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

44 ECRB Meeting

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

- 14/11/2019
  - 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);

- 22/11/2019
  - 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);

- 26/11/2019
  - 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):

<table>
<thead>
<tr>
<th>Market Operator</th>
<th>Guaranteed Buyer</th>
<th>DSO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>32</td>
</tr>
</tbody>
</table>

**Generators**

1056

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

**Traders**

11

**Suppliers**

617

<table>
<thead>
<tr>
<th>July 2019</th>
<th>August 2019</th>
<th>September 2019</th>
<th>October 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>28</td>
<td>37</td>
<td>25</td>
<td>54</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>June 2019</th>
<th>September 2019</th>
<th>October 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>1</td>
<td>7</td>
</tr>
</tbody>
</table>

**Before reform**

- Total amount of suppliers
- Active
- Non-regulated tariff suppliers

31.12.2018

- 206
- 157
- 291
- 1
- 287
- 39
- 438
- 463
- 491
New market model from July 1, 2019

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

Source: TSO real-time data
**Bilateral contracts**

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

Privately-owned generators (mostly thermal power plants) can trade freely
**Ukrainian energy exchange prices, Euro/MWh**

Weighted average prices at UEEX, euro/MWh

![Bar chart showing weighted average prices at UEEX for different days from 13/11/2019 to 29/11/2019. The chart includes three categories: Base load, Peak load, and Off peak load.](image-url)
**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](https://www.oree.com.ua)
**DAM prices, Euro/MWh**

<table>
<thead>
<tr>
<th></th>
<th>November (20 Days)</th>
<th>October</th>
<th>September</th>
<th>August</th>
<th>July</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>50.12</td>
<td>57.01</td>
<td>59.52</td>
<td>59.78</td>
<td>56.84</td>
</tr>
<tr>
<td>Burshtyn Island</td>
<td>48.74</td>
<td>55.95</td>
<td>58.32</td>
<td>59.44</td>
<td>56.71</td>
</tr>
<tr>
<td>Integrated Power</td>
<td>64.03</td>
<td>68.45</td>
<td>70.00</td>
<td>66.09</td>
<td>58.73</td>
</tr>
<tr>
<td>System of Ukraine</td>
<td></td>
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</table>

**IDM prices, Euro/MWh**

<table>
<thead>
<tr>
<th></th>
<th>November (20 Days)</th>
<th>October</th>
<th>September</th>
<th>August</th>
<th>July</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>44.43</td>
<td>62.07</td>
<td>64.78</td>
<td>64.19</td>
<td>62.93</td>
</tr>
<tr>
<td>Burshtyn Island</td>
<td>43.28</td>
<td>61.75</td>
<td>65.09</td>
<td>62.37</td>
<td>63.47</td>
</tr>
<tr>
<td>Integrated Power</td>
<td>43.28</td>
<td>61.75</td>
<td>65.09</td>
<td>62.37</td>
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</table>

Source: Market Operator
Wholesale Electricity Market Functioning (6)

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

On December 1, 2019

w.a. PRICE at DAM = 860, 42 UAH/MWh

Source: Market Operator
**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;

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