



Agency of the Republic of Kazakhstan for
regulation of national monopolies (ARNM)

Public power industry regulation in the Republic of Kazakhstan

July, 2010

Urumqi

ARNM is an infrastructural branches regulator

Since 1 January the formation of an adequate Regulator was made into law

Price and tariff regulating functions are centralized in one state agency and include the following:

- **Tariff and technical regulation over activity of natural monopoly subjects (NMS)**

- **Price regulation of regulated market subjects (dominants in adjacent areas and in nomenclature)**

- **Supervision for law compliance (NMS, dominants, power producing and power supplying companies)**

- **Licensing and post-licensing control**

ARNM's subjects of regulation

1,078 natural monopoly subjects involved in delivery of 1,619 regulated services, including:

862 - in the field of water and drainage systems;

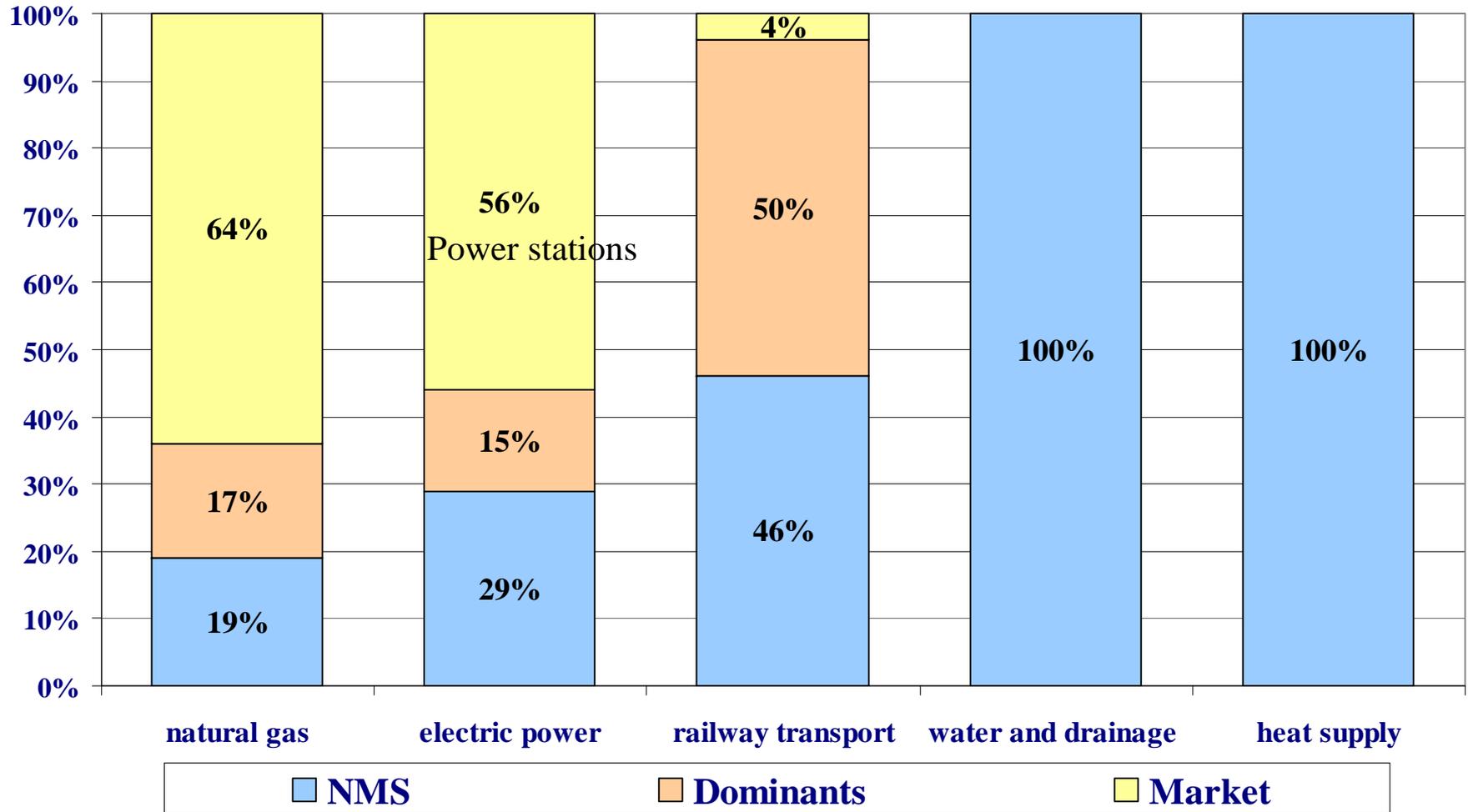
465 - in the field of electric and heat power;

51 - in the field of oil and gas transportation;

241 - in the field of transport

- **15 state monopoly subjects**
- **about 400 dominants**

Regulated services share in the final product cost of industries



Principal directions of tariff policy



1. Implementation of Agency's Strategic Plan

- municipal network modernization by means of NMS number increase, working under investment (middle- and long-term) tariffs.



2. Power supply

- Elimination of excessive losses and reduction of normative losses;
- Introduction of differentiated electric power and water tariffs for household users, depending on volume of consumption.



3. Cost-effective use of resources

- optimization of raw and other materials, fuel and power usage rate;
- reduction of administrative expenditures

Power industry: generation

Power production



IMPLEMENTING:

“tariff in exchange of investments” policy in regard of Power producing companies;

STATION’S CAP RATES IN 2010:

- 1 group: coal burning condensing plants – **3.17** cents/KWh;
- 2 group: gas & oil burning condensing plants – **4.4** cents/KWh;
- 3 group: thermal power station (remote from the source of fuel) – **3.34** cents/KWh;
- 4 group: hydropower stations - **2** cents/KWh.

Price increase in 2010 is **1.8** to **4.9** cents/KWh, which is from 6.1% to 59.4%

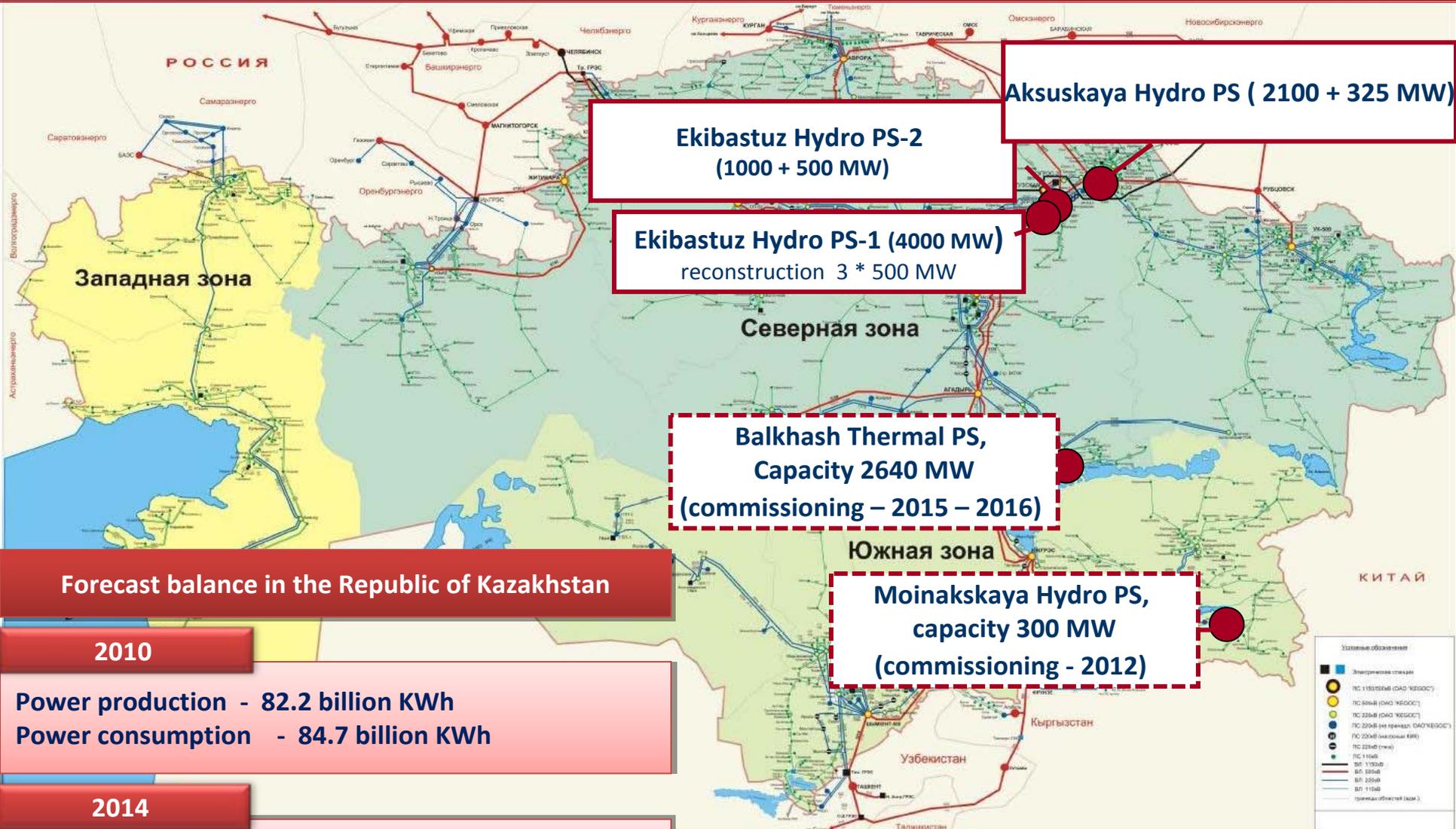
OUTCOME:

- *increase of investment prospects*

during 2009 investments were about **440 million USD**
projected investments for 2010 - **576 million USD**

Currently, there is work on the question of setting up the capacity market

Key projects



Power industry: transmission and distribution

Electric power
transmission and
distribution



PROVISIONS MADE FOR:

• MODERNIZATION, INCLUDING DUE TO ADOPTION OF WORK UNDER INVESTMENT TARIFFS

TRANSFER TO INVESTMENT TARIFFS - TOTAL 24 RECs

In 2009 - 12 RECs medium-term tariffs approved with investments amount - 297 million US dollars

In 2010 up to 15 RECs are projected with investments - 318 million US dollars

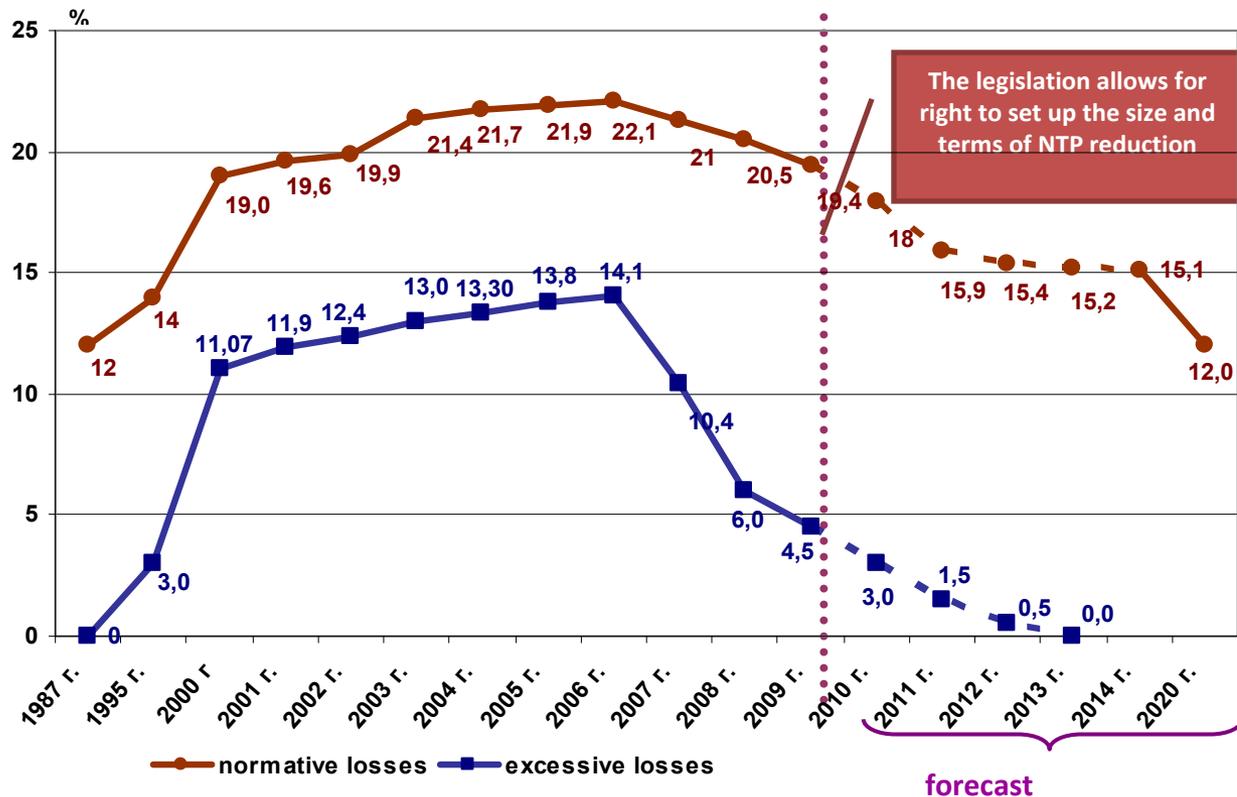
PROJECTED INVESTMENTS TILL 2015 WILL BE - about 935 million US dollars

• ENHANCED CONTROL OVER INVESTMENT COMMITMENTS COMPLIANCE

PRINCIPLE TASKS:

INVESTMENTS, NETWORKS MODERNIZATION AND RECONSTRUCTION

Power excessive and normative losses dynamics



The legislation allows for right to set up the size and terms of NTP reduction

Expected outcomes:

- Complete elimination of excessive losses by 2014
- optimization of normative technical losses by 2020 to 12%

Economic impact:

During 2009 the excessive losses were reduced on 6.8 million USD,
normative losses on 5 million USD

Until 2014 due to excessive losses elimination – 30 million USD

Until 2020 due to normal losses optimization – 56 million USD

Reference:

Decree of the Republic of Kazakhstan President of 01.02.2010 №922 «On strategic plan of development of the Republic of Kazakhstan until 2020»

Introduction of comparative analysis method

1. Alternative to the tariff formation costs method
2. Method, which, before tariffs application, takes into consideration the NMS's activity efficiency
3. Introduction of comparative analysis method was recommended by the European Bank for Reconstruction and Development consultants



Efficiency level for REC shall be defined by respective factors comparison:

- ✓ *servicable area;*
- ✓ *consumers number;*
- ✓ *total length of power transmission line;*
- ✓ *number and capacity of transformers;*
- ✓ *maximum load;*
- ✓ *electric power losses;*
- ✓ *size of transmission*

REC tariffs, approved with comparative analysis method application will be effected from 2013

2. Power industry: supply Differentiated tariffs on electric power



**Based on size
of consumption**



Based on time zones

- work on introduction completed in all RK regions

Principle: more use – more pay.

Effect for consumers in the Republic is more than 7 million USD

- introduced in all RK regions

Reduction of night time tariff in Republic is 3-5 times

Effect of such introduction is – about 7.3 million USD



OUTCOMES

- energy savings;
- reduction of consumers spending;
- optional tariff plan

Principle tasks of the Agency

1. Increase of NMS number, working under investment (medium- and long-term) tariffs.

By 2020 – all NMS transfer to work under investment tariffs

2. Implementation of measures on optimization of normative and elimination of excessive losses, promotion of energy savings

By 2014 **complete elimination of excessive losses** for electric-, heat-power and water with economic impact **on amount of more than 91.5 million USD**

By 2020 reduction of **normative losses** - for heat – 17 %, for water – 15%, for power -12 % with economic impact **more than 108 million USD**

Strategic plan of the Republic of Kazakhstan development until 2020, approved by the Decree of the RK's President as of 01.02.2010 №922.

3. Use of differentiated tariffs for water, by consumption size and group of consumers

4. Preparation works on introduction of comparative analysis method into REC practice

Period of implementation 2010-2012

Tariffs introduction from 01.01.2013

Thank you for your attention!

