WHY THE MIDSTREAM AND DOWNSTREAM NATURAL GAS INDUSTRIES DEVELOPMENT BILLS ARE CLIMATE-BLIND

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In the United States, President Joe Biden is waging the new climate battle—phasing-out fossil natural gas or fossil gas. In his $2 trillion clean energy plan, Biden intends to edge out fossil gas off the power grid in 15 years. This plan should halve the country’s greenhouse gas emissions by the end of this decade.

Early this year, European Investment Bank President Werner Hoyer also made waves when he declared that “gas is over” during the presentation of the Bank’s annual results. Hoyer urged European Union member states to acknowledge that their future is no longer with fossil fuels, including fossil gas.

Meanwhile, in the climate vulnerable and renewable energy rich Philippines, both Energy Committees of Congress are deliberating bills that seek to develop the midstream and downstream fossil gas industries. Senate Bill No. 1819, otherwise known as the “Midstream Natural Gas Industry Development Act”, is pending before the Senate Energy Committee. On the other hand, the House Energy Committee has approved the draft substitute bill replacing House Bill No. 3031, otherwise known as the “Downstream Natural Gas Industry Development Act”, although it is still subject to further work by the Technical Working Group. Committee members said that they will continue to work on parts of the bill, particularly Sections 38-40 regarding mandatory offtake provisions and the required share of natural gas in the portfolio.

In consideration of equity and fair share in the global climate response, some countries have declared less ambitious goals with fossil gas as a transition or bridge fuel—this means that fossil gas should serve as a substitute low-carbon fuel for coal and oil to reduce carbon dioxide emissions in the near future while also providing a leverage to enable renewables. The role of fossil gas as a bridge fuel has since become an intense debate that mainly revolves around determining until when is it necessary to use fossil gas, if at all. At the heart of this debate of course lies the more critical question—should we be focusing efforts, resources, and time promoting fossil gas or renewable energy?

This, the Senate and House Energy Committees fail to address in their fossil gas bills that are blind of climate imperatives.

1. The bills are suspiciously mum on coal phase-out.

The bridge fuel argument suggests that while the renewable energy industry is maturing and grid flexibility is enhancing, fossil gas can displace coal use, especially as a baseload resource, and can also be used for other purposes such as heating and transportation. Considered as better complements to variable renewable energy technologies, fossil gas plants can act as a baseload resource while efficiently ramping up and down to meet energy demand that cannot be supplied by renewable energy yet.

In the explanatory note of HB3031, the authors seem to adopt this view by pointing to the over-reliance on fossil fuels as the driver of climate change. Fossil gas is supposedly the solution to satisfying our energy needs while meeting Sustainable Development Goals. SB1819 is completely silent about the climate emergency, although it also declares as policy the need to diversify energy sources, and the promotion of fossil gas as a complementary fuel to variable renewable energy.

However, both bills are suspiciously mum on the need to phase-out coal, and even oil, as a climate response, and the role of fossil gas to fill-in the demand as renewable energy matures technologically and economically. While HB3031 prescribes the conversion of existing fuel-operated machines and facilities to natural gas use, this will remain a perfuctive provision if the bill does not mandate the retirement of existing coal-fired power plants that have reached the end of their lifetime.

2. The bills mandate the preparation of development plans, mandatory inclusion of fossil gas in the energy mix, incentives to the midstream and downstream fossil gas industries without imposing restrictions on capacity, lifespans, technology, and emissions.

The bills mandate not only the preparation of development plans for both midstream and downstream fossil gas industries but also their integration into the Philippine Energy Plan. HB3031 likewise imposes a mandatory fossil gas share in the energy mix to be determined by the Department of Energy (DOE).

To promote fossil gas industries, the bills also include the entire downstream fossil gas value chain, Liquefied Natural Gas terminals, and natural gas transmission systems as part of the Investment Priority Plan, which entitles them to income tax holiday and other incentives under the Omnibus Investment Code.

However, there is a glaring lack of restrictions on the capacity, lifespan, technology, and emissions of projects. For example, the bills do not impose an upper-limit or a maximum capacity for the energy gas or oil. They do not mandate fossil gas generation projects to retire or fossil gas infrastructures to be converted or repurposed within a specified timeframe. They do not impose a cap on emissions throughout the operation of the project or a carbon tax that would disincentivize coal and eventually fossil gas once renewables mature.

These restrictions are part of phase-out policies that some governments or financial institutions have adopted or will adopt. Ultimately, these restrictions serve to ensure that fossil gas projects do not operate beyond what climate science allows. Otherwise, when and how can we phase-out fossil gas once it reaches maturity?

3. Absent a coal phase-out policy followed by a clear fossil gas exit strategy, fossil gas may crowd-out renewables and result to a carbon lock-in.

A recent study looking into whether fossil gas can help or hinder the energy transition found that the overlooked indirect effects of fossil gas can negate its direct benefits. One of the notable indirect effects is a crowd-out, where bridging fossil gas technology siphons investments from emerging renewable energy technologies. Worse, using fossil gas as a bridge can lead to continued investments in other fossil fuels because of the accompanying reinforcement of fossil fuel infrastructures. The crowd-out effect can eventually result in carbon lock-in, or continued dependency on fossil fuel technologies, and prolong the transition unless specific policies are present.

Two policies were recommended to prevent crowd-out and carbon lock-in effects: (1) a clear roadmap or exit strategy for fossil gas, and (2) an immediate implementation of carbon price. These policy suggestions take into account the two phases of the low-carbon transition, which should occur simultaneously rather than a linear process. Phase 1 is the transition from coal and oil to fossil gas, and phase 2 is the transition from all fossils to “zero-carbon” solutions.

Thus, absent a clear policy on coal phase-out, we cannot ensure that fossil gas will displace coal in the energy mix. Currently, there are still 19 proposed coal power plants in the country with a total capacity of 1.12 GW, with six already committed or with financial closure, and 13 still indicative or securing permits and financial closure. DOE has yet to release an official list of coal plants that are allowed to proceed despite its coal moratorium advisory.

Consequently, without a clear fossil gas roadmap with an exit strategy, the development of the midstream and downstream fossil gas industries can result to a carbon lock-in instead of a transition to renewables. There are currently six proposed fossil gas plants with a total capacity of 8.6 GW. Under the Clean Energy Scenario of the Philippine Energy Plan, there will be over 10GW of installed capacity from coal and 18 GW from fossil gas. These numbers, at least for gas, should significantly increase if the proposed bills are enacted and the fossil gas development plans are integrated into the Philippine Energy Plan.

As it stands, the bills will establish fossil gas as a roadblock, instead of a bridge, in the country’s low-carbon transition. While we have yet to fully phase-out the coal industry, the single largest driver of the climate emergency, we are
yet again developing another fossil fuel without a clear phase-out plan in sight.

In the face of this urgent climate emergency, it is critical to take every opportunity that will bring us closer to a low-carbon economy and society. Towards this end, we encourage the Energy Committees to consider the following:

1. **Declare a coal phase-out policy.** It is long overdue to set a clear coal phase-out policy that would revoke all incentives granted to the coal industry under the Coal Development Act and prohibit undue preferences afforded to coal generation companies through unfavorable power procurement practices. This policy should include a permanent ban on new coal capacity, mandatory retirement of operating old coal plants at the end of their economic lifespan, and early retirement of newly operating coal plants by the end of this decade, which necessitates renegotiation of their power supply agreements.

2. **Conduct an inquiry towards rationalizing, harmonizing, and aligning energy policies and plans with the 1.5°C Paris temperature goal.** During the series of consultations conducted by the Climate Change Commission on the draft Nationally Determined Contribution (NDC) since December of last year, it was surfaced that the government has not developed a 1.5°C Paris-aligned NDC and transition pathway. This should be prioritized to ensure that contradicting and fragmented energy policies and plans, including the Philippine Energy Plan, are redirected and realigned towards reducing greenhouse gas emissions and addressing the climate emergency.

3. **Focus on accelerating deployment and use of renewable energy and grid flexibility enhancement while determining if fossil gas is necessary for the country’s low-carbon transition.** Absent a coal phase-out policy and a clear 1.5°C Paris-aligned transition pathway, we cannot determine if developing the fossil gas industry is in fact necessary for the country. In the meantime, government should be focusing on maximizing the country’s high renewable energy potential by supporting auctions, prosumers, and community microgrids, and accelerating the enhancement of the grid’s flexibility.

4. **Develop a clear national roadmap and exit strategy for fossil gas, including the imposition of a carbon price, if determined a necessary bridge fuel.** Any policy or bill that seeks to use fossil gas as a bridge should consider long-term implications that can create barriers against renewables, prolong the transition, and ultimately hinder reaching climate goals. If fossil gas is determined as a necessary bridge fuel, a clear national roadmap and exit strategy should be developed, including an upper-limit or a maximum capacity for fossil gas, mandatory retirement, conversion, or repurposing of fossil gas infrastructures, emissions cap, and carbon tax that would gradually increase to price out fossil gas from the market.