

# **Legal framework for regulation of energy markets in Kyrgyz Republic by National Agency for anti-Monopoly Policy and Competition Development**

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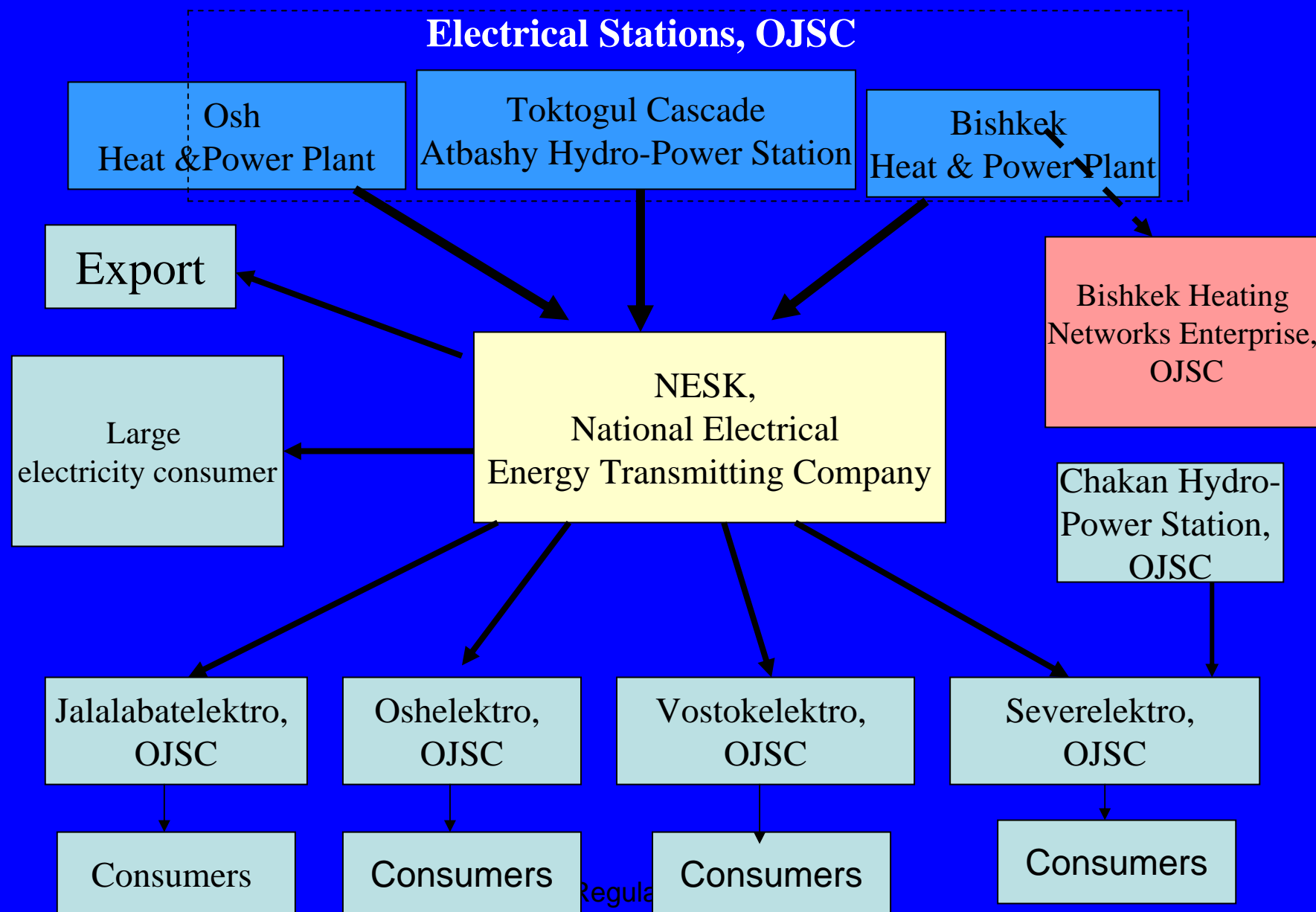
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# **Legal framework for regulation of energy markets in Kyrgyz Republic by National Agency for Anti-Monopoly Policy and Competition Development**

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- Rules of the energy market and the Medium-Term Tariff Strategy for 2003-2006 provide transparent and fair commercial relations in production and sale of electrical energy.
- On 27 March 2003 a principally new Law “On Investments in Kyrgyz Republic” was adopted that set the goal of regulating operations of both foreign and domestic investors.
- The Law “On Special Status of Cascade Toktogul Hydro-Power Plants and National High-Voltage Electrical Energy Transmission Network” as of 21.01.2002 №7.
- The present Law sets out fundamental principles of the state investments policies aimed at improving the investment environment.

## Structure of electrical energy industry of Kyrgyz Republic



## Continued

- The first steps toward the market were undertaken in 1997 with 1400 kilowatt Kalininskaya Hydro-Power Plant being transferred to the French Mekamidi company as part of the Concession contract under the lease terms.
- In early 2001 30 Mwatt Chakan Hydro-Power Plant, OJSC was founded on the basis of Alamedin cascade of hydro-power plants.
- On July 1, 2001 the function of electrical energy distribution was spun off as an independent sector with creation of four energy distribution broken down regionally: Severelktro, OJSC serving consumers of Bishkek, Chui and Talas provinces, Vostokelektro, OJSC, serving consumers of Issyk-Kul and Naryn provinces, and Oshelektro, OJSC and Jalalabatelektro, OJSC serving consumers of Osh, Batken, and Jalalabat provinces serving consumers respectively. Until recently, 9 Mwatt Bystrovka Small Hydro-Power Plant generating 35 million kilowatt/hour annually was a part of the Seevrelektro, OJSC.
- An independent heating distribution company was founded on the basis of Bishkek Heating Network Enterprise whose goals include providing heat energy and hot water to consumers of Bishkek connected to the Bishkek Heat & Power Plant-generated central heating.

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Further formation of the market was underway as a result of transformation in 2002 of Kyrgyzenergo, OJSC into 2 open joint-stock companies (corporations) by functional characteristics:

- Electrical Stations, OJSC generating energy and uniting energy stations of more than 30 MBwatt capacity with 93,72% state-owned shares;
- NESK (National Electrical Energy Transmitting Company) with 93,72% state-owned shares that transmits electrical energy through domestic 110-500 kilovolt networks and inter-state electrical energy lines and acting as the operator of the Kyrgyz energy system.

Electrical stations of less than 30 Mwatt capacity were privatized.

Starting January 2002 market participants sign sale contracts to buy and sell energy, transmit energy and control energy traffic.

## Continued

. Industrial consumers (12 % of the total domestic consumption), trade companies that resell electricity (5% of the total consumption), energy network distribution companies (total distribution of 87 % of the consumption of electrical energy) can select the energy supplier.

- In compliance with the Law of Kyrgyz Republic “On Market for Electrical Energy”, the energy network companies must provide suppliers of electrical energy with comprehensive services related to the use of energy networks under the equal and identical terms within the technical capacities and per prices as established by the authorized state body.

- The right to sell electrical energy in Kyrgyz Republic is granted to suppliers of electrical energy. These are legal entities regardless of their legal form that supply (Sell) generated and/or purchased electrical energy. As a rule, such include owners of generating sources, electrical energy distributing companies and, in few cases, legal entities that act as resellers of electrical energy. In exceptions, the right to sell electrical energy is granted to transmitting companies (NESK, OJSC) to honor technical obligations as part of the agreements signed with the neighboring states regarding the use of the Central Asian United Energy System. In order to achieve that, the energy transmitting company has the right to purchase the needed volume of electrical energy in the balancing market and sell electrical energy to compensate for the costs of energy transit through the energy systems of the neighboring nations.

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- All state and non-state (non-governmental) legal entities have the right to sell electrical energy provided they possess a license issued by the State Agency.
- Per the energy traffic control, obligations of the electrical energy market participants are determined by the terms of the contracts they sign.
- Currently, there are no energy exchanges or marketplaces in Kyrgyz Republic.
- The draft Law “On Market for Electrical Energy ” provides for an arrangement of a balancing market for electrical energy to resolve the issues that emerge among the market participants pertaining to the contractual volumes of electrical energy bought and sold and the actual volumes of energy generation or consumption.

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**Steps necessary to develop the electrical energy market in Kyrgyz Republic:**

- Improve the legislative framework
- Law on “Electrical Energy Market” and “On Amendments to the Law “On Special Status of Cascade of Toktogul Hydro-Power Stations and High-Voltage Electrical Energy Transmission Lines”;
- Law of Kyrgyz Republic “On Natural and Allowed Monopolies” and other normative legal acts
- Implement the four phases of privatization and concession-based transfer of energy distribution companies;
- Enhance regulation;
- Establish a transparent and substantiated policy to be founded on costs and isolated from political interference;
- Engage the private sector;
- Improve corporate governance;
- Ensure transparency and predictability of actions of the Government of Kyrgyz Republic and the regulatory body;
- Priority investments
- Export capacity
- Medium-Term Tariff Policy



# Principles of operations of the regulatory body under market conditions

- *One of the prerequisites for regulating the market under the market conditions is transparency.*
- *Transparency in decision making must include: public notification of issues per which the regulatory body expects to make decisions, collect, inspect and consider information leading to such a decision and publish the decision made.*
- *The regulatory body must clearly formulate and publish goals pursued under various decisions made, expectations and obligations of the licensee, standards to be compared against during inspection of performance of the licensees or the complaints brought against them, public goals pursued by the regulatory body in its implementing its policies and declaration of rights and obligations of consumers.*

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*One of the prerequisites for regulating the market under the market conditions is transparency. The mechanism of operation of the regulatory body, logic behind the decisions made, facts and arguments that is considers, laws and rules that it is guided by, must all be public information and available for inspection. In order to create trust to the regulatory body, one must issue a public notification of the fact that consideration of relevant issues, representation of the parties pursuing differing interests, and provision of the parties with opportunities to present their views and information during the decision making process are all expected. Transparency in decision making must include: public notification of issues per which the regulatory body expects to make decisions, collect, inspect and consider information leading to such a decision and publish the decision made.*

*The regulatory body must clearly formulate and publish goals pursued under various decisions made, expectations and obligations of the licensee, standards to be compared against during inspection of performance of the licensees or the complaints brought against them, public goals pursued by the regulatory body in its implementing its policies and declaration of rights and obligations of consumers.*

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