

**ENERGY CHARTER
SECRETARIAT**

CCDEC 2000

18 INV

Brussels, 7 December 2000

Related documents: CC 181, CC 185

DECISION OF THE ENERGY CHARTER CONFERENCE

Subject: Market Restructuring Reports

The Energy Charter Conference at its 6th Meeting held on 7 December 2000 *noted* the Investment Group's review of reports on the process of restructuring and privatization in the energy sector in Estonia, The Former Yugoslav Republic of Macedonia and Kyrgyzstan, and *adopted* the Conclusions attached at Annex I.

The Conference *noted* with appreciation the presentation made to the November 2000 meeting of the Investment Group by senior representatives of the Russian electricity company "RAO EES Rossii" concerning plans for reforming the Russian electricity sector, and *adopted* a set of Conclusions on this subject, which are attached at Annex II.

Keywords: Market Restructuring Reports, Estonia, FYROM, Kyrgyzstan, Macedonia,
Uzbekistan, RAO EES Rossii

Conclusions with respect to Market Restructuring reports

as adopted by the Energy Charter Conference
at its 6th Meeting held on 7 December 2000

The Charter Conference,

Having reviewed the Market Restructuring Reports of the Contracting Parties of Estonia, Kyrgyzstan and the Former Yugoslav Republic of Macedonia;

Taking due note of Articles 3, 6 and 10 requiring Contracting Parties to work towards promoting access to international markets on commercial terms; to work to alleviate market distortions and barriers to economic activity in the energy sector and create stable, equitable and transparent conditions for investments;

NOTED

1. in general, the relevance of Market Restructuring reports as:
 - a) a means of exchanging information between Contracting Parties/Signatories on the experiences gained during the process of restructuring energy markets;
 - b) forming the basis for work towards devising General Recommendations/Best Practice Guidelines for the restructuring process;
2. in relation to specific Country Reports:
 - a) with respect to Estonia,
 - the impressive activity on restructuring of the energy market;
 - the absence of subsidies and cross subsidisation;
 - its appreciation of the plans to create a regulated third party access system for electricity and gas;
 - that fundamentally there is no distortion from the total taxation system; and welcomed plans to establish a common Baltic electricity market by 2002 provided no new barriers to trade are created;
 - b) with respect to Kyrgyzstan,
 - that the presentation of the first part of the market restructuring report related to electricity at this meeting will be followed by the presentation of the second part (relating to oil and gas sectors) next year;
 - the difficulty of introducing competition between generators of electricity in Kyrgyzstan and commended the country concerned for the correct identification of the problem and for the moves in the right direction toward resolution of this issue in spite of these difficulties;
 - the plans to set up a transmission grid so that it would be a separate and independent unit adhering to the principle of non-discrimination and commended that development;
 - the agreement between Kyrgyzstan and neighbouring countries (Uzbekistan and Kazakhstan) to utilise a common despatch centre and recommended the

- further development of a true multi-country market (also enabling a wider market for hydro-production);
- with regret that non-payment remains a serious problem and that reference could be made to the Guidelines prepared by the Secretariat on non-payment to aid in the reduction of the high rate of technical and commercial power losses suffered by Kyrgyzenergo;
 - the hope that the implementation of these measures in total would enable access to a wider market so that the price in the domestic market could more truly reflect the alternative value in the wider market and therefore reduce local consumption of electricity;
- c) with respect to the Former Yugoslav Republic of Macedonia,
- the participation of the country concerned in positive steps towards the creation of an open and competitive electricity market in the Balkan region (the Balkan Electricity Market);
 - the welcome establishment of a Cartel Authority in early 2000 and the legal framework for the foundation of an independent Anti-Monopoly Commission;
 - that positive steps could be taken to include more possibilities for competitive market practices prior to privatisation, in the transformation of the Electric Power Company of Macedonia (ESM) from a public enterprise into a private shareholding company;
- d) with respect to the voluntary submission of a preliminary report by Uzbekistan,
- the expectation of the presentation of a completed report at the next Investment Group Meeting;

INVITED THE INVESTMENT GROUP AND THE SECRETARIAT

to continue to work on the Recommendations/Best Practice Guidelines, drawing upon discussions in the Investment Working Group and the Country Reports in their formulation, with a view to presenting a completed outline of Recommendations at the Charter Conference to be held in December 2001.

Conclusions in relation to the plans of “RAO EES Rossii” for the restructuring of Russia’s electricity sector as presented to the Investment Group in November 2000

as adopted by the Energy Charter Conference
at its 6th Meeting held on 7 December 2000

The Charter Conference,

Having regard to the great interest expressed by the Investment Working Group in the presentation by RAO-EES on its recent progress towards establishing the electricity system of Russia on a sound commercial basis and its plan for further reforms.

NOTED

the great significance of the electricity system in the Russian economy because of its size and because a reliable supply of electricity is essential to the successful operation of all other economic sectors.

NOTED

the complexity of the RAO-EES operations and of the reforms which had been put in place and those which were planned in order to put Russia’s electricity sector on a sound commercial basis.

NOTED

that these reforms included:

- major reduction and eventual elimination of the degree of non-payment for electricity supply and in the proportion of payment made in cash rather than kind;
- revision of the regulatory system to create incentives to reduce costs and to provide the resources essential to maintain and enhance electricity supply to customers;
- unbundling and separation of the generation, transmission, distribution and supply functions, and phased introduction of competition into all functions other than transmission;
- non-discriminatory access of generators and customers on transparent terms to the transmission and distribution infrastructure;
- attraction, through privatisation and other means, of strategic foreign investors as a source of capital and technological and commercial expertise and innovation.

NOTED

the steps taken and planned by the Government of the Russian Federation to support RAO-EES and place the Russian electricity system on a sound commercial basis.

EXPRESSED ITS APPRECIATION

of the main direction of the reforms indicated by RAO-EES, and wished the Russian government and RAO-EES every success in creating a competitive electricity system to provide customers over the long term with secure, sustainable and cost-effective supplies of electricity.