INSTITUTING DEMAND SIDE MANAGEMENT BY ELECTRIC UTILITIES

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WHEREAS, Sections 2 and 4 of Republic Act No. 7638 declare the policy of the State to promote the judicious conservation, renewal and efficient utilization of energy;

WHEREAS, under Section 5 (a) of Republic Act No. 7638, the Department of Energy (Department) is mandated to formulate policies for the planning and implementation of a comprehensive program for the efficient supply and economical use of energy consistent with the approved national economic plan and with the policies and environmental protection and conservation and maintenance of ecological balance, and provide mechanism for the integration, rationalization, and coordination of the various energy programs of the Government;

WHEREAS, Section 5 (g) of Republic Act No. 7638 requires the Department to formulate and implement programs, including a system of providing incentives and penalties, for the judicious and efficient use of energy-consuming sectors of the economy;

WHEREAS, traditional cost-of-service regulation ties utility rewards to amount of utility investment in plant construction and gross sales, thereby creating disincentives for utility investment in energy efficiency improvements or the procurement of lower cost generation alternatives;

WHEREAS, there is an imperative need to adopt innovative regulatory approaches or strategies to effectively encourage investments in Demand Side Management by electric utilities;

ACCORDINGLY, the Department hereby institutes the following policies and programs to courage investments in Demand Side Management by electric utilities:

SECTION 1. Scope of Application - The Department directs all electric utilities to consider alternative methods of meeting future demand for electric service. An electric utility is enjoined, therefore, to develop and submit a demand side management plan periodically every two (2) years to the Energy Regulatory Board (ERB) for review and approval beginning on or before January 01, 1996 for Class A - Utilities (e.g. MERALCO, PEPOA members), July 01, 1996 for Category A - Cooperatives, and January 01, 1997 - Lower than Category A - Cooperatives.

SECTION II. Definition of Terms - Unless the context otherwise indicates, the terms in this Circular shall have the following respective meanings:

Conservation means reducing the use of energy consumed by a consumer for a specified end-use.

Demand Side Management (DSM) means the planning, implementation, and evaluation of electric utilities' activities designed to influence customer use of electricity that produce desired changes to both the timing and level of electricity demand. DSM includes only activities that involve deliberate intervention by electric utilities to alter load shape and size.

Demand Side Measure means any hardware, equipment or practice which is installed or instituted for energy efficiency or energy management purposes.

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Demand Side Resource means a resource that manages the demand for end-use efficiency improvement for electrical power or energy by applying demand side programs to implement one (1) or more demand side measures.

Electric utilities refers to the electric cooperative and government-owned or privately-owned electric supplier whose rates are fixed by the ERB, such as, but not limited to, the National Power Corporation, Rural Electric Cooperatives, and the Private Distribution Utilities.

End-use means the light, heat, cooling, refrigeration, motor drive, microwave energy, video or audio signal, computer processing, electrolytic process, or other useful work produced by an equipment using electricity.

Supply Side Resource means a resource that provides a supply of electric energy or capacity, or both, to an electric utility. A supply side resource includes: a utility-owned generation capacity addition; a wholesale power purchase from another utility; a life extension, refurbishment, or upgrading of existing utility-owned generating facility; a cogeneration facility; a renewable resource technology; and non-utility generator.

Total Resource Cost means the total costs of the program including both the participant and the utility costs.

Traditional Cost-of-Service Regulation means the return-on-rate base regulation.

Wholesale Electric Rate means the amount paid by a utility for its purchase of electricity from a supplier.

SECTION III. Regulatory Framework - The ERB shall develop and implement a regulatory framework to enjoin electric utilities to invest in DSM projects. The ERB shall consider other rate making methodologies so that utilities are provided economic incentives for investing in DSM programs. Such DSM programs shall from time to time appropriately monitored and evaluated by ERB.

SECTION IV. Authority to Adopt Rate Making Standards - To carry out the purpose of this Circular, the ERB shall implement, among others, the following rate-making standards as it may deem appropriate:

Cost-of-Service - Rates charged by any electric utility for providing electric service to each class of electric consumers shall reflect, to the maximum extent practicable, the costs of providing the electric service to such class. The marginal cost (short or long run) methodology in computing the rate structures of electric utilities may be considered in the implementation of the cost-of service standard.

Time of Duty Rates - Rates charges by an electric utility for providing electric service to each class of electric consumers shall be on a time of day basis which reflect the costs of providing service to such class of electric consumers at different times of the day unless such rates are not cost-effective with respect to such class.

Seasonal Rates - Rate charged by an electric utility for providing electric service to each class of electric consumers shall be on a seasonal basis which reflect the cost of providing service to such class of consumers at different seasons of the year to the extent that such costs vary seasonably for such utility.

Interruptible Rates - Each electric utility shall offer its electric consumer an interruptible rate which reflects the cost of providing interupptible service to the class of which such consumer is a member unless such rates are not cost effective with respect to such class.

Declining Block Rates - The energy component of rate charged by an electric utility shall not decrease as kilowatt-hour consumption increases except in instances where the utility can demonstrate that costs attributable to such energy component decrease as consumption increases.

The above rate making standards, however, shall not constrain the ERB to adopt other rate making mechanisms that may be proven to be favorable to the implementation of demand side management measures.

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SECTION V. The Role of the Department in DSM - In ensuring the success of DSM in the country, the Department through the Energy Utilization Management Bureau shall among others:

1. Initiate and conduct the testing of all electrical appliances for household and office use to determine their energy efficiency ratings;

2. Determine the appropriate minimum energy efficiency standards for all electrical appliances/equipment manufactured in or imported into the country;

3. Work together with or recommend to the Bureau of Product Standards to enforce or make these energy standards mandatory;

4. Act as a conduit where government involvement is necessary for grants and/or soft loans to energy service companies and/or electric distribution utilities for the study and/or implementation of DSM.

5. Initiate and/or coordinate foreign and local training courses on DSM for both private and public sector electric utilities, energy service companies, non-government organizations, and other players in the industry; and,

6. Monitor and compile DSM efforts and activities for the purpose of creating a DSM databank for inclusion in the over-all energy plan of the country.

SECTION VI. Provision for Public Involvement - The ERB shall encourage the use of a collaborative process involving all participants in the development of a comprehensive policy on DSM. Criteria for the implementation and regulatory treatment of DSM projects shall be developed through the collaborative process and shall be brought to the ERB for examination and approval.

SECTION VII. Amendments to the Circular - This Circular may be amended at anytime by the Department.

SECTION VIII. Effectivity - This Circular shall take effect immediately fifteen (15) days after its complete publication in a newspapers of general circulation.

Adopted: 2 Aug. 1995

(SGD.) FRANCISCO L. VIRAY
Secretary

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