RE Developer, Generation Company, or DU;

- (e) "Generation Company" refers to NPC-SPUG, its successors-in-interest, or any entity supplying power to a DU or Directly-Connected Customer;
- (f) "Minimum Renewable Energy Requirement" refers to the RE off-grid development mechanism under the RE Act that requires the Mandated Participants described under Section 11 of this Rules to source a minimum percentage of their total annual generation from available RE resources;
- (g) "Missionary Area" refers to areas that are not connected to the national transmission backbone;
- (h) "Missionary Electrification Development Plan" or "MEDP" refers to the Government's plan, developed and updated by the DOE, to achieve energy access in Off-Grid or Missionary Areas nationwide. It shall contain, among others, the policies and programs that will be implemented to sustain the provision of adequate, reliable and efficient supply of electricity in Off-Grid Areas or Missionary Areas, and enable the communities found therein to receive the benefit of sustainable and least-cost electrification solutions and services;
- (i) "Missionary Electrification Plan" or "MEP" refers to the five-year plan of the National Power Corporation, updated annually, to implement its missionary electrification function and forms part of the MEDP;
- (j) "National Power Corporation" or "NPC" refers to the Government corporation created under RA No. 6395, as amended;
- (k) "New Private Power Provider" or "NPP" refers to the entity that has taken over the generation function of NPC-SPUG, partly or wholly, authorized by the Government to produce and supply electricity to Off-Grid or Missionary Areas;
- (l) "NPC Small Power Utilities Group" or "NPC-SPUG" refers to the functional unit of the NPC which was

created to pursue its missionary electrification function;

- (m) "Off-Grid Area" refers to any area that is not connected either to the national transmission system, any distribution network, or other related facilities;
- (n) "Optimal Supply Mix" refers to the total generation mix derived from various fuel technologies that shall provide the supply of electricity in the least-cost and reliable manner with due consideration to the Government policies on rational utilization of RE sources and the UC-ME as defined in the MEDP;
- (o) "Qualified Third Party" or "QTP" refers to the alternative service provider authorized to provide electric power supply to areas which were waived by franchised DUs pursuant to Section 59 of EPIRA;
- (p) "RE Developer" refers to individuals or juridical entities created, registered and/or authorized to operate in the Philippines in accordance with existing Philippine laws and are engaged in the exploration, development or utilization of RE resources and actual operation of RE systems/facilities. It shall include existing entities engaged in the exploration, development and/or utilization of RE resources, or the generation of electricity from RE resources, or both;
- (q) "Small Grid" refers to the backbone system of the interconnected high- voltage lines or medium-voltage lines, substations, and other related facilities not connected to the national transmission backbone grid in Luzon, Visayas and Mindanao or in the absence of a transmission system, this could refer to the distribution system in which generation facilities and associated facilities are directly connected. For the purpose of this Rules, Small Grid shall include areas serviced by QTPs;
- (r) "Subsidized Approved Generation Rate" or "SAGR" refers to the generation rate, expressed in Peso per Kilowatt-hour, which the ERC has approved for a DU to charge its consumers for electricity generation services;
- (s) "System Operator" refers to the party responsible