



Republic of the Philippines  
**HOUSE OF REPRESENTATIVES**  
Quezon City



## **EIGHTEENTH CONGRESS**

*Second Regular Session*

House Bill No. 7060

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Introduced by

**APEC Party-List Representative Sergio C. Dagooc**  
**Philreca Party-List Representative Presley C. De Jesus,**  
**Ako Padayon Pilipino Party-List Representative Adriano A. Ebcas,**  
**RECOBODA Party-List Representative Godofredo N. Guya**

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## **EXPLANATORY NOTE**

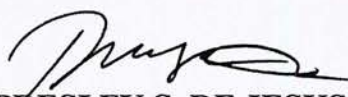
It is a state policy of the government to provide total electrification as can be seen from the creation of the National Electrification Administration by virtue of PD 269 to achieve total rural electrification. 50 decades have passed and the NEA is almost on its last mile in its mandate to achieve its primary objective of total rural electrification and providing access to electricity for all.

It is indisputable that electrification especially in far-flung and hard-to-reach areas poses a great challenge to various government agencies and distribution utilities. The traditional grid extension is no longer practical and economically viable to address such problem. Thus, non-traditional means and use of new technology should be resorted to. One of such is the microgrid systems that can potentially provide reliable and sustainable electricity to unserved and underserved areas at a lower cost compared to the traditional grid extension which requires more resources.

The use of microgrid systems can help accelerate the total electrification that will benefit the lives of the people and stimulate the economy of unserved and underserved areas.

This bill will also encourage electric cooperatives to exercise their rights under Section 16 of P.D. 269, as amended by R.A. 10531, pertaining to their right to “to construct, acquire, own, operate and maintain generating facilities within its franchise area. In pursuance thereof, where an electric cooperative participates in a bid on an existing NPC-SPUG generating facility”. The right of first refusal as referred to in this Act and provided to the electric cooperatives aim to encourage competitiveness not only among the private power industry participants, but also among the distribution utilities or electric cooperatives.

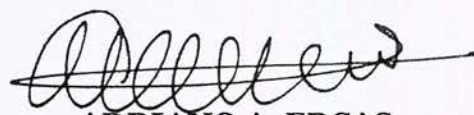
In view of the foregoing, the passage of this bill is earnestly sought.



**PRESLEY C. DE JESUS**  
*Party-list, PHILRECA*



**SERGIO C. DAGOO**  
*Party-list, APEC*



**ADRIANO A. EBCAS**  
*Party-list, Ako Padayon Pilipino*



**GODOFREDO N. GUYA**  
*Party-list, RECOBODA*



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**AN ACT**  
**PROMOTING THE USE OF MICROGRID SYSTEMS FOR THE TOTAL**  
**ELECTRIFICATION OF UNSERVED AND UNDERSERVED AREAS**

*Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled.*

**Section 1. Title.** – This Act shall be referred to as the "Microgrid Systems Act."

**Section 2. Declaration of Policy.** – It is hereby declared the policy of the State to:

- a) Pursue sustainable rural development and poverty reduction towards nation building by providing access to electricity for all;
- b) Accelerate total electrification of the countryside and the provision of reliable electricity service in unserved and underserved areas;
- c) Promote private sector participation in electrification not only of remote and unviable areas in particular but also of unserved and underserved areas in general;

- d) Provide a competitive environment and level-playing field for different kinds of technology and energy sources; and
- e) Ensure that electricity consumers will benefit from new and modern technologies and innovations in the electric power industry.

**Section 3. Scope and Application.** – This Act shall apply to the development of microgrid systems in unserved and underserved areas nationwide.

**Section 4. Definition of Terms.** – For purposes of this Act, the following terms shall be defined as stated below:

- a) *Annual penetration limit* refers to the maximum total capacity of grid tied microgrid systems that can electrically connect to a specific distribution utility's system, and as a result, buy and sell from the grid considering the distribution utility's Distribution Development Plan and existing power supply agreements. Transmission Development Plan, distribution and transmission system, and other technical considerations as may be determined by the Energy Regulatory Commission (ERC);
- b) *Benchmark rate* refers to the maximum retail rate or generation rate, whenever applicable, that an MSP can charge and collect from end users considering the microgrid system's technology, capacity, number of off-takers, and other technical, financial, and economic considerations as may be determined by ERC;
- c) *Distributed energy resource (DER)* refers to smaller power sources that could be aggregated to provide power necessary to meet regular demand;
- d) *Distribution system* refers to the system of wires and associated facilities belonging to a franchised distribution utility, extending between the delivery points on the transmission, subtransmission system, or generating plant connection and the point of connection to the premises of the end user;
- e) *Distribution utility (DU)* refers to any electric cooperative, private corporation, or government-owned utility which has a franchise to operate a distribution system including those whose franchise covers economic zones;
- f) *End user* refers to any natural or juridical person requiring the supply and delivery of electricity for its own use;

- g) *Grid* refers to the high voltage backbone system of interconnected transmission lines, substations and related facilities;
- h) *Grid tied* refers to a situation in which a microgrid system is connected to the distribution system for main or backup power source;
- i) *Island mode* refers to a situation in which a microgrid system is electrically isolated from the grid, and the isolated system is energized by embedded generation or DER;
- j) *Microgrid system* refers to a group of interconnected loads and DER with clearly defined electrical boundaries that acts as a single controllable entity with respect to the distribution, subtransmission, or transmission grid, whichever is applicable, and can connect and disconnect from the grid to enable it to operate in both grid tied or island mode;
- k) *Micro grid system provider (MSP)* refers to a natural or juridical person whose business includes the installation of microgrid systems, power generation assets, or other associated power delivery systems in unserved or underserved areas nationwide;
- l) *National Power Corporation - Small Power Utilities Group (NPC-SPUG) areas* refers to a geographical area currently being served by the NPC-SPUG or by a new power provider, and may be an underserved area;
- m) *New power provider (NPP)* refers to MSPs who have taken over the function of National Power Corporation - Small Power Utilities Group (NPC-SPUG) through the mechanism of privatization provided by the Department of Energy (DOE) consistent with Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001, and whose functions are further defined under this Act;
- n) *Qualified Third Party (QTP)* refers to MSPs which serve as the alternative electric service provider authorized to serve remote and unviable areas under Republic Act No. 9136, and whose functions are further defined under this Act
- o) *Remote and unviable area* refers to a geographical area within the franchise of a DU where immediate extension of distribution lines is not feasible, and may be an unserved or underserved area;

- p) *Universal charge* refers to a non-bypassable charge which shall be passed on and collection from all end users on a monthly basis by the distribution utilities pursuant to Republic Act No. 9136
- q) *Underserved area* refers to an area currently served by home power systems, microgrids, or DUs whose electricity services are less than twenty-four (24) hours; and
- r) *Unservd area* refers to an area with no electricity access, no distribution system lines, no home power systems, or no connection to any microgrid.

**Section 5. *Microgrid Systems in Unserved or Underserved Areas.*** – Microgrid systems shall be installed in unserved or underserved areas by accredited MSPs after the conduct of a competitive selection process in accordance with Sections 6 and 7 of this Act: Provided, That the installation shall not require a waiver from the concerned DU and shall not revoke the DU's franchise over the said area: Provided further, That the installation of grid tied MSPs shall be within the annual penetration limit determined by the ERC in accordance with Section 6 of this Act: Provided further, That the permitting process of all MSPs shall comply with the time frames specified in this Act and with the provisions of Republic Act No. 11234, otherwise known as the Energy Virtual One Stop Shop Act. Provided finally, that this is without prejudice to the right of first refusal given to the Distribution utilities under Section 9 of this Act.

Accredited MSPs that operate in NPC-SPUG areas as NPPs, or remote or unviable areas as QTPs shall be subsidized through the universal charge for missionary electrification pursuant to Section 34 (b) and Section 70 of RA 9136. Accredited MSPs that operate in unserved or underserved areas which are not NPC-SPUG areas or remote or unviable areas shall be unsubsidized without prejudice to the provisions of Section 8 of this Act

All rates charged by accredited MSPs, whether subsidized or unsubsidized, shall be equal to or lower than the applicable benchmark rate as determined by ERC in accordance with Section 6 of this Act: Provided, That transmission, distribution, wheeling, and universal charges imposed on end users, whenever applicable, shall continue to be regulated by the ERC.

**Section 6. *Duties and Functions of the Energy Regulatory Commission.*** – In addition to its functions under Republic Act No. 9136, the ERC shall:

- a) Develop, establish, and promulgate the following within six (6) months from the effectivity of this Act, in consultation with the DOE, the National Transmission

Corporation, the transmission concessionaire, the National Electrification Administration, the National Power Corporation, and other relevant government agencies and private stakeholders in the electric power industry:

- i) Parameters for the determination of the annual penetration limit and each DU's annual penetration limit: Provided, That DUs shall be necessary parties in the determination of their respective annual penetration limits. The ERC shall conduct a regular review of these parameters, and shall release all the annual penetration limits not later than December 15 of each preceding year;
  - ii) Technical and service standards for microgrid systems, whether grid tied or on island mode both for operations in unserved and underserved areas: Provided, that these standards shall be compliant with the Philippine Distribution Code, Philippine Grid Code, and other relevant rules and regulations;
  - iii) Rules for grid tied microgrid systems to buy and sell from the grid, whenever applicable: Provided, that this shall not result to increased retail rates for other end users, or compromise grid stability; and
  - iv) An accreditation mechanism for MSPs: Provided, that such procedure shall be no longer than thirty (30) calendar days: Provided further, that the list of accredited MSPs shall be updated, published, and posted on the ERC and DOE websites not later than January 15 of every year.
- b) Monitor the operations of all awarded accredited MSPs and their respective contracts with the Distribution Utility or Electric Cooperative having franchise in the area: Provided, That the ERC, upon complaint or *motu proprio*, can conduct a review of an awarded MSP's operations and the corresponding contract should it find reasonable grounds for non-compliance with the benchmark rate and other provisions of the standardized contract; and
- c) Exercise its rate making power through the determination of benchmark rates for different microgrid systems and standardized contracts based on technology, capacity, and other considerations: Provided, That the list of benchmark rates shall be updated, published, and posted on the ERC and DOE websites not later than December 15 of each preceding year.

**Section 7. *Duties and Functions of the Department of Energy.*** – In addition to its functions under Republic Act No. 7638, otherwise known as the Department of Energy Act of 1992, the DOE shall:

- a) In coordination with NEA in case of areas within the franchise area of electric cooperatives, release and update a list of unserved and underserved areas as well as NPC- SPUG areas and remote or unviable areas. Provided, That the list shall be updated, published, and posted on the NEA, ERC and DOE websites not later than January 15 of each preceding year,
- b) Prepare an annual schedule of competitive selection process based on the list of unserved and underserved areas not falling within the franchise areas of electric cooperatives. Provided, That the schedule shall be published and posted on the NEA, ERC and DOE websites not later than January 15 of the current year;
- c) Establish and conduct a simple, uniform, and streamlined process for competitive selection of MSPs, whether subsidized or unsubsidized: Provided, That the entire procedure from commencement to submission to the ERC of the awarded contract shall be no longer than ninety (90) calendar days: Provided further. That information on interested MSPs and their respective proposed systems and rates shall be made available to end users in the concerned area within five (5) days from the MSP's submission of the intent to participate; and
- d) Determine a detailed procedure for the transition of electricity service from DUs to awarded MSPs in underserved areas: Provided, that such transition shall not exceed three (3) months from the award of the contract through no fault of the awarded MSP.

**Section 8. *Duties and Functions of the National Electrification Administration.*** – In addition to its functions under PD 269 as amended, and pursuant to its mandate of total rural electrification, the NEA shall:

- a) Prepare an annual schedule of competitive selection process based on the list of unserved and underserved areas within the franchise area of electric cooperatives. Provided, That NEA shall consolidate the said annual schedule in coordination with the concerned electric cooperatives. Provided further, That the schedule shall be published and posted on the NEA, ERC and DOE websites not later than January 15 of the current year
- b) Administer subsidies as provided in Section 5 paragraph 2 of this Act to qualified Electric Cooperatives that are accredited as MSPs after the conduct of a

competitive selection process in accordance with Section 6 and Section 7 of this Act.

- c) Determine a detailed procedure and qualifications for the application and grant of subsidies to Accredited MSPs of qualified Electric Cooperatives.

**Section 9. *Microgrid Systems of Electric Power Industry Participants.*** – Generation companies, DUs, retail electricity suppliers, and their respective subsidiaries or affiliates may engage in the business of MSPs in unserved and underserved areas: Provided, that a separate account is maintained for such business undertaking.

**Section 10. *Preferential Right for Distribution Utilities.*** – Distribution Utilities in its own or in partnership or joint venture shall be given preferential right of first refusal to engage in the business of MSPs in unserved and underserved areas within their franchise area. Provided, that they can provide a lower or equal electricity rate than other applicants. Provided, further, that they are allowed to impose a separate rate in the identified underserved or unserved area. Provided, finally, that in this case, a competitive selection process is no longer required.

**Section 11. *Effect of Grid Extension.*** – If the grid is extended to previously unserved, NPP, or QTP areas, the DU shall have the option to acquire the distribution system of the MSP upon the expiration of the MSP contract by virtue of their contractual agreement.

**Section 12. *Prohibited Acts.*** – Any person, natural or juridical, is prohibited from the following acts:

- a) Refusal to allow the installation of any microgrid system: Provided, That the requirements under Sections 5, 6, 7, and 8 of this Act are complied with;
- b) Imposition of new charges and contractual terms on the end user which are not part of the benchmark rate and awarded MSP contract;
- c) Refusal to allow a DU to acquire an MSP distribution system: Provided, That the DU has a franchise over the area and the acquisition is in accordance with Section 9 of this Act; and
- d) Failure to comply with the duties, obligations, and time frames specified in Sections 6 and 7 of this Act.

**Section 13. Penalties.** – The responsible officers and employees of any establishment or organization, whether public or private, who commits the following prohibited acts of this Act shall, upon conviction, suffer the following penalties:

- a) Violation of Section 12 (a) a fine ranging from a minimum of Five million pesos (P5,000,000.00) to Twenty million pesos (P20,000,000.00), upon the discretion of the court;
- b) Violation of Section 12 (b) - a fine ranging from a minimum of Five million pesos (P5,000,000.00) to Twenty million pesos (P20,000,000.00), upon the discretion of the court; and
- c) Violation of Section 12 (c) - a fine ranging from a minimum of Five million pesos (P5,000,000.00) to Twenty million pesos (P20,000,000.00), upon the discretion of the court.

Any person who willfully aids or abets the commission of these prohibited acts or who causes the commission of any such act by another shall be liable in the same manner as the principal. In cases of an association, partnership, or corporation, the penalty shall be imposed on the member, partner, president, chief operating officer, chief executive officer, director, or officer responsible for the violation.

Any person found guilty of violating Section 12 (d) of this Act shall be penalized as follows:

- a) First offense - Thirty (30) days suspension without pay and mandatory attendance in Values Orientation Program;
- b) Second offense -Three (3) months suspension without pay; and
- c) Third offense - Dismissal and perpetual disqualification from public service, and forfeiture of retirement benefits.

**Section 14. Congressional Oversight.** – The Joint Congressional Energy Commission shall exercise oversight powers over implementation of this Act. The DOE and ERC shall submit annually to the Joint Congressional Energy Commission a thorough report on the implementation of this Act not later than 15 March of every year: Provided, That the report shall include identification of legislative gaps, if any, and recommended ways forward.

**Section 15. *Implementing Rules and Regulations.*** – The DOE, in consultation with the appropriate government agencies mentioned herein and electric power industry stakeholders, shall issue the implementing rules and regulations of this Act within sixty (60) days upon its effectivity

**Section 16. *Amendatory Clause.*** – This Act amends Section 43 of the Electric Power Industry Reform Act of 2001 insofar as the rights, obligations, and powers of the ERC are concerned.

**Section 17. *Separability Clause.*** – If any portion or provision of this Act is declared unconstitutional, the remainder of this Act or any provisions not affected thereby shall remain in force and effect.

**Section 18. *Repealing Clause.*** – Any law, presidential decree or issuance, executive order, letter of instruction, rule or regulation inconsistent with the provisions of this Act is hereby repealed or modified accordingly.

**Section 19. *Effectivity Clause.*** – This Act shall take effect fifteen (15) days following its complete publication in the Official Gazette or a newspaper of general circulation.

Approved.