

UZBEKISTAN COUNTRY PROFILE⁹⁶

Overview

Uzbekistan has a population of approximately 26.87 million, with a GDP around USD 19.21 billion.^{lxxiv} The total primary energy supply in 2007 was 48.68 Mtoe, of which 1.1% is hydro power, 2.3% is coal/peat, 86.1% is natural gas and 10.5% is oil. Net exports are around 11.34 Mtoe. CO₂ emissions are 113.37 (measured as Mt of CO₂).^{lxxv}

1. Institutional structure

The Ministry of Finance is the state body in charge of price regulation. The Cabinet of Ministers, headed by the President, is the state body which identifies which customers are subject to mandatory service. State control over natural monopoly entities is performed by the state anti-monopoly authority which, at present, is the State Committee of the Republic of Uzbekistan on De-monopolization, Support of Competition and Entrepreneurship (the State Committee).

State control over compliance with the state standards in the sector of production, health protection and safety conditions is performed by:

- in electricity sector, by the State Inspection on Supervision of Electricity Sector UzGosEnergNadzor, which is subordinate to the Government
- in gas-oil sector, by Uzbekistan State Inspection on Monitoring the Use of Oil Products and Gas, which is affiliated to the Cabinet of Ministers (Uzgosneftegasinspektsiya)

State electricity generation, transmission and distribution assets are managed by the State Joint-Stock Company “Uzbekenergo” (SJSC Uzbekenergo). Uzbekenergo, established on 22 February 2001 to take over from the abrogated Ministry of Energy and Electrification, is directly subordinate to the Cabinet of Ministers.

The gas sector (encompassing all stages, from geological exploration to sales of end products to the customers) is managed by the National Holding Company “Uzbekneftegaz” (NHC Uzbekneftegaz), accountable directly to the Cabinet of Ministers. To perform production, processing and sale of gas and gas condensate, as well design, construction, operation and repair of gas pipelines, a license is needed; this is issued by the special Commission of the Cabinet of Ministers.

The State Committee was established in May 2005 on the basis of the Committee on De-monopolization, Support of Competition and Entrepreneurship, the Committee for Economic Insolvency of the Companies at the Ministry of Economy, and the Administration on Small and Private Business Development of the State Property Management and Entrepreneurship Support Committee.

The State Committee implements regulation and antimonopoly policy in economic areas, including the energy sector. As part of this it monitors competition, the protection of customer rights and regulates the performance of natural monopolies’ performance. Such regulation includes the ability to impose penalties for violations and fixing tariffs.

⁹⁶ The information below is obtained primarily from responses of the Ministry of Economy of the Republic of Uzbekistan to the questionnaires regarding the given project, and from the sources, enlisted at the end of this document.

The State Committee is managed by its Chairman, who is appointed for a fixed term and is discharged by the Government. The salary of the management and employees of the State Committee is established in accordance with the staffing table approved by the Government, and depends on each position and its category.

The State Committee employs up to 600 people (including local sub-departments).

The State Committee has its own budget, which needs to be preliminarily approved by the Government, and which is financed from the budget of the Republic.

In case the holder of the natural monopoly does not plead guilty and does not pay the penalty voluntarily, the State Committee refers to court on imposing the penalty. The holders of natural monopolies and their customers have the right to appeal to court to declare decisions (instructions) of the state antimonopoly authority to be partially or completely invalid.

A decision (instruction) of the State Committee can be appealed against in court within one month from its adoption. Decisions are not suspended for the period of appeal.

2. Electricity sector

a. Market environment

Since 2001 Uzbekistan's energy sector has been functioning within the framework of the state company Uzbekenergo, an open joint-stock company, which also includes coal sector companies.

Currently, Uzbekenergo encompasses almost all generating, transmission (mains), distribution and supply companies (54 enterprises in total, including: 11 unitary state enterprises, 41 open joint stock companies and two limited liability companies).

The electricity market in Uzbekistan is a vertically integrated monopoly at present.

For an efficient payment collection for the electricity supplied, as well as for the introduction of modern accounting methods and management during mutual settlements of accounts for electricity, on 4 July 2009 the Cabinet of Ministers issued the Decree that stipulates a step-by-step transfer during 2009-2010 of the electricity supply functions to private operators. Other steps towards the liberalisation of the electricity market are not yet envisioned in legislation, including the recent the Law "On Electricity" of 30 September 2009.

Uzbekenergo is the primary electricity producer in Uzbekistan. It supplies centralised electricity to the national economy and the public, as well as heat to industrial companies and domestic households in a number of cities in Uzbekistan. The share of power plants that are not part of Uzbekenergo is less than 3% (320 MW).

Uzbekistan is undergoing a sector restructuring with the subsequent unbundling of monopolistic activities (dispatching and transmission) from competitive (supply and generation) ones, and further introduction of market-related elements in the electricity sector.

Sale of state assets has also taken place (state shares in a number of stock companies dealing with electricity distribution and supply, and in a number of

stock companies generating heat and electricity) and the process of privatisation of the country's electricity companies has been practically completed.

Electricity sales-purchases in Uzbekistan are performed based on approved tariffs and according to the following scheme:

- A single electricity buyer model (at present, it is the wholesale company “Energosotish” by which the single buyer concludes agreements with: generating companies regarding electricity purchase; territorial distribution companies regarding electricity sales; the grid company regarding electricity transmission from generating companies to territorial distribution companies
- Territorial distribution companies sell (autonomously or via their electricity supply departments) electricity to consumers based on electricity supply contract

This procedure of electricity sales and purchases was common practice which is now formalised in the Law of the Republic of Uzbekistan “On Electricity” which came into force on 1 October 2009.

b. Network access and tariffs

Access to transmission and distribution grids is under the control of Uzbekenergo. To connect to the grid, the customer must apply to the grid company to receive technical conditions for connection.

Fulfilment of the conditions, including construction of new or reconstruction/expansion of existing electricity facilities (substations, transmission lines, and transformer substations) is with the efforts and at the cost of the customers.

The Ministry of Finance is authorised to approve tariffs for end customers, which are developed either on its own initiative or by the government's instruction.

All electricity customers are divided into ten tariff groups (industrial companies with connected capacity of up to and more than 750 kVA budget organisations, population, electricity for heating, etc.), regardless of their administrative jurisdiction, ownership type and geographic location.

Load serving companies have the authority to differentiate electricity tariffs based on the day time zones (peak hours, semi-peak, night load) and the season (summer and winter periods), provided the customer has a multi-tariff metering device.

There are two types of electricity tariffs:

- The single-rate tariff — consists of the fee for 1 kWh of active electricity supplied to the customer and
- The double-rate tariff – consists of the annual payment for 1 kW of maximum capacity declared by the customer for participation in the maximum load of the energy system and payment for 1 kWh of supplied electricity

The Law “On Natural Monopolies” prescribes that “draft prices (tariffs) for commodities, which are produced by natural monopoly entities, shall be assessed by an authorized state body within one week, taking into account their influence upon products for customers”.

In general, Uzbekistan is in the process of a gradual increase of electricity tariffs (the latest increase took place on 1 July 2009).

Discounts for socially vulnerable consumers are established by the Decrees of the President and are implemented by means of compensation payments for electricity consumed.

c. Operational environment

The State Committee submits both annual and other regular reports to the Cabinet of Ministers, the Ministry of Economy and to other state executive bodies depending on the reported issue.

The Law “On Competition and Limitation of Monopolistic Activity” prescribes the following duties to the antimonopoly authority: provide publicity to performance; inform population via mass media, including specialised periodicals in the course of implementation of measures on de-monopolisation of economy, competition support and protection of customers; conduct analysis of foreign antimonopoly and customers’ protection experience. According the Law, the State Committee’s decision concerning prices (tariffs) must be published by the natural monopoly entities in the mass media no later than 15 days prior to their coming into force. Regulatory bodies have their own official websites and press-centres. Directors of these bodies take part in briefings and make presentations to the mass media. Reports on the performance of these bodies are published regularly. The official website of the State Committee, <http://www.antimon.uz/> provides information in three languages: Uzbek, Russian and English.

Attraction of foreign investment in the energy sector is a national priority. In the recent years the amount of these investments is increasing parallel to the decrease of projects financed under sovereign guarantees.

The highest amount of investments (45% of total investments), is in the oil and gas sector of Uzbekistan. Newly discovered oil and gas deposits can be granted to foreign companies, which perform geological exploration works for further development under a 25-year concession with the possibility of extension. Foreign companies which express readiness to conduct exploration works on oil and gas are granted the most-favoured status.

The Ministry of Economy together with Uzbekenergo prepares regular fuel-energy complex balances.

Uzbekenergo monitors expected future demand for electricity and, if necessary, sends proposals to the Government. It also develops proposals regarding attraction of investments into construction of new generating capacities, electricity transmission lines and/or rehabilitation of existing assets, supplies from neighbouring countries, etc., and sends such proposals to the Government.

3. Gas sector

a. Market environment

Out of the proven 1.58 trillion cubic metres of gas deposits, in 2008 Uzbekistan had an output of 62.2 billion m³. Out of these, domestic consumption made up 48.7 billion m³, and the remainder was exported to Kazakhstan, the Kyrgyz Republic, Russia, Tajikistan and Ukraine.

Uzbekistan's gas transportation system consists of 13,000 km of gas mains (used for gas transportation inside the country, and for transportation of transit gas from Turkmenistan, 23 compressor stations and three main underground gas storages; the system is connected to gas transportation systems of all the neighbouring countries (Kazakhstan, the Kyrgyz Republic and Turkmenistan).

Uzbekistan's gas sector is represented by the vertically integrated monopoly – the NHC Uzbekneftegaz, established in December 1998 on the basis of Uzbekistan's State Concern of the petroleum and gas industry for the purpose of making it more attractive for foreign investors by means of improving its organisational and legal structure.

Uzbekneftegaz consists of six joint-stock companies, including:

- joint-stock company Uzneftegazdobycha (city of Tashkent) – is involved in exploration of oil and gas deposits, output of oil, gas and gas condensate, processing of natural gas;
- joint-stock company Uztransgaz (city of Tashkent) – executes gas transportation and underground storage, manages the units located within the territory of Uzbekistan, which perform domestic natural gas transportation and also export it abroad, provides transit of natural gas from neighbouring countries (not including the mains Bukhara-Ural and Central Asia-Centre, which are operated by the Russian Gazprom, and a number of separate gas pipelines, which belong to gas processing and gas extraction companies).

Uztransgaz also supplies gas supply via its regional departments to all categories of consumers. Export supply is the prerogative of NHC Uzbekneftegaz.

Hence, the gas market of Uzbekistan is a vertically-integrated monopoly and is likely to remain in this form for the foreseeable future.

For the purpose of decreasing the state share in statutory funds of companies of the leading strategic industries, increasing the role of private property in the development of the country and attraction of direct foreign investments into modernisation, technical and technological re-equipment, state enterprises of the industry have been transformed into joint-stock companies.

In accordance with the Privatisation Programme for 2007-2010, 84 enterprises of NHC Uzbekneftegaz are subject to sale at public auctions; as of 2008, 11 enterprises out of them have been sold.

b. Network access and tariffs

The issue of network operation (gas transportation network) is regulated by the Laws “On Natural Monopolies”, “On Customers’ Rights”, and by corresponding rules of gas production, transportation and distribution, which prescribe a non-discriminatory principle of access to the networks.

Gas transportation is performed on the basis of agreements, which prescribe, in particular, the liabilities of the transportation system’s operator regarding the regulated price for transportation, data on producers and sellers of gas, data on agreed amounts of gas and a gas pumping schedule.

Agreements that provide domestic transportation and storage do not require approval at the governmental level. For gas export operations, the amount, terms and price should be approved by the government prior to signing the agreement.

Decisions regarding access to gas transportation network can be appealed to higher and supervisory bodies.

NHC “Uzbekneftegaz” and SC “Uztransgaz” develop the initial data for tariff methodology and tariff drafts for gas transportation (transmission) including distribution networks, gas supply to customers, additional services, and connection to the gas transportation network. Tariff drafts undergo the approval procedures according to the established order, including approval by the State Committee, and are finally approved by the Ministry of Finance.

Tariffs are established for the next budget year. Information regarding the new tariffs is delivered to the customers via mass media, for example, via the NHV Uzbekneftegaz website. Tariffs for gas transportation at the main and exporting pipelines are established, as a rule, for 1000 m³ of gas per 100 km.

A “postage stamp” tariff is applied to the low pressure networks supplying gas at the local level to homes and small businesses.

Based on the decisions of central and local authorities, vulnerable customers, as well as veterans, may be exempt from payments for gas, in full or partially.

c. Operational environment

Long-term balances and security of supply issues are handled by the Ministry of Economy. The Ministry of Finance performs monitoring of tariff policy; the State Committee monitors compliance with the customers’ rights. Practical plans and data on the current situation come from NHC Uzbekneftegaz, its subsidiaries and structural departments.

Monitoring of expected demand and required additional capacity for production and storage is the task of NHC Uzbekneftegaz.

All the above mentioned state bodies report to the Government and the President.

4. Renewable energy sources/energy efficiency

Uzbekistan's policy on energy efficiency and renewable energy is set forth in:

- the Law “On Rational Energy Utilization” amended in 2003 (energy efficiency and renewable energy)
- the Programme for Development and Reconstruction of Generating Facilities 2010 of SSC Uzbekenergo and the Scheme of Energy System Development 2020 (electricity and heat cogeneration)

These laws define legal, organisational, production and environmental measures targeted at efficient utilisation of energy resources and engagement of renewable energy in the process.

In terms of renewable energy in particular, the law “On Rational Energy Utilization” provides that:

- power plants, which utilise renewable energy are provided with priority dispatching right, within limits and according to schedules which allow the secure and efficient functioning of the grid
- energy suppliers are obliged to provide energy intake to their grids from the mentioned producers according to the prices formed in accordance with the stipulated procedure
- heat and electricity prices should provide an accelerated payback of capital investments into construction of these facilities within the terms approved by the Government

In the recent years, development of renewable energy, primarily the exploitation of hydro power potential of small rivers, has significantly increased.

Separate companies also conduct development and production of energy facilities consuming renewable energy which are successfully used in rural and remote areas.

Hence, in 2004-2005, 25 thermal and combined solar facilities for production of electricity and heat were commissioned in remote areas of the Aral Sea. In 2005–2006, six photoelectric solar facilities and collectors for water heating were commissioned in the Dzhiyazak and Bukhara regions.

Considering the relevance of the issue, measures are planned for the development and implementation of renewable energy, including improvement of the relevant legislation.

In Uzbekistan fees for emission of polluting substances and waste disposal are applied to further measures on environmental protection.

Uzbekistan ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change in December 2006. For the purpose of implementing the complex measures within the framework the Kyoto Protocol's the Clean Development Mechanism (CDM), the Council on CDM was established within the Cabinet of Ministers, consisting of directors and representatives of corresponding Ministries and Administrations.

The Ministry of Economy is the national body of Uzbekistan on CDM within the Kyoto framework. The first two projects within the CDM framework were officially registered in March 2009.

5. Conclusion

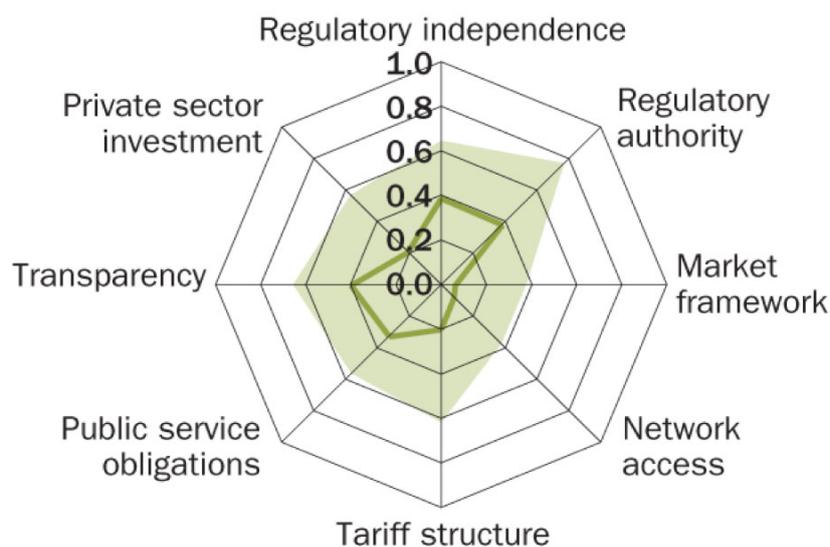
Uzbekistan performs weakly with respect to its grouping (Group C) and well below average for both electricity and gas. Within its Group, Uzbekistan has an electricity sector score of 0.260 relative to a Group C average score of 0.461. Uzbekistan has a gas sector score of 0.272 relative to a Group C average of 0.399.

The absence of a clearly independent regulatory authority contributes largely to reduce the score given to institutional infrastructure and regulatory framework. Similarly, the vertically-integrated monopolies which characterise the electricity and gas sectors, as well as the absence of a market opening time frame, decrease the score given to market structure.

In 2008 Uzbekistan, with gas output of about 58.5 bcm, was the fifteenth largest gas producer in the world. In the same year only an estimated 5% of that output was produced with the participation of foreign capital. So far the largest investors are Russian and offshore companies, although since the mid 2000s Asian companies have increased their presence. In the foreseeable future foreign investment is likely to increase dramatically, if Uzbekistan wants to increase its exports (which are currently modest with respect to reserves). Investment should be primarily directed into development of gas deposits and modernisation of the pipeline network, including export lines.

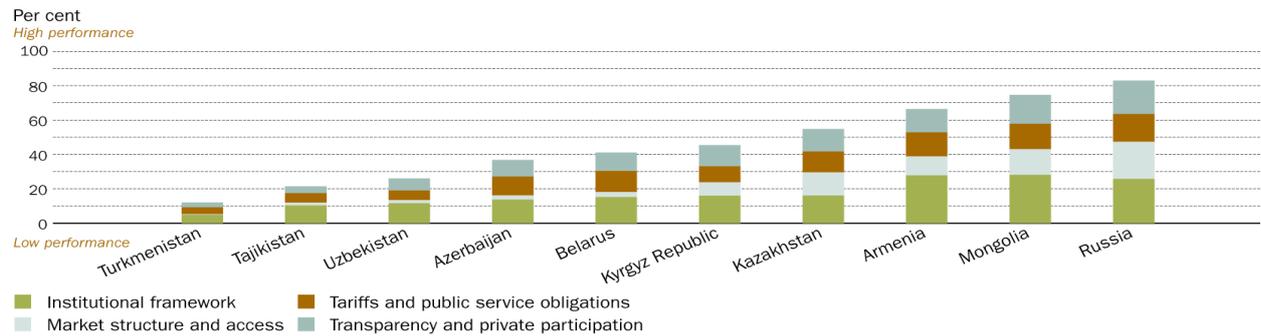
Electricity spider graph – Uzbekistan

Uzbekistan



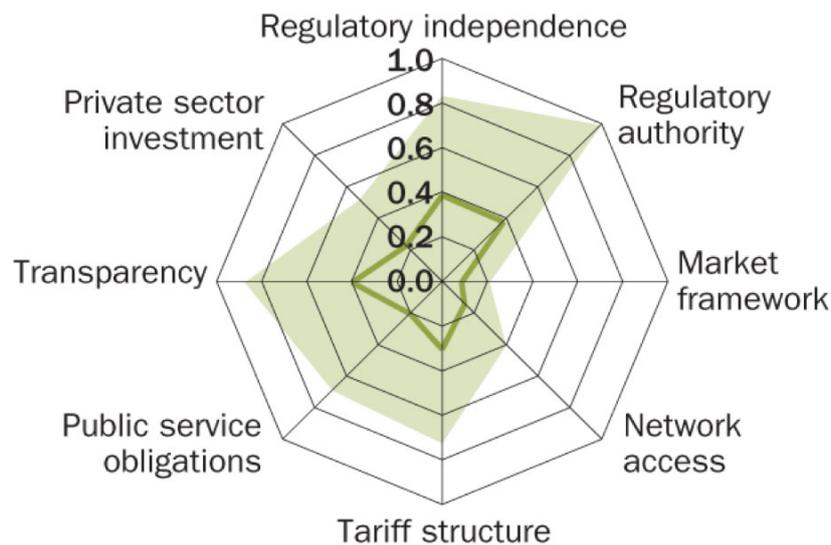
Note: The diagram presents the electricity sector results of Uzbekistan, in accordance with the benchmarks and indicators identified in the assessment model. The extremity of each axis represents an optimum score of 1.0, that is, full compliance with international best practices. The fuller the “web”, the closer the overall electricity regulatory framework approximates international best practices. The results for Uzbekistan are represented by the thick bold line. See next page for comparison purposes, the shaded area presents the electricity sector average of the Group C countries.

Electricity Sector - Comparative view of Group C countries



Gas spider graph- Uzbekistan

Uzbekistan



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Gas Sector - Comparative view of Group C countries

