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SPEECH FOR 4TH POWER AND ELECTRICITY WEEK

OPENING REMARKS

Delivered by OIC-Undersecretary Mylene C. Capongcol

Department of Energy

4th Annual Philippines Power and Electricity Week

Wednesday, 20 July 2016, Solaire Resorts and Casino, Pasay City

To our distinguished guests, resource speakers, colleagues from the Government and private sectors, both from the local and international, ladies and gentlemen, good morning.

First and foremost, let me extend my appreciation to IBC Asia for organizing this 4th Annual Philippine Power and Electricity Week. I know that my knowledge of the Energy Sector could not rival the expertise present in this gathering. But our desire and passion of providing basic services crucial in setting economic development in the countryside is quite important as undoubtedly, energy or electricity is one basic necessity that people cannot live without. Not only is it fundamental in our economic growth, but its responsible use interlinks with our concern for our environment and its future.

On behalf of our Honorable Secretary Alfonso G. Cusi, I am tasked today to deliver the Opening Remarks for the 4th Annual Philippines Power and Electricity Week. This event is intended to provide the necessary information and understanding of the Philippines Power and Electricity Sector so that potential and existing investors should be clarified and increase interests towards greater investments that would help the country achieve its vision of having secured, adequate, reliable, and reasonably priced energy.

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As in any other economy, being energy resilient is a key ingredient in sustaining economic progress and development. With the onset of the new administration, we will be further guided and measured on how well we serve the electricity and fuel needs of the people. With this, I would like to mention that barely a month in office, under the leadership of Secretary Cusi, we were able to solve the electricity connection problems of 576 households in marginalized areas Manila and Bulacan allowing for their more transparent power sourcing. We thank MERALCO for the support extended.

The Philippines, being well endowed with natural resources, managed to achieve a balanced energy supply mix in 2015 with oil accounting for around 31 percent, followed by coal with 23 percent share; geothermal with 19 percent share, natural gas and hydro accounts for around 10 percent while other Renewable Energy such as biomass, solar and wind comprised the remaining 17 percent. More than 53.0 percent of the country's total energy requirement is largely being supplied by indigenous energy while 47 percent accounts for imported oil – mainly used for transport and coal – used for generating electricity.

In terms of electricity production, we have noticed a high dependency on coal recorded at 44 percent as of March 2016. Natural gas and renewable energy supplied 22 and 25 percent, respectively. While we saw significant growth in the use of variable renewable energy due to the different incentives provided by the Renewable Energy Act, the supply of electricity from hydro had been adversely affected by the El Niño phenomenon registering a one percent decline over the past five years.

The new administration targets GDP growth of 6.0-7.0 percent in 2016, 6.5-7.5 in 2017, and 7-8 percent until 2022 with most of the spending expected to support higher infrastructure needed to deliver basic services to the people. Thus, higher growth for energy use specifically for electricity is expected, entailing significant amount of investments mainly coming from the private sector. I am taking this opportunity therefore to provide a glimpse of what the Philippine energy sector offers:

- For the upstream oil and gas development, the DOE will continue the conduct of the Philippine Energy Contracting Round (PECR) with target of 18 service contracts for award from now to 2030. The service contracts will form part of the petroleum reserves estimated at 94.74 million barrels (MMB) of oil, 3.96 trillion cubic feet (TCF) of gas and 41.34 million barrels (MMB) of condensate.
- In terms of indigenous coal, we are monitoring 48 exploration service contracts for declaration of additional coal reserves in commercial quantity (mineable) to enable the conversion of these service contracts to development/production contracts. With this, we estimated the in-situ coal reserves to reach 4,297.7 MMT by 2030.
- For the downstream oil industry, despite achieving significant growth in the past, the sector needs to sustain further investments to improve competition and achieve resiliency in the very volatile nature of oil prices in the international market. With this, we are inviting foreign investors in oil refinery/facility to provide a more stable and bigger oil supply base for the country.
- There is expected higher demand for biofuels with the continuing implementation of Biofuels Law. Biodiesel will increase from the current blend of 2.0 percent to 5.0 percent in the short-term, i.e by 2019, to reach 20.0 percent in the long-term period. While for bioethanol, the increase will start at 10.0 percent for the short-term to reach 20.0 percent in the medium to long-term period. Likewise,

the DOE will promote a voluntary increase in bioethanol blend by 80.0 percent in the long-term depending on the availability of feedstock.

- In terms of power development, based on the 2015-2030 Distribution Development Plans (DDP) of 140 Distribution Utilities nationwide, Luzon Grid will need additional capacities of about 5,000 MW; Visayas Grid will need 1,300 MW, and Mindanao Grid will require around 900 MW of new generation capacities.
- In Mindanao specifically, we are looking at new developments to make investments more attractive such as putting in place an electricity market and ultimately, making the interconnection with Luzon and Visayas possible. Last 21 January 2016, the ERC issued a Provisional Authority to the National Grid Corporation of the Philippines (NGCP) for the conduct of a desktop study and hydrographic survey for the western route of the Visayas-Mindanao Interconnection Project (Cebu-Negros to Zamboanga del Norte). This is one of the priorities of Secretary Cusi that the Mindanao grid would be connected to the Luzon-Visayas Grid during this administration to allow sharing of excess capacity among all grids all over the country. We have better expectations as we look forward to a better peace situation in Mindanao, which have been keeping the development of the grid from progressing.
- Amidst environmental concerns, the new administration recognized the need to have a secured supply of electricity to propel the country's economic activities. We are now collaborating with the Climate Change Commission (CCC), National Economic and Development Authority (NEDA), Department of Environment and Natural Resources (DENR) in crafting a sustainable national energy policy that will decide on the future of coal power projects in the country. For now, we encourage power generation using high efficient and innovative technologies to meet the expected demand in electricity.
- The policies aligned with environmental goals enunciated in our international commitments also calls for new and emerging power generation sources such as ocean thermal energy conversion (OTEC), fuel cells and hydrogen energy storage, and nuclear technology, among others.
- New and renewable energy are expected to continue with the implementation of policy mechanisms as provided for in the Renewable Energy Act of 2008. Among these are the establishment of appropriate Renewable Portfolio Standards (RPS), and the operationalization of the RE Market where trading of certificates will occur and compliance to RPS will be monitored. The implementation of RPS will translate to higher demand for RE necessitating more RE capacities to be put up. We will likewise study further if there is a need for another round of installation targets for FIT or can we now make RE market-based without prejudice to the need of the consumers of having affordable power rates.
- Investments in natural gas industry are also needed primarily to support the power industry, and later on, other possible uses. By 2021, the supply of Malampaya gas may no longer suffice for higher requirements of gas, thus investments in exploring and developing potential areas are necessary. Another option is to enable the importation of natural gas in the form of a liquefied natural gas (LNG) which requires infrastructure to receive, store, re-gasify and transport the imported LNG to the demand centers. Pioneering in this aspect is LNG Project in Pagbilao, Quezon by Energy World Corporation as construction of the LNG Facility is nearing its completion and expected operation will be in 2017.

As mentioned by Secretary Cusi in one of his interviews, one of the projects that DOE will be undertaking is putting up an LNG receiving and distribution center where initial discussions with World Bank through the International Finance Corporation (IFC) were made for the conduct of feasibility studies.

- Opening up the competitive retail market to end-users, which threshold have been lowered to 750 kW last 26 June 2016 encourage participation of more suppliers and we are enforcing new reforms to improve the level playing field among those who are interested to invest in the electricity supply sector. In addition to the 412 Contestable Customers already registered in the market, a total of 1,035 Contestable Customers are expected to fully migrate to the Retail Market by 26 June 2017. The full deregulation of the supply sector is a top priority of the current administration.

In realizing the needed investments, the DOE will sustain the progress gained in the past while steadfastly instituting the changes being brought forth by the new administration in addressing the plight of the energy end-users. As the new Secretary said, “we are in the process of transition and we are evaluating things.” In this process, we will make sure that the interest of the end-consumers and investors are balanced and that any actions and policies implemented shall redound to better protection of public interest and keeping and sustaining the robust pace of the country’s economic growth.

At this point, I would like to thank again the organizers, IBC Asia, for organizing this event that be instrumental in further shaping up the energy and power sector not only in the Philippines but in other countries as well. We look forward to the success of this event.

Thank you and good morning.

