THIRD INTERNATIONAL FORUM: ENERGY FOR SUSTAINABLE DEVELOPMENT

12 - 14 September 2012, Issyk Kul Lake, Kyrgyzstan
Hotel “Issyk Kul – Avrora”
CONDITIONS FOR PRIVATE INVESTMENT IN THE ENERGY SECTOR IN KYRGYZSTAN

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1. Power & Energy Balance: Huge Potential for Small & Medium Size HPPs

Kyrgyzstan’s electricity system depends heavily on hydropower generation (93% in 2010).

Kambarata 2: Naryn HPP has been recently commissioned and Kambarata 1 & 3 are being planned.
CONDITIONS FOR PRIVATE INVESTMENT IN THE ENERGY SECTOR IN KYRGYZSTAN

⇒ Sofar investment have been focused on building huge HPPs.

⇒ On the demand side, electricity consumption has increased in the country.

⇒ Gas consumption has collapsed: people are moving from gas to electricity.
CONDITIONS FOR PRIVATE INVESTMENT IN THE ENERGY SECTOR IN KYRGYZSTAN

⇒ It is estimated that Kyrgyzstan is currently using just 10% of its hydropower potential.

⇒ => There is a huge potential for small or medium HPPs costing between $500,000 and $10 million (+ civil works).

⇒ => There could be hundred of small or medium HPPs all over Kyrgyzstan.

⇒ => This would allow to X power to South KZ, Almaty.
2- The impediments to increase of FDI by private operators

⇒ One of the main impediments to investment is underpricing of electricity.

⇒ => Kyrgyzstan’s power sector, as a whole, has been losing money for years and has accumulated large amounts of debts and arrears – billions of soms of bad debts - => it would be very difficult for any of the companies to get financing from any market operator.
The sector needs:

- a proper accounting system;
- a proper pricing system;

=> Tariffs are extremely low and deter investors => investment is not possible since there is no payback.

=> The lack of good governance and the lack of tax attractiveness also deter investors.
CONDITIONS FOR PRIVATE INVESTMENT IN THE ENERGY SECTOR IN KYRGYZSTAN

⇒ No investor will buy equipment (paid at world prices) that cannot be properly amortized.

⇒ => In these conditions private investment will not happen.

⇒ => If Government wants to invest: it faces the same problem: the price of electricity does not even cover running costs.
3- Recommendations

⇒ Since the State remains the owner of all the major energy companies (in generation, transmission, distribution), creating a situation where the State owes money to itself, cancelling of at least some of that debt as part of eventual restructuring should be considered.

⇒ Establish a comprehensive long-term tariff policy.
3- Recommendations

- => Adopt a modern methodology for calculating tariffs that is consistent with the international best practice for estimating the full cost of providing electricity service

- => Begin to increase tariffs towards the full cost level when two conditions can be met:
3- Recommendations

- => customers can see an improvement in service reliability, and
- the current “social safety net” has been redesigned so that it assures all low-income consumers have the ability to pay for basic electricity service;

- => Inform the public about both the difference between the true cost of electricity service compared to the current tariff levels set by the Government,
CONSIDERATIONS FOR PRIVATE INVESTMENT IN THE ENERGY SECTOR IN KYRGYZSTAN

3- Recommendations

- as well as the amounts and sources of the subsidies that fund the differences between the full cost of service and what consumers actually pay; and

=> Adopt a process that involves consultation with the public.
 CONDITIONS FOR PRIVATE INVESTMENT IN THE ENERGY SECTOR IN KYRGYZSTAN

⇒ One of the priority is to secure full transparency of the electricity sector.

⇒ => For example the Ministry of Energy & Industry is aware that there are serious inconsistencies in the payment system and wants to see them removed.
This means also improving accountability and governance in the electricity sector and probably offer favourable tax regimes to potential investors.

Foreign investment should be much better protected than it is nowadays: Kyrgyzstan has adopted many good and modern laws in this respect but laws are not always enforced...