

# Energy Sector Policy Options

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# Country policy responses

- Wide range; macro, safety nets and sectoral policies
- Short term – Changes in price subsidies
- Longer term – efforts to diversify supply and promote efficiency to reduce overall reliance on oil.

# Energy Sector Policies

- Energy Supply Response
  - Diversify supply
- Energy Demand Response
  - Shift demand from oil products
  - Reduce energy consumption
- Energy Policies to lower prices to consumers
  - Reduce cost to consumer
- Fuel Policies to smooth prices for consumers
  - Ease shocks of price increases

# Energy Supply Responses

- Diversification of energy supply
  - CNG and LPG in transport
  - Renewables for power
  - Biofuels in transport
  - Electric hybrid in transport
  - Gas to liquids, coal to liquids
- Promoting efficiency in the energy supply chain (production and distribution)

# Energy Demand Response

- Increasing Electricity Access
  - (grid and off-grid)
  - Targeted subsidies can be very effective
- Promoting Energy efficiency:
  - Transport (mode shift, choice of more fuel efficient vehicles)
    - High priority, but long-term
  - Electricity (appliance efficiency)
    - Enforcement is key
  - Industry, Agriculture
    - Barriers to uptake of technology
  - Water Supply and sanitation (pumping, other technologies)
    - Few barriers but few incentives

# Energy Demand Responses

- Rationing
  - Creates black market
- Demand Restraint
  - Can be effective in short run but does not address long-run problems

# Lowering prices for consumers

- Universal fuel price subsidies
  - Regressive
  - Can result in over-consumption
  - Can result in out-smuggling of liquid fuels
  - Difficult to get rid of
- Power utility subsidies
  - Underpricing of fuels to power plants
  - General budget support to SOEs

# Lowering prices for consumers

- Multi-tier pricing
  - Increasing block tariff, lifeline
  - Volume differentiated tariff
- Two tier pricing for fuels
  - Use of smart cards, coupled with rationing
  - Open to abuse, costly to set up
- Fuel Tax reductions
  - Lowers government revenue
  - Does not benefit the poor

# Smoothing prices for consumers

- Price stabilization fund
  - Not sustainable
- Hedging
  - Complex, risk of losses
- Price smoothing schemes
  - Not sustainable

# Summary

- Governments will need a combination of policies to cope effectively
- Short term policy and program support
- Short term interventions for efficiency improvements and supply enhancement
- Medium term interventions for efficiency improvements and diversification.