



DEPARTMENT CIRCULAR NO. DC 2025-08-0012 *af*

**PROVIDING SUPPLEMENTAL FRAMEWORK FOR THE PROCUREMENT OF
ANCILLARY SERVICES, AMENDING THEREBY DEPARTMENT CIRCULAR NO.
DC2021-10-0031, OTHERWISE KNOWN AS "PRESCRIBING THE POLICY FOR
THE TRANSPARENT AND EFFICIENT PROCUREMENT OF ANCILLARY
SERVICES BY THE SYSTEM OPERATOR"**

WHEREAS, Section 2 of Republic Act No. 9136, or the "Electric Power Industry Reform Act of 2001" (EPIRA), declares it a policy of the State to ensure the quality, reliability, security, and affordability of the supply of electric power, and the transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency;

WHEREAS, the EPIRA provides that the Department of Energy (DOE) is mandated to monitor private sector activities relative to energy projects, and to exercise such other powers to achieve the objectives of the EPIRA which includes, among others, the protection of public interest as it is affected by the rates and services of electric utilities and other providers of electric power;

WHEREAS, on 04 December 2019, the DOE promulgated Department Circular (DC) No. DC2019-12-0018, titled "Adopting a General Framework Governing the Provision and Utilization of Ancillary Services in the Grid", which introduced the direction for the procurement of Ancillary Services (AS) by the System Operator (SO) and the mechanisms to achieve the appropriate kind and level of AS required by the grid;

WHEREAS, DC No. DC2019-12-0018 provides that the SO shall procure Regulating, Contingency, and Dispatchable Reserves through firm contracts and the Reserve Market, while Reactive Power Support and Black Start Services shall be procured through firm contracts only;

WHEREAS, on 04 October 2021, the DOE promulgated DC No. DC2021-10-0031, titled "Prescribing the Policy for the Transparent and Efficient Procurement of Ancillary Services by the System Operator", which outlined the procedures for the conduct of the Competitive Selection Process (CSP) in the procurement of AS by the SO;

WHEREAS, on 12 August 2024, the DOE promulgated Department Order (DO) No. DO2024-08-0009, reorganizing the composition of the Ancillary Services -Technical Working Group (AS-TWG);

WHEREAS, Section 3 of DO No. DO2024-08-0009 mandates the AS-TWG to render technical assistance and advice to the DOE in developing further policies on AS and assist the DOE in implementing the provisions of the related policies and regulations on AS and the Reserve Market;

WHEREAS, on 06 March 2025, in the Special Meeting No. 2025-01, the AS-TWG unanimously concurred that the major cause of high Reserve Market prices was the

insufficient supply of AS and the expensive resource types of scheduled AS Providers, particularly in the Visayas region;

WHEREAS, on 28 March 2025, through AS-TWG Resolution No. 2025-01, the AS-TWG submitted to the DOE and the Energy Regulatory Commission (ERC) its recommendation to increase the contracted AS levels by the SO to address the price volatility of the Reserve Market in Visayas;

WHEREAS, on 10 April 2025, the DOE conducted a Virtual Public Consultation for the Draft DC on Direct Negotiation of AS Procurement. Thereafter, the DOE revised and updated the draft policy in consideration of the comments and recommendations received from stakeholders in the Public Consultation; and

WHEREAS, to expedite the procurement of the necessary AS and to ensure the reliability of the Philippine grid, it is imperative to enact a supplementary framework to further mobilize the SO in the attainment of a sustainable, reliable, and efficient level of AS at a cost that is reasonable and fair to all electric power industry participants and electricity consumers.

NOW, THEREFORE, for and in consideration of the foregoing premises, the DOE hereby issues the supplementary framework for the procurement of AS by the SO:

Section 1. Section 8 of DC No. DC2021-10-0031 is hereby amended to read as follows:

“Section 8. Direct Negotiation in the Procurement of AS

- 8.1. xxx xxx xxx
- 8.2. xxx xxx xxx
- xxx xxx xxx

8.3. Subject to the *motu proprio* directive of the DOE or its approval of a request by the SO, the SO may directly negotiate with qualified AS Providers in the Grid without the need of conducting a CSP for AS, provided any of the following conditions are met:

- a. Insufficiency of any or all types of contracted AS, persisting for a continuous period of three (3) months, wherein the actual AS levels scheduled in the Reserve Market are less than 50% of the requirement, as certified by the Market Operator; or
- b. Sustained increase in the cost of providing AS, resulting in: (i) an average cost for any type of AS greater than or equal to the 75% of the reserve offer cap in the Reserve Market, in at least one of the major grids, for a period of three (3) months; or (ii) an average reserve rate of PhP0.25/kWh for any AS type, persisting for a period of three (3) months, as certified by the Market Operator.

The DOE shall issue its approval or directive in the form of an Advisory and shall be posted on the DOE website immediately upon approval of the Secretary.

The directive or approval of the DOE shall be valid for six (6) months. Within such period, the SO shall conduct and complete the negotiation and testing stage with AS Providers. Otherwise, the SO shall immediately commence CSP for the AS if it fails to complete direct negotiations with qualified AS Providers.

All ASPAs directly negotiated by the SO pursuant to this subsection shall authorize the SO to immediately implement these ASPAs by virtue of the directive or approval of the DOE, without prejudice to the evaluation and final decision of the ERC on the application for the approval of such ASPAs.

In case there is no available or qualified AS Provider, the SO may negotiate with a Generation Company possessing a generation plant with potential for AS capability. The SO shall prioritize and expedite the AS capability testing of such a plant, if qualified, prior to the execution of an ASPA under this subsection. Pursuant thereto, the SO shall issue its decision on the AS capability testing within thirty (30) calendar days from receipt of the complete application from the prospective AS plant.

The SO and the AS Provider shall jointly apply with the ERC for the approval of directly negotiated ASPA within fifteen (15) working days from signing thereof, ensuring full compliance with all the filing requirements of the ERC to initiate the proceedings thereof.

The terms and conditions of directly negotiated ASPAs under this subsection shall include the following minimum provisions:

- i. The capacities directly contracted shall not exceed the required AS levels in the grid at the time of the execution of the ASPA. As such, the SO shall, as much as practicable, enter into good faith negotiations with any counterpart to avoid any stranded AS in the grid;
- ii. The term of the ASPA shall not exceed five (5) years;
- iii. The ASPA cannot be renewed or extended. As such, the SO shall conduct a CSP for the replacement of such agreements before the expiration of the directly negotiated ASPA.
- iv. The rate of AS under the ASPA shall be equivalent to the latest ERC-approved ASPA tariff for the same technology and AS type in the same major grid at the time of its execution, or the latest ERC-approved AS rates in a CSP, whichever is lower.

In the absence of any of the comparators above, the rate of AS under such ASPA shall be based on the mutual agreement between the SO and the AS Provider at the time of execution, taking into consideration prevailing market conditions, cost structures, and the urgency of procurement, subject to the

strict scrutiny of the ERC as to the reasonableness of the proposed tariff, and whether it provides an improvement to the prevailing AS conditions in the concerned grid; and

- v. Any provision for cost increase, acceleration, or escalation shall be subject to the approval of the ERC.

The SO shall submit a status report on its compliance with the directive or approval of the DOE within thirty (30) days from receipt thereof and every fifteenth (15th) of the succeeding semester until the required AS levels for the grid have been achieved, or upon the completion of the CSP for AS, as may be advised by the DOE.”

Section 2. Regulatory Support. The ERC shall issue all necessary rules and regulations, or amendments thereof, and ensure the timely evaluation and processing of applications, authorizations, and other approvals for the effective implementation of this Circular.

ERC shall prioritize and expedite the approval of all pending ASPA applications and provide an official status report to the DOE every quarter. This report shall include the total accounted capacities and the status of the approval of such ASPAs, which shall serve as additional consideration for the DOE in allowing the negotiated procurement, pursuant to Section 8.3 of DC No. DC2021-10-0031, as hereby amended.

Section 3. Continuing Obligations. This Circular shall be an exception to the conduct of the AS-CSP, but shall not be construed to excuse the SO from its primary responsibility of conducting the necessary CSP for AS or any of its obligations under DC Nos. DC2019-12-0018 and DC2021-10-0030, and other relevant rules and regulations on the procurement of AS.

Section 4. Separability Clause. If for any reason, any section or provision of this Circular is declared unconstitutional or invalid, such parts not affected shall remain valid and subsisting.

Section 5. Repealing Clause. All issuances, rules, and regulations inconsistent with this Circular are hereby repealed, amended, or modified accordingly.

Section 6. Effectivity. This Circular shall take effect immediately upon its publication in two (2) newspapers of general circulation. A copy of this Circular shall be filed with the University of the Philippines Law Center-Office of National Administrative Register (UPLC-ONAR).

Issued this JUL 29 2025 at the DOE, Energy Center, Rizal Drive cor. 34th Street, Bonifacio Global City, Taguig City.


SHARON S. GARIN
Secretary

