

Uzbekistan energy storage market

This first comprehensive review of Uzbekistan's energy policies by the IEA comes at time of critical importance for the country's energy sector. The broad-based reform of the energy sector, beginning in 2019, has continued at a steady pace. Its reach and scope are ambitious by international comparison, and the IEA applauds the government of Uzbekistan for the progress made to date.

The energy reform is part of the government's broad structural and institutional reform package, introduced by President Shavkat Mirziyoyev, which aims to modernise Uzbekistan's economy and society and bolster long-term growth through increased efficiency and productivity. The energy reform is being implemented in phases over the next few years. It is covered in more detail in the individual chapters of this report.

A critical issue is how to increase efficiency, attract investments and new entrants, and diversify energy supply in Uzbekistan's current energy system in which gas, electricity and heat are supplied by financially burdened monopolies at strongly subsidised prices. The policy response should include energy tariff reform, electricity and gas market reform, increasing the use of renewable energy, and improving energy efficiency. Encouragingly, this is what Uzbekistan's energy reform promises to deliver.

The level of energy prices is central for attracting investment and for encouraging citizens to use energy efficiently. As part of the country's social policy, the government sets end-user prices for electricity and natural gas below full costs of supply. The IEA estimates that in 2020, Uzbekistan's implied subsidies on natural gas, electricity and oil amounted to USD3.8billion, or 6.6% of the country's gross domestic product (GDP).

The low price of natural gas in particular creates distortions. For example, it discourages using renewable energy for electricity and, as it favours individual gas boilers for space heating, it discourages potentially more efficient system solutions including the combined generation of district heating (DH), cooling, electricity and the use of heat pumps. Retail oil prices were deregulated in 2020.

In order to reduce subsidies in the longer term, more importance should be given to communicating to the public that energy subsidies are a highly regressive policy measure, benefiting mainly the well-off. The subsidies should be phased out gradually and accompanied with support mechanisms to cushion the effect on vulnerable groups.

Natural gas dominates Uzbekistan's energy supply. In recent years, it has provided around 85% of both total energy supply and electricity supply and is the main energy source in all sectors. It has also been a major source of export revenue, but the government now plans to stop exports by 2025 and use the gas for petrochemicals production and domestic energy supply. At the current rate, however, the country's gas reserves will be depleted in less than 20years, while the government foresees natural gas demand to rise by

30% to 65 billion cubic metres (bcm) by 2030.

The need for electricity reform is recognised in Uzbekistan's Green Economy Transition Strategy for 2019-2030 (from 2019) and the Security of Electricity Supply Concept for 2020-2030 (from 2020). Several proposals have been drafted, including the draft law on electricity, the electricity network code and the presidential decree on further electricity market reforms. A well-structured three-stage reform plan exists for a transition to a competitive electricity market, but its implementation is largely yet to begin.

The IEA urges the government to adopt the pending legislation and to implement ambitious electricity market reforms for the benefit of the country and its economy. International experience suggests that reform approaches should be shaped by a country's specific political and economic context, be tailored to achieve desired policy outcomes, and offer multiple institutional pathways to achieve these desired outcomes.

Uzbekistan's energy reform is fundamentally changing the electricity sector, which was built on the monopoly of the state-owned Uzbekenergo. The monopoly has already been divided into separate companies for transmission, distribution and thermal power generation.

The government should first focus on governance issues and financial viability. Tariffs and subsidies should be revised to enable full cost recovery, and to encourage investment in power sector development. Reforms of this kind should help reduce operating costs and improve generation, transmission and distribution efficiency. It is therefore encouraging to see the government's May 2022 proposals for revised tariffs. When implemented, they are an important step in the direction of full cost recovery and a manifestation of rational economic policy.

The IEA supports the government's plan to open up electricity generation to competition, and create wholesale and retail markets. This is best done gradually. The first steps should be to remove entry barriers for new participants and to transition towards unsubsidised cost-based economic dispatch of power plants to increase efficiency. This is already being done through tenders and gradual electricity tariffs increases.

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