

THE SERVICE OF MAINTAINING THE READINESS OF ELECTRICAL CAPACITY IN KAZAKHSTAN (THE CAPACITY MARKET)

The capacity market has been introduced in 2019 and aims to attract investments in the country's power industry by ensuring returns on investments in the construction of new generation, and in the modernisation, reconstruction and expansion of the existing power plants.

The capacity market participants are: the system operator (KEGOC), the single buyer (FSC), the centralised market operator (KOREM), energy producing organisations together with power market consumers, including industrial complexes.¹

How does mechanism of capacity market work?

The capacity market is designed to purchase the service of maintaining the readiness of electrical capacity (the Service) by FSC (the single buyer), from the energy-producing organisations (service providers), for maintaining the capacity to incur the load, as certified in the prescribed manner.

According to the Electricity Law, there are two types of individual tariffs for the Service:

- construction of newly introduced generating facilities with a flexible generation mode, as determined by the results of an auction;
- selection of newly introduced energy-producing organisations aimed at the construction of new generating facilities, as determined by the results of the tender conducted by the Ministry of Energy.

According to the current rules,² the selection of projects for the construction of new generation facilities with a flexible generation mode, is carried out by the holding of auctions among (in priority order):

1. the sites included in the Siting Plan of generating facilities with a flexible generation mode and having preliminary feasibility studies;
2. sites of existing energy-producing organisations;
3. sites that do not have preliminary feasibility studies.

After the auction, the winner signs the contract for the purchase of the Service for 15 years from the date of its first certification, at an individual rate specific to the construction of those particular new flexible mode generating facilities.

The tenor of the auction-based individual tariff for the Service is not limited to the 7-year period used for the tariff caps.

¹ Order of the Minister of Energy of the Republic of Kazakhstan dated February 27, 2015 No. 152 "On Approval of the Rules of Organization and Functioning of the Electric Power Market", paragraph 3

² Order of the Acting Minister of Energy of the Republic of Kazakhstan dated April 30, 2021 No. 161 "On approval of the rules for organizing and conducting auction for the construction of newly introduced generating installations with a maneuverable generation mode", paragraph 4

To cover the projected capacity demand, FSC concludes contracts for the Service in the following priority order:

1. With the winners of tenders for the construction of generating facilities that have already been commissioned and whose individual tariffs for the Service have been determined by the tender results. The volumes and deadlines for the purchase of the Service for each contract are established by the Ministry of Energy.
2. With the winners of the auction trading, whose individual tariff for, and volumes of (in the construction of new flexible generation facilities), the Service for each contract, are determined the auction results.
3. With existing energy-producing organisations that have entered into investment agreements for the modernisation, expansion, reconstruction and (or) renewal of their facilities with the Ministry of Energy. The individual tariffs, the volumes and timing of the purchase of the Service each contract are also established by the Ministry of Energy.

Individual tariffs in the construction of new flexible mode generating facilities, the volumes and times of purchase of the Service of the winners of the auction can only be reduced, since there is a direct prohibition on adjustments towards an increase.

At the moment, despite the overall surplus of electrical capacity, there is a lack of regulation and flexible capacity to promptly replenish any possible deficits in the energy system. To solve this issue, the Ministry of Energy has decided to conduct an auction for the construction of newly commissioned generating facilities with a flexible mode.³ Auctions are considered in the following zones of the unified electric power system of the Republic of Kazakhstan:

1. 27.12.2021 - in the southern zone (Kyzylorda region) construction of a steam-gas facility with a thermal energy with an installed electrical capacity of about 150-250 MW;
2. 28.12.2021 - in the southern zone (Turkestan region) construction of a steam-gas facility with an installed electric power of about 250-350 MW;
3. 29.12.2021 - in southern and northern zones construction of a gas facility and (or) generating facilities using hydrodynamic water energy with a total installed electrical capacity of about 450-550 MW.⁴

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³ Order of Acting Minister of Energy of the Republic of Kazakhstan dated April 30, 2021 No. 161 "On approval of the rules for organizing and conducting auction for the construction of newly introduced generating installations with a maneuverable generation mode", paragraph 5; subparagraph 1) paragraph 4

⁴ https://www.korem.kz/rus/press-centr/novosti_otrasli/?cid=0&rid=10109