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

45 ECRB Meeting

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NEURC, Ukraine
Energy Sector Reforms
• **Electricity Market:** key challenges, RES challenges, TSO unbundling, secondary legislation, market functioning, legislative initiatives, REMIT

• **Gas Market:** new certified TSO tariffs, DSO tariff review, PSO changes

• **Regulator status:** sustainability and independence

• **Response to COVID-19**
Key challenges

• **Drop in demand**, deepened by to COVID-19

• Rapid **RES share increase** of under **demand falling** conditions incl. **financial aspect** (+20 bln UAH in 2020 compared to 2019 or +78%)

• **Low competition** on market segments incl. due to **PSO design**

• Never paying customers (of SoLR, mines, water-pumping enterprises)

• **Old debts** settlement + new debt accumulated

• Electricity **TSO unbundling model**
RES challenges

- RES rapid growth (as of April 1, 2020: \(7,1 \text{ GW}\))
- High level of “green” tariff (from 17 to 10 eurocent/kWh)
- High level of debts of Guaranteed Buyer (only 33% (5.8 bln UAH) are paid to RES from the beginning of 2020)

Installed capacity MW

**Negotiations on Memorandum with RES investors**

Changes to the primary legislation
**Electricity TSO Unbundling Process**

**Prehistory**

- 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

**Current status**

- EnCS by its decision dated 05.02.2020№1/20 **rejected** Ukrenergo certification according to OU model, *(TSO does not own (or has equivalent rights) transmission system assets)* and recommended the ISO model

- On March 26. 2020 the **draft law** on amendments to certain legislative acts of Ukraine was **registered in Verkhovna Rada of Ukraine** in order to enable the **ISO unbundling model**. At the last meeting of the Energy Committee of the Verkhovna Rada of Ukraine (June 4), the draft Law №3364-1 **was supported and submitted to the deputies for the first reading.**
Electricity Secondary Legislation

Latest key documents:

- Adoption of Generation adequacy report
- Adoption of Capacity Allocation Rules and Congestion Management Rules
- Adoption of Ten-year network development plan (for 2020-2029)
- Pre-approval of changes to the regulatory framework for the introduction of incentive regulation for distribution system operators

13/03/2020
03/04/2020
29/04/2020
Wholesale Electricity Market Functioning (1)

New market model from July 1, 2019

Structure of the Electricity Market of Ukraine in the second half 2019

<table>
<thead>
<tr>
<th>Bilateral contracts</th>
<th>Balancing Market</th>
<th>DAM</th>
<th>IDM</th>
</tr>
</thead>
<tbody>
<tr>
<td>76%</td>
<td>3%</td>
<td>1%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: TSO data

DAM and IDM


Number of active market participants on DAM&IDM:

<table>
<thead>
<tr>
<th>Month</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2020</td>
<td>345</td>
</tr>
<tr>
<td>February 2020</td>
<td>368</td>
</tr>
<tr>
<td>March 2020</td>
<td>386</td>
</tr>
</tbody>
</table>

Price caps on the DAM and IDM are extended for undefined period

Balancing Market

Administered by TSO [https://ua.energy/](https://ua.energy/)

Average number of BSPs - 15 (in 2019)

Price caps:

Until the synchronization with ENTSO-E, bidding prices of market participants should be not less than 35% and not more than 105% of the DAM price

Insufficient balancing responsibility for RES is still an issue
## Wholesale Electricity Market Functioning (2)

### Bilateral contracts market prices

<table>
<thead>
<tr>
<th>Date</th>
<th>Base load</th>
<th>Off peak load</th>
<th>Peak load</th>
<th>Peak load of a non-working day</th>
</tr>
</thead>
<tbody>
<tr>
<td>08/01/2020</td>
<td>56.36</td>
<td>35.16</td>
<td>56.55</td>
<td>56.55</td>
</tr>
<tr>
<td>15/01/2020</td>
<td>48.52</td>
<td>35.45</td>
<td>48.52</td>
<td>48.52</td>
</tr>
<tr>
<td>22/01/2020</td>
<td>44.79</td>
<td>44.69</td>
<td>47.29</td>
<td>47.29</td>
</tr>
<tr>
<td>29/01/2020</td>
<td>44.33</td>
<td>34.64</td>
<td>44.70</td>
<td>44.70</td>
</tr>
<tr>
<td>05/02/2020</td>
<td>52.15</td>
<td>52.90</td>
<td>48.43</td>
<td>48.43</td>
</tr>
<tr>
<td>12/02/2020</td>
<td>48.24</td>
<td>50.11</td>
<td>50.10</td>
<td>50.10</td>
</tr>
<tr>
<td>19/02/2020</td>
<td>40.05</td>
<td>48.24</td>
<td>48.43</td>
<td>48.43</td>
</tr>
<tr>
<td>26/02/2020</td>
<td>35.72</td>
<td>35.72</td>
<td>35.72</td>
<td>35.72</td>
</tr>
<tr>
<td>05/03/2020</td>
<td>36.87</td>
<td>32.89</td>
<td>32.89</td>
<td>32.89</td>
</tr>
<tr>
<td>12/03/2020</td>
<td>32.89</td>
<td>46.13</td>
<td>49.73</td>
<td>49.73</td>
</tr>
<tr>
<td>19/03/2020</td>
<td>48.84</td>
<td>48.84</td>
<td>48.84</td>
<td>48.84</td>
</tr>
<tr>
<td>26/03/2020</td>
<td>47.80</td>
<td>47.80</td>
<td>47.80</td>
<td>47.80</td>
</tr>
</tbody>
</table>

**Weighted average prices at UEEX, euro/MWh**
Wholesale Electricity Market Functioning (3)

Aggregated **BIDS** for sale and purchase

*(Bidding zone: Integrated power system of Ukraine)*

**Day-Ahead Market**

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**February 2020** before **COVID-19**

**May 2020** in full play of **COVID-19**

**Weighted average price, UAH per MWh**

Source: Market Operator
Wholesale Electricity Market Functioning (4)

**Day-Ahead Market price and volumes**

<table>
<thead>
<tr>
<th>Month</th>
<th>Weighted average price at DAM (Burshtyn Island), €/MWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>3.31.20</td>
</tr>
<tr>
<td>February</td>
<td>4.34.72</td>
</tr>
<tr>
<td>March</td>
<td>4.217.03</td>
</tr>
</tbody>
</table>

Source: Market Operator

**IntraDay Market price and volumes**

<table>
<thead>
<tr>
<th>Month</th>
<th>Weighted average price at IDM (Burshtyn Island), €/MWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>4.13.45</td>
</tr>
<tr>
<td>February</td>
<td>2.27.56</td>
</tr>
<tr>
<td>March</td>
<td>3.55.46</td>
</tr>
</tbody>
</table>

Source: Market Operator
Legislative initiatives

• **Draft Law # 2386** of 06/11/2019 (on debts in the wholesale electricity market) – *adopted* by the Parliament in the first reading on **April 30, 2020**

• **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) – **June 3, 2020 approved** by the Parliamentary Committee for the second reading

• **Draft Law # 3199** of 11/03/2020 on the **amendments to Electricity Market Law** (concerning *long-term contracts with electricity producers according to a separate decision of the Cabinet of Ministers of Ukraine*) and several other initiatives of changes to Electricity Market Law (*not registered yet*)

• **Draft Law # 3364** of 21/04/2020 on amendments to certain Laws of Ukraine concerning the settlement of non-payments in the electricity market and the issue of TSO certification - **June 4, 2020 considered and supported** by the Parliamentary Committee
Within EU4Energy Governance was launched a Project “Support on normative legal acts for the purpose of transposition and implementation of the requirements of Regulation (EU) 1227/2011 (REMIT) in Ukrainian legislation”

Within the Project Draft Law on REMIT is elaborated

Discussions with Antimonopoly Committee of Ukraine (provisions on cooperation and responsibility)
Natural Gas Market
**Transposition of EU legislation**
NEURC resolution No 370 of 11.02.2020 aimed at EU Network Codes implementation:
- Regulation (EU) 2015/703 of 30 April 2015;
- Regulation (EU) 2017/459 of 16 March 2017;

**Tariff policy**
- Gas transmission entry/exit points tariffs were set for the certified TSO
- Tariffs for DSO were set based on a new approach (the annual booked capacity)

**Changes for household consumers**
- On April 22, 2020 PSO-resolution was amended - non-regulated gas prices for households since 1st of July 2020
- Amendments to the supplier switching procedure (public hearings were on 13.05.2020, final adoption is planned for June 10, 2020):
  - households are allowed to switch to another supplier with debts;
  - switching will be initiated via the TSO information platform to make it easier and quicker
Energy Regulator
On December 19, 2019 the Law # 394-IX was adopted introducing changes to certain legal acts (including the NEURC Law) in order to ensure compliance with the requirements of the Constitution of Ukraine:

• NEURC became a central executive body (with a special status) formed by the Cabinet of Ministers of Ukraine;

• Competitive selection process for NEURC members (selection committee is being formed – 3 representatives from Verhovna Rara are assigned; 1- from Ministry of energy and 1 – from Ministry of regional development are to be assigned);

• Rotation pending;

• no NEURC members dismissal in case of the Cabinet of Ministers of Ukraine resignation;

• NEURC decisions official publication on its web site;

• NEURC is finally out of the scope of Laws on Licensing and State Control (designed for competitive markets)
The NEURC Annual Report for 2019 is finalized and published on NEURC website:

Technical Assistance

**USAID Energy Security Project**
- RAB tariffs
- Market monitoring
- Electricity market operation (*Market rules and DAM/IDM rules, Retail market rules, Grid Code*)

**EU4Energy**
- REMIT
- TSO (electro) tariff methodology
- Regulation EU 347/2013 transposition
- Gas exchange
- Capacity fee consultation
- *Strategic reserves*

**NARUC Partnership**
- Cybersecurity initiatives
- Market coupling/Regional Integration
- Improving Investment Planning through the Implementation and Enforcement of Quality of Service Standards
Response to COVID-19

NEURC-office functioning:
• most employees work remotely;
• on-line meetings, virtual access to open hearings;
• restriction to access NEURC office for unauthorized persons

NEURC Resolution No. 766 as of April 8, 2020 (amended 4 times) for market participants:
• no sanctions to suppliers and DSOs in case of late payment to TSO;
• suppliers should ensure that consumers can pay bills staying at home;
• import from countries other than the Energy Community CPs is restricted

Changes to the Market Rules (to prevent market manipulations) DAM&IDM Market Rules (for stability of DAM functioning)
• price caps are changed: bidding prices not less than 35% (from 55%) and not more than 105% (115%) of the DAM price
• Proofs for physical amounts needed

Special “COVID-19” Law of Ukraine for the quarantine period:
• no penalties for non-payment of public utility bills;
• no utilities shut-off in case of non-payment or partial payment;
• no forcible eviction for utilities non-payment.
Thank you for your attention!