

18 October 2006

**Dr. Carl Middleton**  
Southeast Asia Campaigns  
International Rivers Network  
1847 Berkeley Way, Berkeley  
California 94703, USA

Dear Dr. Middleton,

Thank you for your letter of 22 September 2006 conveying your comments and recommendations on the Greater Mekong Subregion (GMS) Energy Strategy Study.

First, we would like to reiterate the strong commitment of the GMS countries to a fully participatory process in developing the GMS Energy Strategy. At the first workshop held in Bangkok on 31 July 2006, which you attended, it was explained that the study design includes a range of consultations including country based workshops. The consultations will involve governments, civil society organizations, academia, development partners, and the private sector. A project website has also been developed as another means of disseminating information and gathering feedback on the Study outputs. The comments received from stakeholders will be part of the project documentation. A panel of experts has recently been set up to bring additional perspectives to strategy preparation. The panel comprises very eminent energy and environment experts and has a balanced representation with two members from the region and two from outside. The study consultants, IRM, were selected in accordance with the *Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers* and the information on the recruitment process was posted on the website covering the project profile, notices of recruitment, selection method, terms of reference, shortlisted firms, and contract award.

The methodology being followed in the Study was discussed at the first workshop where it was confirmed that the Study will identify several alternative scenarios where the costs and benefits of different feasible options will be assessed. These are not going to be restricted to financial or economic costs and benefits and will also include social and environmental as well as policy and institutional aspects. Energy efficiency and demand-side management (DSM) will be important considerations in the Study. We see the Study as part of a continuing process to identify sustainable options for meeting energy demand of the region.

The Study methodology proposes to internalize external costs in a systematic way. As was explained at the Bangkok meeting, this can be done by adopting a least cost plus approach. The model will use standard economic costs as well as environmental and social costs that are available and those that are quantifiable. The study will also draw

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from existing information from projects that already have detailed feasibility reports. As we had clarified at the Bangkok meeting, data and assumptions will be validated using different approaches by the governments and using global and regional benchmarks. The data and assumptions will be presented in a transparent way during the consultation process with a wider group.

With regard to your proposal to do extensive research on the potential for energy efficiency and DSM, I am pleased to advise that for the last 15 years energy efficiency and clean energy has been promoted through programs such as Asia Least-Cost Greenhouse Gas Abatement Strategy (ALGAS) and Renewable Energy, Energy Efficiency and Climate Change (REACH). This has resulted in the availability of considerable country specific information, which the Study will build on and use systematically to assess the potential for improved energy efficiency.

We believe the model used in the Study, the Model of Energy Supply Systems Alternatives and their General Environmental Impacts (MESSAGE), is quite suitable because it is capable of determining optimum solutions, unlike the Long-range Energy Alternative Planning (LEAP) which is a simulation model. MESSAGE uses the principles of integrated resource planning and optimization is an important requirement for a study that seeks to determine least-cost strategies. The Study has recognized significant potential for decentralized and renewable energy production in the GMS and the Study will evaluate such options through the application of the MESSAGE model.

With respect to the role of the private sector, we see private sector development not as a stand-alone strategy for the energy sector, but as part of a broad development program that involves sector restructuring, tariff rationalization, and the establishment of appropriate legal and regulatory frameworks. We also see a role for the private sector in areas other than the generation of electric power. For instance, there are now Energy Service Companies (ESCOs) engaged in energy-saving processes and technologies, such as improved motors, efficient lighting, space heating and cooling, and efficient building designs, and we hope to explore these options, not only as a part of the Study, but also more generally.

We do appreciate your comments on the Study and we very much look forward to continued engagement with IRN throughout the course of the Study.

*Best wishes,*

Yours sincerely,

  
Rajat M. Nag

cc: Members of the TA Experts' Panel

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