



Philippines: Tapping into the World's LNG Market

Additional Q&A

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Q: Can a country like the Philippines, which started as a small importer, be able to impose the removal of destination clause?

A: Recent market developments, particularly the 'thickening' of both sides of the LNG market, i.e. more suppliers and a lot more buyers, the rise of LNG aggregator/traders, the growing fleet of LNG vessels which can standardize shipping costs of LNG, or developments which lead to closer integration of geographical markets of LNG in the world, would render this requirement moot and academic. But even without this development, the Philippines will like source LNG from the US, which does require destination.

Q: Since there will be cost related issues in switching to LNG, is there any plan for incentives for gas-fired plants in converting their facilities from other fuels to LNG? Is there any vision of including it in the law?

A: This is unlikely to happen. Shifting to gas power plants from coal or diesel could be at least as costly as just building a new gas power plant.

Q: Can you speak to the maturation of any Third-Party Access regulations for those assets once they are operational or will they be for the sole use of the developer?

A: This is in the plan of the DOE, but its time has not yet come. The priority this time is to build the terminals. But in terms of the policy, DOE is expected to issue third party rules as a matter of policy of promoting an integrated market of LNG in the country, Policy could have started out by defining a China Wall between LNG business and power plants. But if this was issued, the incentive to build terminals would be greatly diminished. In a hearing of selected resource persons by the Senate Committee of Energy Chairman, I pointed out that the first-best policy is to segregate these two businesses so as to promote equal access to LNG. But that would have come at a cost in terms of creating more uncertainty on the part of potential

investors in capital intensive terminals. Without a clearly defined market, the incentive to invest may not be there. So, this is a second-best option: allow the integration but after five years review this policy and perhaps assess if it would already be timely for setting a wall between the two businesses: power and LNG storage.