



CENTRAL ASIA REGIONAL ECONOMIC COOPERATION

Energy Sector Coordinating Committee Meeting

23-25 May 2011, Baku, Azerbaijan

MEETING SUMMARY

I. Introduction

1. The ESCC Meeting was convened in Baku, Azerbaijan on 23-25 May 2011. Delegations from nine of the ten CAREC countries¹, representatives from CAREC partner multilateral institutions – Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Islamic Development Bank (IsDB) and the World Bank along with other international energy and water experts participated in the meeting. The meeting was opened by H.E. Mr. Natig Abbasov, Deputy Minister of Industry and Energy, Azerbaijan. The sessions were moderated by the representatives of Azerbaijan, Asian Development Bank and the World Bank.

2. The objectives of the ESCC meeting were to update on implementation of the CAREC Energy Action Plan, to seek agreement on the subcommittee work program among the participating countries; and to share experiences and enhance capacities on system planning and operation software, regional metering system and carbon finance mechanisms.

3. At the onset, the chair welcomed all the participants to Azerbaijan and invited delegate from the ADB to report on the preparation for the upcoming 10th Ministerial Conference. Representative of the CAREC Secretariat noted that this was the 10th year of CAREC and welcomed the cooperation of Pakistan and Turkmenistan, the newest members with CAREC. He also informed the meeting that the first development cooperation review was conducted by the ADB and outlined the strategic framework up to 2020.

4. Representative of the Ministry of Industry and Energy, Republic of Azerbaijan provided an overview of the Azerbaijan energy sector, current situation and strategy for further development of the sector. He also outlined the country's plans for reforming the energy sector. At present, the energy system is operated as a monopoly with a vertically integrated company – Azerenerji. After reform the sector, Azerbaijan will have an independent regulatory agency and a wholesale market. There are plans to expand transmission links between Azerbaijan, Georgia and Turkey towards the European Union and to build additional high voltage power transmission lines connecting Azerbaijan with Russia and Iran for increased cross border trading. The new energy law is being drafted at present.

¹ Afghanistan, Azerbaijan, Mongolia, Kyrgyz Republic, Kazakhstan, Tajikistan, Uzbekistan, Pakistan and Turkmenistan were represented. People's Republic of China was not represented.

5. In the second presentation, the Azerbaijan Energy Scientific-Research and Project Search Institute presented the trends in the energy sector. They informed the meeting that energy intensity has been decreasing in Azerbaijan, due to the measures of the ongoing energy efficiency program. The country also plans to incorporate a significant share of renewable energy in its energy mix by 2020. He also noted that energy efficiency is very important.

II. Implementation of Action Plan

6. Pillar 1, Energy Supply/Demand and Infrastructure

The Senior Officials meeting endorsed the Power Sector Regional Master Plan in 2009. The consultants – Fitchner commenced work on the study in December 2010. The first quarterly report on the Regional Master Plan was presented under Pillar 1. The detailed tasks for the study were presented to the participants which they agreed in principle. The members were informed that the Pillar 1 Subcommittee approved the methodology and implementation plan proposed by Fitchner. The final report is expected in December 2011. Energy security was the top priority identified by the Pillar 1 subcommittee. However, participants of the ESCC agreed that this priority should be addressed under compliance with all international rules and regulations. Representatives of Afghanistan requested to accelerate the study related to Afghanistan interconnection with the Central Asian Power System. It was also agreed that existing power sector plans in the member countries will be taken into consideration by Fitchner when developing its study. The draft medium term (5-year) investment plan will be presented during the next ESCC meeting in October 2011.

7. Pillar 2, Regional Dispatch and Regulatory Development

The Central Asia Power System study was presented in the previous ESCC meeting. These opportunities were recognized by the last ESCC meeting and it was decided to set up a subcommittee that would prioritize the activities for implementation. The participants agreed to the proposal to hold the subcommittee meeting for this pillar during the second half of July/ first half of August 2011. The participants were also briefed on the availability of the USAID's Regional Energy Security, Efficiency and Trade (RESET) program, which could be leveraged for the benefit of the participating countries. USAID representative made a presentation on RESET program and the areas where it could support objectives of the Pillar 2. It was clarified that while the RESET program is mainly focused on advisory support to Tajikistan, Kazakhstan, Kyrgyz Republic and Afghanistan, it could also be extended to other CAREC countries in the future. In the mean time, other participants could benefit by joining the training program organized with the help of RESET partnership. To avoid duplication of efforts and increase synergy between various programs, the participants excluding Uzbekistan endorsed collaboration between CAREC ESCC and USAID's RESET program on the proposed topics presented during the deliberations. During discussion, several areas of interest were identified by the participants and ESCC was requested to consider inclusion of these areas in their future program. These are listed under paragraph 12.

8. Pillar 3, Energy Water Linkages

The activities under Pillar 3 are divided into various phases. Phase 1a is aimed at defining a joint view on the needs for a decision support system (DSS) for energy-water analysis and modeling in Central Asia through a consultative process, and preparing the draft “First Generation (demonstration) Model” for the system taking energy-water linkages into account (Phase1b) being developed by the University of Washington.

9. A presentation provided an overview of the interim outcomes of Phase 1A under which a series of consultations were held in Kazakhstan, Kyrgyz Republic, Afghanistan and Tajikistan. There was a common thread of issues on energy and water security, the environment and agriculture, and social concerns; and there was considerable agreement among the countries about the importance of these issues and the criteria by which objectives are defined and alternatives are measured. However, there are national priorities that vary from country to country such as additional exports and the restoration of the Aral Sea. It was clarified that the decision support system (DSS) will be an analytical tool that support decision making activities and does not seek to change the current allocation of water between the countries; and that the consultations with Uzbekistan and Turkmenistan would be conducted according to the disposition of the individual governments. A regional workshop is proposed for Fall 2011 that would bring the technical teams from the six countries to complete phase 1 of Pillar 3 activities. Some participants requested that these activities should be extended to other interested CAREC member countries.

III. Capacity Building

10. Three activities for capacity building were covered along with the ESCC meeting.

- 1) Decision Support Software for Power System Planning,
- 2) Regional Metering System for Cross Border Power Flows, and
- 3) Carbon Finance Opportunities for CAREC.

The presentations were followed by a lively discussion. The participants appreciated these areas of capacity building and suggested follow-up activities as detailed below.

IV. Other Issues

ESCC Progress Report

11. The updated energy sector progress report, work plan and schedule (2011-2012) were reviewed. The subcommittee meetings for Pillar 1 was proposed in July 2011, Pillar 2 July/Aug 2011, and Pillar 3 during Fall 2011. The next ESCC meeting was proposed to be in October 2011 (proposed venue- Almaty) followed by the 10th Ministerial Conference in November 2011 (proposed venue – Baku).

12. The Turkmenistan delegation informed participants that works on the cross border transmission connection between Afghanistan and Turkmenistan is in progress. The first phase of Turkmenistan portion, transmission line of 500 kV up to Afghan border, is planned to be completed by end of 2013.

V. Conclusions and Next Steps Going Forward

13. The ESCC discussed the additional activities for 2011-2013.

- 1) Energy Efficiency and Renewable Energy
- 2) Developing and Implementing International Commercial Agreements
- 3) Decision Software for Power System Planning and Operation
- 4) Cross Border Metering Protocol
- 5) Institutional Structure of Energy Sector and Regulation
- 6) Water Energy Linkages – expansion to other CAREC countries
- 7) Capacity building on the success and failure factors in attracting foreign investments – experience from CAREC countries
- 8) Creation of database of existing expertise in the energy sector of CAREC countries