



Azerbaijan on the Way to Market Liberalization: Challenges and Opportunities

Sarin Abado

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Diplomatic Academy Vienna

1. Azerbaijan's Energy Sector: Status Quo & Strategic Outlook

2. Planned Energy Market Reforms

3. Challenges and Opportunities

1. Azerbaijan's Energy Sector: Status Quo & Strategic Outlook

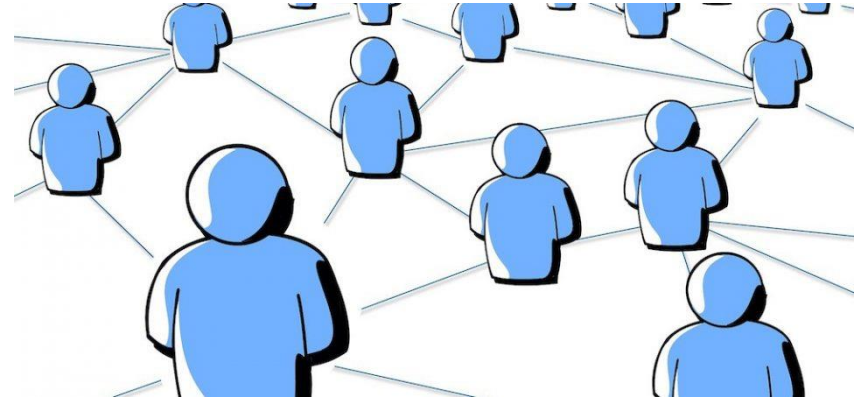
- > Production and export of oil and gas is central to Azerbaijan's economy
- > Energy sector is mostly government owned
- > Vertically integrated monopolies dominate the sector
- > Electricity and gas networks could be in better shape
- > „Social dimension“ prevails in tariff setting



- > Azerbaijan adopted a Strategic Roadmap for the Public Utilities Sector in 2016
- > It aims at reducing inefficiencies in the energy sector
- > “Appetite” for reforms partly stem from period of low oil prices

2. Planned Energy Market Reforms

- > Azerbaijan is planning a big step towards liberalizing its electricity market
- > A law is currently being drafted to introduce market opening
- > Contains rules for unbundling, third party access and need for an energy regulatory authority
- > It resembles European electricity market laws



- > An Energy Regulatory Authority was established through Presidential Decree at the end of 2017
- > The authority operates under the Ministry of Energy since 1 March 2018
- > A law defining the tasks and responsibilities of the authority still needs to be drafted
- > Meanwhile, the authority is hiring staff, designing its organizational structure and fulfilling preliminary tasks

3. Challenges and Opportunities

- > Introducing market liberalization is a paradigm shift and requires roles and powers of current actors and institutions to be redefined
- > Azerbaijan's agenda is very ambitious, a high degree of liberalization is envisaged right from the start
- > Finding the right sequence of steps in the process remains challenging

Market opening is a complex task and does not happen over night

1st phase

- Gradual introduction of competition
- First unbundling requirements
- No regulator

2nd phase

- Introduction of third party access
- Further unbundling
- Requirement to establish independent regulators

3rd phase

- Further unbundling
- Extension of powers, duties and independence of regulators

- > Unbundling, i.e. the separation of production, transmission/distribution and supply will lead to more transparency and allow new players to enter the market
- > Network Tariffs will contain justified costs and ensure reliable quality of supply
- > The Energy Regulator will monitor the market players and ensure that the rules of the game are correctly enforced

Moving away from a monopoly market towards competition will bring more efficiency to the sector

Without liberalization, private households and small businesses would have paid € 10bn more for electricity and € 1.3bn more for natural gas between 2001 and 2009

THE EFFECTS OF LIBERALIZATION 2001-2009 (billion Euro)

	Electricity	Gas
Industry	8.90	1.20
Households	1.30	0.08
Total	10.20	1.28

calculated by: Kratena, K. (2011), Gesamtwirtschaftliche Effekte der Energiemarktliberalisierung in Österreich, Mimeo, Vienna.

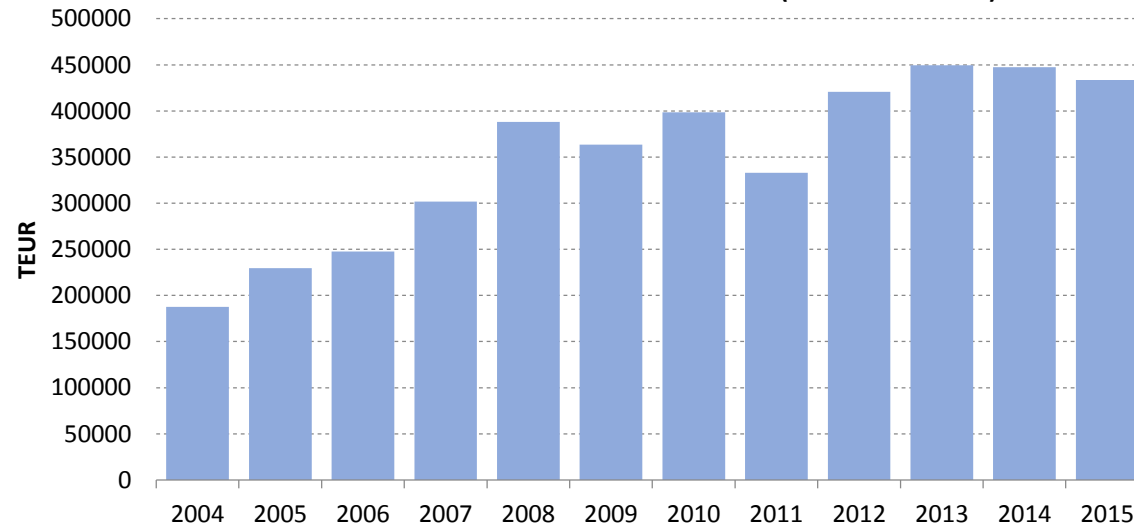
Grid tariffs for electricity and natural gas were reduced by € 640m

Security of supply has been very high

Investments rose significantly

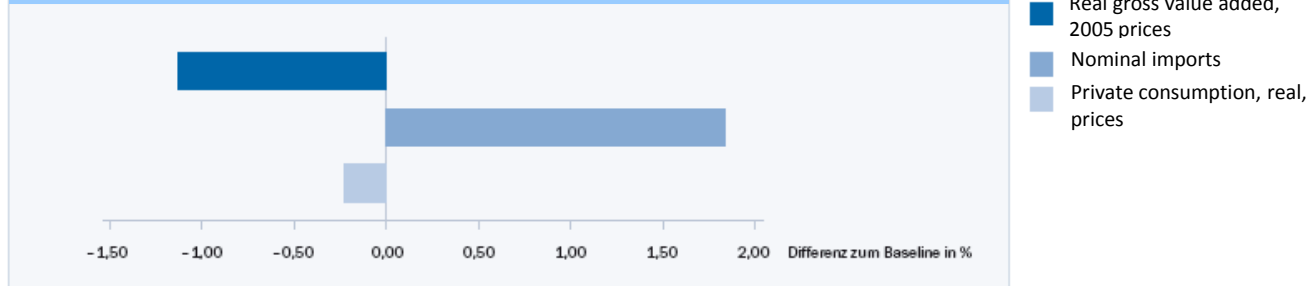
Development of net investments

(source: E-Control)



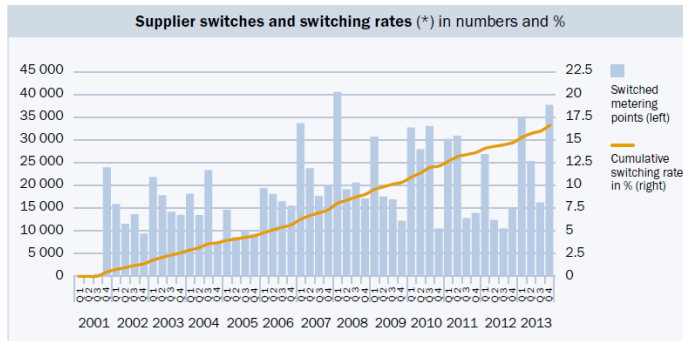
- Without liberalization, there would be 3000 fewer jobs
- Without liberalisation, GDP would be 1% lower

Change in GDP



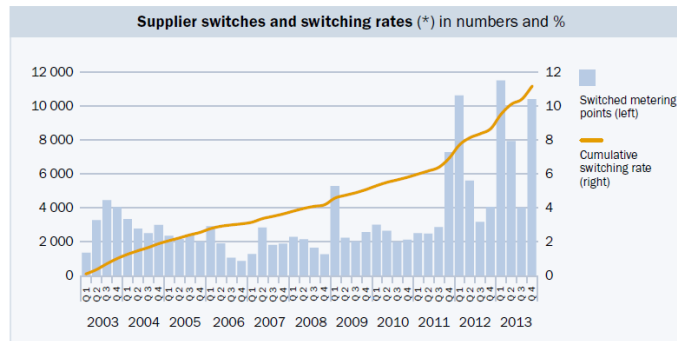
Customers are choosing their suppliers

THE EFFECTS OF LIBERALISATION: ELECTRICITY SWITCHING RATES



(*) By number of metering points

THE EFFECTS OF LIBERALISATION: GAS SWITCHING RATES



(*) By number of metering points

Thank you for your attention

SARIN ABADO



+43 1 24724 806



sarin.abado@e-control.at



www.e-control.at

Energy for our future.

E-Control

Rudolfsplatz 13a, 1010 Wien

Tel.: +43 1 24 7 24-0

Fax: +43 1 247 24-900

E-Mail: office@e-control.at

www.e-control.at

Twitter: www.twitter.com/energiecontrol

Facebook: www.facebook.com/energie.control

