

Afghanistan Energy Study 10th Committee Meeting Minutes

Meeting time and location: Wednesday April 17, 2019, World Bank Office, Kabul

Discussions and Decisions:

1. The meeting was opened with introductory remarks by his Excellency the Minister of Energy and Water, Eng. Mohammad Gul Khulmi and by his Excellency Chief Executive Officer (CEO) DABS, Eng. Amanullah Ghalib. Mr. Khulmi emphasized the need for further efforts in electrification rural areas in Afghanistan. He also stressed the need for better coordination between donors in relation to energy projects.

2. Ms. Fanny explained to the audience that the first part of discussions of the meeting would be on options for improved electricity tariff setting in Afghanistan. Unless better options for flexible tariff adjustments can be found, DABS is likely to remain financially impaired. The second half of the meeting would be spent on discussing how the various solar initiatives underway could be better coordinated in an effort to make them more sustainable. She also explained that a high level of subsidy is being currently paid by the government for solar on-grid projects, which is unlikely to be sustainable. A mechanism needs to be found to bring these costs down. Minister Khulmi highlighted that tariff setting is currently under discussion among Government entities. He highlighted the need for the role of the regulatory agency to be clarified in this context. He flagged that a power utility with insufficient tariff levels runs the risk of requiring subsidies from Government – funding that in turn may be lacking for school and the health sector. He suggested that the time is opportune to be discussing tariffs in with the committee members.

TARIFF SETTING

3. Ms. Peggy Wilson presented her work on options and issues in relation to Afghanistan's tariffs. She mentioned that tariffs are not sufficient to cover DABS' costs. She highlighted that Afghanistan has a highly differentiated tariff system across seven different customer categories and with different tariff levels being leveraged in different regions. Peggy highlighted the need for tariffs to be covering the costs, to be encouraging efficient operation of the power utility (DABS), and to be preventing customers from wasting the electricity. Hence, there should be a review of the costs of DABS, general tariff level and required adjustments. Also, subsidies should be reduced to minimum. Mr. Hamid Quraishi explained how that one of the most important elements impacting the DABS' cost of operation was the exchange rate between AFS and US\$, as 80 percent of power purchased by DABS come from abroad and needs to be paid for in foreign currency. Minister Khulmi asserted that while increasing the tariffs to cover the costs, DABS should reduce commercial losses alongside. Ms. Peggy explained that the priorities are first to ensure the revenues covers costs of supply, and second to fix the tariff structure, while also

protecting low-income families. Other important points were regional vs national tariffs, customer classification, and efficiency incentives.

4. DABS' CEO Ghalib responded to the question of why there are differentiated tariffs across Afghanistan by stating that DABS had different underlying cost structures in different parts of Afghanistan. Power supply sources vary from imports to hydro to diesel, with numerous supply grid islands. About 90 percent of DABS' customers are residential, while 35 to 40 percent of the revenues come from the remaining 8 to 10 percent of customers who are non-residential.

5. He also explained the reasoning behind different tariff for registered and un-registered industries, with registered companies being those located in industrial parks and able to receive a more favorable tariff. He stated that this is part of the industrial policy of the Government to encourage industries to move to these industrial parks and not settle in the midst of residential areas.

6. At the end of presentation Mr. Ghalib mentioned that the paper has been well prepared and shared his views on it. He asked to consider not only the exchange rate implications on DABS' revenue but also the following elements:

- Lack of security prevents revenue collection in certain – mostly rural - areas and cause frequent damages to electricity infrastructure that prevents DABS from utilizing the power – including from future IPPs to load centers - while nevertheless having to pay for the power.
- Challenges with DABS' cash flow as advance payment of power imports are required, while the electricity bills are collected at the end of a 2-month billing cycle. Further, there is no penalty for customers to pay on time as no penalty applies for late payments. A proposal by DABS to introduce a 2 percent penalty for late payments has just been passed by the Government's Cabinet. SMS billing would also allow for quicker payments.
- Delay of electricity bill payments through the public sector (Government and other public entities such as mosques).
- Costs of operations are higher than in the past, considering especially that special incentives are required to find staff willing to go to un-secure areas, for example for the purpose of maintenance of the electricity lines.

7. Committee decided to set up a joint working group with representative of MEW and DABS working on tariff reform. Mr. Hamayoon Kohistani, the Head of Regulatory Department at MEW, was nominated from the side of MEW. Since the meeting took place, DABS has nominated Zabi Seddiqi, Commercial Advisor of CCO, and Mahmood Hasieb, Advisor CEO. Both the honorable

Minister and CEO suggested that a tariff proposal be prepared within a month. MS. Peggy and Mr. Quraishi would be available to support this effort from the side of the World Bank. The other donors present also expressed their willingness to support this effort.

RENDERING ON-GRID SOLAR POWER SUSTAINABLE IN AFGHANISTAN

8. Representatives from MoF's PPP department provided updates to the committee members on the 2,000 MW solar program. 57 EoIs have been received from different national and international firms. Parwan, Maidan Wardak, Logar, Laghman, and Kabul were the provinces with potential solar availability. They have defined 400 MW for each province, except for Kabul. The land analysis of Hesar Shahi site is ongoing. For Mazar Sharif and Herat a feasibility study for a 50 MW solar plant will also be launched. A minimum capacity of 40 MW has been considered for the projects due to security and grid issues. In response to Ms. Fanny's question on who is coordinating all the activities, MoF PPP department representative explained that there are three committees, one at Minister level, one technical committee, and one mobile team. All the teams coordinate with each other and donors.

9. Mr. Oliver Knight from ESMAP team delivered a presentation on sustainable least-cost solar deployment. He pointed that out that it is particularly important to ensure financial sustainability of power plants, including by verifying that solar electricity generated can also be fully absorbed by the grid. Among the challenges of solar projects, he highlighted lack of enabling environment, weak procurement processes, and difficult access to risk mitigation coverage. Assuring sustainability of the projects, country level planning, deployment framework, procurement of IPPs and mitigation of risks, procurement scheme, and risk allocation were further topics discussed during the session. Mr. Mojtaba Hoshmand suggested that it would be good to learn more about the experience of the work done by the World Bank in Pakistan to solve problems in relation to legal and procurement issues. Mr. Farhad Miakhel suggested that similar GIS-based analysis on hydropower could also be done for Afghanistan by the GIS working group. During the discussions in the committee, it was mentioned that the floating solar pilot project was started by ADB in Naghlu and the potential of floating solar will be studied using funds from ADB. Also, the rooftop solar initiatives for the government buildings was mentioned as having been already initiated.

10. The meeting closed following a final word of appreciation by Minister Khulmi.

Appendix I - List of Participants

Name	Position	Organization
Eng. Mohammad Gul Khulmi	Acting Minister of Energy and Water	MEW
Eng. Amanullah Ghalib	CEO	DABS
Reza Haidari	Senior Energy Advisor	MEW
Mohammad Hamyoon Kohistani	Director	MEW
Faridullah Sharafmal	Renewable Energy Director	MEW
Mahmood Hasieb	Senior Energy Specialist	DABS
Shekib Nessar	Advisor to CEO	DABS
Mojtaba Hoshmand	Renewable Energy Advisor	DABS
Zabihullah Tahirzada	Deputy COO	DABS
Sweeta Sakhi	Head of Energy Coordination	DABS
Areg Barseghyan	Energy Specialist	ADB
Hamid Durrani	Sr. Project Officer	ADB
Basit Wahab	Technical Officer	GIZ-ESIP
Farhad Miakhel	GIS Manager	CRIDA
Ahmad Farid Formuli	GIS Specialist	CRIDA
Mustafa Zamani	Deputy Manager	CRIDA
Talha Hedayat	MoF PPP Department	MoF
Jawid Yousofzai	PPP Specialist	MoF
Bashir Orya	Sr. Technical Specialist	MRRD
Haroon Shams	Deputy Program Director	MRRD/ASSERD
Nicolas Ross	Project Officer	SH
Abdullelah Rasooli	Professor	KPU
Abdullilah Qadeer	Operation Analyst	IFC
Efrem Ferrari	Lighting Afghanistan Project Coordinator	IFC
Fanny Missfeldt Ringuis	Lead Energy Specialist	WB
Abdul Hamid Quraishi	Operation Officer	WB
Shughla Hellali	Operation Officer	WB
Abdul Baes Akhundzada	Power Engineer Consultant	WB
Mohammad Zubair Stankzai	Power Engineer Consultant	WB
Afsana Afshar	Power Engineer Consultant	WB
Taiba Jafari	Power Engineer Consultant	WB

AFGHANISTAN ENERGY STUDY

10th Afghanistan Energy Study Committee Meeting

April 17, 2019

09:00 am – 01:00 pm

World Bank, Kabul, Afghanistan

Background: the purpose of the Afghanistan Energy Study is to conduct a comprehensive assessment of the energy sector, and to inform investments that aim to increase accessibility to affordable and sustainable energy. The study is expected to last until mid-2019. The Afghanistan Energy Study Committee oversees the study and ensures quality control. It is chaired by the Deputy Minister of Energy and Water (*currently Acting Minister*), and composed of representatives from MEW, MRRD, and DABS. In addition, a Geo-Spatial Working Group has been formed as an integral part of Activity 4 (Least Cost Electrification Plan and Development of Investment Prospectus) of the Afghanistan Energy Study. This working group consists of nominated officials from Kabul Polytechnic University and Kabul University, Afghan Geodesy and Cartography Head Office (AGCHO), the Capital Region Independent Development Authority (CRIDA), the Afghan power utility DABS, the Ministry for Rural Rehabilitation and Development (MRRD), Ministry of Agriculture, Irrigation and Livestock (MAIL), and Ministry for Energy and Water (MEW). The purpose of this 10th meeting is to discuss how electricity is being priced in Afghanistan, and whether this allows the power utility to fully recover its costs. The first half of the session will look at the development of a tariff setting methodology for DABS, while the second half of the session will specifically consider solar power and how the subsidy requirements for solar can be reduced over time.

AGENDA

09:00-09:15 am	<i>Welcome – Fanny Missfeldt-Ringius – Lead Energy Specialist World Bank</i>
09:15-10:15 am	<i>Options for Tariff Setting for electricity in Afghanistan</i> <i>(Peggy Wilson, Senior Financial Analyst Consultant, and Hamid Quraishi, Financial Analyst)</i>
10:15-10:30 am	<i>Break</i>
10:15-12:30	<i>Aligning Policies for Solar Projects – How to Reach Financial Sustainability?</i> <ul style="list-style-type: none">- <i>Sharing updates on progress in realizing the Government’s vision of 2000 MW of solar PV</i>- <i>Discussing next steps for de-risking large-scale private-sector solar PV projects.</i>- <i>Mitigating Solar Power Plant Risk – Financial and Otherwise</i>
12:30-01:00 pm	<i>Lunch, Closing, and Next Steps</i>
