

2023

Depicting the field of electricity supply, its functions and features

# **ELECTRONIC INFORMATION BOOKLET**

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## Introduction

This brochure has been prepared in accordance with the Roadmap 2022-2023 (Subsection 1.1.1.1) of the World Bank Group's Enabling Business Environment project on the implementation of improvements in the area related to the "Connectivity to utilities (electricity supply network)" indicator.

When the names of laws and state bodies are mentioned in this booklet, the laws and state bodies of the Republic of Azerbaijan are understood accordingly. Therefore, the words "Republic of Azerbaijan" are abbreviated in the text.

Normative-legal regulation of the electric power sector of the Republic of Azerbaijan  
If there are changes in the obligations, these changes will be reflected in this Booklet.

At the time of publication of this booklet, the "Law on Electricity" dated March 4, 1998 and numbered 459-IQ (<https://e-qanun.az/framework/3524>) has not yet come into force, and the "Law on Electricity" dated November 4, 2023 and numbered 858-VIQ (<https://e-qanun.az/framework/54209>) has been prepared on the assumption that it will come into force in 2024.

## 1. Description of the power supply

The Law of the Republic of Azerbaijan No. 541-IQ dated 24.11.1998 on "Energy" and No. 459-IQ dated 03.04.1998 on "Electric Power", valid until 01.01.2024 (<http://e-ganun.az/framework/3524>), does not define the terms "energy supply" or "electric power supply". However, in the latter, the following terms are provided: "**Energy supply enterprise** - a legal entity that supplies energy to the population and other consumers on the basis of a special license"; "**Energy supply network (distribution network)** - a set of electrical installations designed for distribution of electric energy, including substations with voltage of 110 kV and below and energy transmission lines that do not belong to the transmission network".

Thus, an examination of the 1998 legislation shows that the term "supply" in that legislation refers to the distribution of electricity, electricity and directly to the transmission network. Simultaneous transmission is understood in relation to connected consumers. In the 2023 legislation, however, this approach has changed radically.

Thus, Law No. 858-VIQ of 11.04.2023 on "Electricity" (<https://e-ganun.az/framework/54209>), the related terms are defined as follows

"1.1.18. **Electric energy supplier (supplier)**- an electric energy entity that supplies consumers with electric energy;

1.1.33. **supply of electricity** – electricity to consumers of electricity sale on the basis of supply contracts".

As can be seen from this provision, the new legislation incorporates the directives and regulations included in the set of documents of the European Union called the "Energy Package". The language has been adapted to the established term "supply", understood as surplus sales, including resale.

In addition, "**On Electric Power**" No. 858-VIQ dated 11.04.2023. The law (<https://e-ganun.az/framework/54209>) does not require the seller to have a network.

At the same time, unlike the 1998 Act, Article 1.1.26 of the Act mentions the supplier as a separate entity in the list of "entities of the wholesale electricity market".

In addition, to provide services to consumers that are not exempt in that Act. The specific type of supplier is also mentioned: "1.1.58. **Authorized supplier** - a legal entity that supplies electricity to non-exempt consumers and also to eligible consumers pursuant to Article 19.8 of this Law". (For information: "19.8. Electricity supply to independent

*consumers who do not use the right to choose a supplier or in the cases stipulated in Article 19.9 of this Law is carried out by an authorized supplier based on the price (tariff) determined under Article 9 of this Law. 19.9. The suspension of the activity of the electricity supplier or the suspension or revocation of its license may not result in the interruption of the supply of electricity to the consumer. In such cases, the consumer's change of supplier is governed by the rules of the retail market").*

Regarding the supply of electricity, the rights and control of the Supplier are defined in this Act:

### ***"Article 18. Electricity supply***

*18.1. An electricity supplier engages in the wholesale or retail sale of electricity.*

*18.2. Electricity supplier Transmission and distribution of electricity cannot engage in activities.*

*18.3. Electricity supply Transmission or distribution of electricity is a legally and economically independent activity.*

*18.4. The transmission and distribution system operator, as well as the persons participating in its management or decision-making process, have the right of ownership or use of the property of the electricity supplier, or to participate in the formation of the composition of the management bodies of the electricity supplier or in the decision-making process of those bodies. Have the right and cannot conclude contracts for this purpose.*

*18.5. The duties of the electricity supplier are as follows:*

*18.5.1. a written document issued in accordance with the requirements of normative legal acts and normative acts regulating the electric energy sector, as well as in accordance with Article 6.4 of this Law follow the instructions;*

*18.5.2. The official website of the conditions of electricity supply by consumer groups publish on the site;*

*18.5.3. The rights and duties of consumers, as well as free consumers explain the right to choose an electricity supplier;*

*18.5.4. 1 (one) month before the date foreseen to change the terms of the contract concluded with the consumer (except for non-independent consumers) on his/her own initiative provide (send) a notification to the consumer about this;*

*18.5.5. the relevant executive power body to the legislative body (institution [Ministry of Energy], regulator, market operator,*

*transmission and (or) distribution system operator with whom the contract is concluded in accordance with section 28.2 and the producer of electricity, determined by the wholesale market rules on the operation of the electricity market to submit reports and information;*

*18.5.6. to the consumer each month, unless stipulated in the contract concluded with the transmission or distribution system operator pursuant to Article 28.2 of this Law provide an account of the cost of electricity;*

*18.5.7. as a result of the failure to supply electricity in the required quantity and quality in accordance with the provisions of the electricity supply contract concluded with the consumer compensate the consumer for the damage suffered.*

*18.6. The rights of the electricity supplier are as follows:*

*18.6.1. transmission by transmission and/or distribution system operators, or request the provision of distribution services;*

*18.6.2. the electricity consumed according to the invoice presented to the consumer to demand payment of the energy cost.*

*18.7. An authorized supplier is determined by the body (institution) designated by the relevant executive authority for the implementation of electricity supply to non-exempt consumers and independent consumers referred to in Article 19.8 of this Law.”.*

*In addition, the rights and duties of the provider with respect to the consumer are explained in the article of the said Law on consumers as follows:*

*19.1. The supply of electricity to consumers is carried out by suppliers.*

*19.2. Supply of electricity to eligible and non-eligible consumers features are regulated by the rules of the retail market.*

*19.3. An eligible consumer has the right to purchase electricity from any supplier operating in the country. Only non-free electricity consumers they buy from an authorized supplier.*

*19.4. The Supplier sells wholesale or retail electricity to independent consumers without regional restrictions. Bilateral contracts for the supply of electricity to eligible consumers, purchase and sale contracts concluded in the central market or electricity supply contracts concluded with a supplier in the retail market based on*

*19.5. The supply of electricity to non-eligible consumers is carried out only by the authorized supplier operating in the region where the consumer is located on the basis of uniform contracts concluded between them.*



19.6. *The duties of the consumer of electricity are as follows:*

...

19.6.2. *energy consumption determined by the electricity supply contract to follow regimes;*

...

19.6.4. *value of electricity consumed, electricity supply to pay the supplier according to the terms of the contract;*

...

19.7. *The rights of electricity consumers are as follows::*

19.7.1. *connect to electricity networks in accordance with the requirements of this Law;*

19.7.2. *contract conditions, tariffs (prices) before concluding a contract with the supplier to get information about;*

19.7.3. *the quality stipulated in the electricity supply contract to be provided with reliable and continuous electricity according to its indicators;*

...

19.7.4. *as a result of failure to supply electricity in the agreed volume or of low quality in accordance with the terms of the electricity supply contract demand compensation for damages from the supplier;*

19.7.5. *to receive the information specified by this Law from the supplier;*

19.7.6. *payment methods for electricity offered by the supplier and choose one of the systems.*

19.8. *Electricity supply to independent consumers who do not exercise the right to choose a supplier or in the cases provided for in Article 19.9 of this Law is an authorized supplier based on the price (tariff) determined under Article 9 of this Law is carried out by.*

19.9. *The suspension of the activity of the electricity supplier or the suspension or cancellation of its permit cannot lead to the suspension of electricity supply to the consumer. In these cases, the consumer changes the supplier according to the rules of the retail market regulated.*

...

19.11. *Terms of the electricity supply contract with the supplier determined according to the rules of the retail market.*

19.12. *When the supplier wants to change the terms of the electricity supply contract it has concluded with eligible consumers, it must notify them 1 (one) month before the date of*

*the proposed change and include in the notification the right of these consumers to terminate the contract concluded with it in accordance with civil legislation. Eligible consumers may terminate the electricity supply contract if they do not accept the new conditions offered to them by the supplier”.*

*Even if the provider concludes a contract with the consumer, it is understood from the aforementioned provisions that the transmission (delivery) of electricity to the consumer is carried out by the transmission or distribution system operator, depending on which network the consumer's electrical equipment is connected to.*

*It is known that transmission and distribution networks are a natural monopoly in the electric power sector objects.*

In addition, the principles of activity of the supplier in the retail market are also regulated in the mentioned Law as follows:

*28.1. The supplier in the retail market operates on the basis of the following principles shows :*

*28.1.1. implementation of permit-based electricity supply ;*

*28.1.2. electricity supply to this Law and retail market regulations appropriate implementation ;*

*28.1.3. on the basis of contracts concluded with consumers of electricity supply implementation.*

*28.2. The electricity supply of a consumer who has concluded an electricity supply contract with a supplier is carried out realized on the basis of the contract concluded between that supplier and the transmission system operator or distribution system operator”.*

*The second paragraph of Article 4 of the Law "On Natural Monopolies" (<https://e-ganun.az/framework/5038>) defines natural monopolies as follows: “**natural monopoly** - the state of the goods market in which demand satisfaction is more efficient in the absence of competition due to the technological characteristics of production, and the good produced (sold) by monopoly subjects cannot be replaced by another good in consumption”. In the field of electric power, both transmission and distribution networks correspond to this concept.*

*The third paragraph of that article defines the subject of natural monopoly as follows: “**natural monopoly subject** - an economic subject engaged in the production (sale) of goods under conditions of natural monopoly”.*

*Considering the above, by Cabinet of Ministers Decision No. 189 dated 19.07.2013 According to the approved "List of Natural Monopoly Subjects", " (<https://e-ganun.az/framework/26296>) "Azerenerji" OJSC (paragraph 8) and "Azerishiq" OJSC (paragraph 18) were classified as natural monopoly subjects.*



“ According to Article 14.1 of the Law on Effective Use of Energy Resources and Energy Efficiency (<https://e-qanun.az/framework/48129>), “The body (institution) determined by the relevant executive authority is the transmission of electricity, natural gas and heat energy , transportation, as well as on the basis of the evaluation of efficiency indicators in their distribution systems, determines the range of energy efficiency measures and ensures the implementation of the following.” The measures mentioned in Article 14.1 of that Law "14.1.1. stimulation of energy efficiency measures; 14.1.2. making proposals for the formulation of tariff policy that stimulates energy efficiency; 14.1.3. includes the implementation of measures aimed at reducing costs at the expense of production capacities and a more optimal operating mode of the system".

Furthermore, according to Article 12 of this Law, the energy provider is obliged to provide consumers with information on the energy consumed "12.1.1. consumption data covering at least the last three years and adjusted for regularly submitted reporting periods; 12.1.2. consumption data for any period (month and year) transmitted from a smart meter through a modern internet network or obtained from the interface of the meter". According to Article 12.2 of that Law, the energy supplier "12.2.1. provides information on consumed energy to the consumer and, with the consumer's consent, to the energy efficiency service provider in a form that is regular, easy to understand and allows for comparison with a similar period; 12.2.2. provides the opportunity to send information on energy consumption to consumers in electronic form, as well as providing them with a clear and understandable explanation of the energy they consume based on their request; 12.2.3. *informs consumers about the functions of the smart meter and how to use it*; 12.2.4. *ensures the protection and confidentiality of consumer data*".

Thus, according to the legislation of the Republic of Azerbaijan, electricity supply can be carried out through transmission and distribution networks with natural monopoly objects, as well as through the network of a producer without a natural monopoly object. However, the relations between "Azerenerji" OJSC, which is the transmitter of electricity, and "Azerishiq" OJSC, which is the distributor of electricity, in addition to the legislation, the Decision of the Cabinet of Ministers No. 138 dated 17.09.2007 (<https://e-qanun.az/framework/13595>) is regulated by the Electricity Purchase Agreement between "Azerenerji" OJSC and "Azerishiq" OJSC. This agreement is intended to be adapted to the "Law on Electric Power" No. 858-VIQ of 11.04.2023 (<https://e-qanun.az/framework/54209>).

## 2. Description of the functions of the electric power supply

This section describes the functions of the electricity supply, for example, the role in determining tariffs, the objectives of the quality of service.

858-VIQ "Electricity Related" dated 11.04.2023 it was established in the aforementioned Article 18 of Law no. (<https://e-qanun.az/framework/54209>).

At the same time, in connection with the Presidential Decree No. 1750 dated 22.12.2017 (<https://e-qanun.az/framework/37363>), electricity supply was not allowed. In paragraph 2.2 of the "**Regulation of the Energy Regulatory Agency**" (hereinafter - the **Regulation of the Agency**) approved by the said Decree, the activities (functions) of the Agency are determined as follows:

2.2. The agency operates in the following directions:

2.2.1. *in the formulation of a unified state policy in the relevant field and the implementation of this policy participates in practice;*

2.2.2. *applicable legislation, including the protection of consumer rights supervises compliance with legislation in the field;*

2.2.3. *to ensure effective use of energy resources and energy efficiency of enterprises operating in the relevant field and to prevent or reduce the negative impacts of energy activities on the environment. Supervises the implementation of measures in accordance with the norms;*

2.2.4. *increasing the favorable investment environment in the relevant field, as well as international taking into account the experience, it ensures the development of stimulating mechanisms for investment attraction in those areas;*

2.2.5. *manufacturers, suppliers, transmitters, distributors and consumers in the relevant field looks at disputes between;*

2.2.6. *"On regulation of inspections conducted in the field of entrepreneurship and protection of interests of entrepreneurs" is provided for in the Law of the Republic of Azerbaijan conducts inspections in the appropriate field in cases and order;*

2.2.7. *makes recommendations regarding the establishment of price (tariff) policy in the relevant field;*

2.2.8. *takes measures to create a healthy competitive environment in the relevant field and increase the efficiency of energy production".*

The tasks arising from these directions of activity are explained in paragraph 3.1 of the Agency's Charter, as well as in the "**Regulation on the implementation of control in the field of electricity and heat energy, as well as gas supply**" approved by Presidential Decree No. 204 dated 07.16.2018. This Regulation is intended to be adapted to the Law No. 858-VIQ dated 11.04.2023 "**On Electric Power**" (<https://e-qanun.az/framework/54209>).

### 1.1. Determination of tariffs

"According to Article 2.1.4 of the "**Law on Regulated Prices**" (<https://e-qanun.az/framework/2335>): "2.1.4. A regulated price is a price whose level is set by the relevant executive body.

As stated in clause 8.1 of the "Rules for the use of electricity" (<https://e-qanun.az/framework/7419>) approved by the Cabinet of Ministers Resolution No. 18 dated 02.02.2005: "*The transmission of electricity from the state electric power utility to the energy supply organization, from the energy supply organization to the subscriber, from the subscriber to the subscriber, is carried out only according to the electricity purchase and sale contract concluded between the parties and according to the electricity tariffs determined for them.*". However, it should be taken into account that the Law No. 858-VIQ dated 11.04.2023 "On Electric Power" (<https://e-qanun.az/framework/54209>) does not provide for the rules of use. Therefore, the Regulations approved by the Council of Ministers Decree No. 18 dated 02.02.2005 are expected to be repealed upon the entry into force of the Law and the Electricity Network Regulation.

At the same time, the "**List of goods (works, services) whose prices (tariffs) are regulated by the State**" approved by the Council of Ministers Decree No. 178 dated 28.09.2005 (<https://e-qanun.az/framework/11342>) and "Electricity" (Clause 1) relates to goods (products) whose prices are regulated.

In addition, the Law "On Regulated Prices" (<https://e-qanun.az/framework/2335>) in the field of regulated prices according to Article 2.1.6 is "Regulatory body - the appropriate executive power body that implements the state regulation of prices". According to Article 2.1.2 of that Law: "State regulation of prices is determination of prices by influencing the process of formation and application of prices through legislative, administrative and financial-budgetary measures."

At the same time, in Article 9 of the Law No. 858-VIQ dated 11.04.2023 "**On Electric Power**"

(<https://e-qanun.az/framework/54209>), the tariffs are specified as follows:

**"Article 9. Prices (tariffs) in the electric energy sector**

- 9.1. Regulated prices and tariffs in the electric energy sector are set by the regulator.
- 9.2. Prices and tariffs regulated in the electric energy sector are as follows:
  - 9.2.1. electricity transmission tariffs;
  - 9.2.2. electricity distribution tariffs;
  - 9.2.3. tariffs of services of the market operator;
  - 9.2.4. prices of connection services to transmission and distribution networks;
  - 9.2.5. the supply of electricity by an authorized supplier to non-free consumers and also to eligible consumers referred to in Article 19.8 of this Law rates.
- 9.3. Prices (tariffs) in the electric power sector fully cover the justifiable costs of transmission and distribution of electricity by electric power subjects, ensure the development of electric power and promote socio-economic development.
- 9.4. Determination of regulated prices (tariffs) in the electricity sector rules are approved by the regulator and published on the official website.
- 9.5. The losses to be taken into account during the determination of prices (tariffs) in the electric energy sector in accordance with the rule specified in Article 3.1.5 of this Law is calculated.
- 9.6. Formation of market prices in the wholesale electricity market mechanisms are based on the following:
  - 9.6.1. demand and supply based on the price offers of electricity buyers and sellers balance;
  - 9.6.2. determination of prices by the parties to the electricity purchase and sale contract.
- 9.7. Price offers and price formation in the wholesale market determined by wholesale market rules and balancing rules.
- 9.8. In the bilateral contracts market, buyers and sellers of electricity offer bilateral contract terms and prices."

In addition, Presidential Decree No. 341 dated 26.12.2005 (<https://e-qanun.az/framework/11239>) approved by Part 1 of the "**Regulation of the Tariff (Price) Council of the Republic of Azerbaijan**". In accordance with Article 1.1 of this Regulation, "The Tariff (**price**) Council of the Republic of Azerbaijan (hereinafter - **the Council**)



implements the state regulation on prices (tariffs), except in cases determined by the President of the Republic of Azerbaijan. , service fees, collections (hereinafter - **price**), is a collegiate body implementing the state regulation". However, at the same time, the prices (tariffs) regulated in the transitional provisions of Law No. 858-VIQ dated 11.04.2023 "On Electric Power" (<https://e-qanun.az/framework/54209>) are regulated as follows:

*"42.3. In the first stage, the following measures are planned to be implemented:*

*42.3.5. transmission of electricity by the body (institution) [Tariff Council] determined by the relevant executive authority, wholesale and retail prices (tariffs) of electricity (except for the price of electricity sold under bilateral contracts), as well as prices of connection services to transmission and distribution networks regulation;*

*42.5. In the second stage, it is planned to implement the following measures:*

*42.5.6. regulation of prices and tariffs provided for in Article 9.2 of this Law by the body (institution) determined by the relevant executive authority".* As can be seen from that article, starting from 2028, regulated prices (tariffs) in the electric power sector will already be regulated by the regulator.

Thus, the tariffs for electricity are explained in the transitional provisions of the Law No. 858-VIQ dated 11.04.2023 (<https://e-qanun.az/framework/54209>) "On Electric Power" Tariff for the 1st and 2nd stages (price) is determined by the Council.

The dynamics of electricity prices over the years follows the Tariff (price) Council it is seen from the decisions:

1. Decision No. 3 dated 06.01.2007  
(<http://www.tariffcouncil.gov.az/?/az/resolution/view/6/>);
2. Decision No. 11 dated 14.07.2016  
(<http://www.tariffcouncil.gov.az/?/az/resolution/view/157/>);
3. Decision No. 17 dated 28.11.2016  
(<http://www.tariffcouncil.gov.az/?/az/resolution/view/163/>);
4. Decision No. 9 dated 30.06.2021  
(<http://www.tariffcouncil.gov.az/?/az/resolution/view/215/>);
5. Decision No. 14 dated 16.10.2021  
(<http://www.tariffcouncil.gov.az/?/az/resolution/view/220/>).

## DYNAMICS of local electricity tariffs

Serial No	The name of the services	Tariffs are in pennies per 1 kWh (with VAT).				
		Dates and numbers of decisions				
		06.01.2007 ,№23	14.07.2016,№11	28.11.2016,№217	30.06.2021,№29	16.10.2021,№214
	<b>Entered into force</b>	08.01.2007	15.07.2016	01.12.2016	01.07.2021	01.11.2021
I.	Wholesale rates					
1.1.	Production of "Azerenerji" OJSC	<b>4,1</b>	<b>4,3</b>	<b>5,7</b>	<b>5,7</b>	<b>6,6</b>
1.2.	Production of private small hydropower plants	<b>2,5</b>	<b>2,5</b>	<b>5</b>	<b>5</b>	<b>5</b>
1.3.	Production of wind power plants	<b>4,5</b>	<b>4,5</b>	<b>5,5</b>	<b>5,5</b>	<b>5,5</b>
	On other alternative and renewable sources			<b>5,7</b>	<b>5,7</b>	<b>5,7</b>
	On alternative sources					<b>6,6</b>
II.	<b>Retail rates</b>					
	<b>Population</b>					
	up to 300 kW of monthly consumption volume (including 300)			<b>7</b>	<b>7</b>	
	for the part of the monthly consumption volume exceeding 300 kW			<b>11</b>	<b>11</b>	
	up to 200 kW of monthly consumption (including 200)					<b>8</b>
	200 of the monthly consumption volume For the portion from kW to 300 kW (300 kW included).					<b>9</b>
	for the part of the monthly consumption volume exceeding 300 kW					<b>13</b>



2.1.	for all consumers	6	7	9	9	10
2.2.	Trade and service					11
<b>III.</b>	<b>Transit transfer rates</b>					
3.1.	Transit transmission of electricity	0,2	0,2	0,2	0,2	0,2
<b>IV.</b>	Energy supply is carried out directly by 35 and 110 kV lines, the load demand is stable during the day, the average monthly energy consumption for production purposes is not less than 5 million kWh, chemical and aluminum industry enterprises, steel mill production based on mining ore (01.08.2007- c to be implemented from 2017) processing and transmission of information (December 20, 2017 entered into force)					
4.1.	Day time (08.00-22.00 in the morning up to)	4,2		5,8	7,3	6,4-
4.2.	Night time (from 22.00 to 08.00)	2		2,8	3,5	3,1-

• Note: Tariffs under point IV apply only to aluminum industry enterprises from 01.11.2021.

According to the transitional provisions of Law No. 858-VIQ of 11.04.2023 (<https://e-ganun.az/framework/54209>) "On Electric Power", the following procedure of regulated prices (tariffs) in the electricity sector will remain in force until 2028. Procedurally, according to subsection 2.2.7 of the **Agency's Statute** (<https://e-ganun.az/framework/37363>), it "makes proposals on the formulation of the price (tariff) policy in the relevant area", subsection 3.1. 2 mainly "analyzes the received proposals on prices (tariffs) of electricity and thermal energy, as well as gas and submits proposals on state regulation of these prices (tariffs) accordingly".

In relation to the distributor, the Charter of "**Azerishig**" **Open Joint Stock Company** (hereinafter - the "**Azerishig**" **Charter**) approved by NK Decision No. 190 dated 14.05.2015 (<https://e-ganun.az/framework/30261>) According to clause 3.2, the Company operates in the following direction: *"3.2.1. On the basis of contracts concluded in accordance with the Law of the Republic of Azerbaijan "On Electric Power", you have the right to purchase electricity from the state electric power organization and independent electricity producers, as well as to regular supply of electricity to consumers in terms of quantity and quality (voltage, frequency and reliability of supply) and price according to the current tariff collection...3.2.10. Preparation of proposals for reforms on issues related to society and presentation of them accordingly"*.

Approved by the Resolution of the State Property Committee No. 200 dated 28.12.1996.

Article 3.2 of **the Articles of Association of the Public Joint Stock Company "Azerenerji"** does not contain any provisions on regulated prices or tariffs. However, in any case, this organization has the authority to submit proposals to the Agency. The same applies to the electricity production enterprise that produces electricity and supplies the consumer itself.

Apparently, an energy supply company "Azerishiq" OJSC can submit proposals on regulated prices and tariffs. These proposals are analyzed upon receipt by the Agency, proposals for state regulation are submitted to the President of the Republic of Azerbaijan, the Cabinet of Ministers or the Tariff (price) Council, the price (tariff) regulatory body.

Calculation of the regulated prices (tariffs) of the Cabinet of Ministers No. 247 dated 30.12.2005 It is regulated by the "Rules for ensuring state control over the formation and application of applicable tariffs (prices)", approved by the 1st part of the decision (<https://e-ganun.az/framework/14583>). However, according to Article 5 of the Law "On Regulated Prices" (<https://e-ganun.az/framework/2335>),

one of the main tasks of the state is "5.0.3. to determine the rules for approval, application, change, suspension of regulation of regulated prices and formation of prices". However, the rules in the mentioned name have not been approved.

In addition, according to Article 4 of the Law "On Regulated Prices". (<https://e-qanun.az/framework/2335>):

*"4.0. The main principles of price regulation are as follows:...*

*4.0.7. payment of economically justified costs in price formation".*

According to developed international practice, such costs must be economically justified before the regulator and only those costs that are certified as reasonable by the regulator are taken into account when setting regulated prices (tariffs).

According to the Article 5 of that Law (<https://e-qanun.az/framework/2335>): "5.0. Prices

The main tasks of the state in the field of regulation are the following: 5.0.3. **to determine the rules for approval, application, change, suspension of regulation of regulated prices and price formation**; 5.0.5. to prevent unjustified price leveling in order to obtain high profits and to ensure the economic interests of the state... 5.0.7. review and make decisions on issues arising between the regulatory body and the subject of price formation related to price regulation". *In this context, the term "high profit" is not specified by law. But the mentioned article envisages the possibility of adopting a detailed methodological document in the field of electricity supply.*

In addition, according to Article 7 of the Law "On Regulated Prices": (<https://e-qanun.az/framework/2335>) "7.1. The price adjuster The duties of the relevant executive authority are as follows:... 7.1.3. to make proposals on normative legal acts defining the state policy in the field of price formation;...

*7.1.5. to give opinions on issues arising in relation to the formation and implementation of the price;...*

*7.1.6. in accordance with antimonopoly legislation... production of the subject of price formation to prevent the increase of costs due to external factors".* In other words, the bases of the price formation methodology can be determined by normative legal acts.

*In addition, according to that article: "7.2. The following are the rights of the relevant executive power body carrying out price regulation:... 7.2.4. to prevent unjustified increase of costs related to the ,*

production and sale of the product (goods, work, service) and to impose restrictions on them". In this context, "unreasonable increase in costs" means those costs that have not been approved by the regulatory body as reasonable.

The above-mentioned is once again confirmed by the fact that according to Article (<https://e-qanun.az/framework/2335>) 8 of the Law "**On Regulated Prices**": "8.1. The duties of economic subjects whose prices of their products (goods, works, services) are regulated are as follows: 8.1.2. rules for formation and application of regulated prices, as well as to ensure the economic justification of the costs that are part of the price". When this Article is applied to the field of electric energy, transmitters and distributors shall justify their costs before the regulator, including the rule (methodology) to be adopted.

## 2.2. Objectives of service quality

**According to the Agency's Statute** (<https://e-qanun.az/framework/37363>), the Agency "3.1.6. takes measures to provide quality and efficient services to consumers in the relevant field". Furthermore, in accordance with Article 3.2 of the **Charter of "Azerishiq"** (<https://e-qanun.az/framework/30261>), the Association operates in the following directions: "3.2.1. *purchase of electricity from the state electric power utility and independent electricity producers on the basis of contracts concluded in accordance with the "Electricity Law" of the Republic of Azerbaijan, as well as regular supply of electricity to consumers in terms of quantity and quality (voltage, frequency and reliability of supply) and collection of fees according to the current tariff price;...*3.2.7. *Taking measures to ensure the technical safety of the society's electrical installations, as well as the safety of software and technical tools that ensure the operation of the electrical network*". It is planned to adapt the Charter to the Law No. 858-VIQ dated 11.04.2023 "**On Electric Power**" (<https://e-qanun.az/framework/54209>).

The requirements for the quality of electricity are set out in the following regulations approved by the Council of Ministers:

**"Rules for installation of electrical devices"** (<https://e-qanun.az/framework/44391>);

**"Regulation of technical operation of electrical and heating installations"** (<https://e-qanun.az/framework/44100>);

**"Rule of safety equipment in the operation of electrical and heating devices"** (<https://e-qanun.az/framework/44396>);

“Rules for using electricity” (<https://e-qanun.az/framework/7419>);

“Rules for providing technical conditions for consumers to purchase electric energy (power) and connecting to the energy supply network” (<https://e-qanun.az/framework/26528>).

In addition, the norms related to the quality of "Construction existing or to be built by the owners on simplifying the procedure for supplying electricity to their facilities" approved by the Presidential Decree No. 1313 dated April 4, 2017 "The existing power of the entrepreneurs up to 150 kW (including 150 kW from the existing 0.4 kV network) or preparation and issuance of technical conditions and project documents for the construction objects to be built to receive electric energy (power), as well as the Regulation on connection to the energy supply network" (<https://e-qanun.az/framework/35166>).

Service quality targets are set in the plans adopted in line with the forecasts stipulated by the "Regulation on the technical operation of electricity and heating installations" (<https://e-qanun.az/framework/44100>).

### 3. Essential features of electricity supply (transparency, independence)

“According to Part 2 of Article 31 of the "On Energy" Law (<https://e-qanun.az/framework/5095>) "Before the presentation of the energy contract, the ownership right and changes related to it must be published and open for public consultation." Other provisions of the Law also mention the right of ownership of energy facilities.

“On Electric Power” in Law No. 858-VIQ dated 11.04.2023 (<https://e-qanun.az/framework/54209>) provides the following provisions on transparency in the field of supply:

*“1.1.21. access to electric grids - predetermined, non-discriminatory access to transmission or distribution network users (electricity producers, suppliers, consumers, as well as transmission system operator and distribution system operator) from those networks (taking into account the requirements of Article 11.6 of this Law) and the right to use on transparent terms (according to the terms of the contract and regulated prices (tariffs)), as well as the transmission and duties of distribution system operators to ensure this right;*

*4.1. The main principles of state policy in the electric power sector are as follows:*

*4.1.2. efficiency and transparency of management and regulation in the electric power sector;*

*6.2. The regulator, in accordance with the rule specified in Article 3.1.6 of this Law, monitors the electricity market, including the following:*

*6.2.3. transparency in the implementation of the types of activities for which permission is required;*



14.2. *The transmission system operator's rights are as follows:*

14.2.1. *to purchase electricity in the wholesale market of electricity transparently, without discrimination and in accordance with the rules of the wholesale market, in order to compensate for the losses of electricity in the transmission network, as well as to buy electricity for the purpose of balancing buy and sell energy;*

20.1. *The connection of electricity market subjects to the electricity networks of construction objects is carried out transparently and without discrimination”.*

In addition, some information that must be disclosed is mentioned in that law:

“9.4. *Determination of regulated prices (tariffs) in the electric power sector its rules are approved by the regulator and published on its official website.*

18.5. *The duties of the electricity supplier are as follows:*

18.5.2. *the conditions of electricity supply by consumer groups on the official website publish;*

23.2. *The duties of the market operator are as follows:*

23.2.11. *to publish information on the activities of the wholesale market in accordance with the rules of the wholesale market”.*

In addition, the requirements of the Law "On Access to Information" (<https://e-qanun.az/framework/11142>) must be observed in the electricity sector.

3.1.48 of the **Agency Statute** (<https://e-qanun.az/framework/37363>) Pursuant to the subsection "On access to publicly available information that must be disclosed in accordance with the Law of the Republic of Azerbaijan and which must be disclosed in accordance with the Law of the Republic of Azerbaijan, the creation of a website provides for informing the public about its activities" information" is included on the said website and this information is constantly updated.

At the same time, Presidential Decree No. 149 dated 11.04.2014

According to subsection 3.0.41 of the "**Regulation on the Ministry of Energy of the Republic of Azerbaijan**" approved by (<https://e-qanun.az/framework/27517>), the Ministry "informs the public about its activities, creates an official website, has and lists "Getting information about" ensures that the public information that must be disclosed, determined by the Law of the Republic of Azerbaijan, is placed on that site and that this information is constantly updated."

“In accordance with clause 8.4 of the "**Azerishiq**" Charter (<https://e-qanun.az/framework/30261>),



*"Information on the conclusion of a contract (a particularly significant contract) exceeding 25 percent of the value of the company's net assets must be published in the press and It is obliged to post on the website of the society".*

The electricity supply sector interacts with other sectors of the economy as well as with other sectors of the energy sector.

Finally, it is important to note that "On Electric Power" dated 11.04.2023 Additional provisions on transparency and independence will be provided in the guidelines and regulations to be adopted within the framework of the powers granted to the regulator by the provisions of the Law No. 858-VIQ dated 2018 (<https://e-ganun.az/framework/54209>):

*"3.1. Market relations in the electric power sector approved by the regulator governed by the following rules:*

*3.1.1. wholesale market rules;*

*3.1.2. balancing rules;*

*3.1.3. commercial accounting rules;*

*3.1.4. retail market rules;*

*3.1.5. duration of reporting of electricity losses of transmission and distribution system operators The procedure for determining normative indicators for;*

*3.1.6. electricity market monitoring procedure.*

*...*

*14.6. The activity of the central operating-shipment service is regulated by instructions approved by the regulator taking into account the recommendations of the transmission system operator."*