



DEPARTMENT CIRCULAR NO. DC2026-07-0014 ^μ

PRESCRIBING SUPPLEMENTAL POLICY AND GUIDELINES FOR THE OPTIMAL UTILIZATION OF THE KALAYAAN PUMPED-STORAGE POWER PLANT PHASES I AND II (KPSPP) AND GREEN ENERGY AUCTION (GEA) WINNING BIDDERS FOR PUMPED-STORAGE HYDROPOWER (PSH)

WHEREAS, Republic Act No. 7638, or the “Department of Energy (DOE) Act of 1992,” declares 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, Republic Act No. 9136 otherwise known as the “Electric Power Industry Reform Act of 2001” or “EPIRA”, declares the policy of the State to, among others, ensure the quality, reliability, security and affordability of the supply of electric power and ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability;

WHEREAS, Section 30 of the EPIRA requires DOE, jointly with the electric power industry participants, to formulate the rules for Wholesale Electricity Spot Market (WESM), which provides a level playing field to all electric power industry participants;

WHEREAS, Republic Act (RA) No. 9513, or the “Renewable Energy Act of 2008” (RE Act), declares as a policy of the State to increase the utilization of renewable energy (RE) by institutionalizing the development of national and local capabilities in the use of RE systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives;

WHEREAS, on 29 July 2020, the DOE issued Department Circular (DC) No. DC2020-07-0017 titled “Guidelines governing the Policy for the Conduct of Green Energy Auction in the Philippines” or referred to as the “Green Energy Auction (GEA) Policy” in pursuit of the government’s goal to attain the 35% RE share in the power generation mix by 2030 and 50% by 2040;

WHEREAS, on 19 November 2021, the DOE issued Department Circular No. DC2021-11-0036 titled “Providing the Revised Guidelines for the Green Energy Auction Program in the Philippines” or the “GEAP Guidelines” which seeks to promote the growth of RE as one of the country’s primary sources of energy to achieve energy security and self-reliance;

WHEREAS, on 12 December 2023, the DOE issued Department Circular No. DC2023-10-0029 titled “Providing Specific Auction Policy and Guidelines for Non-Fit-Eligible Renewable Energy Technologies in the Green Energy Auction Program (GEAP)”;

WHEREAS, on 25 March 2024, the DOE issued Department Circular No. DC2024-03-0010, amending Department Circular No. DC2023-10-0029 to clarify that the Energy Regulatory Commission (ERC) shall promulgate the rules on the Price Determination Methodology for Non-FIT-Eligible RE Technologies in GEAP;

WHEREAS, on 17 December 2024, the ERC promulgated Resolution No. 19, Series of 2024 titled, "A Resolution Adopting the Price Determination Methodology (PDM) for Non-FIT-Eligible Renewable Energy Technologies in the Green Energy Auction Program (GEAP)";

WHEREAS, on 23 September 2024, the DOE issued DC No. DC2024-09-0028, further amending DC No. DC2023-10-0029 to provide a separate settlement mechanism for Pumped-Storage Hydropower (PSH) Facilities, taking into account their distinct design and operational characteristics;

WHEREAS, Section 4 of DC No. DC2024-09-0028 provides that specific rules and regulations for the smooth integration of PSH Facilities in the market shall be issued;

WHEREAS, on 20 April 2023, the DOE issued DC No. DC2023-04-0008 titled "Prescribing the Policy for Energy Storage System in the Electric Power Industry," which recognized the role of Energy Storage Systems (ESS), including integrated RE Plants with ESS (IRESS), in ensuring the quality, reliability, sustainability, and affordability of electric power. It likewise laid down the general policies to support the influx of variable RE (VRE) technologies and sustain RE integration and grid stability;

WHEREAS, the PSH similarly functions as an IRESS, having the combined ability to draw and/or inject electricity;

WHEREAS, on 15 April 2025, the DOE issued DC No. DC2025-04-0006 titled "Providing Specific Policy for the Optimal Utilization of the Kalayaan Pumped-Storage Power Plant Phases I and II," recognizing that the Kalayaan Pumped-Storage Power Plant (KPSPP) as the only existing PSH Facility in the country, the commercial operations of which commenced prior to the effectivity of the RE Act, and has been instrumental in supporting the grid by providing essential Ancillary Services (AS).

WHEREAS, Section 9.6 of DC No. DC2025-04-0006 mandated the System Operator and Market Operator to implement the optimal dispatch of capacity from the KPSPP in providing energy and/or AS to ensure that the demand and/or AS grid requirements are always met. It also provided that the PSALM's Transferee for the KPSPP shall be entitled to the Total KPSPP Amount. The KPSPP Tariff, a component of Total KPSPP Amount, refers to the tariff approved by the ERC to allow recovery of capital infused and other applicable costs. It applies for a period of twenty (20) years from ERC approval, subject to periodic adjustments to account for variations in the Consumer Price Index and Foreign Exchange Rate, as determined by the ERC;

WHEREAS, to ensure transparency and consistency with the objectives of the EPIRA, the RE Act and other relevant issuances, the DOE conducted public consultations on the proposed amendments on the following venues and dates:

Venue	Date
Visayas (virtual via MSTeams)	27 January 2026

Mindanao (Park Inn by Radisons, Davao City)	29 January 2026
Luzon (F1 Hotel, BGC, Taguig City)	03 February 2026

NOW, THEREFORE, for and in consideration of the foregoing premises, the DOE, consistent with its mandate under the EPIRA and the RE Act, hereby adopts and promulgates the following:

Section 1. Scope. This Circular sets forth the framework for the scheduling and dispatch of KPSPP upon the implementation of the KPSPP Tariff and of GEA-winning bidders for PSH upon the implementation of their Green Energy Tariff (GET).

For the purposes of this Circular, the term “PSH Facilities” shall refer to the KPSPP and PSH of GEA-winning bidders. For avoidance of doubt, the coverage of this Circular excludes any other non-GEA-winning bidders’ PSH Facilities.

Section 2. Day-Ahead-Nomination of Available Capacity. The PSH Facilities shall submit day-ahead nomination of their respective Available Capacity to the Market Operator (MO).

For purposes of this Circular, Available Capacity shall refer to the maximum capacity of the facility that is capable of being utilized to inject and/or draw electricity, and/or to support and provide flexibility services to the grid during a specific trading interval, as determined in accordance with the standard computation methodology approved by the ERC.

Available Capacity shall exclude any capacity rendered unavailable due to facility-related conditions, including scheduled or unscheduled outages and preventive maintenance, or any other cause that limits the utilization of such capacity, whether within or outside the control of the PSH Facility: *Provided*, that in no case shall the Available Capacity exceed the Registered Capacity (Pmax); *Provided, further*, That any capacity rendered unavailable due to causes within the control of the PSH Facility shall be without prejudice to the determination of non-compliance, market manipulation, withholding of capacity, or other prohibited acts penalized under the Wholesale Electricity Spot Market (WESM) Rules, ERC regulations, and the Philippine Grid Code (PGC).

For the avoidance of doubt, the Registered Capacity (Pmax) referenced herein shall be the capacity indicated in the Provisional Authority to Operate (PAO) or Certificate of Compliance (COC) issued by the ERC and registered in the WESM.

The day-ahead nomination of Available Capacity by the PSH Facilities shall be the basis of the System Operator (SO) in determining their respective day-ahead AS schedules to be submitted to the MO. Notwithstanding such day-ahead nomination, the PSH Facility shall likewise submit energy and reserve offers, and pumping nominations to the MO for the WESM energy and reserve co-optimized scheduling process. In real time, the SO may issue redispatch instructions to the PSH Facilities. Accordingly, PSH Facilities shall update their energy and reserve offers, and pumping nominations to the MO in consideration of the redispatch instructions during the trading day.

Section 3. Energy and Reserve Schedule and Dispatch in the WESM. The optimal schedule and dispatch of the PSH Facilities shall be determined through the WESM Market Dispatch Optimization Model (MDOM). For this purpose, the PSH Facilities shall register and participate in the WESM as both generator and AS Provider (ASP) and shall submit corresponding energy and reserve offers in accordance with the WESM Rules and Market Manuals. PSH Facilities shall ensure priority schedule in the Reserve Market (RM) by submitting zero (0) pesos per megawatt (PhP/MW) offers for each of their respective AS-certified capacity nominations.

Section 4. Payment and Settlement

The payment of the Total KPSPP Amount shall be pursuant to Section 5 of DOE DC No. DC2025-04-0006 for KPSPP, while the Total GEA Amount to be paid to GEA-winning bidders for PSH shall be pursuant to Section 8 of DOE DC No. DC2023-10-0029, as amended by DC No. DC2024-09-0028.

For purposes of computing the Total KPSPP Amount or Total GEA Amount, the Available Capacity shall be based on the nominated capacity, expressed in megawatts (MW) per trading interval, without regard to:

- a. the mode of operation, i.e., injecting and/or drawing electricity;
- b. how the facility is used, e.g., load following, peak shaving, load shifting; and
- c. the sub-market where the capacity is sold and settled.

During the availment period, the Total KPSPP Amount or Total GEA Amount for the delivery of energy and/or AS and pumping costs shall be collected and administered through the WESM, in accordance with the following:

- a. The PSH Facilities shall be paid the Total KPSPP Amount or the Total GEA Amount, as applicable, based on day-ahead nominated Available Capacity;
- b. The energy withdrawals attributable to station use, such as but not limited to, auxiliary consumption and non-pumping facility consumption, shall be excluded from the pumping costs passed through and collected from the withdrawing WESM trading participants, and shall be settled by the respective PSH Facilities. For this purpose, PSH Facilities shall maintain separate metering facilities for the station use; and
- c. Failure to deliver the scheduled energy capacity and/or scheduled AS capacity, in whole or in part, shall result in the corresponding non-payment of the undelivered portion, consistent with the WESM Rules, Market Manuals, and other relevant issuances, without prejudice to the imposition of applicable penalties or sanctions.

Section 5. Interventions or Re-Dispatch Instructions. In the event that the PSH Facilities are instructed by the SO to re-dispatch or to deviate from their scheduled operations, the following shall apply:

- a. The PSH Facilities shall comply with all re-dispatch instructions issued by the SO in accordance with the WESM Rules, Market Manuals, Philippine Grid Code (PGC), and other applicable rules and regulations;
- b. For purposes of settlement under this Circular, the Available Capacity nominated and accepted in accordance with the applicable market and operational rules shall remain the basis for the computation of the corresponding payment and settlement;
- c. The SO shall, as far as practicable, dispatch and operate the PSH Facilities in a manner that considers their technical and operational characteristics, including but not limited to, reservoir elevation limits, pumping requirements, and the need to maintain the capability to provide energy and AS; and
- d. The treatment of re-dispatch or deviation instructions, operational constraints, reservoir management requirements, and their corresponding market and settlement implications shall be governed by the applicable WESM Rules, Market Manuals, and other implementing rules and procedures issued by the DOE, ERC, SO, and MO.

For avoidance of doubt, the dispatch and operation of the PSH Facilities shall recognize their capability to both inject and draw electricity and to provide flexibility services to the grid, consistent with the objectives of this Circular. In cases where the SO issues updated AS schedules, the issued revised AS schedules shall be reflected through updated energy, reserve, and pumping nominations submitted by the PSH Facilities to the MO.

Section 6. Additional Responsibilities of the System Operator. In support of the integration and optimal utilization of the PSH Facilities, the SO shall:

- a. Implement the optimal schedule and dispatch of PSH capacities providing energy and AS taking into account their declared Available Capacity, their technical and operational characteristics, including their capability to inject and draw electricity, and provide flexibility services as against AS requirements to support reliable and efficient system operations;
- b. As far as practicable, prioritize PSH capacities in its day-ahead AS schedules submitted to the MO and in the scheduling and dispatch of its contracted AS, consistent with applicable market rules and other issuances;
- c. Utilize and maintain, as applicable, the Black Start capability of PSH Facilities to support system restoration and grid recovery following major system disturbances, partial grid outages, or blackouts, subject to applicable technical requirements and certification by the SO; and
- d. Review and assess the adequacy of existing AS categories and reserve requirements, taking into consideration the technical and operational capabilities of PSH Facilities. In this regard, the SO shall, as necessary, recommend amendments to the PGC, including the establishment or enhancement of AS

categories and flexibility services, to support system reliability, operational flexibility, and the integration of RE resources.

Section 7. Establishment of Operating Protocols to Ensure Grid Reliability, Supply Security, and Price Mitigation.

The SO and the PSH Facilities shall jointly develop and recommend standard operating protocols for the transparent, safe and reliable dispatch of capacities and operation of PSH Facilities.

These protocols shall provide guidance for the SO to maintain normal grid conditions at all times, address system emergencies, mitigate price volatility, ensure reserve adequacy, and prevent adverse system conditions that may compromise grid security and reliability. Further, the protocols shall consider the operational parameters of the PSH Facilities, including water elevation and adequate headroom for grid reserve requirements. Additionally, applicable facility-specific technical constraints, supported by historical operations, original equipment manufacturer guidelines, and other verifiable technical data, may be considered during the formulation of the protocols. Finally, these protocols shall be implemented upon approval by the DOE.

Section 8. Additional Responsibilities of the Market Operator. The MO shall have the following additional responsibilities:

- a. Ensure the optimal scheduling and dispatch of the PSH Facilities in the WESM through the MDOM;
- b. Propose necessary amendments to the WESM Rules and Market Manuals to implement the scheduling and dispatch of the PSH Facilities for energy and AS, consistent with the provisions of this Circular;
- c. Update the Market Management System (MMS) and MDOM to fully implement the scheduling and dispatch provisions of the PSH Facilities, including the integration of the new AS categories; and
- d. Operationalize interim measures to facilitate the optimization of bid offers of the PSH Facilities, pending the ERC approval of the relevant methodologies and the completion of necessary system enhancements.

Section 9. Additional Responsibilities of the KPSPP and GEA-winning bidders for PSH. The PSH Facilities shall:

- a. Ensure efficient operation and compliance with the scheduling and dispatch, as determined by the SO, and in accordance with this Circular; and
- b. Strictly operate and maintain the PSH Facilities to ensure optimal utilization, transparency and compliance with the WESM Rules and Market Manuals, and other applicable laws, rules, and regulations.

Section 10. Regulatory Support. The ERC shall provide the necessary regulatory support to facilitate the implementation of this Circular and shall:

- a. Establish a standard Available Capacity computation for the PSH Facilities taking into account reservoir conditions, pumping requirements, operational constraints, round-trip efficiency, and capability to provide energy and AS, to ensure accuracy and transparency;
- b. Facilitate the recovery by the MO of costs reasonably incurred in connection with MMS and MDOM enhancements, including system development, testing, implementation, and other related expenditures necessary for compliance with this Circular;
- c. Review and act upon the necessary filings, applications, petitions, and submissions of the MO and the PSH Facilities required for the implementation of this Circular;
- d. In the event that new AS categories become effective during the Transitory Period and the KPSPP is utilized for such services, establish, approve, or facilitate the implementation of the applicable tariff, compensation, settlement, and cost recovery mechanisms necessary to enable its participation in such AS categories, taking into consideration the operational characteristics of the KPSPP facility and the need to ensure adequate cost recovery, efficient market operation, and system reliability;
- e. Review and, where necessary, amend the Open Access Transmission Service Rules (OATS Rules) and other relevant rules and regulations to ensure that a PSH Facilities shall be subject to only one (1) Power Delivery Service (PDS) charge, regardless of the mode of operation, whether injecting into or drawing electricity from the grid; and
- f. Conduct a review of, and where necessary, amend other existing rules, regulations, and issuances, and effect such modifications as may be warranted to ensure alignment, consistency, and full compliance with the provisions of this Circular.

Accordingly, the MO and PSH Facilities shall undertake and complete all required filings, applications, petitions, and submissions before the ERC in relation thereto.

Section 11. Transitory Provision for KPSPP. The period of KPSPP operations prior to the implementation of the KPSPP Tariff shall be referred to as the Transitory Period.

During the Transitory Period, the KPSPP may trade in the WESM or RM, or enter into a Power Supply Agreement (PSA) with a term not longer than six (6) months.

Merchant operations or entering into a PSA during the Transitory Period shall not affect KPSPP's Tariff application filed with the ERC. Provided that, the KPSPP Tariff shall only become effective upon its approval, but not earlier than the expiration of the PSA.

The KPSPP may utilize the existing AS Capability Certificates of the plant until the conduct of re-test and the issuance of new AS Certificates by the SO in the name of the KPSPP Transferee. Provided that, the KPSPP Transferee shall request a re-test not later than three (3) months prior to the expiration of its AS capability certificate.

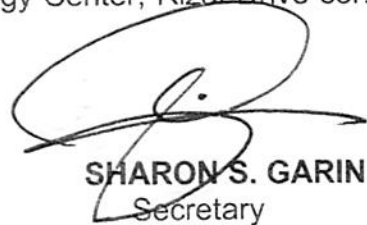
For the avoidance of doubt, the approved KPSPP Tariff shall take effect upon ERC approval, and the corresponding tariff term shall be reckoned from the date of such approval.

Section 12. Separability Clause. If any section or provision of this Circular is declared invalid or unconstitutional, such parts not affected shall remain valid and subsisting.

Section 13. 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, or superseded accordingly.

Section 14. Effectivity. This Circular shall take effect immediately after 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 Register (UPLC-ONAR).

Issued this 07 JUL 2026 at the DOE, Energy Center, Rizal Drive cor. 34th Street, Bonifacio Global City, Taguig City.


SHARON S. GARIN
Secretary

