

Trainor – Ashgabat 04 May 2010 – OSCE Energy Security Conference

Excellencies, Ladies and Gentlemen, Colleagues

[Thank hosts and organizers for hospitality and invitation to speak]

[Introduce theme of comments: overview of challenges and opportunities for cooperation in energy security in Central Asia and describe USAID's program to support the creation of a common power market in Central Asia.]

BACKGROUND:

1.

Prior to the dissolution of the Soviet Union, the energy and water resources of the five Central Asian Republics were managed in a coordinated fashion, accounting for the complementary nature of the region's abundance of fossil-fuel and hydrological resources and its seasonal electric power and irrigation requirements. Dispatch of the region's thermal (fossil-fueled) power generation plants was coordinated with dispatch from hydroelectric plants in mountainous Kyrgyzstan and Tajikistan, whose management also reflected the water-release requirements to satisfy down-stream Kazakhstan, Turkmenistan, and Uzbekistan's seasonal irrigation requirements. The main large-scale hydroelectric facilities in Kyrgyzstan and Tajikistan (Toktogul and Nurek, respectively) were built primarily to provide water-storage and release (irrigation and flood-control) services in the down-stream countries.

2.

The irrigation dimension entailed release of water and generation of hydroelectric power from Toktogul and Nurek at periods below peak seasonal power demand. The economic value of the generated hydroelectric power was, consequently, lower during the summer irrigation season than it would have been had water been withheld for release during seasonal peaks (winter.) Viewed from the perspective of these plants' operators today, this represented a significant opportunity cost. Although in the period of Soviet central planning this lexicon was not used, the diminished value of the hydroelectric power generated was compensated for as Kyrgyzstan and Tajikistan took delivery of Turkmenistan, Uzbekistan, and Kazakhstan thermally-generated power and fossil fuels to supply Kyrgyzstan and

Tajikistan domestic load and their fossil-fuel power and central-heating plants.

3.

Since the dissolution of the Soviet Union, the countries of Central Asia have failed to successfully transition from the centrally-planned (and structurally efficient) model of water-resource/power management to its market-based equivalent with cost- or value-reflecting pricing for services and commodities. While water-resource management and energy exchange has continued among the five Central Asian Republics, no effective and stable arrangement for pricing the exchange of services and commodities has emerged. The resulting unpredictability has prompted countries to seek increased self-sufficiency at the expense of efficiency-enhancing dispatch coordination.

4.

Anecdote: In recent years during periods of water abundance in its reservoirs, Tajikistan has found itself in the position of having to release (“spill”) water from its Nurek facility without generating power while Uzbekistan continued to run gas-fired thermal generation. An efficient market arrangement would have seen Nurek dispatch low-marginal-cost hydroelectric power for delivery to Uzbekistan, with Uzbekistan backing off of relatively high-marginal-cost thermal generation.

5.

Observation: In the post-Soviet period, I observe that there seems to be evidence of the pursuit of self-sufficiency by some countries in the region as though that were necessary for the assertion of sovereignty. Sovereignty and independence are not synonymous. A return to autarky is not good policy, as anyone who’s familiar with Ricardian economic theory understands. It is in fact welfare-diminishing.

6.

The region’s inability to agree to an efficient market-based power/water-resource management arrangement in the region, and the resulting pursuit of increased self-sufficiency, has caused many countries in the region to make

costly investments in what would be seen from a technical perspective as superfluous transmission infrastructure to avoid the need to transit power via third countries across whose territory parts of the Soviet-built Unified Energy System was routed.

7.

Poor power/water-resource management, and the ad-hoc and often opaque management of power exchange and pricing arrangements between generators and bulk customers, have in recent years exacerbated winter-deficit crises in Kyrgyzstan and Tajikistan, both of whose main hydroelectric reservoirs have been run nearly to depletion, subjecting their domestic customers to extremely harsh rationing. The hardship endured by Kyrgyzstan and Tajikistan consumers are made worse by the de-capitalization of their domestic power-sector assets and the reduced availability of fossil-fuels to run their domestic thermal generation and central heating plants. Hardship and reduced economic productivity, an increased incidence of morbidity and mortality, and social unrest are predictable consequences – something acutely felt recently in Kyrgyzstan.

8.

Investments in high-value capacity expansion have been impeded as a result of market unpredictability and slow pace (or complete absence) of reform of the countries' domestic industries.

9.

The implications of the continued absence of a sustainable and efficient framework for the region's resource management go beyond just the cost of reduced system optimization, economic inefficiencies, and internal political instability. Tensions among the riparian states of the Syrdarya and Amudarya rivers remain high, and arguably impede relations outside the narrow water and energy sphere.

10.

The headline-grabbing decision of Uzbekistan and Kazakhstan to partially withdraw from the Central Asian system this past winter exemplifies the need for greater coordination among countries of Central Asia in the

management of the region's water and energy resources and interconnected infrastructures. The lack of coherent and enforceable market-based operation rules among CAPG countries is at many levels the cause of – or at least a significant contributing factor to – the crisis situation that compelled these countries to take these decisions.

11.

The countries of Central Asia have all, to varying degrees, demonstrated interest a return to coordinated management of the region's water and power resources, and in some instances participation in joint investment projects. For instance - Kazakhstan, Tajikistan, and Kyrgyzstan (together with Russia, whose Siberian grid is interconnected with northern Kazakhstan's) are all signatories to an agreement on the establishment of a single power market within the region as a precursor to greater exchange of electricity and capital within a common CIS power market. Concurrently, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan jointly participated in the formation of a regional "Coordination Dispatch Center", or CDC, in Tashkent, whose stated objective is the facilitation of improved technical operation and coordination of the four countries' interconnected high-voltage systems. We have seen Turkmenistan's interest in exporting power to third countries within the region. And indeed, all Central Asian countries have demonstrated an interest in exporting power to neighboring countries, in particular Afghanistan. The region's potential as an exporter of electric power is indeed substantial, but remains impeded by a lack of cooperation and coordination of policies within the region itself.

USAID's PROGRAM IN RESPONSE:

12.

The United States, like many partners who have already spoken at this forum, is keenly interested in helping countries in this region in finding a sustainable arrangement for cooperation in electric power and water-resource management. And like our partners, we recognize that we can only assist in this effort – and that the initiative must be driven by the governments of the region themselves.

13.

USAID's program of assistance is centered on our Regional Energy Markets Assistance Program, the next phase of which will begin in the next few months and will expand on the results of earlier REMAP efforts to support the establishment of a functioning regional wholesale power market and stimulate efficiency-enhancing investments in network infrastructures and generation capacities. REMAP will expand efforts to streamline and harmonize Central Asian states' legal, regulatory, and institutional frameworks for management of cross-border regional trade in electric power and management of water resources – including linkages in these areas to Afghanistan.

14.

To support its objectives, REMAP will focus resources on building the technical capacity of Central Asian and Afghanistan high-voltage transmission-system operators (TSOs) to manage transmission-capacity allocations and coordinate system stability; to provide a framework for generation dispatch optimization; and to pursue inter-governmental agreement on the harmonization of regulatory regimes governing national and cross-border trade in electricity. REMAP will also engage with the five Central Asian states in formulating a long-term, sustainable and stability-enhancing arrangement for value-reflective pricing of water-storage services in Tajikistan and Kyrgyzstan and the timing of water release for irrigation in down-stream Uzbekistan, Turkmenistan, and Kazakhstan.

15.

I would like here to comment on the encouraging signals that we have seen from Ashgabat in recent months relating to the treatment of trans-boundary water in Central Asia – specifically Ashgabat's acknowledgement of the need to take account of all countries' interests in the treatment of trans-boundary water in a comprehensive way. For a downstream country to take this position is remarkable and truly encouraging.

16.

REMAP's focus at the national level will also reflect the specific priorities and opportunities in each state, with assistance at domestic power industry reform where the need is most acute. It is not realistic to expect that any country whose domestic industry is unable to serve its own customer base or

raise revenues sufficient to cover its costs can meaningfully and sustainably participate in a regional market – even as an exporter of power on an isolated or “island” basis.

17.

In my comments, I’ve mostly spoken about these challenges from the perspective of the power sector. I want to take the opportunity to emphasize once again the importance of addressing these challenges in a comprehensive way that incorporates the treatment of trans-boundary water resource management. One cannot discuss power trade in this region without discussing the treatment of trans-boundary waterways. We are encouraged by the progress that the Executive Committee of the International Fund to Save the Aral Sea has made, with the support of its international partners, in charting a course for dialogue on the region’s management of shared water resources. The process was given new impetus at the IFAS Summit at the end of April 2009. Since then, specific proposals have been elaborated for the re-definition of IFAS’ mandate to include the treatment of electric power, and for the streamlining or “refinement” of IFAS’ organizational structures.

18.

These are very important developments, and USAID supports these efforts and these proposals, and is prepared to make additional investments of resources for their adoption and implementation.

Thank You.