

**Central Asia Regional Economic Cooperation (CAREC)
Energy Sector Coordinating Committee (ESCC)
Progress Report (since last ESCC meeting)**

Background

At its April 2006 meeting the ESCC agreed on a timetable to develop their Energy Sector Strategic Action Plans comprising Investment Needs, Capacity Building Needs; Outputs; Outcomes, and Monitoring Indicators for the energy sectors of each of the CAREC members.

ESCC also endorsed carrying a study to assess the available options for Movement of Primary Energy Commodities from Central Asia” with the suggestion made by PRC that the study should be at a ‘pre-feasibility’ level, identifying the strategic options and policy choices and requirements; and any particular project proposal coming out of this study would then be developed on a bilateral/trilateral basis with the countries involved.

The ESCC also agreed that, in view of the complexity of the Clean Development Mechanism (CDM) and the many sectors that provide opportunities for CDM projects, the IFIs should, in the context of their operational visits, make additional presentation to all relevant officials in each of the CAREC members. In this regard, it was agreed that CAREC members could benefit from the experience of PRC, who have the most CDM projects among CAREC members.

Energy Action Plans

In pursuit of the agreements of the ESCC, national energy sector action plans have been received from Afghanistan, Azerbaijan, Kyrgyz Republic, Tajikistan, and Mongolia. Peoples Republic Of China (PRC), Kazakhstan and Uzbekistan are yet to submit their respective actions plans.

World Bank has prepared a Discussion Note on the Energy Sector Strategic Action Plans.

Central Asia Options for Movement of Primary Energy Commodities Study (OMPECS)

The ESCC and SOM endorsed that the Central Asia Options for Movement of Primary Energy Commodities Study (OMPECS) should be carried out. It was also felt that prior individual consultations on willingness the CAREC countries to participate in such a study would be needed, since the cooperation of relevant agencies and entities within CAREC countries would be needed. Accordingly, consultations have been held with Kazakhstan and PRC.

- Kazakhstan’s Kazmunaigas (the national oil and gas transportation company) has expressed willingness to participate in the study pending clearance from the relevant government ministries. On the other hand, Kazakhstan has indicated that it already pursues regular coal exports to Russia, and neighboring China is self-sufficient in terms of coal. In this context Kazakhstan’s opinion is that there is no need of exploring further options to export coal.
- The National Development and Reform Commission (NDRC) of China has indicated willingness to support and coordinate the involvement of Chinese entities in the study;

but have requested ADB and the World Bank to first discuss on their own with the Chinese entities the interest of these entities in the study. For PRC, in view of the diffused responsibilities for production and transportation of primary energy commodities, it would make sense to include as many of the oil and gas companies in the country as possible. Accordingly, ADB and the World Bank have already met with Sinochem Petroleum Exploration and Production Co. Ltd (Sinochem E&P) which has indicated their interest in participating in the study. Therefore, such consultations would continue; and consultations are also planned with other CAREC countries.

Clean Development Mechanism

The key development that needs reporting is that Tajikistan has formally announced that it would not ratify the Kyoto Protocol.

In the meantime, the IFIs, ADB and World Bank continue to develop CDM programs and projects as summarized below.

- The ADB Carbon Market Initiative (CMI) is currently receiving expressions of interest from potential participants and is continuing to request other interested countries to join the initiative. The Asia Pacific Carbon Fund (APCF) Information Memorandum and draft Fund Regulations were circulated in July 2006 among potential participants for comments, which have now been incorporated. ADB's management has approved the CMI concept to be submitted for the Board consideration upon reaching approximately US\$80 million in commitments.
- The ADB Energy Efficiency Initiative (EEI) is implementing its second Phase until December 2007, which includes the preparation of country-level investment and action plans on energy efficiency, development of the project pipeline for 2008-2010, design and establishment of the Asia-Pacific Fund for Energy Efficiency (APFEE), and identification of immediate energy efficiency investment opportunities.
- The World Bank has recently endorsed an assistance program that envisions more active engagement in countries of Central Asia, which has ratified the Kyoto Protocol and has a portfolio with the World Bank. At present, Uzbekistan and the Kyrgyz Republic are the most likely participants having ratified the Kyoto Protocol. In Uzbekistan, the World Bank is already supporting the development of a waste management project. The assistance program will focus on raising awareness about the Clean Development Mechanism (CDM) among key stakeholders and developing a potential pipeline of CDM projects. A similar program is already underway in Azerbaijan, where a CDM workshop was held last March.

Progress of the CAREC Members Electricity Regulators Forum

The Second Annual Meeting of the CAREC Members Electricity Regulators Forum (CMERF) was successfully held in Almaty, Kazakhstan on 11-13 September 2006. It was co hosted by ADB and the Agency for Regulation of Natural Monopolies (ARNM) of Kazakhstan. The three-day event sponsored by ADB and the Public-Private Infrastructure Advisory Facility (PPIAF) brought together a total of 60 participants: (i) regulators from Afghanistan, Azerbaijan, People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan and Uzbekistan; (ii) international power regulation experts, and (iii) representatives of multilateral institutions.

The Meeting adopted a plenary format and the agenda covered the following main topics: (i) tariff design and social safety net; (ii) privatization of distribution company management; (iii) power utility costs; (iv) pricing of ancillary services; and (v) risk sharing in power purchase agreements. The ADB presented and discussed the interim findings of the ongoing studies on these topics. Prominent power regulation experts delivered presentations and led discussions on aligning government and investor expectations, regulatory issues faced by private companies and regulators, and shared the lessons learned from electricity restructuring in transition countries.

Each country delegation prepared and made a presentation on the progress of power regulation reforms since the 2005 annual meeting held in Beijing. They stressed the importance of the role that CMERF plays in supporting the region's power regulators and ongoing sector reforms. They also led an open session on the planning of future activities, and shared their views on how CMERF can serve its members' needs more effectively in the coming years.

First, the country delegations found the Second Annual Meeting successful and the presentations by the speakers useful and directly related to the regulatory situation in their respective countries. Second, the delegates reemphasized the value that CMERF adds to the process of harmonizing power regulations, encouraging and facilitating regional trade, and developing the capacity of the regulators and the regulatory bodies. Third, the delegates also expressed their satisfaction in the interactions both formal and informal with the resource persons. They were able to clarify and discuss in-person and in-detail the issues of interest. The delegates appreciated the method of seat rotation of resource persons during each session, as it enabled them to get to know the experts and lead discussions into coffee and lunch breaks and side-meetings during the three days.

The participants also debated on whether CMERF meetings could adopt a working group format where specific case studies (i.e. regional power regulation benchmarking, wheeling charge methodology, etc.) will be presented and discussed. The country delegations felt that CMERF should explore the possibility of providing training to its members on specific regulatory topics. In addition to the annual meeting, these training programs will add direct value to the capacity of the regulatory bodies themselves.

The country delegations reiterated that CMERF was not just an annual gathering, but an effective and functional forum, and that the ongoing studies under CMERF provided direct and practical support to their work. The exchange of ideas during the annual meetings was indeed something that the regulators need and that should be continued, as it fosters active cooperation amongst experts and regulators, and builds professional relationships between the CAREC region's regulatory bodies. In order to ensure effective ownership, the delegates felt that the country hosting the annual meeting should hold the chairmanship of the CMERF Governing Body during that year, and be responsible for the program and guide the work of the CMERF Secretariat.

Discussions were also held on the effective dissemination of information amongst CMERF members. The participants were encouraged to utilize the information available on the current CMERF website (www.adb.org/projects/CMERF). The participants also felt that electronic exchange of information may be an efficient and useful way to work out initiatives in-between annual meetings. The ADB proposed to publish the study reports and the Meeting proceedings in April 2007.

The country delegations supported and accepted the initiative by the Energy Regulatory Authority of Mongolia to host the third annual meeting in Ulaanbaatar, Mongolia. In the CAREC region, Mongolia conceptually has the most independent power regulation structure and body. ERA has been in operation for 5 years, and has been instrumental in reducing commercial losses in Mongolia's power system.

As the co-host, ARNM showcased the Kazakhstan experience in creating electricity markets and tariff reforms. The Meeting concluded with a presentation by the Almaty Power Consolidated, a Kazakh power company, and a tour of its Kapchegai Hydropower Plant (360MW) located outside Almaty.

The CMERF was established in 2005 with assistance from ADB and PPIAF to support regional cooperation and integration in the energy sector under the CAREC Program. It aims to develop the capacity of its members to provide improved regulation and regulatory support of power industry reforms. This will help promote more efficient production and use of energy domestically, and will be crucial for supporting the development of electricity trade in the CAREC region. Improved regulation will attract more private investment to the power sectors of the region.