



## ELECTRICITY INDUSTRY AND LEGAL UPDATE

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Issue 12, January 2013 (quarterly)

### Industry Update

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#### **Switzerland considers making a grant to Kyrgyz energy companies for training their specialists on new technologies in construction and operation of hydro power plants**

Switzerland will explore the opportunity of making a grant to Kyrgyz energy companies for training their specialists on the new technologies in planning, construction and operation of hydro power plants. This was announced during the meeting of the Kyrgyz-Swiss intergovernmental commission on trade and economic cooperation held on September 25-26, 2012 in Zurich, Switzerland. The Kyrgyz delegation was headed by minister of finance Olga Lavrova.

According to minister Lavrova, the parties positively evaluated the implementation of bilateral energy projects, in particular, the reconstruction and modernization of At-Bashy HPP which is intended to secure a steady supply of electricity to the Naryn region.

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#### **Kyrgyzstan suspended export of electricity to secure accumulation of water in the Toktogul reservoir**

Kyrgyzstan suspended export of electricity to secure accumulation of water in the Toktogul reservoir.

According to Electric Stations OJSC, the volume of electricity exported since the beginning of the year reached 1 billion 494.02 million kWh. The amount of electricity supplied to Kazakhstan reached 1 billion 261.96 million

### Legal Update

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#### **Kyrgyz Law «On Amendments to Kyrgyz Law "On Renewable Energy Sources" of October 10, 2012 N 170**

According to the amendments, Article 9 (Licensing of activity in the area of RES) of the Kyrgyz Law «On Renewable Energy Sources» («Law on RES») was declared invalid. Thus, the entities engaged in the area of RES (generation, transmission, sale, export of electricity, construction of power plants using RES: solar, wind, and hydro power plants), are not required to obtain respective licenses.

It should be reminded that earlier in August of this year, the amendments were made to the Law on RES, stating that all electricity generated from RES, not used by the owner of the plant for own needs and not sold to other consumers on a contractual basis, must be acquired by the biggest energy distributing company in that administrative and territorial area where the RES facility is located, irrespective of which energy company's networks this RES plant is connected to. Besides, to improve the cost recovery of RES plants, tariffs for electricity generated from RES area applied which are calculated by multiplying a maximum tariff for ultimate consumers by the respective coefficient:

- 2.1 for RES plants;
  - 6.0 for solar power plants;
  - 2.75 for biomass power plants;
  - 2.5 for wind power plants;
  - 3.35 for land power plants.
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kWh at \$0.028.

To date, the amount of water in the Toktogul reservoir is estimated to be 17 billion 452 million cubic meters with an inflow of 236 cubic meters and an outflow of 392 cubic meters per hour.

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### **Time capsule is buried on Upper Naryn HPP Cascade construction site**

The time capsule burial ceremony was held on October 27 in the Naryn region in commemoration of construction of the Upper Naryn HPP Cascade. The event was attended by President A. Atambaev, RusHydro CEO E. Dod, Kyrgyz Compatriots Guild Association deputy CEO S. Epifantsev, Verhnenarynsky HPP Company CEO I. Gorbenko and others.

RusHydro OJSC CEO Eugene Dod donated his watch to be loaded in the time capsule.

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### **Donors made recommendations to the Kyrgyz Ministry of Energy and Industry for reforming the energy sector**

Donors made recommendations to the Kyrgyz Ministry of Energy and Industry for reforming the energy sector. This was announced during the presentation made at the meeting of the Fuel and Energy Sector Transparency Initiative Supervisory Council.

Donors' main recommendations are as follows:

- 1) gaining wide political support for the reforms and marking them as a matter of particular importance;
- 2) restoring public trust in the energy sector;
- 3) improving services by reducing losses and raising quality of electricity supply;
- 4) gradual raising of tariffs to the full cost recovery level and improving social security system.

The ministry of energy and industry plans to follow the first recommendation by establishing an independent processing center, modernizing public administration, improving accountability, increasing transparency, and establishing an

### **Kyrgyz Law «On Amendments to Kyrgyz Law "On Energy" of August 2, 2012 N 531**

Amendments are made to Article 4 (State ownership of primary energy resources) of the Kyrgyz Law «On Energy».

According to the new version of Article 4 of the said Law, the use of RES is excluded from the list of licensable types of activities. Thus, under Article 4 of the Kyrgyz Law «On Energy», all primary energy resources located in the territory of the Kyrgyz Republic are held in exclusive ownership of the state, and their use, except the use of renewable energy sources, is subject to licensing in accordance with the laws of the Kyrgyz Republic.

These changes are in line with changes in the Law on RES (mentioned above) and the Law on Licensing.

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### **Kyrgyz Law «On Amendments to the Law "On Electric Energy" of November 30, 2012 N 188**

The said Law introduced amendments to Article 2 of the Law «On Electric Energy», in particular, the definition of the term "household customer" was introduced meaning an individual who uses energy under the energy supply agreement for his own household purposes.

Besides, Article 23 of the Law on Electric Energy was amended to include a provision stating that household customers are required to install individual metering devices for electric and heating energy, which will be acquired, installed and maintained at the expense of the energy supplying organization.

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### **Kyrgyz Law of December 7, 2012 №197 "On ratification of financing agreement between the Kyrgyz Republic and Asian Development Bank under the Energy Sector Rehabilitation Project signed on September 12, 2012 in Bishkek"**

This law ratified the Financing Agreement between the Kyrgyz Republic and Asian Development Bank under the Energy Sector Rehabilitation Project signed on September 12,

independent industry regulatory authority.

The ministry plans to restore public trust in the energy sector by implementing the programme for improving transparency and accountability, establishing service centers, and raising public awareness about the activities of energy companies.

The ministry plans to improve the quality of public services by reducing losses and raising quality of electricity supply by introducing modern automated commercial metering and billing systems, improving state procurement system by making amendments to Kyrgyz Law «On State Procurement», implementing KfW project for improvement of Bishkek local distribution network and reducing electricity losses.

The ministry is working to develop the long-term tariff policy (gradual increase of tariffs until the full recovery of costs arising from modernization and expansion of the energy sector). This work includes efforts to create a social security system with reliable sources of financing to protect vulnerable consumers.

The cross-subsidizing of heat tariffs will be gradually eliminated.

The energy sector leadership plans to achieve improvements through modernization of management, introduction of automated information management systems in energy companies, competitive selection of experienced managers for appointment to executive positions in energy companies, improvement of legal and regulatory frameworks for fuel and energy sector and promotion of corporate governance.

Also the ministry of energy and industry needs to develop an action plan for rehabilitation of energy infrastructure facilities, to estimate the costs, to identify possible sources of funding and to approve the list of priority targets for rehabilitation.

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### **China and Kyrgyzstan express interest in joint construction of HPP cascade on Sary Djaz river**

At the meeting between Kyrgyz Prime Minister Jantoro Satybaldiev and Chinese Prime Minister Wen Jiabao held on December 4, the parties discussed perspectives of the project for the construction of HPP cascade on Sary Djaz river and a 500 kV high voltage power line between Kyrgyzstan and China.

2012 in Bishkek.

The said Agreement was executed to secure financing of activities related to the Kyrgyz energy sector rehabilitation project. The project consists of the following 2 parts:

Part 1:

(a) Rehabilitation of the Toktogul HPP by replacing certain electric and mechanical equipment with the new one, including 500 kV cables, activation systems, regulator systems, generator switches, and reserve stator winding; as well as

(b) Support to Electric Stations OJSC in the management of the Project, including procurement, protective measures, supervision under a service contract and external audit.

Part 2:

(a) Establishment of the Kyrgyz Center for Energy Payments and its operation during the first two years by an international firm and training of local specialists for the purposes of its further management;

(b) Conducting research on condition and safety of dams of Naryn HPP Cascade with determination of necessary restoration measures; and

(c) Preparation and carrying out of public information campaign aimed at raising public awareness on the development of the energy sector and benefits of reforms.

The project is expected to end on December 31, 2016. The project will be carried out by the Ministry of energy and industry of the Kyrgyz Republic and Electric Stations OJSC.

According to the Agreement, for the purposes of the Project, the ADB will provide to the Ministry of energy and industry and Electric Stations OJSC a loan in various currencies equivalent to nine million seven hundred and three thousand (9,703,000) special drawing rights. Besides, a grant of USD 40,000,000 will be provided. The loan is to mature on February 15, 2044.

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### **Government Resolution «On approval of plan of main measures for 2012 within Government Activity Program» of October 24, 2012 N 747**

The plan of main measures, among other

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## **Commissioning of Upper Naryn HPP cascade and Kambarata HPP-1 will enable production of up to 6 billion kWh of electricity per year**

According to the Kyrgyz ministry of energy and industry, the total hydropower potential of Kyrgyzstan is assessed at 142 billion kWh per year. Only 10 percent of this potential is used.

The Upper Naryn HPP cascade and Kambarata HPP-1 construction projects were identified as the most attractive by the Russian government which signed the cooperation agreement with the Kyrgyz government on September 20 of this year.

Earlier, in 2011, a Russian company, RusHydro OJSC, carried out researches to identify the most optimal location as well as technical and economic indicators for the initial HPPs to be constructed in the upper part of Naryn river in Naryn region.

To cut the costs of the HPP construction and operation, RusHydro recommends considering the possibility of constructing the Naryn (Naryn HPP 1, 2 and 3) and Akbulun HPPs with a single construction and operation structure.

According to the Kyrgyz ministry of energy and industry, the periods of construction of high priority HPPs are set so as to secure appropriate production capacity, workforce and smooth financing of construction.

It should be noted that Kambarata HPP 1 is the biggest facility among all Kambarata HPPs with the annual potential production capacity being 5.1 billion kWh of electricity.

Commissioning of the Upper Naryn HPP Cascade and Kambarata HPP 1 will enable the production of 6 billion kWh of electricity per year, which will resolve the issue of energy consumption peaks in winter time and increase in electricity export.

According to the ministry of energy and industry, additional amount of electricity generated by Kambarata HPP-1 will help reduce volume of water passage in Toktogul reservoir during the winter period and accordingly increase it during the vegetation period to satisfy the irrigation needs of the downstream countries.

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**Uzbekistan and Russia agreed to**

things, provides for the development by December 25, 2012 of the draft Government Resolution «On mid-term electric and heating energy tariff policy for 2013-2015». Responsibility for drafting the said act is imposed on the Ministry of energy and industry.

Besides, the list of measures includes:

- reduction of losses of electric energy by introducing electricity prepayment meters for the general public (responsible authority is the Ministry of energy and industry);

- securing an uninterrupted supply of electric energy in the entire territory of the Kyrgyz Republic by prolongation of the agreement on parallel work of the energy systems of Central Asian countries to be performed by December 31 of the current year (responsible authority is the Ministry of energy and industry);

- development and approval of the comprehensive program for improving transparency and accountability in the electric energy sector. The program must be developed and approved by December 30 of this year (the responsible authority is the Ministry of energy and industry).

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## **Government Resolution of November 30, 2012 N 562-p**

By the said resolution the Government, for the purposes of implementing the agreements between the Government of the Kyrgyz Republic and the Government of the Russian Federation on construction and operation of the Upper Naryn HPP Cascade and Kambarata HPP 1 signed on September 20, 2012, established an interdepartmental working group for drafting the loan agreements provided by the agreements between the Governments of the Kyrgyz Republic and the Russian Federation on construction and operation of the Upper Naryn HPP Cascade and Kambarata HPP 1.

The working group consists of the minister of energy and industry of the Kyrgyz Republic, head of the interdepartmental working group and deputy minister of finance of the Kyrgyz Republic, deputy head of the working group, members of the parliament of the Kyrgyz Republic (subject to approval) from factions SDPK, Respublika, Ar Namys, Ata Meken, Ata Jurt. Besides, the working group includes the deputy ministers of energy and industry, justice, foreign affairs, economy, agriculture and amelioration, transport and communications, officials of other state bodies, and general director of Electric Stations OJSC (subject to

## make expert appraisal of Kambarata HPP 1 project

Uzbekistan and Russia agreed to make an expert appraisal of the project for construction of Kambarata HPP-1 in Kyrgyzstan. This agreement was achieved by the meeting of the Russian-Uzbek intergovernmental commission for economic cooperation, attended by the first Vice Prime Minister of Uzbekistan Rustam Asimov and Vice Prime Minister of the Russian Federation Dmitry Kozak.

According to Rustam Azimov, a co-chairman of the commission, the decision of the Russian leadership on the need for international independent economic expert appraisal of the Kambarata HPP-1 project demonstrates a constructive approach to resolution of all issues of water energy cooperation in Central Asia. In his turn, Dmitry Kozak, co-chairman of the commission on the Russian side, said that the decisions which raise doubts as to fair use of water resources must be subject to independent expert appraisal.

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approval), general director of NEZ Kyrgyzstan OJSC (subject to approval) and head of economy and investment department of the Executive Office of the Government of the Kyrgyz Republic.

Interdepartmental working group is tasked to develop the drafts of loan agreements provided by the agreements between the Government of the Kyrgyz Republic and the Government of the Russian Federation on construction and operation of the Upper Naryn HPP Cascade and Kambarata HPP 1, and to submit them in the proper manner to the Kyrgyz Government for consideration.

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