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Central Asia Energy Regulatory Partnership

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With support from the United States Agency for International Development (USAID), the National Association of Regulatory Utility Commissioners (NARUC) launched the Central Asia Energy Regulatory Partnership (CAERP) in September 2019. This project has supported USAID development objectives in Central Asia by providing a platform for regulators and decision makers to discuss issues and identify ways to move toward transparent, free, competitive, and modernized energy markets. The CAERP provided capacity building to support the effective governance of the energy markets; promote the achievement of transparent and cost-reflective tariffs; encourage sustainable and efficient markets; and enhance regulatory frameworks that enable regional energy integration, interconnection, and modernization.

Under the CAERP, NARUC has provided technical assistance that has strengthened the capacity of energy sector regulatory authorities in Central Asia to provide oversight of utilities and attract investment while protecting consumer interests. The three main goals of this project have been: 1) supporting movement toward transparent and cost-reflective energy pricing to increase investment in the energy sector; 2) strengthening energy regulatory frameworks to improve oversight; and 3) promoting regional engagement to bolster energy security in Central Asia. To date, USAID and NARUC have achieved the following key results or anticipate achieving them under the CAERP:

KAZAKHSTAN

- **Supported energy sector reform and cost-reflective tariffs** – NARUC helped the Kazakh regulator review, evaluate, and select action items for proposed changes to its current tariff methodology. The regulator also shared NARUC guidelines for utility accounting procedures with a working group

established to spearhead energy sector reform initiated by a presidential decree issued in September 2022. The reporting forms and guidelines will help streamline the utility reporting process, obtain better quality data for tariff setting and monitoring, and move toward implementing cost-reflective tariffs. A cost-reflective tariff setting process will lead to greater transparency, investment, and economic growth while ensuring that electricity services remain affordable to all customer groups.

- **Improved the District Heating (DH) framework** – With NARUC assistance, Kazakhstan is making improvements to its DH framework, which will increase the efficiency of its current system as well as the security of fuel supply. This effort will reduce instances of heating losses or outages and **support the transition to renewable energy sources in the DH sector**. Kazakhstan incorporated NARUC recommendations into its draft DH law. NARUC has also provided recommendations on what needs to be included and considered in the secondary legislation once the DH law is approved.

KYRGYZ REPUBLIC

- **Redesigning tariffs while protecting low-income consumers** – NARUC developed a recommendations report on tariff design for vulnerable customers to help the Kyrgyz regulator redesign its tariff framework. Based on NARUC's recommendations, the Kyrgyz regulator is developing a proposal to redesign its tariff framework to define tariffs according to income, which will help to ensure that the tariff structure and tariff levels enable cost recovery for utilities while meeting the country's policy goals of protecting vulnerable customers. In addition, the regulator is revising the *Methodology on Determining the Production Cost (Works and Services) and Forming District Heating Tariffs* to incorporate NARUC's recommendations provided during the review of the regulatory document.

TAJIKISTAN

- **Improving energy losses** – NARUC developed an approach for the energy regulator to determine the number of losses it will compensate regulated companies for under approved tariffs and facilitated a discussion with major energy sector stakeholders in Tajikistan to clarify the role of the regulator in loss reduction. This will help the regulator incentivize the reduction of technical and non-technical losses and lead to improved security of supply and operational efficiency of the electricity sector.

UZBEKISTAN

- **Establishing an independent energy regulator by 2025** – Uzbek partners have stated that the information learned through the CAERP is helping them slowly move toward establishing an independent regulatory body. An independent regulator will provide stronger protection of consumer rights and improve quality of service by developing grid codes and secondary legislation concerning regulation of the energy services sector. An autonomous, independent regulator will also have greater control over important decisions that **will support and facilitate the transition to clean energy**.
- **Increasing energy sector transparency** – NARUC advised energy officials in Uzbekistan on steps to improve transparency, such as requiring state-owned utilities to regularly report on regulatory decisions, energy regulations, and rules, and make website updates to provide a list of monopoly enterprises with services provided and associated services. This will lead to greater predictability and transparency in the sector and support the creation of an enabling environment for investment in the energy sector.
- **Advanced cost-reflective tariff setting** – NARUC is improving energy regulators' capacity to evaluate the true costs of service and move toward cost-reflective tariffs, which will lead to greater transparency, investment, and economic growth while ensuring that electricity services remain affordable to all customer groups.

REGIONAL

- **Fostered cross-learning** – As a result of the CAERP regional engagements, the Kyrgyz regulator is in the process of signing a Memorandum of Understanding with the Georgian energy regulator for further cooperation. The Tajik regulator requested a copy of the *Methodology for Calculating Technical Losses* from the Armenian regulator. Additionally, by learning from a Ukrainian case study, Uzbek partners identified a plan to revise their regulation on “the main direction of tariff policy in electric power industry” of 2019 to include quality of service requirements into tariffs.
- **Facilitated regional discussions** – Under the CAERP, NARUC facilitated discussions between Central Asian countries and U.S. and European regulatory experts on priority topics including DH, cost-reflective tariffs, quality of service, and regulatory independence.
- **Harmonized regional regulatory practices** – Through the CAERP, NARUC provided essential tools for participating countries to harmonize their regulatory practices on a regional level. This will increase predictability and investor/market player confidence in the region, allowing for increased regional energy trade and greater investment.
- **Improved quality of service, system reliability, and utility performance** – NARUC provided recommendations tailored to each participating country on how to improve quality of service, key performance indicators, and public strategies. These recommendations will help regulators improve system reliability, end-user tariffs, and the overall financial health, safety, and technical performance of utilities. As a result, each nation is better equipped with the tools to reach energy equity and attract investment needed to improve infrastructure and **allow for a transition to clean energy**.
- **Supported the transition from fossil fuels to renewable energy sources for DH – NARUC is supporting the transition from fossil fuels to renewable energy in the DH sector** by providing energy officials with recommendations on key steps they can take to improve regulations and standards, increase market competition, and advance the entrance of renewable energy to the marketplace.

INCLUSIVITY

- Under the CAERP, a total of 550 people took part in NARUC’s technical and policy trainings, out of which 160 were women.
- NARUC is helping to promote an energy sector that is inclusive of intersectional perspectives by supporting the growth and impact of consumer advocate departments at Central Asian regulatory authorities and providing examples and recommendations from the United States and Europe & Eurasia to incorporate public awareness and consultation on the energy regulations that impact them.

For more information on this partnership, please contact Ms. Erin Hammel, Senior Director of International Programs (ehammel@naruc.org), Ms. Emiliya Bagirova, Program Manager (ebagirova@naruc.org), and Mr. Dorian Mead, Energy Reform & Reconstruction Advisor for USAID’s DDI/Center for Environment, Energy & Infrastructure/Energy Division (dmead@usaid.gov).