

LAURA TUCK
Vice President
Europe and Central Asia Region

January 7, 2014

H.E. Galina Saidova
Minister
Ministry of Economy
Tashkent
REPUBLIC OF UZBEKISTAN

Dear Ms. Saidova,

Thank you for your letter to President Kim regarding the CASA-1000 project. We appreciate the detailed review in the attachments as well. As the Regional Vice President for Europe and Central Asia, President Kim has asked me to respond to your letter on his behalf.

First, I would like to assure you that we highly value your insights into the technical and economic feasibility of the CASA 1000 project. The Bank's energy sector team would welcome the opportunity to meet with you and the technical experts from Uzbekistan's research institutes soon to discuss your concerns and provide additional information about the proposed project. Throughout the Bank's consideration and preparation of CASA-1000, we have strived to maintain a transparent, inclusive approach. We view consultations with the Government of Uzbekistan as a critical aspect of our full consideration of the project's benefits and risks.

Our Regional Director for Central Asia, Mr. Saroj Kumar Jha, and the CASA 1000 Project Team Leader, Mr. Sunil Kumar Khosla, will be in Tashkent from January 8-9, 2013, and they would be available to meet with you and your technical team during their mission. Alternatively the meeting can take place at a later date in Tashkent or in Washington DC at your convenience. In the meantime, please allow me to respond to some of your specific concerns.

As we have noted on several occasions, the power generation infrastructure needed for CASA-1000 is already in place. In February 2011, an update to the original feasibility report for CASA-1000 was completed. This report showed that for the 20-year period covered by the study (2016-35) both Kyrgyz Republic and Tajikistan will continue to have sufficient summer-time hydropower surpluses to export power to South Asia without adding new power generation capacity. The report also clarified that, even though sufficient quantities of surplus hydropower will be available during the summer months to supply the CASA-1000 transmission line, given the open access provisions

that will apply to the new line, existing power generation assets could be supplemented in the future by other countries' exports. With regard to our estimates of the summer energy supply, we would like to clarify that our analysis of inflows for the Nurek and Toktogul reservoirs has excluded the highest flow years when determining the average quantities of energy deficit or surplus available.

With regard to sedimentation, our analysis assumes that the Government of Tajikistan will implement the priority hydropower rehabilitation projects recommended in the recently completed World Bank study titled "Tajikistan Winter Energy Crisis: Electricity Supply and Demand Alternatives." Under the ongoing World Bank-funded *Energy Loss Reduction Project* (ELRP), the Government of Tajikistan issued a Request for Proposals on August 20, 2013, to conduct a techno-economic assessment study for the rehabilitation of the Nurek hydropower plant (HPP), which would include improvements to dam safety. The Government of Tajikistan has confirmed that these rehabilitation projects have high priority and several of them are already under implementation with support from other International Financial Institutions (IFIs). The World Bank Group will continue to emphasize their importance in solving the winter energy crisis.

In the Kyrgyz Republic, the recently approved Asian Development Bank-funded Power Sector Rehabilitation Project (PSRP) is currently assisting the Government in improving the technical and operational performance of hydropower plants of the Naryn river cascade, including a dam safety assessment of the Toktogul plant.

It is important to note that the operational performance of these hydro projects are critical for ensuring adequate domestic supply in both Kyrgyz Republic and Tajikistan.

Regarding the demand for electricity in the Kyrgyz Republic and Tajikistan, the CASA-1000 Project Feasibility Study Update¹ (FS Report) makes conservative assumptions about demand because it assumes a relatively low tariff increase that would keep electricity prices well below cost-recovery levels. However, by 2020 both the Kyrgyz Republic and Tajikistan will need to increase electricity tariffs to bring them closer to cost-recovery levels. The World Bank Group has consistently supported social and technical analyses to help both countries develop an acceptable tariff-setting methodology. Once higher tariffs are in place, both countries will see electricity demand drop below the level that has been used as the basis for the analysis of the available energy surplus and project viability. It is worth noting that the demand forecast for Kyrgyz Republic and Tajikistan is higher in the FS Report compared to the CAREC Power Sector Regional Master Plan² which assumes larger tariff increases. These are the types of issues that the World Bank Group energy team would like to discuss with your technical experts in more detail at your convenience.

Our analysis also assumes that electricity losses can be reduced by 23% to 13% by 2025. In our opinion, this level of reduction can be achieved because a significant share of the current losses is commercial and can be reduced without large investments. In

¹ Final Report, February 2011, SNC Lavalin International Inc.

² Final Report, October 2012.

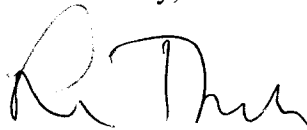
addition, a reduction of technical losses does not require a complete overhaul of the transmission network and can be achieved with well-targeted investments in projects with high impact. Thanks to a combination of measures to reduce commercial and technical losses, we have several examples of other countries such as Armenia and Georgia that have managed to reduce electricity losses by 10-12% in just ten years. We have discussed such measures several times in our discussions with the Governments of the Kyrgyz Republic and Tajikistan. We will continue working with all our clients who are keen to reduce electricity losses as a matter of priority.

I would also like to take this opportunity to clarify that the precise transmission line route for CASA 1000 will be finalized only during the phase of the project's detailed design. The project design will also include rapid response measures to help quickly address any transmission failures. Given that all the technical analyses that have already been completed, including the consideration of a scenario with increased investment costs, we consider the cost estimate to be realistic and we view the CASA-1000 as a viable investment.

I realize that this letter might not address all of your concerns, but I wanted to send you a detailed response as a precursor to a meeting that I hope can happen soon between your technical experts and the World Bank team. I encourage you to continue sharing your comments with us as the project preparation of CASA-1000 advances. It remains our view that the project's objectives are aligned with the World Bank Group's goals of ending extreme poverty and boosting shared prosperity. The World Bank Group views CASA-1000 as an important step in building a functioning, efficient electricity system across Central Asia and South Asia.

I look forward to meeting with you and discussing these and other issues relevant to our cooperation during my upcoming visit to Tashkent.

Sincerely,



Laura Tuck
Vice President
Europe and Central Asia Region
The World Bank

c.c.: Mr. Jorg Frieden, Executive Director, World Bank
Ms. Francoise A. Salame Guex, Sr. Advisor to Executive Director, World Bank