

Overall the plant is expected to cost \$600m and create 1,300 new jobs, the ministry claimed. Masdar will design, finance, build, and operate the plant over a 25-year period, with the project to generate some 1.9GWh per year.



The Abu Dhabi-based firm is also planning a 100MW PV project at Navoi, under the World Bank's Scaling Solar programme.

It won a competitive tender to build the project in October, offering a price of 2.679 cents per kWh, one of the lowest tariffs seen in emerging markets.

It was Uzbekistan's first solar PPP tender, and while over 20 firms made the longlist and 11 prequalified, only five developers submitted final bids.

The Uzbek government aims to increase generation from wind and other renewable sources significantly over the next decade, to 5GW in solar and 3GW in wind capacity overall.

A first competitive tender for a 100MW wind farm at Nukus attracted more than 70 EOIs, the energy ministry said last month. Contract awards are expected over the summer.

Renewables

Q&A: Unicase Law on renewable energy in Uzbekistan

The *Uzbekistan Energy Monitor* recently spoke to Ayana Unerbayeva, Counsel for Unicase Law's Uzbekistan office, about the legal environment for renewables projects in the country.

Can you give us an overview of how Uzbekistan has improved the legal environment for investment in renewable energy since 2017?

Over the past two years, Uzbekistan has made a huge step towards developing the potential of renewable energy sources in Uzbekistan. Namely, in 2019, two main documents regulating this area were adopted.

In May 22, 2019, the Republic of Uzbekistan has adopted its first statute providing comprehensive regulation of its renewable energy sector, i.e. the Renewable Energy Law (the "RE Law").

The country's previous legislation in this area mainly consisted of different Presidential resolutions, often relating to particular projects.

The country's President, Shavkat Mirziyoyev, in his Development Strategy of Uzbekistan for 2017-2021, stressed the importance of moving toward greater use of renewable energy.

The RE Law covers not only generation of electricity from renewable energy, but also the production of the equipment that generates such energy.

Under the RE law the renewable energy sources are defined as energy of solar, wind, geothermal, hydrothermal, hydropower, biomass, which are naturally renewed in the environment.

Today, Uzbekistan has opened up great prospects for foreign investors by developing several major projects and signing them on the basis of PPP.

In general, how does the legal framework for energy in Uzbekistan compare to other Central Asian countries? What are the respective strengths and weaknesses?

The development of renewable energy sources is a very relevant topic today. Central Asian countries are trying to increase the percentage of RE in the energy sector as much as possible.

Some countries start earlier; this explains the different level of development of RE in Central Asia.

It is worth recognizing that the leading place today is occupied by Kazakhstan, which mainly develops solar and wind power plants.

By 2019, 83 renewable energy projects with a total installed capacity of almost 1000 megawatts were launched in the country.

In the next 5 years, this volume is planned to triple and increase to 3000 megawatts, which in principle is quite realistic. Moreover, Kazakhstan pays great attention to modernization and energy efficiency.

As for Uzbekistan, it should be noted that at the moment there are a lot of blind areas in the legislation of Uzbekistan in the field of RE, and at the same time, the potential for the development of RE is no worse than in Kazakhstan.

Blind areas in legislation do not hinder projects in any way, but rather attract investors rather than scare them away. In particular, licensing of RE activities remains a big issue today.

For your international clients in the energy sector, what are their main concerns when considering projects in Uzbekistan? For example, currency risk, payment default risk, etc.

Risk mitigation is particularly important in renewable energy projects because of their high straight capital requirement.

Financial de-risking instruments accompanied by sound policy can reduce the financing costs of renewable energy investment and help attract capital at scale.

1. Uzbekistan ran its first solar site-specific auction in 2018-19 with the assistance on structuring and implementation from IFC, a member of the World Bank Group. The 2nd and the 3rd auctions are under preparations thus making it a systematic scheme. However, currently Uzbek legislation lacks proper regulations for the procedure of conducting RE auctions. Nevertheless, it is understood that the procedure of the bidding process will be further determined in the subordinate legislation.

2. PPA is a contractual agreement between a guaranteed energy buyer and an alternative energy power generator (a seller). As of today, there is no standard form of power purchase agreement (PPA). However, it is expected that the PPA is to be drafted and approved by the Ministry of Energy in the near future.

Some of the required conditions to make a PPA effective are as follows:

- Comprehensible text (concept, terminology);
- Fair allocation of risks between the Parties;
- Predictability of key elements (fees, liability of the parties, etc.)
- Procedures and instruments to address problems (non-performance of obligations, compensations, force-majeur, etc.)

3. Currency risk arises in situations in which the project has revenue in one currency and loan payments in another. For renewable energy projects, a mismatch between the financing currency (hard) and the revenue currency (local) is often a problem for debt repayment. Due to these concerns, some transnational project developers would only sign a contract in hard currency to insulate themselves from currency risk.

Although it can remove currency risk, it also opens up exposure to non-payment risk if the off-taker cannot pay the PPA price in hard currency. Some governments take some of the currency risk by offering USD tariffs payable in local currency.

4. Technical risk on connection of RE facility to the network that investors should pay attention: in the PPA, the Seller requires to provide responsibility for the reception and transmission of electricity produced by RES facilities, and for dispatching the capacity of RES facilities, by including certain obligations in the PPA (Take-or-Pay, curtailment, etc.)

Long-term perspective system research:

- To understand the possibility of fulfilling such obligations, the Offtaker, with the involvement of consultants, should conduct a study of the UZ power system (analysis of the flow distribution of transmission networks and modes, to identify the necessary restrictions on network capacity and dispatching);
- To make a decision on possible necessary restrictions on power output for renewable energy facilities.

5. Contractual obligations (case-by-case or standard PPA): consultant prepare proposals in the PPA or (in the provisions on connection, transmission, dispatching, etc.), with the inclusion of curtailment, take or pay rules.

How has the COVID-19 pandemic affected the energy sector in Uzbekistan? Have your clients been forced to delay their projects and plans, and how quickly do you think the business environment will return to normal?

The COVID-19 pandemic has spread unnoticed throughout the world and has directly or indirectly affected the daily life of any activity.

This has also affected the development of the energy sector in Uzbekistan in the following ways:

- production was suspended, so the slowdown was inevitable;
- restriction of movement (both domestic and international) - it is no secret that contractor and subcontractor work is mainly performed by foreign organizations;
- partial or complete isolation - slowing down or stopping work completely; and
- additional requirements for construction works.

Despite all of this, the government of Uzbekistan decided not to suspend construction and implementation of investment projects, allowing them to be completed by the deadline.

As well, during the period of isolation, the Ministry of Energy of Uzbekistan published new invitations to participate in RE projects.



So far, the Uzbek government has taken a mixed approach to contracting solar and wind projects. Some have been directly negotiated with confidential terms and tariffs, for example the ACWA Power projects. Others are being tendered through the IFC or ADB. What is your opinion on this?

Uzbekistan has set a goal to increase the amount of RES in total electricity production to 25% by 2030, today - 10%.

To achieve these results, the state is taking active measures to implement major projects in the renewable energy sector.

Currently, the state with the assistance of the World Bank, the Asian Development Bank and the European Bank for Reconstruction and Development is a complex of measures on the competitive selection of investors to implement these projects that will be implemented through direct foreign investment.

This, in turn, will not only protect the foreign investor, but also raise the status of the project.

It is necessary to study, publish and conduct such joint investment energy projects at the initial stage of RES development in Uzbekistan.

The state does not have sufficient experience in conducting and implementing projects and the legislative framework does not cover all activities in vain.

Holding an auction only encourages foreign investors, and also gives the right to choose the most profitable investor for the state, while private discussion does not provide such guarantees.

For today, Uzbekistan has already signed a number of projects, two of which took place in April 2020.

Agreements signed with:

- ACWA Power (Saudi Arabia) – three agreements worth over US\$2 billion to construct a 500-1,000 MW wind power plant and a 1,500 MW Combined Cycle Gas Turbine Power Plant
- Masdar (UAE) – construction of a 500 MW wind power plant in the Navoiy Region
- TOTAL Eren (France) – construction of a 100 MW solar power station in the Samarkand region
- Aksa Power (Turkey) -construction of combined-cycle gas power plant with a capacity of 240 MW in Tashkent

The energy ministry's recent Concept Note targets 5GW in solar and 3GW in wind capacity by 2030.

Are these goals realistic, and what factors will help them succeed?

Indeed, the strategy sets medium and long-term goals for the period from 2020 to 2030 and will be adjusted as necessary based on ongoing analysis.

The Concept provides for priority measures aimed at:

- modernization and reconstruction of existing power plants, as well as construction of new ones using energy-efficient power generation technologies;
- improvement of electricity metering systems; development of renewable energy sources, especially solar energy;
- legal reforms to improve the tariff policy and ensure the transition to the wholesale market.

The Concept defines six main tasks, including "development and expansion of the use of renewable energy sources and their integration into a single electric power system".

In order to increase the attraction of foreign direct investment in the renewable energy sector of the Republic, competitive auctions (tenders and auctions) will be held in conjunction with international financial institutions in 2020-2022 to determine investors based on the "Build-own-operate" model, with long-term contracts (up to 25 years).

At the moment, it is very difficult to predict whether Uzbekistan will achieve such development in this sector.

But we do hope that the task set by the Ministry of Energy in its concept will fully meet expectations.

Any other comments or views you would like to share?

Due to the fact that Uzbekistan has just embarked on the path of developing of renewable energy sources, the state provides a number of customs and other benefits to investors.

These benefits are also defined in the Regulations on renewable energy sources.

Producers of renewable energy are exempt from paying:

- property tax for the equipment that generates renewable energy; and
- land tax for the land plots occupied by such an equipment (with a nominal capacity at least 0.1 MW) for 10 years from the date of commission of such an equipment. Producers of the RE equipment are exempt from payment of all taxes for 5 years from the date of state registration of their registration.

Also, tax and customs exemptions can be provided to businesses and individuals to import renewable energy installations, the use of which significantly increases energy efficiency.

Individual users of renewables in residential areas subject to the complete disconnection of existing energy networks will also be exempt from paying personal property tax and land tax for 3 years. So this sheds light on small-scale renewables as well.

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Power

NPG announces goods, services tenders

National Power Grid (NPG) has issued several tenders for equipment, spare parts, and repair services, with deadlines between 8 and 12 June.

Published on the Uzbekistan Commodity Exchange (UZEX), the tenders add up to a cumulative UZS2bn (\$200,000) in value.

The largest is for **some 6,830 insulators** of various types that the company values at UZS1.1bn (around \$109,000).

The tender closes on 11 June.

NPG is also seeking contractors, in two tenders, to overhaul transformers at the **Kizil Tepa** substation, as well as at the **Zafar, Traktorsoz, and Kuyluk substations** for a total of UZS527m (about \$52,000).

The deadline for both tenders is 8 June.

A separate UZS295m (\$29,000) tender, closing on 12 June, is for **spare parts** to be used to overhaul compressors serving the 110-500kV air-blast circuit breakers at the Karakul substation.

Two smaller tenders, both with 8 June deadlines, are for the supply of **insulators** (UZS54m, or \$5,300) and **cables** (UZS46m, or 4,5000).

The company announced earlier this week that it had awarded a \$12.7m contract for medium and high-voltage equipment to China's Shanghai Electric Power Transmission & Distribution.

The equipment has been procured under the World Bank-run \$196m programme that seeks to upgrade or modernise 22 'high priority substations'.

NPG did not specify the substation where the new equipment would be installed.

The company ran several other tenders under the World Bank's programme, including those for maintenance equipment, heavy-duty machinery, and autotransformers for the Lochin substation.

For the latest procurement plan, see [here](#).

NPG owns and operates the country's transmission grid and is responsible for electricity trade with neighbouring countries.

It was spun out of Uzbekenergo last year, as part of the wider energy-sector reorganisation that also included the splitting up of Uzbekneftegaz (UNG).