

GOVERNMENT OF THE RUSSIAN FEDERATION DECREE

No. 526, Dated July 11, 2001
MOSCOW

On Restructuring the Electric Power Industry of the Russian Federation

For the purposes of improving the efficiency of functioning of the electric power industry and ensuring uninterrupted supply of economy sectors and the population with electric and thermal power, the Government of the Russian Federation **decrees:**

1. The enclosed Guidelines of Restructuring the Electric Power Industry of the Russian Federation shall be approved.
2. The Ministry of Economic Development and Trade of the Russian Federation and the Ministry of Energy of the Russian Federation shall prepare an action plan for the first stage of restructuring the electric power industry of the Russian Federation together with interested federal bodies of executive power on the basis of the provisions of the Guidelines of Restructuring the Electric Power Industry of the Russian Federation and submit it to the Government of the Russian Federation within a 2 week period.
3. It shall be established that decisions on implementation of subsequent actions of the plan specified in Clause 2 of this decree shall be adopted after analyzing the efficiency of implementing principal preceding actions.

The Ministry of Economic Development and Trade of the Russian Federation and the Ministry of Energy of the Russian Federation shall submit respective reports upon the results of the said analysis to the Government of the Russian Federation

4. Representatives of the state in the managing bodies of the UES of Russia, a Russian energy and electricity joint-stock company, shall, while preparing and adopting decisions by these bodies, proceed from the acts of the Government of the Russian Federation adopted in the course of implementation of Action Plans for Restructuring the Electric Power Industry of the Russian Federation.

Chairman of the Government
of the Russian Federation M. Kasyanov

APPROVED
by Decree No. 526, dated 2001,
of the Government of the Russian Federation

GUIDELINES

of Restructuring the Electric Power Industry of the Russian Federation

I. Goals, Principles and Objectives of Restructuring the Electric Power Industry of the Russian Federation

The electric power industry is a basic sector of the economy of the Russian Federation. Reliable and efficient functioning of the electric power industry and uninterrupted supply of consumers is the basis of progressive development of the country's economy and an integral factor of ensuring civilized living conditions for all of its citizens. The sector has kept its integrity and ensured reliable satisfaction of the economy's demands for electric and thermal power. The recession in electric power generation has been overcome, payment discipline is improving, and the level of monetary receipts is growing.

However the fundamental problems of the electric power industry which appeared in the 1980-ies and were developing in the subsequent period have not been resolved. On the background of the general economic recession, the energy intensity of the economy continued to grow while investments were abruptly reduced and individual sector areas decreased the efficiency of their operation. These outstanding problems may result in slowing down the economic growth. A qualitative growth of the economy's energy efficiency and a change in the investment climate in the electric power industry are impossible without changing the existing system of economic relations and immediate structural reform of the electric power industry and the closely related gas sector.

The following main notions shall hereinafter be used in the text for the purposes of this document:

- "power production (generation)" means commercial activities of organizations, irrespective of the organizational legal form, related to generation and sale (supply) of electric power (capacity) and (or) thermal power (capacity) to the wholesale or retail markets for subsequent transformation, transmission, distribution and sale (supply) to consumers;
- "transmission of electric power (capacity)" means provision of electric power (capacity) transmission services via trunk electric power transmission lines to commercial organizations, irrespective of the organizational legal form, that are wholesale electric power (capacity) market entities;
- "distribution of electric power (capacity)" means provision of electric power (capacity) supply services to consumers via electric power grids to commercial organizations, irrespective of the organizational legal form, that are wholesale and retail market entities;
- "supply of power (capacity)" means sale of electric power (capacity) to end consumers, including on the basis of power supply contracts, by electric power (capacity) generators receiving it from their own generation sources and by supply companies.

The objectives of restructuring the electric power industry of the Russian Federation shall be to ensure stable functioning and development of the economy and social sphere, improve the efficiency of generation and consumption of electric power, and ensure reliable and uninterrupted power supply to consumers.

The strategic goal of restructuring shall be to convert the electric power industry to a stable development mode on the basis of application of progressive technologies and market principles of functioning and ensure on that basis a reliable, economically efficient

satisfaction of the solvent demand for electric and thermal power in a short-term and long-term perspective.

The restructuring of the electric power industry of the Russian Federation shall be carried out taking into account the results of privatization of the sector's enterprises and be based on the following principles:

- attributing electric power transmission, distribution and dispatching to exclusive types of activities that may only be conducted on the basis of special permits (licenses);
- demonopolization and development of competition in the sphere of production, sales and provision of services (repair, setup, designing, etc.);
- provision of equal access to the market infrastructure for all generators and consumers of electric power;
- unity of safety standards, technical norms and rules effective in the electric power industry sector;
- ensuring the financial transparency of electric power markets and activities of organizations of the regulated areas of the electric power industry;
- ensuring the rights of investors, creditors and shareholders when carrying out structural transformations.

Successful implementation of the reform of the electric power industry shall depend upon accomplishment of the following main objectives:

- creating competitive electric power markets in all regions of Russia where organization of such markets is technically possible;
- creating an efficient mechanism of reducing costs in the sphere of production (generation), transmission and distribution of electric power and improving the financial situation of sector's organizations;
- promoting energy saving in all spheres of the economy;
- creating favorable conditions for construction and operation of new electric power production (generation) and transmission capacities;
- step-by-step liquidation of cross subsidizing of various regions of the country and groups of electric power consumers;
- creating a system of support for lower-income strata of the population;
- keeping and developing a unified infrastructure of the electric power industry which includes trunk grids and dispatch control;
- demonopolization of the market of fuel for thermal electric power plants;
- creating a normative legal basis for the sector's restructuring, which regulates its functioning in new economic conditions;
- restructuring the system of state regulation, management and supervision in the electric power industry;
- revising the status, competence and work procedure of the authorized state body.

II. Guidelines of Restructuring of the Electric Power Industry

1. Improvement of Electric Power Markets

Transformation of the existing federal (All-Russian) wholesale electric power (capacity) market into a solid competitive wholesale electric power market and formation of efficient retail electric power markets that ensure a reliable power supply to consumers will become one of the main results of restructuring the electric power industry.

Wholesale Electric Power Market

Commercially consistent and technically realizable relationships between electric power sellers and buyers shall be ensured in the course of transforming the existing system of business relations in the electric power industry. These relations shall be based on both competitive pricing in the areas where sufficient conditions for competition have been created and on tariffs set by the authorized state body in the cases where no competition may be introduced due to objective technological conditions. The competitive wholesale electric power market shall be formed on the basis of a free commercial interaction of its participants acting according to the established market functioning rules.

Electric power generated by generating companies formed on the basis of the existing thermal, nuclear and hydro electric power plants as well as electric power generated by electric power plants of regional energy companies and other generators, irrespective of the organizational legal form, will be supplied to the wholesale market.

At the first stage, each supplier, except for independent suppliers, shall be provided with an equal right to sell a certain, equal-for-all, share of electric power (5-15 per cent of the output) at tender for the purpose of working out competitive mechanisms, forming the market infrastructure and determining the real cost of power with the help of market mechanisms. State regulation of tariffs shall be kept for all of the remaining electric power. Independent generators shall supply all of the generated electric power at tariffs that are not regulated by the state with the use of a commercial dispatching mechanism.

Market prices will be formulated on the basis of comparing price bids of buyers and sellers at the minimum price factor (commercial dispatching) in accordance with the procedure for setting equilibrium prices of the wholesale market.

For the purpose of reducing financial risks at subsequent stages of establishment of the wholesale electric power market, market participants shall be provided with a possibility to make contracts for future supplies of electric power (capacity) and for purchasing or selling a fixed volume of electric power (capacity) to be supplied on a stipulated date in the future at an agreed-upon price (forward and futures contracts) which are secured by insurance (hedging) against the risks of a sharp change of market prices.

A possibility of free access to the market will be ensured for all electric power sellers and buyers that comply with the established rules and meet the requirements for the minimum volume of electric power generation (for generators) or trading (for other market participants).

The interaction of participants in the competitive wholesale electric power market shall be carried out on the basis of unconditional compliance with contractual obligations and financial discipline.

Separate financial accounting by type of activities will be mandatory for market participants that conduct activities simultaneously in natural monopoly and competitive spheres before

their restructuring. For the purposes of creating equal competitive conditions, the activities related to electric power transmission and distribution will be separated from other types of activities by establishing a separate legal entity.

Retail Electric Power Markets

In the sphere of electric power supplies to end consumers, it shall be necessary to form efficient retail electric power markets that ensure a reliable power supply to consumers in the step-by-step development of competition.

Creating stable and financially transparent regional energy companies will become an important condition of efficiency of retail markets, including on the basis of restructuring energy and electricity joint-stock companies and Tatenergo, a state unitary enterprise, by establishing regional power grid subsidiary joint-stock companies with a 100 per cent participation of parent companies in their charter capital or by their separation (spin-off) into regional generating and regional power grid joint-stock companies with proportional distribution of the charter capital, with a view that the activities related to electric power transmission and distribution will be conducted by regional power grid companies.

The status of guaranteeing suppliers obliged to make a power supply contract with any requesting consumer in the zone fixed for them shall be assigned to energy and electricity joint-stock companies after they are restructured and respective activities are transferred to the competence of regional power grid companies. Guaranteeing suppliers will supply electric power on the basis of regulated tariffs whose value shall be timely revised in order to match the real cost of electric power.

A retail price shall be determined as a sum of the wholesale price for electric power, costs of paying for electric power transmission and distribution services and a regulated supply-related markup. Activities of supplying companies at the initial stages of restructuring will be conducted in the conditions of state regulation minimizing the possibility of unfair behavior in relation to consumers.

At the second stage of the reform, any commercial organization meeting the established requirements and conditions will obtain the right to conduct supply activities. In doing so, consumers serviced by any supplying organization shall be provided for equal access to distribution grids. Independent supplying organizations will supply electric power to consumers at contractual prices. Any consumer meeting the requirements for minimum consumption volume and equipped with necessary systems of commercial metering of electric power shall have the right to purchase electric power from an independent supplying organization.

Supply activities may be combined with electric power generation at own electric power plants in retail electric power markets.

Organizations of any form of ownership conducting commercial activities related to electric power transmission and distribution (including when commissioning new distribution grids) shall be obliged to organizationally separate these types of activities by establishing a separate legal entity and ensure equal access to the grids for all interested organizations in accordance with the legislation of the Russian Federation.

It is necessary to take into account regional specifics of the retail electric power market at the initial stage. The rates and specific features of its creation and functioning shall meet the specific technical features of supply, transmission and distribution of electric power as well as with the level of development of the economy of the regions.

State regulation shall be kept in the regions where it is temporary impossible to develop competition for technical reasons.

2. Restructuring the Electric Power Industry

The restructuring of the electric power industry and implementation of measures for forming the wholesale and retail electric power markets shall result in the creation of:

- the infrastructure of electric power markets which includes the system operator, trading system administrator, and federal and regional power grid companies;
- commercially efficient, investment attractive organizations of the electric power industry.

The restructuring process will cover the UES of Russia, a Russian energy and electricity joint-stock company, (hereinafter referred to as the UES of Russia, a Russian joint-stock company), its subsidiaries and related companies, public utility enterprises of the electric power industry and other organizations that are possessors of electric power grids and provide electric power transmission and distribution services, including the restructuring of federal, state unitary enterprises of the nuclear power industry.

Establishing the Federal Power Grid Company

The Unified Energy System of Russia that is a national property and a guaranty of the energy security has been formed in the process of development of the electric power industry. The main part of the Unified Energy System of Russia is the unified national power grid that includes a system of trunk electric power transmission lines uniting most regions of the country and constituting one of the elements of the guarantee for the integrity of the state. The federal power grid company shall be established for the purpose of its keeping and strengthening, ensuring the unity of technological control and implementing the state policy in the electric power industry. It should include the existing trunk grids that are component parts of the unified national power grid and ensuring, inter alia, the unification of electric power plants of the UES of Russia, a Russian joint-stock company, and regional power systems, electric power flows among them, its transit, export and import. The criteria (marginal voltage level, volumes of power transmitted, change of direction of power transmission, etc.) according to which electric power transmission lines will be attributed to trunk electric power transmission lines shall be determined by the Government of the Russian Federation.

The establishment of the federal power grid company will make it possible to:

- strengthen the integrating role of the Unified Energy System of Russia and ensure interaction between electric power generators and consumers in the competitive wholesale electric power market;
- ensure direct connection of all regions of Russia to the unified national electric power grid;
- guarantee equal access for sellers and buyers to the wholesale electric power market;

- carry out efficient state regulation of tariffs for electric power transmission;
- improve the energy security of the state;
- promote the pursuance of an efficient state foreign economic policy in the sphere of the electric power industry.

The authorized state body will, upon agreement with the federal power grid company together with the system operator, determine the connection terms and conditions and the modes of operation of trunk electric power grids built at the expense of attracting investor funds and included in the unified national power grid, which are not however within the federal power grid company.

At the initial stage of the sector's restructuring before February 1, 2002, the federal power grid company shall be established by the UES of Russia, a Russian joint-stock company, on the basis of all trunk power grids belonging to that joint-stock company as a subsidiary with a 100 per cent participation in its charter capital. The federal power grid company shall acquire trunk power grids belonging to energy and electricity joint-stock companies and other organizations in accordance with the legislation of the Russian Federation.

The foundation documents of the UES of Russia, a Russian joint-stock company, and of the federal power grid company provide for a procedure ensuring the election of representatives of the state to the board of directors of the federal power grid company in a quantity constituting the majority of the board, and the heads (members) of the executive body of the federal power grid company shall be appointed with the consent of the board of directors of the UES of Russia, a Russian joint-stock company.

The direct participation of the state in the charter capital of the federal power grid company shall subsequently be ensured no later than March 2004 for the purpose of obtaining a controlling stake by distributing its share capital among the owners of the UES of Russia, a Russian joint-stock company, in proportion to their interests in the charter capital of that joint-stock company. As the reforms are implemented and the state leaves potentially competitive spheres in the electric power industry, its interest in the charter capital of the federal power grid company shall respectively be increased, including by way of exchanging the shares of generating companies belonging to the state for the shares of the federal power grid company belonging to other shareholders.

Electric power transmission and distribution services shall be regulated by the state in accordance with the legislation of the Russian Federation on natural monopolies.

For the purposes of accelerated development of electric power grids and attracting investments therefor, a possibility of private construction of electric power transmission lines shall be provided for in the procedure and on the terms and conditions that are determined by the legislation of the Russian Federation shall be provided for.

Creating the Unified Dispatch Control System (System Operator)

The unified system of operational dispatch control of the sector shall be kept and strengthened by creating a system operator in the process of restructuring the electric power industry. The main objectives of the system operator shall become the controlling of the modes of work of the Unified Energy System of Russia, compiling and executing balances of electric power

generation and consumption, and ensuring the reliability of the power system of the country and electric power quality indexes.

The system operator shall provide all market participants with services related to controlling the modes of work of the power system and organize the activities related to projecting the generation and consumption of electric power. Since the system operator is a monopolist, its activities will be separated from other types of commercial activities, be under the control of the state and services provided by the system operator shall be paid for on the basis of tariffs regulated by the authorized state body.

At the initial stage of the sector's restructuring before February 1, 2002, the system operator shall be created by the UES of Russia, a Russian joint-stock company, on the basis of the Central Dispatch Department and unified dispatch departments as a subsidiary with a 100 per cent participation in its charter capital.

The foundation documents of the UES of Russia, a Russian joint-stock company, and of the system operator shall provide for a procedure ensuring the election of representatives of the state to the board of directors of the system operator in a quantity constituting the majority of the board, and the heads (members) of the executive body of the system operator shall be appointed with the consent of the board of directors of the UES of Russia, a Russian joint-stock company.

The direct participation of the state in the charter capital of the system operator shall subsequently be ensured no later than March 2004 for the purpose of obtaining a controlling stake by distributing its share capital among the owners of the UES of Russia, a Russian joint-stock company, in proportion to their interests in the capital of that joint-stock company. As the reforms are implemented and the state leaves potentially competitive spheres in the electric power industry, its interest in the charter capital of the system operator shall respectively be increased, including by way of exchanging the shares of generating companies belonging to the state for the shares of the system operator belonging to other shareholders

After obtaining the controlling stakes in the charter capitals of the federal power grid company and the system operator, the state will consider the issue of feasibility of their unification.

Creating the Trading System Administrator

The trading system administrator shall be created in the process of restructuring the sector, who accomplishes all objectives related to organizing trading in the wholesale electric power market, ensuring settlements for supplied electric power and services provided to wholesale market participants, ensuring equal conditions for all wholesale electric power market participants, developing wholesale market rules and controlling their compliance, organizing a system of pre-trial settlement of disputes between wholesale market participants and controlling system operator's actions that affect the economic efficiency of the wholesale market.

The trading system administrator shall be formed by wholesale electric power market participants in the form of a non-commercial organization. For the purposes of ensuring the balance of interests of electric power sellers and buyers and preventing the abuse of the

monopolistic position, the foundation documents of the trading system administrator shall provide for:

- restriction on participation of one legal entity or a group of affiliated entities in the managing bodies and property of the trading system administrator;
- equal representation of electric power suppliers and buyers (including large consumers) in the managing bodies of the trading system administrator;
- ensuring an effectual state control over activities of the trading system administrator;
- procedure for taking into account the interests of all market entities when adopting decisions by the trading system administrator.

The trading system administrator shall develop and introduce a system of guarantees and settlements in the wholesale electric power market that ensures a possibility of its functioning.

Activities of the trading system administrator shall be regulated by the authorized state body for the purposes of ensuring equal conditions for all market participants in accordance with the legislation of the Russian Federation and the wholesale electric power market rules approved in the procedure established by the Government of the Russian Federation.

Zonal structural divisions of the trading system administrator may be created in respect of individual energy zones with an insufficient throughput capacity of connection lines with the Unified Energy System of Russia for which wholesale electric power market rules may have specific regional features.

Establishing Generating Companies

Large generating companies that are independent participants in the wholesale electric power market will be established on the basis of electric power plants of the UES of Russia, a Russian joint-stock company. When establishing such generating companies, it shall be necessary to prevent the appearance of monopolists in the sphere of generation of electric power and ensure as much equal starting business conditions for these companies as possible (first of all in respect of the generation cost of electric power) as well as the transparency of the process of formation of generating companies.

Hydroelectric power plants that ensure regulation of quality indexes of electric power within the Unified Energy System of Russia shall be included in the composition of generating companies on the basis of a cascade principle pursuant to which hydroelectric power plants of the same cascade (provided that they are significantly technologically dependent upon each other) shall belong to one generating company.

At the initial stage the sector's of restructuring, generating companies shall be established by the UES of Russia, a Russian joint-stock company, as subsidiaries with a 100 per cent participation in their charter capitals. The procedure for formation of generating companies shall be determined by the Government of the Russian Federation and ensured through representatives of the state in the board of directors of the UES of Russia, a Russian joint-stock company.

The said generating companies may, in accordance with the legislation of the Russian Federation, acquire electric power plants whose prevailing type of activities is generation of electric power.

In the process of restructuring, the sphere of generation of electric power will be demonopolized by means of gradual spin-off of generating companies from the UES of Russia, a Russian joint-stock company, with proportional distribution of their shares (interests) among the shareholders of that joint-stock company.

For the purposes of increasing the state's interests in charter capitals of the federal power grid company and the system operator as well as for attracting private investors to the sphere of generation of electric power, exchanging or selling the state's stakes in the charter capitals of generating companies may be used along with other forms.

Mechanisms limiting the dominating position of generating companies in the wholesale electric power market shall be developed for promotion of competition. If the established limit of generation of electric power is exceeded, the generating company shall be obliged to either sell excessive capacities or be separated into several companies or state regulation of prices, production volumes, etc. shall be applied in respect of that company.

Generating companies to be established shall bear the responsibility provided for by the legislation of the Russian Federation for keeping, using, reconstructing, modernizing or decommissioning of generating capacities.

Commercially inefficient generating capacities will be decommissioned under the influence of market factors and be subsequently shut down or reconstructed in the procedure established by the Government of the Russian Federation or a body authorized by it. Social guarantees for employees employed at such capacities shall be ensured in accordance with the legislation of the Russian Federation.

Restructuring Energy and Electricity Joint-Stock Companies

The restructuring of energy and electricity joint-stock companies will be aimed at improving the transparency and efficiency of their activities, a condition to which is separate financial accounting of activities by generation and sale of electric power and by established subsidiary power grid companies under whose ownership power grid assets (electric power transmission lines, substations, etc.) shall be transferred. The separation of activities will be one of the factors of forming conditions for equal access to the power grid infrastructure in accordance with the legislation of the Russian Federation.

Energy and electricity joint-stock companies may be consolidated under the influence of market conditions in accordance with the legislation of the Russian Federation, and therefore financially stable and investment attractive regional organizations will be formed in the sphere of power industry with a high degree of transparency of their activities already at the first stage of reforms.

After formation of regional power grid companies, energy and electricity joint-stock companies will be assigned with the status of guaranteeing suppliers whose procedure for activities shall be developed and approved by the authorized state body.

As the market develops, the status of a guaranteeing supplier may be assigned to any supplying company of a contest basis. The procedure for holding contests shall be established by the Government of the Russian Federation. The quantity of guaranteeing suppliers and the boundaries of service zones will be determined at the first stage of restructuring, with only

one supplier acting as a guaranteeing supplier in each service zone. Guaranteeing suppliers may be consolidated on an inter-regional basis.

III. Normative Legal Support for Restructuring the Electric Power Industry of the Russian Federation and the System of State Regulation

The reform of the electric power industry may only be based on a firm normative legal basis whose formation must be forestalling and be carried out with the direct participation and control of the state.

Adoption of decisions on individual areas of the sector's restructuring shall be ensured by the Government of the Russian Federation and federal bodies of executive power in accordance with their authority as well as representatives of the state in the managing bodies of joint-stock companies.

When developing the normative legal basis, draft federal laws on the electric power industry concerning introduction of amendments and supplements to the Civil Code of the Russian Federation, to federal laws "On State Regulation of Tariffs for Electric and Thermal Power in the Russian Federation" and "On Natural Monopolies" and others shall have the priority.

When implementing the guidelines of restructuring the electric power industry, it shall be necessary to develop and adopt normative legal acts determining the fundamentals of functioning of the wholesale and retail electric power markets as well as revise the structure, authority and procedure for work of the bodies regulating the relations in the wholesale and retail electric power markets.

It shall be necessary to change the principle of carrying out the tariff regulation in the restructuring period for the purposes of:

- ensuring the unity of the principles and methodology of setting tariffs in the entire territory of the country;
- setting tariffs guaranteeing the investment attractiveness of the respective sectors at the expense of inclusion of the payback rates in the tariff taking into account its yield;
- setting thermal power tariffs taking into account the income from sales of co-generated electric power in the competitive wholesale market;
- ensuring equal conditions of work in the wholesale and retail electric power markets and a step-by-step refusal of cross subsidizing of tariffs for all types of products and services, first of all in respect of the tariff for electric power transmission services.

The ensuring of transparency, stability and a predictable tariff policy pursued by the state will be of special importance for the investment attractiveness of the electric power industry.

IV. Ensuring Rights of Investors, Creditors and Shareholders When Restructuring the Electric Power Industry of the Russian Federation

The most important area of restructuring the electric power industry shall be to ensure the rights and interests of Russian and foreign investors, creditors and shareholders. Decisions on restructuring the sector's organizations shall be adopted in strict compliance with the requirements of the legislation of the Russian Federation.

In the course of restructuring the electric power industry, the following shall be ensured:

- ownership right of shareholders to the shares belonging to them;
- right of shareholders to participate in discussing and adopting decisions connected with making structural transformations that affect or may affect their rights protected by the law;
- each shareholder's right of access to information connected with making structural transformations that affect or may affect its rights protected by the law.

When restructuring energy and electricity open joint-stock companies, it shall be necessary to follow the principle of keeping the structure of the share capital and amounts of stakes of each shareholder in the joint-stock companies which will be established and to which stakes and (or) other property of reorganized companies will be transferred.

When making transactions for alienation of electric power industry facilities or their transfer to the charter capital of newly established organizations, measures will be taken to settle the relations with creditors and ensure the protection of their rights and lawful interests.

The state shall create favorable conditions for construction and operation of new capacities by providing investors with the right to determine on their own the terms and conditions of relationships with other market entities, including prices of contracts, except for the cases provided for by the legislation of the Russian Federation.

V. Stages of Restructuring the Electric Power Industry of the Russian Federation

When carrying out the reform of the electric power industry, it shall be necessary to match the timing of transformation of the federal (All-Russian) wholesale electric power (capacity) market into a solid competitive wholesale electric power market, of development of its functioning rules and implementing the measures related to restructuring the sector's organizations.

The restructuring of the electric power industry shall be of a consistent nature and will be carried out in three stages.

The first stage of reforms shall be carried out for 3 years. The following objectives shall be accomplished in the course of this stage:

- developing the normative legal basis of restructuring the electric power industry;
- restructuring organizations of the electric power industry;
- working out the mechanisms for functioning of the competitive wholesale electric power market.
- The first stage shall include two six-month phases.

The following measures will be carried out within the framework of the first phase which shall mainly be of a preparatory nature:

- a) preparation, submission and adoption of necessary normative legal acts;
- b) development and approval of the rules of work of the competitive wholesale electric power market;
- c) taking inventory of the property of the UES of Russia, a Russian joint-stock company, energy and electricity joint-stock companies and Tatenergo, a state unitary enterprise;
- d) taking measures for the financial rehabilitation, reduction of costs, restructuring accounts payable and receivable of the sector's organizations;
- e) formation of a system of separate accounting of costs by type of activities;
- f) creation of a unified regulation system;
- g) creation of a mechanism for ensuring equal access to the power grid infrastructure;
- h) reorganization of the UES of Russia, a Russian joint-stock company, by way of establishing:
 - the federal power grid company as a subsidiary of the UES of Russia, a Russian joint-stock company, with a 100 per cent participation of the joint-stock company in its charter capital;
 - generating companies that are created on the basis of electric power plants of the UES of Russia, a Russian joint-stock company, as subsidiaries with a 100 per cent participation of the joint-stock company in their charter capitals;
 - the system operator that is created as a result of unification of the central dispatch department and united dispatch departments as a subsidiary of the UES of Russia, a Russian joint-stock company, with a 100 per cent participation of the joint-stock company in its charter capital;
- i) restructuring the nuclear power industry by way of organizing one generating company;
- j) creation of the trading system administrator as a non-commercial organization;
- k) development of infrastructure necessary for transition to the competitive wholesale electric power market;
- l) formation of a payment system of the wholesale and retail electric power markets;

m) beginning the restructuring of energy and electricity joint-stock companies and Tatenergo, a state unitary enterprise, by way of establishing by them of power grid companies as subsidiaries with a 100 per cent participation in their charter capitals;

n) assigning the status of guaranteeing suppliers to the reformed energy and electricity joint-stock companies;

o) in the federal (All-Russian) wholesale electric power (capacity) market:

- keeping the regulation of tariffs for suppliers to the federal (All-Russian) wholesale electric power (capacity) market and tariffs for electric power supplied from the federal (All-Russian) wholesale electric power (capacity) market, including in the form of marginal minimum and maximum tariffs, except for tariffs for independent generators as well as generators that are not within the UES of Russia, a Russian joint-stock company as a holding, the system of the Ministry of Nuclear Power of the Russian Federation, or Rosenergoatom Concern, energy and electricity joint-stock companies or Tatenergo, a state unitary enterprise;
- introduction of tariffs for transmission (distribution) via electric power grids;
- setting tariffs for services of the system operator, trading system administrator, and services of power grid subsidiaries of energy and electricity joint-stock companies and Tatenergo, a state unitary enterprise;
- formation of a sector in the wholesale electric power market for selling a certain, equal-for-all, share of electric power (5-15 per cent of the output) at non-regulated prices by generators that are within the UES of Russia, a Russian joint-stock company, as a holding, the system of the Ministry of Nuclear Power of the Russian Federation, or Rosenergoatom Concern, energy and electricity joint-stock companies or Tatenergo, a state unitary enterprise, and all electric power generated by independent generators;

p) in retail markets:

- cessation of regulation of new independent generators as well as generators that are not within the UES of Russia, a Russian joint-stock company as a holding, the system of the Ministry of Nuclear Power of the Russian Federation, or Rosenergoatom Concern, energy and electricity joint-stock companies or Tatenergo, a state unitary enterprise;
- introduction of a pricing formula in retail electric power markets that depends upon the price in the wholesale electric power market;
- introduction of tariffs by daily zones.

During the second phase:

- a) restructuring of energy and electricity joint-stock companies and Tatenergo, a state unitary enterprise, shall be completed;
- b) reformed energy and electricity joint-stock companies and their subsidiaries shall be united by type of activities;
- c) the number of wholesale electric power market entities shall grow;
- d) commercial dispatching of suppliers on the basis of price bids shall be introduced;
- e) the payment system of the wholesale electric power market shall be improved, and a settlement center shall be formed;
- f) mechanisms of making forward and futures contracts shall be launched;
- g) formation of a demand projection system shall be completed;
- h) a mechanism of using excess profit of hydroelectric power plants shall be determined;
- i) individual projects for restructuring isolated power systems shall be developed and their implementation shall begin;
- j) a mechanism of social rehabilitation of electric power industry employees released in the course of the sector's restructuring shall be developed;
- k) the UES of Russia, a Russian joint-stock company, shall be restructured by establishing independent companies with a controlling stake belonging to the state: the federal power grid company (keeping the name UES of Russia, a Russian joint-stock company), the system operator, generating companies created on the basis of the electric power plants of the UES of Russia, a Russian joint-stock company, and a holding possessing the shares of energy and electricity joint-stock companies. Individual electric power plants of the UES of Russia, a Russian joint-stock company, (generating companies) may remain within the said holding during the second stage.

Conditions for functioning of the competitive electric power market will be created and a financial transparency of organizations of the electric power industry will be achieved as a result of the first stage. In doing so, the establishment of the competitive wholesale market will help to additionally increase the value of the assets of all electric power market participants, which will create additional factors assisting in attraction of investments.

The second stage of the reform will take 2-3 years and be a period of establishment of wholesale and retail electric power markets in the territory of the European, Ural and Siberian power zones. At this stage, the formation of the competitive wholesale electric power market will end, regulation of tariffs for electric power will be ceased and regulation of tariffs for its transmission and system services will be kept, for which:

- the competitive wholesale electric power market rules shall be introduced, and the principles of relationships of its participants and the procedure for transition to the pricing on the basis of free prices driven by demand and supply shall be determined;
- formation of the legal basis for functioning of the wholesale electric power market shall be mainly completed;
- independent supplying companies shall be established;
- the feasibility of unification of the UES of Russia, a Russian joint-stock company, (federal power grid company) with the system operator shall be considered;
- conditions for the development of competition in the wholesale and retail electric power markets shall be formed.

As a result, the sector's restructuring will be mainly carried out, the system of market pricing in the wholesale and retail electric power markets will be formed and conditions for mass-scale attraction of investments will be created.

The third stage of carrying out the reform shall be performed within 3-4 years. Its main essence will be to ensure the inflow of investments to the competitive sectors of the electric power industry. In the course of this stage:

- market infrastructure shall be developed and improved;
- investments to the capital of generating companies shall be attracted;
- the system of trunk power grids will be developed, with the extension of the sphere of the wholesale electric power market;
- increase of the state's interest in the charter capital of the UES of Russia, a Russian joint-stock company, (federal power grid company) and in the charter capital of the system operator shall be ensured.

As a result, the formation of the competitive wholesale and retail electric power markets will be completed, a high level of competition in the sectors of generation and sales of electric power will be achieved, and the state will stop to perform the non-relevant functions of business management of competitive sectors of the power industry.

The Head of the Apparatus of the Government of the Russian Federation Minister of the Russian Federation