



## ELECTRICITY INDUSTRY AND LEGAL UPDATE

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### Industry Update

#### **Kambarata HPP-2 pledged as security for US\$30 million debt**

Kambarata HPP-2 was pledged as security for US\$30 million debt, the Board of Directors of Electrical Stations OJSC informed in its annual report.

It is noted that the decision to enter into a major transaction was approved by the Board of Directors at the meeting of April 4, 2014. The decision to pledge the HPP was supported by around 93.69 percent of shareholders.

The report says that to ensure a successful winter heating season in 2013-2014, considering acute shortage of funds for procuring fuel, on December 19, 2014 the Board of Directors decided to allow the General Directorate to take a \$30 million loan from the Eurasian Development Bank against security of Bishkek Heating and Power Plant property complex.

At the annual meeting 2014, the shareholders authorized the General Directorate to enter into the major transaction with the State Economy Development Fund under the Ministry of Finance of the KR involving the replacement of collateral (Bishkek Heating and Power Plant property complex) by Kambarata HPP-2.

#### **World Bank to invest US\$526.5 m in CASA-1000 Project**

The World Bank Group's Board of Directors approved US\$ 526.5 million in grant and credit

### Legal Update

#### **New amendments to Kyrgyz Energy Act**

On July 19, 2014, Kyrgyz Parliament passed the new amendments to the Kyrgyz Energy Act proposed by the Kyrgyz Government.

By these amendments, Parliament delegated all of its authority over the energy tariff policy to the Government. In particular, they abolished the requirement of obtaining the Parliament's consent to establishing tariffs by the state authority responsible for energy tariff policy. Thus, the Government may increase tariffs for electricity and heat without the consent of the Parliament.

The new amendments also propose establishing an agency independent from the Ministry of Energy and Industry which would be responsible for state regulation of business entities engaged in the fuel and energy sector by licensing and establishing tariffs for electricity, heat and natural gas. Now, the Ministry of Energy and Industry will be responsible for ensuring technical safety, reliable and uninterrupted generation, transmission, distribution and consumption of electricity, heat and natural gas, and their efficient use, while the new agency will be responsible for establishing tariffs.

#### **New amendments to Kyrgyz Electricity Act**

The new amendments proposed to the Electricity Act are similar to those proposed to the Energy

financing for the Central Asia South Asia Electricity Transmission and Trade Project (CASA-1000) for four countries: Afghanistan, Kyrgyz Republic, Pakistan, and Tajikistan.

CASA-1000 will build more than 1,200 kilometers of electricity transmission lines and associated substations to transmit excess summer hydropower energy from existing power generation stations in Tajikistan and the Kyrgyz Republic to Pakistan and Afghanistan.

The project will finance the engineering design, construction, and commissioning of transmission lines and three new converter stations. The power generation stations that provide the energy to be traded over CASA-1000, including Toktogul in Kyrgyz Republic and Nurek in Tajikistan, are already in place.

Of the total project financing, Afghanistan will receive US\$ 316.5 million in the form of an IDA grant, the Kyrgyz Republic will receive 45 million dollars in IDA grant and credit; and Tajikistan will receive 45 million dollars in grant financing.

In Kyrgyzstan, CASA-1000 will build high voltage transmission lines of 477 km connecting Datka substation in the southern part of the republic and Khudjant substation in Tajikistan. Of US\$45 million provided by the World Bank to Kyrgyzstan, US\$6.75 million will be in grant and the remaining amount will be in highly preferential credit. The project will be implemented by the Ministry of Energy jointly with the National Grid of Kyrgyzstan JSC.

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### **Kyrgyzstan and Tajikistan sign agreement on import of 600 million kWh of electricity at 2 cents per 1 kWh**

Kyrgyz Electric Station OJSC and Tajik Barki Tochi signed the agreement on supply of up to 600 million kWh of electricity over the period from May to September 2014 at a price of 2 cents per 1 kWh, Electric Stations company reported on its website.

The payment will be made upon supply every month within 30 banking days.

According to the company, this measure is necessitated by the objective to maintain the required volume of water in the Toktogul water reservoir to generate electricity.

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Act and are also drafted by the Kyrgyz Government.

The amendments to the Electricity Act propose to establish a settlement processing center being an independent organization offering services by using a centralized information analytical system for collecting, processing, verifying accuracy and analyzing data on overcurrents and losses of electricity, making electricity balance sheets, processing settlements for all participants of electricity market and monitoring mutual settlements between participants of electricity market.

The new amendments also propose licensing of activities related to generation, transmission, distribution, and sale of electricity. Thus, under new Article 5 of the Electricity Act, the legal entities and individuals have the right to engaged in the following activities on the basis of licenses issued by the competent authority regulating the fuel and energy sector:

- generation, transmission, distribution, sale, export and import of electricity (except electricity production from renewable sources and electricity production from any sources for own use with the capacity of up to 1,000 kW);

- generation, transmission, distribution, and sale of heat (except heat produced from renewable sources and heat produced from any sources for own use).

As far as tariffs are concerned, the appropriate decision will be made by the competent authority for regulation of fuel and energy sector within one month after submission by relevant enterprises and organizations of documents and calculations necessary for consideration of tariffs under new Article 25 of the Electricity Act.

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### **New amendments to some Kyrgyz Acts of July 18, 2014 № 144**

The new amendments propose changes to the Electricity Act. In particular, Article 22 of the Electricity Act was changed to include the provision granting direct subsidies to pay for the certain amount of electricity consumed.

Thus, the amendments introduce direct subsidies to customers having no choice and unable to pay the full value of heat or electricity, to be granted by the Government and local self-government authorities. Under the former act, subsidies were granted by regional, district and city administrations and local self-government authorities of Bishkek city apart from the

## **EBRD to consider projects for modernization of Kara-Balta and Tokmok Combined Heat & Power Plant**

On May 7, 2014, Vice Prime Minister of Kyrgyzstan Valery Diehl met with Head of European Bank for Reconstruction and Development Country Office Larisa Manastirli to discuss projects run in Kyrgyzstan with EBRD support.

The Vice Prime Minister underlined importance of rehabilitation of the Bishkek combined heat and power plant and noted necessity of rehabilitation of similar plants in Kara-Balta, Tokmok and Orlovka.

"Rehabilitation of the given combined plants will allow towns in Chui region to partially supply themselves with electricity during autumn and winter. also, this measure will allow to significantly save money. During the heating season only Kara-Balta combined heat and power plant consumes coal costing almost \$1.5 million funded from the public budget," Valery Diehl said.

The agreement was reached that EBRD management will consider rehabilitation of the combined plants of Tokmok and Kara-Balta. The sides also agreed that Valery Diehl and EBRD representatives will visit the combined plants in Kara-Balta and Tokmok to examine their condition.

EBRD also supported the idea of financing small and medium hydropower plants using renewable energy sources.

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## **Kambar-Ata HPP-1 (1,860 MW) versus Toktogul HPP (1,200 MW)**

The capacity of Kambar-Ata-1 hydropower plant will be 1,860 MW, while the capacity of the Toktogul hydropower plant is 1,200 MW, PM Otorbayev told during a visit to the Kambar-Ata-2 HPP on July 19, 2014.

The timing of increase of the charter capital of Kambar-Ata-1 HPP CJSC and budget allocation will be known after August 21.

Some \$3 billion is required for construction of the given plant. The project will create more than 1,000 jobs and will boost the development of the country's energy sector.

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Government.

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## **Government Resolution governing medium-term electricity and heat tariff policy for 2014-2017 dated June 17, 2014 № 336**

The new medium-term tariff policy is based on the following principles:

- tariffs must cover all costs of energy companies related to generation, transmission, distribution, and sale of electricity (operational costs, maintenance costs, normative (technical) losses of electricity, debt service, capital investments, etc.);

- subsidies to low-income domestic consumers of electricity must be granted on an individually tailored basis, through government welfare programs.

The approved medium-term tariff policy proposes a focused increase of electricity and heat tariffs, removal of cross-subsidies between various categories of customers and bringing tariffs to the level reflecting the real cost of generation, transmission, distribution and supply of electricity to consumers.

Thus, for instance, from April 1, 2015, electricity tariffs for general public will increase from KGS 0.70 to KGS 0.84 per kWh (for users of 1-phase input) and KGS 1.20 (for users of 3-phase input). As far as industrial customers are concerned, the first increase of tariffs from existing KGS 1.327 to KGS 1.38 occurred on July 1, 2014, and from April 1, 2015 the tariff will be KGS 1.47. In general, until April 2017, tariffs for general public will increase to KGS 1.21 (for users of 1-phase input) and up to KGS 1.47 (for users of 3-phase input), and tariff for industrial customers will be KGS 1.69.

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## Vice Prime Minister Valery Diehl meets ALSTOM-Central Asia President Marek Stec

Alstom plans to participate in construction of a thermal electric power plant at Kyrgyzstan's Kara-Keche coal deposit and two hydroelectric power plants at Koko-Meren cascade. This issue was discussed late in April at the meeting of Kyrgyzstan Deputy Prime Minister Valery Diehl and Alstom Central Asia President Marek Stec.

Marek Stec emphasized that Alstom has a huge experience in production of equipment for thermal and hydro power plants.

The parties agreed to consider cooperation proposals.

Alstom is a global leader in providing turnkey hydro power plant solutions representing around 25% of total global hydropower installed capacity.

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