

Keynote Address of
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FORUM ON THE ELECTRIC POWER INDUSTRY:
**"THE ROAD AHEAD: TOWARDS
OPEN ACCESS & RETAIL COMPETITION"**
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GOOD AFTERNOON.

I WOULD LIKE TO THANK OUR HOST, THE FINANCIAL
EXECUTIVES INSTITUTE OF THE PHILIPPINES.

AS A FORMER MEMBER OF FINEX – I BELIEVE MY
MEMBERSHIP HAS LONG BEEN CANCELLED FOR NON-
PAYMENT OF ANNUAL DUES – I AM AWARE THAT
FINEX IS A MOST ILLUSTRIOUS ORGANIZATION
COMPOSED OF THE TOP FINANCIAL EXECUTIVES IN
THE PHILIPPINES, PEOPLE WHO LIKE TO BE ON TOP,
ALL THE TIME.

IT IS GRATIFYING TO KNOW THAT OUR FINANCIAL
EXECUTIVES WOULD LIKE TO DEVOTE TIME THIS

AFTERNOON – IN LIEU OF THEIR USUAL ‘AFTERNOON DELIGHTS’ – TACKLING ISSUES WITH RESPECT TO THE ENERGY SECTOR. I GUESS THIS IS BECAUSE THEY ALL REALIZE THAT THEY NEED ENERGY IN ORDER TO KEEP IT UP IT, OF COURSE, MEANING NATIONAL GROWTH. .

I WILL TAKE UP TODAY TWO SPECIFIC ISSUES THAT HAVE SIGNIFICANT IMPACT ON BOTH THE BUSINESS COMMUNITY AND THE ORDINARY CONSUMER: OPEN ACCESS AND RETAIL COMPETITION IN THE POWER INDUSTRY.

I THINK WE ARE ALL AWARE THAT THE ENERGY SECTOR IS AN EXCITING ONE FOR INVESTORS. I THINK WE ARE ALSO ALL AWARE OF THE IMPORTANCE THAT 1) ENSURING THE ADEQUACY AND STABILITY OF POWER SUPPLY AND 2) ACTUALLY

BRINGING DOWN THE COST OF POWER ARE TO ECONOMIC GROWTH AND DEVELOPMENT.

I WOULD LIKE TO REPORT THAT OUR COUNTRY HAS MADE SIGNIFICANT PROGRESS TOWARD THOSE TWIN OBJECTIVES. FURTHER, I WISH TO STATE THAT THE COUNTRY'S LEADERSHIP IS FULLY COMMITTED TO INITIATIVES THAT WILL FURTHER OPEN UP THE POWER SECTOR, INCREASE COMPETITIVENESS IN SUPPLY AND DISTRIBUTION, EXPAND TOTAL CAPACITY, AND LOWER KILOWATT-HOUR COSTS. I BELIEVE THAT THESE INITIATIVES ENHANCE OUR COUNTRY'S CLAIM TO BE THE ABSOLUTE CHOICE FOR INVESTMENT.

YOU ARE ALL FAMILIAR, I BELIEVE, WITH OUR ELECTRIC POWER INDUSTRY REFORM ACT, OR EPIRA, AND ITS POTENTIAL ABILITY TO BRING DOWN POWER COSTS BY MAKING THE POWER SECTOR

MORE TRANSPARENT, MORE COMPETITIVE, AND MORE EFFICIENT. I WISH TO ASSURE YOU THAT THIS GOVERNMENT AND THE DEPARTMENT OF ENERGY IS NOW TAKING STEPS TO FAST-TRACK THE FULL IMPLEMENTATION OF THIS LAW. I WISH TO ASSURE YOU ALL THAT WE ARE DOUBLING OUR EFFORTS TO COMPLETE OUR PRIVATIZATION GOALS AND ALSO TO ESTABLISH "OPEN ACCESS" IN THE POWER SECTOR WITHIN A SPECIFIED, FIXED TIME FRAME.

FOR YOUR INPUT, LET ME BRIEFLY BRING YOU UP TO DATE ON THE PROGRESS OF OUR VARIOUS INITIATIVES.

NUMBER ONE, WE HAVE PROGRESSIVELY REDUCED OUR DEPENDENCE ON IMPORTED OIL. AS OF 2006, THE COUNTRY'S ENERGY SELF-SUFFICIENCY LEVEL WAS ALREADY AT 57 PERCENT, RAISING OUR

EXPECTATIONS ABOUT EXCEEDING OUR SELF-IMPOSED GOAL OF 60 PER CENT BY 2010. FURTHER, OUR EFFORTS TO DEVELOP NATURAL GAS INFRASTRUCTURE TO MAKE THIS ALTERNATIVE FUEL AVAILABLE NOT ONLY FOR POWER GENERATION BUT ALSO FOR TRANSPORT, COMMERCIAL, AND INDUSTRIAL USE ARE PAYING OFF. THREE POWER PLANTS WITH A COMBINED CAPACITY OF 2,700 MW ARE NOW RUNNING ON NATURAL GAS FROM THE MALAMPAYA FIELD IN WESTERN PHILIPPINES. AS A RESULT, THE SHARE OF NATURAL GAS IN THE COUNTRY'S POWER GENERATION MIX INCREASED TO 29 PER CENT IN 2006, UP FROM 24 PER CENT IN 2004. WE BELIEVE THAT NATURAL GAS MAY ACTUALLY BE THE PRIMARY FUEL IN OUR FUTURE.

NUMBER TWO, WE HAVE ALREADY BIDDED OUT 38 PER CENT OF NATIONAL POWER CORPORATION'S GENERATION FACILITIES, EQUIVALENT TO 1,681

MEGAWATTS OF CAPACITY. THE MOST RECENT OF WHICH WAS THAT OF THE CALACA COAL-FIRED POWER PLANT.

MOREOVER, WE ARE NOW TAKING STEPS TO EVEN EXCEED THE 50% TARGET THAT THE POWER SECTOR ASSETS AND LIABILITIES MANAGEMENT CORPORATION (PSALM) HAS DEEMED AS AN ACHIEVABLE TARGET FOR PRIVATIZATION THIS YEAR. TWO THINGS ARE HELPING ACCELERATE THIS:

1) THE WORLD BANK'S UNIVERSAL CONSENT TO THE TRANSFER OF THE GOVERNMENT'S GENERATION AND TRANSMISSION ASSETS TO PSALM, AND 2) THE TRANSITION SUPPLY CONTRACT (TSC) BETWEEN MERALCO AND THE NATIONAL POWER CORPORATION (NPC) WHICH SIGNIFICANTLY IMPROVES OUR PROSPECTS FOR NPC PRIVATIZATION. THE RECENT ACQUIRING OF THE 600-MW CALACA COAL-FIRED

THERMAL POWER PLANT GIVES US VERY POSITIVE SIGNALS THAT THIS ACCELERATION IS POSSIBLE.

NUMBER THREE, WE HAVE ALREADY ESTABLISHED THE WHOLESALE ELECTRICITY SPOT MARKET (WESM). THE WESM, A MILESTONE IN THE RESTRUCTURING OF THE POWER INDUSTRY, OFFERS MARKET-DRIVEN POWER RATES WHILE FACILITATING THE ESTABLISHMENT OF OPEN ACCESS IN THE COUNTRY.

WE HAVE ALSO ESTABLISHED WHAT WE CALL THE CUSTOMER CHOICE PROGRAM (CCP), INVOLVING NPC AND MERALCO, THAT REDUCES THE ELECTRICITY COSTS OF LARGE USERS AND INDUSTRIAL CUSTOMERS IN LUZON BY MAKING AVAILABLE TO THEM TIME-OF-USE (TOU) RATES THAT WILL HELP THEM MANAGE THEIR ELECTRICITY

CONSUMPTION BY SHIFTING THEIR ENERGY USE FROM PEAK TO OFF-PEAK HOURS.

FURTHERMORE, THE DOE AND THE DTI ARE NOW TRYING TO REDUCE POWER RATES WITHIN GOVERNMENT-CONTROLLED ECONOMIC ZONES THROUGH A SIMILAR INITIATIVE.

AND NUMBER FOUR, WE HAVE PUSHED FOR THE PASSAGE IN CONGRESS OF THE BIOFUELS ACT OF 2006 IN ORDER TO SPUR DEVELOPMENT OF THE LOCAL BIOFUELS INDUSTRY. WE ARE CONVINCED THAT BIOFUELS, IN EXPANDING OUR ENERGY SELF-SUFFICIENCY, HAS THE POTENTIAL TO MAKE A STRONG ENVIRONMENTAL, ECONOMICAL, AND SOCIAL IMPACT.

TWO MAJOR PLAYERS IN THE EMERGING BIOFUELS INDUSTRY – SEOIL PHILIPPINES AND

CHEMREZ TECHNOLOGIES – ACTUALLY ALREADY STARTED SELLING ETHANOL-BLENDED GASOLINE AND BIODIESEL IN THE PHILIPPINES EVEN BEFORE THE LAW WAS PASSED. MANY OTHER INVESTORS ARE FOLLOWING SUIT, LIKE THE BIOENERGY 8 CORPORATION, THE BRITISH COMPANY NATURAL RESOURCES GROUP CHEMICAL ENGINEERING PTE. LTD., AND TIAN BIOGREEN ENERGY LTD. THE BIOFUELS ACT AND STRONG GOVERNMENT SUPPORT WILL, WE THINK, MAKE THE PHILIPPINES ONE OF THE MOST ATTRACTIVE INVESTMENT SITES FOR BIOFUELS PROJECTS.

WE HOPE THAT REFORM SUCCESSES LIKE THESE WILL ENCOURAGE PRIVATE INVESTORS TO PARTICIPATE EVEN MORE AGGRESSIVELY IN OUR POWER SECTOR. WE ARE CERTAINLY VERY COGNIZANT OF THE INFLUENCE OF PRIVATE

INVESTMENT IN BUILDING A PROGRESSIVE AND FORWARD-LOOKING ENERGY STRATEGY.

WE CERTAINLY NEED MORE PRIVATE INVESTORS TO INVEST IN ADDITIONAL FACILITIES FOR OUR ENERGY REQUIREMENTS. WE ESTIMATE THAT ENERGY SECTOR CAPACITY MUST GROW AT THE RATE OF 1.8 PER CENT MORE THAN THE GDP GROWTH RATE TO ENSURE STABLE POWER SUPPLY FOR RESIDENTIAL AND INDUSTRIAL USES. HOWEVER, GIVEN EXISTING POWER CAPACITIES AND CURRENTLY PLANNED EXPANSIONS, WE BELIEVE THAT IT IS URGENT THAT WE BUILD WITH ADDITIONAL SUPPLY CAPACITY TO MEET DEMAND IN THE YEARS 2010/2011 FOR LUZON, 2009/2010 FOR VISAYAS, AND 2009 FOR MINDANAO.

WE THEREFORE HAVE TO EXPAND OUR EXISTING CAPACITIES AND ESTABLISH NEW ONES. THE EPIRA, THE BIOFUELS ACT, AND THE RENEWABLE ENERGY LAW HAVE, WE HOPE, ESTABLISHED THE FRAMEWORK THROUGH WHICH PRIVATE INVESTMENT CAN TAKE ADVANTAGE OF INVESTMENT OPPORTUNITIES IN OUR POWER SECTOR. WE HOPE THAT THIS WILL BRING US CLOSER TO THE LOWER POWER COST REGIMES THE MOST COMPETITIVE ECONOMIES.

ONE GOOD EXAMPLE OF A PRIVATE INVESTOR RESPONSE TO OUR POWER SECTOR REFORMS UNDER THE EPIRA IS THE INVESTMENT OF THE GERMAN COMPANY STEAG IN A 210-MW COAL-FIRED POWER PLANT IN MINDANAO. THIS INVESTMENT IS ALREADY CONTRIBUTING TO THE ADDITIONAL CAPACITY REQUIREMENT NEEDED TO SUSTAIN GROWTH IN THE MINDANAO AREA.

LET ME ENUMERATE SOME POSSIBLE OPPORTUNITIES FOR PRIVATE SECTOR PARTICIPATION AND INVOLVEMENT.

FIRST, UNDER OUR POWER SECTOR REFORM AGENDA, THE BIDDING FOR NPC GENERATING ASSETS IS EXPECTED TO BE COMPLETED BY THE END OF 2009^[MCC1]. WE WILL ALSO BE RE-BIDDING TRANSCO'S TRANSMISSION ASSETS BY THE FOURTH QUARTER OF THIS YEAR. FURTHER, THE TOTAL INVESTMENT NEEDED FOR POWER AND TRANSMISSION FACILITIES DEVELOPMENT IS ESTIMATED TO AMOUNT TO BETWEEN PHP258 BILLION FOR THE PERIOD 2005-2014, AROUND 90 PER CENT OF WHICH IS EXPECTED TO BE SOURCED FROM PRIVATE INVESTORS.

SECOND, INVESTMENT OPPORTUNITIES ARE AVAILABLE IN INTENSIFIED OIL AND GAS EXPLORATION ACTIVITIES IN THE COUNTRY THROUGH THE PHILIPPINE ENERGY CONTRACTING ROUND, AN ANNUAL PUBLIC BIDDING ROUND FOR OIL AND GAS, COAL, AND GEOTHERMAL SERVICE CONTRACT AREAS. THE LAST CONTRACTING ROUND THAT ENDED MAY 30 BROUGHT IN APPROXIMATELY US\$165 MILLION IN FINANCIAL COMMITMENTS FOR PETROLEUM EXPLORATION IN THE COUNTRY. THIS IS A GOOD INDICATION THAT WE ARE LIKELY TO MOBILIZE THE REQUIRED P580 BILLION IN INVESTMENTS FOR INDIGENOUS OIL, GAS, AND COAL RESOURCES EXPLORATION FOR THE PERIOD 2005-2014, THE HIGHEST AMONG THE POSSIBLE INVESTMENT AREAS IN THE ENERGY SECTOR. THIS IS EXPECTED TO BE FULLY SOURCED FROM THE PRIVATE SECTOR. I STRONGLY ENCOURAGE INVESTORS TO LOOK INTO

THE AREAS THAT WILL BE ON OFFER AT THE NEXT CONTRACTING ROUND, AND TO SERIOUSLY CONSIDER JOINING THE AMBITIOUS PETROLEUM EXPLORATION ACTIVITIES IN THE PHILIPPINES IN THE NEXT FEW YEARS.

THIRD, ENTREPRENEURS CAN TAKE ADVANTAGE OF THE OPPORTUNITIES AND INCENTIVES OFFERED UNDER THE BIOFUELS ACT TO PIONEERS IN THE LOCAL BIOFUELS INDUSTRY. OUR COUNTRY CERTAINLY HAS THE POTENTIAL FOR A LARGE BIOFUELS INDUSTRY SINCE WE GROW AGRICULTURAL PRODUCTS THAT ARE CONSIDERED IDEAL FEEDSTOCKS FOR SUCH FUELS. THE ESTIMATED P65 BILLION CAPITAL INVESTMENT NEEDED FOR THE DEVELOPMENT OF ALTERNATIVE FUEL TECHNOLOGIES FOR THE PERIOD 2005-2014 IS EXPECTED TO COME ENTIRELY FROM PRIVATE SOURCES.

FOURTH, AS YOU ALL ALREADY KNOW, WE ARE CURRENTLY USING NATURAL GAS FOR POWER BUT WE ARE ALSO TRYING TO PROMOTE ITS USE IN THE TRANSPORT, INDUSTRIAL, AND COMMERCIAL SECTORS. CONSTRUCTING GAS PIPELINES TO TRANSPORT NATURAL GAS, THE CONVERSION OF OLD COAL-THERMAL PLANTS TO NATURAL GAS-FIRED PLANTS, AND THE BUILDING OF NEW NATURAL GAS FACILITIES WILL ALL REQUIRE PRIVATE CAPITAL INVESTMENT. WE ESTIMATE THAT THIS WILL TOTAL SOME PHP 304 BILLION OVER THE ENTIRE PLANNING PERIOD.

FIFTH, RENEWABLE ENERGY OFFERS A LOT OF PROMISE WITH THE IMPENDING PASSAGE OF THE RENEWABLE ENERGY BILL THAT HAS ALREADY BEEN CERTIFIED AS A PRIORITY MEASURE BY PRESIDENT

ARROYO'S GOVERNMENT. AMONG OUR OBJECTIVES IN THIS AREA ARE TO BECOME THE NUMBER ONE GEOTHERMAL ENERGY PRODUCER IN THE WORLD AND THE NUMBER ONE WIND ENERGY PRODUCER IN SOUTHEAST ASIA. THIS, WE BELIEVE, IS POSSIBLE GIVEN THE PRIVATE SECTOR INTEREST IN THE IMPENDING LAW. THE INVESTMENT WE THINK IS NEEDED IN THIS AREA AMOUNTS TO SOME P251 BILLION OVER THE PLANNING PERIOD, 66 PER CENT OF WHICH IS EXPECTED TO COME FROM PRIVATE SOURCES.

IN CLOSING, I HOPE THAT, GIVEN THE HUGE DEMAND FOR FRESH CAPITAL THAT OPPORTUNITIES IN THE ENERGY SECTOR PRESENT, YOU WILL ALL TAKE A CLOSER LOOK AT POTENTIAL INVESTMENTS IN THIS AREA. YOUR INFLUENCING YOUR RESPECTIVE COMPANIES INTO CAPITALIZING ON SOME OF THESE OPPORTUNITIES CAN CERTAINLY HELP BRING OUR

COUNTRY CLOSER TO BRIDGING ITS ENERGY RESOURCES GAP AND ULTIMATELY BRING DOWN THE COST OF OUR ENERGY. IT WILL ALSO, I AM SURE, BE QUITE PROFITABLE FOR YOUR COMPANIES AND YOUR SHAREHOLDERS.

THANK YOU ALL FOR BEING HERE. AND MORE POWER TO ALL OF YOU!