



RESOLUTION NO. ²¹____, Series of 2011

**A RESOLUTION ADOPTING THE AMENDED GUIDELINES
FOR THE SETTING AND APPROVAL OF ELECTRICITY
GENERATION RATES AND SUBSIDIES FOR
MISSIONARY ELECTRIFICATION AREAS**

WHEREAS, Section 43 (t) of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), authorizes the Energy Regulatory Commission (ERC) to “perform such regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry x x x”;

WHEREAS, Section 70 of the EPIRA provides that the missionary electrification function of the National Power Corporation (NPC), through the Small Power Utilities Group (SPUG), shall be 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 ERC;

WHEREAS, Section 34 of the EPIRA empowers the ERC to determine, fix and approve a Universal Charge to be imposed on all electricity end-users;

WHEREAS, on December 16, 2008, Republic Act No. 9513 (R.A. 9513), otherwise known as the Renewable Energy Act of 2008, was enacted;

WHEREAS, Section 15 (h) of R.A. 9513 mandates that a renewable energy developer, established after the effectivity thereof, shall be entitled to a cash generation-based incentive per kilowatt hour rate 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, Section 12 of R.A. 9513 requires the NPC-SPUG or its successors-in-interest and/or qualified third parties in off-grid areas, in the performance of its mandate to provide missionary electrification, to source a minimum percentage of its total annual generation, upon recommendation of the National Renewable Energy Board (NREB), from available renewable energy resources in the area concerned, as may be determined by the Department of Energy (DOE);

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Resolution No. ____, Series of 2011**A Resolution Adopting the Amended Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Areas****Page 2 of 3**

WHEREAS, Section 7 of R.A. 9513 and Section 5 of its Implementing Rules and Regulations (IRR) mandate the ERC, in consultation with NREB, to formulate and promulgate the Feed-In Tariff System (FITS) Rules;

WHEREAS, on July 12, 2010, the ERC, in pursuance of this mandate, promulgated Resolution No. 16, Series of 2010, entitled "Resolution Adopting the Feed-In Tariff (FIT) Rules";

WHEREAS, said FIT Rules establish the FIT system and the method of determining and approving the FIT and the Feed-In Tariff Allowance (FIT-All);

WHEREAS, the ERC sees the need to amend the Subsidized Approved Generation Rate (SAGR) Guidelines in order to, among others: 1) implement the mandate of R.A. 9513, particularly the grant of cash incentive to renewable energy developers; 2) require NPC SPUG to file a petition to set the UC-ME on or before March 15 of every calendar year; 3) dispense with the filing of quarterly true-up petition; and 4) conform with the FIT Rules;

WHEREAS, on February 14, 2011, the ERC issued a Notice soliciting comments on the 1st draft of the proposed Amended SAGR Guidelines from interested parties not later than March 11, 2011;

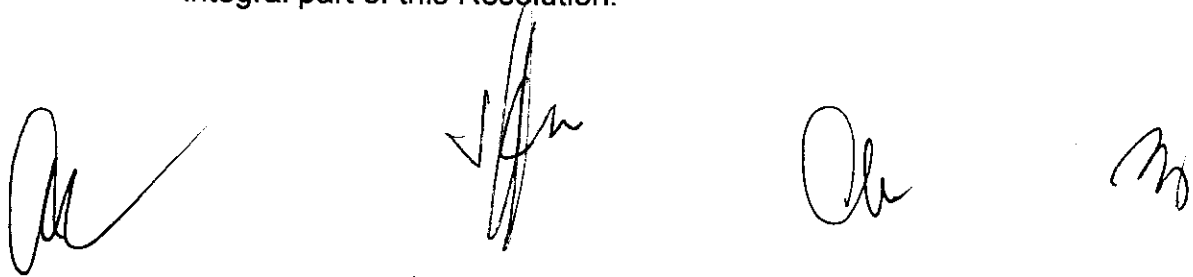
WHEREAS, on various dates, several interested parties submitted their respective comments on the 1st draft of the proposed Amended SAGR Guidelines;

WHEREAS, on April 11, 2011, the ERC issued another Notice soliciting comments on the 2nd draft of the proposed Amended SAGR Guidelines from interested parties not later than April 25, 2011 and setting the same for public consultation on May 5, 2011;

WHEREAS, on April 25, 2011, only Manila Electric Company (MERALCO) submitted its comments;

WHEREAS, on May 5, 2011, a public consultation on the 2nd draft of the proposed Amended SAGR Guidelines was held;

NOW THEREFORE, the ERC, after thorough and due deliberation, **RESOLVED**, as it hereby **RESOLVES**, to **ADOPT** the Amended Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Areas, hereto attached as Annex "A" and made an integral part of this Resolution.

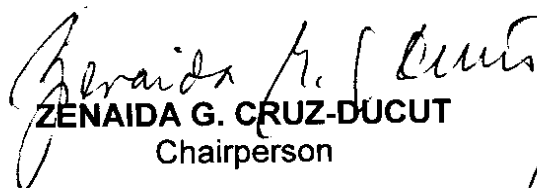


A Resolution Adopting the Amended Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Areas


This Resolution shall take effect on the fifteenth (15th) day following its publication in a newspaper of general circulation in the country.

Let copies of this Resolution be furnished the University of the Philippines Law Center-Office of the National Administrative Register (UPLC-ONAR), NPC SPUG, Power Sector Assets and Liabilities Management Corporation (PSALM), all New Power Providers (NPPs) in Delegated NPC SPUG Areas, Renewable Energy Developers for Missionary Electrification and Distribution Utilities.

Pasig City, August 22, 2011.


ZENAIDA G. CRUZ-DUCUT
Chairperson


MARIA TERESA A.R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner


ALFREDO J. NON
Commissioner


MVA/JS

Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City

**AMENDED GUIDELINES FOR THE SETTING AND APPROVAL OF
ELECTRICITY GENERATION RATES AND SUBSIDIES FOR
MISSIONARY ELECTRIFICATION AREAS**

Pursuant to Sections 34, 43(t), and 70 of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), and its Implementing Rules and Regulations (IRR), and Section 15 (h), Chapter VII of Republic Act No. 9513, otherwise known as the "Renewable Energy Act of 2008" and its IRR, the Energy Regulatory Commission (ERC) hereby promulgates these Guidelines for the setting and approval of electricity generation rates and subsidies for Missionary Electrification areas and for the fixing of and availment of subsidies for Missionary Electrification areas and cash incentives for the Renewable Energy (RE) Developers for Missionary Electrification from the Universal Charge for Missionary Electrification (UC-ME).

ARTICLE I

General Provisions

Section 1. Objectives. These Guidelines shall be used as the framework:

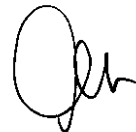
(a) To set and approve electricity generation rates and subsidies for areas not connected to the national grid transmission system and where NPC SPUG performs or will perform its Missionary Electrification function by providing power generation and its associated power delivery systems;

(b) To govern the fixing of and availment from the Universal Charge for Missionary Electrification; and

(c) To provide the mechanism by which the RE Developers for Missionary Electrification may avail of their cash incentive from the UC-ME as provided under the Renewable Energy Act of 2008.

Section 2. Definition of Terms.

(a) **"Bidding Documents"** shall refer to the complete set of documents given to interested bidders, including the terms of reference for technical and financial requirements, sufficient to allow such bidders to submit qualified bids.



(b) **“Cash Incentive of RE Developer for Missionary Electrification”** shall refer to the 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 the RE Developer operates the same, to be chargeable against the UC-ME.

(c) **“Competitive Selection Process”** or **“CSP”** shall refer to the process wherein a New Power Provider (NPP) is selected through transparent and competitive bidding undertaken by an Electric Cooperative (EC) to secure, among others, the lowest long-term cost of power and services, a transparent procurement process for the fuel used in the generation of power, environmental compatibility with the local area, and the most advantageous implementation schedule.

(d) **“Delegated NPC SPUG Area”** shall refer to an area that is not connected to the national grid transmission system where an NPP or NPPs on behalf of NPC SPUG are providing electric generation services and its associated power delivery systems.

(e) **“Department of Energy”** or **“DOE”** shall refer to the government agency created pursuant to Republic Act No. 7638.

(f) **“Distribution Utility”** or **“DU”** shall refer to any EC, private corporation, government-owned utility or existing local government unit which has an exclusive franchise to operate a distribution system in accordance with the EPIRA.

(g) **“DOE Circular for NPC SPUG”** shall refer to DOE Department Circular No. 2004-001-0001 entitled “Prescribing the Rules and Procedures for Private Sector Participation in Existing NPC SPUG Areas Pursuant to Rule 13 of the Implementing Rules and Regulations of the Electric Power Industry Reform Act of 2001 (EPIRA IRR).”

(h) **“Electric Cooperative”** or **“EC”** shall refer to a DU organized pursuant to Presidential Decree No. 269, as amended, or as otherwise provided in the EPIRA.

(i) **“Electric Power Industry Reform Act”** or **“EPIRA”** shall refer to Republic Act No. 9136.

(j) **“Energy Regulatory Commission”** or **“ERC”** shall refer to the regulatory agency created in the EPIRA.

(k) **“Feed-in Tariff”** or **“FIT”** shall refer to a renewable energy policy that offers guaranteed payments on a fixed rate per kilowatt-hour for emerging renewable energy sources, excluding any generation for own use, or to the rate itself as established pursuant to the Feed-In Tariff (FIT) Rules.

(l) **“Feed-In Tariff Rules”** shall refer to the rules issued by the ERC pursuant to Section 7 of Republic Act No. 9513.

(m) **“Generation Rate Adjustment Mechanism”** or **“GRAM”** shall refer to the mechanism for the adjustment of fuel and purchase power costs, which the ERC approved in ERC Case No. 2003 - 44 entitled “In the Matter of the Adoption of the Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Recovery Adjustment Mechanism.”

(n) **“Incremental Currency Exchange Rate Adjustment”** or **“ICERA”** shall refer to the mechanism for the adjustments in the currency exchange rate, which the ERC approved in ERC Case No. 2003-44 entitled “In the Matter of the Adoption of the Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Recovery Adjustment Mechanism.”

(o) **“IRR”** shall refer to the Implementing Rules and Regulations of the EPIRA.

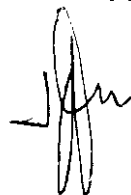
(p) **“Missionary Electrification”** shall refer to the provision of basic electricity service in Unviable Areas with the ultimate aim of bringing the operations in these areas to viability levels, including the provision of power generation and its associated power delivery systems in areas that are not connected to the national grid transmission system.

(q) **“Missionary Electrification Universal Charge”** or **“UC-ME”** shall refer to the Missionary Electrification component of the Universal Charge, expressed in Peso per Kilowatt-hour, determined, fixed and approved by the ERC and applied to all electricity end-users, as provided for in Section 34 of the EPIRA.

(r) **“Missionary Electrification Subsidy”** or **“ME Subsidy”** shall refer to the subsidy funded from the UC-ME and the funds sourced by NPC SPUG from appropriations from Congress, the utilization of private capital, multilateral aids or grants, Official Development Assistance (ODA) Funds and others, expressed in Peso per Kilowatt-hour, whose ultimate beneficiaries are end-users in missionary electrification areas. It shall be calculated as the difference between an NPP-TCGR or NPC SPUG TCGR, and the applicable Subsidized/Approved Generation Rate, NPC SPUG shall petition the ERC for the setting and approval of the ME Subsidy in accordance with Article V of these Guidelines.

(s) **“NPC SPUG”** shall refer to the functional unit of the NPC created to pursue the Missionary Electrification function as provided in Section 70 of the EPIRA.

(t) **“NPC SPUG Area”** shall refer to an area not connected to the national grid transmission system wherein NPC SPUG directly provides or will provide electric generation services and its associated power delivery systems.



(u) **“NPC SPUG True Cost Generation Rate” or “NPC SPUG TCGR”** shall refer to the cost, expressed in Peso per Kilowatt-hour which includes all NPC SPUG allowable expenses incurred for providing electric generation services as determined by the Commission.

(v) **“New Power Provider” or “NPP”** shall refer to an entity that is technically and financially capable to serve or take over existing NPC SPUG areas. It shall be selected after the conduct of a CSP as provided in these Guidelines.

(w) **“NPP True Cost Generation Rate” or “NPP TCGR”** shall refer to the rate, expressed in Peso per Kilowatt-hour, which will allow recovery of the NPP's efficient costs of generation for the relevant period. To enable the NPP to operate viably, the NPP TCGR shall be sufficient to allow the recovery of just and reasonable costs and a reasonable return on investment.

(x) **“Power Supply Agreement” or “PSA”** shall refer to the agreement between an EC and an NPP for the supply of electricity. It shall be submitted to the ERC for its approval.

(y) **“Power Sector Assets and Liabilities Management Corporation,” “PSALM” or “PSALM Corp.”** shall refer to the corporation created pursuant to Section 49 of the EPIRA.

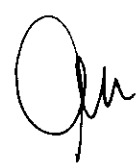
(z) **“Related Group”** shall refer to a person and any business entity controlled by that person, along with the affiliates of such business entity, and the directors and officers of the business entity or its affiliates, and relatives by consanguinity or affinity, legitimate or common law, within the fourth civil degree of the person or any of the foregoing directors or officers.

(aa) **“Registered Renewable Energy Developer”** shall refer to an RE Developer registered with the DOE.

(bb) **“Republic Act No. 9513”** shall refer to the **“Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes”**, otherwise known as the **“Renewable Energy Act of 2008”**.

(cc) **“Subsidized Approved Generation Rate” or “SAGR”** shall refer to the generation rate, expressed in Peso per Kilowatt-hour, which the ERC has approved for an EC to charge its consumers for electricity generation services.

(dd) **“Subsidy Agreement” or “SA”** shall refer to the agreement among the EC, NPP and NPC SPUG for a particular Delegated NPC SPUG Area, pursuant to Section 5 (a) (1) (3) of the DOE Circular for NPC SPUG.



(ee) **“Qualified Bids”** shall refer to proposals submitted by prospective NPPs made in accordance with the Bidding Documents issued for a CSP.

(ff) **“Universal Charge”** shall refer to the charge imposable on all electricity end-users pursuant to Section 34 of the EPIRA.

ARTICLE II

Delegated NPC SPUG Areas

Section 1. Launch of the Competitive Selection Process.

(a) **Notice of CSP Launch.** Thirty (30) days before the issuance of the invitation to bid for the supply of electricity for a particular Delegated NPC SPUG Area, the EC shall notify the ERC of the date of the CSP launch, which notification shall include:

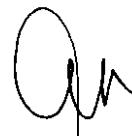
- i. Copies of the Bidding Documents that will be used for the CSP;
- ii. A copy of the proposed PSA, if available, that the EC intends to sign with the winning NPP, specifying the expected output that such NPP shall provide;
- iii. A copy, if available, of a due diligence report on the EC and the NPC SPUG generation plants; and
- iv. Such other information that the ERC may require.

If a group of ECs decides to conduct a joint CSP to select a single NPP to supply electricity in their respective Delegated NPC SPUG Areas, the ECs in the “package” shall jointly notify the ERC of the date of the CSP launch and provide the information specified above.

Section 2. Award of PSA to NPP. The EC shall award the PSA to the winning NPP following a successful CSP. A CSP is successful if the EC receives at least two (2) Qualified Bids from entities which do not fall within the definition of Related Groups and with which the EC is not prohibited from entering into a contract for power supply in accordance with Rule 11, Section 5 (b) of the EPIRA IRR.

If the CSP fails, the EC may conduct another CSP or, after at least two (2) failed CSPs, the EC may enter into negotiations with any interested party for the supply of energy, until a PSA shall have been awarded to an NPP.

In accordance with the DOE Circular for SPUG, the EC shall secure a certification from the DOE that it underwent a CSP prior to the award of its PSA with an NPP.



If the EC had already executed a PSA with an NPP prior to the issuance of these Guidelines, the ERC shall apply its general rules and policies prevailing as of that time on the execution of supply agreements between DUs and Independent Power Producers (IPPs). If there had been no compliance therewith, the ERC shall direct the EC to forthwith comply before its application for approval of its PSA and NPP TCGR can be acted upon.

Section 3. Filing and Approval of the PSA and the NPP TCGR.

Following the award of the PSA to the winning NPP, the EC shall file an application with the ERC for the approval of the PSA and the NPP TCGR as stipulated therein. Together with the application, the EC shall submit the following:

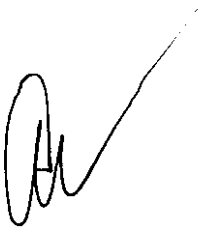
- i. A sworn certification that the PSA was awarded in accordance with Article II Section 2 of these Guidelines;
- ii. DOE certification on the conduct of the CSP;
- iii. Copies of the signed PSA and other supporting contracts and agreements;
- iv. A statement of the salient provisions of the PSA, including the stipulations on the pricing and a statement of its impact on the over-all rates of the distribution utility and on the UC-ME once it is approved;
- v. Supporting documents and information under Section 2, Rule 20 (B) of the ERC's Rules of Practice and Procedure; and
- vi. Such other documents that the ERC may require.

The group of ECs which conducted a joint CSP to select a single NPP to supply electricity in their respective NPC SPUG Areas shall jointly file an application with the ERC for the approval of their respective PSAs and NPP TCGR resulting from the joint CSP.

The ERC's Decision on the approval of the PSA and the NPP TCGR will be based on its determination:

- i. That the NPP TCGR (including any adjustment mechanism for variable costs and inflation) set in the PSA is fair and reasonable;

In cases where the NPP shall utilize renewable energy or where the NPP is an RE Developer, the ERC may use the applicable FIT (per type of renewable energy/source) that it determined in accordance with the FIT Rules to test the reasonableness of the PSA and the NPP TCGR. Said applicable FIT may serve as the benchmark or reference rate against which the stipulated price in the PSA will be compared to determine its reasonableness.



- ii. That the NPP supplies electricity in accordance with the applicable technical, financial and environmental standards as well as with the outputs defined in the Bidding Documents, and that it undertakes to put in place a transparent process for the procurement of its fuel requirements in order to ensure at all times the lowest cost therefor;
- iii. That the NPP's compliance with the applicable standards is guaranteed by a reasonably-valued performance bond or other forms of financial guarantee; and
- iv. That the risks associated with the supply of electricity such as those pertaining to the economic conditions of the country, foreign exchange fluctuations, changes in world crude prices, and the like, are efficiently allocated between the EC and the NPP and are sufficiently addressed in the PSA. The parties shall be given some latitude under the PSA to renegotiate the terms thereof, subject to the ERC's approval, to reflect the prevailing conditions.

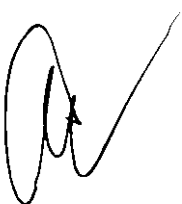
If the ERC finds that the NPP TCGR is unreasonably higher than the benchmark used in its evaluation, it shall determine the reasonable or allowable NPP TCGR that may be recovered by the NPP. It may also allow the EC to present its justifications for the applied NPP TCGR and/or propose the appropriate adjustments to the NPP TCGR that will make it acceptable to the ERC.

Section 4. Recovery of the NPP TCGR. The NPP shall be allowed to recover the NPP TCGR as approved by the ERC. In cases where the NPP TCGR is higher than the SAGR, the NPP shall be allowed to recover the difference from the ME Subsidy. In case the ME Subsidy disbursed by PSALM to NPC SPUG is insufficient to cover the ME Subsidy obligations with NPPs and the other ME activities of NPC SPUG, the ME Subsidy payments to NPPs will be paid first out of the total disbursement to NPC SPUG by PSALM.

ARTICLE III

NPC SPUG Areas

Section 1. Setting and Adjustment of NPC SPUG TCGR. In each of the NPC SPUG Areas, NPC SPUG shall be allowed to recover the NPC SPUG TCGR. In cases where the NPC SPUG TCGR is higher than the SAGR, NPC SPUG may recover the difference from the ME Subsidy.



(a) **Determination of the NPC SPUG TCGR and its Adjustments.** NPC SPUG shall file an application with the ERC for the setting and approval of the NPC SPUG TCGR. The NPC SPUG TCGR shall be used to determine the appropriate level of ME Subsidy to be allowed for NPC SPUG for the applicable period. The filing of the application shall, as far as practicable, coincide with NPC SPUG's filing of the UC-ME. In case of failure of NPC SPUG to file its TCGR application, its last approved TCGR shall be the basis of the ERC in resolving its UC-ME application.

The NPC SPUG TCGR will serve as the revenue requirement of NPC SPUG that will be used to determine the National Power Corporation's (NPC) generation charges. In support of the computation of the revenue requirement, NPC SPUG shall submit the following information:

- i. Its current operating and maintenance costs, including the details of fuel purchases and deliveries, payroll, power purchase, depreciation and other costs;
- ii. Current value of its assets;
- iii. Its current energy sales; and
- iv. Such other information as the ERC may require.


(b) **GRAM and ICERA Adjustments.** The NPC SPUG TCGR shall include GRAM and ICERA adjustments as approved by the ERC prior to the promulgation of these Guidelines. Subsequent GRAM and ICERA adjustments and such other adjustment mechanisms that the ERC may hereafter adopt shall be applied to the SAGR or the NPC SPUG TCGR, at the discretion of the ERC.

ARTICLE IV

Availment of Cash Incentive by Renewable Energy Developers for Missionary Electrification

Section 1. Determination of the Renewable Energy Developer Eligible for the Availment of the Cash Incentive.

(a) The petition to set the UC-ME sufficient to cover the ME Subsidy estimated requirements for the NPC SPUG areas and Delegated NPC SPUG areas to be filed by NPC SPUG on or before March 15 of every calendar year shall include the forecasted amount necessary for the cash incentive of the RE Developers that are or will be operating in the Off-Grid areas. Any shortfall in the ME Subsidy, pertaining to the cash incentive of the RE Developers shall be addressed in the succeeding UC-ME filing.



(b) An RE Developer shall be entitled to the cash incentive under the Renewable Energy Act from the time it commences its commercial operation in the missionary area as an NPP under a PSA approved by the ERC; Provided that the said RE Developer is established after the effectivity of the Renewable Energy Act.

(c) If there are two (2) or more RE Developers in a missionary area, they shall be entitled to the cash incentive commensurate to the electricity they generated.

(d) Following the effectivity of the amendments to these Guidelines, NPC SPUG shall calculate and include the cash incentive portion of the UC-ME for eligible RE Developers in its succeeding petitions for setting the UC-ME.

(e) For NPPs with hybrid systems utilizing both renewable and non-renewable energy sources, the EC, NPC SPUG and the NPP shall ensure that the quantity of electricity supplied from renewable energy sources is properly metered and verified for purposes of determining the amount of cash incentive.

Section 2. Disbursement of Cash Incentive.

(a) PSALM shall directly disburse the approved cash incentive to the eligible RE Developers.

(b) The disbursement shall be made within thirty (30) days from receipt of the pertinent data to be submitted by the eligible RE Developers necessary for the calculation of the cash incentive applicable for the preceding month.

ARTICLE V

Provisions Applicable to Delegated NPC SPUG Areas and NPC SPUG Areas

Section 1. Determination of the SAGR and its Adjustments.

(a) Upon the effectivity of these Guidelines, all existing generation rates approved by the ERC to be charged by NPC SPUG to the ECs shall be the SAGR for those areas.

(b) For Delegated NPC SPUG Areas, the adjustments in the NPP TCGR pursuant to the approved PSA may necessarily require a higher ME subsidy requirement to maintain the current level of the SAGR.



(c) The SAGR for the NPC SPUG Areas and Delegated NPC SPUG Areas may be adjusted at the next UC-ME filing by NPC SPUG as provided in Section 2 hereof.

(d) The ERC may, likewise, *motu proprio* initiate the proceeding for the adjustment of the SAGR.

Section 2. UC-ME Filing Requirements and Procedures. The following requirements and procedures shall be followed in the submission, evaluation and approval of the UC-ME for NPC SPUG Areas and Delegated NPC SPUG Areas (All NPC SPUG Areas).

(a) **Periodic Filing.** On or before March 15 of every calendar year, NPC SPUG shall file a petition with the ERC to set the UC-ME sufficient to cover the ME Subsidy estimated requirements for All NPC SPUG Areas and for the cash incentive payments to eligible RE Developers for the next calendar year. These estimates shall be computed as follows:

	Estimated ME Subsidy Requirements	Formula
1	ME Subsidy for NPC SPUG Areas (PhP)	(NPC SPUG TCGR – SAGR <u>[including GRAM and ICERA adjustments being implemented]</u> + <u>other funding sources of NPC SPUG</u>) x forecasted sales of NPC SPUG (kWh)
2	ME Subsidy for Delegated NPC SPUG Areas (PhP)	Sum for all Delegated NPC SPUG Areas (NPP TCGR– SAGR <u>[including GRAM and ICERA adjustments being implemented]</u> + <u>other funding sources of NPC SPUG</u>) x forecasted sales of NPP (kWh)
3	ME Subsidy for Other Missionary Electrification Uses (PhP), <u>Including for Areas Served by Qualified Third Parties</u>	<i>To be determined according to the Missionary Electrification Development Plan (MEDP)</i>

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4	<u>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</u>	$(TCGR - SAGR) \times 50\% \times$ <u>forecasted kWh Generation of the RE Developer</u>
5	Total (PhP)	[1 + 2 + 3 + 4]
6	Forecasted National Electricity Sales (kWh)	<i>To be obtained from DOE's Philippine Development Plan</i>
7	UC-ME (PhP/kWh)	[5 / 6]

Notes:

- The NPP TCGR and SAGR will be obtained from the most recent subsidy invoice paid to each NPP. Forecasted sales will be obtained from the concerned EC.
- The NPC SPUG TCGR and SAGR will be the latest ERC-approved NPC SPUG TCGR and SAGR. Forecasted sales will be obtained from NPC SPUG's own forecasts.
- Forecast national electricity sales will be obtained from DOE's Philippine Power Development Plan.
- "ME Subsidy for other Missionary Electrification uses" shall also include any transmission related and/or associated delivery service subsidies for the SPUG areas.
- The cash incentive is provided for under Section 15 (h), Chapter VII of the "Renewable Energy Act of 2008".
- The initial filing shall include the cash incentive due to the RE Developers from the effectivity of the "Renewable Energy Act of 2008".
- "True Cost Generation Rate" or "TCGR" shall refer to the reasonable cost of generation for a particular SPUG area where the RE Developer operates. Said TCGR shall be determined by NPC SPUG and shall form part of the UC-ME petition.

The said ME Subsidy requirements should be consistent with the ERC-approved Missionary Electrification Development Plan (MEDP).

The ERC shall set the UC-ME at a value, expressed in Peso per Kilowatt-hour, which when multiplied by the expected national electricity sales, will equal the estimated ME Subsidy requirements of all NPC SPUG Areas. For clarity in implementation, the ERC shall identify the estimated amounts for subsidy payments to cover all ME Subsidy requirements and how much of these amounts shall be allocated for the NPPs and for NPC SPUG. The estimated amounts shall not be deemed an absolute limit since the expenses incurred by NPC SPUG and the NPPs are based on the actual kilowatt hours delivered. Consequently, all the funds collected by PSALM from the application of the UC-ME, net of the cash incentive for eligible RE Developers, regardless of the absolute Peso amount, will be transferred to NPC SPUG. The share of the UC-ME that is approved for Delegated NPC SPUG Areas, NPC SPUG Areas and other Missionary Electrification uses, and for the cash incentive for the eligible RE Developers for Missionary Electrification shall also be indicated. The funds allocated for the cash incentive shall be directly disbursed to eligible RE Developers by PSALM as stated in Article IV, Section 2 (a) of these Guidelines.

The RE Developers shall submit pertinent data to PSALM for the calculation of the cash incentive.

For monitoring purposes, the ERC, NPC SPUG and other concerned agencies shall be furnished acknowledgment reports by PSALM on the disbursement of funds to NPC SPUG and other recipients, particularly the cash incentives disbursed to eligible RE Developers.

(b) **Administration of ME Subsidy.** NPC SPUG shall establish a trust account wherein all UC-ME transfers, net of the cash incentive for eligible RE Developers, from the PSALM-administered Special Trust Fund will be deposited. Said trust account shall be governed by a set of predefined guidelines. The administrator of the account shall make disbursements to NPC SPUG or the NPPs according to such guidelines. In the case of the NPPs, transfer rules from the account administrator shall be defined in the Subsidy Agreement to be signed among NPC SPUG, NPP and the EC in accordance with the DOE Circular for NPC SPUG.

(c) **Reconciliation of Actual UC-ME.** Upon the filing of the petition for UC-ME, NPC SPUG shall include a reconciliation of all amounts received against all disbursements made for the previous year. If the reconciliation results in NPC having surplus funds, as confirmed by the ERC, the amount corresponding to the surplus shall be deducted from the UC-ME under the current petition. Conversely, if the reconciliation results in the NPC SPUG having a deficiency, as confirmed by the ERC, NPC SPUG shall be entitled to an increase in the UC-ME to cover the shortfall caused by the following factors:

1. Lower national electricity sales compared to forecast;
2. Adjustments due to GRAM and ICERA;
3. Adjustments in the NPP TCGR;
4. Reasonable financing costs incurred by NPC SPUG to cover any ME Subsidy shortfall; and
5. Other analogous cases.

Section 3. Setting of Subtransmission Rate. Relative to the filing for the approval of the PSA and NPP TCGR, the EC, NPP (in case of dedicated subtransmission lines) or NPC SPUG shall file a petition for the setting of a subtransmission rate to cover the additional costs of leasing, acquiring, operating and/or maintaining the assets.

Section 4. Obligation of NPC SPUG or the NPPs to Source from RE Resources. In accordance with Section 12 of the Renewable Energy Act of 2008 and subject to such guidelines that the DOE may issue on the matter, NPC SPUG and/or the NPPs are required to source such minimum



percentage, as may be determined by the DOE, of their total annual generation from RE resources.

For purposes of determining the TCGR for such RE generation, the ERC may utilize the appropriate FITs as benchmark to determine its reasonableness.

Article VI

Reportorial Requirements

Pursuant to Section 6, Rule 18 of the IRR of the EPIRA, PSALM shall maintain a separate book of accounts to be made available to the ERC for purposes of monitoring and accounting for the sums collected from the UC. For this purpose, PSALM shall submit, on or before the 15th of March of the succeeding year, a year-end report, certified by an Independent Third Party auditor. Such year-end report shall contain information on all the funds collected by PSALM from the application of the UC-ME and its corresponding disbursements to NPC SPUG.

Article VII

Separability

If for any reason, any section of these Guidelines 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.

ARTICLE VIII

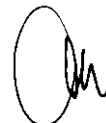
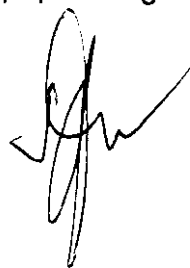
Exception Clause

Where good cause appears, the ERC may allow exception from any provision of the Rules if such exception is found to be for public interest and is not contrary to law or any other related rules and regulations.

ARTICLE IX


Effectivity


These Amended Guidelines shall take effect on the fifteenth (15th) day following its publication in a newspaper of general circulation in the country.

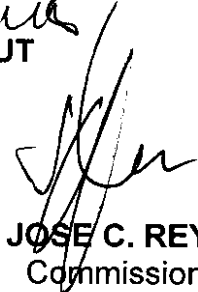


Let copies of these Rules be furnished the University of the Philippines Law Center-Office of the National Administrative Register (UPLC-ONAR), NPC SPUG, Power Sector Assets and Liabilities Management Corporation (PSALM), all New Power Providers (NPPs) in Delegated NPC SPUG Areas, Renewable Energy Developers for Missionary Electrification and Distribution Utilities.

Pasig City, August 22, 2011.


ZENAIDA G. CRUZ-DUCUT
Chairperson


MARIA TERESA A.R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner


ALFREDO J. NON
Commissioner

2011