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Uzbekistan open for renewables

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Uzbekistan has seen a tremendous amount of reform in the last three years under new President Shavkat Mirziyoyev, including liberalisation, at breakneck speed, of the foreign exchange market, business regulations, tax system, banking system, visa regime, public private partnership (PPP) framework and more. By Alistair Wishart and Nabil Khodadad, Vinson & Elkins.¹

The energy sector is experiencing significant legal and structural reform, including the restructuring of state giants Uzbekneftegas and Uzbekenergo. In nearly three decades working in Uzbekistan we have never seen anything like it. A shining example of Uzbekistan's modernising push is the development of an ambitious renewable power strategy.

Uzbekistan enacted its first comprehensive renewable energy law in May 2019 – Law No ZRU-539 On Use of Renewable Sources of Energy dated May 21 2019. The purpose of the renewable energy law is to help diversify Uzbekistan's economy and to lessen its reliance on fossil fuel-based energy by developing and regulating a renewable energy sector.

The law focuses both on the use of renewable sources of energy and on the production of equipment used in the renewable energy sector. Under the law, the term renewables includes naturally replenished energy sources, such as sunlight, wind, geothermal heat, natural water waves and biomass. In order to strengthen the investment climate, the renewable energy law provides tax, customs and other benefits and preferences to producers of renewable energy and equipment used in the renewable energy sector.

In particular, producers of renewable energy are exempted from (i) property tax for the installation of renewable energy equipment and (ii) land tax for land occupied by such equipment, with a nominal power generating capacity of 0.1MW and above, for 10 years starting from the equipment commissioning date.

Meanwhile, renewable energy equipment manufacturers enjoy exemption from all forms of taxes for five years from their incorporation. Moreover, legal entities and individuals may be exempted from customs duties when importing renewable energy equipment, which significantly increases the efficiency of renewable energy sources.

From July 2019, private entities engaged in energy generation are entitled to connect to the National Power Grid. As part of the reform and restructuring of National Electric Company Uzbekenergo, a regulation for the connection of private sector electricity manufacturers to the National Power Grid has been adopted.²

The connection procedure is straightforward; it consists of 12 successive stages and requires no state fee to be paid. However, it may take up to six months to obtain access.

In the same period, Uzbekistan has adopted the Law on Public-Private Partnership.³ Together with the renewable energy law, the PPP law creates a regulatory framework that will accelerate the implementation of renewable energy projects within the country.

In October 2019, Uzbekistan published its strategy for the transition to a green economy in the period to 2030.⁴ The strategy aims to fulfil the country's obligations under the Paris Agreement on climate change, which Uzbekistan signed on April 19 2017 and ratified on November 9 2018, and includes many laudable goals relating to emissions, energy efficiency and land use.

The strategy also targets achieving more than 25% of the total volume of electricity generation from renewables by 2030, which represents a sizeable increase from the current level of around 10%. The government has plans to build almost 10GW of new renewable energy facilities, including 5GW of solar, 3GW of wind and 1.9GW of hydroelectric power plants.

Uzbekistan has enacted a new Law on Investment & Investment Activities – Law No ZRU-598 dated December 25 2019 – whereby potential investors have a wide range of potential benefits available to them under an investment agreement with the government of Uzbekistan. Additionally, the process of investment project initiation/approval is being successfully streamlined.

In particular, the Law on Investment & Investment Activities has introduced: (i) a general requirement to perform public services to investors on a one-stop-shop basis; and (ii) some procedural alterations.

First, unlike the old law, the new law explicitly mandates the Ministry of Investments & Foreign Trade (the Ministry) to arrange assistance to investors and foreign capital enterprises on a one-stop-shop basis – at the Ministry itself or through Public Services Centers, territorial departments of the Investment Promotion Agency under the Ministry.

Second, procedural requirements are simplified, in that a foreign investor's application for conclusion of the investment agreement no longer has to include the opinions of relevant state bodies. These opinions are now collected by the Ministry independently, upon receiving the application from the foreign investor.

Solar programmes

Solar photovoltaic (PV) power generation is an important part of Uzbekistan's renewables strategy. Solar PV has the largest absolute growth of all renewable energy sources, according to the International Energy Agency.⁵

This robust solar PV growth is underpinned by increasing cost-competitiveness against other generation technologies, but policy support is also crucial. Uzbekistan is the latest success story of new governmental policies driving investment in solar PV generation.

As we have mentioned, Uzbekistan is targeting 5GW of solar PV generation capacity by 2030. Interestingly, for the first 2GW the country is pursuing two parallel programmes with different transaction advisers.

In August 2019, Uzbekistan signed a mandate with the Manila-headquartered Asian Development Bank on a programme to build a number of PV power plants with total capacity of up to 1GW with estimated cost of US\$800m.⁶

Then in October 2019, Uzbekistan also signed a mandate with the International Finance Corporation (IFC) to develop up to 900MW of solar power.⁷

Support from multilateral development banks is seen as crucial to driving the structuring and financing of large-scale solar PV projects in the country. Uzbekistan is the first country beyond the African continent to join the World Bank Group's Scaling Solar programme. The World Bank is also working with the Uzbek government on a grid code, tariff reform, renewable project development and investment strategy.⁸

Uzbekistan's first solar projects have attracted a lot of interest from international developers and investors. In March 2019, Uzbekistan attracted bids from 23 companies from Europe, Asia and the Middle East for a 100MW PV project in Navoi province.⁹

In October 2019, Uzbekistan announced that Masdar Clean Energy of the United Arab Emirates had been awarded the country's first competitively-tendered PV solar power plant to be implemented on PPP principles with the pricing coming in at around US\$0.027 per kilowatt hour,¹⁰ being the lowest price among emerging markets.

In November 2019, Masdar signed a power purchase agreement (PPA), Government Support Agreement and land lease agreement with the Government of the Republic of Uzbekistan to design, finance, build and operate a PV solar plant for a term of 25 years.

Since the beginning of this year, work has been ongoing to organise the second phase of tenders within the framework of the Scaling Solar II programme. A tender has been announced for the construction of the next two PV power plants, each with a capacity of 200MW, in the Samarkand and Jizzakh regions of Uzbekistan.¹¹ The government announced that over 80 companies are interested in bidding for these projects.

In January 2020, the Ministry of Energy of Uzbekistan issued a request of expressions of interest for the development and construction of a 200MW solar park in Sherabad, in Surkhandarya province.¹²

This project is part of the programme developed by the government of Uzbekistan with the support of the ADB, which is acting as transaction adviser. The project will include construction of a new 220kV substation and a 52km transmission line. To-date, 54 companies have submitted applications for participation in the tender, which demonstrates a strong growth of investor interest in renewable energy projects in Uzbekistan.¹³

Hydro and wind

There is no doubt that solar PV generation is grabbing the headlines in Uzbekistan, with other renewable technologies slower out of the blocks.

Uzbekistan already has some hydro generation assets and the European Bank for Reconstruction & Development (EBRD) is financing the rehabilitation of an existing hydro plant in the Tashkent region.

New hydro projects have been announced recently, including a 76MW plant in the Tashkent region to be financed by China Exim Bank and the Uzbekistan Fund for Reconstruction & Development (UFRD) and a 10.7MW project in the Sardoba reservoir with financing from the Russian Export-Import Bank (Rosexim).

Wind power generation has a future in Uzbekistan, with rumours that the EBRD is developing a 1GW programme targeting US\$1bn of investment.

In the first project out of the blocks under this programme, in mid-April this year the Ministry of Energy initiated the tender process for a 100MW wind power project in the Karakalpakstan region, with the EBRD acting as transaction adviser.

The Ministry of Investments & Foreign Trade is pursuing wind projects on a bilateral basis, having signed an agreement with Masdar for the construction of a 400MW wind power plant in the Navoi region.

Bright and breezy

Uzbekistan relies on coal, gas and oil generation, and imports hydro-electric power from Tajikistan. Alongside the push for renewable generation, Uzbekistan is pursuing an ambitious nuclear power strategy and has recently announced a US\$1bn upgrade project for gas-fired CCGT power generation assets in the south of the country, with funding from the ADB, EBRD and the UFRD.

However, there is no doubt that renewable power generation has a bright future in Uzbekistan with strong tailwinds of government enthusiasm, a steady flow of transactions and healthy appetite from investors.

Footnotes

- 1 – We gratefully acknowledge the input of Nail Hassanov of Kosta Legal in preparing this article.
- 2 – Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 610 dated 22.07.2019
- 3 – Law of the Republic of Uzbekistan No. ZRU-537 On Public-Private Partnership
- 4 – Resolution of the President of the Republic of Uzbekistan dated 04.10.2019 No. PP-4477
- 5 – <https://www.iea.org/reports/tracking-power-2019/solar-pv> (URL=<https://www.iea.org/reports/tracking-power-2019/solar-pv>)
- 6 – <http://www.uzdaily.com/en/post/51341> (URL=<http://www.uzdaily.com/en/post/51341>)
- 7 – <https://ifcextapps.ifc.org/IFCExt/Pressroom/IFCPressRoom.nsf/0/6384EE4A62B9B83D85258497005E6A16> (URL=<https://ifcextapps.ifc.org/IFCExt/Pressroom/IFCPressRoom.nsf/0/6384EE4A62B9B83D85258497005E6A16>)
- 8 – <https://www.worldbank.org/en/country/uzbekistan/overview#strategy> (URL=<https://www.worldbank.org/en/country/uzbekistan/overview#strategy>)
- 9 – <https://www.pv-magazine.com/2019/03/26/uzbekistans-100-mw-pv-tender-attracts-bids-from-23-companies/> (URL=<https://www.pv-magazine.com/2019/03/26/uzbekistans-100-mw-pv-tender-attracts-bids-from-23-companies/>)
- 10 – <https://ifcextapps.ifc.org/ifcext/pressroom/ifcpressroom.nsf/0/5C87A79D8A39A3AA85258489006187FB?OpenDocument> (URL=<https://ifcextapps.ifc.org/ifcext/pressroom/ifcpressroom.nsf/0/5C87A79D8A39A3AA85258489006187FB?OpenDocument>)
- 11 – Interest of foreign investors in renewable energy projects in Uzbekistan is growing <https://uzdaily.uz/en/post/55372> (URL=<https://uzdaily.uz/en/post/55372>)
- 12 – <https://www.powerengineeringint.com/2020/02/04/uzbekistan-launches-first-public-private-solar-project/> (URL=<https://www.powerengineeringint.com/2020/02/04/uzbekistan-launches-first-public-private-solar-project/>)
- 13 – Ibid (n. 9)

