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## **Aquino's Challenge: Energy Security in the Philippines**

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*The next President of the Philippines faces many challenges to his incoming administration. A crucial one is ensuring the country's energy security. Addressing this will strengthen the Philippine economy and bolster Benigno Aquino's domestic and international credibility.*

IT IS ALMOST certain that Benigno Aquino III, or "Noynoy" Aquino as he is more popularly known, will become the next President of the Philippines. While his inauguration as President is still several weeks away, many challenges have already arisen for the next administration to tackle.

### **Addressing supply shortages**

Among the most underappreciated of these challenges is the problem of energy security, especially in terms of supply. Even before the election on 10 May, analysts had pointed out that the country faced a potentially dangerous energy shortage. As a result of increases in demand for electricity over the past few years, and the recurrence of droughts as a result of the El Niño phenomenon, the country's electricity generation facilities have been strained. Many of the country's fossil fuel plants are aging, and had to be taken offline for maintenance before the elections (when they would have to be run at full capacity to guarantee power for the country's new automated electoral machines). Hydroelectric dams have been generating less than a quarter of the electricity they would generate in normal conditions due to the rapid depletion of their reservoirs in the current drought. The problem is particularly acute on the island of Mindanao, which relies on hydroelectric power for more than half its electricity demand.

While the country still depends on oil and coal for 50% of its electricity, a substantial amount has been generated by renewable energy sources. This is partly due to a far-sighted energy plan drafted in the 1970's that provided for a diversification of energy sources away from fossil fuels towards hydroelectric, geothermal and nuclear sources. While the attempt to pursue a nuclear programme was

ultimately unsuccessful, renewable energy resources generate over 33% of the country's energy today.

### **Developing Renewable Energy**

However, more needs to be done to satisfy the country's energy demands. Given the volatile prices of fossil fuels, and the variability in output of hydroelectric plants, more energy diversification must be undertaken to address the shortage. Private enterprises have already made investments into the geothermal, wind, and biofuel power industries, spurred by the passage of the country's 2008 Renewable Energy Act, which stipulates incentives for the construction of renewable energy infrastructure. The government must speed up the timeline for the construction and operation of new energy infrastructure by fast-tracking the bureaucratic requirements of these projects.

It can also promote decentralised energy generation plants and grids, which suit the archipelagic geography of the Philippines. The construction of Southeast Asia's largest wind farm in Bangui, Ilocos Norte province in 2004 not only provided a source of energy to a far-flung area of the country, but it did so at lower cost than electricity purchased from the national grid. Ensuring that the provisions of the Renewable Energy Act are implemented will help spur growth in the renewable energy (RE) industry and help guarantee the country's energy security. The most important provisions include feed-in tariffs for energy from RE sources, an RE portfolio minimum standard for energy transmission utilities, and the establishment of a competitive and open RE market.

### **Reorganising the energy market**

The new Aquino government must also go beyond addressing energy supply if it wishes to address energy security holistically. To accomplish this, it must improve access to affordable energy. While the Philippines remains a developing country, it has some of the highest electricity tariffs in the region, behind Japan and Singapore. This has had the effect of deterring both local and foreign investors from investing in heavy industries, and imposes a considerable burden on the Philippine lower and middle classes who spend a considerable amount of their disposable income on electricity. To spur the Philippine economy, Aquino's government must be able to create and maintain jobs in the industrial sector, and to lower the cost of living for Filipinos so they may be able to have more money to spend on other needs, such as education.

To do so will require a reorganisation of the country's energy market, and substantial reforms. In the wake of the previous Aquino government's decision to mothball the Bataan Nuclear Power Plant in 1986, a power shortage soon resulted. In the rush to satisfy energy demand, the succeeding Ramos administration signed a number of contracts with independent power producers (IPPs). As many of these IPPs generated electricity from small fossil fuel plants or power barges, their high operational cost was incorporated into fixed power purchase contracts. The end result was high electricity prices.

To remedy this situation, the incoming government must re-evaluate the contracts signed with the IPPs, and let unprofitable contracts expire, or re-negotiate the terms of longer-term agreements. It should also ensure that the government remains a player in the energy generation market through ownership of several profitable generation facilities. By providing competitive electricity rates, the government can prevent the formation of an energy cartel. The Philippines must not rely on inefficient and expensive energy sources if it seeks to make electricity more affordable, and if it wishes to spur industrial growth.

While Noyon Aquino will face many challenges as the country's next President, addressing energy security must be his key concern. He must improve market structures, spur the growth of profitable renewable energy sources and streamline the bureaucracy. If he can do these, the country's energy projects will go a long way in improving the Philippines' economic competitiveness, and improve the standard of living of millions of Filipinos. In doing so, he can dispel any remaining doubts about his

competence and increase the faith that Filipinos have in their government's ability to improve the welfare of its citizens.

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