

MAP POSITION PAPER on the Malampaya Franchise Expiration in 2024

4 May 2018

The MANAGEMENT ASSOCIATION OF THE PHILIPPINES (MAP) fully supports Senate Resolution No. 699 entitled “A resolution directing the appropriate Senate Committee to conduct an inquiry on the Philippine Downstream Natural Gas Industry Policy with the end in view of enacting appropriate legislation for its development and regulation in light of the Malampaya franchise expiration in 2024”, which Sen. SHERVIN GATCHALIAN introduced at the Senate.

The MAP believes that though there is an Executive Order (EO) No. 66 Series of 2001 and a Department of Energy (DOE) Department Circular No. DC2017-11-0012, there is not enough clarity on how the Philippines will manage the decline of the Malampaya Gas reservoir, slot in new Exploration and Production Gas finds and in parallel develop an LNG import facility or facilities to support the existing Gas Fired Power Plants within the next 5 years. Moreover, due to the ambitious Build, Build, Build program and *Arangkada* 2040, the growth of electricity demand is expected to grow from 16 GW currently to 43 GW by 2040. Such a huge increase needs good planning urgently.

WE IN THE MAP BELIEVE THAT STEPS CAN BE TAKEN NOW TO GIVE CLARITY ON THE PATH FORWARD.

In particular, we recommend the following in order of importance:

Priority 1 : Recommend that the Commission on Audit (COA) drop their view on taxation against the Malampaya Consortium – The intention of PD 87, and as embodied in the SC-38 service agreement, is clearly stipulated in the position papers of the Consortium and the DOE. By dropping the claim, the arbitration cases filed against the government will have no basis and thus will be moot. It will clearly show to investors that the Philippines honors its contracts.

Priority 2 : Settle the Ilijan ownership issue – This is a complex discussion but the desired end-result is: clear ownership of the Ilijan facility. The Owner can then negotiate with the SC-38 consortium on a Gas Sales Purchase Agreement as the current contract ends in 2024. Contractual discussions need to start soonest as these are complex agreements which involve many parties. Relevant parties are Power Sector Assets and Liabilities Management (PSALM) Corporation, National Power Corporation (NPC) and the private sector.

Priorities 1 and 2 are needed by industry as it is the basis for business. Contracts and Ownership issues are fundamental. The COA and Ilijan dispute resolutions are key enablers towards the establishment of appropriate LNG facilities and supportive of indigenous exploration efforts. We need an energy policy that encourages investment in indigenous exploration, and energy infrastructure building.

Priority 3 : Bank Gas of PNOC – The Philippine National Oil Company (PNOC) has advised that US\$650 Million worth of Bank Gas is in their books. There is currently no commercial arrangement for its withdrawal from the reservoir. There are only 6 more years till the SC-38 contract expires and there is no technical solution to withdraw the bank gas within this time frame. The PNOC must discuss immediately with the SC-38 Consortium and the DOE what their options are and agree on a way forward. Otherwise, the gas will be stranded.

Priority 4 : Remaining Gas over and above the Bank Gas – The Malampaya Phase 2 and 3 project and the sound operating and maintenance strategies of the Consortium have to allow continued operations of the facilities beyond 2024. There are also additional gas reservoirs near the existing ones which can be tapped. With the end of the contract in 2024, there is a need to secure an operator who can continue operations to allow extraction of the remaining gas and exploit

additional gas nearby. ***We recommend that the existing Consortium be allowed to remain as operator to ensure continuity.***

Priorities 3 and 4 are dealing with existing indigenous resources which need to be managed properly. It is already there and the means to extract them are in place. What is needed are the decisions to allow the continued operations so that the energy resource can be used by the Filipino people. A delay in decisions, on the worst case, will mean a WASTE of the resource as we will no longer be able to get it out of the ground.

Priority 5A: The Gas from Malampaya is finite. There are other exploration and production potentials in the West Philippine Sea. – A geo-political solution to this is being developed by the Duterte administration as per latest advice from the Government. There are technical solutions to exploit the new fields and tie-back to Malampaya is a good option. This requires the right timing which considers Malampaya decline and the speed in which new facilities can be set up, noting that development of a new gas field can take a decade. It however must start with exploration activities which cannot take place until an agreement is reached.

Priority 5B: LNG Import facilities tied into the existing Gas-Fired Power Plants is needed. – As there is no clear path yet to a geo-political solution and it takes time to develop a new gas field even with a Malampaya tie-back, an LNG import facility tied into the existing Gas-Fired Power Plants is needed. Otherwise, the existing Gas-Fired Power Plants can potentially be stranded. Though they can fire liquid fuel, the overall economics are definitely not in their favor. As their capacity is needed, the additional higher cost will be passed on to the consumer until a solution is found. However, the scalability of the LNG Import Facility is important as it should still allow indigenous gas from the new field to be commercially viable when it comes on stream.

Priorities 5A and 5B are needed together. It is a complex, Political, Technical and Commercial issue. Our power demand characteristic requires a fuel which can give the needed mid merit and peaking capability. Hydroelectric power plants may serve the purpose if enough of the resource is available. Meanwhile, diesel-fired plants and maybe solar+batteries can also do this but cost is currently high and technology is not yet commercial at the capacity we need. We must find a way to fulfill Priorities 5A and 5B, while allowing market forces to work.

Bangsamoro and Federalism, issues with the ERC, the Build, Build, Build program, all have impacts on energy infrastructure. ***The MAP requests that industry be included in the strategic discussions to allow legislators, regulators and policy-makers to have the view from those who will need to invest to support the programs.***

The latest Philippine Energy Plan shows a growth of demand which requires additional capacity from current 16 GW to 43 GW by 2040. The MAP sees that the 27 GW capacity can be supplied from various sources: coal, gas, current renewables (geothermal and hydro), new renewables (wind, tide and solar) and maybe even nuclear. Apart from market forces and our commitments to COP 21 (Conference of the Parties), the grids need to satisfy technical requirements of resource adequacy (reserve capacity of power plants, embedded generation from residential/commercial from solar) and reliability (intermittency of renewables, typhoon resistance). Also, disruptive technologies like battery storage for solar/wind/tide and improvements in grid resiliency technologies (smart grids) need to be factored in. There are complex paths going forward which require collaboration and continuing discussions by all parties.

IT IS OF UTMOST IMPORTANCE THAT THE NECESSARY GOVERNMENT DECISIONS ARE MADE QUICKLY TO GIVE INDUSTRY TIME TO PROVIDE THE BEST SERVICE AND COST TO CONSUMERS WHILE ALLOWING THE FUTURE GENERATIONS TO LIVE IN A LESS-POLLUTED WORLD.

The MAP wishes to express its gratitude to Senator Gatchalian, Chairman of the Senate Committee on Energy, for inviting the MAP to share its views and comments related to the Philippine power industry.