



DEPARTMENT CIRCULAR NO. DC 2026-06-0013 *μ*

Prescribing the Guidelines for the Conduct of the Mid-Merit Natural Gas Capacity Auction for Gas-Fired Power Generation

WHEREAS, Republic Act (RA) No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA) declares the State policy of ensuring the quality, reliability, and affordability of electric power while protecting public interest and promoting competition, and mandates the Department of Energy (DOE) to formulate rules, establish market mechanisms, and provide incentives to ensure adequate supply and attain the objectives of the Act;

WHEREAS, RA No. 7638, otherwise known as the "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, RA No. 12120, otherwise known as the "*Philippine Natural Gas Industry Development Act*", was enacted to establish a comprehensive legal and regulatory framework for the Philippine Downstream Natural Gas Industry, aiming to promote natural gas as a safe, efficient, and transition fuel toward a low-carbon future; and to prioritize the utilization of indigenous natural gas over imported liquefied natural gas to enhance national energy security;

WHEREAS, Section 2(b) of RA No. 12120 specifically mandates the State to develop natural gas as a reliable fuel for power plants capable of addressing the peaking, mid-merit, and baseload demand of the country to help achieve energy security, while progressively transitioning to renewable energy sources;

WHEREAS, Section 2(c) of RA No. 12120 further directs the State to promote natural gas as an energy fuel with the potential to meet increasing local demand and to develop the Philippines as a Liquefied Natural Gas trading and transshipment hub within the Asia Pacific Region;

WHEREAS, Section 23 of RA No. 12120 mandates the transparent and secure procurement of natural gas, explicitly prioritizing the utilization of indigenous natural gas over imported varieties and other conventional energy sources, and directs the DOE to establish mechanisms, including mandated minimum supply percentages and fair access standards, to ensure the optimal development and consumption of indigenous resources consistent with energy security and consumer welfare;

WHEREAS, the DOE recognizes that the increasing penetration of Variable Renewable Energy, totaling approximately 12 GW awarded through Green Energy Auction Rounds 1 to 4, thereby necessitating the strategic procurement of flexible mid-merit capacity to mitigate intermittency and maintain the continuous reliability and stability of the national grid;

WHEREAS, the DOE's simulation of the average daily load profile for the period 2023–2025 indicates system flexibility constraints across the Luzon, Visayas, and Mindanao grids, specifically:

1. In Luzon, existing natural gas-fired generation is dispatched at relatively consistent levels throughout the day, effectively performing both baseload and mid-merit functions. This indicates that current natural gas capacity is insufficient to fully assume its intended mid-merit role, thereby requiring coal-fired power plants to ramp beyond their normal technical operating limits to meet intra-day load variations, which increases the risk of forced outages and adversely affects system reliability; and
2. In the Visayas and Mindanao, the absence of natural gas-fired generation results in system flexibility being largely dependent on coal and oil-based generation. Taken together with the dispatch conditions in Luzon, this underscores the need to ensure an adequate and reliable supply of natural gas capacity to support system flexibility, improve dispatch efficiency, and enable natural gas to fulfill its intended transition role.

WHEREAS, the Power Development Plan (PDP) recognizes the critical importance of natural gas in achieving energy security and transition goals, a strategic direction explicitly reaffirmed in the 2023-2050 PDP, which highlights the necessity of natural gas in the country's long-term energy mix;

WHEREAS, while the PDP provides a strategic projection of the country's long-term energy mix, there is a need to cross-reference these figures with the Power Supply Procurement Plans of Distribution Utilities (DU) to ensure that auctioned mid-merit capacities are accurately allocated and aligned with the actual demand and procurement requirements identified by the DUs;

WHEREAS, the DOE deems it necessary to conduct a competitive auction to procure additional mid-merit natural gas capacities in view of the projected power supply-demand outlook and system reliability requirements, particularly in the Visayas, Mindanao, and off-grid areas;

WHEREAS, the DOE has determined that a centralized auction mechanism, tailored to the technical and commercial specifics of the natural gas sector, is the most efficient method to procure this capacity in a transparent and competitive manner;

WHEREAS, Department Circular (DC) No. DC2026-01-0001 declares the policy of the State to allow Generation Companies to finance and construct Associated Transmission Projects (ATP) to ensure the timely integration of power projects critical to the country's energy transition and supply security, thereby preventing delays in the commercial operation of committed generation capacities;

WHEREAS, DC No. DC2026-02-0005 establishes the framework for determining the appropriate capacity mix for DUs and explicitly mandates the prioritization of flexible technologies, specifically natural gas-fired power plants utilizing indigenous and blended natural gas, to fulfill grid mid-merit requirements;

WHEREAS, to implement this mechanism effectively, there is a need to establish a governance structure comprising a Natural Gas Auction Committee (NGAC), Natural Gas Auction - Bids Evaluation and Awards Committee (NGA-BEAC), Technical Working Group (TWG), and Secretariat to manage the distinct risks associated with fuel supply and infrastructure readiness;

WHEREAS, to ensure transparency and consistency with the objectives of the EPIRA and relevant issuances, the DOE conducted virtual public consultation on the proposed Circular on 13 March 2026 for Luzon, Visayas, and Mindanao.

NOW, THEREFORE, after review and consideration of the comments and recommendations of stakeholders, the DOE, pursuant to its authority under the EPIRA, RA No. 7638, RA No. 12120, and other relevant issuances, hereby adopts, issues, and promulgates the following Guidelines:

RULE 1 GENERAL PROVISIONS

Section 1. Title. This Circular shall be known as “***Prescribing the Guidelines for the Conduct of the Mid-Merit Natural Gas Capacity Auction for Gas-Fired Power Generation***” or the “***Gas Auction Guidelines***.”

Section 2. Purposes and Objectives.

2.1 Purposes. This Circular is hereby promulgated to:

- 2.1.1 Support the national energy policy of ensuring energy security, reliability, and consumer welfare in the electricity sector;
- 2.1.2 Recognize natural gas as a transition fuel in support to the Philippines’ transition toward a clean, sustainable, and appropriate energy mix, while maintaining system reliability and cost-efficiency;
- 2.1.3 Assist the DUs in the procurement of adequate supply for captive customers;
- 2.1.4 Establish the implementation framework for the mid-merit Natural Gas Capacity Auction and clarify the roles and responsibilities of implementing agencies and entities;
- 2.1.5 Facilitate timely and efficient procurement of natural gas to ensure adequate capacity and support system reliability;
- 2.1.6 Promote the development of new and additional natural gas capacity arrangements through a fair access to the market; and
- 2.1.7 Enhance power system reliability by targeting improvements in reliability indices, such as the Loss of Load Expectation.

2.2 Objectives. This Circular seeks to attain the following objectives:

- 2.2.1 Ensure the reliable and adequate supply of electricity through leveraging on natural gas as transition fuel providing sufficient capacity for the mid-merit requirements of the power system;

- 2.2.2 Support the country's aspiration in achieving more than 35% RE in the energy mix while maintaining the balance in the electricity system by providing the adequate baseload, mid-merit, and peaking capacity;
- 2.2.3 Promote a transparent and competitive selection of qualified natural gas power generation companies to provide the mid-merit requirements at reasonable rates of Awarded Gas Capacities;
- 2.2.4 Encourage investments in natural gas supply capacities to support short-to medium-term energy security;
- 2.2.5 Facilitate efficient scheduling, dispatch, and settlement of natural gas capacity to enhance system stability and reliability;
- 2.2.6 Provide a structured framework for post-auction implementation, including monitoring of compliance, capacity delivery, and settlement obligations;
- 2.2.7 Ensure that the auction process supports the broader policy objectives of energy security, supply flexibility, market efficiency, and consumer protection; and
- 2.2.8 Establish a competitive and well-regulated market for natural gas procurement through market-driven price discovery that aligns with existing laws, rules, and regulations.

Section 3. Scope. This Circular shall apply to the following:

- 3.1 Natural Gas Power Generation Companies;
- 3.2 National Transmission Corporation (TransCo);
- 3.3 National Electrification Administration (NEA);
- 3.4 System Operator;
- 3.5 Market Operator (MO);
- 3.6 WESM Governance Arm;
- 3.7 Transmission Network Providers (TNP);
- 3.8 Distribution Utilities (DU); and
- 3.9 Electricity end-users, as applicable.

Section 4. Definition of Terms.

Associated Transmission Projects or ATP. The new or expanded transmission lines, substations, and other facilities beyond the Generation Company's dedicated Point-to-Point facility, as determined by the System Impact Study (SIS) and Facilities Study to be necessary to reliably and securely accommodate the new generation capacity into the grid.

Auction Capacity. The aggregate capacity of natural gas power supply, expressed in MW, determined by the DOE to be procured through the auction for a specified delivery period.

Auction Round. A specific instance or cycle of the Mid-Merit Natural Gas Capacity Auction conducted for a defined capacity requirement and delivery period.

Awarded Gas Capacity. Refers to the portion of the Auction Capacity that was awarded to the Winning Bidder expressed in MW.

Bid Bond. A financial guarantee posted by a Qualified Bidder to secure compliance with its obligations under the auction and to ensure the validity of its bid.

Blended Natural Gas Facility. A natural gas-fired facility that utilizes a combination of indigenous natural gas and imported liquefied natural gas (LNG), provided that it maintains a minimum mandated supply percentage of indigenous gas as determined by the DOE.

Carve-Out Mechanism. A contractual and regulatory provision that allows a DU to proportionately reduce its assigned Bilateral Contract Quantity (BCQ) or capacity off-take obligations from the Mid-Merit Natural Gas Capacity Auction to account for the migration of its captive customers to the competitive retail market.

Certificate of Award. The document issued by the DOE confirming the final award of capacity and the approved Gas Auction Price (GAP), which serves as the basis for contracting and regulatory compliance.

Delivery Date. The specific date committed by the Winning Bidder which the delivery of the contracted natural gas capacity shall commence.

Delivery Period. The period during which the Winning Bidder is obligated to supply the Awarded Gas Capacity under the terms of the auction.

Fuel Cost Pass-Through. The mechanism that allows Generation Companies to recover the actual, reasonable, and prudent costs of natural gas or LNG consumed for electricity generation, strictly subject to the Gas Price Benchmark and auditing by the Energy Regulatory Commission (ERC).

Gas Auction Implementation Guidelines. Documents issued by the DOE specifying the procedures, requirements, and timeline for each Mid-Merit Natural Gas Capacity Auction.

Gas Auction Price or GAP. The Price Offer of the Winning Bidder that was endorsed to the ERC, which shall serve as the binding basis for contracting, settlement, and regulatory compliance.

Gas Auction Threshold Price or GAT Price. The maximum price offer in PhP/kWh, or such other pricing metric as determined by the ERC, which shall serve as the ceiling price for a specific Auction Round.

Gas Price Benchmark. A prevailing market price index or reference rate established by the ERC used to evaluate the reasonableness of a Generation Company's fuel procurement costs, inclusive of caps on allowable add-on costs such as fuel transportation and logistics.

Indigenous Natural Gas Facility. A natural gas-fired facility that utilizes one hundred percent (100%) indigenous natural gas sourced within the Philippines for power generation.

Invitation to Bid. The official announcement or notice issued by the DOE to prospective bidders, which communicates the auction capacity and contains the Terms of Reference and other official auction documents.

Mid-Merit Generation. Generating capacity intended to operate between baseload and peaking resources to address intermediate demand levels and provide operational flexibility and system reliability.

Mid-Merit Natural Gas Capacity Auction. The competitive procurement mechanism administered by the DOE for the selection and award of natural gas capacities intended to serve mid-merit system requirements.

Natural Gas-Fired Facility. Any plant, installation, or infrastructure capable of producing, processing, or supplying natural gas for electricity generation or related energy uses.

Natural Gas Auction Committee. Refers to the committee established under Section 12 of this Circular to administer the Mid-Merit Natural Gas Capacity Auction.

Non-Indigenous Natural Gas Facility. A natural gas-fired facility that relies entirely on imported LNG or other non-indigenous gas sources.

Notice of Award. The written notice issued by the DOE informing a Qualified Bidder that it has been selected as a Winning Bidder under the Mid-Merit Natural Gas Capacity Auction, subject to compliance with post-auction requirements.

Price Offer. The bid price submitted by a Qualified Bidder for the supply of a specified capacity of natural gas under the auction.

Qualified Bidder. The Qualified Supplier that has satisfied the legal, technical, and financial eligibility requirements prescribed under this Circular and is authorized to participate in the auction.

Qualified Supplier. Refers to any entity duly authorized and capable of developing, owning, operating, and/or maintaining a natural gas-fired generating facility.

Retail Competition and Open Access. The provision of the EPIRA mandating the establishment of a competitive retail market where eligible electricity end-users are allowed to choose their electricity supplier.

Settlement Mechanism. The rules and guidelines governing the billing, payment, reconciliation, and settlement of transactions arising from the Awarded Gas Capacities and the GAP, subject to ERC approval.

Terms of Reference. The document detailing the specific technical, financial, and legal requirements for a specific Auction Round.

RULE 2 AUCTION CAPACITY AND PRICE SETTING

Section 5. Determination of Auction Capacity Requirement.

- 5.1 **Capacity Determination.** The natural gas capacity to be auctioned shall be determined by the Department, through the Natural Gas Auction Committee and assisted by the Technical Working Group, based on, among others, the Department's comprehensive planning and technical assessments. Such determination shall be consistent with the objectives of energy security, system reliability, and the efficient utilization of available natural gas resources, taking into consideration, among others, the following:
- 5.1.1 The latest Power Development Plan (PDP) simulations and the accepted Power Supply Procurement Plans (PSPP) of the DUs, and such other relevant data, forecasts, plans, policies, and issuances as may be deemed appropriate;
 - 5.1.2 Projected national electricity demand and supply requirements;
 - 5.1.3 Mid-merit generation requirements necessary to ensure power system reliability and operational flexibility;
 - 5.1.4 Existing and projected transmission constraints within the relevant grid;
 - 5.1.5 Alignment with the Transmission Development Plan (TDP) timelines to ensure infrastructure readiness by the Delivery Date;
 - 5.1.6 Adequacy and reliability of transmission facilities;
 - 5.1.7 Availability and reliability of natural gas-fired facilities associated with generation companies intending to participate in the auction;
 - 5.1.8 Energy security, cost-efficient supply, and other relevant Government policy objectives; and
 - 5.1.9 The formal establishment and publication of the official baseload, mid-merit, and peaking capacity levels for each grid, as determined by the DOE, to serve as the definitive baseline for the auction.
- 5.2 **Finalization and Publication of Auction Capacity.** Based on the results of the foregoing assessments, the aggregate capacity to be auctioned shall be finalized to reflect prevailing system conditions and updated technical information. The capacity for auction and other requirements shall thereafter be officially announced and communicated to prospective bidders through an Invitation to Bid (ITB) containing the Terms of Reference (TOR) and other official auction documents.
- 5.3 **Aggregation of Mid-Merit Demand.** In the determination of the final Auction Capacity, the DOE, through the Natural Gas Auction Committee and assisted by the Technical Working Group, shall aggregate the mid-merit demand requirements based on comprehensive planning and technical assessments, which may be undertaken through either a system-wide approach or a per utility-based approach, as may be applicable pursuant this Circular.

- 5.3.1 Aggregation of System-Wide Mid-Merit Demand.** In cases where the Auction is conducted on a system-wide basis, the DOE shall determine the total mid-merit capacity requirement based on macro-level projections.

The system-wide aggregation shall reflect the structural and system-level requirements for flexible generation capacity necessary to ensure reliability, security, and efficient operation of the power system, and shall not be limited to or constrained by the individual Distribution Development Plan (DDP) of DUs.

The determination of system-wide mid-merit demand shall serve as the basis for the Auction Capacity in cases where a centralized procurement approach is necessary to address system-wide requirements that cannot be adequately captured through a per utility-based aggregation.

- 5.3.2 Aggregation of Mid-Merit Demand Based on the PSPP and Allocation to DUs.** In cases where the Auction is conducted based on the PSPPs of DUs, the DOE shall perform reconciliation between the macro-level projections of the PDP and the micro-level demand indicated in the PSPP submitted by DUs. This process shall include:

5.3.2.1 Verifying that the mid-merit capacity to be auctioned corresponds to the uncontracted mid-merit requirement identified in the updated and approved PSPPs of DUs within the relevant grid, provided that the Load Duration Curve prepared by the DU in accordance with Section 4.1 of DOE DC2026-02-0005, shall be the primary basis for identifying such mid-merit requirements; *Furthermore*, the allocation of the Awarded Gas Capacity to the DUs shall strictly comply with the flexible technology prioritization hierarchy set forth in Section 4.2.2.2 of DOE DC2026-02-0005; and

5.3.2.2 Identifying the specific DUs whose captive customer requirements will be served by the Awarded Gas Capacity to ensure accurate allocation; *Provided*, that only the mid-merit requirements of qualified DUs as prescribed under the ITB and the TOR shall be aggregated and included in the final Auction Capacity under this method. The DOE, through the Natural Gas Auction Committee, shall pre-qualify the list of DUs whose PSPP showed uncontracted mid-merit requirements. Their pre-qualification shall be based on their financial standing as evaluated by the NEA, and their verified payment history with their existing power suppliers and the Wholesale Electricity Spot Market (WESM).

Any DU, whose mid-merit capacity requirement has been included in the final Auction Capacity and subsequently awarded through the Mid-Merit Natural Gas Capacity Auction, shall not withdraw, opt out, or otherwise refuse participation in the corresponding Awarded Gas Capacity for the duration of the applicable Supply Delivery Period. Otherwise, such action shall be considered a Prohibited Act under Section 21.1 of this Circular.

The inclusion of the DU's capacity requirement in the Auction Capacity, as specified in the ITB and the TOR, and the subsequent award thereof, shall constitute a binding commitment on the part of the DU to accept and comply with its corresponding obligations under this Circular.

Section 6. Quantity and Price Offer.

- 6.1 **Gas Auction Threshold (GAT) Price**. The ERC shall determine the GAT Price for each Auction Round. The GAT Price shall be the price ceiling for the auction, and any Price Offer exceeding this value shall be automatically disqualified.

The initial GAT Price and the methodology for determining the GAT Price shall be issued by the ERC no later than sixty (60) days after the issuance of the ITB for the first auction round. For succeeding auction rounds, the GAT Price, based on the methodology adopted, shall be issued thirty (30) days after the issuance of the ITB.

The ERC shall establish a methodology for determining the GAT Price, taking into account:

- 6.1.1 The prudent and reasonable costs of constructing and operating mid-merit natural gas facilities;
- 6.1.2 Capacity Factor and other technical considerations; and
- 6.1.3 The need to ensure reasonable electricity rates for consumers while attracting sufficient investment.

The GAT Price and the methodology used for its determination shall be issued by the ERC and published by the DOE prior to the Auction Proper, in accordance with the timeline to be prescribed in the Gas Auction Implementation Guidelines (GAIG).

Qualified Bidders shall submit their offer quantity out of the prescribed Auction Capacity and the corresponding Offer Price, provided that the Offer Price complies with the GAT Price approved by the ERC for the applicable Auction Round, as specified in the Invitation to Bid and the TOR.

Section 7. Settlement of Energy Generated by the Winning Bidders.

- 7.1 **Settlement Counterparty and BCQ Allocation**. The following provisions shall guide the settlement and billing of the Awarded Gas Capacity:

- 7.1.1 If the Auction conducted takes reference from the PSPP of each DU included in the aggregated capacity and, the Winning Bidders shall execute individual PSAs with each DUs corresponding to the awarded percentage of the Offered Contract Capacity as provided in the TOR.

The concerned DU shall directly settle with the Winning Bidder the cost of delivered energy declared in the WESM as BCQ, with generation cost based on the ERC-approved GAP; and

7.1.2 If the auction conducted takes reference to the mid-merit requirement identified in the PDP, the allocation applies universally across all DUs due to the structural absence of existing mid-merit capabilities for the relevant grid. In this case, the MO shall act as the direct settlement counterparty for the billing and collection of the Awarded Gas Capacity on behalf of the Winning Bidder, in accordance with Sections 7.2 through 7.5 of this Circular.

7.2 **Settlement Through the WESM.** Payment and settlement for the energy or capacity delivered by the Winning Bidders under the Mid-Merit Natural Gas Capacity Auction shall be collected, administered, and settled through the WESM by the MO in accordance with the ERC-approved Settlement Mechanism, the WESM Rules, Market Manuals, and other relevant rules and regulations.

All facilities or resources of Winning Bidders shall be registered in the WESM and shall comply with applicable metering, dispatch, scheduling, and reporting requirements as a condition for settlement.

Winning Bidders shall be compensated based on the GAP, applied to the actual energy delivered to the grid during the applicable billing period, without regard to the Energy Trading Amount (ETA) determined under the WESM, which refers to the amount payable to or receivable by a WESM participant as calculated in accordance with the WESM Price Determination Methodology and related Market Manuals.

The total amount payable to each Winning Bidder, or the Total Mid-Merit Settlement Amount (MMSA), shall be calculated as follows:

$$\text{Total MMSA} = \text{Energy Delivered in kWh} \times \left(\text{GAP in } \frac{\text{PhP}}{\text{kWh}} + \text{FC in } \frac{\text{PhP}}{\text{kWh}} \right)$$

Where:

Total MMSA – the total compensation due to the Winning Bidder computed using the GAP and Fuel Cost;

Energy Delivered – the actual metered energy, expressed in kilowatt-hours (kWh), delivered to the grid by the Winning Bidder during the billing period;

GAP – the ERC-approved price resulting from the Mid-Merit Natural Gas Capacity Auction and reflected in the Certificate of Award;

Fuel Cost (FC) – Relevant fuel cost, as determined based on the Gas Price Benchmarking Methodology for Fuel Cost Pass-Throughs as approved by the ERC; and

Billing Period – the settlement interval prescribed under the WESM Rules.

7.3 **Collection and Flowback of Difference between Energy Trading Amount and Mid-Merit Settlement Amount.** During both the preliminary and final settlement

processes, the MO shall calculate the difference between the ETA in the WESM and the Mid-Merit Settlement Amount for each Winning Bidder.

Such difference in the amount shall be subject to collection or flowback, as applicable, in accordance with the succeeding provisions.

- 7.4 **Collection of Shortfall Amount.** In case the Energy Trading Amount in the WESM of a Winning Bidder under the Mid-Merit Natural Gas Capacity Auction is lower than its computed Total Mid-Merit Settlement Amount for the relevant billing month, the MO shall reflect the difference in the settlement statements of all WESM customers and collect the same from the customers in the WESM using the following formula:

Energy Trading Amount < Total Mid-Merit Settlement Amount

$$\text{Collection Allocation per customer} = \text{Auction shortfall amount} \times \frac{GESQ_c}{GESQ_{ctotal}}$$

Where:

Collection Allocation per customer – the customer's share in the Auction Shortfall Amount in PhP for the billing period.

Auction Shortfall Amount – refers to the difference between the Mid-Merit Settlement Amount (MMSA_g) and the Energy Trading Amount (ETA_g) of Winning Bidder *g*, expressed in Philippine Peso (Php), where ETA_g is lower than MMSA_g.

$$\text{Auction shortfall amount} = MMSA_g - ETA_g$$

GESQ – the gross energy settlement quantity of electricity sold or purchased as determined in WESM Rules 3.13.6 in MWh.

GESQ_c – the GESQ for customer *c* (customer in the WESM) for the billing month in MWh.

GESQ_{ctotal} – the total customer GESQ (customers in the WESM) for the billing month in MWh.

- 7.5 **Flowback of Excess Amount.** In case the ETA in the WESM of a Winning Bidder under the Mid-Merit Natural Gas Capacity Auction is higher than the computed Total Mid-Merit Settlement Amount for the relevant billing month, the MO shall reflect in the settlement statements of the customers and collect only the amount due that will satisfy the computed Mid-Merit Settlement Amount and shall flowback the difference to the customers in the WESM using the following formula:

Energy Trading Amount > Total Mid-Merit Settlement Amount

$$\text{Flowback Allocation per customer} = \text{Auction flowback amount} \times \frac{GESQ_c}{GESQ_{ctotal}}$$

Where:

Flowback Allocation per customer – the customer’s share of the flowback amount in PhP for the billing period.

Auction Flowback Amount – the difference between Energy Trading Amount (ETA_g) of generator g and Mid-Merit Settlement Amount (MMSA_g) of generator g where ETA_g is higher than MMSA_g in PhP.

$$\text{Auction flowback amount} = \text{ETA}_g - \text{MMSA}_g$$

GESQ – the gross energy settlement quantity of electricity sold or purchased as determined in WESM Rules 3.13.6 in MWh.

GESQ_c – the GESQ for customer c (customer in the WESM) for the billing month in MWh.

GESQ_{total} – the total customer GESQ (customers in the WESM) for the billing month in MWh.

RULE 3 GAS AUCTION FRAMEWORK

Section 8. Auction Guiding Principles.

The following principles shall be observed in the conduct of the Mid-Merit Natural Gas Capacity Auction and in the development of the GAIG:

- 8.1 The auction shall be conducted for New, Expanded/Upgraded, and Existing Uncommitted natural gas capacities, as defined in this Circular, which are duly registered in the WESM and have no legal impediments or existing supply contracts at the time of the agreed delivery date.
- 8.2 Participating entities shall be allowed full recovery of prudent and reasonable economic costs incurred, provided that the Winning Bidder’s price offer reflects such prudent and reasonable costs.
- 8.3 The auction shall promote efficiency and competitive pricing for the supply of electricity generated by natural gas to the market.
- 8.4 All stages of the auction, including registration, bid submission, evaluation, and award, shall be conducted in a fair, non-discriminatory, and transparent manner.
- 8.5 The auction process shall ensure that Awarded Gas Capacities contribute to system stability and reliable delivery of natural gas capacities.
- 8.6 To protect consumer welfare from volatile global fuel prices, Winning Bidders shall observe the principle of least-cost procurement in securing their natural gas or LNG supply, preferably, through a long-term supply agreement. The fuel cost shall be a pass-through component subject to the ERC’s verification.

Section 9. Auction Process.

The following process shall be observed for the Mid-Merit Natural Gas Capacity Auction.

- 9.1 **Publication of Invitation to Bid (ITB)**. The ITB shall be published by the Secretariat on the DOE website and in at least one (1) newspaper of general circulation. A copy shall also be sent by electronic mail to the ERC, TransCo, and the MO.

The ITB shall indicate the coverage of the auction, whether for Luzon, Visayas, Mindanao, or as a whole, the total capacity available for bidding, and any applicable interconnection limits and considerations necessary to maintain system reliability.

- 9.2 **Issuance of Terms of Reference (TOR) and Gas Auction Implementation Guidelines (GAIG)**. The DOE, through the NGAC, shall issue the TOR and the GAIG at least fifteen (15) calendar days prior to the first day of registration for each auction round. This shall include, among others:

- 9.2.1 The detailed auction process and timeline for each Auction Round;
- 9.2.2 Auction design;
- 9.2.3 Auctioned capacity; and
- 9.2.4 Legal and technical requirements including, but not limited to, those enumerated under Section 10 of this Circular.

- 9.3 **Issuance of Gas Auction Threshold (GAT) Price**. The ERC shall issue and submit to the DOE the GAT Price in accordance with Section 6.1 of this Circular.

The DOE, through the Secretariat, shall publish the GAT Price on its website and communicate it to all Qualified Bidders no later than thirty (30) calendar days after the issuance of ITB.

- 9.4 **Registration of Qualified Suppliers**. Qualified Suppliers intending to participate shall register with the DOE by submitting to the NGA-BEAC the following documents:

- 9.4.1 Letter of Intent signed by the authorized representative;
- 9.4.2 Proof of authority of the representative to sign auction documents;
- 9.4.3 Work Program;
- 9.4.4 Proof of payment of registration and processing fees;
- 9.4.5 Certification of willingness to finance and construct the point-to-point connection and ATP, in case of unavailability or delays on transmission projects by the TNP;
- 9.4.6 Proposed primary point of interconnection and at least one (1) alternative connection site. This disclosure shall be used by the DOE and the System Operator for a preliminary assessment of grid alignment with the TDP and shall be treated as Confidential Business Information;
- 9.4.7 Affidavit of No Legal Impediment;
- 9.4.8 Valid documents proving possessory rights or legal site control for the proposed location of the facility for New Facilities;

- 9.4.9 Certification of Contract Expiry or Formal Notice of Termination effective prior to the commencement of the delivery period for existing uncommitted facilities; and
- 9.4.10 Documents set out in Sections 10.4.1 through 10.4.3 of this Circular.

9.5 **Evaluation of Qualified Bidders.** The NGA-BEAC, assisted by the TWG, shall evaluate the submissions in accordance with the GAIG and the TOR. Based on this evaluation, the NGA-BEAC shall issue a list of Qualified Bidders, consisting only of those whose submissions are complete and compliant with the prescribed requirements.

9.6 **Issuance of User IDs.** The NGA-BEAC, through the TWG, shall issue user-specific IDs to the Qualified Bidders for participation in the DOE-operated electronic bidding platform.

9.7 **Pre-Bid Conference.** A Pre-Bid Conference shall be conducted by the NGA-BEAC to provide Qualified Bidders with auction details and address questions. Any needed clarifications on the TOR provisions shall be issued by the NGA-BEAC through Bid Bulletins, which shall be endorsed through the NGAC and approved by the Secretary.

9.8 **Submission of Bid Bond and Affidavit of Undertaking.** Qualified Bidders shall submit, at least one (1) working day before the Auction Proper:

- 9.8.1 Proof of posting of the bid bond; and
- 9.8.2 Affidavit of Undertaking to deliver the committed capacity on the delivery date, signed by the authorized representative, indicating the total capacity per delivery period.

9.9 **Auction Proper.** On the scheduled date, all Qualified Bidders shall submit their capacity, and price offers through the DOE-operated electronic bidding platform using their user-specific IDs. The NGA-BEAC shall conduct the bid opening and transmit the price offers to the TWG for validation and initial ranking. In evaluating and ranking the valid bids, the TWG shall implement a priority stacking mechanism in strict adherence to Section 4.2.2.2 of DOE DC2026-02-0005. Awarded Gas Capacities shall be allocated in the following order of priority:

- 9.9.1 Gas-fired power plants using Indigenous Natural Gas;
- 9.9.2 Gas-fired power plants using Blended Natural Gas; and
- 9.9.3 Gas-fired power plants using Non-Indigenous Natural Gas.

Within each priority tier, offers shall be ranked from the lowest to the highest Price Offer until the required Auction Capacity is fully met. All offers, regardless of tier, shall not exceed the GAT Price. Thereafter, the NGA-BEAC shall submit the validated ranking of offers to the NGAC. The NGAC shall endorse the Winning Bidders for the DOE Secretary's approval and declaration. Notices of Award, including Certificate of Award, shall subsequently be issued to each Winning Bidder.

9.10 **Endorsement of Winning Bids.** Upon declaration of the Winning Bidders, the DOE, through the NGAC, shall officially endorse the GAP and corresponding Gas

Capacity of each Winning Bidder to the ERC for information and for implementation of the approved settlement mechanism.

9.11 **Issuance of Certificate of Award.** The Certificate of Award shall constitute the operative agreement and proof of offtake for the Awarded Gas Capacity. It shall serve as the basis for settlement, energy allocation as BCQ, and regulatory compliance. The DOE shall issue a Certificate of Award indicating:

- 9.11.1 The Name of the Winning Bidder;
- 9.11.2 The Awarded Gas Capacity; and
- 9.11.3 The ERC-approved GAP.

9.12 **Submission of Post-Auction Documents.** Winning Bidders shall submit all post-auction requirements, including performance/completion bonds and other documents specified in the TOR.

9.13 **Post-Auction Procedures.** The DOE shall monitor compliance with the auction terms, including capacity delivery, settlement, and reporting obligations.

Capacities secured through the auction process represent firm commitments and remain binding for the duration of the term.

Any non-compliances shall be considered accordingly as a prohibited act under Section 21 of this Circular and be penalized pursuant to Section 22 hereof.

Section 10. Eligibility Requirements.

Any or all of the following capacities may be accepted as offers during the Mid-Merit Natural Gas Capacity Auction:

10.1 **New Facilities.** Natural gas capacity facilities that are newly built or commissioned may be offered under the auction, provided that such facilities:

- 10.1.1 Have no legal impediments, including existing supply agreements, effective on the agreed Delivery Date;
- 10.1.2 Have secured the necessary SIS;
- 10.1.3 Must meet the minimum technical flexibility standards as defined in the TOR;
- 10.1.4 Have valid documents proving possessory rights or legal site control for the proposed location of the facility; and
- 10.1.5 Where applicable, have formally indicated their intent to finance and construct ATPs pursuant to DOE DC No. DC2026-01-0001 to ensure timely interconnection by the Delivery Date.

10.2 **Expanded or Upgraded Existing Facilities.** Natural gas capacity facilities that are already operational but have undergone expansion or upgrading, where the additional capacity is independent of existing units and separately measured. Such incremental or additional capacity shall be eligible for participation in the auction.

10.3 Existing Uncommitted Facilities. Existing natural gas-fired facilities that are operational and commercially available, shall be eligible to participate; *Provided*, that such facilities:

- 10.3.1 Are not subject to any power supply agreements, contracts, or legal commitments that overlap with the required Auction Delivery Period; and
- 10.3.2 Must submit a Certification of Contract Expiry or a formal notice of termination effective prior to the commencement of the Delivery Period as part of their eligibility requirements.

10.4 Fuel Source Categorization and Proof. In alignment with the prioritization set forth in DOE DC2026-02-0005, all prospective bidders must formally declare their fuel source category during registration.

- 10.4.1 Qualified Bidders must categorize their participating facility as an Indigenous Natural Gas Facility, a Blended Natural Gas Facility, or a Non-Indigenous Natural Gas Facility.
- 10.4.2 To substantiate this declaration, Qualified Bidders must submit valid proof of fuel supply agreements, such as Gas Sale and Purchase Agreements, clearly indicating the source, origin, and volume of the natural gas to be utilized during the Delivery Period.
- 10.4.3 The declared fuel source category and corresponding fuel utilization shall be subject to verification and certification by the Oil Industry Management Bureau, based on the submitted documentary requirements and such additional information as may be required to ensure compliance with the applicable provisions of this Circular.

In the event that the Winning Bidder is unable to utilize its declared fuel source category due to unavailability or insufficiency of supply during the Delivery Period, the concerned facility may utilize a replacement fuel category; *Provided*, that such use shall be temporary, justified, and duly supported by appropriate documentary evidence.

The use of replacement fuel shall be subject to the following conditions:

- 10.4.3.1 The Winning Bidder shall submit documentary proof, satisfactory to the DOE, demonstrating the unavailability or insufficiency of the declared fuel source, including but not limited to supply interruption notices, force majeure declarations, or other relevant certifications from fuel suppliers;
- 10.4.3.2 The corresponding fuel cost pass-through for the fuel replacement shall be allowed; *Provided*, that such cost will be the lower of: (a) the cost of the declared fuel source category, as indicated in the submitted Gas Sale and Purchase Agreements and other relevant supporting documents; and (b) actual prudent cost of the replacement fuel; unless the use of replacement fuel is necessitated by a verified force majeure event, in which case

the actual prudent cost of the replacement fuel shall be allowed, subject to ERC audit.

- 10.4.3.3 The temporary use of replacement fuel shall not prejudice compliance with the obligations of the Winning Bidder under this Circular, including the delivery of the Awarded Gas Capacity for its intended mid-merit purpose; and
- 10.4.3.4 The Winning Bidder shall notify the DOE at least three (3) months prior to the intended use of replacement fuel; *Provided*, that in cases of unforeseen or emergency conditions, such notification shall be made immediately upon occurrence. The Winning Bidder shall likewise comply with all applicable verification, certification, and monitoring requirements as may be imposed by the DOE.

Section 11. Transmission Interconnection and Option to Construct.

- 11.1 **Responsibility to Connect.** It is the primary responsibility of the Winning Bidder to ensure that its facility is connected to the Grid and capable of delivering the Awarded Gas Capacity by the Delivery Date.
- 11.2 **Option to Finance and Construct.** In the event that the necessary transmission facilities included in the TDP are delayed, or if the SIS determines that new ATPs are required to accommodate the Awarded Gas Capacity, the Winning Bidder may opt to finance and construct said facilities, subject to the provisions of DOE DC2026-01-0001.
- 11.3 **Recovery of Transmission Costs.** Costs incurred by the Winning Bidder for the financing and construction of ATPs shall be recovered through the mechanisms prescribed by the ERC pursuant to Section 4.1 of DC2026-01-0001, Recovery of Fair Market Value. Consequently, capital costs for ATPs effectively turned over to the TNP shall not be included in the GAP, ensuring that the auction price reflects only the generation cost.

RULE 4 IMPLEMENTING BODIES

Section 12. Natural Gas Auction Committee (NGAC).

To ensure the efficient implementation of these Guidelines, the NGAC is hereby created to administer the Mid-Merit Natural Gas Capacity Auction.

- 12.1 **Composition.** The NGAC, through a Special Order (SO) signed by the DOE Secretary, shall be headed by two (2) DOE Undersecretaries as Co-Chairpersons. The members shall include designated representatives from the Energy Policy and Planning Bureau (EPPB), Energy Resources Development Bureau (ERDB), Electric Power Industry Management Bureau (EPIMB), Oil Industry Management

Bureau (OIMB), Legal Services, the TransCo, and the Independent Electricity Market Operator of the Philippines (IEMOP).

12.2 Duties and Responsibilities. The NGAC shall have the following duties and responsibilities:

- 12.2.1 Determine and recommend the Auction Capacity requirement for each round;
- 12.2.2 Recommend the specific auction policy, guidelines, and TOR for approval;
- 12.2.3 Pre-qualify the list of participating DUs based on their financial standing as evaluated by NEA, and their verified payment history with their existing power suppliers and the WESM;
- 12.2.4 Review the NGA-BEAC's evaluation and endorsement of the Winning Bidder, and endorse to the Secretary for approval; and
- 12.2.5 Prepare and recommend for approval the Pro-forma Contract or Auction Agreement to be included in the TOR. The NGAC shall ensure that the template is consistent with the policy objectives of this Circular, provides for fair risk allocation, and undergoes formal review by the DOE Legal Services prior to issuance.

Section 13. Natural Gas Auction – Bids Evaluation and Award Committee (NGA-BEAC).

The NGA-BEAC shall oversee the competitive evaluation of bids to ensure the auction is conducted in a transparent, fair, and competitive manner.

13.1 Composition. The NGA-BEAC, through an SO signed by the DOE Secretary, shall be headed by DOE Undersecretary as Chairperson, and DOE Assistant Secretary as Vice Chairperson. The members shall include representatives from the DOE Administrative Services, Information and Technology Management Services, Financial Services (FS), and Legal Services (LS).

13.2 Duties and Responsibilities. The NGA-BEAC shall have the following duties and responsibilities:

- 13.2.1 Determine the Qualified Bidders for each auction round in accordance with the Circular, GAIG, TOR, and other applicable issuances;
- 13.2.2 Issue user-specific IDs to Qualified Bidders through the TWG;
- 13.2.3 Conduct the pre-bid conference and bid opening for an auction round, as may be applicable;
- 13.2.4 Issue needed clarifications on any TOR provision through Bid Bulletins, which shall be endorsed through the NGAC, and approved by the Secretary;
- 13.2.5 Transmit the price offers of Qualified Bidders to the TWG for validation and initial ranking;
- 13.2.6 Submit the validated ranking of offers to the NGAC; and
- 13.2.7 Perform such other tasks as may be set forth in the TOR of an auction round and others necessary for the effective implementation of the Mid-Merit Natural Gas Capacity Auction.

13.3 **Observers**. The NEA and the TransCo shall designate observers for the activities of the NGA-BEAC.

Section 14. Technical Working Group (TWG).

The TWG is hereby created to provide technical, analytical, and evaluative support to both the NGAC and the NGA-BEAC.

14.1 **Composition**. The TWG, through an SO signed by the DOE Secretary, shall be headed by an EPIMB representative as Chairperson and composed of representatives from the ERDB, OIMB, DOE-LS, DOE-FS, IEMOP, and other relevant entities as necessary.

14.2 **Duties and Responsibilities**. The TWG shall have the following duties and responsibilities:

- 14.2.1 Assist the NGA-BEAC in the evaluation of bidder registrations;
- 14.2.2 Conduct technical studies to determine the mid-merit natural gas capacity to be auctioned;
- 14.2.3 Validate and conduct the initial ranking of the price offers transmitted by the NGA-BEAC;
- 14.2.4 Implement a priority stacking mechanism in adherence to Section 4.2.2.2 of DOE DC No. DC2026-02-0005 and in accordance with Section 9.9 of this Circular; and
- 14.2.5 Conduct legal and regulatory compliance reviews of submissions to ensure conformity with applicable energy laws, rules, and regulations.

Section 15. Secretariat.

The Auction Secretariat is hereby created to provide necessary administrative, technical, and logistical support for the conduct of the auction.

15.1 **Composition**. The Auction Secretariat shall be composed of representatives from the EPIMB.

15.2 **Duties and Responsibilities**. The Auction Secretariat shall have the following duties and responsibilities:

- 15.2.1 Prepare, publish, and disseminate the ITB, bid documents, and schedules;
- 15.2.2 Receive, record, and maintain the confidentiality of bids and submissions;
- 15.2.3 Provide administrative assistance to the NGAC, NGA-BEAC, and TWG during bid opening and evaluation; and
- 15.2.4 Maintain an official repository of all auction-related documents ensuring traceability and auditability.

RULE 5 OTHER PROVISIONS

Section 16. Miscellaneous Provision.

In the event of customer migration to the competitive retail market under the Retail Competition and Open Access (RCOA), the assigned BCQ of the affected DU shall be subject to an automatic reduction pursuant to a Carve-Out Mechanism. This reduction shall be proportionate to the migrated load to protect the DU and its remaining captive consumers from stranded costs; and

Any portion of the Awarded Gas Capacity that becomes unallocated or freed up due to the Carve-Out Mechanism may be offered and sold by the Winning Bidder to the WESM as uncontracted spot quantity, subject to prevailing WESM Rules.

Section 17. Policy Implementation.

The DOE shall conduct the Mid-Merit Natural Gas Capacity Auction when necessary to ensure the optimal allocation of available natural gas capacity, in accordance with the objectives, principles, and procedures set forth in this Circular.

Section 18. Responsibilities of Government Agencies.

The following entities shall have the respective responsibilities in the conduct of the Mid-Merit Natural Gas Capacity Auction:

18.1 Department of Energy (DOE). The DOE shall:

18.1.1 Acting through the NGAC, the NGA-BEAC, the TWG, and the Secretariat, oversee the overall conduct of the auction, issue the ITB, TOR, and GAIG, and issue the Certificate of Award to each Winning Bidder upon submission of required post-auction documents, including the performance bond. The Certificate of Award shall serve as the basis for contracting and regulatory compliance under the auction.

18.2 Energy Regulatory Commission (ERC). The ERC shall:

18.2.1 Determine and issue the GAT Price for each Auction Round, in accordance with the approved methodology pursuant to this Circular. This cap shall serve as the ceiling price for the auction, ensuring that the resulting rates are prudent, reasonable, and with due consideration to consumer welfare;

18.2.2 Establish and publish a Gas Price Benchmarking methodology for Fuel Cost Pass-Throughs. This methodology shall define the prevailing market price for various natural gas sources, and establish strict limitations or price caps on allowable add-on costs, such as fuel transport and logistics, to prevent the passing of unwarranted costs to consumers; and

18.2.3 Exercise full review and regular auditing of the actual fuel procurement of Winning Bidders. The ERC shall require the submission of Gas Sale and Purchase Agreements, actual fuel invoices, delivery receipts, and proof of least-cost procurement. Any fuel cost claimed by the Winning Bidder that exceeds the established Gas Price Benchmark without justifiable cause, or

lacks adequate documentary proof, shall be disallowed from the Fuel Cost Pass-Through.

18.3 National Transmission Corporation (TransCo). TransCo shall facilitate the reliable delivery of the Awarded Gas Capacities by:

18.3.1 Coordinating with the Winning Bidders for any necessary transmission arrangements;

18.3.2 Reviewing the TDP updates prepared by the TNP, and submit endorsement and oversight report to the DOE to reflect system requirements arising from this Policy; and

18.3.3 Ensuring timely reporting of operational and system impact considerations to the DOE and ERC.

18.4 National Electrification Administration (NEA). The NEA shall support the effective implementation of this Circular, particularly with respect to Electric Cooperatives (ECs), in accordance with its mandate, such as:

18.4.1 Evaluate and certify the financial standing and payment performance of ECs, to support their participation or possible inclusion of their necessary mid-merit requirements in the auction;

18.4.2 Provide the DOE with relevant assessments and information necessary for the pre-qualification of ECs and the allocation of auctioned capacities;

18.4.3 Monitor compliance of ECs with their contractual and regulatory obligations arising from the auction; and

18.4.4 Perform such other functions as may be necessary to support the effective implementation of this Circular.

18.5 Network Service Providers. All Transmission and Distribution Network Providers shall:

18.4.1 Ensure timely conduct of SIS or Distribution Impact Studies, and processing of connection requirements to allow commercial operation of natural gas facilities;

18.4.2 Implement necessary adjustments to their processes to ensure transparency, reliability, and timely completion of the connection and delivery requirements;

18.4.3 Submit updates to the DOE and ERC regarding system expansion, network readiness, and any policy recommendations necessary to support this Policy; and

- 18.4.4 Ensure the timely inclusion of transmission and distribution facility projects in the TDP and DDP, respectively, to reflect the system requirements arising from the implementation of this policy.

Section 19. Responsibilities of Other Relevant Entities.

The following entities shall have specific roles to ensure the efficient, secure, and transparent conduct of the Mid-Merit Natural Gas Capacity Auction:

19.1 System Operator. The System Operator shall:

- 19.1.1 Manage the dispatch of Awarded Gas Capacities on the grid;
- 19.1.2 Monitor the grid to maintain system security and identify potential constraints affecting the delivery of Awarded Gas Capacities;
- 19.1.3 Coordinate with the Winning Bidders, TransCo, and Network Service Providers regarding scheduling, system operations, and network reliability;
- 19.1.4 Ensure the timely issuance of SIS and Facilities Studies to Winning Bidders, and facilitate the testing and commissioning of Generation Companies-constructed ATPs; and
- 19.1.5 Provide technical guidance and recommendations to address system limitations or operational issues within the grid.

19.2 Market Operator. The Market Operator shall:

- 19.2.1 Submit the Settlement Mechanism to the ERC for review and approval, in accordance with Section 7 of this Circular, for application to the Winning Bidders of the Mid-Merit Natural Gas Capacity Auction, within thirty (30) calendar days from Effectivity of this Circular;
- 19.2.2 Implement any necessary enhancements to the market systems to support the auction and delivery of Awarded Gas Capacities;
- 19.2.3 Ensure the availability of adequate personnel to facilitate the implementation of this Circular through designation of technically and legally qualified permanent representatives to sit as members of the NGA-BEAC and the TWG;
- 19.2.4 Seek the ERC's approval for the recovery of costs associated with the implementation of this Circular, including costs related to the Settlement Mechanism under Section 7 hereof;
- 19.2.5 Handle the scheduling, payment, and settlement of the Gas Auction Price to the Winning Bidders of the Mid-Merit Natural Gas Capacity Auction; and
- 19.2.6 Provide the plant schedule based on the results of the market optimization model, consistent with the WESM Rules and market manuals.

19.3 **WESM Governance Arm**. To support the implementation of this Circular, the Governance Arm, through its concerned committee, shall:

19.3.1 Facilitate the rules change process for any proposed amendments submitted by the Market Operator; and

19.3.2 Conduct audits of the market systems, in accordance with the Market Rules and Manuals, to ensure proper functionality and compliance for the implementation of this Circular.

RULE 6 FINAL PROVISIONS

Section 20. Non-Diminution of Vested Rights. No provision of this Circular shall be construed as diminishing or impairing any right vested by virtue of existing laws, contracts, or agreements.

Section 21. Prohibited Acts. The following acts shall be strictly prohibited in the conduct of the Mid-Merit Gas Auction:

21.1 **Failure to Commit**. The failure by the Winning Bidder, for reasons solely attributable to its own acts or omissions, to deliver the Awarded Gas Capacity for a period exceeding one (1) year from the scheduled commencement date. Withdrawal or opting out shall be construed as failure to deliver and shall constitute as a prohibited act herein.

However, delays resulting from circumstances beyond the control of the Winning Bidder, including but not limited to delays in the completion of necessary transmission facilities or other required interconnection infrastructure, shall not constitute as a violation, subject to the verification and confirmation by the DOE.

Any DU, whose mid-merit capacity requirement has been included in the final Auction Capacity and subsequently awarded through the Mid-Merit Natural Gas Capacity Auction, which withdraws, opts out, or otherwise refuses participation in the corresponding Awarded Gas Capacity for the duration of the applicable Supply Delivery Period shall be a prohibited act subject to penalties under applicable laws, rules, and regulations.

21.2 **Bid Manipulation and Anti-Competitive Conduct**. The following agreements, practices, or behaviors among Qualified Bidders shall be considered bid manipulation, constitute anti-competitive conduct, and are strictly prohibited:

21.2.1 **Bid Suppression**. Any agreement in which one or more participants refrain from submitting a bid or withdraw a previously submitted bid to ensure a particular bidder is selected as the winner.

21.2.2 **Bid Rotation**. Schemes where bidders take turns being the Winning Bidder in successive auctions. This may include:

- a. Allocating quantities or capacities among participants; or
- b. Dividing potential contracts to rotate winners.

21.2.3 **Market Allocation.** Agreements to divide or allocate portions of the natural gas market, including customers, regions, or capacities, to prevent fair competition.

21.2.4 **Any Other Analogous Practices of Bid Manipulation.** Any coordinated or collusive activity that influences auction outcomes, regardless of the method.

21.2.5 **Other Anti-Competitive Agreements of Conduct.** Any agreement or action that substantially restricts, prevents, or lessens competition in the gas auction process.

21.3 **Fuel Source Misrepresentation.** The intentional misrepresentation of a facility's fuel source category during the bidding process, or the subsequent failure of a Winning Bidder under the "Indigenous" or "Blended" categories to maintain the required proportion of indigenous natural gas utilization during the Delivery Period. In addition to the penalties prescribed under Section 46 of the EPIRA, such acts may result in the revocation of the Certificate of Award and recalculation of settlement amounts.

21.4 **Unjustified Fuel Cost Pass-Through.** The intentional submission of falsified, inflated, or unverified fuel invoices, or the deliberate failure to adhere to the least-cost procurement mandate and the ERC Gas Price Benchmark, for the purpose of passing excessive fuel costs onto consumers. Such acts shall warrant the disallowance of cost recovery and the imposition of penalties.

Penalty Clause. Any person or juridical entity found to have committed any of the prohibited acts under Section 21 hereof shall be subject to the penalties prescribed under Section 46 of the EPIRA. In addition, such person or juridical entity shall be prohibited from participating in any auction conducted under the Mid-Merit Natural Gas Capacity Auction and other penalties and sanctions as may be prescribed in the TOR, GAIG, and other relevant documents.

Section 22. Transitory Provision. Upon the effectivity of this Circular, the DOE may issue Notices of Award (NOA) to Winning Bidders under the Mid-Merit Natural Gas Capacity Auction; *Provided*, however, that the Settlement Mechanism under Section 7 of this Circular shall only be implemented upon:

23.1 Approval of the Settlement Mechanism by the ERC; and

23.2 Issuance by the WESM Governance Arm, through its authorized audit body, of a certification that the relevant market systems and processes are compliant with the ERC-approved Settlement Mechanism.

In the event that Winning Bidders commence delivery of contracted capacity prior to the completion of the foregoing conditions, settlement and payments shall be subject to

interim arrangements to be prescribed by the DOE and shall be reconciled in accordance with the ERC-approved Settlement Mechanism once fully implemented.

All concerned agencies and entities shall undertake the necessary system enhancements, rule amendments, and coordination activities to ensure the timely and effective implementation of this Circular.

Section 23. 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 24. Repealing Clause. The provisions of other circulars, orders, issuances, rules, and regulations which are inconsistent with the provisions of this Circular, are hereby repealed, amended, modified, or superseded accordingly.

Section 25. Effectivity. This Circular shall take effect immediately upon its publication in the Official Gazette or 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 the National Administrative Register.

Issued this 03 JUN 2026 at DOE, Energy Center, Rizal Drive corner 34th Street, Bonifacio Global City, Taguig City, Metro Manila.


SHARON S. GARIN
Secretary

