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DEPARTMENT CIRCULAR NO. DC2020-____-

PROMULGATING THE RULES AND GUIDELINES GOVERNING THE GREEN ENERGY TARIFF PROGRAM IN THE PHILIPPINES

WHEREAS, Republic Act No. 7638, otherwise known as the "Department of Energy (DOE) Act of 1992" or the "DOE Charter", declares it 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, Section 5(b) of the DOE Charter mandates the DOE to "[d]evelop and update the existing Philippine energy program which shall provide for an integrated and comprehensive exploration, development, utilization, distribution and conservation of energy resources, with preferential bias for environment-friendly, indigenous, and low-cost sources of energy..."

WHEREAS, Section 2 of Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001" or "EPIRA," declares the Policy of the State to, among others: (a) ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry; (b) assure socially and environmentally compatible energy sources and infrastructure; and (c) promote the utilization of indigenous and new and Renewable Energy ("RE") Resources in power generation in order to reduce dependence on imported energy;

WHEREAS, Section 37(e)(i), Chapter III of the EPIRA mandates the DOE to encourage private sector investments in the electricity sector and promote the development of indigenous and RE Resources;

WHEREAS, Republic Act No. 9513, otherwise known as the "Renewable Energy Act of 2008" or the "RE Act," declares the 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 its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives;

WHEREAS, Section 6, Chapter III of the RE Act mandated the Renewable Portfolio Standards ("RPS") program requiring all stakeholders in the electric power industry to contribute to the growth of the RE industry in the country and, towards this end, directed the National Renewable Energy Board ("NREB") to set the minimum percentage of generation from eligible RE resources and to determine which sector RPS shall be imposed on a per grid basis;

 WHEREAS, Department Circular No. DC2017-12-0015, otherwise known as the "RPS Rules for On-Grid Areas" or the "RPS On-Grid Rules", requires the Mandated Participants, as defined therein, to source or produce the minimum annual RPS requirement and prescribes the minimum annual incremental RE percentage of their total electricity requirements from eligible RE resources in order to develop indigenous and environmentally friendly energy resources, and provides for the compliance mechanisms, monitoring as well as penalties for non-compliance;

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WHEREAS, the RPS On-Grid Rules also provides that the DOE, in coordination with NREB, shall establish a market development program for RPS in order to encourage the compliance of the Mandated Participants with their respective RPS obligations;

WHEREAS, Department Circular No. DC2019-10-0013, otherwise known as the "Omnibus Guidelines Governing the Award and Administration of Renewable Energy Contracts and the Registration of Renewable Energy Developers" or the "Omnibus Guidelines", provides for an Open and Competitive Selection Process ("OCSP") as one of the modes for the selection and awarding of RE Contracts for Pre-Determined Areas, as such terms are defined therein;

WHEREAS, in order to provide more avenues for compliance by Mandated Participants in meeting their RPS requirements and align the DOE's efforts in promoting the utilization of indigenous and environment-friendly energy resources, there is a need to explore and pursue new and supplemental programs to support increased investment in new RE projects.

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

RULE 1 GENERAL PROVISIONS

SECTION 1. TITLE. This Circular shall be known as the "Rules Governing Green Energy Tariff Program in the Philippines" and shall hereafter be referred to as the "Green Energy Rules."

SECTION 2. PURPOSES AND OBJECTIVES.

2.1 <u>Purposes.</u> The Green Energy Rules is hereby promulgated to:

(a) set the framework by which the DOE shall facilitate the procurement by Distribution Utilities, Retail Electricity Suppliers ("RES"), RE Suppliers, and End-Users of supply from RE projects through a competitive process for purposes of compliance with the under the RPS Program and, as applicable, for their long-term

1 2	power supply requirements pursuant to the respective Power Supply Procurement Plans ("PSPP") of the Distribution Utilities, and
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4	(b) support the development and increase access to financing of new RE projects by
5	awarding RE Contracts under the OCSP together with long-term bilateral
6	contracts.
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8	2.2 Objectives. In establishing and operationalizing these purposes, these Green Energy
9	Rules seeks to attain the following objectives:
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11	(a) To assist the Mandated Participants in the RPS Program in developing and/or
12	fulfilling their RPS compliance plans with their participation in the Green Energy
13	Auction facilitated by the DOE;
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15	(b) To assist RE Developers in accessing markets for bilateral contracts and mitigating
16	market exposure and risks related to RE projects;
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18	(c) To address price volatility related to the procurement of RE supply and pricing of
19	RECs;
20	(d) To anhance the DE agreement in property by cotting the Casen Energy Toyiff as the
21	(d) To enhance the RE programs, in general, by setting the Green Energy Tariff as the
22	benchmark rate for the RE in the country; and
23 24	(e) To coordinate with the ERC in developing a mechanism or methodology for the
25	setting and regular updating of pricing for or summary procedures for approval of
26	long-term contracting for RE supply for peak and off-peak requirements of
27	regulated entities to their captive customers.
28	regulated entitles to their captive customers.
29	SECTION 3. SCOPE AND COMPONENTS.
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31	3.1 Scope. This Circular shall apply to the following stakeholders:
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33	(a) End-Users;
34	(b) Distribution Utilities, including electric cooperatives;
35	(c) RE Suppliers;
36	(d) RES; and
37	(e) Qualified Suppliers.
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39	3.2 Components. The Green Energy Tariff Program shall have two (2) components:
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11	(a) Green Energy Tariff, set out in Rule 2 below - to provide price signals on the
12	commercial value of electricity generated from RE facilities and setting the tariff
13	or price cap for as well as summary procedures for approval of RE supply to captive
14	customers of regulated entities; and

(b) Green Energy Auction, set out in Rule 3 below – to facilitate contracting for supply from Qualified Suppliers to Eligible Customers under a competitive process that is aligned with and forms part of the OCSP. To this end, the Green Energy Auction shall be administered by the DOE through the Green Energy Allocation Committee ("GEAC"), with members from the EPIMB and REMB to be appointed by the Secretary of Energy.

DEFINITION OF TERMS. This Circular hereby adopts, by reference, the SECTION 4. terms defined in the EPIRA, RE Act, their respective implementing rules and regulations, the RPS On-Grid Rules, the Omnibus Guidelines, the WESM Rules, as well as the relevant DOE Department Circulars.

Furthermore, the terms, as used in this Circular, shall be defined as follows:

(a) "ARP" or "ARPs" shall refer to the Auction Round Procedures applicable for each round of Green Energy Auction conducted under this Circular, referred to in Section 8 herein;

- (b) "Eligible Customers" refers to Mandated Participants under the RPS On-Grid Rules that are qualified to participate in the Green Energy Auction;
- (c) "GEAC" or "Green Energy Auction Committee" refers to the committee established by the DOE, with composition, powers and functions set out in this Circular;

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(d) "Green Energy Auction" refers to the competitive process for procurement of RE supply undertaken pursuant to these Rules set out in Section 3.2(b) and Rule 3 hereof;

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(e) "Green Energy Auction Tariff" refers to the clearing price, in PhP/kWh, resulting from the conduct of each Green Energy Auction and shall be the tariff applicable to the Green PSAs awarded pursuant to such auction round;

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(f) "Green PSA" refers to the bilateral power supply agreement entered into between Qualified Suppliers and Eligible Customers awarded pursuant to the Green Energy Auction;

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(g) "Green Energy Tariff" refers to the pre-approved PhP/kWh rate applicable to the supply of RE determined, on an annual basis, by the ERC pursuant Section 5 herein;

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1 2 3	(h)	"IMV" or "Initial Market Values" shall refer to the price cap for each round of Green Energy Auction which shall be based on the then-prevailing Green Energy Tariff set out by the ERC;
4 5 6 7 8	(i)	"Mandated Participants" refers to the electric power industry participants mandated to comply with the RPS annual requirements which includes entities enumerated under the RPS On-Grid Rules;
9 10	(j)	"Notice of Auction" shall refer to the written notice issued by the DOE referred to in Section 8.1 herein;
11 12 13	(k)	"Notice of Volume Allocation" refers to the written notice issued by the GEAC to the relevant parties referred to in Section 8.4 herein;
14 15 16 17 18	(1)	"Qualified Suppliers" refers to developers of RE projects registered with the DOE pursuant to the Omnibus Guidelines or DOE Department Circular No. DC2009-07-0011, as the case may be, and eligible to participate in the Green Energy Auction;
19 20 21 22	(m	"NREB" refers to the National Renewable Energy Board created under Section 27 of the RE Act;
23 24 25 26 27	(n)	"OCSP" shall mean Open and Competitive Selection Process set out in the Omnibus Guidelines Governing the Award and Administration of Renewable Energy Contracts and the Registration of Renewable Energy Developers, or the Omnibus Guidelines, set out in DOE Department Circular No. DC2019-10-0013
28 29 30	(o)	"PSPP" refers to the Power Supply Procurement Plan prepared by a Distribution Utility for the acquisition of a variety of demand-side and supply side resources to cost-effectively meet the electricity needs of its customers;
31 32 33 34	(p)	"RE Act" refers to Republic Act No. 9513 otherwise known as the "Renewable Energy Act of 2008";
35 36 37 38 39	(q)	"RE Contract" refers to the service agreement between the Government through the DOE or the President, and an RE Developer as defined under the Omnibus Guidelines or DOE Department Circular No. DC2009-07-0011, as the case may be;
40 41 42	(r)	"RECs" refers to RE Certificates issued under the RPS On-Grid Rules and under the relevant DOE circulars;
43 44	(s)	"RPS" or "RPS Program" refers to the Renewable Portfolio Standards program mandated under Section 6 of the RE Act; and

(t) "RPS On-Grid Rules" refers to the RPS Rules for On-Grid Areas prescribed under DOE Department Circular No. DC2017-12-0015.

SECTION 5. PRICING PRINCIPLES. The following principles shall be observed in setting the Green Energy Tariff:

5.1. <u>General Principle.</u> The Green Energy Tariff shall reflect the value to the grid of electricity that Qualified Suppliers are capable of supplying based on the relevant delivery periods, thereby resulting in the displacement of such volume of electricity that would have been sourced from non-RE projects during the relevant trading (demand-supply) intervals.

RULE 2

GREEN ENERGY TARIFF

5.2. <u>Pricing Parameters.</u> In arriving at the Green Energy Tariff for peak and off-peak power supply, for Luzon-Visayas and for Mindanao, for the relevant calendar quarters, shall be determined annually by the ERC, considering the degressed FIT rates as the price cap. The Green Energy Tariff shall be used as Initial Market Values ("IMVs") in the conduct of the Green Energy Auction.

5.3. <u>Pricing Unit.</u> The Green Energy Tariff shall be set on a PhP/kWh-basis to reflect the value of actual energy generated by the Qualified Suppliers and to be consistent with the compliance requirements of the RPS On-Grid Rules.

5.4. <u>Pre-Approved Pricing</u>. These principles shall be observed by the ERC in developing the mechanism or methodology for the annual setting of a pre-approved pricing for RE supply to captive market by Distribution Utilities not later than sixty (60) calendar days from the effectivity of this Circular.

5.5. <u>Publication</u>. The IMVs shall be published by the ERC on its website, as updated annually not later than the last day of February of the succeeding years.

RULE 3 GREEN ENERGY AUCTION

SECTION 6. FRAMEWORK FOR AUCTION. The Green Energy Auction is hereby established as a mechanism to facilitate contracting by Qualified Suppliers with Eligible Customers through a competitive process or auction. In this auction, Qualified Suppliers can offer to supply a specified volume of electricity generated by their facilities, to be covered by Green PSAs, to Eligible Customers at prices at or below the IMVs determined

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pursuant to these Green Energy Rules. The corresponding RECs attributed to each MWh of electricity supplied under the Green PSAs shall belong to the Eligible Customers, in accordance with the RPS On-Grid Rules.

SECTION 7. GUIDING PRINCIPLES. The following principles shall be observed in the conduct of a Green Energy Auction and the development of specific terms of reference for each auction round:

7.1. Auction Procedures. At the option of the DOE, the auction may be conducted as:

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(a) PSA Only-Auction - whereby only Green PSAs shall be awarded to the Qualified Suppliers, and only RE projects already covered by RE Contracts shall be qualified to participate; or

- (b) Integrated OCSP-PSA Auction whereby RE Contracts shall be awarded together with Green PSAs resulting from an integrated process for OCSP-Green Energy Auction. In such instances, the provisions of this Circular shall be considered in formulating the rules applicable for such integrated process.
- 7.2. Eligible Customers. The Green Energy Auction is designed to assist Mandated Participants under the RPS On-Grid Rules to comply with their RPS requirements. Consequently, all Mandated Participants are deemed enrolled as Eligible Customers in the Green Energy Auction, provided that, a Mandated Participant or a portion of a Mandated Participant's RPS requirement may be excluded from a scheduled Green Energy Auction in the following cases:
 - (a) Voluntary Exclusion. A Mandated Participant may file with the GEAC, not later than ten (10) calendar days following the publication of the Notice of Auction by the DOE referred to in Section 8.1 below, a written certification signed by the duly authorized officer of the company/cooperative attesting to the resolution approved by its board of directors that the company/cooperative:
 - Will conduct its own competitive process, in accordance with relevant DOE regulations, to procure sufficient RE supply and/or RECs to meet its own RPS requirements for the relevant period;
 - ii. In case of a Distribution Utility, has included in its PSPP, timely filed with the DOE, the details of such competitive procurement process, including the timelines and volumes to be contracted; and
 - iii. Acknowledges that the provisions of these Green Energy Rules, particularly, Sections SECTION 10 and SECTION 11 hereof shall not apply to the power supply agreements executed by the company/cooperative from such procurement process separate from the Green Energy Auction, such

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1 2 3	Green Energy Auction, such that the company/cooperative will need to observe the general rules and obtain necessary approvals for its power supply agreements.
4 5 6 7	The exclusion, once acknowledged and confirmed by the GEAC, shall apply only to the specific auction round covered by the Notice of Auction and the resolution issued by the company/cooperative.
8 9 10 11 12	(b) Disqualification. In the event that a Mandated Participant is disqualified to participate in a particular Green Energy Auction pursuant to the specific rules of eligibility or qualification issued for such auction round.
13 14 15	7.3. <u>Eligible Suppliers</u> . RE projects eligible to participate in the RPS under Section 10 of the RPS On-Grid Rules shall be qualified to participate in the Green Energy Auction.
16 17 18	(a) The specific type of RE supply shall be identified in the terms of reference to be issued for each auction round.
19 20 21 22 23	(b) Qualified Suppliers can voluntarily participate by offering to supply all or a portion of the electricity generated by their RE facilities for the volume requirements available for each specific auction round and in accordance with the specific terms of reference issued accordingly.
24 25 26 27 28	SECTION 8. MECHANICS OF AUCTION. The DOE may procure and maintain the necessary technology or electronic platform to implement a transparent, fair and efficient auction. In the development of the auction platform, the following general mechanics shall be observed, with details for each auction round to be provided in the specific Auction Round Procedures ("ARP") to be issued prior to each auction:
29 30 31 32 33 34 35	8.1. <u>Publication of the Notice of Auction</u> . Within the first calendar quarter of every year, the DOE shall publish the Notice of Auction on its website (<u>www.doe.gov.ph</u>) and in at least one (1) newspaper of general circulation. A copy of the Notice of Auction shall also be sent by electronic mail to the identified officers or representatives of each Mandated Participant.
36 37	8.2. <u>Contents of Notice</u> . The Notice of Auction shall indicate, among others:
38 39 40 41	(a) The schedule for the auction or auctions, as the case may be, for Luzon-Visayas and for Mindanao, and the dates of issuance of the specific terms of reference and ARPs for each auction round;
42 43 44	(b) Whether the auction(s) shall be PSA-Only and/or an integrated OCSP-Green PSA process; and

1		(c) Advisory-reminder that all Mandated Participants under the RPS On-Grid Rules
2		are deemed included in the auction without need of registration or enrollment,
3		unless otherwise excluded under Section 7.2 above.
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5	8.3.	Auction Process
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7		(a) Prior to each auction round, the DOE shall publish the ARP for such round and
8		include following information:
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10		i. Auction timeline and milestones, including the dates for the qualifying
11		and the final auctions,
12		 Total supply volume (MWh) subject to the auction,
13		iii. Type of supply (Baseload-Capable RE or VRE) required,
14		iv. Applicable IMVs,
15		v. Delivery period and contract term,
16		vi. Applicable annual line rental cap and annual degradation, and
17		vii. Applicable Green PSA template(s) providing for the terms and conditions
18		for supply, including any penalty arrangements for failure to meet supply
19		obligations or payment obligations, for that matter.
20		obligations of payment obligations, for that matter.
21		(b) All dayslaners or awners of RE projects that most the aligibility requirements in
		(b) All developers or owners of RE projects that meet the eligibility requirements in
22		Section 7.3 may register their intention to participate in the Green Energy
23		Auction. The registration shall be made with the GEAC, providing the
24		information that shall be required for the specific auction round.
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26		(c) The REMB, as part of the GEAC, shall verify the status of the RE projects sought
27		to be registered and confirm its availability to participate in the Green Energy
28		Auction. The list of suppliers and their respective RE projects eligible to
29		participate in each auction shall be disclosed in a supplement to the ARP
30		("Qualified Suppliers Listing") to be issued by the GEAC, and those in the list shall
31		be invited to participate in a Pre-Bid Conference to be conducted at least twenty
32		(20) calendar days before the commencement of the auction date. The GEAC
33		shall address the queries raised during the pre-bid conference in a GEAC bulletin
34		which may be issued within ten (10) calendar days after the pre-bid conference.
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36		(d) The auction shall be conducted by electronic bidding. All such Qualified
37		Suppliers shall be notified by the GEAC by electronic mail of their qualification
38		and shall be furnished user-specific electronic IDs to be used for the auction.
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40		(e) On the date and time set for the auction, all Qualified Suppliers, should they
41		decide to proceed with the auction, shall place their bids (MWh supply offer and
42		PhP/kWh price) by electronic submission using the user-specific IDs provided by
43		GEAC. Only such bids at or below the applicable IMVs shall be considered and
44		ranked from lowest to highest price to cover the total auction MWh-volume.
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- (f) The highest price offer (PhP/kWh) submitted that does not exceed the ceiling price and required to meet the total auction MWh-volume, to the greatest extent possible, shall be the clearing price for the auction ("Green Auction Tariff").
- (g) All Qualified Suppliers that submitted bids at or below the Green Auction Tariff are eligible for awarding of the Green PSA with tariffs set at the Green Auction Tariff regardless of their final bids ("Green PSA Suppliers").

8.4. Volume Allocation and Award

- (a) Volume Allocation. The GEAC shall conduct a final evaluation of the Green Auction Tariff, total volume for contracting by the Qualified Customers with the Green PSA Suppliers. The GEAC shall proportionately allocate the total MWh volume resulting from the auction among all Qualified Customers for such auction round.
- (b) Notice of Volume Allocation. The Notice of Volume Allocation shall be issued by the GEAC to all relevant parties stating that the parties are given seven (7) calendar days to submit a signed board resolution authorizing the execution of the Green PSA with the matched party.
- (c) Submission of the Signed Board Resolution. Within the period prescribed in the preceding clause, the parties shall submit a copy of the signed board resolution to the GEAC.
- (d) Execution of Green PSAs. The parties, directly or through authorized representatives, shall execute the Green PSAs using the templates provided with the ARPs within a period of ten (10) calendar days from the receipt of the Notice of Volume Allocation. If the parties need more time to execute the Green PSA or mutually decide not to proceed, they shall jointly advise the DOE in writing within the same period indicating the reasons and mutually agreed way forward, as applicable.
- (e) Submission of the Signed Green PSA. One (1) original copy of the signed Green PSA shall be provided to the GEAC within ten (10) calendar days from the execution date.
- (f) ERC approval. In case the Qualified Customer is a Distribution Utility, the Green PSA shall be submitted to the ERC for confirmation of authority to collect generation tariff, in compliance with relevant ERC regulations.

SECTION 9. PROGRAM IMPLEMENTATION. The Green Energy Auction shall be conducted by the DOE on a regular basis to facilitate compliance by Mandated Participants with their RPS requirements and assist Distribution Utilities in particular in their long-term power supply requirements.

9.1. Initial Implementation. The First Wave Auction shall commence not later than ninety (90) calendar days from the effectivity of these Rules with the issuance of the Notice of Auction for year 2020.

(a) The following shall be eligible to register as Qualified Suppliers for the First Wave Auction:

 i. RE projects that commenced operations after the effectivity of the RE Act that failed to qualify as a FIT Eligible project under Department Circular No. DC2013-05-0009, otherwise known as the "Guidelines for the Selection Process of RE Projects under Feed-in Tariff System and the Award of Certificate for Feed-in Tariff Eligibility," in respect of the capacity of such RE facility that is not covered by a bilateral contract ("FIT-Stranded Project");

ii. RE projects that have not yet commenced operations but have been issued a Certificate of Confirmation of Commerciality under Department Circular No. DC2009-07-0011 or Department Circular No. DC2019-10-0013, as the case may be, not later than ninety (90) calendar days from effectivity of this Circular, as certified by the REMB and are scheduled to enter into commercial operations to comply with their obligations during the relevant RPS compliance year; and

iii. Eligible RE Facilities under Section 10 of the RPS On-Grid Rules in respect only of their uncontracted volumes and are available to deliver or supply to comply with their obligations for the relevant RPS compliance year.

9.2. Regularity of Auctions. The DOE shall conduct the next Green Energy Auctions in a manner similar to the conduct of the First Wave Auction as set out above, on an annual basis starting from the First Wave Auction, unless otherwise determined by the DOE, upon the recommendation of the National Renewable Energy Board ("NREB") on the basis of the RPS requirements of Mandated Participants and the National Renewable Energy Plan.

SECTION 10. COMPLIANCE WITH CSP. In view of the requirements under DOE Circular No. DC2015-06-0008, as amended by Department Circular No. DC2018-02-0003, a Distribution Utility, that contracts for RE supply through the Green Energy Auction shall be considered as having complied with the Competitive Selection Process requirements.

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1	SECTION 11. COMPLIANCE WITH RPS. The volume of RE supplied pursuant to Green
2	PSAs shall be counted for purposes of their compliance with the Renewable Portfolio
3	Standards, as provided in DOE Department Circular No. DC2017-12-0015.
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6	RULE 4
7	FINAL PROVISIONS
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9	SECTION 12. Non-Diminution of Vested Rights. No provision of this Circular shall be
10	taken to diminish any right vested by virtue of existing laws, contracts, or agreements.
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12	SECTION 13. Separability Clause. If any provision of this Circular is declared invalid or
13	unconstitutional, the other provisions not affected thereby shall remain valid and
14	subsisting.
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16	SECTION 14. Repealing Clause. All previous issuances, rules and regulations
17	inconsistent with this Circular are hereby repealed, amended or modified accordingly.
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19	SECTION 15. Effectivity. This Circular shall take effect fifteen (15) days after its filing
20	with the University of the Philippines Law Center – Office of the National Administrative
21	Register and publication in at least two (2) newspapers of general circulation.
22	
23 24	
25	ALFONSO G. CUSI
26	Secretary
27	Secretary
28	
29	
30	Issued on at the Department of Energy, Energy Center, Merritt Road,
31	Fort Bonifacio, Taguig City, Metro Manila.
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