



*It has been more than a year since the **Azerbaijan Energy Regulatory Agency (AERA)** presented its Associate Membership case to the meeting of the General Assembly of the Energy Regulators Regional Association (ERRA) that took place in Sochi in April 2018. It has already resulted in numerous international collaborations, ranging from establishing relations with other regulators and experience exchange to participation in seminars and mutual projects.*

*In the in-depth interview given by **Dr. Samir Akhundov**, the first Chairman of AERA, after the Agency was established in December 2017, Mr. Akhundov says that "the main focus of the Agency, which is growing rapidly, is on the relevant reform aiming at adoption of EU 3rd Energy package into national legislation".*

Dr. Akhundov, can you please tell us about the Azerbaijan Energy Regulatory Agency and where does AERA stand at the moment in terms of institutional development and growth trajectory?

AERA focuses on the interests of stakeholder groups such as the government, energy companies and consumers. Since establishing on 22 December 2017, by relevant Presidential Order, we have applied for all the documentation required to register the Agency, followed by the renting of the well-established corporate office located in the business district of

Baku. After liquidation of two state bodies under the Ministry of Energy as the State Energy Control Administration and the State Gas Control Administration, their functions were assigned to AERA. For this reason, we have two key responsibilities. The first one is regulatory oversight and the second one is energy control function. Within our energy control function, we stick to the activities that were carried out by the liquidated organization.

According to Mr. Akhundov, these activities could not be stopped, so the Agency had to restart them quickly after launching its operation.

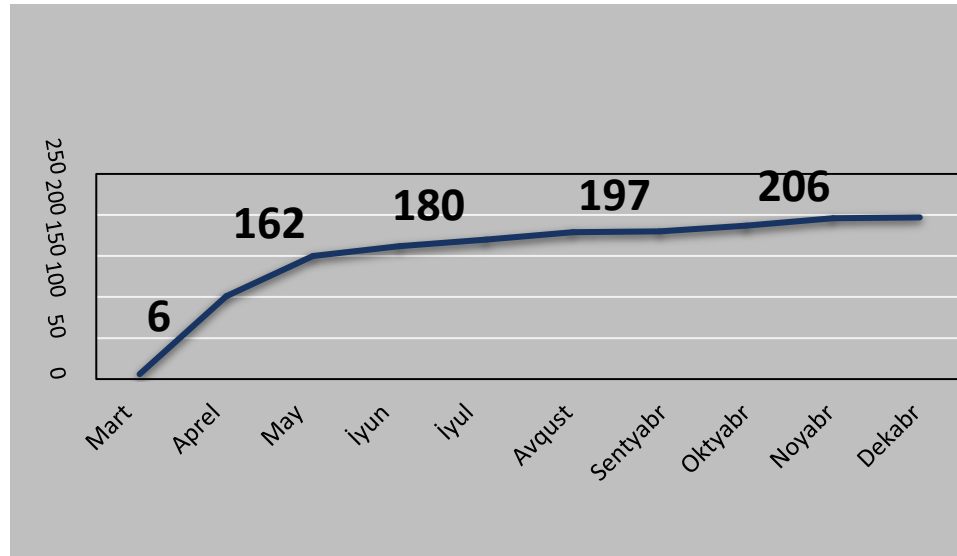
We have made a lot of progress since then. The Agency has 11 regional branches, operating throughout the country. We also have 13 units to support its activities in different fields, such as the Economic Analysis, Tariffs and Statistics Unit, investment department, technical norms department etc. I would also like to emphasize that we significantly improved transparency and created improvement for easy access to electrical energy and natural gas networks. We also decreased the number of requirements for connection to grid for electricity from 35 items to 8. As for the appeals we are receiving from consumers, there are 1575 applications and inquiries registered in the first and second quarters of 2019, most of which have already been positively resolved.

We held a number of meetings with state utilities such as Azerishig and Azerigaz where our central focus was on quality of supply.

One aspect of Agency's growth is its workforce. How do you plan the professional development of the employees?

In the first quarter of 2018, we carried out an extensive recruitment process to which we attracted qualified employees with existing energy industry experiences, as well as young talents with matching skills. Our workforce has increased from 6 to 210 employees in less than two years after launch and we have grown into a national team with operations in eleven regions of Azerbaijan. Currently the Agency has a great team of professionals.

Graph 1. Staff growth in 2018



AERA experts regularly participate at various seminars, workshops, roundtables, trainings, specialised courses on energy market reforms, clean energy, energy losses, energy efficiency simulation, tariffs, business analytics and audit.

For example, in June 2019 our experts participated in the sessions and meetings held in the Philippines within the framework of the ACEF. It was a very fruitful and productive event in terms of experience exchange. During a visit to Manila we also learned about international best-practice and the Malaysian experience in the energy sphere. While on a study tour to Bucharest, on the other hand, our team met with their Romanian counterparts, visited Regulatory Agency, national operator and TSO and learned the Romanian practice of energy transmission as well as its wholesale electricity market. These trips are definitely valuable in terms of implementation of practical knowledge in the newly-formed Azerbaijani market.

Picture 1. AERA visiting ANRE in Bucharest, Romania



Azerbaijan is about to embark on a set of regulatory reform measures aiming at transposing EU 3rd Energy package into national legislation. Within the scope of the reform, AERA is currently drafting the Law on Regulation. In your opinion, what are the key measures characterizing this reform?

True, we have made a good progress in drafting the Law and we are currently finalizing it. Within the next months we are expecting to receive comments from other stakeholders in order to be able to submit the draft to the parliament later. According to current regulation, tariff decision is made by Azerbaijan's Tariff Council which is a state body within the Ministry of Economic Development. With our current charter, we have to propose tariffs to the Tariff Council that is making an official decision. In

the new law, we have considered a transition period where tariff decision will be transferred to the regulator. Obviously, tariff is one of the key elements of the regulation and it is clear to all stakeholders that it is necessary to be determined by the Regulatory Agency.

AERA has started a cooperation with EBRD and the Asian Development Bank in order to deal with the legal and institutional reforms.

As a part of our collaboration with EBRD, the Minister of Energy of the Republic of Azerbaijan initiated a respective law on regulation to enable the Regulator to effectively perform its duties. In 2018, as a result of the bidding process carried out by EBRD to select the consultancy, we secured the contract with DNV GL. Our partnership with the Asian Development Bank based on developing and drafting tariffs for electricity regarded the entire energy supply chain. It included generation, as well as transmission and distribution of the energy. For this purpose, we adopted the best practice of calculations from a similar market environment in countries of Eastern Europe, as well as in the CIS. We hope that by the end of 2019 we will create a new tariff methodology based on allowed revenue which is in compliance with an international and EU practice.

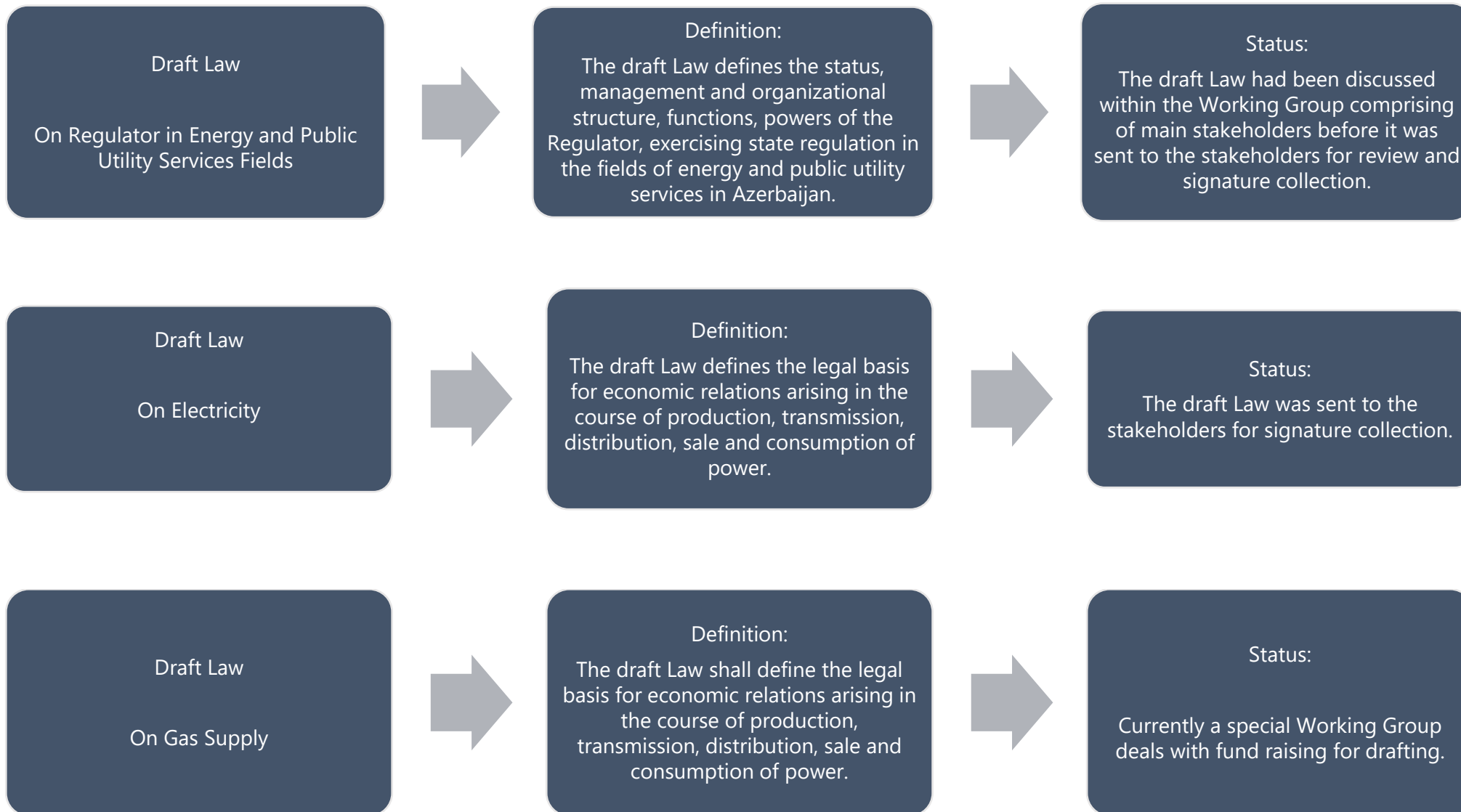
Mr. Samir Akhundov assumes that the Agency has come a long way in order to initiate and develop legal and institutional reforms to support the regulatory body within the frame of the 'Support for the Functioning of the Energy Regulatory Agency' Project.

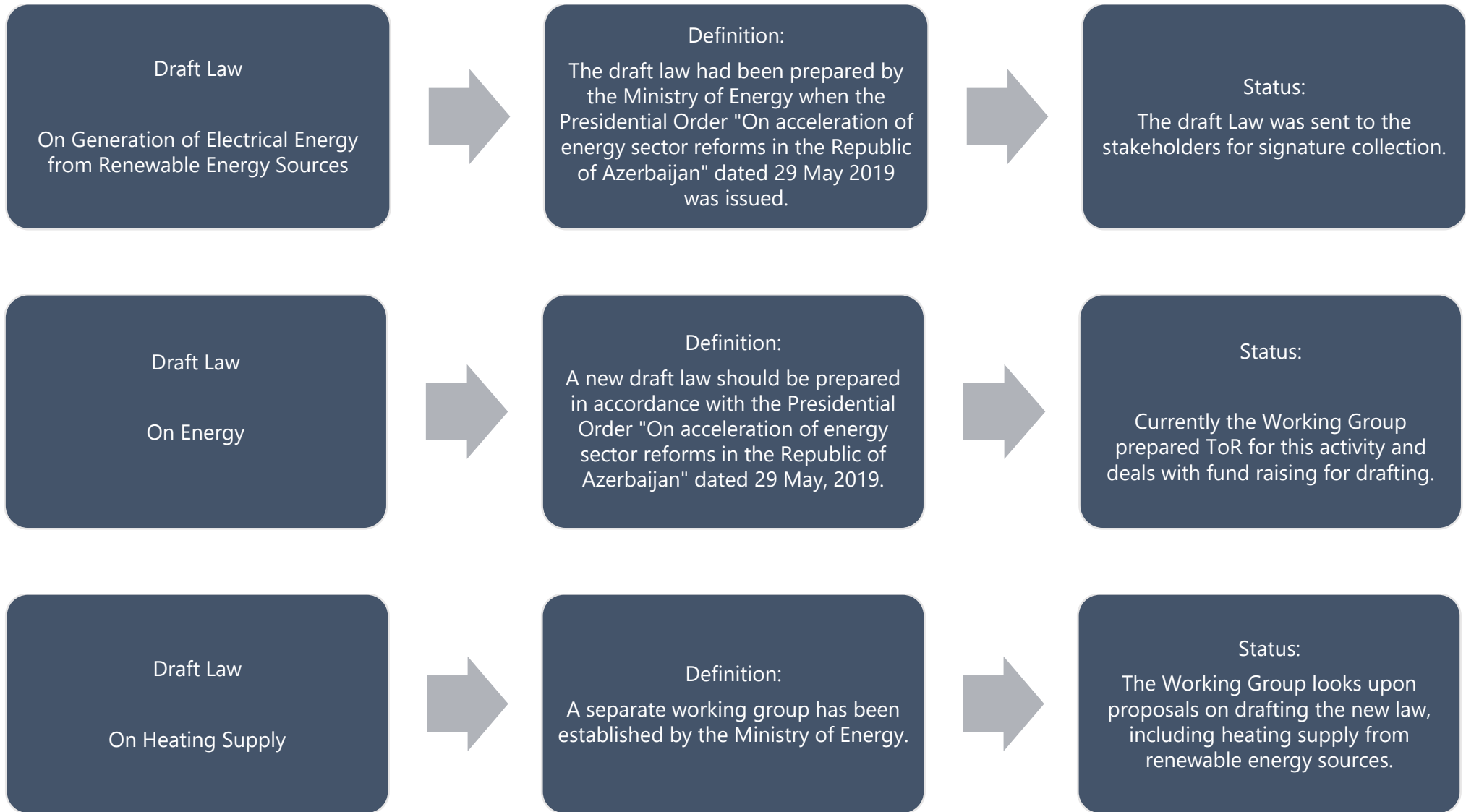
At present, our focus is to ensure that the adoption of such a law will set in motion a relevant reform. Moreover, we have created a special working group consisting of competent team members, tasked to prepare a legal basis that would provide a framework for AERA, that would be consistent with the EU model of energy regulation (Law of the Republic of Azerbaijan 'On Regulator in Energy and Public Utility Services Fields').

The group is going to propose relevant amendments to the existing primary and secondary legislation to ensure consistency with the proposed legal framework in accordance with the Terms of Reference (ToR) signed with the European Bank for Reconstruction and Development (EBRD).

Mr. Samir Akhundov explains that although Azerbaijan is not a member of the EU-oriented Energy Community AERA is in a need of benefitting from European experience, even though it is not obliged to do so.

Presidential Order 'On acceleration of energy sector reforms in the Republic of Azerbaijan', which came into effect on 29 May 2019, guarantees development of applicable laws and implementation of reforms. Speaking of rules, we are also working on the important acts of secondary legislation. This may imply the Network Code in the electric power industry, simplification of licensing procedures etc.





Such fundamental structural reforms proved to be challenging to be implemented in a number of ERRA member organizations. What are AERA's biggest milestones which have to be achieved in order for the reform process to be successful?

At this stage, the biggest common milestone to achieve is the mentioned Law 'On Regulator in Energy and Public Utility Services Fields', which is going to be a fundamental political law regulating the energy sphere. Under instructions of the Ministry of Energy of Azerbaijan we created a special Working Group to prepare a draft law on Energy and drafts and amendments of three field laws on the Electricity, Gas Supply and Heating. As for the field laws, the drafts define the legal basis for economic relations arising in the course of production, transmission, distribution, sale and consumption of electric power, natural gas and heating. It also outlines the scope of authorities of state bodies, which regulate the power sector and the rights and obligations of its participants. Another key stipulation aims at ensuring facilitated access for energy producers and consumers as well as efficient use of energy resources and providing consumers with reliable, sustainable, qualitative, accessible and secure energy.

Mr. Akhundov says that the President of Azerbaijan signed a decree on 29 of May 2019 on speeding up reforms in the energy sector and with respect to that the of number of legal documents being written currently is considerable. These are the Law on Regulator in Energy and Public Utility Services Fields, On Electricity, On Gas Supply, On Generation of Electrical Energy from Renewable Energy Sources, On Energy and On Heating Supply.

In addition, I would like to mention that we are living in interesting times, in times of reforms. To have the same understanding of regulation as in international practice, first we need to create a local basis that is made of competitive energy market. Currently we don't have unbundling. We have generation and transmission, as well as distribution and supply managed within the same entity. A new electricity law will stimulate reforms, and eventually will allow to unbundle generation and transmission. We will support independent power producers, as well as will step into privatization of existing power generation facilities. We are also inviting investors to take part in building up conventional power plants as well as windfarms and solar power plants. We are working intensively on opening a new page in history of renewable energy in Azerbaijan. We believe that Azerbaijan energy market has a promising future in the field of renewable energy and reforms in the energy sector will greatly contribute to this industry.