

Economic and Environmental Impacts of Carbon & Energy Taxes in the Power Sector

Thesis Presented
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This thesis was submitted to the Department of Electrical Engineering of
University of Moratuwa, Sri Lanka
In fulfillment of the requirements for the
Degree of Master of Philosophy

Electrical Engineering Department
University of Moratuwa
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November 2004

DECLARATION

The work in this thesis is the results of my own investigation, except where otherwise stated.

It has not already been accepted in substance for any degree, and also is not being concurrently submitted for any other degrees.

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Executive Summary

This report presents the results and analysis of a study conducted with the objective of investigating the impact on economy wide emissions due to a carbon and energy taxes levied within the electricity generation sector of Sri Lanka.

An Input-Output decomposition technique is used to analyze four types of effects that contribute to the overall reduction in equivalent Carbon, NO_x and SO₂ emissions. These four effects are; fuel mix effect (i.e. the change in emissions due to variation in fuel mix), structural effect (i.e. change in emissions due to changes in technological coefficients), final demand effect (i.e. the change in emissions associated with changes in final demand) and joint effect (i.e. the interactive effect between or among the fuel mix, structural & final demand effects). The polluting fuel sources (e.g. coal) are less preferred under these tax regimes. Of the four effects change in fuel mix in thermal electricity generation and change final demand for electricity were found to be the main contributors in achieving economy wide emission reductions.

It was found that a minimum of \$50/tC of carbon tax or \$1.0/MBtu of energy tax is required to have a significant impact on economy-wide emissions in the Sri Lankan context. This results in an increase in electricity generation cost by approximately Rs 1 /kWh and Rs 0.65 /kWh under carbon and energy tax regimes respectively. The reduction in emissions is also strongly coupled with the value of price elasticity of electricity.

Also the study concentrates on tackling the barriers for the promotion of clean and energy efficient technologies in Sri Lanka. Barriers for renewable sources; wind and biomass (dendro thermal) and cleaner technologies; IGCC (coal) and LNG fired combined cycle were identified, based on a survey and strategies are proposed to tackle the major barriers. Analytic Hierarchy Process is used to rank the barriers and the strategies are proposed to address the three major barriers for each technology. For wind a Feed-In-Tariff, geographical diversification and capacity building in commercial banks are suggested. For dendro investment incentive and streamlining of wood production are proposed. Incorporating environment costs into the planning process and delayed implementation are suggested for IGCC and LNG.

Acknowledgement

This study was conducted as part of Asian Regional Research Programme in Energy, Environment and Climate – phase III (ARRPEEC – III), funded by Swedish International Development corporation Aid (SIDA) and coordinated by Asian Institute of Technology (AIT); the Sri Lankan component was handled by Sri Lanka Energy Managers Association (SLEMA). The author wishes to thank SIDA, AIT and SLEMA for the financial and technical assistance given.

The author wishes to express his sincere gratitude to his supervisors Prof. P.D.C. Wijayatunga and Prof. R.A. Attalage for their excellent guidance and encouragement throughout the entire duration of the study. Sincere thanks are due to Dr. Thilak Siyambalapitiya for being the external examiner for the study.

Many thanks are due to Prof. J.R. Lucas and Prof. H.Y.R. Perera; Heads of Department of Electrical Engineering and Dr. D.P.N. Nanayakkara and Dr. D.T.N. Nanayakkara; research coordinators during the study, for their assistance during the study.



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Sincere thanks are due to Mr. W.J.L.S. Fernando, Mrs. Kamani Jayasekara, Mrs. Madavi Kudaligama, Mr. Ajith de Alwis and Mr. T.N. Sandasiri of Ceylon Electricity Board, Ms. Chethiyangani Kulatunga and Mr. Sudharshana Perera of National Planning Department and Mrs. Anula Abeygunawardena and Mr. Khageshwar Sharma of Asian Institute of Technology for their corporation and guidance in collecting data and handling software used for the study.

Thanks are also due to the staff of Electrical Engineering Department for the support extended during the study period.

Many thanks and appreciations are due to Asanka, Aravinthan, Chandana and Lindula for their numerous supports during this work.

Finally the author expresses his deep appreciation towards his family for their encouragement and support. This work is dedicated to his beloved mother.

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List of Acronyms

TOE	Tons of Oil Equivalent
GJ	Giga Joule
GHG	Green House Gases
TRP	Traditional Resource Planning
IRP	Integrated Resource Planning
LNG	Liquefied Natural Gas
IPP	Independent Power Producers
GDP	Gross Domestic Product
GWh	Giga Watt Hour
MW	Mega Watt
LF	Load Factor
SPM	Suspended particulate matter
PAA	Project Approving Authority
EIA	Environmental Impact Assessment
T & D	Transmission and Distribution
LRAC	Long Run Average Cost
tC	Tonne of Carbon
MBtu	Mega British Thermal Units
IGCC	Integrated Gasification Combined Cycle
BIGCC	Biomass Integrated Gasification Combined Cycle
PFBC	Pulverized Fluidized Bed Combustion
GT	Gas Turbine
CEB	Ceylon Electricity Board
SLEMA	Sri Lanka Energy Managers Association
NERD	National Engineering Research and Development Centre
RERED	Renewable Energy for Rural Economic Development
SARI	South Asian Regional Initiative
USAID	United States Agency for International Development
CO ₂	Equivalent carbon dioxide
SO ₂	Equivalent Sulphur dioxide
NO _x	Nitrogen oxides