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

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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
**Legal, regulatory, technical reforms**

**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**

**PSO Act**  
June 2019  
**few amendments**  
21 August latest

**Amendments to Market Rules and other last minute actions**

**Secondary legislation**  
CMU, MECI, NEURC

**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

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

Producers
- NPPs
- TPPs, CHPPs
- HPPs, HPSPFs
- RES

Guaranteed Buyer

Bilateral contracts

Day-ahead market

Market operator

Intraday market

Balancing market

Ancillary Services Market

TSO

Consumer
- Supplier
- Final customer
- DSO
- Trader

Source: CMS
Wholesale electricity market
PSO and impact on bilateral market: single buyer is back?

- Energoatom 90%
- Ukrhydroenergo 35%

- Few other State-owned companies performed bilateral auctions

- TPPs concluded bilateral contracts

 Guaranteed Buyer

- Purchases from: Energoatom & 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

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

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Wholesale electricity market
Organised markets – July-August 2019

**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 synchronisation 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

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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

Competitive Electricity Market

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

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

Vienna, 20 September 2019
Thank you for your attention!

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