



ELECTRICITY INDUSTRY AND LEGAL UPDATE

KALIKOVA &
ASSOCIATES
law firm

Information for effective business solutions

Issue 16, December 2013 (quarterly)

Industry Update

Vladimir Putin proposes setting up an SCO Energy Club

Russian President Vladimir Putin's proposal to set up an energy club within the Shanghai Cooperation Organization was voiced at the 13th SCO summit in Bishkek on September 13, 2013. According to President Putin, the establishment of the Energy Club will facilitate the implementation of many hydropower projects.

As it is well-known, the signing of the agreement on the construction of the Kambarata Hydropower Plant 1 and the Upper-Naryn HPPs Cascade between Kyrgyzstan and Russia in September 2012 created tension between Kyrgyzstan and Uzbekistan. The latter declaimed against the construction of hydro-electric power plants on the territory of Kyrgyzstan. In this regard, the SCO Energy Club can be used as a platform for reaching compromises and mutually beneficial solutions to the problem of using water resources in Central Asia.

Construction of Upper Naryn Cascade HPPs estimated at \$727 million

The Board of Directors of Upper Naryn Cascade HPP CJSC approved a feasibility study for construction of Upper Naryn Cascade HPPs in Kyrgyzstan, informed the press service of the company on November 26, 2013.

Thus, according to planning documentation, the cost of construction of the HPPs is estimated at 24 billion Rubles (US \$727 million).

Along with the cost of the project the approved feasibility study indicates technical parameters

Legal Update

Kyrgyz Government Decree N 426-p of October 23, 2013 approving report on Trade Policy Review

The decree approves the Kyrgyz Government's report on the trade policy review prepared within its obligations to the World Trade Organization (WTO). The decree notes that this Report of the KR Government on the trade policy review is the second one. The first review of the trade policy of the Kyrgyz Republic was conducted in 2006 for the period from 1998 to 2005.

Section 5 of the Report addresses the review of the electric energy sector of the country. Thus, according to the Report, the Kyrgyz electric energy sector accounts for 2% of the GDP and 16% of the production output, 10% of state revenues and about 1.7-2% of employment of the population in the sector. This sector is a multiplier, as it secures the production processes in all neighboring sectors. According to expert assessments, one of the reasons for steady development of the sewing industry and increase in employment over the recent years is cheap electric energy in the country.

As noted in the Report, the Kyrgyz electricity subsector comprises a generation company managing almost all installed capacity, a transmission company operating the national grid, and four regional distribution companies which in general satisfy the need for electric energy, but in 2008-2009, the production of electricity decreased. In these years, due to low-flow period, there were introduced the limits on the power consumption. In 2010, the limits were lifted. Therefore, in the following years, the output grew to reach 16,393.28 million kWh in 2012 (113% of the 2006 level). This was

of the cascade such as capacity, location and output, as well as principle engineering designs. The project involves construction of the Upper Naryn cascade consisting of 4 hydropower plants: Akbulun and Naryn -1, 2, 3. The total project capacity of the cascade will be 237.7 MW, the annual average power production will be 942.4 million kWh. The construction of the Upper Naryn HPPs was considered as early as in the Soviet Union time, but at that time it was decided that it was more important to develop hydropower potential of the middle and lower Naryn river.

The feasibility study for the Upper Naryn Cascade HPPs construction project was developed by LeninHydroProject Institute in 2013 on the basis of the updated data on the natural environment of the construction site and the current regulatory framework.

In its turn, Electric Power Plants OJSC informed that the approval of the feasibility study for the Upper Naryn Cascade HPPs construction project would trigger the obligations of the parties under the intergovernmental agreement of September 20, 2012:

- the Government of the Russian Federation shall, within 3 months, provide 12 billion rubles as a contribution of RusHydro OJSC to the authorized capital of Upper Naryn HPPs CJSC and ensure the provision of another 12 billion rubles as a loan at the 6-month USD LIBOR interest rate increased by a margin of 1.5% per annum;

- the Government of the Kyrgyz Republic shall provide as a contribution of Electric Power Plants OJSC to the authorized capital of Upper Naryn Hydropower Plants CJSC the right to use the land allocated for construction of Upper Naryn Cascade and other assets, including intangible assets, with a value of 12 billion rubles.

Government converts land in Ortok and Dobulun rural districts to industrial purpose for construction of Upper Naryn Cascade HPPs

The Government converted land plots in Ortok and Dobulum rural districts to industrial, transport, communications, defense and other purposes. The respective resolution was signed by Prime Minister Jantoro Satybaldiev on October 12, 2013.

This decision was necessitated by the execution of the agreement between the Government of Kyrgyzstan and the Government of Russia on construction and operation of the

achieved due to growth of production capacities with the introduction of the first hydro power unit of the Kambar-Ata HPP-2 in 2010. There is a positive dynamics such as decrease in electricity losses from 4.7 billion kWh in 2006 to 3.2 billion kWh in 2012 (by 32%).

In 2011, the volume of export reached 2.9 billion kWh which is a maximum level for the review period. In 2012, the volume of export reached 1.6 billion kWh, which is explained by the growth of internal consumption and low-flow period. In general, the export of electricity by Kyrgyzstan tends to decrease; over the period of 2006-2012, it decreased by 1.7 times: from 2,682.5 to 1,592.95 million kWh.

Government Resolution N 3601-V of November 21, 2013 «On Progress in Fulfillment of Government Resolution N 316 of June 7, 2013 «On preparing for heating season 2013-2014»

The resolution provides analytical data on the Kyrgyz energy sector for 2013. In particular, it states that as of October 16, 2013, the volume of water in the Toktogul reservoir was 15.95 billion cubic meters. Over 9 months of 2013, the electric power output reached 9.64 billion kWh, including 9.01 billion kWh produced by the hydro power plants and 540 million kWh produced by the Central Heating Plant. Export of electricity during the 2013 vegetation period reached 374.8 million kWh, including 374.5 million kWh to Kazakhstan and 0.22 million kWh to China.

Over January-September 2013, consumers received 6,257 million kWh of electricity and 5,442.2 million KGS worth of goods. Electric power losses in distribution networks of electricity distribution companies (EDCs) reached 1,207.4 million kWh (16.1%) over the indicated period.

Accounts receivable from electricity consumers to EDCs as of October 1, 2013 reached 1,115 million KGS, including 279 million KGS from budgetary organizations. In its turn, accounts payable by EDCs to main supplies of electric power as of September 1, 2013 reached 2,584.6 million KGS, including 1,075.4 million KGS to Electric Power Plants OJSC, 1,509.2 billion KGS to NES Kyrgyzstan OJSC and 278.2 million KGS to the national budget.

Government Resolution № 455-p of November 16, 2013

Upper Naryn Cascade HPPs.

In furtherance of the above resolution, it is ordered that:

- Electric Power Plants OJSC shall be granted the right to use the land plots in the Naryn region for construction of the top priority facilities of the Upper Naryn Cascade;
- Electric Power Plants OJSC shall provide the land use right as part of contribution to the authorized capital of the Upper Naryn Cascade HPPs;
- the authorized representative of the Government in the Naryn region, the state administration of the Naryn region jointly with the local self-governance authorities shall properly withdraw (redeem) these land plots into public ownership from private owners.

Kyrgyz Ministry of Energy and Industry updates members of State Duma of Russian Federation on progress of Kambar-Ata HPP-1 and Upper Naryn Cascade HPPs construction projects

On November 15, 2013, at the joint meeting of the Kyrgyz Parliamentary committee on international affairs and the Russian Parliamentary committee on CIS affairs, Eurasian integration and networking with compatriots, the State Secretary of the Ministry of Energy and Industry Batyrkul Baetov informed that the capacity of the Kambar-Ata HPP-1 would be 5 billion kWh.

With reference to the Kambar-Ata HPP, the government official noted that as of today the tender for developing the feasibility study was won by a Canadian corporation. The feasibility study is under way, many issues relating to construction and cost will be clarified. The construction project will involve 6 thousand persons.

As for the Upper Naryn Cascade HPPs, its construction will involve about 2 thousand persons. At the moment, the feasibility study is in place, the planning and construction of facilities are under way.

Kyrgyz Ministry of Energy and Industry and International Finance Corporation discuss appointment of receiver to power distribution

This resolution approves the drafts of documents introduced to the meeting of the Council of Leaders of Governments of CIS countries held on November 19-20, 2013 in Saint-Petersburg (Russian Federation).

Among the approved documents was the draft of amendments to the Agreement on coordination of the interstate activities in the field of electric power sector of CIS of February 14, 1992.

The draft of amendments proposes the establishment of the CIS Electric Power Council as an interstate body of the CIS. The purpose of this body is to carry out joint and coordinated activities aimed at securing stable and reliable power supply by the states on the basis of efficient functioning of unified energy systems. The members of the Electric Power Council are heads of respective central bodies of executive power as well as energy agencies and national energy companies of states parties to this Agreement, who are vested with respective powers on behalf of the states.

The Electric Power Council has the following functions:

- to participate in drafting interstate agreements on mutual supplies of electric power and fuel for electric power plants;
- to organize mutual aid in power supply to consumers and securing sustainability of unified power systems, including in emergency situations and extreme conditions;
- to provide the parties to the Agreement with assistance and aid in organizing interstate supplies of material and technical resources, power equipment, and spare parts;
- to coordinate regulatory policies for formation of tariffs and capacity of interstate power supplies.

companies

According to the press service of the Kyrgyz Ministry of Energy and Industry, on December 12, 2013, the Ministry of Energy and Industry Osmonbek Artykbaev met with the representatives of the International Finance Corporation (IFC) headed by regional director for Central Asian countries Moazzam Mekan.

The meeting discussed the appointment of a receiver to power distribution companies. This measure aims to help national power distribution companies solve their problems by using best management practices.

In his turn, M. Mekan reassured on the IFC's readiness to assist in the development of the project proposal for drafting the Electricity Utility Management Contract.



71 Erkindik Boulevard,
Bishkek, 720040
Kyrgyz Republic

Tel.: +996 (312) 666060
Fax: +996 (312) 662788
Web: www.k-a.kg
Email: lawyer@k-a.kg

The sources of news contained in the Update are websites:
www.tazabek.kg, www.24.kg, www.knews.kg, www.vb.kg

If you would like to ensure that you continue to receive this newsletter [subscribe here](#), and make sure to add our email to your address book.

If you do not wish to receive this newsletter [unsubscribe here](#).

If you have any comments, please contact Magomed Saaduev at msaaduev@k-a.kg

Kalikova & Associates does not bear responsibility for completeness and accuracy of the news contained in the Update. Update materials are for general information purposes only and should not be considered as legal advice. Transmission of information on or by use of this Update is not intended to create, and receipt does not constitute, a lawyer-client relationship between the sender and receiver.

Copyright © 2013 Kalikova & Associates