DEPARTMENT CIRCULAR NO. DC2025-09-0018

PROVIDING GENERAL GUIDELINES FOR THE GENERATION, MANAGEMENT, AND MONITORING OF CARBON CREDITS IN THE ENERGY SECTOR

WHEREAS, Republic Act (RA) No. 7638 or the Department of Energy Act of 1992 declares it the policy of the State to ensure a continuous, adequate, and economic supply of energy with the end in view of ultimately achieving self-reliance in the country's energy requirements;

WHEREAS, the Philippines signed and ratified the Paris Agreement under the United Nations Framework Convention on Climate Change (UNFCCC), which sets the primary goal of holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the increase to 1.5°C;

WHEREAS, the Philippines has committed to the reduction and avoidance of greenhouse gas (GHG) emissions as outlined in its Nationally Determined Contribution (NDC), while also pursuing sustainable development pathways that promote climate resilience, enhance energy security, and foster economic growth;

WHEREAS, Executive Order (EO) No. 174, issued on 24 November 2014, institutionalized the Philippine Greenhouse Gas Inventory Management and Reporting System, and designated the Department of Energy (DOE) as the lead agency for the energy sector's GHG inventory, with responsibility for coordinating the energy sector's contributions to the country's NDC;

WHEREAS, the implementation of the NDC of the Philippines is based on sector-specific mitigation actions and adaptation measures, and is coordinated through the NDC Technical Working Group (TWG), which was established in 2016 and is chaired by the Climate Change Commission;

WHEREAS, the implementation of Article 6 of the Paris Agreement, including its cooperative approaches, market-based mechanisms, and non-market approaches, creates opportunities for the Philippines to access international finance and technology through the issuance, authorization, and transfer of carbon credits, subject to environmental integrity and corresponding adjustments;

WHEREAS, the Technical Working Group for Preparing Carbon Pricing Instruments for the Philippines (CPI TWG), led by the Department of Finance (DOF), was convened in January 2024 to study the implementation and impacts of carbon pricing instruments, specifically the emissions trading system and carbon tax;

WHEREAS, RA No. 9513 or the Renewable Energy Act of 2008 (RE Act) establishes the framework for the accelerated development and advancement of renewable energy resources, and provides for the different incentives for renewable energy projects and activities, including a tax exemption on carbon credits;

WHEREAS, RA No. 9136 or the Electric Power Industry Reform Act of 2001 mandates the DOE to develop policies and procedures and promote a system of energy development incentives to enable and encourage electric power industry participants to provide adequate capacity to meet energy demand, and to formulate and implement programs, including a system of providing incentives and penalties, for the judicious and efficient use of energy in all energy-consuming sectors of the economy;

WHEREAS, RA No. 11285 or the Energy Efficiency and Conservation Act of 2019 establishes a framework for introducing and institutionalizing fundamental policies on energy efficiency and conservation, including the promotion of efficient and judicious utilization of energy and the increase in the utilization of energy efficiency and renewable energy technologies;

WHEREAS, RA No. 11697 or the Electric Vehicle Industry Development Act of 2022 was enacted to promote the development, commercialization, and utilization of electric vehicles in the Philippines, with the aim of reducing greenhouse gas emissions, decreasing dependence on fossil fuels, and fostering innovation and investment in sustainable transportation;

NOW, THEREFORE, the DOE hereby adopts the following guidelines for the generation, management, and monitoring of carbon credits in the energy sector.

Section 1. Title. This Circular shall be known as the "General Framework for Carbon Credits in the Energy Sector."

Section 2. General Principles. This Circular shall establish a clear set of guidelines for the generation, management, and monitoring of Carbon Credit Certificates (CCC) from energy sector activities, in accordance with the following principles:

2.1. Assisting and guiding all energy sector stakeholders in effectively planning and implementing strategies to leverage CCCs, thereby enabling the reduction of operational costs, compliance with regulatory and fiscal requirements, access to available incentives, and enhanced implementation of mitigation efforts;

2.2. Promoting the transparency, credibility, and effectiveness of national and international climate change mitigation efforts, while ensuring environmental integrity, social safeguards, and a just energy transition; and

2.3. Ensuring alignment with the future operationalization of Article 6 engagements, the exploratory implementation of carbon pricing instruments, and participation in voluntary carbon markets.

Section 3. Definition of Terms. For the purpose of this Circular, the following terms shall be used and understood to mean as:

3.1. *Article 6 of the Paris Agreement or Article 6* refers to an article in the Paris Agreement that provides the framework for cooperative approaches, market-based mechanisms, and non-market approaches between and among countries to contribute to the reduction of GHG emissions, while promoting sustainable development and environmental integrity;

3.2. *Authorization* refers to a country-driven process in which a country where CCCs from a Mitigation Activity are generated, permits the use of such CCCs, in the form of Mitigation Outcomes, by another country towards the latter's NDC or Other International Mitigation Purpose (OIMP);

3.3. *Carbon Credit Certificate or CCC* refers to a tradeable certificate representing one tonne of carbon dioxide equivalent (tCO_2e) of GHG emissions reduced or removed from the atmosphere through the implementation of a Mitigation Activity, verified as real and additional by accredited independent third-party entities using internationally accepted standards and methodologies. CCCs shall be referred to as Internationally Transferred Mitigation Outcomes (ITMOs) when they are authorized for transfer to another country in accordance with the rules under Article 6 of the Paris Agreement;

3.4. *Climate Finance* refers to local, national, or international funding mobilized to support climate change mitigation and adaptation efforts to help countries reduce GHG emissions and build resilience against climate change impacts, pursuant to international climate finance mechanisms, including those under the UNFCCC, the Kyoto Protocol, and the Paris Agreement, and other multilateral environmental agreements;

3.5. *Corresponding Adjustment* refers to a mechanism that prevents Double Counting of Emission Reductions when countries trade CCCs internationally, by ensuring each reduction is claimed only once;

3.6. *Designated National Authority or DNA* refers to a government body formally appointed to coordinate, authorize, and approve participation in international cooperation and projects under Article 6 of the Paris Agreement;

3.7. *Double Counting* refers to a circumstance where a carbon credit or an associated environmental benefit is issued, claimed and/or used more than once;

3.8. *Eligibility* refers to a set of pre-defined qualification criteria for Mitigation Activities seeking to generate CCCs, subject to validation against carbon crediting standards and methodologies;

3.9. *Emission Reduction* refers to a reduction in GHG emissions against the business-as-usual scenario that results from the implementation of Mitigation Activities;

3.10. *Energy Certificate* refers to a CCC or Renewable Energy Certificate (REC) issued pursuant to issuances of the DOE, with the definitions, coverage, and distinctions to be provided in a separate Circular to be issued by the DOE;

3.11. *Mitigation Activity* refers to a project or program that is implemented to generate Mitigation Outcomes;

3.12. *Mitigation Outcome* refers to the result of different types of activities, defined as real, verified, and additional, representing Emission Reductions or removals;

3.13. *Other International Mitigation Purpose or OIMP* refers to the use of CCCs for purposes other than the NDC, such as the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) or Voluntary Carbon Market;

Section 4. Principles on Carbon Credit Certificates. CCCs generated under this Circular shall adhere to the principles on carbon credits, which include, but are not limited to, the following:

4.1. Real: All Mitigation Activities generating CCCs must be proven to have occurred and shall only be recognized after the mitigation activity has been implemented and the Mitigation Outcomes have been verified;

4.2. Additional: A Mitigation Activity that may generate CCCs is one that is undertaken primarily for its Mitigation Outcomes and would not have occurred in the absence of benefits, monetary or otherwise, from such CCCs, and whose implementation has demonstrated that the activity exceeds current legal or regulatory requirements;

4.3. Measurable: The Emission Reductions from which CCCs are generated must be quantifiable against an identifiable baseline using standard methodologies; and

4.4. Permanent: Where CCCs are generated from mitigation activities that carry a risk of reversibility, adequate safeguards must be in place to ensure that the risk of reversal is minimized. Should any reversals occur, a mechanism must be in place to guarantee that the associated Emission Reductions will be replaced or compensated.

Section 5. Eligible Mitigation Activities. Eligible Mitigation Activities are Mitigation Activities in the energy sector that significantly reduce GHG emissions and/or energy consumption, and are capable of generating CCCs, such as, but not limited to, any or a combination of the following:

5.1. Voluntary Early Retirement of Coal-Fired Power Plants (CFPPs) – decommissioning of CFPP ahead of the project's useful economic life;

5.2. Renewable Energy Development – installation and expansion of renewable energy systems under the RE Act;

5.3. Voluntary Early Decommissioning with Renewable Energy Replacement – decommissioning of fossil-fuel based power project ahead of the project's useful economic life and replacing it with renewable energy;

5.4. Energy Efficiency Improvements – reduction of energy use and emissions through upgraded technology or optimized processes across sectors such as fuel transformation, industry, transport, buildings, agriculture, and services, among others;

5.5. Emerging Zero- and Low-Carbon Energy Technologies – adoption of innovative and developing energy technologies, leading to measurable reductions in energy use and/or emissions, such as, but not limited to, low-carbon hydrogen and derivatives, nuclear energy for power generation, and energy storage systems;

5.6. Fuel Switching, Hybridization, or Co-Firing in Power Generation – replacement of high-emission fuels with lower-emission alternatives;

5.7. Switch to Electric Vehicles – shift from internal combustion engine (ICE) vehicles to electric vehicles (EVs), either through the replacement of existing ICE vehicles or the acquisition of new or additional EVs;

5.8. Biofuels Blending – blending of bioethanol, biodiesel, and other fuels made from biomass resources with fossil fuels used in transportation, power generation, and other industries; and

5.9. Other Mitigation Activities in the energy sector that have the potential to generate CCCs, as approved by the DOE.

Provided, however, that classification of a project under any of the above eligible Mitigation Activities does not automatically entitle the project for the generation of CCCs. Only projects that are supported by a recognized carbon crediting standard and a corresponding methodology shall be eligible for the generation of CCCs.

Notwithstanding the above-mentioned enumeration, the inclusion of a specific activity in the NDC Unconditional activities shall automatically disqualify the activity as an eligible Mitigation Activity for purposes of generating CCCs.

Section 6. Energy Certificates. CCC and REC are categorized as Energy Certificates, as defined in a separate Circular to be issued by the DOE. For the avoidance of doubt, the rules on RECs are not covered by this Circular. The accounting of CCCs, in conjunction with other Energy Certificates, is outlined in Section 9 of this Circular.

Section 7. Nationally Determined Contributions. NDCs are the country's national plan for climate action under the Paris Agreement, outlining mitigation actions and adaptation measures. To achieve the NDC targets, the identified Policies and Measures (PAMs) are categorized as Unconditional and Conditional, as defined in the Philippines' latest NDC submission to the UNFCCC.

Mitigation Activities accounted as NDC Unconditional activities by the NDC TWG shall be considered ineligible for generating CCCs in accordance with Section 5 of this Circular.

Section 8. Carbon Rights under the Energy Sector. Carbon rights are legal entitlements to the benefits derived from Emission Reductions or emission removals from the eligible Mitigation Activities under Section 5 of this Circular.

8.1. Unless otherwise provided in relevant DOE circulars, such as Department Circular (DC) Nos. DC2021-05-0011 (Guidelines for the Endorsement of Energy Efficiency Projects to the BOI for Fiscal Incentives), DC2022-03-0004 (Guidelines for the Endorsement of Energy Efficiency Strategic Investments to the Board of Investments for Fiscal Incentives), DC2024-01-0001 (Hydrogen Energy Guidelines), and DC2023-04-0008 (Prescribing the Policy for Energy Storage System in the Electric Power Industry), the ownership of carbon rights for generated CCCs shall be attributed to the project proponents of Mitigation Activities identified in Section 5 of this Circular.

8.2. Project proponents shall have full rights to these Mitigation Activities, including the right to use, sell, trade, or transfer CCCs generated from such activities. These CCCs may be traded, transferred, or retired at the option of the project proponent.

8.3. Project proponents shall have entitlement to all benefits and bear all associated risks arising from CCCs. They shall also have the authority to engage in transactions involving these CCCs, whether in local or international markets, under voluntary or compliance frameworks.

Section 9. Provision against Double Counting. Consistent with prevailing rules and regulations, Double Counting of CCCs generated from any Mitigation Activity shall not be allowed. CCCs shall be traded or used only once within and among the carbon markets defined in Section 10 of this Circular.

For Mitigation Activities generating renewable energy, the energy output of a single renewable energy facility with dedicated revenue meter shall only generate one type of Energy Certificate, either CCC or REC, to prevent Double Counting of the same environmental benefit.

Section 10. Carbon Markets. Unless otherwise provided in this Circular, CCCs can be traded or used in offsetting in the following markets:

10.1. International Compliance Market;

10.2. Domestic Compliance Market; and

10.3. Voluntary Carbon Market (VCM).

Section 11. International Compliance Market. An International Compliance Market is a carbon market established under Article 6 where a participant can trade CCCs, specifically ITMOs, from eligible Mitigation Activities.

11.1. **Participants.** Any entity to which carbon rights from an eligible Mitigation Activity under this Circular are attributed may participate in the International Compliance Market. The participation of such entity shall be facilitated by the Philippines, through the DOE, upon prior Authorization of the ITMOs.

11.2. **Conditions for Authorization of ITMOs.** Subject to Section 11.3 of this Circular and other conditions as may be provided under applicable rules and guidelines, the following shall apply in the Authorization of ITMOs:

11.2.1. The Unconditional targets of the NDC shall not be eligible for Authorization of ITMOs;

11.2.2. Conditional targets of the NDC shall be eligible for Authorization of ITMOs.

Proponents of Mitigation Activities shall ensure that financial Additionality, the criteria for which are set by the applicable standard and a corresponding methodology, can be demonstrated for the project, taking into account the different sources of financing, including domestic and international Climate Finance.

11.2.3. All activities generating CCCs for purposes other than Authorization of ITMOs shall be used towards achieving the Philippines' own NDC targets and therefore shall not be subject to a Corresponding Adjustment.

11.3. **Applicable Guidelines**. The stipulations under international bilateral or multi-lateral agreements of the Philippines with a foreign sovereign or entity on the rules and mechanisms for the relevant international compliance market shall be recognized.

The provisions of this Circular shall be suppletory to bilateral or multilateral agreements when such provisions do not contradict the stipulations of the said agreements. If necessary, the DOE shall, in consultation with stakeholders, issue guidelines complementary to a specific bilateral or multilateral agreement for its proper implementation.

Section 12. Domestic Compliance Market. A Domestic Compliance Market or Emissions Trading System (ETS) is a carbon market recognized by the DOE where participants, which are mandated to reduce its emissions to meet the cap set under rules and guidelines to be promulgated by a competent authority, may trade allowances for compliance. CCCs from eligible Mitigation Activities may be allowed to serve as offsets for compliance with the ETS.

12.1. **Participants.** Entities that have eligible Mitigation Activities listed under Section 5 of this Circular may participate in a Domestic Compliance Market.

12.2. **Applicable Guidelines.** Within six (6) months after the issuance of the Carbon Pricing Instruments (CPI) Policy by the CPI TWG or a competent authority, the DOE shall, in consultation with stakeholders, issue the corresponding guidelines on the Domestic Compliance Market for energy-related activities. The provisions of this Circular shall be suppletory to the CPI Policy insofar as such provisions do not contradict the CPI Policy regarding energy activities.

Section 13. Voluntary Carbon Market. A VCM is a market-driven mechanism where domestic and foreign entities may voluntarily trade CCCs generated from eligible Mitigation Activities.

13.1. **Participants.** Entities that generate CCCs from eligible Mitigation Activities listed under Section 5 of this Circular may trade such CCCs in a VCM. Participation of such entities in the VCM shall be subject to the following conditions:

13.1.1. Entities implementing VCM projects may or may not be granted Corresponding Adjustments. The application of Corresponding Adjustments for CCCs generated from VCM projects shall be in accordance with rules and guidelines to be issued by the DOE pursuant to this Circular.

13.1.2. Entities implementing VCM projects must apply for formal recognition, explicitly stating the intended use of the CCCs, whether for domestic use or as OIMP, to enhance the GHG emissions accounting for the Philippines.

13.1.3. Entities seeking to generate CCCs from VCM projects for domestic voluntary commitment purposes shall not require Corresponding Adjustment and are not subject to Authorization.

13.1.4. Entities seeking to generate CCCs from VCM projects for OIMP shall require Corresponding Adjustment and must apply for Authorization prior to issuance.

13.1.5. The Task Force on Energy Carbon Credits (TFECC) shall recommend to the DOE the guidelines necessary for the transparent, fair, competitive, and credible trading of CCCs in the VCM, in accordance with this Circular and other relevant policies.

13.2. **Applicable Guidelines.** Within six (6) months after the effectivity of this Circular, the DOE shall, in consultation with stakeholders, issue the rules and guidelines for VCM for CCCs generated from eligible Mitigation Activities in the energy sector.

Section 14. Task Force on Energy Carbon Credits (TFECC). The DOE Greenhouse Gas Inventory Team, formed through DOE Department Order No. DO2018-03-0005 and supporting Special Orders, shall also function as the TFECC. It shall serve as the permanent body to oversee activities related to this Circular, including, but not limited to, the following:

14.1. *Eligibility Requirements.* Updating and approval on the Eligibility of Mitigation Activities covered by this Circular;

14.2. *Registration and Reporting Requirements.* Registration with, and endorsement by, the DOE of eligible Mitigation Activities and necessary reporting to the DNA;

14.3. *Carbon Crediting Standards.* Recognition of carbon crediting standards and corresponding methodologies used to quantify CCCs generated from an eligible Mitigation Activity, consistent with the principles of CCC outlined in Section 4 of this Circular.

Unless otherwise provided in policies, rules and guidelines, internationally recognized carbon crediting standards and methodologies shall be allowed.

Any eligible Mitigation Activity in the energy sector under Section 5 of this Circular, which complies with carbon crediting standards and methodologies set by the TFECC shall be eligible to generate CCCs;

14.4. *Validation and Verification.* Oversight of validation of Mitigation Activities and verification of CCCs, including facilitating the accreditation of independent third-party validation and verification bodies;

14.5. *Carbon Accounting and Tagging.* Tagging of CCCs as ITMOs or OIMP, among others, depending on the intended purpose declared by the proponent during the application for the source Mitigation Activity, and proper accounting of CCCs with other Energy Certificates;

14.6. *Certification under RE Act.* Issuance of certification as required under Section 15 of the RE Act for the grant of exemption from any and all taxes on the proceeds from the sale of CCCs; and

14.7. *Other matters.* Any other matters that will facilitate the proper implementation of this Circular.

Within three (3) months from the effectivity of this Circular, the DOE shall formally constitute the TFECC for the proper implementation of this Circular.

Section 15. Non-Market Approaches. The DOE shall establish and promote non-market approaches to support the country's compliance with the NDC, such as capacity-building, technical assistance, knowledge sharing, and the development of climate-resilient technology programs, to ensure alignment with the global objectives of the Paris Agreement. The DOE may seek international cooperation and support for the financing and scaling up of these programs.

Non-market approaches are climate cooperation strategies between countries that do not involve carbon trading or financial transactions for Emission Reductions, focusing instead on collaboration, capacity-building, and technology transfer to support climate goals.

Section 16. Regulatory Support. The DOE shall coordinate with relevant government agencies, including but not limited to the Department of Environment and Natural Resources and DOF, pursuant to their respective mandates relating to climate action and international cooperation, for regulatory support as may be necessary for the proper implementation of this Circular.

Section 17. Measurement, Reporting, Validation and Verification Requirements. All Mitigation Activities developed, and their corresponding CCCs generated under this Circular shall be in accordance with the measurement, reporting, validation and verification procedures developed by the DOE as well as those issued by the DNA.

Section 18. Guidelines Review. Upon issuance of the general framework for the implementation of the Paris Agreement by the DNA, the DOE shall review and amend this Circular and other relevant issuances within six (6) months from the effectivity of the general framework.

The DOE shall issue supplementary guidelines, as necessary, and in consultation with stakeholders, in order to continually improve the energy sector's carbon crediting system essential in supporting carbon markets and carbon pricing initiatives.

Section 19. Transitory Clause. Until the adoption of a relevant Article 6 guidance on carbon markets and carbon pricing, or any equivalent issuance/s, and which provisions run counter to any of the provisions of this Circular, the provisions of this Circular shall remain in full force and effect.

Section 20. Separability Clause. Should any provision of this Circular be subsequently declared invalid or unconstitutional, such parts that are not affected shall remain in full force and effect.

Section 21. Repealing Clause. All other rules and regulations or parts thereof that are inconsistent with this Circular are hereby repealed, amended, or modified accordingly.

Section 22. Effectivity. This Circular shall take effect fifteen (15) days after its publication in at least 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 (UPLC-ONAR).

Issued this SEP 23 2025 at the DOE, Energy Center, Rizal Drive cor. 34th Street, Bonifacio Global City, Taguig City.

SHARON S. GARIN
Secretary