One step forward, two steps back the electricity markets in Ukraine

Rozeta Karova, Ph.D.
Senior Energy lawyer, Energy Community Secretariat

Outline

- ❑ Why reforms in the energy sector in Ukraine?
- ❑ New electricity market model – is it really happening or something is holding it back
- ❑ What is the future for the UA electricity sector?

Why shall Ukraine reform its electricity sector?

Low not cost-reflective regulated prices

Needs for investment

Historical & new debts accumulating

Electricity Market Law 2017

Retail market opening – 1.1.2019

New wholesale market model – 1.7.2019

Till then – transitional provisions

** Several amendments in 2018

Secondary legislation

CMU, MECI, NEURC

PSO Act

June 2019

** few amendments

21 August latest

Amendments to Market Rules and other last minute actions

Software purchasing & testing (TSO, MO..)

Companies' restructuring..

Retail electricity market

Eligibility of all customers

18m for large customers to choose supplier; afterwards SoLR

Fixed prices by NEURC

Oct 2018 – HH def includes collective customers ***

Universal Service

1.1.2019-31.12.2020

HH, SMEs + ***budgetary institutions*** *irrespective of the amount of contracted capacity and other consumers whose electrical installations are connected to electricity networks with the contracted capacity up to 150 kW* ***

2 y provided by incumbent suppliers – *Oblenergos*

Oct 2018 – competitive tender instead of by 1.7.2020, to be organised by 1.7.2021

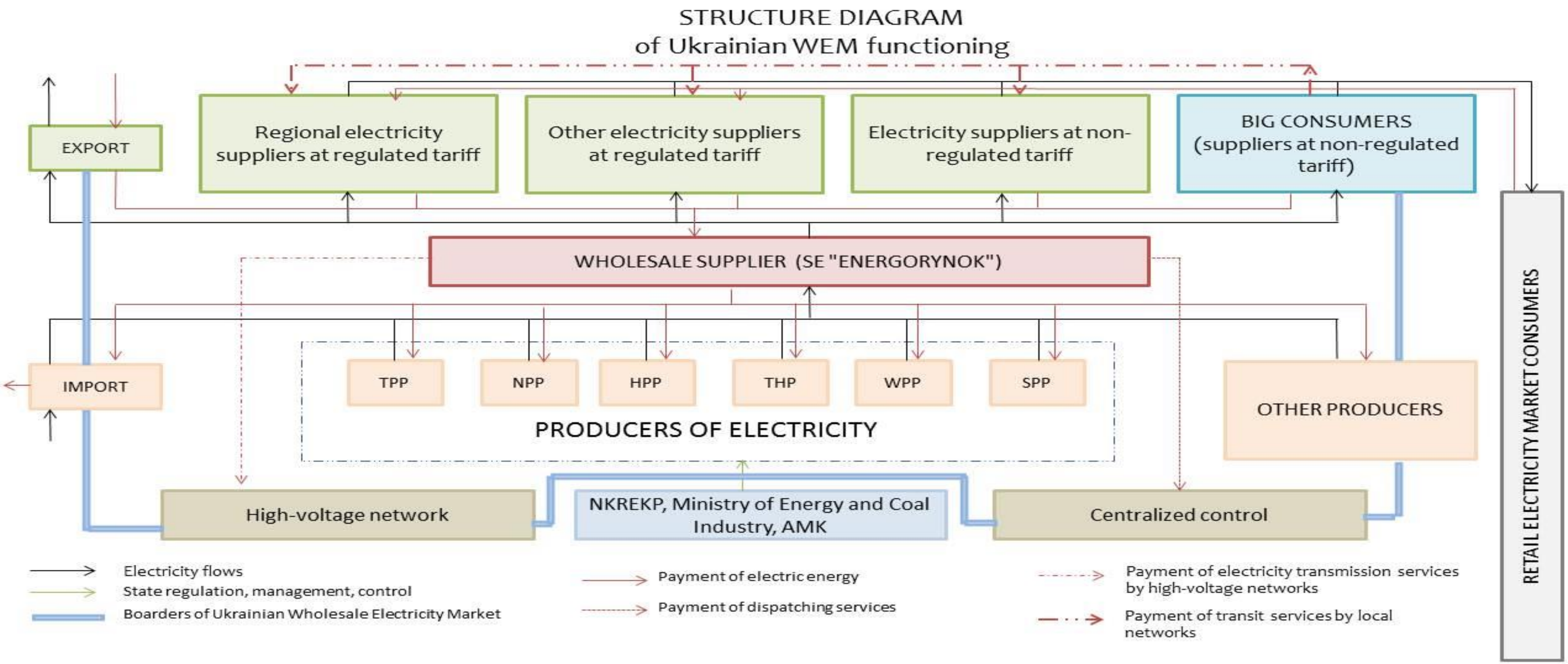
Supply of Last Resort

Competitive tender by CMU or CMU to appoint SoLR for 6months

EML amended: CMU to designate State-owned SoLR ***

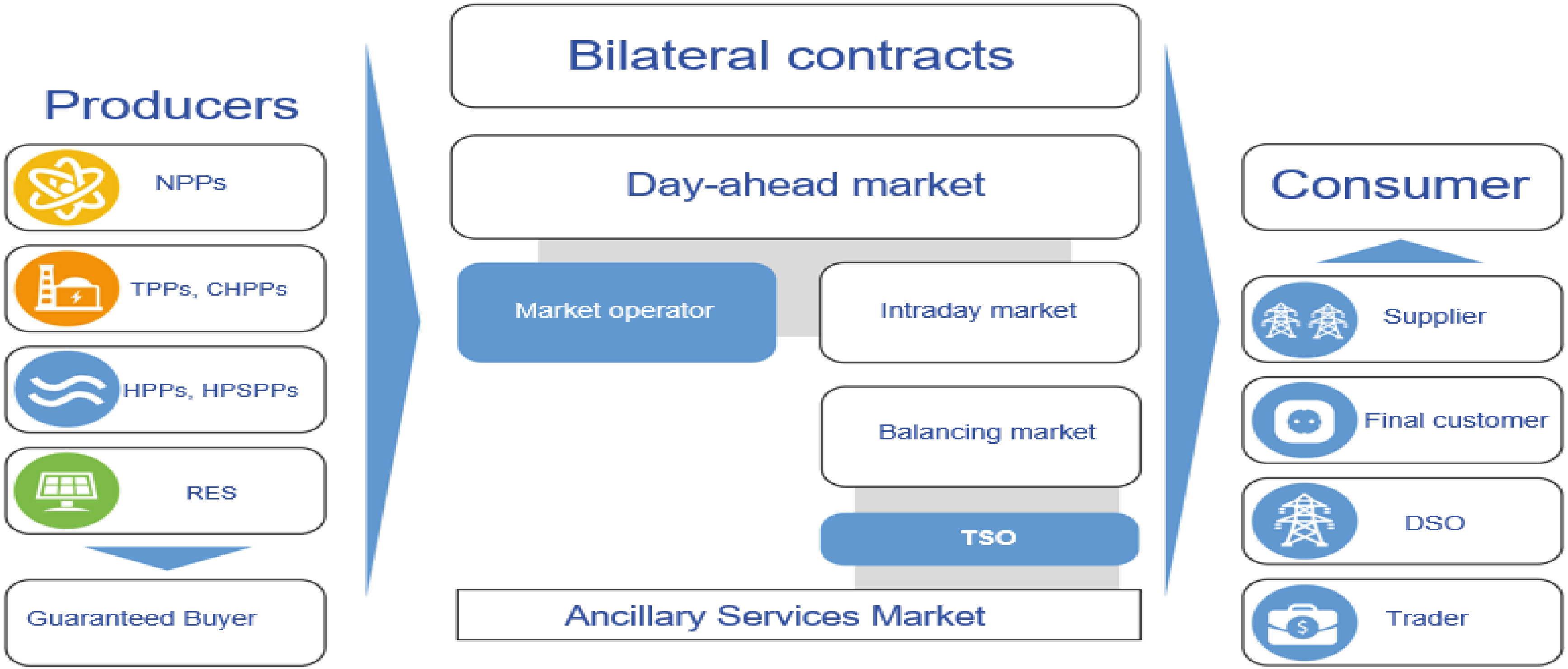
1.12.2018-1.1.2021 *Ukrinterenergo* appointed as SoLR

Wholesale electricity market in Ukraine
Single Buyer Model before 1 July 2019



Source: IKNET - Energy Project Management in Ukraine

Wholesale electricity market in Ukraine
New market model as of 1 July 2019



Source: CMS

Wholesale electricity market
PSO and impact on bilateral market – single buyer is back?

Energy Community

- Energoatom 90%
- Ukrhydroenergo 35%

- Few other State-owned companies performed bilateral auctions

- TPPs concluded bilateral contracts

State-owned producers obliged to sell in bilateral auctions regulated volume, at threshold (regulated) price to only one (single) buyer ***

Guaranteed Buyer

- Purchases from: Energatom & Ukrhydroenergo; RES producers @ feed-in tariffs

- Sells electricity to:
  - USS
  - TSO and DSOs for losses (80%)

- Compensates USS
- Receives compensation from TSO

- USS purchase from GB all electricity for HH
- TSO and DSOs purchase 80% from GB

- Only industrial customers conclude free bilateral contracts

Low interest or incentive for free trading

Wholesale electricity market
Organised markets – July-August 2019

Energy Community

DAM / IDM

- Producers to sell 10%
- Price caps set by NEURC
- TPPs not incentivized
- Low liquidity & decreasing
- IDM prices < DAM prices at moments

Balancing market

- Energy-only
- Separate obligations until synchronizatio n with ENTSO-E
- Ukrenergo did not always activate balancing energy; applied DAM prices

Ancillary services market

- Not yet functioning
- No auctions for annual and quarterly purchase of services by *Ukrenergo*
- No qualified Ancillary Service Providers yet

If UA wants competitive electricity market …

Priority actions & long-term vision to be put in place

Financial debts = risk for SoS

=> Ukrinterenergo & historical debts resolution

Low regulated fixed HH prices = not sustainable & not realistic

=>

Make a plan for eliminating cross-subsidies, reaching cost-reflectivity, reaching market pricing by phase out of PSO

Competitive Electricity Market

Current PSO = single buyer back

not proportionate; not compliant & infringes acquis !!!

=>

First amend & remove obligations for network losses as priority; make a plan for phasing out

Price caps = fine at the beginning but =>

Need to phase them out; need to incentivize participation to organized markets; impose liquidity measures

Thank you for your attention!

Rozeta Karova, Ph.D.
Senior Energy Lawyer
Energy Community Secretariat
rozeta.karova@Energy-Community.org
+43 (0) 664 8498230