

**[ DE JOINT CIRCULAR NO. 95-01, October 31,  
1995 ]**

**GUIDELINES AND PROCEDURES ON THE UTILIZATION OF THE  
SHARE OF NATIONAL WEALTH TAXES, ROYALTIES, FEES OR  
CHARGES**

**Purpose:**

This circular is issued to prescribe the guidelines and procedures to be followed by the host Local Government Unit (LGU) to implement the provisions of Republic Act (RA) 7160 otherwise known as the Local Government Code (LGC) of 1991 and its Implementing Rules and Regulations (IRR) specifically on Sections 289-294 of the LGC and Art. 388-392 of its IRR which provide for the utilization of the 80% of the net proceeds derived from either the one percent (1%) of the gross sales of receipts of the preceding fiscal year of forty percent (40%) of the national wealth taxes, royalties, fees or charges derived by any national government-owned or controlled corporation in the development and utilization of hydrothermal, geothermal and other sources of energy, whichever will produce a higher share for the local government unit, and forty percent (40%) of the gross collection derived by the national government from the preceding fiscal year from royalties and such other fees or charges and from its share in any co-production, joint venture or production sharing agreement in the utilization and development of national wealth within their territorial jurisdiction.

Moreover, this Circular will provide the mechanics and options for the host LGU in the application of direct to communities which shall be eighty percent (80%) of the proceeds derived from the national wealth taxes, royalties, fees or charges to be applied solely to lower the cost of electricity in the LGU where such a source of energy is located.

**SECTION 1. *Definition of Terms* —**

**1.1. National Wealth —** refers to all natural resources situated within the Philippine territorial jurisdiction including lands of public domain water, mineral, coal, petroleum, mineral oils, potential energy sources, gas and oil deposits forest products, wildlife, flora and fauna, fishery and aquatic resources and all quarry products.

**1.2 National Wealth Taxes, Royalties, Fees or Charges —** any levy or tax, royalty, fee or charge derived from the development and utilization of the natural wealth.

**1.3 Host LGU —** refers to the local government unit (barangay, municipality, city or province) where the facility

extracting national wealth is located

- 1.4 Subsidy Scheme — is a plan designed to extend directly to intended beneficiaries the amount of LGU's share in national wealth taxes, royalties, fees or charges for the reduction in the cost of electricity.
- 1.5 Non-subsidy Scheme — is a plan utilizing a method or strategy with the end in view of lowering the cost of electricity per kWh or lowering the electric bill of the consumers within the particular area of the host LGU.
- 1.6 Electric Franchise Holder — refers to a person, whether natural or juridical, who is privileged to operate, maintain and/or distribute electric power within a specified geographic area.
- 1.7 Mining Taxes — refer to excise taxes imposed on the privilege to explore, develop and exploit mining resources. For internal revenue tax purposes, mining taxes shall refer only to the excise tax on mineral products imposed under Sec. 151 (a) of the National Internal Revenue Code, as amended by E.O. No. 273.
- 1.8 Geothermal sources— refer to all geothermal fluids existing naturally or formed by the artificial introduction of fluids into naturally hot formations, heat energy in the earth, and any by-products derived from these.
- 1.9 Hydrothermal sources — refer to natural streams, rivers or lakes that can be harnessed to provide the combination of adequate flow and heat essential for hydropower generation

## SECTION 2. *General Guidelines* —

2.1 Reduction of Cost of Electricity — To implement the provision under Section 294, Book II of the Local Government Code that "at least eighty percent (80%) of the proceeds derived from the development and utilization of hydrothermal, geothermal and other sources of energy shall be applied solely to lower the cost of electricity in the LGU where such source of energy is located," the following are the procedures , mechanics, and guidelines to be adopted by the LGU which may either be a barangay, municipality/city or province entitled to such benefits:

2.1.1 Either one or a combination of two basic approaches can be employed in the implementation of reduction in cost of electricity, subsidy scheme and non-subsidy scheme.

2.1.2 In selecting the scheme to be adopted, the LGU must consider the intended impact that must be synchronized with the LGU's development plans and shall depend on the magnitude of the national wealth share from taxes, royalties, fees or charges and the number of consumer or volume of power consumed.

2.2 Subsidy Scheme — Under this scheme, proceeds from share in the national wealth will be directly utilized to subsidize cost of power used by consumers of host

LGUs. This scheme may take the form of the following which the host LGU may choose from:

2.2.1 Subsidy Per Consumer — an equal or pre-determined level or rate of subsidy per qualified consumer:

2.2.1.a All consumer types

2.2.1.b. Residential consumers only

2.2.1.c. Other preferred types of consumer combinations such as: commercial/industrial, public buildings, irrigation/communal water system, street lights, etc.

2.2.2 Subsidy of Power Consumption — amount of subsidy depends on magnitude of power consumption of qualified consumers:

2.2.2.a All consumer types

2.2.2.b. Residential consumers only

2.2.2.c. Other preferred types of consumer combinations

Moreover, the host LGU can utilize along with either of the above options/schemes, the following auxilliary options:

a. With or without ceiling (amount or consumption);

b. Graduated discount rates (per kWh per level of consumption) or per consumer type.

Please refer to Annexes A and B for formulae and sample computations.

2.3 Non-Subsidy Scheme — The host LGU can initiate and adopt non-subsidy schemes that can lower the cost of electricity of consumers in the area.

The benefits may take the form of but not limited to the reduction of electricity losses through the technical upgrading and rehabilitation of distribution lines, use of energy saving devices, etc.

The host LGU shall submit its proposal to the National Electrification Administration (NEA). NEA shall the submit its findings to DOE for approval.

The said proposal shall indicate the strategies to be employed, resources required and the projected benefits in terms of reduction in cost of electricity.

2.4 The host LGU shall, through a resolution of its sanggunian body, manifest the scheme/s to be adopted. it may utilize different schemes or combinations of schemes each year as it may deem necessary or applicable subject to public information and consultation.

2.5 Close coordination between the LGU, electric franchise holder, the DOE and its attached agencies must be maintained in order to facilitate subsidy computation and

effective implementation of the benefits.

SECTION 3. *Payment of Subsidy* — Payment of subsidy to qualified consumer shall be effected through the following:

- a. reimbursement by the LGU directly to qualified consumers;
- b. through the electric franchise holder which shall directly deduct the amount of subsidy computed from the qualified consumers' bills to be served.

In the instance where the LGU opts to course the payment and extension of subsidy directly through the electric franchise holder operating within the area, a memorandum of agreement (MOA) shall be executed between the LGU and the electric franchise holder.

The MOA shall specify, among others, the scheme adopted by the host LGU, procedures and frequency of remittance of the national wealth tax, royalty, fee or charge to the franchise holder for allocation to qualified consumers, incremental service charges to be imposed by the electric franchise holder to the LGU, and the effectivity and terms of duration of the MOA.

When the remittance of the allocated share of the LGU exceeds the total subsidy extended for the duration specified in the MOA, the electric franchise holder shall revert back the excess remittance to the fund of the concerned host LGU.

In no case shall the total subsidy extended exceeds the allocated share of the LGU national wealth tax, royalty, fee or charge.

SECTION 10. *Effectivity* — This circular shall take effect immediately.

Adopted: 31 Oct. 1995

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**"Annex A"**  
**Subsidy Per Consumer**

DATA REQUIREMENT:

1. Number of consumer per consumer type (Residential , Commercial, Industrial, Public Bldgs., Street Lights, etc.)
2. Amount of share in national wealth tax for distribution to consumers

ILLUSTRATION:

DATA ASSUMPTIONS:

A. TYPE OF CONSUMER	NUMBER
Residential (Rn)	100
Commercial (Cn)	10
Industrial (In)	1
Public Buildings (Pn)	2
Street Lights (Sn)	15
TOTAL	128

B. National Wealth Tax (NWT) P 50,000

COMPUTATIONS:

1. ALL CONSUMER TYPES

$$\begin{aligned}\text{SUBSIDY (S)} &= \frac{\text{NWT}}{\text{Tn}} \\ &= \frac{50,000}{128} \\ &= 390.63 \text{ per consumer}^*\end{aligned}$$

2. COMBINATION :Residential, Public Buildings, Street Lights only

$$\begin{aligned}\text{SUBSIDY (S)} &= \frac{\text{NWT}}{\text{Rn} + \text{Pn} + \text{Sn}} \\ &= \frac{50,000}{100 + 2 + 15} \\ &= \frac{50,000}{117} \\ &= 427.35 \text{ per consumer}^*\end{aligned}$$