

**National Energy and
Utilities Regulatory Commission:
the latest regulatory developments**

Implementation of the Law on the Regulator. Transparency, open meetings, consumer information



Open meetings of NEURC



Open discussion procedure: Discussion of decisions; Public consultations; Civil Council



Consumer information



Official web-site – key communication tool



НКРЕКП
ОНЛАЙН

On-line services : ON-LINE BROADCASTING; ON-LINE REGISTRATION; ON-LINE SEARCH OF LETTERS; CALCULATORS OF CONNECTION (ELECTRICITY & GAS); Key information for consumers



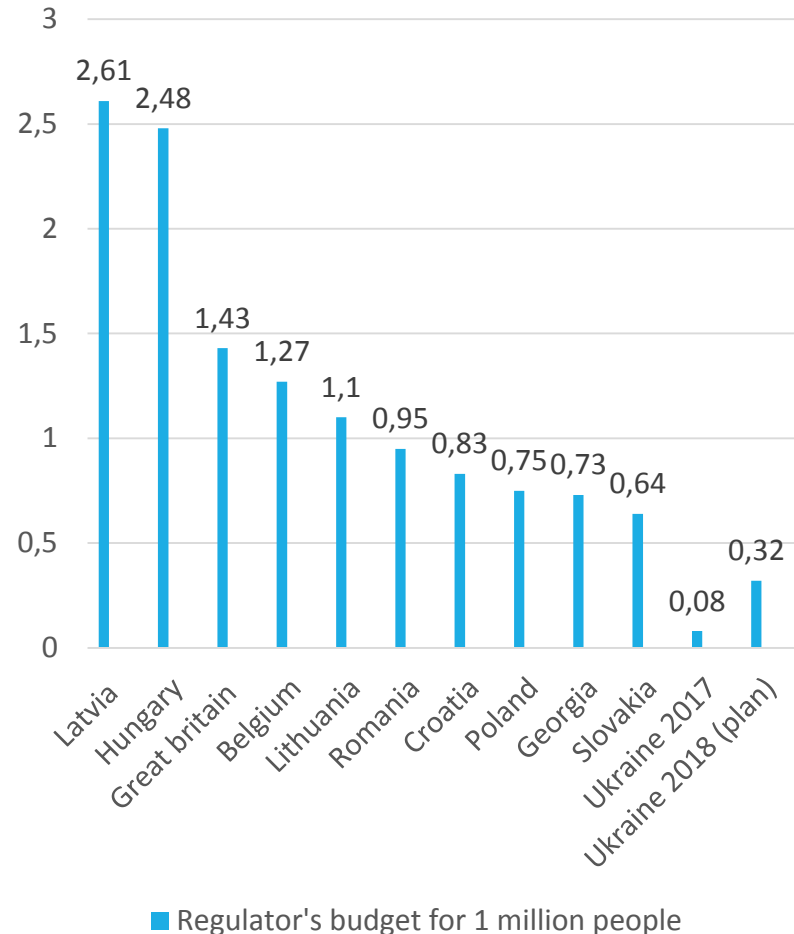
Annual reports – events review, important details, priorities and user-friendly design



Commission has implemented all autonomous aspects of the Law

Problematic Issues Related to the Implementation of the Law on the Regulator

Budgets of some energy Regulators (million €/million people)



Financial Independence of the Regulator

In 2017 the provisions of the Law on NEURC concerning financial independence did not enter into force yet. NEURC's budget (in terms of 1 million people) is significantly less than that of regulators in other countries and it does not allow to engage highly qualified personnel and duly perform functions assigned to NEURC.

According to Article 13 of the Law on NEURC, the Commission's budget shall be formed from regulation fees paid by regulated entities. The regulation fee rate must not exceed 0.1% of the net income of fee payers.

NEURC's draft cost estimate for 2018 amounts to 398 514 thousand UAH (€ 13 000 000) being 0.065% of the net income of the regulation fee payers for 2016.

20.09.2017 NEURC's draft budget for 2018 was agreed by the Budget Committee of the Parliament of Ukraine.

The amendment of the Budgetary Code of Ukraine remains unsolved.

Problematic Issues Related to the Implementation of the Law on the Regulator (II)

Rotation of NEURC's Commissioners

According to the Law, in May 2017 three out of seven NEURC's Commissioners were dismissed. Two more Commissioners must be dismissed in November.

Candidates for NEURC's Commissioners must be selected by a Selection Committee consisting of representatives of the President, the Parliament and the Government of Ukraine.

For now the Selection Committee's members have not appointed yet and it might happen that after rotation in November there will be only two NEURC's Commissioners. Due to the lack of quorum the Commission will not be able to take decisions.

Audit of NEURC by the Energy Community Secretariat



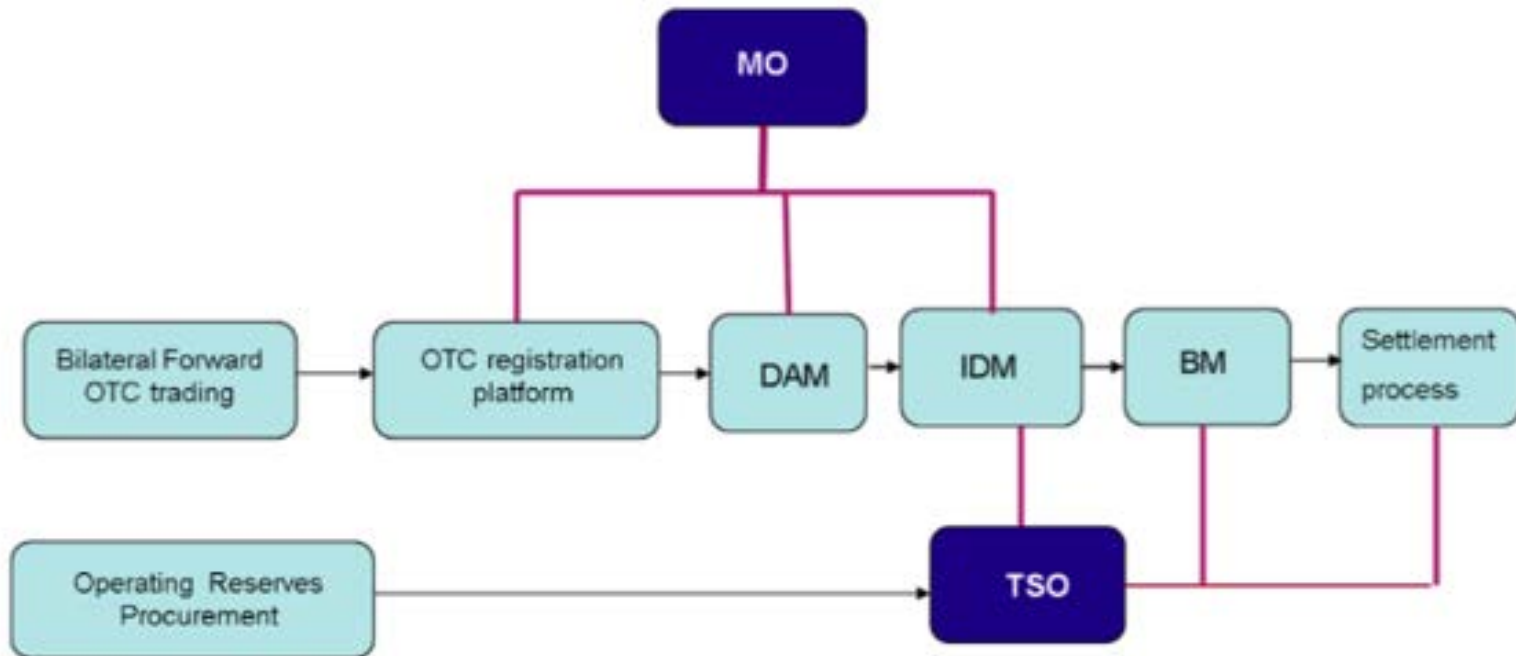
Upon the NEURC's invitation the Energy Community Secretariat has initiated an assessment of the legal framework and performance of the Ukrainian national regulatory authority.

(see: <https://www.energy-community.org/news/Energy-Community-News/2017/07/20.html>). The review comes in the context of a number of alleged legal and factual shortcomings hindering NEURC to use its independence and competences granted by the legislation fully.

Reforms in the energy sector of Ukraine

Electricity Market Reform (I)

In June 2017 the Law on the Electricity Market entered into force according to which the market must be liberalized by transferring from the current “single buyer” market model to the target market model of the European Union



MO – Market operator
DAM – Day-ahead market
IDM – Intra-day market
BM – Balancing market

Proposal for the wholesale electricity market in Ukraine

Electricity Market Reform (II)

NEURC's task concerning the implementation of the Law on the Electricity Market

11.06.2017

31.12.2018

11.06.2018

12 Regulations

Including:

- License conditions
- TSO Certification
- Compliance Programs

74 Regulations

Including:

- Market Rules (general, DAM, IDM)
- Network Codes (TSO, DSO), Commercial Metering Code
- Standard and Sample Contracts
- Tariff Calculation Methodologies

Natural Gas Market Reform

•Gas Law and relevant secondary legislation aligned with the 3 rd Energy Package	Done
Creation of the entry/exit system and VTP	Done
Guaranteed standards of quality of gas distribution and supply services	Done. Guaranteed standards of quality of gas distribution and supply services was finally adopted and sent for its official publication. The Regulation imposes the obligation on gas distribution operators and suppliers to compensate consumers the defined amount of money in case guaranteed standards are breached.
Daily balancing	In progress. The draft NEURC's Regulation on daily balancing implementation was preliminary approved and published for public consultation. The draft Regulation is also aimed at implementing the requirements of EU Balancing network code (Regulation № 312/2014)

Transition from cost-based methods of regulation of natural monopolies to an incentive regulation

As for now NEURC regulates natural monopolies using the cost-based methods of regulation. These methods do not use the concept of a rate of return on investments (RoR) and a regulatory assets base (RAB).

In order to increase performance efficiency of network companies, ensure its sustainable functioning and investment attractiveness, NEURC is transferring from cost-based methods of regulation to incentive ones in the electrical power industry, gas sector, district heating, water supply and sanitation.

The main principles for implementing an incentive regulation are based on the Law On Natural Monopolies:

- the first regulatory period - 3 years, the next – 5 years;
- RAB shall be determined based on the valuation of the fixed assets according to the State Property Fund's Methodology;
- the RoR cap shall be set by the Ministry of Economic Development;
- the same sectorial efficiency factor shall be set for all companies for the first (transitional) regulatory period, starting from the second period an individual efficiency factor shall be applied as well for each company based on benchmarking.

Development of a regulatory and legal framework by NEURC for implementing the incentive regulation

Field of Regulation	Setting Procedure	Efficiency Indicator	Revenue Calculation Procedure	Revenue Level
Electricity Transmission	✓	✓	✓	✓
Electricity Distribution	✓	✓	✓	✓
Natural Gas Transportation	✓	✓	✓	✓
Natural Gas Distribution	✓	✓	✓	✓
Water Supply and Water Removal	✓	✓	✓	✓
Heat Supply	✓	✓	✓	✓

Thank you for attention