

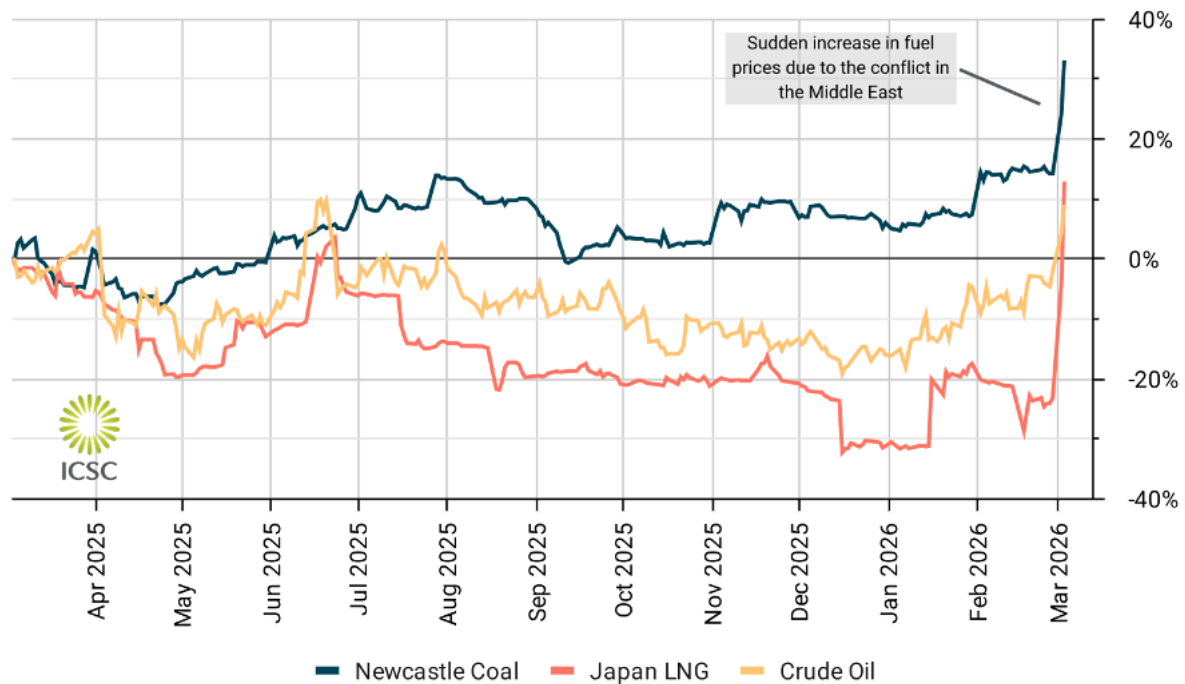
## POSITION PAPER

# Energy Security at Risk: Why the Philippines Must Accelerate the Energy Transition and Modernize Its Power System

Energy security is often at the backseat in policy discussions. Yet when global price shocks or supply disruptions occur, we are reminded again of the expensive costs that this heavy dependence on importation entails—a narrative that is being retold in the current escalation of the Middle East conflict. This situation poses a significant challenge for the Philippines as the majority of the country’s crude oil imports are from the Middle East. Key energy infrastructure and supply routes in the region, particularly the Strait of Hormuz—the transit point for a large share of Philippine crude oil imports—are being disrupted, exacerbating upward pressure on oil prices

Since the conflict began, prices of fossil-based commodities have surged, with crude oil increasing by 19%, Japan LNG by 47%, and Newcastle coal by 15%. While the disruption is primarily centered on oil supply chains in the Middle East, global energy markets are deeply interconnected, and tensions in the region have pushed prices up across other fuels as well. This situation highlights the Philippines’ exposure to volatile international markets and the risks it poses to electricity costs, grid stability, and economic resilience.

These price shocks have immediate and tangible effects on consumers and the economy. Rising oil prices drive broader inflation, increasing the cost of transportation, goods, and services across the economy. Off-grid areas that rely on diesel generation are significantly affected; while subsidies help keep costs manageable, the expense is ultimately borne by all electricity consumers. At the same time, power generation costs are passed directly to electricity consumers, meaning higher coal and gas prices translate into higher power bills for households and businesses. This underscores a fundamental vulnerability in the current energy system: heavy reliance on imported fossil fuels leaves the Philippines exposed to global market shocks beyond its control.



**Figure 1. 1-Year Historical Prices of Coal, Natural Gas, and Oil**

Fuel prices are inherently volatile. This past week, however, prices surged following news of escalating conflict in the Middle East, pushing them to their highest levels in the past year. Compared with March 2025 values, coal prices are now 33.14% higher while natural gas and crude oil prices have increased by 12.93% and 9.05%, respectively. (Data source: Investing.com, date accessed: March 5, 2026)

## Accelerating Renewable Energy as a No-Regrets Strategy

Philippine energy policy must prioritize energy security if it is to ensure a reliable, affordable, and resilient power system. Dependence on imported fossil fuels exposes the country to volatile international markets, leaving electricity costs, grid stability, and economic activity vulnerable to external shocks.

History already offers a clear lesson. In the early 1970s, when the country faced periods of heavy dependence on imported fuels that exposed the power sector to global supply and price shocks, the government pivoted toward developing indigenous energy resources. As geothermal and hydropower expanded, the Philippines ultimately achieved a 52% renewable energy share in the early 1980s.

The country also experienced the same vulnerability to the global supply and price shocks of fossil fuels when the Russia–Ukraine War began in 2022, with the price of coal going up by 400%. The government responded with policies promoting renewable energy, such as the preferential dispatch policy; expanded rooftop solar program; and the implementation of the Renewable Portfolio Standards, Green Energy Option and Auction Programs, and Net-metering Program.

Today, the Philippines is in an advantageous position where policy decisions that favor indigenous energy—solar, wind, hydro, and geothermal—can shift the country away from its dependence on volatile global fuel markets.

**Indigenous energy resources are largely immune to global price swings and provide predictable generation costs, shielding consumers and the economy from abrupt price hikes.**

**Translating this policy priority into action requires accelerating renewable energy deployment—a no-regrets strategy for strengthening energy security.** Rooftop solar installations in homes, businesses, and government facilities reduce demand from fossil fuel-based generation while empowering communities and businesses to generate their own power. Battery energy storage enhances reliability by balancing supply and demand. In off-grid and island communities, hybrid renewable systems can replace costly diesel generation, lowering power costs while protecting local populations from supply disruptions. These distributed solutions increase resilience, enhance self-reliance, and reduce dependence on imported fuels.

Expanding renewable energy also creates spillover benefits across other sectors of the economy. A power system increasingly supplied by indigenous renewable energy can make electricity affordable and stable, further accelerating the electrification of transport, industry, and buildings—sectors that rely heavily on imported fossil fuels. Electric vehicles, electrified industrial processes, and smart infrastructure can only provide their full economic and environmental benefits when powered by reliable and affordable electricity. By strengthening the indigenous renewable energy capacity, the Philippines not only secures its power supply but also creates the foundation for a broader shift toward electrification, thereby reducing its exposure to volatile global fuel markets.

**Reducing dependence on fossil fuels also strengthens economic resilience. It improves the trade balance, shields the economy from commodity and currency volatility, and helps stabilize power costs.** Predictable rates enhance investor confidence and support emerging sectors, such as electric mobility, green manufacturing, and digital infrastructure.

## Readying the Infrastructure to Ensure Energy Security

Modernizing the power system is equally critical. **The centralized, baseload-heavy grid is increasingly misaligned with the needs of an archipelagic nation facing global shocks and supply disruptions.** Today, the Philippines relies heavily on rigid baseload coal plants designed for continuous operation. Yet these plants are increasingly being forced to cycle daily to meet peak demand, accelerating wear and raising the risk of forced outages. Meanwhile, flexible resources such as battery storage, pumped hydro, and fast-ramping gas plants remain insufficient, leaving critical gaps during evening and peak demand hours. A resilient and reliable system requires a shift away from this misalignment: **a decentralized, distributed, diversified, and flexible power system is essential** to manage variability and ensure system reliability.

Achieving this objective requires both infrastructure upgrades and smart operational strategies. Strengthening grid flexibility by upgrading transmission networks, expanding energy storage, and deploying smart grid technologies are essential to support a resilient and secure power system that can handle daily demand swings, reduce renewable energy curtailment, and respond to exogenous shocks. In this context, **system flexibility is the cornerstone of affordable, reliable, and secure power.** By enabling a mix of flexible generation, distributed solutions, and smart grid management, the Philippines can protect consumers from price volatility, reduce stress on existing baseload plants, and create a power system capable of withstanding both daily and long-term shocks.

## The Path Forward

The Institute for Climate and Sustainable Cities (ICSC) emphasizes that the current global volatility sends a clear message: energy security cannot depend on fossil fuels. The Philippines must act decisively to accelerate renewable energy deployment and modernize its power infrastructure. This requires a clear set of strategic actions:

- **Integrating Flexible Resources Strategically**  
Flexible generation and storage options can complement existing infrastructure, providing operational levers for managing demand peaks and variable renewable generation.
- **Promoting Decentralized and Distributed Solutions**  
Rooftop solar, integrated renewable energy storage systems, embedded generation, and community-based generation can reduce the vulnerabilities of local communities, enhance system resilience, and provide alternatives in areas with limited grid access.
- **Encouraging Data-Driven System Planning**  
Advanced forecasting, grid modeling, and real-time monitoring can support operational decisions and long-term planning, enabling a more resilient and adaptable power system.
- **Aligning Investment and Policy with System Needs**  
ICSC emphasizes the importance of coordinating infrastructure investments with market and policy frameworks to ensure that new assets, such as storage and transmission upgrades, effectively contribute to system reliability and resilience.
- **Supporting Stakeholder Engagement**  
Engagement with government agencies, regulators, local government units, utilities, and local communities can inform the practical deployment of infrastructure and distributed solutions, helping align technical capabilities with social and economic priorities.