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# **The Kyrgyz Energy Sector's Transparency Initiative and Development Strategy**

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## Enabling Conditions:

## To Ensure Reliable Supply, System Security and Sector Development

### 1. Reverse Loss-making Financial Performance of the Sector

Reduce losses by installing modern metering, information, billing & collection systems

Introduce transparency mechanisms to retain cash in sector and ensure its proper use

### 2. Establish Economic & Institutional Basis for Growth & Investment

Justified tariffs that cover costs, encourage energy saving and attract investments

- Strengthen Regulator
  - Use & enforce Performance Agreements;
  - Establish & enforce license conditions;
- Establish accountable Corporate Governance for state owned companies;
- Rebundle distribution sector and put under MC

### 3. Institutional Development:

- Least Cost System Expansion Analysis and Investment Planning;
- Use Independent Owner's Engineer to control costs & insure quality;
- Use Model Project Agreements & Contracts;
- Establish Project Escrow Account for each project with agreed "cash waterfall".

#### Reliable Supply

-CHP Rebuild (\$ 450 M.)  
 -Kara-Keche (\$ 900 M.)  
 -Kambarata 2 (\$ 350 M.)

Σ= \$ 1.7 B

#### System Security

-Datka+South (\$ 250 M.)  
 -Datka-Kemin (\$ 350 M.)

Σ= \$ 600 M

#### Development for Exports

-Kemin-Almaty (\$ 140 M.)  
 -CASA (\$ 240 M.)  
 -Kambarata 1 (\$ 3 B.)

Σ= \$ 3.4 B

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# The President's Energy Sector Transparency Initiative

- Presidential Decree to create “FESTI” Signed July 20, 2010
  - 18 member Monitoring Committee composed of 6 from GOKR, 6 from energy companies, 6 NGO's selected by transparent tender
  - Will monitor implementation of a comprehensive program for transparency including:
    - installing modern information systems,
    - use of Performance Agreements,
    - increased public access to information,
    - new regulatory procedures for tariffs and public outreach & access to information,
    - Use of competitive tenders & escrow account for exports & fuel purchases

# The President's Energy Transparency Initiative cont.

- Regulations on Escrow Account for Export Revenues agreed with JSC Power Plants after extensive discussions
- Escrow Account has been established and is in use
- Regulations on the Monitoring Committee signed by the President on Sept 14, 2010 after Ministry's extensive discussion with representatives of NGO's who have been active in the energy sector and EITI
- Announcement for NGO selection expected soon

# Reduce Losses

- **Install Transmission Metering and Automatic Data Acquisition System (MADA)**
- **Establish Independent MADA Operator as Data Center for Settlements**
- **Install Distribution Master Metering**
- **Install a modern, secure billing system for entire distribution sector**
- **Establish Loss Reduction program based on realistic loss reduction targets by RES**

# **Transparency Mechanisms to Keep Money in Sector and Ensure it is Used Properly**

- **Hold truly competitive tenders for exports, purchase of fuels for CHP and publish results along with regional benchmark prices**
- **Establish Escrow Account for Export Revenues and expenditures for CHP fuels and electricity imports**
- **Require truly competitive tenders for all procurement of goods and services above a specified threshold and require publication of results on websites along with regional benchmark prices**
- **Establish Data Center for Settlements to operate Metering and Automatic Data Acquisition System (MADA)**
- **Publish Financial Reports of each state-owned energy company**
- **Establish Customer Advisory Boards and Customer Service Departments in each RES**
- **Establish easily accessible channels that provide frequent and reliable information to customers and the public throughout the country**
- **Audit procurement and accounting procedure in each company**
- **Audit relationships with all contractors and subcontractors performing functions of repairs, construction or providing supplies or equipment to energy companies**

# Tariffs to cover cost, encourage energy saving and attract investment

- **Social Safety Net**
  - Improve both “Targeting” and “Coverage”
  - Assure Funding
- **Cost of Service Study**
  - Data Collection and Analysis
  - Investment Plan
  - Management and Operational Audit
  - Financial Audit (to determine the current financial position and define “road map” to IFRS accounting system)
- **Develop set of Tariff Methodologies**
- **Develop procedures for public input, comment and consultations**
- **Through transparency and public outreach program, build confidence that tariffs are fully justified and money will stay in sector and be used properly**
- **Public Information Program about why tariff increases are needed in the future, how the additional revenues will be used, and how management will be accountable**



# Strengthen Regulator and Corporate Governance

- **Adopt, use and enforce Performance Agreements**
- **Revise Licensing Regulations**
- **Issue and enforce new licenses that include pre- and post-license conditions**
- **Adopt Internal Guidelines on confidential information for Ministry and Regulator to allow publication of information**
- **Amend laws to reestablish a strong Regulator**
- **Review Corporate Charters and Regulations on Board of Directors, General Directorate and etc.**
- **Appoint new Boards of Directors for GenCo, TransCo, re-bundled DisCo and hold accountable for Corporate Governance, compliance with license conditions and results under the Performance Agreement.**
- **Keep Sector unbundled (G, T &D) but “re-bundle” the four Distribution Companies (and put under 2-3 year Management Contract)**

# **Institutional “Best Practice” for Least Cost Sector Development**

- **Conduct a Least-Cost Analysis for Sector Development and prepare prioritized investment plan**
- **Use truly open, competitive tenders for all new investment projects**
- **Use model (international standard) Project Agreements and Contracts to protect public interest**
- **Hire independent Owner’s Engineer to oversee project design and construction, to control costs and to insure quality of construction and equipment**
- **Establish a Special Escrow Account for each new project with an agreed “cash waterfall”**
- **Establish Electricity Sector Revenue Account in Treasury to accumulate and track all sector related revenues (taxes, dividends, lease fee and etc.) due to GoKR**