

LEGAL HIGHLIGHT:



POWER ENERGY SECTOR OF UZBEKISTAN

16 July 2019

This review provides for an overview of the power energy sector of Uzbekistan, being currently subject to a large-scale transformation.

The legal and economic structure of the power industry of Uzbekistan has always been 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.



The [Presidential Decree](#) providing for the unbundling, privatization and the attraction of foreign investment to the power industry was signed on 27 March 2019. According to it, JSC Uzbekenergo ceased to exist and 3 recently established joint-stock companies replaced the holding company, as explained below. *(See also the table at the end of the document where these developments are presented schematically).*

Institutional framework

The regulatory functions used to be entrusted to JSC Uzbekenergo are now in the hands of several state regulators.

The Ministry of Energy, established on 1 February 2019, is responsible for, among other things, preparation and implementation of energy policies, plans and programmes in the power energy, renewable energy, and oil and gas industries in coordination with its affiliated institutions: Uzenergoinspektsiya, Uzneftegasinspektsiya, the Agency for Development of the Nuclear Industry - UzAtom and the Non-Commercial Organization for Implementation of Production Share Agreements. Some of the Ministry's other functions include the regulation and supervision over the functioning of the power energy, gas, nuclear and renewable energy industries, the monitoring of the energy consumption efficiency, and implementation of projects

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under production share agreements. The abovementioned Uzenergoinspektsiya and Uzneftegasinspektsiya control compliance with relevant state standards in the power energy and gas industries respectively.

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 and 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](#) and the [Law on Efficient Use of Power Energy](#), which determine the main state policies and the structure of the sector as well as set rules and restrictions for country's energy markets. The [Law on Natural Monopolies](#) provides for some relevant rules for companies in the industry, trying to establish a balance between interests of consumers, the state and energy monopolists.

Legal framework for renewable energy is provided by the recently adopted [Law on the Use of Renewable Energy Sources](#) (unofficial English version can be found at: <https://kostalegal.com/publications/legal-highlight/law-of-the-republic-of-uzbekistan-on-the-use-of-renewable-energy-sources>).

Regulated activities

Generally, the generation, transmission, local supply, operation and retail sales in the power industry do not require obtaining 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 centralized 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 (as the Uzbekistan's country-wide grid is named) 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 it, unless some agreement is reached with the sector regulator (previously, JSC Uzbekenergo and now, the Ministry of Energy). It is to note that if legal entities and individuals produce power energy for their own use, they may trade in it, but using their own grid, being 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).

It is to add that also 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'.

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, which differentiates 3 types of tariffs and 10 groups of consumers, thus, setting basic principles for defining tariffs.

3 types of the tariffs are applied:

- Single-rate tariffs are usually the fee per 1 kW/h of active power energy supplied to customers;
- Double-rate tariffs consist of the annual payment for 1 kW of the maximum power capacity declared for consumption by customers and the fee for 1 kW/h of actually supplied electricity.
- Differential (time-of-use) tariffs – local distributors have the right to differentiate power energy tariffs based on time periods of the 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 the connected capacity of up to 750 kW, industrial enterprises with the relevant capacity of more than 750 kW, budget organizations, the population, 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 to be significantly below the market level and are not able to satisfy ever-growing demands for investment.

Transmission/transportation and distribution

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 7 high-voltage operators, acts the main dispatch manager and transmitter of power energy based on contracts with Energosotish. Local distributor 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 get under control of JSC Thermal Power Plants, and local distributors, to be controlled by JSC Regional Power Grids.

Privatization processes

Currently, most of the assets of JSC Uzbekenergo are subject to privatization. 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, some fixed sum and investment obligations or investment obligations only. The basis for commencing privatisation is privatisation programmes approved by the President and the Cabinet of Ministers. Usually direct negotiations between potential private (whether local or foreign) investors and relevant sectorial regulators (in case of the power industry, previously, JSC Uzbekenergo and now, the Ministry of Energy) preface every more or less significant privatisation deal.

Outlooks

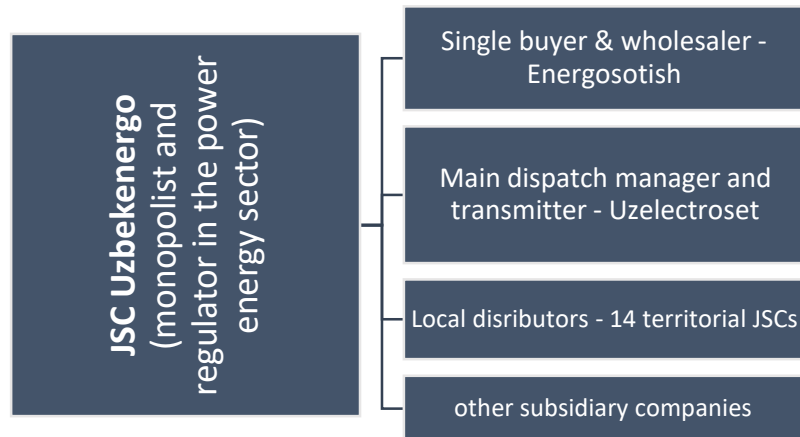
As the current energy policy of the Uzbek government signifies, Uzbekistan is going to focus on diversifying its energy resources, developing the renewable energy sector and attracting private investments with foreign companies having a priority.

Speaking of the legislation in the area, we expect that, by the end of July 2019, the bill on Regulation for access to the Single Power Grid will be approved by the Cabinet of Ministers. The Regulation will clarify rules for private generators and other interested businesses 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.

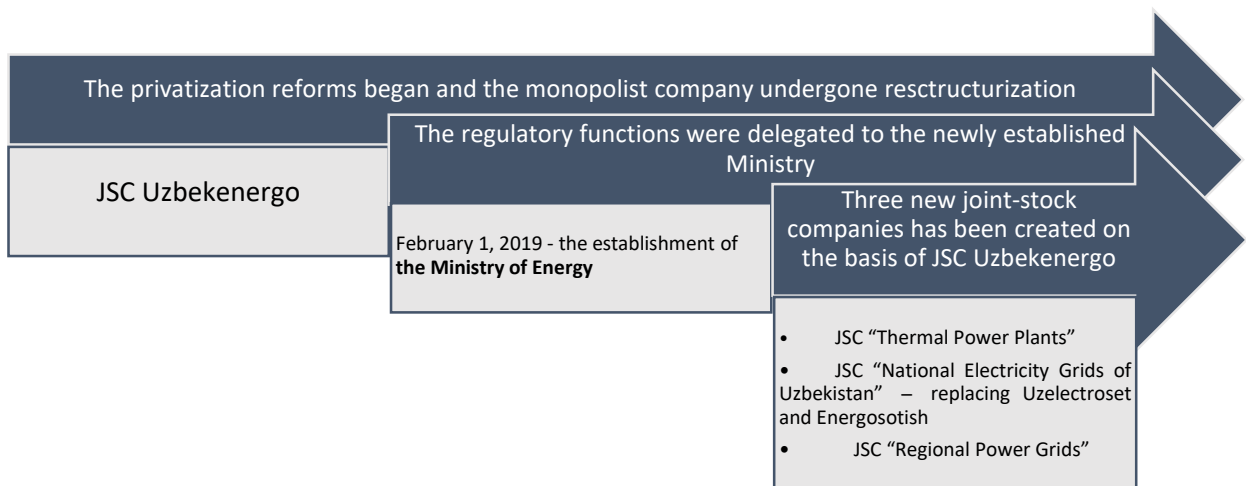
Generally, the Uzbekistan's power energy strategy and targets for 2030 can be summarized as follows:

- proceeding with the unbundling and the de-centralization in the industry, including the reforming of the tariff-setting;
- furthering privatization in the energy sector by the attraction of private foreign and local direct investments;
- simplifying the rules for the access to the industry for private players;
- repairing and reconstructing depreciated power energy facilities with the support of private direct investments;
- extending the use of smart grids and energy efficient technologies;
- increasing the share of renewable energy sources and particularly, supporting the construction of solar energy stations;
- commissioning a nuclear power station;

BEFORE



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