

National Energy and Utilities Regulatory Commission of Ukraine: the latest regulatory developments

44 ECRB Meeting

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Energy Sector Reforms

Current Key Context

- **Gas Market:** certification & licensing gas TSO, tariffs setting new gas TSO, gas DSO tariff review
- **Electricity Market:** streamlining of operations and monitoring
- **Legislative initiatives:** amendments to Electricity Market Law, Draft Law on Electricity Market Debts Resolution
- **Regulator status:** sustainability and independence

New Electricity Market: Secondary Legislation

Latest documents:

November 2019

05/11/2019

14/11/2019

22/11/2019

26/11/2019

- Pre-approval changes to the **Retail Market Rules**;
- Pre-approval changes to the **Transmission Network Code** (*concerning prequalification of AS providers for transitional period*);

- Pre-approval of **Capacity Allocation Rules and Congestion Management Rules**;
- Pre-approval changes to the **Transmission Network Code** (*concerning improvements in agreements for transmission and for dispatching*);

- **Fee for standard and non-standard connection for 2020**;
- Pre-approval changes to the **Procedure on setting (forming) electricity distribution tariffs** (*concerning the level of DSO costs and reasons to initiate the procedure for tariff setting*);

- Pre-approval changes to the **Market Rules and DAM and IDM Rules** (*concerning the mechanism of price caps on BM; cost of services of MO; amendments to standard agreements*);

Electricity TSO Unbundling Process

- Submission of the request to NEURC on **certification** of TSO (14/08/2019)
- **OU** model
- On **October 7, 2019** the Preliminary Decision on certification was adopted
- **Preliminary Decision** was sent to Energy Community Secretariat
- **Preliminary Decision is under consideration of EnCS**
- The Verkhovna Rada of Ukraine adopted the Law of Ukraine № 264-IX dated **31 October 2019** “On amendments to certain legislative acts of Ukraine in connection with the unbundling of natural gas transmission activities”. The Law includes electricity TSO unbundling issues, notably, TSO independency in decision making
- Amendments to the Law of Ukraine on **pledge** dated 18 October 2019 concerning TSO licensing (*TSO can operate on the existing license until the end of January 2020*)



Licensing

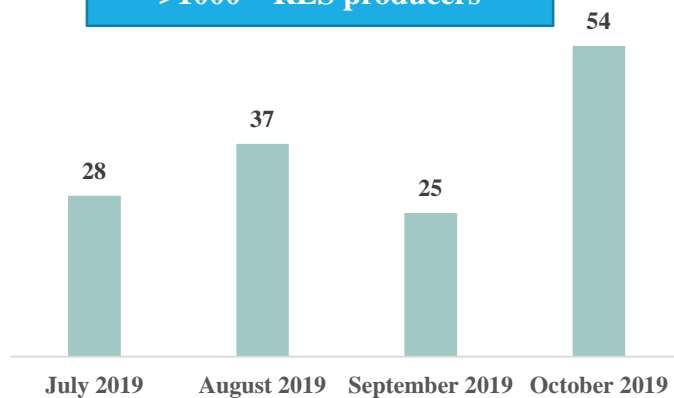
➤ Licenses issued by NEURC (as of 30/10/2019):

Market Operator	Guaranteed Buyer	DSO
1	1	32

Generators

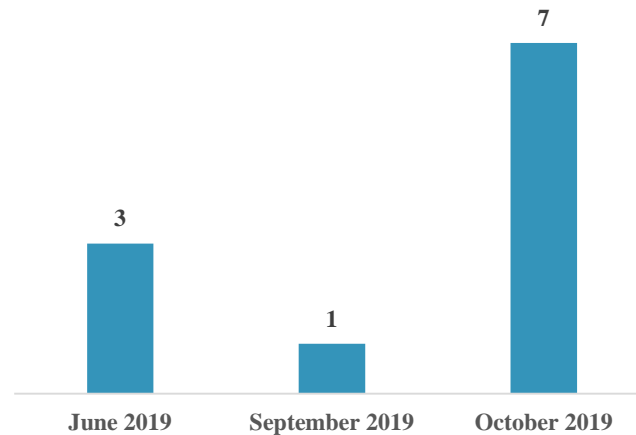
1056

9 – large producers
26 – CHPPs
>1000 – RES producers



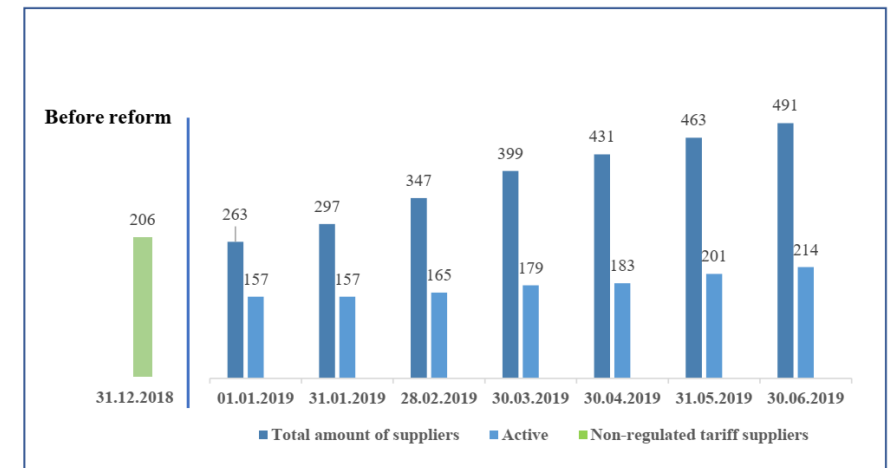
Traders

11



Suppliers

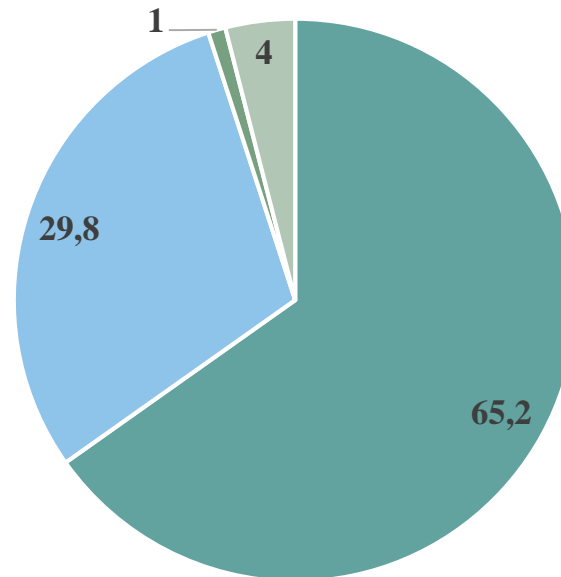
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Wholesale Electricity Market Opening (1)

New market model from **July 1, 2019**

Preliminary Structure of the Electricity Market of Ukraine as of October 2019



■ Bilateral contracts ■ DAM ■ IDM ■ Balancing Market

Source: TSO real-time data

Wholesale Electricity Market Functioning (2)

Bilateral contracts

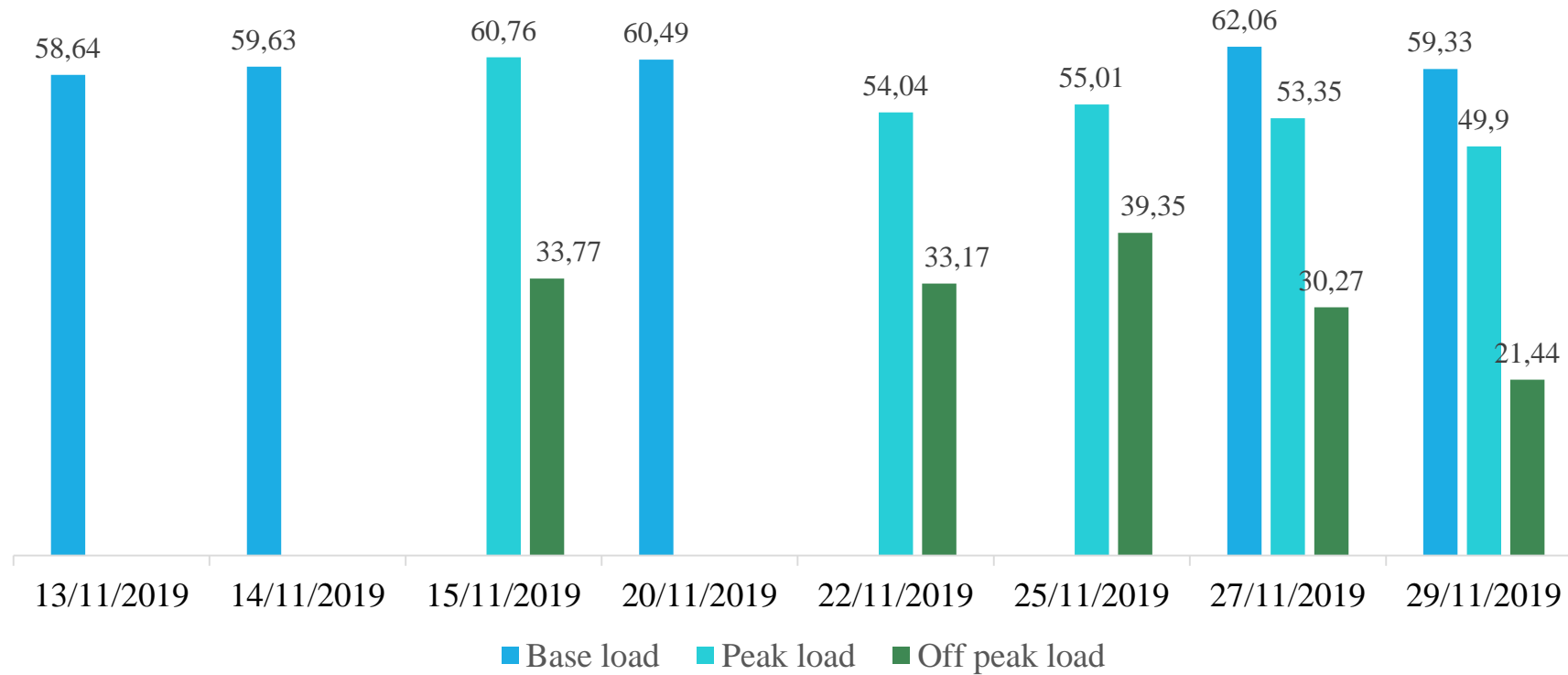
Mandatory bilateral auctions through an electronic platform (Ukrainian energy exchange <https://www.ueex.com.ua>) for state-owned generation companies

Privately-owned generators (mostly thermal power plants) can trade freely

Wholesale Electricity Market Functioning (3)

Ukrainian energy exchange prices, Euro/MWh

Weighted average prices at UEEEX, euro/MWh



Wholesale Electricity Market Functioning (4)

DAM and IDM

In October 2019 average number of participants:

DAM – 219 participants

IDM – 96 participants

Price caps on the DAM and IDM (*as of October 2019*):

From 00:00 to 08:00, and from 23:00 to 24:00 – **35 Euro/MWh**

From 08:00 to 23:00 – **74,75 Euro/MWh**

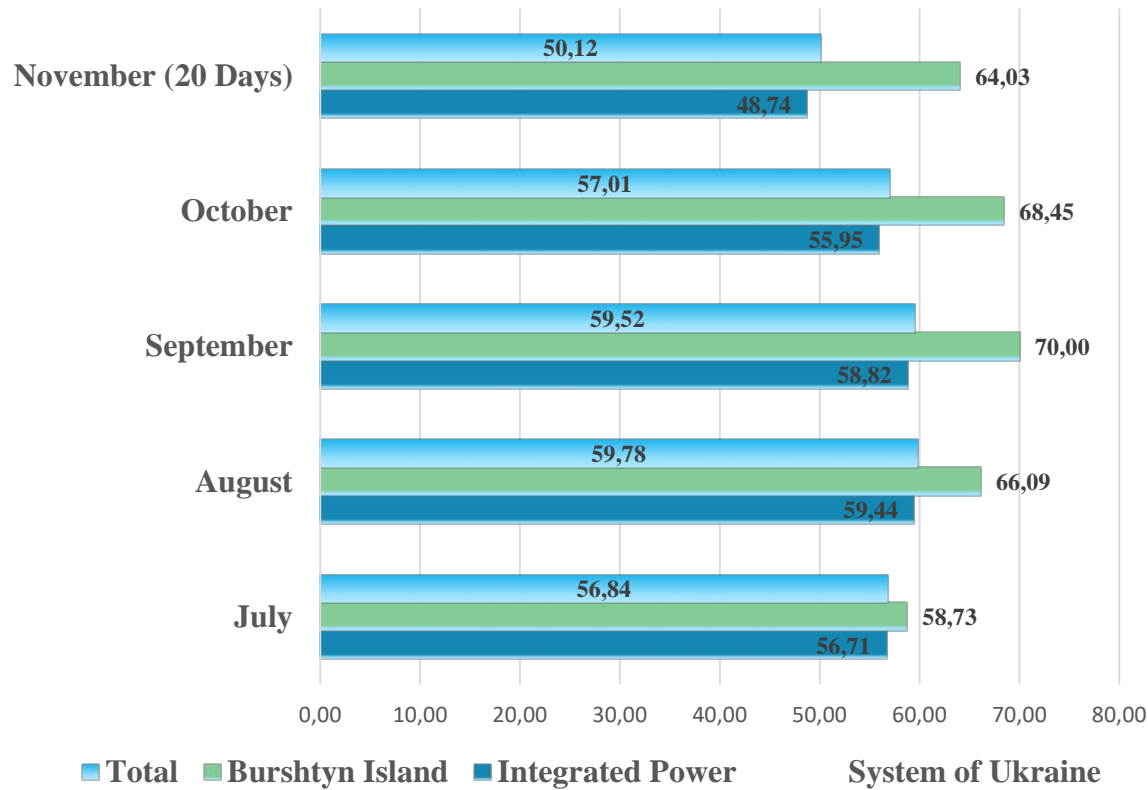
Results published on the Market Operator website <https://www.oree.com.ua>

Wholesale Electricity Market Functioning (5)

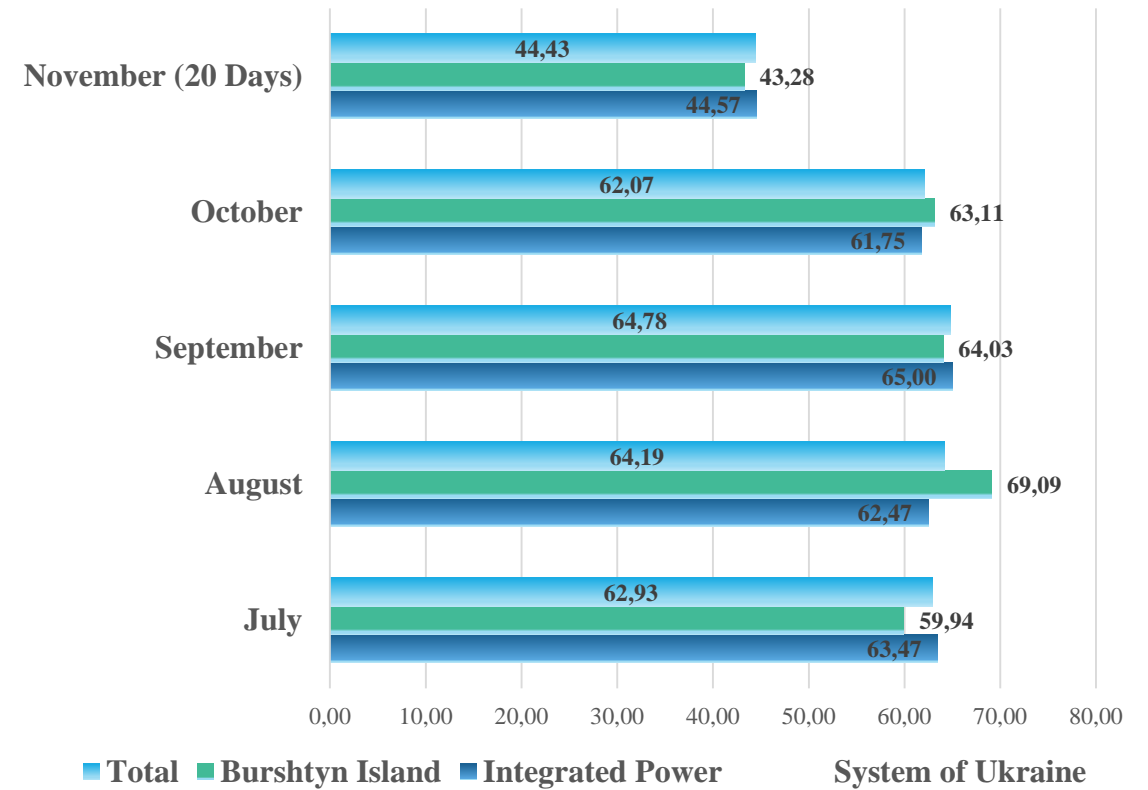
DAM prices, Euro/MWh

IDM prices, Euro/MWh

Weighted average prices at DAM



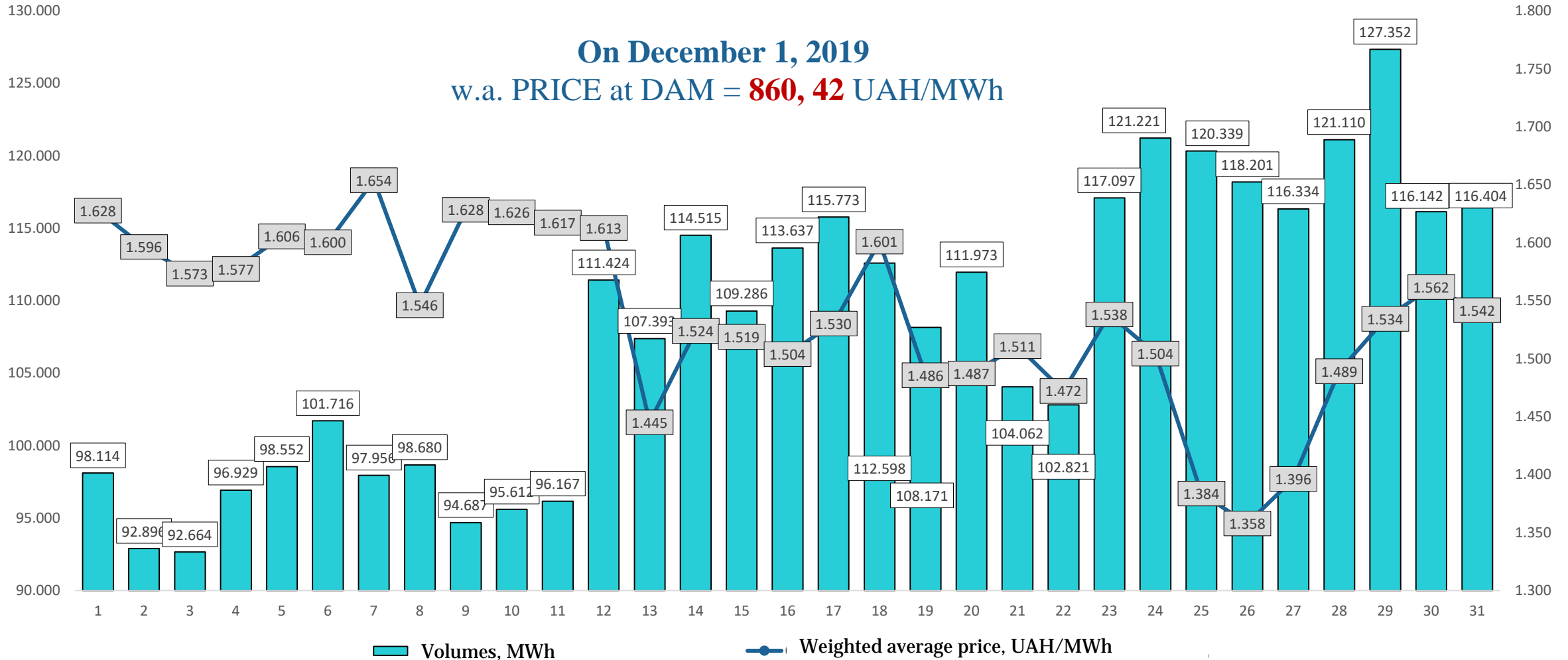
Weighted average prices at IDM



Source: Market Operator

Wholesale Electricity Market Functioning (6)

Prices and volumes at DAM (bidding zone: Integrated power system of Ukraine), October 2019



Source: Market Operator

Wholesale Electricity Market Functioning (7)

Balancing Market

Balancing market – **energy only**

Price caps (*according to the changes to the Market Rules on November 26, 2019*):

*Until the synchronization with ENTSO-E, market participants in their bids have to submit a price not less than **70%** and not more than **115%** of the **DAM price** of the relevant settlement period*

Remain issues:

- Insufficient balancing responsibility for RES producers

Ancillary Services Market is not launched yet

Electricity Market Monitoring (retail market)

- Functioning of retail market based on new market rules since **January 1, 2019**
- Data collection and processing on *retail market functioning* based on **new reporting forms** (*adopted in March 2019*)
- Market Monitoring Report (*retail market*) is publicly available (*November 20, 2019*)

<http://www.nerc.gov.ua/?news=9571>



Transposition of EU legislation into Ukrainian gas legal framework

- On November 29, 2019 NEURC approved resolution «On transposition of the provisions of the European Union and the Energy Community legal acts on the natural gas market of Ukraine» which include:
 - ✓ Regulation (EU) 2015/703 of April 30, 2015;
 - ✓ Regulation (EU) 2017/459 of March 16, 2017;
 - ✓ Regulation (EU) 2017/460 of March 16, 2017;
 - ✓ Regulation (EU) 2014/312 of March 26, 2014;
 - ✓ Regulation (EU) 2012/490 of August 24, 2012.

- The above mentioned EU legislation were transposed without changes to its text or structure other than translation

Improvement of secondary legislation

➤ On October 11, 2019 the **amendments** were approved to the **Transmission Tariffs Methodology for Entry and Exit Points Based on Long-Term Incentive Regulation** providing the following:

- allowing clustering or grouping homogeneous points to calculate transmission tariffs;
- allowing to apply the same approach to the determination of tariffs for natural gas transportation services;
- introducing an auction price mechanism.

These changes introduced a mechanism for calculating tariffs for entry/exit points to/from the gas transmission system based on the capacity-weighted distance methodology.

➤ On November 5, 2019 **further amendments to the Methodology** were approved in order to implement Regulation (EU) 2017/460, introducing the:

- improved mechanism for forecasted revenue requirements calculation;
- improved approach to the revenue requirements adjustments based on capacity charges aiming to prevent discrimination and inappropriate cross-subsidization;
- mechanism for transmission tariffs setting that takes into account the tariff levels for alternative routes.

Gas TSO Unbundling Process

- Submission of the request to NEURC on **certification** of TSO (04/10/2019)
- **ISO** model selected
- On **November 22, 2019** the Preliminary Decision on certification was adopted
- **Preliminary Decision** sent to Energy Community Secretariat
- Adoption the **Law of Ukraine** № 264-IX dated 31 October 2019 “On amendments to certain legislative acts of Ukraine in connection with the unbundling of natural gas transmission activities” (*approval of financial plans of gas TSO; independency in decision making incl. the Cabinet of Ministry of Ukraine; powers of Regulator (dispute settlement between Owner and TSO); one year deadline for obtaining new license*)



Implementing legislation on energy regulator

- Pre-approval of **Procedure on the Investigations on the Electricity and Natural Gas Markets in Ukraine**

(on October 11, 2019)

- Pre-approval of the **Amendments to the Procedure for Licensing Control of Licensees in Energy and Utilities**

(on November 26, 2019)



Issues remained

- **Final Decision on Electricity TSO** certification
- **Final Decision on Gas TSO** certification
- **Efficiency of the electricity market, changes to Electricity Market Law**



Legislative initiatives

- **Draft Law # 2233** of 04/10/2019 (amendments to Electricity Market Law)
- **Draft Law # 2386** and **draft Law # 2387** (on debts in the wholesale electricity market)
- **Draft Law # 2490** of 22/11/2019 (amendments to the Law on NEURC concerning Regulator status)
- **Draft Law # 2284** of 17/10/2019 (amendments to certain legislative acts of Ukraine on simplification of investment attraction and introduction of new financial instruments)

Energy Regulator

Amendments to the Law on NEURC

- **Two drafts of Law** registered in the Parliament (#2490 of November 22, 2019 and # 2490-1 of November 25, 2019)
- The main idea of the changes is to ensure compliance with the requirements of the **Constitution of Ukraine**
- According to the Decision of the Constitutional Court some provisions of the Law on NEURC will expire on **December 31, 2019**



New members of NEURC

- In October 2019 **two Commissioners** quit voluntarily
- On **October 29, 2019** the President of Ukraine temporary (*for three months*) appointed **four new Commissioners** for vacant positions
- On November 4, 2019 **new Chairman of NEURC** was selected



NEURC Annual Report

- For the first time Annual Report is published **in English**
- Available on the following links:

<http://www.nerc.gov.ua/>

and

<http://online.fliphtml5.com/swbx/esaa/>



Thank you for your attention!