



COUNTRY ASSESSMENT REPORT AZERBAIJAN

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1.1 Country Assessment Report Template

Country Name	AZERBAIJAN
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1.2 Electrical Generation and Demand

Generation	Technology	Capacity (MW)
	Wind	3 000 MW
	Hydro	520 MW
	Fossil/Thermal	7 500 MW
	Biomass	380 MW
	Solar	23 000 MW
	Total	
Demand	Sector	Demand (GWh)
	Residential	6,625.8 GWh
	Commercial/Service/Public Sector	6,610.9 GWh
	Transport	369.0 GWh
	Industrial	8,047.6 GWh
	Primary Activities	1,988.9 GWh
	Total	

References:

<https://area.gov.az/en/page/yasil-texnologiyalar>

<https://countryeconomy.com/energy-and-environment/electricity-consumption/azerbaijan>

<https://www.iea.org/reports/azerbaijan-energy-profile/overview>

<https://www.worldbank.org/en/news/press-release/2025/03/27/azerbaijan-to-strengthen-energy-security-and-diversify-its-energy-mix>

1.3 Electrical Interconnection and Import/Export

Connected country	Capacity (MW)	Annual import from country (GWh)	Annual export to country (GWh)
Georgia	1,400 (500 kV + 330 kV links)	86.3	2,072.5
Russia	~350	92.6	111.6
Iran	~600	35.1	33.2
Türkiye (via Nakhchivan)	~75 import / ~40 export (current operating limits)	0.0	2,102.5

References:

<https://wits.worldbank.org/trade/comtrade/en/country/AZE/year/2023/tradeflow/Imports/partner/ALL/product/271600>

https://www.iea.org/reports/georgia-energy-profile/energy-security?utm_source=chatgpt.com

<https://www.iea.org/reports/azerbaijan-energy-profile/energy-security>

https://iea.blob.core.windows.net/assets/c33c86e0-58ed-4465-954a-f6291b401ced/AzerbaijanEnergyProfile1.pdf?utm_source=chatgpt.com

https://enerji.gov.tr/news-detail?id=21476&utm_source=chatgpt.com

https://www.aa.com.tr/en/energy/electricity/turkiye-azerbaijan-signs-operating-agreement-in-electricity-sector/48400?utm_source=chatgpt.com

1.4 Market Structure

Ownership & Key Players:

- Over 90% of generation, transmission, and distribution remains under state ownership.
- Azerenerji OJSC – largest generator and sole transmission system operator (TSO).

- Azerishiq OJSC – sole distribution system operator (DSO) and main retail supplier for households and most businesses.
- Independent Power Producers (IPPs) – operate mainly in renewable generation under long-term Power Purchase Agreements (PPAs) with the state.

Regulatory Framework:

- Ministry of Energy – defines energy policy, development strategies, and sector reforms.
- Azerbaijan Energy Regulatory Agency (AERA) – regulates licensing, tariff approval, and market oversight.
- 2023 Electricity Law provides the legal basis for gradual liberalization and unbundling of market functions.

Market Model:

- Predominantly centralized single-buyer system: Azerenerji sells electricity to Azerishiq, which then supplies end users.
- Wholesale competition – introduced in limited form for certain large industrial consumers and bilateral contracts; market liquidity remains low.
- Ongoing reforms aim to establish a Market Operator, introduce day-ahead and balancing markets, and enable greater direct trading between producers and consumers.

IPPs & Renewables:

- Multiple foreign-backed renewable projects (solar & wind) under development with state guarantees.
- RECs and green certificates currently have no domestic trading mechanism but are compatible with upcoming liberalization stages.

Market readiness for I-REC:

- Current system allows REC issuance mainly via contracted IPPs.
- Gradual liberalization and legal reforms are expected to expand market access, supporting wider commercialization of green certificates in the coming years.

1.5 Responsible Government Department

Ministry of Energy of the Republic of Azerbaijan
 Address: 88A, Zardabi Avenue, Baku, AZ1012, Azerbaijan
 Website: www.minenergy.gov.az

- **Main Functions:**
 - Develops and implements national energy policy, strategies, and sector reforms.
 - Oversees the generation, transmission, and distribution of electricity.
 - Regulates and facilitates investment in the electricity sector, including renewable energy projects.
 - Coordinates with other state bodies on energy efficiency, energy security, and international energy cooperation.
 - Supervises the implementation of green energy initiatives, renewable energy targets, and related certificate frameworks.
- **Contact for Market Regulation:**
 - Azerbaijan Energy Regulatory Agency (AERA) operates under the Ministry of Energy; responsible for licensing, tariff approval, and market oversight.

- Website: www.aera.gov.az

1.6 Existing/Planned Legislation

Existing primary laws

- Law on Electric Power (No. 858-VIQ, 11 Apr 2023; amended 29 Dec 2024): establishes gradual market liberalization, legal unbundling of activities, creation of a centralized market (incl. market operator & balancing/day-ahead), and keeps transmission/distribution as regulated monopolies.
- Law on Use of Renewable Energy Sources in Electricity (No. 339-VIQ, 31 May 2021): sets the RES framework (PPAs/PPPs, auctions/tenders, support schemes, land use and grid access rules).
- Law on Efficient Use of Energy Resources and Energy Efficiency (No. 359-VIQ, 9 Jul 2021; in force from Jul 2022): first national framework for EE, enabling secondary rules (e.g., EPCs/ESCOs)
- Law on Energy (No. 1006-VIQ, 24 Oct 2023): economy-wide energy governance framework; implemented by Presidential Decree 02 Aug 2023.

Key secondary legislation & programmes

- Action Plan for the Phased Introduction of Electricity Market Elements (Cabinet of Ministers, 16 May 2024): provides the roadmap to establish a Market Operator as a separate legal entity under the TSO and to roll out organized markets/settlements.
- Procedure for selecting a RES producer in designated RES zones (Presidential Decree No. 2285, 2 Aug 2023): basis for competitive RES auctions (first auction concluded in 2024 with IFI support).
- Rules for Operation of Closed Distribution Networks (Cabinet decision, 24 Jun 2024).
- Prosumer/“active consumer” guideline: permits behind-the-meter RES up to 150 kW with technical conditions from the supplier (procedural guidance in force).

Planned / in implementation

- Market Operator establishment & day-ahead/balancing markets per 2023 Law and 2024 Action Plan (implementation ongoing under a ministerial coordinating council).
- Continued RES auctions/tenders under the 2021 RES Law and 2023 procedure.
- National Energy Efficiency Action Plan (NEEAP): draft prepared; elements reflected in new legislation, full adoption pending.

1.7 Environmental and Renewable Electricity Legislation

Environmental Protection & EIA

- The Law on Protection of the Environment (No. 678-IQ, 1999) remains the framework for environmental protection and pollution control.
- The Law on Environmental Impact Assessment (No. 1175-VIQ, 12 June 2018) still mandates EIA for projects with potential environmental impacts. No new amendments reported for 2024–2025.

Renewable Energy Legal Framework

- Law on Use of Renewable Energy Sources in Electricity (No. 339-VIQ, 31 May 2021) continues to define the legal backbone for renewables; no new overhauls reported.
- In 2025, key tax exemptions took effect (effective 8 May 2025), providing up to 30 years of relief for RES projects under PPP or PPA:
 - Income tax (personal and corporate)

- VAT on imported machinery
- Property tax on assets
- Land tax on land used in projects

Energy Efficiency & Sustainability Laws

- Law on Efficient Use of Energy Resources and Energy Efficiency (No. 359-VIQ, 9 July 2021) remains active and has seen amendments in December 2024, expanding sources for the Energy Efficiency Fund to include additional energy products, not covered by regulated pricing. This expands the fund’s financing and supports RES, smart meters, grants, and pilot projects.

Electric Power Market Reform Legislation

- Law on Electric Power (No. 858-VIQ, 11 April 2023) is being implemented in stages:
 - Stage 1 (1 Jan 2024 – 30 June 2025): Separation of generation and transmission begins.
 - Stage 2 (1 July 2025 – 30 June 2028): Establishment of a Market Operator and separation of distribution and supply.
 - Stage 3 (from 1 July 2028): Functional market structure with independent operator fully in place.

Green Investment Policy & Climate Commitments

- During COP29 (Nov 2024), Azerbaijan launched a green investment rule book, aimed at unifying sustainable investment taxonomy and unlocking ~\$15 billion in green project funding through 2030
- As of May 2025, Azerbaijan confirmed its intent to submit its updated Nationally Determined Contribution (NDC) by September 2025, pledging 30% electricity from renewables by 2030 and exploring wind energy exports to the EU

1.8 Existing/Planned Certificate or Support Systems

As of 2024–2025, there are no official green energy certifications available in Azerbaijan, including both domestic and international schemes.

This planned REC will be an official domestic recognition of renewable energy generation for regulatory and statistical purposes. However, it will remain entirely local and will not be aligned with internationally recognized renewable energy certification frameworks such as the International Renewable Energy Certificate (I-REC). As a result, local REC holders would not be able to leverage their certification for international trading, global corporate sustainability reporting, or participation in cross-border renewable energy markets.

The absence of I-REC or other globally accepted certification mechanisms presents a significant gap in the Azerbaijani renewable energy market. Establishing a local issuing body accredited by I-REC such as through InvestBaku’s exclusive representation would enable:

- International recognition of renewable energy claims from Azerbaijan.
- New commercial opportunities for local renewable energy producers and corporate buyers.
- Enhanced integration of Azerbaijan into global sustainability and green finance frameworks.

Currently, no other company in Azerbaijan provides I-REC certification services, making this an untapped market with substantial potential for both environmental and commercial benefits.

1.9 Extent of Engagement with Government

The project team has maintained ongoing contact with the Ministry of Economy and, for over one year, with the Ministry of Energy specifically through the Azerbaijan Renewable Energy Agency (AREA). InvestBaku has also consulted with the Small and Medium Business Development Agency (KOBIA) under the Ministry of Economy, leveraging its experience in implementing EU-funded initiatives and its recognition as a locally established entity in Azerbaijan.

Engagement with the government has been constructive. The response from AREA has been positive, and discussions are at an advanced stage. Upon submission of the final set of requested documents, the process is expected to be successfully concluded. AREA has acknowledged the importance of establishing a renewable energy tracking system and an internationally recognized renewable energy certificate (REC) framework. The Azerbaijani renewable energy market is experiencing strong growth, with high demand for RECs. The project team already holds a substantial portfolio of potential participants ready for assessment and certification once the system is operational.

Political risk analysis:

No political disruptions or market risks for the introduction of the I-REC standard in Azerbaijan have been identified. The initiative aligns with national policy objectives to expand renewable energy generation and achieve long-term carbon neutrality targets.

Regulatory risk analysis:

No regulatory risks for introducing the I-REC standard in Azerbaijan have been identified. The proposed mechanism is consistent with existing and planned governmental support systems for renewable energy and does not conflict with any carbon market regulations.

1.10 Expected Response from Government

The project team anticipates a supportive response from the Azerbaijani government regarding the establishment of an I-REC certification system. Discussions with the Ministry of Energy and the Azerbaijan Renewable Energy Agency (AREA) have been constructive, and AREA has expressed a clear understanding of the benefits of an internationally recognized tracking and certification mechanism.

Upon submission of the requested documentation and formal proposals, it is expected that the government will:

- Provide formal acknowledgment or a letter of support for the project.
- Facilitate the official introduction of I-REC certification in Azerbaijan, complementing the planned local REC system.
- Encourage participation by local renewable energy producers and corporate buyers, recognizing the alignment with national renewable energy targets and carbon neutrality objectives.

Given the strong market growth and political alignment with renewable energy policy, the government's engagement is expected to be positive, timely, and enabling, paving the way for the successful launch of an I-REC accredited issuance system in Azerbaijan.

1.11 Proposed Restrictions

- There are currently no proposed restrictions.

1.12 Any Other Relevant Information

Research conducted both locally and internationally indicates that there is a high demand for I-REC certifications in Azerbaijan. Businesses and renewable energy producers are seeking internationally recognized certification to demonstrate compliance with global sustainability standards and to participate in cross-border renewable energy markets.

InvestBaku is fully prepared to act as the official I-REC accredited representative in Azerbaijan, with the necessary local expertise, market knowledge, and government engagement to implement the certification system effectively.

1.13 Author			
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