The Energy Community DSO for gas – Coordination Platform – 3rd meeting

Minutes of the Meeting
19-20 June 2017, Odesa

The Energy Community set up wide framework which enables involvement of different stakeholders in the process. However, gas distribution system operators of the Contracting Parties were not so much directly involved and the Secretariat initiated last year an establishment of the coordination platform whereas the distribution system operators (DSOs) can exchange best practices and challenges in operation practices and implementation of 3rd Energy Package.

38 participants were present at the 3rd meeting of the Coordination Platform, representing 18 distribution system operators form Ukraine, 1 system operator from Moldova, 2 gas associations, Regulatory Commission and the Parliament of Ukraine, the EU Delegation to Ukraine and the Energy Community Secretariat. The mass media were also present (list of participants attached)

The hosts, Ukrainian Gas Market Association and Odesagas, welcome the participants, and Mr. Dombrovskyi, Head of Energy Committee of the Ukrainian Parliament, gave an overview on gas sector reforms, including legal framework development and obstacles in implementation, as well as unbundling of transmission and distribution system operators.

First section of the event was concluded by the Energy Community Secretariat presentations on history, areas of work, institutions of the Energy Community and main Energy Community *acquis*. Mrs. Karolina Cegir introduced ECDSO-g Coordination Platform and made overview of gas distribution markets in the Energy Community Contracting Parties.

Second section was focused on gas distribution sector in Ukraine.
Ms. Oksana Kryvenko, (Energy and Utilities the National Regulatory Commission NEURC), presented current gas distribution tariff system in Ukraine and plans of its development and changes. For the time being, tariffs are set up for 1 year, allowing profit of Ukrainian DSOs for less than 1% and existing system "cost+" doesn't motivate to improve networks, or even does not cover all costs. But has to be noted that average technological gas (including losses) count for 44% in tariff structure on annual basis and that system operators have difficulties due to seasonal character of gas consumption and payment (deficit is about 1.3 bln UAH per summer months, not ensuring resources for maintenance work). In comparison to European distribution sector, Ukraine has lowest gas distribution tariff, which contributes with only 10% to end user gas price structure (average in Europe is 28%). Nevertheless, the Regulator plans to introduce new gas distribution tariff system based on maximum connected technical capacity. This should help to ensure stable income during year and to dissimilate gas as commodity and transportation costs in gas bill. The next step in development of tariff system should be introduction of RAB tariffs for gas DSOs. Only long term RAB based tariffs will give possibility to renovate gas networks, implement energy efficiency technologies and involve private investors to DSOs.
Ms Kryvenko also made an overview on recent Ukrainian gas market development, introduced or planned to be introduced by the Regulator. This includes usage of energy units in gas bill,

introduction of access to underground gas storages based on capacity auctions, possibility of TSO to combine different income/outcome interconnection points in one virtual point, optimization of requirements in financial guaranties, introduction of one virtual income point for one gas production company, introduction of daily based balancing and improvement of gas metering systems.

Presentation of Ukrainian gas distribution sector was continued by a view of the Agency of Investment Management. Mr. Bodnar provided an general overview of Ukrainian DSOs market, including information on ownership structure and stressed problems with which DSOs have been faced: *law current tariff* (covers only 70% of minimum needed tariff*), difficulties in measurement* (more than 3 billion end users (population) don't have meters; state norms of gas consumption for population without meters are less than actual consumption; all gas consumption of population is not recalculated to standard conditions); *difficulties in income and covering costs* (state subsidy payments are not regular and in not full volumes; price of technological gas (more 44% in tariff structure) in tariff is settled less than market prices on about 30%); *difficulties in human resources* (salary in Ukrainian DSOs is less than average salaries in regions which leads to problems in keeping and attracting needed personnel). He stressed a need to change the tariff system, by introducing RAB and support by EU institutions in this change.
DSOs' representatives presented shortly their companies and stressed the main problems, which correspond with the statement of association: too low existing tariff not covering all costs and not providing for a proper maintenance and investments or adequate and attractive salaries; lack of measurement equipment at all delivery points (especial problem with multi-apartment buildings). Some of companies also stressed a problem with illegal consumption, delays in subsidy payments and legal difficulties to cut off customers with debts.

A representative of Moldovagaz/Chisinaugaz reported on existing network, recent legal developments (Gas Law approved, work on Distribution Code to start with support of the consultant) and that 99% of end customers are covered by individual measurement equipment. Those were mainly introduced during 2008-2009.

The Energy Community Secretariat in **third and fourth sections** elaborated on the Third Energy Package requirements towards the distribution system operators – in regards to unbundling from supply and role of DSO in ensuring non-discriminatory third party access to the distribution network which ensures market opening and development.
The presentations open discussions on *actual DSO unbundling* (what is required, what is place); EU practice in regards to *daily balancing by DSOs* (only in Slovakia and Austria, but with different definition of distribution network; i.e. closer to transmission regional network) and in regards to *tariff structure – commodity/capacity share* (EU countries have different practices; Mr. Kurmaz pointed that the main purpose to introduce 100% capacity based tariff is to learn customers on different products: commodity and capacity)

Participants agreed on the following **Conclusions**:

1. Communication in framework of ECDSO-g Coordination Platform is recognized as beneficiary and has to continue, via meetings and via IT platform (ECS to examine possibilities)
2. Involving to ECDSO-g Coordination Platform DSOs from EU countries, to share experience, is required (to be taken into account for future meetings)
3. Existing tariff structure has to be changed due to various unsatisfactory reasons (from low maintenance impacting safety of network operation till low salaries and lacking adequate experts), and all stakeholders agreed to support Regulator in promoting new

concept via active participation in different meetings and analyses (individual DSOs or Coordination Platform cannot do more in this moment)

4. Subsidy schemes and supply norms are out of the scope of the Platform direct work or influence, but active participation in relevant forums is needed and can bring results
5. ECDSO-g Coordination Platform will focus in the next months on monitoring unbundling in practice – by establishing a dedicated working group (representatives of NEURC, Ukrainian Gas Association, Agency Investments Management LLC, Moldovagaz, Energy Community Secretariat + representative of Ukrainian DSO(s) if expresses particular interest)
6. Second focus and second working group will be dedicated to measurement issues (non-measured consumption, supply standards, load portfolios, measurement units). The group will be composed of representatives of both gas associations, Energy Community Secretariat, individual DSOs (from the Contracting Parties and from EU MS)
7. Next meeting will take place in the last quarter of 2017, most likely again in Ukraine or in Moldova