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Tariff Setting¹

by

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Ladies and Gentlemen, Dear Colleagues,

Power sector is a fundamental branch of the economy of the Republic of Tajikistan. Its reliable and efficient functioning, as well as its continuous supply to consumers, is an engine for the country's economic development and an integral factor for providing comfortable living condition to all its citizens. The sector has rebuilt the integrity of the economy and has provided the country with reliable supply of electricity and heat.

However, the fundamental problems besetting the power sector observed in the 1980s and exacerbated in the following years have not been resolved yet. Against the background of economic recession, there has been a decline in the economy's energy efficiency, a sharp fall in the volume of investment, and a slowdown in the power sector's regenerative processes.

A further aggravation of these problems will lead to the impossibility of meeting the increasing demand for electricity, and consequently, the slowing down of economic growth.

Qualitative growth in the economy's energy efficiency or changing the investment climate in the power sector, is impossible without an effective management and without cardinally changing the established system of economic relations in the sector.

Implementation of policies established by the government through legislation has become possible since the late 1997 due primarily to the enactment of the law "On natural monopolies", wherein the agency regulating the activities of natural monopolies and the methods for regulating are clearly defined.

The Government Agency for Antimonopoly Policy and Support for Entrepreneurship became the organ and the regulator of the activities of natural monopolies, including the power sector at the national level, since 2001.

The fundamental method in regulating the activities of natural monopoly subjects is tariff regulation implemented through determination of tariffs and their maximum levels.

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At present the Antimonopoly Agency exercises regulation and control over the activities of natural monopolies and conducts a policy for tariff stabilization of services (works and production) in accordance with the law "On Natural Monopolies". For purposes of improving the said law, the Antimonopoly Agency has devised and registered accordingly the following regulatory acts:

- Instruction "On the Registration of Natural Monopoly Subjects";
- The process of regulation, determination, and establishment of tariff or their maximum levels for services rendered by natural monopolies;
- Instruction "On the Review of Cases Dealing with the Violation of the Law of the Republic of Tajikistan "On Natural Monopolies".

The government has also designed and approved the "Regulations for the Use of Electricity and Heat".

In accordance with the requirements of the law on "On Natural Monopolies", the Antimonopoly Agency shall design a program of tariffs for electricity and heat based on the proposals of the Ministry of Energy. The program of tariffs shall be reviewed based on multilateral analysis of rational expenditure by Barki Tojik Holding Company, Inc. on the production, transmission, and distribution of electricity and heat. The following are taken into account in the process:

- not to allow any infringement on consumer rights;
- maintain cost of production at the possible lowest level;
- maintain profitability of the system and promote the development of the sector;
- stimulate investments.

The prepared tariff programs are initially agreed upon with concerned ministries and then forwarded to the government for approval. After complying with the Instruction on the implementation and application of tariffs, the Antimonopoly Agency in coordination with the Ministry of Energy, prepares a Bill of "Tariffs for Electricity and Heat" for approval and resolution by the Antimonopoly Agency.

The said Bill explains tariff application for every consumer group (there are 7 consumer groups at present). Suppliers of electricity and consumers of electricity and heat, regardless of their form of ownership and official affiliations, must comply with the requirements of the Bill. The Bill determines the tariff group of electricity and heat consumers and interrelations of electricity distribution companies with different consumer groups. Mutual accounting between the energy suppliers and consumers is carried out based on the Bill.

At present regulation of tariffs for electricity is being carried out gradually in accordance with the Memorandum of Understanding (MOU) signed on 28 August 2000 by the Asian Development Bank (ADB) and the Government of the Republic of Tajikistan on the Reconstruction of the Power Sector of Tajikistan.

The MOU provides that the first stage of tariff regulation for electricity and heat is to increase tariff for the 5th consumer group (except for residential sector and budget organizations) by 56%, effective 02 April 2002.

The second stage of tariff regulation for electricity was carried out on 19 December 2002, increasing tariff for the general population and budget organizations by 2.7 times and 6.8 times, respectively.

It should be noted that for purposes of protecting the rights and interests of the vulnerable social groups, the following measures have been undertaken:

- The general public is given discounts for minimum consumption and consumption of up to 250 kwh are charged with lower tariffs.
- The government annually allots subsidies to compensate for tariff increases for electricity and natural gas to poor families, as determined by a special memorandum among the Ministry of Finance, Ministry of the Population's Social Protection, and other concerned ministries and agencies, and approved by an Instruction of the Government of the Republic of Tajikistan.
- In the summer months of May to September, a 50% coefficient of reduction for existing tariffs takes into effect for the population and budget organizations.

The third stage of tariff increases in electricity was implemented on 31 March 2003 for the use of pumps and pumping stations for water supply. The increase was almost 3 times as much as the existing tariffs.

The fourth stage of tariff regulation for electricity was completed by the removal of seasonal coefficients for existing tariffs for consumer different groups (except for poor families), budget organizations, and pumps and pumping stations for agricultural irrigation from 1 June 2005.

At the same time, discounts and lower tariffs are applied to poor families with a minimum consumption of up to 400 kwh.

The process of tariff regulation for electricity and heat has not yet ended. It continues when the need for it arises.

The current mode of regulation and the tariff increases for electricity made in the past years has led to a significant rate of improvement in the country's electricity system.

Electricity generation has reached pre-crisis level. Non-functioning hydropower stations have started to work normally. Old ones are being rehabilitated to their previous capacity. Likewise, old transmission lines and facilities are being renewed and repaired. Construction of new power plants "Rogun" and "Sangtuda", which stopped in 1992, has started anew.

To ensure the reliable functioning and further development of the power system of the Republic of Tajikistan, a systematic tariff regulation is necessary.

However, I would like to note that there remains a significant amount of losses in the system. Yearly, technical and commercial losses reach billions of kilowatts-hour. This means that the system and the economy as a whole, are losing millions of dollars in prospective income.

Today, the foremost goal of electricity regulators in the Republic of Tajikistan is to find ways to reduce the amount of technical and commercial losses in the power system.

We know that ADB is also concerned on how to solve this problem. We hope that this Forum would give us the opportunity to enrich ourselves through our colleagues from other countries, who have accumulated good experiences in this area.

Thank you for listening.