

The Kyrgyz Republic
Address of the Director of the State Energy Agency

Ladies and gentlemen:

I would like to sincerely thank the Utilities and Transportation Commission of the State of Washington for affording this opportunity to share our views and experiences.

I would like to overview the activities of the Kyrgyz State Energy Agency during the year 2004 for you.

In order to strengthen the legislative framework in which we operate, the draft resolutions of the SEA's Executive Council (EC), its orders, instructions, and other documents of a legal nature have been systematically reviewed for compliance with the requirements of law during the last few years. In addition, we developed and conducted measures to ensure compliance with law by the energy industry.

During 2004, the SEA is continuing its work of improving the laws and eliminating existing contradictions in different laws. We actively create an environment conducive to public participation (through public organizations) in solving problems that affect the public interests.

In order to facilitate the smooth functioning of the unbundled power sector, it is necessary to adopt new laws and regulations that would govern operations of the energy market in a modern market economy.

Our primary objective is to take an active part in the development and expansion of the domestic energy market. Regulation must be sufficiently effective and society-oriented; it must be transparent, take the interests of all market participants into account, and facilitate the development of an ongoing dialog between them. In order to achieve these objectives, it is

necessary to adopt a Power Market Law. The SEA has actively promoted this Law in cooperation with the Legislative Assembly of the Supreme Council of the Kyrgyz Republic. We are striving to create a “balancing” mechanism that permits direct contracts between distribution companies, producers, and users. During 2004, new contracts have been prepared for supplying power and heat to residential users; in addition, contracts have been prepared that govern new power companies in a market environment.

Currently we experience serious problems with collections for electricity supplied, as well as power losses.

The SEA believes that these problems can be solved by prohibiting electricity users from making settlements by netting or barter. Accordingly, we have prepared a draft resolution that bans power companies from engaging in barter and netting transactions as of October of this year. This draft resolution is presently getting approval from the ministries and departments concerned. Furthermore, in conjunction with the Central Asian project of the Natural Resources Management Program (NRMP) of the United States Agency for International Development (USAID), the SEA has developed a Program for the Reduction of Technical and Commercial Losses, which has been approved by the Executive Council of the SEA.

In order to increase penalties for administrative offenses in the power sector, both for end users and for power companies, we have prepared draft Amendments and Supplements to the Administrative Code of the Kyrgyz Republic.

In addition, we need to eliminate duplicating of functions with other ministries and departments, and ensure the SEA’s financial independence as a regulatory agency. The political aspect of the regulation of electricity prices should be eradicated. In order to achieve these objectives, we have

drafted amendments to the Law On Natural Monopolies and the Power Industry Law, which have been submitted to the Legislative Assembly for review.

In 2004, a functional analysis was conducted within the SEA and a new set of regulations entitled “On the State Energy Agency of the Government of the Kyrgyz Republic” was prepared based on its results.

These new regulations addresses the following new functions:

1. The establishment of a profitability ceiling for natural and accepted monopolies in the Energy Sector.
2. The government oversight of the quality and prices of the goods and services provided by natural monopolies in the energy sector.

The SEA’s functions and powers have been separated.

The SEA has also attended meetings with power supply organization managers that were arranged by the Public Association for the Social Protection of the Public (PSAPP). Many of the issued raised in the meetings resulted in specific action. In particular, amendments have been made in power and heat agreements, which now take into account the suggestions and comments of the general public. This work was performed with the participation of consumer organizations.

Advisory assistance as been provided to the Public Association for the Social Protection and others concerned entities on matters of interest to them.

Together with the represetatives from the British Department for International Development’s project on “Tariff Policies in the Kyrgyz Republic up to the Year 2006”, we have held roundtable discussions of energy sector issues in various regions of the Kyrgyz Republic (Osh, Batken, Dzhalal-Abad, etc.).

Public awareness campaigns have been conducted with local authorities; accurate information has been provided to them concerning the social policies pursued by the Government of the Republic, as well as the steps taken by the Government to ease negative social consequences, and assistance has been offered in information management.

We have conducted seminars on rate setting and social protection issues, with the participation of NGOs and the appropriate departments, where various types of relationships (e.g. contracts, agreements etc.) between power supplier and end users have been discussed.

Jointly with the press services of the President and the Office of the Prime Minister, we have organized press conferences, as well as prepared articles and press releases for mass media on complex issues of raising rates and providing social protection. We have maintained constant contact with the mass media, including the preparation of analytical materials and information on the development of the power system, energy conservation measures, investments, and the state of affairs in the power sector.

We have standard forms and procedures, which are used by power companies for their operational and financial reporting. The operations of the power companies are monitored monthly; reports are prepared and the compliance with the requirements established both by the SEA and by the Government of the Kyrgyz Republic is tracked.

Pursuant to the Settlement Procedures in the Wholesale Power Market, payments are distributed to production, transportation, and distribution companies through a bank transit account. Also, the SEA has recently prepared a draft resolution for the Kyrgyz Government, according to which major industrial companies must effect electricity payments through the Settlement and Savings Company Public Corporation.

An independent panel of experts has been formed from representatives of the *Energiya* Kyrgyz Research and Development Center and the Razzakov Kyrgyz Technical University to determine the actual level of technical losses. The panel has prepared interim reports on permissible levels of power losses and submitted them to the SEA, as well as to power companies.

I'd like to note that a Heat Supply Strategy of the Kyrgyz Republic Up to the Year 2015 has recently been drafted and approved. It lays out measures for the reorganization and privatization of heat supply organizations. In addition, we have prepared a package of documents, which includes the creation of an Energy Conservation and New Power Technology Fund, as well as a new version of the Regulations Governing the Use of Electric Power, which takes into account new market relations between power supply organizations and end users and which is currently under review. Work is under way on a new version of the Regulations Governing the Use of Heat and Natural Gas, in addition to which new heat and gas contracts between power companies and the public have been developed and placed into effect.

Pursuant to the laws of the Kyrgyz Republic, a draft License Agreement between the SEA and license holders that operate in oil-and-gas industry has been prepared and is ready to be submitted to the Government for approval. Drafts of the terms and conditions of licenses for license holders that operate in the power and heating industries have been prepared for submittal to the Government. We have prepared for the Government approval a draft new version of Chapter 37 of the Procedures for Licensing of Certain Types of Business Activities, entitled "Licensing of the Production, Transmission, Distribution, and Sale of Electricity, Heat, and

Natural Gas, as well as Petroleum Processing, Construction of Power Plants, Substations, and Power Lines, and the Exportation and Importation of Electric Power”. In addition, we prepared a draft supplement to the List of Goods (Work, Services) and Procedure for the Issuance and Registration of Licenses to Engage in Import-Export Operations approved under a resolution of the Legislative Assembly of the Supreme Council, as it pertains to the exportation and importation of electric power.

The State Energy Agency is funded from the federal budget. It should be noted that the money earmarked for the SEA’s regulatory activities is insufficient. For this reason, the SEA has prepared a draft document, which proposes a creation of an SEA Material Incentive and Development Fund. The goal of this Fund is to ensure sufficient technical and financial resources and an incentive program for SEA’s employees. The draft proposal is currently reviewed by the Kyrgyz Government.

As a regulatory body, The State Energy Agency, is striving to create a transparent structure and build its operations accordingly, as well as to be an arbiter between users and producers.

Once again, I would like to express words of gratitude to the Utilities and Transportation Commission of the State of Washington for this opportunity to share our views and experiences. Your experience is very important to Kyrgyzstan as a reference point, all the more so in that you have been accumulating it for over one hundred years.

Thank you for your attention!