

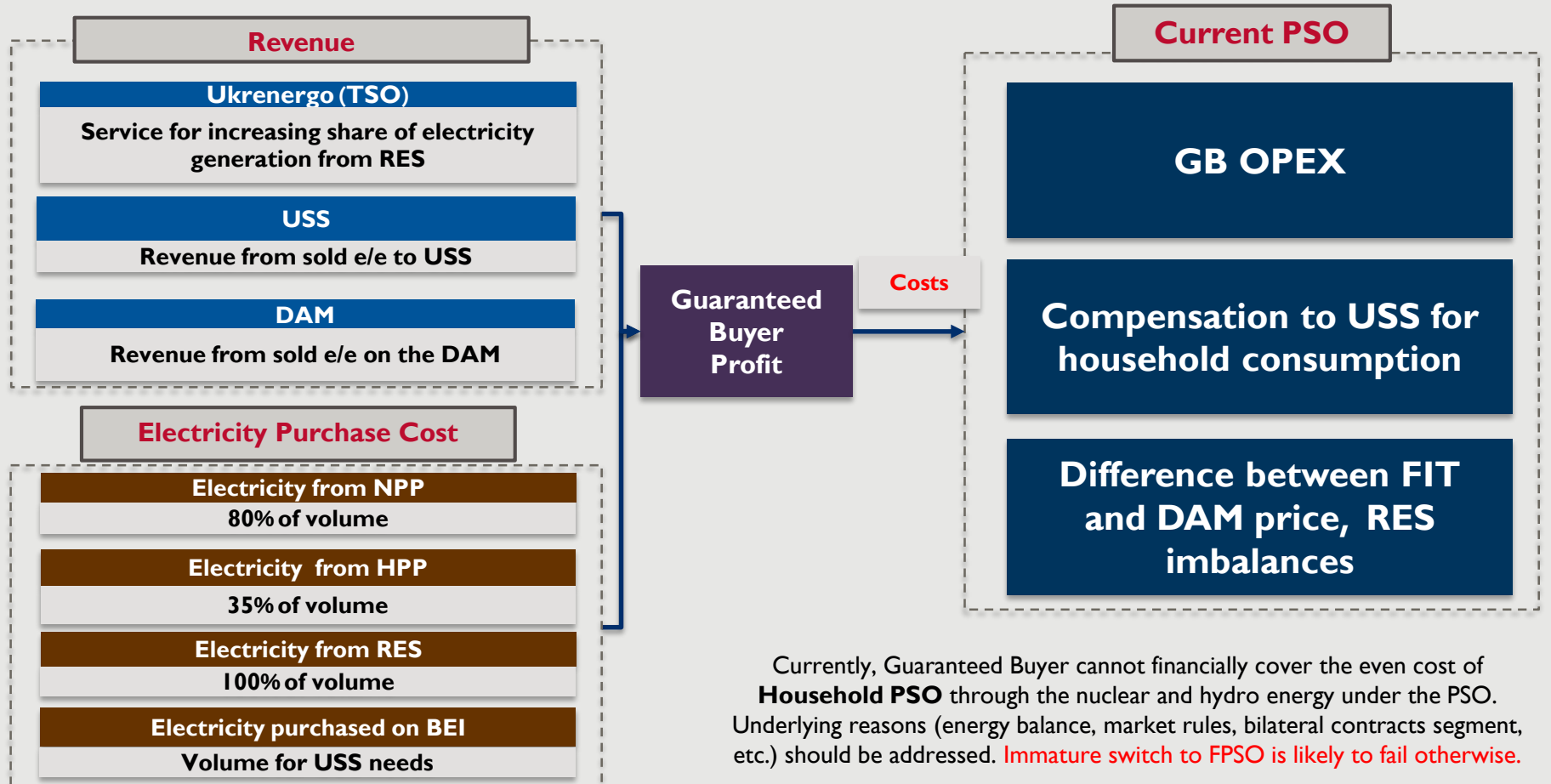


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# Financial PSO Model for Ukraine – A Market Oriented Approach

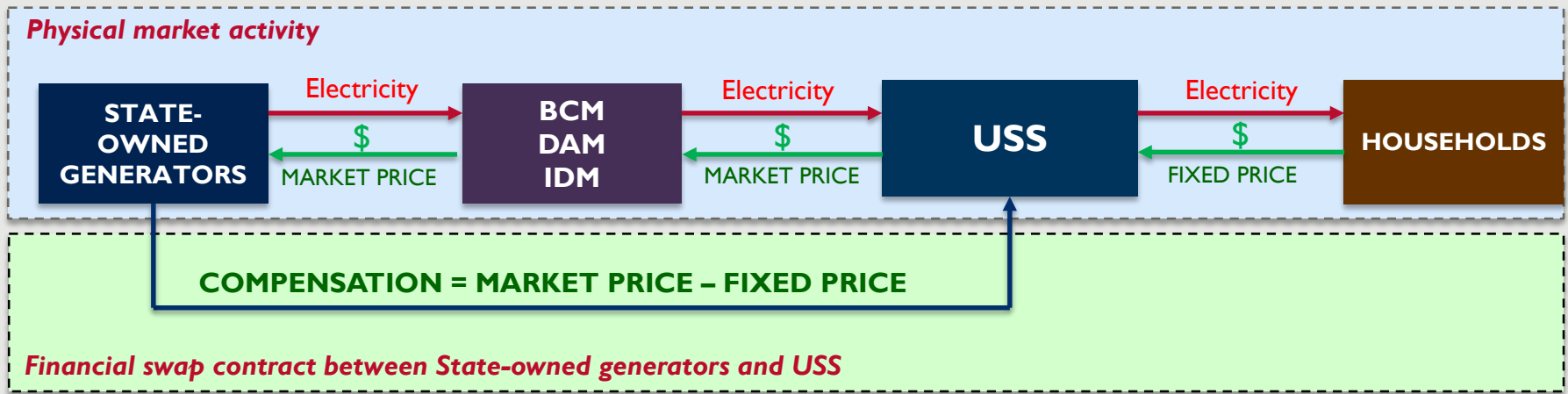
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# Current PSO structure



Currently, Guaranteed Buyer cannot financially cover the even cost of **Household PSO** through the nuclear and hydro energy under the PSO. Underlying reasons (energy balance, market rules, bilateral contracts segment, etc.) should be addressed. **Immature switch to FPSO is likely to fail otherwise.**

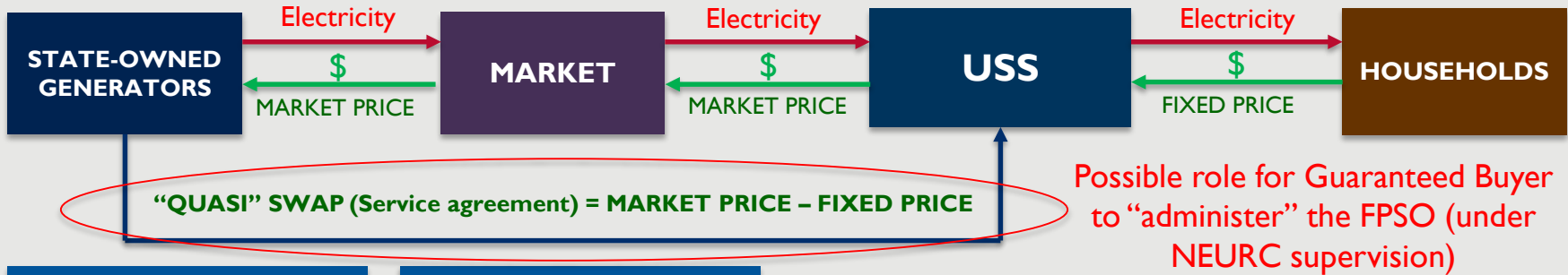
# Switch to Financial PSO



- Market Price is the total cost of electricity for USSs and Fixed Price is the household tariff. **This is a transition solution and ultimate goal should target PSO based on energy prices only \***
- The State-owned generators can sell electricity in the market, bilaterally through auctions or on DAM/IDM, at the price set in such market segments.
- USS will procure electricity in the market at market price and supply it to Households under fixed price.
- To cover the difference between USS costs and fixed tariffs for households, a mechanism should be implemented that transfers to USS the profits created by State-owned generators.
- Financial bilateral contracts - the so-called swaps, or Contracts for Difference (CfDs) are considered to be the mechanism to hedge USS costs for household PSO.

\* **Details of pricing in next slide**

# FPSO Model based on “Quasi Swaps”

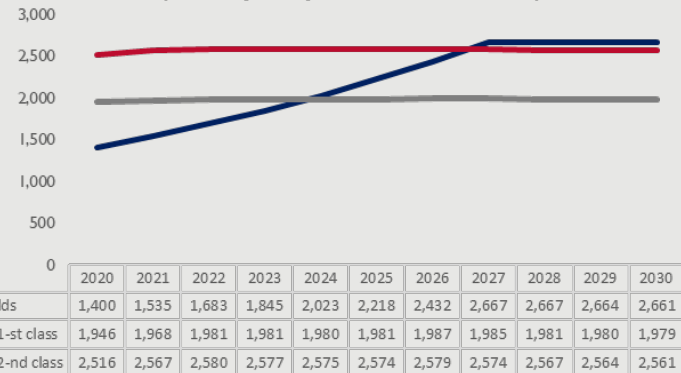


MARKET PRICE	
<input type="checkbox"/>	Energy price
<input type="checkbox"/>	DSO tariff for 2 <sup>nd</sup> class (including TSO dispatch tariff)
<input type="checkbox"/>	TSO tariff
<input type="checkbox"/>	USS tariff

FIXED PRICE	
<input type="checkbox"/>	Regulated/approved household tariff by the CabMin
<input type="checkbox"/>	Gradually reach the market level

- Swap contracts based on **energy price only** must be the **ultimate goal**. Above mechanism is suggested for a transition period, to address **significantly varying DSO tariffs between different zones**
- Planned tariff increase for household must be realistic and consider affordability at all times.

Energy cost for consumer groups, UAH/MWh (multi-year phase-out for PSO)



# Steps required for introduction of “quasi” swap contracts

## Avoid mechanisms based on financial swaps

To require less legislative changes and avoid taxing issues do not consider CfD type financial swap contracts and utilize “service contracts”

## Adopt new CabMin Resolution

- Impose PSO on USSs and state-owned generators whereby USSs will provide service to ensure affordability of electricity to households and receive compensation from generators
- Avoid overregulation and cost+ approach as in tariff making, ensure smooth operation relying on market mechanisms and principles

## Competitive Bilateral Contracts (Forward) Market

State-owned generators have a large market shares. Day-ahead market dominated freely by these generators led to huge pricing problems in 2019 and 2020. So, they should sell certain volumes through bilateral contracts **under transparent and competitive trading rules regulated by NEURC** (standard products and contracts “**open to everyone**”) to achieve higher churn rates, liquidity and accountability.

## Working Capital Gap of USSs

Current tariff structure of USSs doesn’t accommodate the working capital required for energy purchases in the market. Advance payments in the PSO mechanisms or cost recognition in the tariff structure is needed.

## Prerequisites to avoid “immature” switch to FPSO to avoid the obvious failure

- Address current “financial gap” in the physical PSO and outstanding payments to Energoatom under PSO and balancing market and make sure FPSO works as planned
- Avoid using TSO tariff as a back-up for insufficient funds for FPSO. This leads to a new cross-subsidy
- Ensure physically and financially balanced **energy balance**. Avoid allocation of energy to specific customer groups from state-generators. This leads to problems for PSO and constitutes a market intervention.
- Transparent and accountable bilateral contracts trade rules and platform
- Working capital arrangement for USSs to buy energy in the market under FPSO.
- Carefully analyze market specifics and DSO tariffs to ensure smooth operation.

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# THANK YOU!

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