

Competition in The Energy Sector of Uzbekistan, Using Foreign Experience to Create A Free Energy Market



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ABSTRACT: Today energy resources are one of the basic issues for any country. Energy provides opportunities for the development of the economy, comfortable living for people, and creates conditions for the normal functioning of education, medical care, social security, public services.

In this regard, the most significant issue for the development of modern Uzbekistan is the economic stability of the country, which largely depends on the achievement of energy security.

A strong energy policy provides the basis for increasing the competitiveness of the national economy. However, it is no longer possible to maintain a huge energy infrastructure in normal working order, to increase the production of energy resources without transferring the sphere to the rails of a market economy. Energy security can only be achieved when the most modern achievements are used in the construction and operation of power plants, electrical networks, gas pipelines, and other elements of the energy infrastructure.

The development of the energy sector based on the laws of the market creates conditions for competition, which makes it possible to attract investors to the implementation of projects. These investors have modern technologies and experience which will be introduced into the energy sector of Uzbekistan.

This research examines the introduction of competition into the energy sector of Uzbekistan, taking into account the international practice of developed countries. In turn, the ongoing reforms should attract both local and foreign investments to the energy sector, as well as stimulate the development of a competitive environment by ensuring equal access to energy resources.

KEYWORDS: national energy, power plants, technologies, government, industry, and consumer groups, energy balance.

INTRODUCTION

Uzbekistan is a country rich in natural resources and one of the largest producers of natural gas. Since the first years of independence, the energy policy of Uzbekistan aimed to use the potential of the national energy sector to solve social and economic problems.

Uzbekistan ranks 19th in the world in terms of proven natural gas reserves, Natural gas production volumes have been at the level of 54.1-66.0 billion m³ during the last decades. Moreover, the government of Uzbekistan has stepped up efforts to attract additional foreign investment as it aims to increase gas production by 17% by 2025[1].

At the same time, due to its geographical location and diverse landscapes, Uzbekistan has great potential in the field of renewable energy. In 2020, Uzbek Government adopted the "Concept of providing the Republic of Uzbekistan with electric energy for 2020-2030". It shows that by 2030, the national electricity consumption is going to be 120.8 billion kWh. Therefore, the concept provides for an increase in the country's generating capacity from 12.9 GW to 29.3 GW by 2030, and electricity production from 63.6 billion kWh to 120.8 kWh[2].

THE MAIN FINDINGS AND RESULTS

Besides, Uzbekistan plans to develop alternative energy sources, including solar, hydro and wind, to produce electricity with low carbon emissions. The government is committed to improving energy efficiency and increasing the share of renewables in the energy balance under the United Nations Framework Convention on Climate Change [3].

Uzbek government has plans to increase its renewable capacity by 2030, with solar power increasing to 5 GW and wind to 3 GW. Hydropower will also play a role, with an aim of producing 1 GW of energy. The increase will see renewables account for up to 30% of all power produced in Uzbekistan [4].

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In recent years, some reforms have been carried out in the energy sector of Uzbekistan. In 2019, the Ministry of Energy Uzbekistan was established, which is the main body responsible for overseeing and implementing the country's unified policy in the fuel and energy sector and the main responsible body in the field of rational use of energy [5].

Furthermore, in 2019, the electricity sector of Uzbekistan was divided into three parts: generation, transmission and distribution. The management of thermal power plants and power plants that produce electrical and thermal energy is carried out by JSC "Thermal Power Plants". The transmission system operator is JSC "National Electric Networks of Uzbekistan", which includes 14 regional backbone electric networks. Also, the distribution and supply of electricity to end consumers throughout the country is carried out by JSC "Regional Electric Networks" [6].

In the same year oil and gas vertically integrated company was also divided into three separate enterprises JSC "Uzbekneftegaz", JSC "Uztransgaz" and JSC "Khududgaztaminot". JSC "Uzbekneftegaz" is producing and processing oil, natural gas, and gas condensate, as well as the sale of petroleum products throughout the country. JSC "Uztransgaz" is responsible for the transportation, storage and export of natural gas. The distribution and supply of natural gas to the regions carries out by JSC "Khududgaztaminot" [7].

*It is important to note that all abovementioned organizations are **state-owned companies**. Thus, production, transmission and distribution of energy resources on the territory of Uzbekistan carry out by entities that are monopoly and they occupy a dominant position in the energy market.*

The main negative point of this issue is that **customers** do not have any alternative suppliers, which reflects on the service and price of energy resources

Considering that in the energy sector of the republic operate only subjects of natural monopolies, the tariff policy for energy resources in Uzbekistan is carried out by the Tariff Commission under the Cabinet of Ministers, chaired by the Prime Minister of the Republic of Uzbekistan. At the meetings of the Commission, tariffs are set for electricity, natural gas and heat [9].

The main feature for the tariff policy of electricity in Uzbekistan is the mandatory prepayment for the supply of electricity, which is taken into account using smart meters for all categories of consumers. Despite to the significant spread of smart meters, only non-budget commercial consumers have the opportunity to use tariffs differentiated by time of day zones. Natural gas consumers are required to make 100% prepayment for the supplied natural gas based on the concluded supply agreement. For producers of goods, in some cases, the tariff policy of the country's natural gas provides for the collection of a fine in amount of 40%, for the volume of gas in excess of the norm specified in the contract, which negatively affects the financial condition of companies [10].

In addition, electricity and natural gas tariffs in Uzbekistan are calculated using a methodology that does not include incentives for regulated companies to optimize their costs and own consumption, but for household consumers, social policy is carried out by keeping tariffs below the economically justified level. Every year Uzbek government subsidies billions of Uzbek sums for the diseconomy of household consumers which is a burden on the state budget and in the end taxpayers have to compensate for this damage. In case of industry enterprises, we are paying a huge compensation for the lack of market access to the energy sector, and the amount of this compensation is growing from year to year.

This is why the current situation in Uzbekistan requires immediate improvements and transformation of the energy industry, taking into account the **introduction of competition**.

To set up a competitive energy market for all participants, the followings should be done: reject the state monopoly system of governance while attracting domestic and foreign investors to the sector; develop and implement appropriate rules to create a competitive market;

define energy companies' rights, obligations, and responsibilities, and establish a legal framework for their interactions with public authorities;

revise the regulated tariffs for energy resource production, transmission, distribution, and sale;

establish an independent regulatory body in the energy sector to balance the interests of all stakeholders.

Practice of developed countries indicates that at the beginning of the 21st century, most of them changed the rules of energy market. For instance, in Great Britain, the Office of Gas and Electricity Markets (**OFGEM**) is an independent energy regulator. It works to protect energy consumers, especially vulnerable people, by ensuring fairly and benefit from a cleaner, greener environment. OFGEM is responsible for working with government, industry, and consumer groups to deliver a net-zero economy, at the lowest cost to consumers; stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable; enabling competition and innovation, which drives down prices and results in new products and services for consumers [11].

However, in 2008 OFGEM began a series of regulatory interventions – notably a non-discrimination condition and then imposing restrictions that reversed its previous policy of minimal intervention in the market [12]. In some cases, Regulator was blamed for errors that led to energy firms collapsing and it failed to act over rule-breaking suppliers, leaving households facing steep bills [13].

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In 2001, by adopting the “Natural gas market law (Law on the natural gas market and amending the law on electricity market)” Turkey launched its energy market reform. Country refused a state-owned model and privatized electricity and natural gas distributions. At the same time, the independent regulatory body “Energy Market Regulatory Authority” (EMRA), was established to set up and maintain a financially strong, stable, transparent, and competitive energy market [14].

Eventually, thanks to taken measures these countries refused a monopoly in the energy sector and improved the market by attracting investments.

For instance, during 2018, the energy sector in the UK delivered approximately £13 billion of investments [15] and in 2020 investments in the energy industries were £15.0 billion [16]. Moreover, with regard to investments investors created thousands of job places for the population.

CONCLUSION

To conclude, market-oriented reforms will improve the quality services such as electricity and gas supply that will reflect on competition in the energy market of Uzbekistan.

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