



ELECTRICITY INDUSTRY AND LEGAL UPDATE

**KALIKOVA &
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Industry Update

Russia to fully solve financial aspects of Upper Naryn HPP Cascade project by October 2014

On February 19, 2014, Kyrgyz President Almazbek Atambaev met with the Russian delegation to discuss cooperation in the energy sector.

The issues discussed in the meeting included further steps to intensify investment undertakings of the Russian energy companies in Kyrgyzstan.

The meeting resulted in the signing of a number of documents, including:

- the minutes of the Kyrgyz-Russian negotiations on the implementation of the Kambarata-1 HPP construction and operation project; and
- the minutes of the Kyrgyz-Russian negotiations on the implementation of the Upper Naryn HPP Cascade construction and operation project.

As far as the Upper Naryn cascade project is concerned, the Russian side undertook to fully solve the financial aspects by October 2014.

The treaties for the construction of the Kambarata-1 and Upper Naryn HPPs were signed between Kyrgyzstan and Russia in September 2012 during the visit of the Russian President Vladimir Putin to Bishkek.

The cost of the project will be shared between Kyrgyzstan and Russia on a 50:50% basis.

Feasibility study for Kambarata-1

Legal Update

KR Government Resolution “On amending the KR Government Resolution “On formation of charter capital of Kambarata-1 HPP for construction and operations of Kambarata-1 HPP”, No. 77 of February 7, 2014

The Resolution is in furtherance of the Agreement on construction and operation of Kambarata-1 HPP signed between the Government of the Kyrgyz Republic and the Government of the Russian Federation on September 20, 2012 in Bishkek (Agreement).

According to this Resolution, Electric Stations OJSC was awarded the use right to land plots in the Toktogul, Toguz-Torou districts of the Djalal-Abad region and Djungal district of the Naryn region for their further provision as a contribution to the charter capital of Kambarata-1 HPP CJSC for the term of 49 years with the right of further prolongation.

Besides, the state property management fund under the Government of the Kyrgyz Republic was required:

- in coordination with the Ministry of Energy and Industry of the Kyrgyz Republic and under the established procedure, to submit for consideration of the management body of Electric Stations OJSC a question of additional provision of other assets (financial and/or non-financial) as a contribution to the charter capital of Kambarata-1 HPP CJSC;

- not to accrue dividends on the received income of Electric Stations OJSC, i.e. the transferred right of use of land plots;

project to be approved in March

Among other issues, President Almazbek Atambaev and the Russian delegation comprising representatives of Inter RAO UES and RusHydro discussed the approval of the feasibility study for the Kambarata-1 project.

To date, the Kyrgyz side has developed and presented a preliminary feasibility study. It is expected that the feasibility study will be submitted for approval in March after which it will be subject to expert review. It is also planned to form the charter capital in May of this year.

According to the deputy minister for energy and industry of the Kyrgyz Republic Raimbek Mamyrov, the Russian side undertook to examine the issue of getting a loan to finance the project in June 2014. The issue of getting the first tranche will be examined in October.

Also, it is planned to develop the project implementation schedule within 2 months.

Russia's stake in Kambarata-1 Joint Venture is managed by Inter RAO UES, while Kyrgyzstan's stake is managed by Electric Station OJSC. It is expected that Kambarata HPP will produce in average over 4.3 billion kWh per year, with the construction period being 7 years and the payback period being over 12 years.

Ministry of Energy and Industry and Ministry of Economy announce joint effort to tackle issue of connection capacity fee

A representative of the Ministry of Energy and Industry Almaz Stamaliev announced at the National Grid of Kyrgyzstan OJSC annual general meeting of shareholders held on April 4 that the Ministry of Energy and Industry and the Ministry of Economy of the Kyrgyz Republic formed the working group to tackle the issue of charging the connection capacity fee.

The shareholders also raised the issue of inconveniences related to dividend payments. Thus, after division of Kyrgyzenergo OJSC into 6 companies, the shareholders encounter inconveniences such as the need to travel to other cities to receive dividends which might be quite costly and therefore unreasonable. The shareholders asked to settle this issue.

Also, the Resolution contains recommendations to Electric Stations OJSC:

- if necessary, to provide other assets (financial and/or non-financial) as additional contribution to the charter capital of Kambarata-1 HPP CJSC according to the established procedure;
- during development and reconciliation of the feasibility study for the construction and operation of Kambarata-1 HPP, consider the cost of development of the region.

KR Government Resolution “On amending the KR Government Resolution “On temporary measures for exercising supervisory functions in energy and construction sector” No. 93, of February 14, 2013

This Resolution introduced amendments in respect of the period of implementation of measures for improvement of the mechanism for carrying out control and supervision activities in the area of ecological and technical safety. In particular, it increased the period for developing and submitting for consideration of the Government of the Kyrgyz Republic draft normative legal acts directed at the improvement of the regulatory framework for energy and architecture as far as inspection and supervision functions are concerned. The deadline for development of the indicated documents was postponed until April 1, 2014 (the initial term was September 1, 2013).

According to the Resolution, temporarily before receiving appropriate legal response:

- energy companies must pay out deductions to the competent authority in charge of control and supervision in the area of ecological and technical safety to finance the activities depending on the volume of engineering units approved in an established manner;
- construction organizations must pay deductions in the amount not exceeding the cost of state architectural inspection but not more than 0.3 percent of the cost of construction-assembly operations.

KR Government Resolution “On measures for modernizing heat-electric generating plant of Bishkek city” No. 78 of February 7, 2014

The Resolution addresses a number of

Rosneftegaz can finance construction of Kambarata-1 HHP in Kyrgyzstan

According to the strategy of "Inter RAO" OJSC approved by the Board of Directors on March 13, 2014, the participation in projects under intergovernmental agreements is among the key initiatives of "Inter RAO", the Russian group, until 2020.

"Rosneftegaz" can finance the construction of Kambarata-1 HHP in Kyrgyzstan, "Vedomosti" edition informs by referring to the Chairman of the Management Board of "Inter RAO", Boris Kovalchuk.

"Rosneftegaz" OJSC is a Russian company which administers state assets in the petroleum and gas industry. "Rosneftegaz" is an owner of 6.50% of shares of «Rosneft», as well as 10.74% of shares of "Gazprom". 100% of the shares of "Rosneftegaz" are in the ownership of the state represented by Rusproperty.

Joomart Otorbaev discussed reforms in the energy sector of Kyrgyzstan with the development partners

On February 21, First Vice Prime-minister of the Kyrgyz Republic Joomart Otorbaev discussed joint efforts in reforming of energy sector with the Chief Representative of USAID in the KR, Michael Green and the Chief of Permanent Representative of ADB, Rie Hiraoka.

While opening a meeting Joomart Otorbaev informed the chiefs of donor organizations about the progress in the preparation of legal framework for reforming the energy sector, as well as about investment projects including the construction of Kambarata-1 HPP.

Chiefs of donor organizations, on their part, indicated the importance of defining and strengthening the functions of the independent industry regulator which should not depend on energy producers or customers.

Finally, the participants of the meeting also touched on the questions of supporting external management of energy companies.

measures directed at the performance of the Credit Agreement, concessional buyer credit between the Government of the Kyrgyz Republic represented by the Ministry of Finance of the Kyrgyz Republic and Export-Import Bank of China for the implementation of the project "Modernization of heat-electric generating plant of Bishkek city" signed on September 11, 2013 in Bishkek, ratified by the Law of the Kyrgyz Republic No. 224 of December 23, 2013. In particular, according to the Resolution:

(1) the Ministry of Finance of the Kyrgyz Republic must provide a loan in the amount of 386,000,000 (three hundred eighty six million) USD to Electric Stations OJSC under a subsidiary agreement on the following conditions:

- the loan repayment period is 20 years including 11 years grace period for the principal with further equal repayment of the principal within 9 years following the grace period;
- the interest rate for the loan is 2 (two) percent per annum paid out when the repayment becomes due added to the amount actually drawn down;
- the final date for repayment of the loan obligations is September 21, 2034;
- the fee for loan control is 0.18 percent of the principal in a lump payment.

(2) the state property management fund under the Government of the Kyrgyz Republic shall initiate the holding of an extraordinary general meeting of stakeholders of Electric Stations OJSC in an established order. It shall also include in the agenda an issue of giving consent to a major transaction, a Subsidiary Agreement on Loan Repayment with the Ministry of Finance of the Kyrgyz Republic authorizing the General Director to sign all necessary documents and to dispose of the loan.

(3) the Ministry of Energy and Industry shall execute control over activities of Electric Stations OJSC in an established manner for:

- the intended use of the received money;
- the compliance with the provisions of the Subsidiary Agreement in accordance with the loan payment schedule.

(4) To give consent to the State Agency for Architecture, Construction and Housing and Utilities Sector under the Government to carrying out the design and construction operations of TPP of Bishkek city under the project of modernization of heat-electric generating plant of Bishkek city.

Kambarata-1 HPP CJSC borrowed 5.2 mln USD from “Peresvet”, a joint stock commercial bank for cooperation in charity and intellectual development of Motherland

“Kambarata-1 hydro power plant” CJSC concluded a credit agreement with “Peresvet”, a “joint-stock commercial bank for cooperation in charity and intellectual development” CJSC.

The Bank opened a non-revolving credit line to the borrower with the total credit limit (issuance limit) of 5.2 mln USD for paying for the services under the construction contract for development of feasibility study (execution of project works) in the framework of implementation of the Kambarata-1 HPP project on the Naryn river in the Kyrgyz Republic, as well as for the purposes of carrying out other financial transactions relevant to the main economic activity of the Borrower.

Value of the transaction taking into account credit percentage will be equal to 5,460,000 USD which comprises 267,349,992 soms (according to the rate of the National Bank of the Kyrgyz Republic as of August 13, 2013).

The cost of the development of the feasibility study for the construction of Kambarata-1 HPP is equal to 5.2 mln USD.

As it is indicated, the transaction was approved on August 13, 2013 during the extraordinary general meeting of shareholders of Kambarata-1 CJSC.



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