

## M e m o

**To:** Pricing Division Staff

**Subject:** Tariff Council Hearings on Primary Energy Prices

A recent study by our economics division has found that current controlled prices for natural gas are costing the company AZM 198 million per year, relative to market related prices. This amount of money is enough to increase annual output by 30,000 b/d of oil equivalent *each year that the subsidy is in effect*.

If the Government wishes to subsidize the use of energy by the poor, it should appropriate these funds directly. As things now stand there are no plans to introduce a more rational method of assisting low income energy consumers.

The company will propose to the TC that a special fee be levied on automobile sales and mobile phone usage to provide resources for low income consumers. This fee, equivalent to just a few kopeks on each monthly phone bill, M0.0025/kWh on electricity sales and less than AZM 100 per vehicle on new sales of automobiles, will fund the entire energy subsidy, without distorting energy markets and impairing the ability of SOCAR to compete with international oil companies.