

Regulator's Role in Attracting Private Capital to the Energy Sector

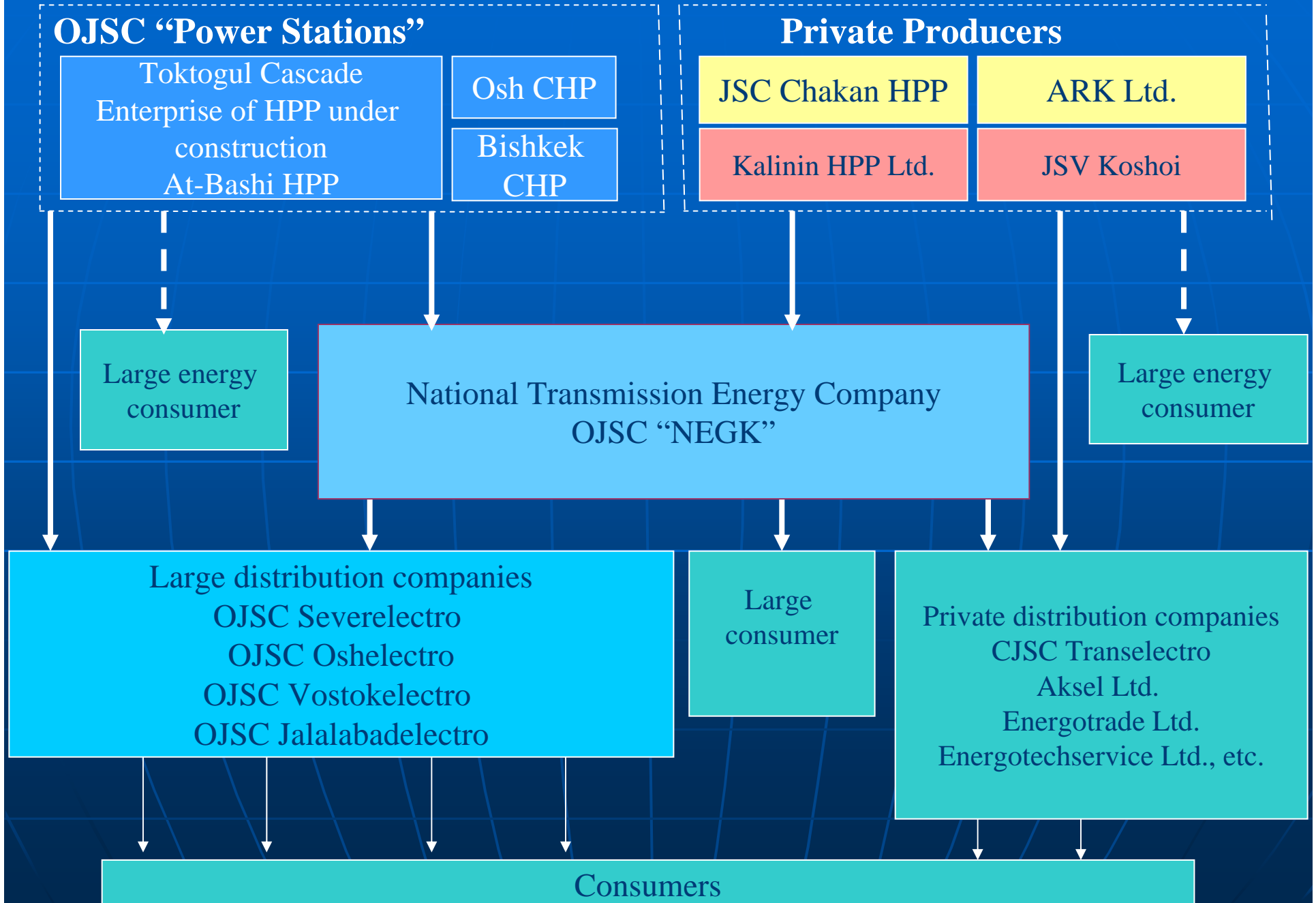
**CAREC Energy Regulators Forum
4th Annual Meeting, Kyrgyz Republic, Issyk-Kul
September 15-19, 2008**

**State Department for Fuel and Energy Complex Regulation under the
Ministry of Industry, Energy and Fuel Resources of the Kyrgyz Republic**

The views expressed in this presentation are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this presentation and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.

Structure of the Electricity Sector of the Kyrgyz Republic

2



Key goals for private sector attracting

- Promoting competition and de-monopolization of the energy sector
- Reducing the level of losses
- Improving efficiency of operations of the energy sector
- Improving the quality **Повышение** services provided to consumers
- Establishment of the energy market
- Participation of private capital in development of the energy sector

Conditions for attracting the private sector to the energy sector

- Minimization of barriers to enter the energy market (licensing requirements, high upfront investments, availability of specific knowledge)
- Creating economic attractiveness of the energy market compared to other markets (return rates and payback period)
- Reducing operational risk in the energy market (guarantees to ensure access to networks, freedom of supplier and consumer selection, improvement of the legal frameworks and enforcement of legislation, predictability of the state policy)

Key functions performed by the State⁵ Department

- Improvement of the legal frameworks
- Issuing licenses for the right to operate in the energy sector
- Establishment of reasonable tariffs
- Monitoring and control of licensees' activities
- Control of enforcement of anti-monopoly legislation in the energy sector
- Promotion of competition in the energy sector
- Protection of rights of energy resources consumers

Goals of improvement of the legal frameworks:

- Ensuring transparent operations of the energy sector
- Clear delineation of authorities and functions of government agencies
- Ensuring guaranteed and non-discriminatory access to the market for independent providers, including from RES
- Establishment of legal frameworks for RES development
- Bringing legislation in compliance with the current development of the energy market

Improvement of laws in the energy sector

- With the support of the REMAP Program a new Law "On Electricity" has been drafted
- The Law "On the Electricity Market" is being drafted
- The draft Law "On Renewable Energy Sources" has been prepared with the UNPD project support

Activities subject to licensing:

- generation, transmission, distribution, sales of electric and thermal power, natural gas
- export and import of electricity
- crude oil and natural gas processing
- construction of power plants, substations and transmission lines

Advantages of the existing licensing system for new companies

- Low licensing cost
- Broad territorial coverage by the license (all territory of the Kyrgyz Republic)
- Availability of a single list of necessary documents and requirements to obtain a license
- Short time for application consideration

Key performance indicators in licensing

- Issued 254 licenses for electricity sales, distribution, generation and transmission, including about 240 licenses issued to new private companies
- Foundation is laid to form the domestic electricity market
- License have been issued for electricity import and export
- The Kyrgyz Republic is striving to become an active participant in the regional energy market

Key tariff policy principles

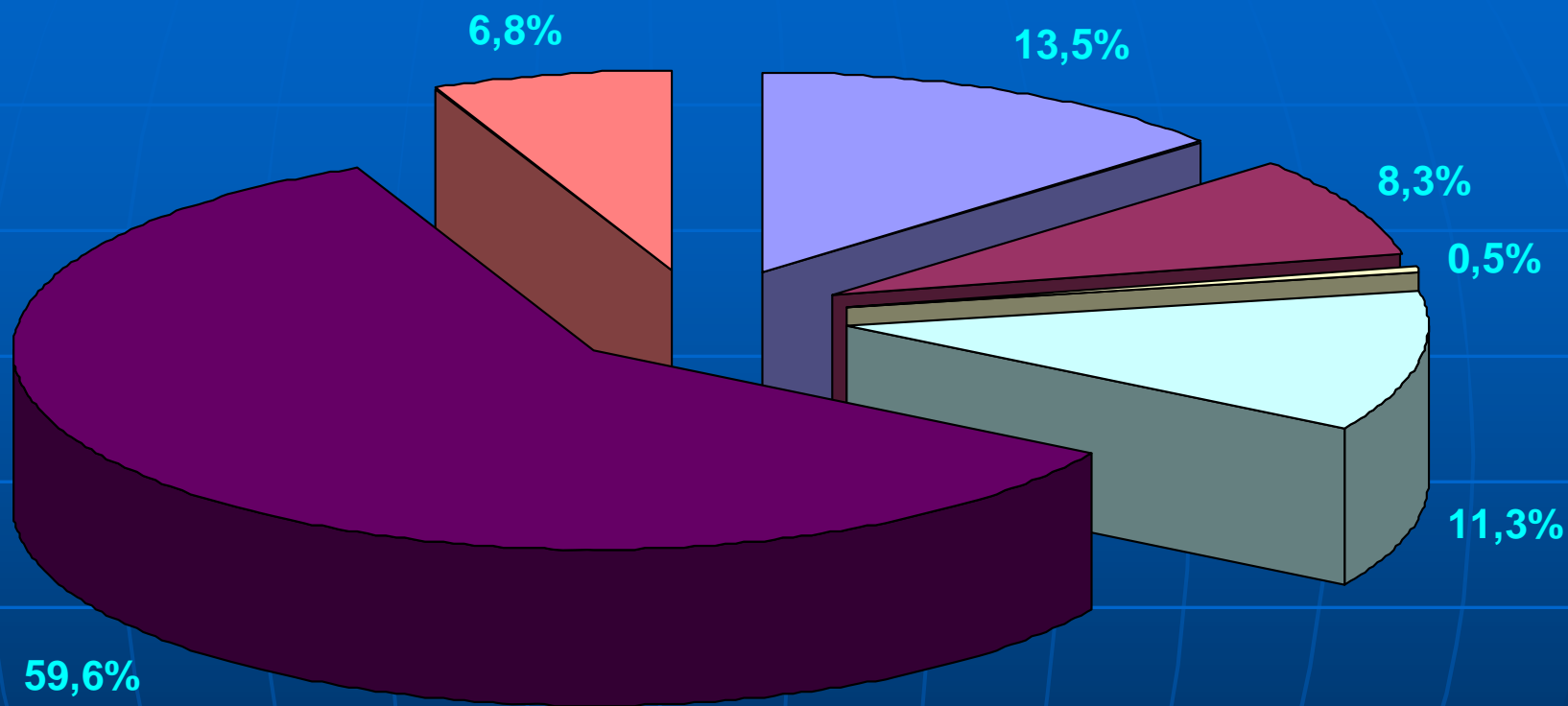
1. Tariffs shall cover all costs of energy companies for generation, transmission, distribution and sales of electricity
2. Tariffs for each group of consumers shall reflect all costs for electricity supply to this category of consumers
3. All subsidies shall be provided directly (in a targeted manner) to electricity consumers (population) with low income through government social security programs.

Deficiencies of the existing tariff scheme

- Presence of a complicated system of cross-subsidies in the domestic market, both among various groups of electricity consumers (industry, population etc.), and among consumers of electric and thermal power
- Dependence of domestic market tariffs on revenues received from electricity exports and climate
- Mismatch of tariffs for certain categories of consumers with real costs of energy companies supplying energy to them
- Low income levels and long payback periods
- Tariff levels do not provide incentives for energy saving as a result there is no energy efficiency

Структура потребления по группам потребителей в распределительных энергокомпаниях ¹³

Structure of consumption by consumer groups in energy companies

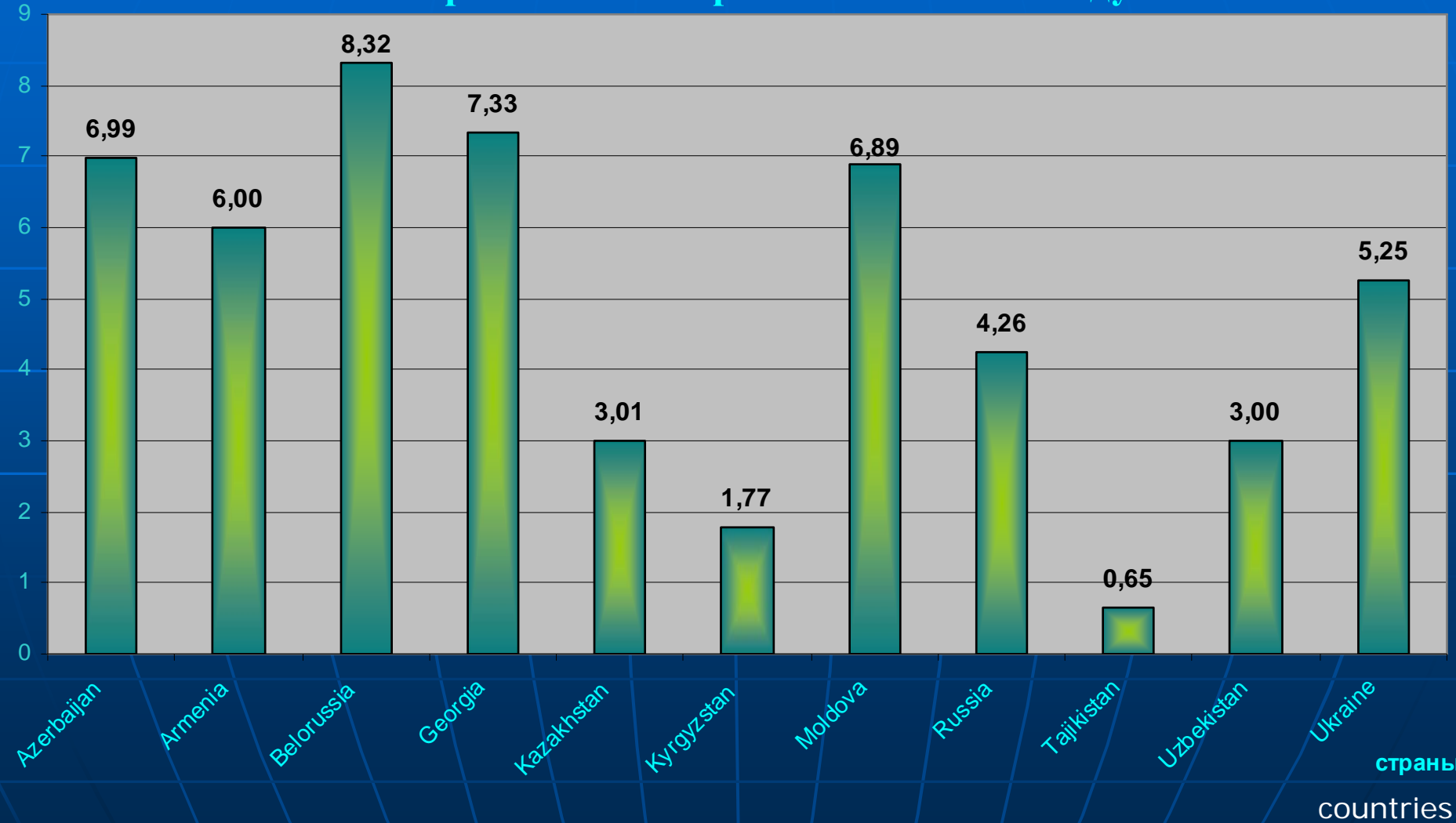


■ Industry ■ Budget ■ Agriculture ■ Other ■ Population ■ Pumping stations

Average tariff in CIS countries for end consumers

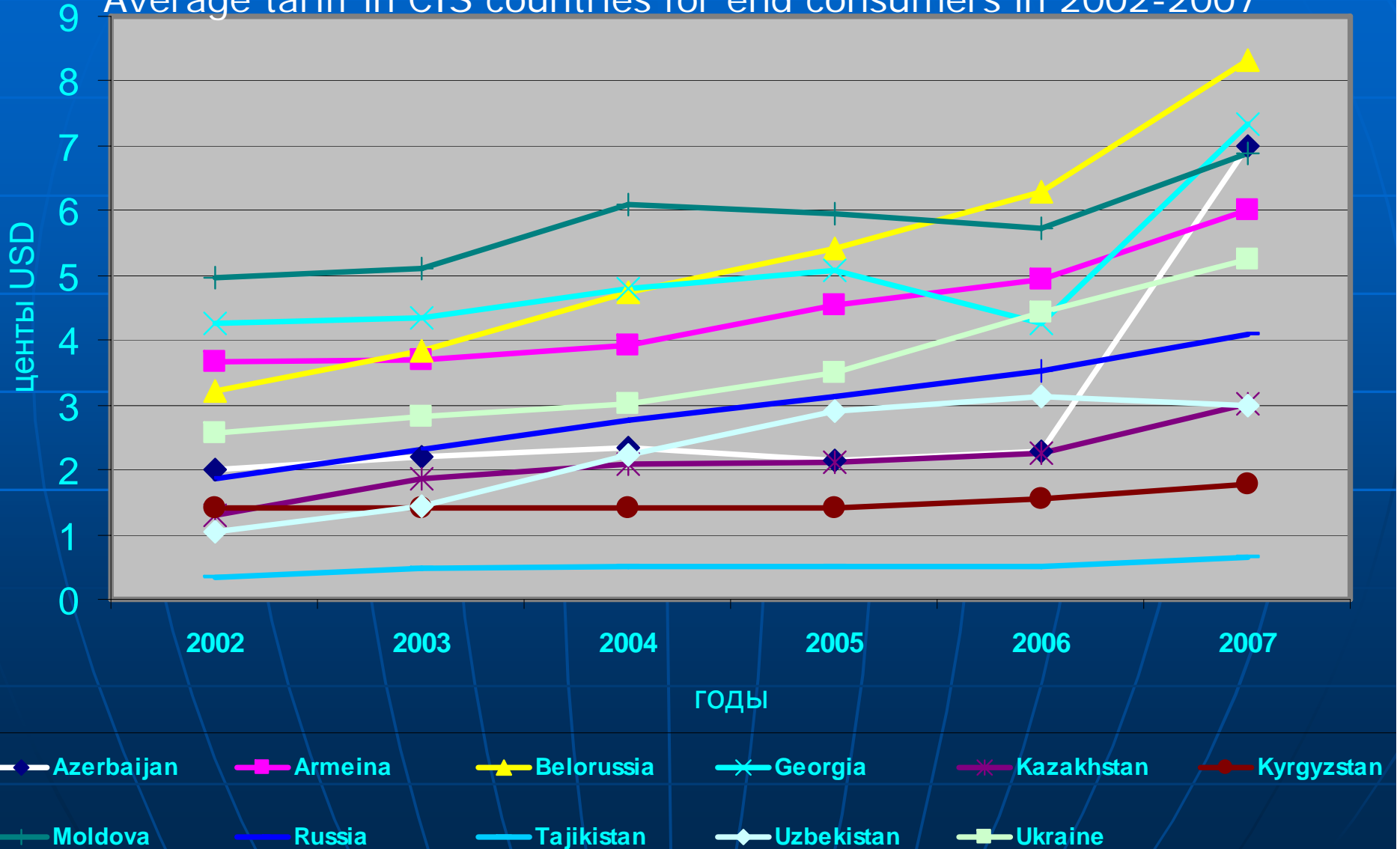
\$ cents
центы США

Средний тариф на электроэнергию для конечных потребителей в странах СНГ в 2007 году



Средние тарифы на электроэнергию для конечных потребителей в странах СНГ в 2002-2007 гг.

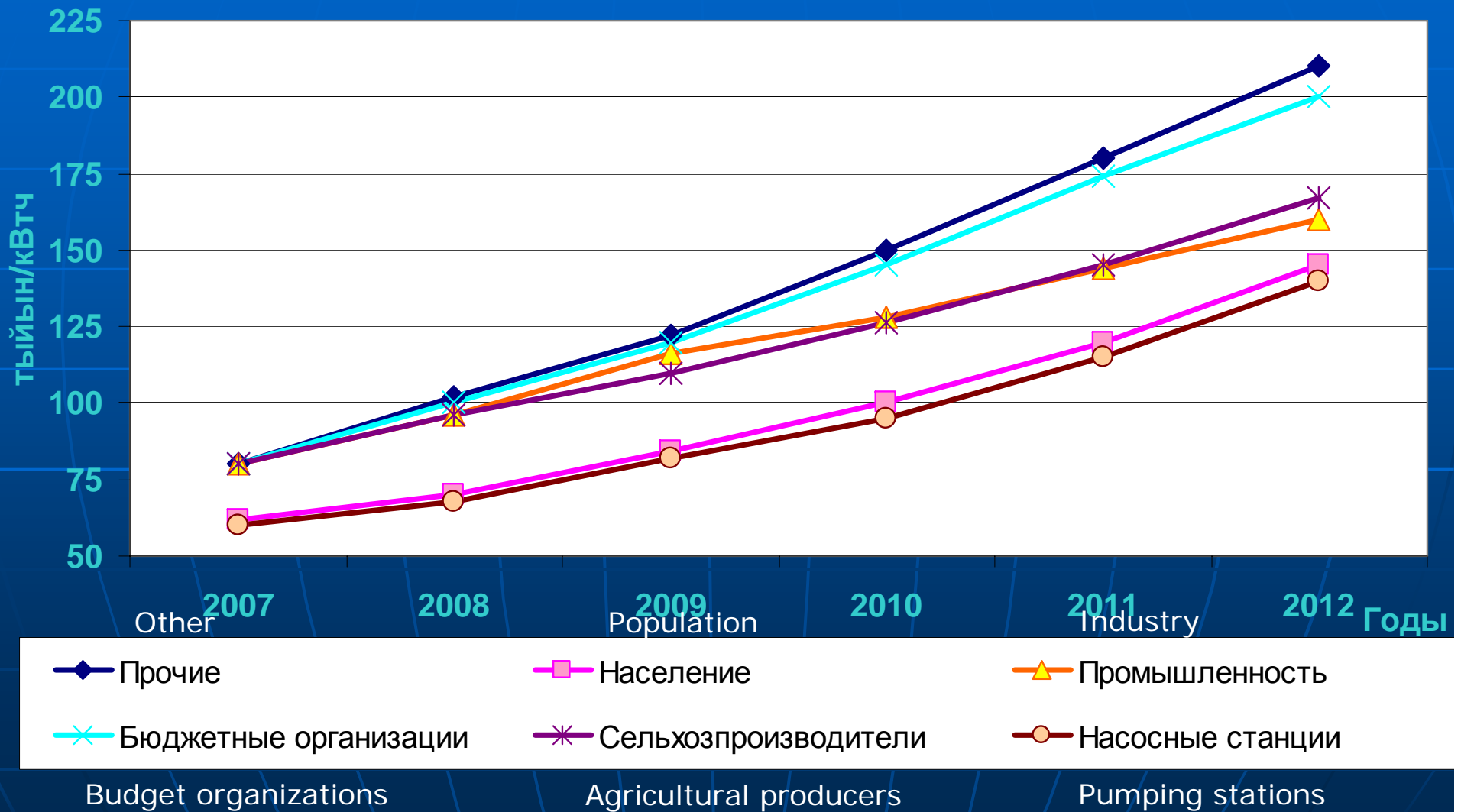
Average tariff in CIS countries for end consumers in 2002-2007



Measures to improve the tariff scheme¹⁶ in 2008

- The Government of the Kyrgyz Republic developed and approved the Mid-Term Tariff Policy for electric and thermal power for 2008-2012
- Tariffs for electricity and thermal power have been increased for all groups of end consumers
- New Instructions on application of electricity tariffs have been developed and approved
- Tariffs for thermal power and electricity have been revised among large market participants

Growth in tariffs for electricity according to the¹⁷ Mid-Term Tariff Policy for 2008-2012



Key results of work on tariff improvement

- Prospects of the mid-term tariff policy of the state until 2012 have been specified for the current and future market participants
- Steps have been made to increase tariff levels and improve economic attractiveness of the energy market
- A foundation has been laid for phased dismantling of the complicated system of cross-subsidizing
- The process of a gradual reduction of domestic market dependence on the volume of electricity export has been started

Support for all energy market participants

- The level of tariffs for each company is estimated based on costs
- A tariff setting mechanism is being developed for RES to improve their competitiveness
- It is planned to move to voltage-based tariffs

Conclusions

- Creating conditions for private sector attraction is one of the key objectives of the State Department
- The Kyrgyz Republic is interested in developing the energy market and attracting private capital for it
- The State Department will take further steps to improve energy attractiveness for private investment

Thank you for attention!