

Central Asia Regional Economic Cooperation
5th Energy Sector Coordinating Committee (ESCC) Meeting
October 17, 2006, Urumqi, People's Republic of China
Minutes of Meeting

The Meeting was attended by delegations from Azerbaijan, People's Republic of China (PRC), Kyrgyz Republic, Mongolia, Tajikistan and Uzbekistan. Pakistan participated as an Observer, and was represented by the Energy Advisor to Prime Minister. The International Financial Institutions (IFIs) represented were Asian Development Bank (ADB), Islamic Development Bank (IsDB) and the World Bank. The meeting was co-chaired by PRC (Ms. Yan Xiaolu, Deputy Director General, State Electricity Regulatory Commission of China) and the World Bank (Mr. Raghuvver Sharma, Team Leader, Central Asia Energy Programs). The List of Delegates is provided in Attachment 1.

The World Bank presented the Progress Report on the ESCC activities since the last Senior Officials Meeting (SOM) in April 2006 in CAREC countries which covered the status of various ESCC action plan items agreed. The Progress Report is attached as Attachment 2. ADB made presentation on progress made on CAREC Members Electricity Regulators Forum (CMERF) including results of the second annual meeting. and Energy Efficiency Initiative The Delegates endorsed the Progress Report as the ESCC's Report to the Senior Officials Meeting (SOM) on October 18, 2006.

Each of the attending country delegations made a presentation of their country's energy sector development strategy. The key messages of each country's presentation are summarized in Attachment 3. There was discussion among the delegates on electricity losses and loss mitigation issues in the CAREC countries and how to tackle them. Also it was recognized that PRC is becoming an even larger player in enabling energy trade, with multiple roles as an investor, importer and even exporter.

Energy Sector Strategic Action Plan

The main agenda for this meeting of the ESCC was to jointly review the Energy Sector Strategic Action Plans (ESSAP) for the CAREC countries. All CAREC countries agreed to furnish the revised drafts of ESSAP by 15 December 2006, although efforts will be made to furnish them earlier. After this, through mutual consultations, near final ESSAPs for all CAREC countries would be finalized by the next SOM in April 2007.

The ESCC discussed ESSAPs along the lines of the Discussion Note prepared by the World Bank. While the ESSAPs furnished are indeed progress, they remain a 'first cut' and improvements are needed. For example, Afghanistan only submitted the oil and gas part of the ESSAP, which needs to be complemented by the electricity part. Azerbaijan presented a very detailed Actions list, which needs to be put on a more strategic level. None of the submissions, identified either the 'Bold Strokes', and the inclusion of outcomes and performance indicators was not consistent.

The ESCC endorsed the proposed framework for the ESSAPs, including the concept of identifying 'bold strokes'; regional cooperation imperatives; and outcome and performance indicators. Accordingly, the ESCC agreed to recommend to the SOM that all countries would submit the revised ESSAPs, which would have the following suggested structure: (a) Background and Problems in the Sector; (b) Objectives of ESSAP; (c) The Strategic elements comprising: (i) Domestic Investment Measures; (ii) Regional (cross border) Investment

Measures; (d) policy measures; (e) identification and prioritization of Bold Strokes; (f) Identification and Prioritization of Regional Cooperation Imperatives; (g) Financial Costs of the ESSAP (investment, capacity building); (h) Possible Sources of Financing of ESSAP; (i) Timetable for the implementation of the ESSAP; and (j) Performance/Outcome Indicators for ESSAP elements.

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**Central Asia Regional Economic Cooperation
Energy Sector Coordinating Committee (ESCC) Meeting
17 October 2006; Urumqi, XUAR, People's Republic of China**

**LIST OF PARTICIPANTS
(As of 17 Oct 2006)**

I. PARTICIPATING COUNTRY DELEGATIONS

A. Azerbaijan

1. Mr. Feyzulla Muradov, Ministry of Fuel and Energy

B. People's Republic of China

2. Mr. Xu Jilin, National Development and Reform Commission
3. Ms. Yan Xiaolu, Deputy Director General, Department of International Cooperation, State Electricity Regulatory Commission (SERC)

C. Kyrgyz Republic

4. Mr. Akylbek Tumenbaev, Deputy Director, State Agency of Energy
5. Mr. Aziz Aliev, ADB CAREC Advisor

D. Mongolia

6. Mr. Ts. Sukhbaatar, Ministry of Fuel and Energy

E. Tajikistan

7. Ms. Mavjuda Keldiyerova, Deputy Minister, Ministry of Energy

F. Uzbekistan

8. Mr. Bakhodir Abdurakhmanov, First Deputy Chairman, SJSC Uzbekenergo
9. Mr. Rakhmidin Zikriyaev, Deputy Chairman, Uzbekneftegaz

II. PARTICIPATING MULTILATERAL INSTITUTIONS

A. Asian Development Bank

10. Mr. Bayanjargal Byambasaikhan, Energy Specialist, Infrastructure Division, Central and West Asia Department

B. Islamic Development Bank

11. Mr. Nik Zainal Abidin, Director, Almaty Regional Office

C. World Bank

12. Mr. Raghuv eer Sharma, Lead Financial Analyst, Infrastructure Department, Europe and Central Asia Region
13. Mr. Nikolay Petrov Nikolov, Operations Officer, Infrastructure Department, Europe and Central Asia Region
14. Mr. Mirlan Aldayarov, Operations Officer, Infrastructure Department, Europe and Central Asia Region
15. Mr. V. Krishnaswamy, Consultant, Infrastructure Department, Europe and Central Asia Region

II. OBSERVING COUNTRY DELEGATION

A. Pakistan

16. Mr. Mukhtar Ahmed, Advisor to the Prime Minister on Energy

**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.

Key messages

Azerbaijan. Although country's delegation arrived late to Urumqi and did not make a formal presentation, it made several useful comments and amendments during the overall discussion.

People's Republic of China. Very comprehensive presentation was made by PRC's delegation, which covered current status of China's energy development; along with energy development strategy/policy; and proposal for CAREC energy cooperation through enhanced consultations of experts and knowledge sharing.. The energy supply system, both generation and transmission, is expanding fast but demand is also growing quite rapidly. The energy development strategy would focus on the following (1) Energy saving: energy efficiency improvement; (2) Rationalizations/diversification of energy structure; increase of the proportion of energy with good quality; (3) Increased reliance on energy supply from domestic resources for a long time to ensure energy safety; (4) Environment protection; and (5) International cooperation.

Kyrgyz Republic. Strategy for Energy Industry Development in the Kyrgyz Republic for the period of 2006-2010 is being developed by Kyrgyz Republic as well as the medium-term electricity and heat tariff policy for 2006-2010. Main goal of the energy sector development strategy for the Kyrgyz Republic is to achieve energy security in the long-term period until 2025, accomplish financial recovery of the power industry, and create conditions for its balanced and comprehensive development. These documents were reviewed during the last Government's meeting are planned to be approved by the end of October, 2006.

Mongolia. The presentation made by the Mongolian delegation included the current status of the energy sector, the sector strategy, selected projects to be implemented, investment needs in the energy sector, and actions to be taken in short and medium term. The recent accomplishments include adoption of the several important laws and programs, such as Energy Law, Integrated Energy System Program, Sustainable Development Strategy, and Renewable Energy National Program. Several steps in improving regulatory framework have been made including establishment of Energy Regulation Authority and unbundling the power sector.

Tajikistan. A very comprehensive picture of the hydroelectric resource base and the options for its development were presented, including specific projects and recent efforts in the direction of electricity trade between Central and South Asia.

Uzbekistan. The presentation described the current situation and perspective development of the power system of Uzbekistan in terms of structure of installed capacities of the power plants, main power generation plants, structure of fuel consumption by power plants. The strategic goals of the development of the electric power industry till 2020 are the following: reliable supply of electrical power to population and industry; technical re-equipment and modernization of branch facilities, efficiency and functional improvement; reduction of the negative impact of energy production on the environment; further development of economic reforms, creation and development of electric power market; furthering the integration process within the unified power grid of the Central Asia.

Delegations from **Afghanistan** and **Kazakhstan** were not able to participate in the meeting.