



**LEGISLATION & REGULATION
OF KYRGYZSTAN'S ENERGY
AND SUBSOIL SECTOR**

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CURRENT ENERGY MIX

The fuel and energy complex in Kyrgyzstan comprises two main branches: fuel production, namely of coal, oil and gas, and the generation of electricity. These two branches are closely related with other branches of the country's economy, including agriculture and transport.

COAL

Within the region, Kyrgyzstan is second only to Kazakhstan in terms of its national coal reserves, with approximately 70 coal deposits and occurrences currently known. Reserves of the main coal deposits are estimated to contain over 2.2 billion tonnes and the estimated reserves are 1.3 billion tonnes. There were plans to reach 402,500 tonnes of mined coal in the country by 2009, before this target was increased to 1.7 million tonnes by 2025. In fact, publicly available figures indicate that over 600,000 tonnes of coal were mined in 2009.

Coal mining has substantially increased over the last 3 years, totalling 1.4 million tonnes in 2013, 1.7 million tonnes in 2014 and 1.2 million tonnes so far in 2015.

OIL & GAS

The oil and gas industry is mostly represented by Kyrgyzneftegaz JSC, and the country's unexplored resources of oil and gas amount to approximately 289 million tonnes. The self-sufficiency of the country in terms of oil products is less than 30% in total. Following plans to increase oil production up to 80,000-95,000 tonnes per year by 2010, oil production volumes totalled approximately 80,000 tonnes in 2013 and 83,000 tonnes in 2014.

Following the 14.9 million cubic metres extracted in 2007, the plan was to mine 25 million cubic metres of gas annually by 2010. This target has indeed been surpassed, with the production of gas amounting to approximately 30 million cubic metres of gas in 2013 and 33.8 million cubic metres of gas in 2014.

HYDROELECTRIC POWER

Kyrgyzstan's main energy resource is hydroelectric power. In 1990, hydroelectric power's share of the country's resources infrastructure was 55%, with coal at 40% and oil and gas at 5%. Fast forward to 2011 and hydroelectric power's share was 90%, with coal down to just 7% and oil and gas at 3%.

The country's largest hydropower plant is the Toktogul Hydropower Station, which generates approximately 4.1 billion KWh per year. The full hydropower potential of large- and medium-sized rivers in the country is about 142.5 billion KWh per year. At present, only 10% of these resources are utilised, with the biggest part of unused potential represented by mini- and micro-hydropower plants.

The country's total technically utilisable potential of small-size power engineering is 5-8 billion KW of electric power per year. The hydropower potential of 252 large- and medium-sized rivers is estimated at 18.5 million KW of power and 160 billion KWh of generated power, while electric power engineering is responsible for approximately 5% of GDP, 16% of industrial production and 10% of budget revenue.

The structure of the electrical power sector of the fuel and energy complex includes seven joint stock companies with state shareholding, including one generating company, one grid and transmitting company, four distributing companies and one heating network company. There are also private stock companies present in the sector. Most of the state-owned companies in the energy sector have a monopoly and the country's strategic assets are subject to special regulations.

Kyrgyzstan exports up to 2.5 billion KWh of the electric power to Uzbekistan, Kazakhstan and Tajikistan annually, while the exporting country itself suffers a defi-

cit. Therefore, there are plans to increase the generation of electric power to 22 billion KWh in 2015.

RECENT CHANGES IN THE ENERGY SITUATION

The following energy-related projects are currently being implemented, all currently at various stages:

1. Construction of the 500 KW electric power Datka-Kemin transmission lines and the 500 KW Kemin Substation. It was reported by the project's general contractor Tebian Electric Apparatus Stock Co. Ltd, (TBEA) that construction was completed on 21 August 2015. The national grid company is currently in the process of accepting the constructed facilities and the entire transmission line was brought into operation on 31 August 2015.
2. The CASA-1000 power project.
3. Construction of Kemin-Almaty electric power transmission lines.
4. Construction of Kamar-Ata Hydropower Plant-1.
5. Entry into operation of the 2nd assembly of Kamar-Ata Hydropower Plant-2 with a capacity of 120 MW.
6. Construction of the Upper Naryn series of hydropower plants.
7. Construction of four small-sized hydropower plants.
8. Construction of Kara-Keche heating electric station.

All of the projects listed above are extremely important for the country's energy security and will have a major impact on the country's energy sector.

The construction of the Kamar-Ata and Upper Naryn plants will substantially increase the generation of electric power in Kyrgyzstan, enabling the export of 4-6 billion KWh of electric power upon the completion of the construction of the high-voltage transmission lines: 500 KW Datka-Kemin, Kemin-Almaty and Datka-Khudjand (CASA-1000 Project).

It is worth noting that the CASA-1000 project is extremely important in terms of cooperation between Kyrgyzstan, Tajikistan, Afghanistan and Pakistan within the field of electric energy. The modern and efficient power transmission line will enable ecologically clean hydropower resources to be used in the most efficient manner in four Central Asian countries. It will allow them to transmit and sell the surplus electric power generated in the summer to the countries of South Asia, which suffer from an energy deficit, as well as to promote the ambitions of those countries in terms of improving access to electric power, energy market integration and expansion, and to assist with finding consistent solutions for water management in the region.

The search continues for an investor for the construction of the Kara-Keche Heating

Power Plant, which will have a capacity of 1,200 MW and will use the brown coal of the Kara-Keche coal deposit. Leading international expertise and technologies are required in order to make sure that the plant has the lowest possible emissions of pollutants and greenhouse gases.

At the Shanghai Cooperation Organization summit in September 2013 an agreement was made with the Chinese government to replace two boiler units with a capacity of 300 MW at the Bishkek Heating Electric Plant. This measure will increase the production of electric power by 1 billion KWh and cover the maximum power consumption during the winter time.

The oil processing plant in the town of Kara-Balta has been launched in order to locally process imported oil.

The acquisition of Kyrgyzgaz JSC by Russia's Gazprom should resolve issues with gas supply to the country.

In addition, measures have recently been implemented to develop renewable energy sources and introduce power-saving technologies at various levels.

DEVELOPMENTS IN THE GOVERNMENT'S POLICY, STRATEGY AND APPROACH

Kyrgyzstan's policy focuses mainly on energy security issues, which the country has had to address since becoming independent in 1991.

The country's government is often required to negotiate and agree on future supplies of gas, coal and oil products with its neighbours at the end of each year. As a result of signing the extremely vital Intergovernmental Treaties in 1998, the United Energy System of Central Asia remained operational. However, defaults of neighbouring countries under the aforementioned treaties after 2002 led to a switch from an irrigational to a power-generating mode for the Toktogul Hydro-power Plants and the release of water from the Toktogul water reserve in order to supply power to domestic consumers during autumn and winter. This created a serious threat to the country's energy security during the water-short years. There have also been stressful situations with the supply of power to Kyrgyz consumers due to the disconnection of the systems from the parallel operation of the United Energy System in Central Asia by Kazakhstan and Uzbekistan.

Due to these problems, the government has implemented measures to ensure the country's energy security by constructing the Datka Substation (500 KW) in the Djalal-Abad region, with the energy generated then supplied to domestic consumers via the United Energy System of Central Asia. The Datka sub-station

will ensure the supply of electric power from the Toktogul hydropower plants to consumers in the Djalal-Abad and Osh regions.

With the Datka-Kemin power transmission and Kemin Substation in operation, the country now has its own energy ring of 500 KW, allowing for electric power to be transmitted solely through the country's own territory without having to use the Uzbek energy system, which involved a transit fee.

It must also be noted that the country's energy sector, which was built mainly during the Soviet period, is now 70% worn out and requires substantial financing. Kyrgyzstan's energy security now depends entirely on the domestic sale of electric power. However, this strategic commodity is currently sold at a price that is lower than its prime cost.

This, of course, calls for changes to the tariff policy in order to cover the capital expenditure necessary for rebuilding and maintaining the country's energy sector.

Kyrgyzstan's external energy policy is focused on the export of electric power, therefore the implementation of the CASA-1000 Project is highly important for the country as it is expected to strengthen Kyrgyzstan's position in the regional electric power market and enable the export of Kyrgyz electric power to South Asian countries.

Another noticeable trend in governmental policy is the promotion of the development of small- and medium-sized power engineering, which is aimed at increasing the generation of electric power in the country and strengthening its national energy security.

Construction of the Kyrgyzstan-China gas pipeline and the oil processing plant in Kara-Balta are also intended to minimise energy risks related to the supply of gas and oil products to the country's consumers.

The most recent trends in state policy also include: the integration of the domestic energy sector into the energy pool of the Eurasian Economic Union (EEU); the creation of a unified market of energy resources within the EEU; and the facilitation of cross-border electric power transmission within the EEU.

DEVELOPMENTS IN LEGISLATION OR REGULATION

The main laws governing the energy sector in Kyrgyzstan are:

1. The Law on Power Engineering, adopted to enhance the economic efficiency and reliability of the country's fuel and energy complex.
2. The Law on Electric Power Engineering, aimed at ensuring the reliable, secure and continuous supply of electric and heating energy, as well as the improvement of service quality for all consumers, the creation of a competitive environment and the formation of an energy market, the promotion of the private energy sector and the attraction of investment.
3. The Law on Renewable Energy Sources, which serves to develop and use renewable energy sources, improve the power engineering structure and social position of the population, diversify energy sources, and ensure national energy security, the protection of the environment and the sustainable development of the economy.
4. The Law on Oil and Gas, and the Law on Coal, aimed at creating a legal framework for the increase of the economic efficiency and operational safety of the oil, gas and coal industry, the protection of consumer rights, the creation of investment-friendly conditions and the increase of oil, gas and coal production volumes in compliance with international standards.
5. The Law on the Energy Efficiency of Buildings, which promotes the enhancement of energy efficiency, taking into account the best heating climate in buildings, the efficiency of costs, the reduced consumption of energy resources and the reduced emission of greenhouse gases into the atmosphere.

Kyrgyzstan also had a National Energy Programme for 2008-2010, and the Development Strategy of the Fuel and Energy Complex will remain in place until 2025, approved by Decree No. 346-IV of the Kyrgyz Parliament dated 24 April 2008.

The aforementioned programme was developed by the government and approved by the Kyrgyz Parliament. Its objectives include the identification of the main directions of development of each branch of the fuel and energy complex, such as the preservation and efficient use of energy resources, increased efficiency of the fuel and energy supply and saving systems, the use of ecologically clean fuel and the protection of the environment, dealing with prices, taxes and other matters within the field of energy, the fuel industry and research and development work.

The most recent developments in the regulation of the energy sector are primarily linked to the sector developments described above and relate mainly to tariff policy and licensing issues, following the adoption of the Law on Licensing & Permissive System.

There have also been changes to the Laws on Power Engineering and Electric Power Engineering in terms of the separation of competences among the public authorities on the issues of policy development, supervision and control in the energy sector.

PROPOSALS FOR CHANGES IN LAWS OR REGULATIONS

In summary, proposed changes to Kyrgyzstan's laws and regulations regarding the energy sector are as follows:

1. The promotion of the construction of small- and medium-sized hydro-power plants in order to increase the country's energy security and export potential.
2. The elimination of the gaps in the relevant laws, the simplification of permissive procedures for investors, particularly those related to permissions for the construction of small- and medium-sized hydropower plants.
3. The use of renewable energy sources and energy-saving technologies.
4. An increase in electric energy tariffs.
5. The harmonisation and integration of the domestic energy sector regulations into the legal framework of the EEU, etc.

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