

**National Agency of the Kyrgyz Republic
for Anti-Monopoly Policy and
Development of Competition**

**Profit Sharing Mechanisms in
Kyrgyzstan Energy
Companies**

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Energy companies carry out commercial activity in the Kyrgyz Republic on the basis of profitability, activity related to supplying electricity to consumers at economically justified prices through efficient operation of assets;

According to Decree of the Government of the Kyrgyz Republic, of July 17, 2003, # 445 «On approval of the regulation on the procedure for setting prices (tariffs) for goods (works, services) of economic entities regulated by the state», the National Agency of the Kyrgyz Republic for Anti-Monopoly Policy and Development of Competition sets tariffs for energy companies.

- Prices (tariffs) are formed based on the cost and size of profit determined individually for each economic entities taking into account industry specifics, in coordination with the Anti-Monopoly body, or in accordance with the legislation of the Kyrgyz Republic, with industry regulatory bodies;
- Prices (tariffs) should reflect actually incurred costs taking into consideration a certain amount of profit;
- The coordinated price (tariff) is uniform for a certain category of consumers.

When approving tariffs for energy companies, the National Agency of the Kyrgyz Republic for Antimonopoly Policy and Development of Competition includes all calculated costs of a unit of goods (works, services) in order to identify economically justified prices and tariffs;

Calculation of the cost of products is done in order to ensure accurate reflection of costs associated with manufacturing and sale of goods (works, services) in accordance with the valid norms and analysis for the previous period.

The cost should reflect actual costs associated with production and provision of goods (works, services) depending on the technology and nature of production.

Calculated indicators – comparison indicators (actual cost, cost in the prior period, cost according to valid norms).

Profit is a summarizing indicator of financial results of economic activities determined as a difference between revenues from economic activities and the amount of costs associated with these activities.

Supervisory Body – the Board of Directors:

- The Board of Directors is the supreme supervisory body of the company during the period between general shareholders meetings;
- The Board of Directors has the right to make decisions on all issues within its competence envisioned in the Charter;
- The Board of Directors represents shareholders of the company and acts in the interests of the company;
- The Board of Directors should be comprised of at least 5 members elected by the general meeting of shareholders for the period of 3 years.

Distribution of profit of an energy company:

- Book and net profit of energy companies is determined in the way envisioned in the legislation of the Kyrgyz Republic;
- Net profit of companies after payment of all taxes remains with the company and is distributed on a periodical basis between shareholders in the form of dividends, is transferred to reserves or remains as retained earnings, is used for development of production or for other purposes envisioned in the decision of the general meeting;
- A decision concerning use of company's profit should be made by the general meeting of shareholders.
- Before the decision is made the executive body should submit for approval of the general meeting of shareholders the annual reports, the balance sheet, the profit and loss statement of the company, all these statements have to be already approved by the Board of Directors and the Audit Commission of the company, if possible, it is preferable to have them audited.

Reserve Provision:

- A company has to create a reserve fund for general purposes in the amount not less than 10% of the statutory capital. The amount of payments to the reserve fund should be equal or more than 5 % of the annual profit of the company until the amount of the reserve fund reaches at least 10 % of the statutory capital for five years from the time the company was established.
- The amount of payments to the reserve fund in each individual year is determined by the General Meeting.

- In order to ensure further development of market relations in the power sector and in order to improve efficiency of functioning of the power sector, the Concept of further financial recovery of the power industry in Kyrgyzstan was elaborated;
- The Concept of further financial recovery of the power industry of the Kyrgyz Republic (hereinafter referred to as the Concept) was developed in order to identify main areas of market reforms in the power sector in medium-term perspective;
- The Concept reflects main principles of organization of the retail electricity market, its structure, models of market mechanisms development, stages of conversion to the open competitive model of the electricity market.

The medium-term goals of development of market relations in the power sector are :

- Improvement of efficiency of functioning of the power sector;
- Creation of conditions for attraction of investments in restoration and development of the power potential of the country;
- Creation of a market-based pricing mechanism in the retail market and its improvement in the wholesale electricity (capacity) and service market;
- Development of competition in the electricity supply market for retail consumers;
- Granting the freedom of choice to retail consumers of electricity suppliers;
- Creation of conditions for operation of power plants with combined generation of electricity and heat in the competitive electricity market.

In the future a pilot project on converting several distribution companies or electricity supply organizations that have approved investment programs to work at medium-term (stable) tariffs, and that would contribute in, namely, reduction of the level of excessive losses.

In the framework of measures taken with respect to implementation of the Concept, several projects were launched with separate sections. The idea of it is independent financial and economic activity and conclusion of direct contracts with the generating company and supplying companies.