**Attachment to the Order # 299 of the Government of the Kyrgyz Republic**

**dated July 24, 2013**

**Action Plan for Reforming the Energy Sector for 2013 - 2014**

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| **No.** | **Tasks and Objectives** | **Actions** | **Expected results** | **Implementation form** | **Financing sources** | **Executor** | **Timeframe** |
| **1.** | **Reforming and improving regulation of the energy sector** | 1. Draft legal regulatory acts which envisage introduction of amendments and additions to the legislation of the Kyrgyz Republic (KR Criminal Code, Energy Law, Electricity Law) for the following purposes:   - clearly separate functions for the formulation of the fuel and energy sector development policy, for independent sector regulation, and increase responsibility of government representatives at the Boards of Directors of state-owned joint stock companies for their actions (failure to act) that caused damage to the state.  - ensure independence of the sector’s regulatory body;  - tighten responsibility of consumers and senior officials of energy companies for electricity and natural gas theft, including criminal, administrative and disciplinary liabilities;  - establish an Independent Settlement Center to ensure that the sector’s cash flow is distributed in a transparent and justified manner to all energy companies based on actual power flows and set tariffs.  2) Draft settlement rules and procedures for power flows of energy companies;  3) Explore possible risks and advantages of reorganizing distribution energy companies (DisCos), including changing organizational structure of DisCos (rebundling, unbundling, “as is”).  4) Examine introduction on a pilot basis of a long-term management contract between the Distribution Company and organization that should have an extensive international track record in successful management of an electricity company.  5) Establish consumer databases and billing systems in all four distribution companies  6) Resume monitoring of quasi fiscal deficit indicators in the energy sector | Development of regulatory and legal framework to reform the energy sector  Ensure implementation of functions of an Independent Settlement Center  Make a respective decision upon results of a full-scale and thorough analysis  The Contract should provide for full rights to manage and operate a company and to be held accountable for improved company performance, for reduction of losses, improvement of customer service levels, and reducing accounts receivable and payable.    Improve customers’ service and reduce accounts payable and receivable.  Availability of information about quasi fiscal deficit in the energy sector | Appropriate draft decisions by the KR Government  Development of criminal legal regulations envisaging liability for theft of electricity and natural gas  Determination of an organizational and legal structure of an Independent Settlement Center and preparation of its constituent documents  Draft decisions by the KR Government    Preparation of a draft contract for management | Not required | KR Ministry of Energy and Industry (MEI), KR Ministry of Economy, State Property Management Fund  MEI, State Property Fund  MEI, State Property Fund  MEI, State Property Fund  MEI | Second half of 2013  Throughout 2014  Second half of 2013  Second half of 2013  Second half of 2013 |
| **2.** | **Management modernization and ensuring financial sustainability** | 1) Implement measures for improving management and procedures and mechanisms of transparency in all energy companies, including the following:  - Recommendations to each company to form an Internal Audit Departments (IAD), and introduce relevant amendments to the constituent documents and companies’ organizational structure. The IAD staff shall be accountable only to the Board of Directors;  - Introduce amendments to contracts with the members of the Board of Directors of each energy company;  - Introduce a company-wide reliable information systems creating conditions for successful passing of audit;  - Attract audit companies from the top 20 audit companies on the basis of a competitive tender for conducting audit of companies’ business processes;  - Perform full-scale audit in JSC Power Plants, JSC NES of Kyrgyzstan, and distribution companies by international audit companies from the Top 20 audit companies.  - Increase competence of members of the General Directorate of energy companies by determining new selection criteria and conduct of open competitive selection.  - Add the following qualification requirements to the members of the Boards of Directors of energy companies providing that an applicant for the members of the Boards of Directors should submit specific proposals for strategic development and modernization of the company. | Improved management of energy companies, increased transparency in their activities  Improvement of organizational structure, streamline business processes, introduce state-of-the-art Management Information Systems  Strengthen responsibility of the members of Board of Directors for assuring the steady improvement in the company’s commercial operations and achievement of indicators specified by the Performance Agreements signed with the MEI and Department for Regulating FES  Introduce International Financial Accounting Standards  Build an effective system of internal controls, accounting and reporting systems.  Selection of a manager with the experience of profitable management confirmed by company’s financial reporting and having a vision of the Company Development Strategy for 2-3 years**.**  Modernizing management and decision-making processes | Decisions by energy companies to introduce amendments to the companies’ charters  Contracts on introducing amendments and additions into the contracts with the Board of Directors members  Elaborate recommendations to improve internal control, accounting and reporting systems  Draft resolution of the GoKR “On Introducing Additions into Resolution No. 513 of the GoKR, dated July 20, 2012 “On Measures to Improve Efficiency of the Management System of State-Owned commercial companies”. (Regulation on qualifications requirements set for applicants to management bodies of state-owned commercial companies). | Energy companies’ funds; Raised funds from the development partners  Development partners’ funds  Development partners’ funds  Development partners’ funds  Development partners’ funds | MEI, State Property Fund, Ministry of Economy | 2014  First half of 2014  Second half of 2014  First half of 2015  First half of 2014  First half of 2014 |

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| **3.** | **Ensuring adequate revenues for reconstruction and modernization of the energy system in order to restore uninterrupted power supply to consumers** | 1. Develop and implement a tariff policy in the electricity and thermal energy sector that provides for:   - Bringing tariffs for electric and thermal energy up to the level of full recovery of costs of repair, reconstruction, maintenance of existing facilities and sector development;  - Implementation of a mechanism for sustainable repayment of loans invested in the energy sector;  - Introduction of tariffs for electric heating comparable to the cost of alternative fuel   1. Develop and introduce modern long-term tariff methodology in the electric and thermal energy sector consistent with international standards 2. Develop social safety net, including benefits and payment of compensations for electric and thermal energy to vulnerable population, with secure and sustainable funding | Gradual tariff increase up to the level ensuring full cost recovery for generation, transmission and distribution of electrical energy, and modernization and expansion of the energy system, and repayment of loans, ensuring energy security  Stimulating consumers to implement energy saving measures especially in winter and use alternative fuel resources based on the economic efficiency considerations;  Address the ability of poor households to pay for electricity | Implementation of a Mid-Term Tariff Policy, development of a tariff methodology together with development of adequate social protection mechanisms and respective draft resolution of the KR Government  Draft appropriate draft resolution of the KR Government  Draft appropriate draft resolution of the KR Government | Development partners’ funds | MEI  Ministry of Economy  Ministry of Social Development  Ministry of Finance  Social Fund of the KR | Second half of 2013 |
| **4.** | **Reconstruction and upgrade of electricity sector facilities** | 1. Develop a list of prioritized projects for reconstructing energy infrastructure facilities with identifying financing sources. 2. Study reasonability of withdrawing Bishkek CHP from JSC “Electric Power Plants” to the independent enterprise merging with JSC “Bishkekteploset” as a single asset complex. 3. Conduct a feasibility study and develop a financing strategy to increase the capacity of Bishkek CHP. | Implementation of works for rehabilitating energy infrastructure facilities to ensure and restore reliable electricity supply | Identifying priority rehabilitation projects. | Not required | MEI  Energy companies (as agreed) | Second half of 2013  Second half of 2013  Second half of 2013 |
| **5.** | **Electricity loss reduction** | 1. Introduce an up-to-date Automated Commercial Electricity Metering System (ACEMS) at JSC NES Kyrgyzstan to implement the “Energy Sector Development” Project      1. Develop financing strategy for introducing automated commercial electricity metering systems in all DisCos in 2013-2014 | Increased reliability of the metering data on amount of electricity generated and distributed  Increased reliability of the metering data on amount of electricity distributed, improved billing and collection systems and procedures, improved customers’ financial discipline, reduced loses by eliminating the human factor in the recording and reporting power flows | Implementation of the Energy Sector Improvement Project  Projects development and fund raising | According to the Implementation Plan of the Energy Sector Improvement Project  Energy companies’ funds, raised funds from the development partners | MEI, JSC NES Kyrgyzstan (subject to approval)  MEI, distribution companies (subject to approval)  Ministry of Finance | According to the approved project timeframe  Second half of 2013 |
| **6.** | **Improving customer service quality and public confidence** | 1. Implement measures for improving the customer service quality envisaged by the Performance Agreements with the energy companies.      1. Implement a public outreach campaign on the cost of providing electric and thermal energy supply and relationship between uninterruptable power supply and tariffs.      1. Publish energy companies’ financial and operating activities’ reports on the companies’ and MEI’s websites. | Increased customer service quality    Information awareness of population about tariffs for electric and thermal energy supply, and relationship between uninterruptable power supply and tariffs.  Ensure access by citizens to information about energy companies’ activity. | Monitoring of the implementation of Performance Agreements, raising awareness of consumers about the Customer Service Quality Standard approved by Decree of the KR President No. 49 “On Transparency Initiative in the FES”, dated July 20, 2010, and Order No. 139 of the KR Ministry of Energy and Industry, dated June 29, 2011.  Mass media statements, field meetings with population, social advertisement.  Publication of quarterly reports of Distribution Companies on customer service quality indicators set by the Standard. | Not required | MEI, energy companies (subject to approval)  MEI, energy companies (subject to approval)  MEI, energy companies (subject to approval) | In accordance with terms envisaged in the Performance Agreements with energy companies  Second half of 2013  On an on-going basis |
|  |  | 4) Hiring independent international companies for oversight of design, procurement and construction of new large infrastructure projects, monitoring of expenditures, and for ensuring quality of construction works and equipment in compliance with international standards. | Tightened oversight of design, procurement and construction of new large infrastructure projects, improved quality of construction works | Make the requirement on hiring independent international engineering companies’ part of all contracts for construction of new large infrastructure projects. | Budgets of projects in process | MEI, State Technical Inspectorate, energy companies (subject to approval) | On an on-going basis |

Notes:

DisCos – Distribution companies

IAD – Internal Audit Department

JSC – Joint-stock Company