THE ENERGY REGULATION AND MARKETS REVIEW

EIGHTH EDITION

Editor
David L Schwartz

THE LAWREVIEWS

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This article was first published in August 2019
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Published in the United Kingdom
by Law Business Research Ltd, London
87 Lancaster Road, London, W11 1QQ, UK

www.TheLawReviews.co.uk

ISBN 978-1-83862-032-5

Printed in Great Britain by
Encompass Print Solutions, Derbyshire
Tel: 0844 2480 112

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ACKNOWLEDGEMENTS

The publisher acknowledges and thanks the following for their assistance throughout the preparation of this book:

ABOU JAOUDE & ASSOCIATES LAW FIRM

AFRIDI & ANGELL

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PREFACE

In our eighth year of writing and publishing *The Energy Regulation and Markets Review*, we have seen geopolitical changes that have added significant uncertainties to global energy policies. For example, the uncertainties revolving around the United Kingdom's exit from the European Union (a process known as Brexit) have led to uncertainties regarding the UK's energy policies, including with respect to its commitments to reduce greenhouse gases (GHG). The US withdrawal from the multiparty international agreement with Iran this past year and the re-imposition of sanctions have had significant adverse energy investment impacts on Iran and other countries in the region. Despite the withdrawal of the United States from the Paris Agreement and expressions of support from the Trump administration for the coal industry, the United States has continued its extensive investment in renewable generation resources. The 2011 Fukushima nuclear incident continues to impact energy policy in many countries. Finally, we continue to see liberalisation of the energy sector globally.

I CLIMATE CHANGE DEVELOPMENTS

With respect to climate change developments, despite the US withdrawal from the Paris Agreement, we continue to see significant carbon reduction efforts globally, including increases in renewable resources, as well as energy efficiency and demand reduction measures.

In the United States, the Trump administration had pushed for a grid resiliency plan that the Department of Energy (DOE) issued in draft form that, if adopted, would have provided a benefit to the US coal industry, but the Federal Energy Regulatory Commission (FERC) voted unanimously to reject such a plan. A record number of coal and other aged fossil fuel plants retired this past year. Additionally, many states in the United States have pushed for the procurement of thousands of megawatts of renewable resources, including new offshore wind competitive procurements in the north-east. Furthermore, private companies have led the charge to contract for the long-term purchase of renewable energy.

Despite the United Kingdom's continued efforts to follow through on Brexit, this was a record year for renewable generation development and a record low for energy produced by fossil fuel generation. As a result, the United Kingdom experienced a 43 per cent reduction in carbon emissions since 1990. In France, President Macron announced a goal to close the remaining four coal plants by 2022, and France targeted a 40 per cent reduction of GHG by 2030. Italy is seeking to achieve 30 per cent reliance on renewable energy and a 33 per cent reduction of GHG by 2030. Belgium continued its offshore wind procurement efforts, and is seeking to reduce subsidies in future procurements. Denmark is seeking to have all of its energy demand met by renewables by 2050, with 55 per cent reliance upon renewables by 2030. Switzerland is working to increase its reliance upon hydroelectric and other renewable

resources, and to reduce energy consumption by 16 per cent by 2020 and 43 per cent by 2035, compared to 2000 figures. Germany admitted that it would not meet its goal of reducing emissions by 40 per cent by 2020, as well as its goal to reduce energy consumption by 20 per cent since 2008, but it remains focused on renewable generation development, energy efficiency and conservation and energy storage technologies.

Japan continued its efforts to develop solar and wind resources, including opening new sea areas for offshore wind. But the shutdown of most of its nuclear generation has resulted in a significant reliance upon natural gas, including LNG. China set ambitious renewable energy goals, capping energy from coal generation to 5 billion tonnes and aiming to have 15 per cent of generation supplied by non-fossil fuel generation by 2020. Korea planned to abolish its old coal generation facilities by 2022, and committed to cut GHG by 37 per cent by 2030.

Australia began to focus heavily upon energy storage (battery and pumped water) and South Africa increased its renewable independent power procurement efforts.

II INFRASTRUCTURE DEVELOPMENT

For many countries, a reliable energy supply remains the primary concern, regardless of fuel source. As only 35 per cent of Myanmar is connected to the grid, Myanmar continues efforts to electrify remote parts of the country. Iraq continues to have significant infrastructure needs, and Panama and Colombia continue to seek foreign investment. Foreign investment in Iran will be significantly more challenging following the re-imposition of US sanctions.

South Africa is utilising its Integrated Resource Planning process to attract and develop new generation and transmission capacity. Australia is developing one of the largest pumped hydroelectric storage projects globally. Colombia is developing a large hydroelectric project that is expected to produce up to 17 per cent of the country's energy needs, but that effort is hindered by construction delays.

Denmark has five new applications for oil and gas exploration in the North Sea. In the United States, the DOE has issued a study authorising LNG exports to non-FTA nations, finding that the United States will experience net economic benefits from LNG exports, but efforts to develop oil and gas pipelines have been met with increased challenges from environmental groups.

III NUCLEAR POWER GENERATION

Eight years after the Fukushima disaster, Japan has stopped operations for 39 out of its 48 nuclear power stations, and 12 nuclear power stations are in the process of being reviewed for restart under Japan's new stringent safety standards. Germany continues efforts to phase out all nuclear generation, and Belgium's nuclear plants have been offline for maintenance for technical issues for the past few years. France was seeking to eliminate nuclear generation by 2025, but it extended that date to 2035. Korea continued its efforts to phase out nuclear power, abandoning the construction of six new nuclear plants and cancelling the life extension of 10 older nuclear plants. Switzerland shut down one of its remaining nuclear plants.

But the phase-out of nuclear energy is not universal. The United Arab Emirates' new Barakh nuclear power station is 90 per cent complete, and South Africa is still considering building nuclear capacity after 2030. In the United States, even though the early retirement of certain nuclear plants has been driven by cost and power market considerations (rather

than safety concerns), some states have passed legislation to subsidise nuclear energy to allow owners to continue to operate through zero emissions credit programmes, including Illinois, New York and New Jersey, with similar legislation being considered in Pennsylvania and Ohio. While some parties challenged the constitutionality of these zero emissions programmes, two federal courts of appeals have upheld these programmes, and the US Supreme Court denied requests to review those decisions.

IV LIBERALISATION OF THE ENERGY SECTOR

We have seen significant energy sector regulatory reforms in many countries. The European Union has sought to continue efforts to centralise the regulation of the EU energy sector. France has taken significant steps toward further liberalisation of its energy sector, as has Switzerland. Japan fully liberalised its electricity sector, will be implementing unbundling next year, and is liberalising its retail natural gas and petroleum industries to encourage market entry. Australia has opened access to transmission through regulatory reforms to encourage entry into the generation market and has implemented significant market pricing response in response to the increase of renewables. Brazil is implementing net metering regulations this year and is implementing limited retail competition for large load. But the United Kingdom took a step backwards by implementing default price caps rather than market-oriented changes. In the United States, state subsidies for nuclear and renewable generation continue to threaten the effectiveness of capacity market regional pricing.

I would like to thank all the authors for their thoughtful consideration of the myriad interesting, yet challenging, issues that they have identified in their chapters in this eighth edition of *The Energy Regulation and Markets Review*.

David L Schwartz
Latham & Watkins LLP
Washington, DC
May 2019

Chapter 29

UZBEKISTAN

Maxim Dogonkin and Iroda Tokhirova[1]

I OVERVIEW

This review provides for the overview of the power energy sector of Uzbekistan, being currently subject to a large-scale transformation. It purposefully omits a detailed description of other energy markets, for example the natural gas market, as this would require a separate in-depth analysis owing to the multiplicity of major reforms ongoing in the country.

To begin with, the installed capacity of Uzbekistan power plants exceeds 12.5GW, making Uzbekistan one of the few energy-independent countries in Eurasia. The Uzbek power sector depends heavily on the country's gas and oil industry, as hydrocarbons (mainly, natural gas) contribute to about 97 per cent of the country's energy balance with the remaining 3 per cent being hydropower, coal and charcoal. There are almost 40 hydropower stations in Uzbekistan, but only nine of them have an energy capacity of more than 50MW and the relevant potential is likely to be limited, as water resources are shrinking. Currently, there are no nuclear power stations within its territory of Uzbekistan. However, the commissioning of the first nuclear power station, being constructed in cooperation with Russia's Rosatom, is scheduled for 2028–2029.

The legal and economic structure of the power industry of Uzbekistan is relatively simple. Proceeding from the assumption that the provision of electric power is a natural monopoly where the single state-owned monopolist can be the most efficient supplier, the Uzbek government has long maintained a model where the single incumbent – JSC Uzbekenergo – has been responsible for the power generation, transmission, distribution, dispatch management, and retail sales, operating through its affiliates in each region of the country. Over the past years, however, the government has become increasingly dissatisfied with the performance of the industry and currently, seeks to enhance competition within the sector. On 1 February 2019, it was announced that the energy sector would be reformed and JSC Uzbekenergo would be restructured.[2]

Currently, JSC Uzbekenergo is a central, vertically integrated, state-owned holding company, controlling more than 40 utility companies. Each of these utility companies performs one or more of the above functions – the power generation, long-distance transmission, distribution, dispatch management or retail sales. The company used to cooperate closely with JSC Uzbekneftegaz, which is the state-owned holding company and the sector regulator in oil and gas. The latter recently lost some of its powers, which were transferred (along with some powers of the JSC Uzbekenergo) to the Ministry of Energy.

1 Maxim Dogonkin is a senior associate and Iroda Tokhirova is an associate at Kosta Legal Law Firm.

2 Presidential Decree No. PP – 4142 of 1 February 2019: http://lex.uz/ru/docs/4188746.

The Presidential Decree providing for the unbundling, privatisation and attraction of foreign investment to the power industry was signed on 27 March 2019.[3] According to this, JSC Uzbekenergo will cease to exist and three recently established joint-stock companies will completely replace the holding company, as explained below.

Current policy priorities in the sector include:

a maximising energy savings through rehabilitation and modernisation of existing power energy facilities and the introduction of energy-efficient technologies and equipment in various sectors of the economy to reduce costs and improve competitiveness;

b commercialising utility operations to improve performance. The government plans to continue de-monopolisation and deregulation of the power sector to increase competition. It prioritises the provision of open access to power transmission lines for power-generation companies.

c attracting private-sector investments to satisfy increased investment needs and to address the problem of depreciation;

d reducing the dependence on natural gas. The government is striving to increase the share of other energy sources by converting a number of gas-fired thermal plants to coal-fired, constructing new coal-fired power plants and increasing the share of renewable energy; and

e reducing the environmental impact of the power industry by relying on renewable energy.

II REGULATION

i The regulators

Institutional framework

The regulatory functions used to be entrusted to JSC Uzbekenergo are now in the hands of several state regulators. Since a substantial share of the Uzbekistan's power production is dependent on natural gas, recently the government has brought the majority of relevant powers in power energy and oil and gas under sole management of the Ministry of Energy.[4] The Ministry was established on 1 February 2019 and is responsible for, among other things, the preparation and implementation of energy policies, plans and programmes in the above industries in coordination with its affiliated institutions: Uzenergoinspektsiya, Uzneftegasinspektsiya, the Agency for Development of the Nuclear Industry (UzAtom) and the Non-Commercial Organisation for Implementation of Production Share Agreements.

Some of the Ministry's other functions, as provided by relevant laws, include the regulation and supervision of the functioning of the power energy, gas, nuclear and renewable energy industries, the monitoring of the energy consumption efficiency, and implementation of projects under production share agreements. The above-mentioned Uzenergoinspektsiya and Uzneftegasinspektsiya control compliance with relevant state standards in the power energy and gas industries respectively:

3 Presidential Decree No. PP – 4249 of 27 March 2019: http://lex.uz/ru/pdfs/4257085.

4 Ibid footnote 2.

The main regulators also include the Ministry of Finance, exercising price regulation and general control over financial flows within the state controlled sector, and the Cabinet of Ministers, approving the Rules for the Electricity Use (REU) and the Rules for the Gas Use as well as monitoring investment programmes in the industry.

Additionally, the Uzbek Agency for Standardization, Metrology and Certification controls compliance with power energy efficiency and energy quality standards, whereas the State Antimonopoly Committee oversees how natural monopolies adhere to market rules and regulations, including the rules for price setting.

Legal framework

The main legislative acts for the industry are the Law on Electricity[5] and the Law on Efficient Use of Power Energy,[6] which determine the main state policies and the structure of the sector as well as set rules and restrictions for the country's energy markets. The Law on Natural Monopolies[7] provides for some relevant rules for companies in the industry, empowering the Antimonopoly Committee to monitor and to punish anticompetitive activities of natural monopolies and to ensure a balance between interests of consumers, the state and energy companies.

The Regulations on Provision of Energy Services[8] determine the rules for the provision of services related to ensuring energy efficiency by the state-owned monopolist the National Energy Saving Company under energy services contracts that have to be entered into by state agencies and state-owned enterprises. The Rules for Using Power Energy and the Rules for Using Natural Gas[9] set the rules regulating relations between utility providers and purchaser of power energy and natural gas respectively. According to the Rules, standard form contracts must be applied across these sectors, as developed jointly by JSC Uzbekenergo, the Antimonopoly Committee and controlling agencies Uzenergoinspektsiya and Uzneftegasinspektsiya, mentioned above. Some basic rules for contacts on power supply are also set in Articles 468–478 of the Civil Code.

The legal framework for renewable energy remains underdeveloped and is partially covered only in subordinate legislative acts (some Presidential Decrees and Resolutions of the Cabinet of Ministers), which mainly relate to the provision of particular tax incentives to companies operating in the sector. A draft of the fully fledged Law on Renewable Energy Sources was passed by the Uzbek parliament on 3 May 2019, and is now awaiting approval by the President. Among other things, it regulates measures for the state support and development of renewable energy and creates a legal basis for state control over the sector. In August 2018, the parliament was preparing to review the draft on the second reading,[10] but there has not been any further information in this regard.

5 Law of the Republic of Uzbekistan on Electricity No. ZRU – 225 of 30 September .2009:http://www.lex.uz/acts/1521175.

6 http://www.lex.uz/acts/2054.

7 The Law of the Republic of Uzbekistan on Natural Monopolies No. ZRU – No. 815-I of 19 August 1999: http://www.lex.uz/acts/79387.

8 Resolution of the Cabinet of Ministers No. 551 of 18 July 2018: http://lex.uz/ru/docs/3828815.

9 Annexes 1 and 2 to the Resolution of Cabinet of Ministers No. 22 of 12 January 2018: http://lex.uz/docs/3505787.

10 http://parliament.gov.uz/ru/events/committee/24173/?sphrase_id=3632970.

ii Regulated activities

In general, generation, transmission, local supply, operation and retail sales in the power industry do not require special licences. In practice, however, the access to the markets is in many ways blocked. Hence, the transmission may only be performed by state-owned enterprises, which are also entrusted with centralised dispatch management, whereas local distribution networks are effectively in the hands of the state. Both categories of state-owned entities used to be controlled by JSC Uzbekenergo, but now is to be divided between JSC National Power Grids of Uzbekistan (the long-distance transmission) and JSC Regional Power Grids (the local distribution). Although private entities are able to engage in the generation of power energy, their access to the Single Power Grid (Uzbekistan's country-wide grid) requires the obtainment of a special permit. The rules for obtaining such a permit are, however, obscure and in practice, it may be impossible to get one unless an agreement is reached with the sector regulator (previously JSC Uzbekenergo and now the Ministry of Energy). Note that if legal entities and individuals produce power energy for their own use, they may trade in it but only using their own grid, since they are not allowed to connect to the Single Grid.

Recently, nevertheless, several regulations have been revealed for public discussion, setting some clearer rules for private generators, including the rules for access to the Single Power Grid. It is, however, hard to predict an exact time when these regulations will be adopted.

Speaking of retail sales, state-owned enterprises may provide private entities with the right to accept payments for electricity from consumers (i.e., act as intermediaries).

The construction of power plants and transmission lines is not licensed, special permits for each particular project may be required as, under Uzbek law, these are 'potentially dangerous [for employees, the society and the natural environment] industrial objects'.

iii Ownership and market access restrictions

As noted above, all facilities in the industry are now owned by the state. The Law on Electricity of 2009 laid the foundation for the legal unbundling in the industry, but privatisation was not pursued. Nevertheless, the above-mentioned structural ownership unbundling that will end in the liquidation of JSC Uzbekenergo and the establishment of three power energy companies are expected to preface massive privatisation. It seems that the priority in this regard will be given to foreign investors with solid experience in the power industry.

Currently, Uzbek law does not preclude foreigners from acquiring stakes in national energy companies.

iv Transfers of control and assignments

State shares in JSC Uzbekenergo are managed by the State Agency for Property Management (the Agency). As for the company's subsidiaries and affiliates, they may be owned by just JSC Uzbekenergo or both the company and the Agency (i.e., dual control is exercised in some cases).

Pursuant to Uzbek law, state shares be may transferred to private parties for performing management functions based on special standard form contracts. Such management is usually closely supervised by the Agency. To our knowledge, no such contracts in the power industry have been concluded.

Privatisation processes are governed by separate rules. State property is generally privatised through holding open auctions and tenders. The starting price varies and may be set as a fixed sum, as some fixed sum and the commitment of a potential owner to invest

a particular amount into developing the object, or as the commitment to invest only. To commence privatisation, a privatisation programme must be approved by the President and the Cabinet of Ministers. Usually direct negotiations between potential private (whether local or foreign) investors and relevant sectoral regulators (in the case of the power industry, this would be the Ministry of Energy) precede all privatisation deals.

III TRANSMISSION/TRANSPORTATION & DISTRIBUTION SERVICES

i Vertical integration and unbundling

As noted above, JSC Uzbekenergo has been a single, vertically integrated monopolist engaged in all types of activities in the power industry. The majority of Uzbekistan's power generation, transmission and distribution assets are owned and operated by subsidiaries of this state-owned company. Generally, all major generating companies represent separate legal entities owned by JSC Uzbekenergo. Its other subsidiary, Energosotish, acts as the single buyer of power energy from generating companies and the single wholesaler to local distributors. Uzelectroset, controlling seven high-voltage operators, acts as the main dispatch manager and transmitter of power energy based on contracts with Energosotish. Local distributors also acting as retailers are represented by 14 territorial joint-stock companies owned by JSC Uzbekenergo. Based on the changes of 27 March 2019, the JSC National Electricity Grids of Uzbekistan will replace both Energostish and Uzelectroset, taking over as the single intermediary between generating companies, the majority of which will come under the control of JSC Thermal Power Plants, and local distributors, which will be controlled by JSC Regional Power Grids.

ii Transmission and transportation, and distribution access

As explained above, access to the single power grid to producers and consumers is provided based on special permits granted by subsidiaries of JSC Uzbekenergo based on relevant state rules and standards, and has to be financed and organised by those requesting access. As almost no private grids exist, there is no alternative to this procedure and for all major endeavours a pre-agreement with JSC Uzbekenergo or its subsidiary or affiliate is recommended.

iii Rates

The Ministry of Finance is the state body responsible for setting tariffs in the power industry. In doing so it acts based on the Regulations on Tariff Groups of Consumers of Electrical and Heat Energy,[11] which establishes three types of tariffs and 10 groups of consumers, thus setting basic principles for defining tariffs.

The three types of tariffs applied are:

a single-rate tariffs – usually the fee per 1kW/h of active power energy supplied to customers;

b double-rate tariffs – the annual payment for 1kW of the maximum power capacity declared for consumption by customers and the fee for 1kW/h of supplied electricity; and

11 Regulations on Tariff Groups of Consumers of Electrical and Heat Energy No. 955 of 10 August 2000: http://www.lex.uz/acts/601149.

c differential (time-of-use) tariffs – local distributors have the right to differentiate power energy tariffs based on the time of day (peak hours, half-peak hours or night load) and seasons (summer and winter periods), provided that customers have multi-tariff metering devices.

Ten of the above consumer tariff groups include industrial enterprises with a connected capacity of up to 750kW, industrial enterprises with a relevant capacity of more than 750kW, budget organisations, consumers using electricity for domestic needs, consumers using electricity for heating and others.

Some discounts are provided to socially vulnerable consumers, based on relevant decrees of the President. Such discounts are secured by the state subsidising local distributors, selling electricity at a discount.

Generally, based on some assessment by external experts, tariffs set by the Ministry remain significantly below the market level and are not able to satisfy ever-growing demands for investment.

iv Security and technology restrictions

Operators of power grids have the obligation to inspect and to maintain power grids; to reconstruct, transform or stop using power grids in a timely manner if they do not satisfy the safe-use requirements; to put up, repair or change signs related to power grids; and to take effective safety measures for power grids not in operation.

Other obligations for operators are in place under the Law on Electricity. Hence, power grids must be operated based on the principles of safety, high quality and economy. Power grids must be maintained so that the power supply remains uninterrupted and stable. Pursuant to the Law on Efficient Use of Energy, energy producing and consuming facilities along with the energy itself are subject to standardisation and certification. Further, the Law on the Protection of Nature,[12] the Law on Ecological Control[13] and the Law on the Protection of the Atmosphere[14] impose the obligation on entities in the energy sector to take pre-emptive measures to decrease levels of potential environmental impact.

At the moment, concerns about cybersecurity and data processing have not come to the forefront with respect to the power industry. Some basic things are only partially addressed in bilateral and international treaties to which the country is a party, including the Shanghai Cooperation Organisation's agreement on cooperation in the field of ensuring international information security and the India–Uzbekistan agreements on the development of cooperation.

12 Law of the Republic of Uzbekistan on Nature Protection No. ZRU - 754-XII of 12 December 1992: http://lex.uz/acts/7065.

13 Law of the Republic of Uzbekistan on Ecological Control No. ZRU – 363 of 27 December 2013: http://lex.uz/acts/2304949.

14 Law of the Republic of Uzbekistan on the Protection of the Atmosphere No. ZRU – 353-I of 27 December 1996: http://lex.uz/acts/58400.

IV ENERGY MARKETS

i Contracts for sale of energy

Currently, relevant contracts for the supply of power energy may only be concluded between state-owned distributors and consumers, albeit private entities have the right to act as intermediaries in accepting payments under such contracts. As noted above, standard form contracts are used, as developed by JSC Uzbekenergo and the aforementioned state agencies. To become a valid consumer of energy, a particular consumer has to meet certain criteria (e.g., it must have the equipment necessary for the connection to territorial power grids and have metering devices installed). Prices under the contract are non-negotiable and are subject to state regulation.

The Rules for Using Power Energy, cited above, contain a number of provisions that have to be reflected in standard contracts. Thus, legal entities are allowed to purchase energy only after making the 100 per cent advance payment. Power supply contracts with legal entities also have to contain a provision on the payment of penalties to local power distributors in the amount of 50 per cent of the respective tariff for the amount of energy consumed in the relevant billing period in excess of the fixed amount set in the power supply contacts for more than 5 per cent. Likewise, if at the end of the billing period, the actual power load for a consumer exceeds the amount set in the power supply contract by more than 5 per cent, recalculation has to be made with respect to the load and the additional charge of 50 per cent of the tariff for the period may be imposed.

There are no separate rules that may potentially govern the supply of power energy by private generating companies. As for now, general rules for such contracts as provided by Articles 468–478 of the Civil Code will apply. It is highly likely, however, that a separate set of regulations will be developed.

ii Market developments

Apart from the unbundling and the privatisation reforms mentioned above, some other changes will have an impact on Uzbekistan's power energy market.

Currently, as briefly noted above, Uzbekistan has no nuclear power stations. However, despite some previous reluctance to use nuclear energy, the Uzbek government has adopted the Concept for Development of Nuclear Energy for 2019–2029,[15] envisaging the construction of a nuclear power station with the total capacity of 2.4GW. Russia's Rosatom is going to be engaged to lead the project.

Under the total restructuring of the power industry projected by the reforms of 27 March 2019, a modern multidisciplinary project organisation, JSC UzEnergoEngineering, will be established. Among other things, it will engage in the design of power grids with a voltage of 0.4–500kV with the use of innovative technologies and the latest experience in the field.

Some other significant legal changes that are likely to seriously affect the market include: the provision of access to the single power grid to independent (private) producers of energy; incentives aimed at increasing the market share of generators using renewable energy; and changes in the tariff system with more market indicators being taken into account.

15 Presidential Decree No. PP – 4165 of 7 February 2019: http://lex.uz/docs/4194042.

V RENEWABLE ENERGY AND CONSERVATION

ii Development of renewable energy

Currently, the renewable energy sector is almost non-existent in Uzbekistan (not taking into account hydropower stations), as renewable sources are not used on an industrial scale. In 2009, Uzbekistan signed the Statute of the International Renewable Energy Agency (IRENA) and became a member of IRENA as a result.[16] Nevertheless, the development of the renewable energy industry has not accelerated until recently.

Some basics of Uzbekistan's policy on renewable energy, as mentioned above, are set forth in several presidential decrees and the Law on the Efficient Use of Energy. As noted, the draft Law on Renewable Sources of Energy is expected to be approved soon.

In 2017–2018, owing to environmental concerns and resource depletion (particularly of natural gas), the government focused its attention on renewable energy again, and since then several attempts have been made to improve the legal framework for the industry. The lack of single institutional and legal frameworks seems to be the main contributor to the poor performance of the sector.

Therefore, on 26 May 2017, the President approved the state programme on developing renewable energy and boosting energy efficiency for 2017–2021. Its priorities include fostering the use of renewable sources, switching away from fossil fuels and ensuring the universal installation of energy-efficient technologies. Solar energy is expected to become the key source for the development of the energy sector by 2030 followed by hydro and wind power. Tax incentives are intended to be provided to projects in the field.

As regards hydropower, in May 2017 most of JSC Uzbekenergo hydropower generation assets were transferred to the newly established joint-stock company Uzbekhydroenergo. On 2 May 2017, the Programme of Measures for Further Development of the Hydropower Sector for 2017–2021 was adopted,[17] addressing approved projects for the construction of new hydroelectric power plants and the modernisation of existing ones and the provision of tax incentives for the period up to 1 January 2022 with respect to imported equipment that is required for the above construction and modernisation projects. As mentioned above, in comparison with the wind and solar energy generation, the hydropower industry is relatively well-developed in Uzbekistan.

iii Energy efficiency and conservation

The Uzbekistan's policy on energy efficiency is covered by the Law on the Efficient Use of Energy. The Law focuses on conservation of energy resources and their rational use. To achieve these goals, the Law provides for some mandatory obligations for users, producers and distributors of power energy. Thus, for example, energy-producing and consuming facilities together with energy itself are subject to standardisation and certification.

For the purpose of the rational use of energy, the government provides businesses and individuals with the following benefits:

a customs duties and taxes on the import of special equipment, tools and materials, the use of which significantly increases the efficiency of energy use;

b preferential loans for implementing national, sectoral and regional targeted programmes and projects in the field of rational use of energy;

16 https://uzreport.news/economy/uzbekistan-joins-international-renewable-energy-agency.

17 Presidential Decree No. PP – 2947 of 2 May 2017: http://lex.uz/docs/3219734.

c financial grans for intersectoral research and development activities, the implementation of pilot projects on the production of energy efficient equipment; and

d feed-in tariffs for energy for legal and natural persons that ensure the reduction of energy consumption based on set standards or manufacture competitive products while maintaining energy consumption levels, which are below some set thresholds.

iv Technological developments

As noted above, renewable energy is still a developing sector in Uzbekistan. Although Uzbekistan seems to have remarkable potential in terms of expanding its use of renewable energy resources, particularly solar energy, currently there are only few legal acts encouraging technological developments in the sector, as discussed above.

In terms of energy efficiency, the government has expressed its interest in implementing smart-grid projects that would enable the remote monitoring and control over electric meters and energy consumption.

To give an example of some development initiatives, the Resolution of the Cabinet of Ministers No. 633 of 8 August 2018[18] shows that the government is interested in attracting private investors into the design, financing, construction and operation of photovoltaic energy production facilities in Uzbekistan for a projected amount of US$1 billion based on public-private partnership mechanisms. One of the projects related to the Resolution is the construction of a solar photovoltaic power plant with an energy capacity of about 100MW in the Samarkand region of Uzbekistan.

Further, the government is developing the Intelligent Electricity Metering project in cooperation with Korean KT Corporation, and plans to install smart electricity metering devices in most regions of Uzbekistan. These works are expected to be completed by 2021.

VI THE YEAR IN REVIEW

Some of the key developments of 2018 and 2019, which were partially described above, are covered in the following legal acts:

a Presidential Decree No. PP – 4142 of 1 February 2019 providing for the establishment of the Ministry of Energy;

b Presidential Decree No. PP – 4249 of 27 March 2019 and Presidential Decree No. PP – 3107 of 30 June 2017: structural transformations and the unbundling in energy and oil and gas;

c Resolution of the Cabinet of Ministers No. 685 of 25 August 2018 and Presidential Decree No. PP – 4249 of 27 March 2019: measures to attract private direct investments, including foreign ones, in the energy sector by selling shares of respective joint-stock companies;

d Resolution of the Cabinet of Ministers No. 444 of 12 June 2018: the introduction of simplified procedures for obtaining licences in the oil and gas sector. Under the Resolution, the Ministry of Energy has accumulated regulatory powers that had been previously distributed among several state regulators;

18 Resolution of the Cabinet of Ministers No. 633 of 8 August 2018: http://lex.uz/ru/docs/3860084.

e Presidential Decree No. PP – 3981 of 23 October 2018: the instalment of modern electronic metering devices, enabling the remote reading and control over power energy consumption;
f Resolution of the Legislative Chamber of Oliy Majlis of the Republic of Uzbekistan No. 1833-III of 14 July 2018: the draft Law on Renewable Energy Sources;
g Presidential Decree No. PP – 3102 of 26 May 2017: the programme of measures for furthering the development of renewable energy and enhancing energy efficiency in 2017–2021;
h Resolution of the Cabinets of Ministers No. 633 of 8 August 2018: incentives for private investors designing or constructing photovoltaic plants and public private partnership mechanisms in the field;
i Presidential Decree No. PP – 2947 of 2 May 2017: the Programme of Measures for Further Development of the Hydropower Sector for 2017–2021; and
j Annex 1 to the Presidential Decree No. PP – 4165 of 7 February 2019: the Concept for the Development of the Nuclear Energy Sector for 2019–2021.

VII CONCLUSIONS & OUTLOOK

As the current energy policy of the Uzbek government demonstrates, Uzbekistan will focus on diversifying its energy resources, developing the renewable energy sector and attracting private investments with foreign companies.

Speaking of the legislation in the area, we expect that the draft Law on Renewable Energy Sources will soon be approved by the President. Given active ongoing development of the legislation on public private partnership and privatisation trends in the industry, it is likely that the energy sector will also be affected by the adoption of new regulations for private players, which will clarify rules for private generators and other interested businesses (e.g., by streamlining the rules for the access to the single power grid). It is also highly likely that the government will come up with some new incentives for private investors.

Overall, Uzbekistan's energy strategy and targets for 2030 can be summarised as follows:

a proceeding with the unbundling and the de-statisation in the industry, including the reforming of the tariff-setting;
b furthering privatisation in the energy sector by attracting private foreign and local direct investment, and simplifying the rules for access to the industry for private players;
c repairing and reconstructing depreciated energy facilities with the support of private direct investments;
d extending the use of smart grids and energy-efficient technologies;
e increasing the share of renewable energy sources and in particular supporting the construction of solar energy stations; and
f commissioning a nuclear power station;

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ISBN 978-1-83862-032-5