



Национальная комиссия, осуществляющая
государственное регулирование в сфере энергетики



Energy Regulatory Partnership Program
National Association of Regulatory Utility Commissioners
With the National Commission for State Energy Regulation

Seventh Partnership Activity

The Latest News of NERC of Ukraine in the Sphere of Regulation

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The Main Tasks NERC is Facing

- **Natural monopolies tariff regulation improvement – transfer to incentive methods of regulation of electricity and gas distribution companies**
- **Settlement of issues of connection to electricity and gas distribution network**
- **Normative provision for the development of renewable energy**
- **Reform of electricity market – transfer to bilateral contracts market and balancing market**
- **Reform of natural gas market according to the law of Ukraine «On functioning of natural gas market»**
- **Energy efficiency (for future)**



The Main Changes in Legislation

Three laws are adopted:

- «On amendments to the Law of Ukraine «On Natural Monopolies» (about implementation of incentive regulation);
- «On amendments into some laws of Ukraine in relation to network connection charge of natural monopolies»;
- «On amendments in the law of Ukraine «On electricity», (in relation to incentive of electricity production using alternative sources of energy)

Reviewed by Supreme Council:

- Draft law on basics of electricity market functioning in Ukraine

Reviewed by the Cabinet of Ministers of Ukraine:

- Draft law on energy state regulation in Ukraine



Improvement of Tariff Regulation of Natural Monopolies



The Main Principles of Incentive Regulation

- **Minimal interference – transfer to long term regulation**
- **Incentives for investments – setting fair rate of return on invested capital**
- **Incentive to increase quality of services provided**
- **Incentive to increase efficiency (decrease of controlled costs, decrease of network electricity losses and so on)**



Creation of Regulatory Legal Basis for Natural Monopolies Incentive Regulation in Energy Sector

Amendments are introduced into the law of Ukraine «On natural monopolies»,

In particular regulator authorities are defined as for calculation of regulated assets base and regulated depreciation.

NERC developed the main legal documents for incentive regulation of electricity distribution companies:

- The method of calculation of regulated assets base
- The method of defining the necessary revenue
- The method of calculation of retail rates, transmission rates and electricity distribution rates
- The process of electricity transmission and distribution rates setting
- The method of assets revenue and costs distribution between transmission and distribution
- Decision on usage of incentive regulation

State property fund of Ukraine approved

- Methodology of assets assessment to define regulatory assets base (agreed with NERC), according to which reassessment of 4 electricity supply companies was conducted in the pilot project



Regulation in the Sphere of Network Connection



Regulation in the Sphere of Network Connection (1)

On 01.01.2013 the law of Ukraine «On introduction of amendments into some legislative acts of Ukraine as for connection to natural monopolies networks charge» comes into force.

The law regulates the relations in the sphere of connection of electric facilities to electric networks and the systems of gas consumption to gas network, concerning :

- the method of connection;
- Cost of connection;
- sources of funding (connection charge, reimbursable financial assistance, licensees investment programs).

Connection of generation on alternative sources of energy is financed at the expense of:

- transmission licensees investment programs - 50%;
- reimbursable financial assistance - 50%. (the term of return is not more than 10 years)



Regulation in the Sphere of Network Connection (2)

To implement the law NERC developed and adopted regulatory legal acts concerning connection:

➤ **of electric facilities to electric network:**

- The rules of connection of electrical facilities to electric network
- Methodology of calculation of electric facilities connection charge.
- The method of financing electric facilities connection to network
- The rates for standard connection of facilities are approved for 2013

➤ **Gas consumption (gas supply) facilities:**

- The method of access and connection to the Unified gas transportation system of Ukraine;
- Standard agreement for connection to gas network;
- **The method of calculation of connection charge of customers' facilities to gas network;**
- **Standard agreements (between owners and gas transportation or gas distribution systems) for:**
 - Economic control over components of the Unified gas transportation system of Ukraine;
 - Usage of components of the Unified gas transportation system of Ukraine;
 - Operation of components of the Unified gas transportation system of Ukraine;
- Rates of standard connection charge are set for 2013.



Development of Renewables



News of Legislative Base in the Sphere of Alternative Energy (1)

On 20 November 2012 a law #5485-VI was adopted «On introduction of amendments to the law of Ukraine «On electricity» (in the part of incentive of electricity generation from alternative sources of energy)»

- In particular the law provides:
 - Decrease of “green tariff” coefficient for solar power plants (by 16 - 27%) putting into operation from 01.04.2013;
 - Introduction of “green tariff” for the facilities using biogas;
 - Differentiation of “green tariff” for HPP depending on installed capacity (up to 200 KW; from 200 KW to 1 MW; from 1 MW to 10 MW);
 - Introduction of “green tariff” for generating facilities of households using solar energy from 01.01.2014;
 - Change of principle of defining local component.



News of Legislative Base in the Sphere of Alternative Energy (2)

In connection with adoption of above mentioned law NERC :

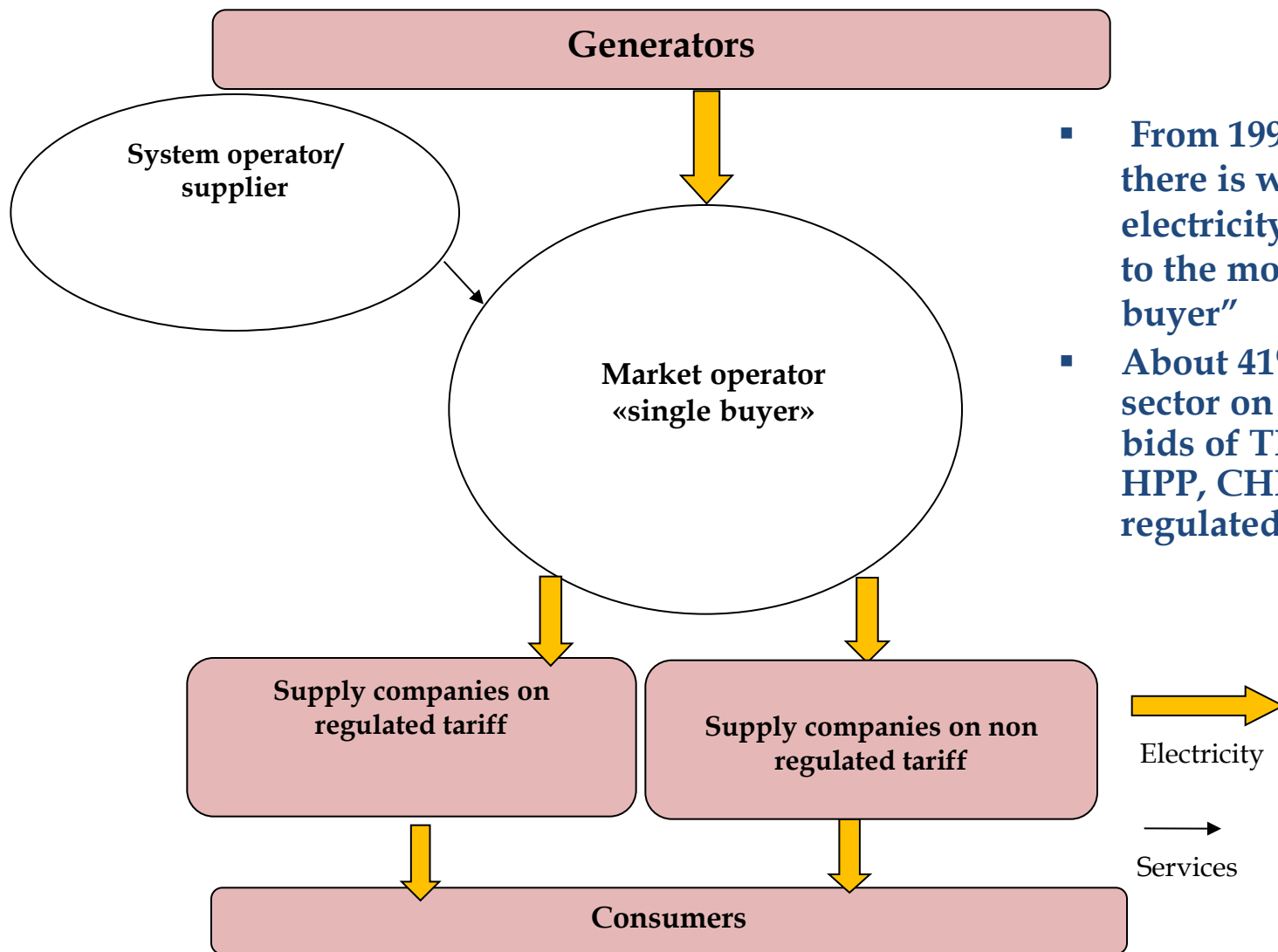
- Introduced amendments into «Method of setting, revising and cancelling “green tariff” for the subjects of economic activity»;
- «The order of providing compensation of losses when providing electricity delivery to the subjects of economic activity, implementing innovation projects to the licensees on electricity supply on regulated tariff» is adopted;
- The project is developed «The method of defining the size of local component for the objects of electricity sector including power plants introduced into operation (starting complexes), generating electricity from alternative sources (besides blast furnace and coking gas)»



Reform of Electricity Market



Simplified Model of the Existing Wholesale Electricity Market of Ukraine



- From 1996 in Ukraine there is wholesale electricity market according to the model of “single buyer”
- About 41% is competitive sector on the basis of price bids of TPP, NPP, WPP, HPP, CHP work on regulated tariff

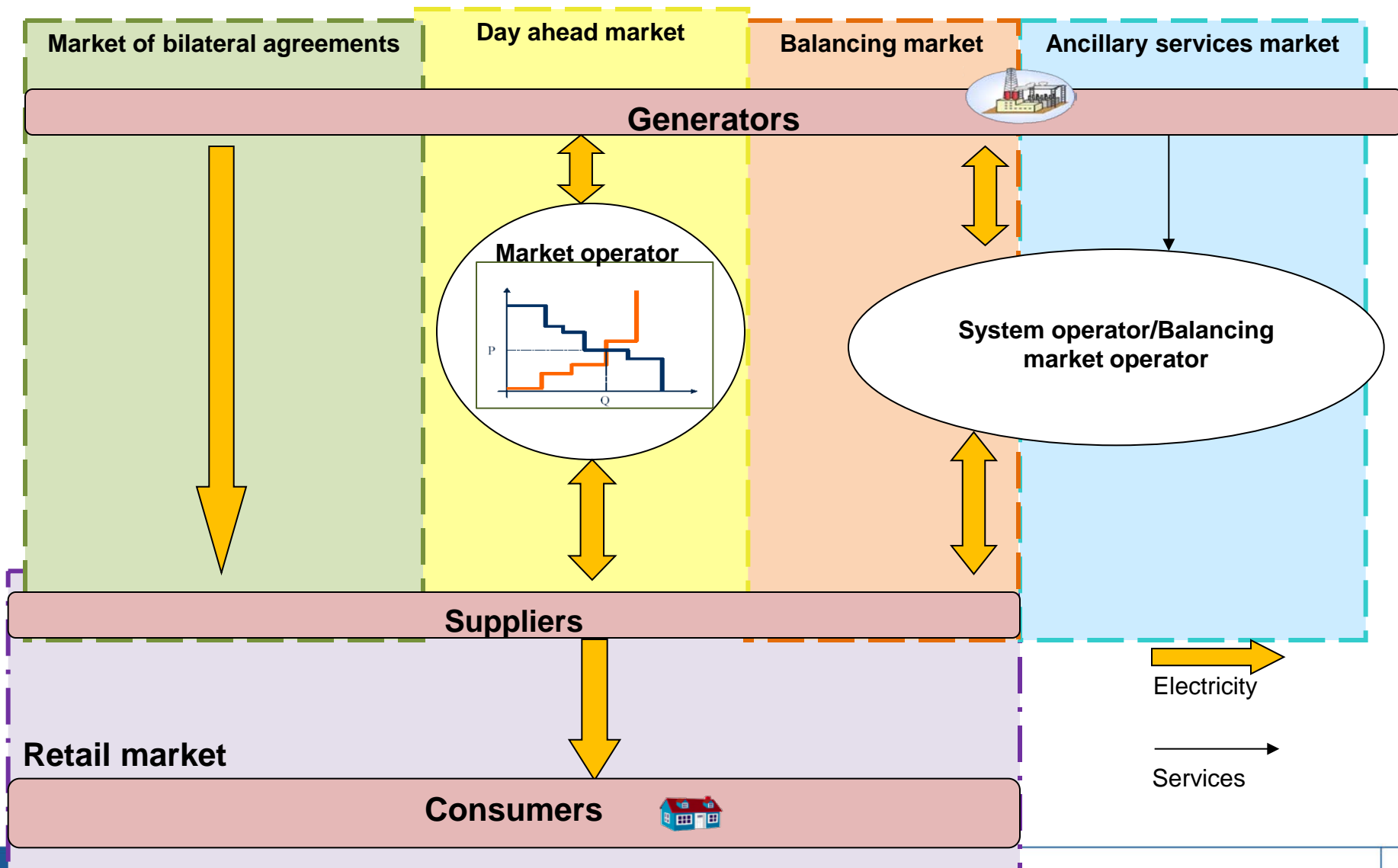


The Drawbacks of the Existing Market Model

- Limited competition at generation market
- Limited competition at supply market
- Non market price formation
- Not enough forecast of the operation at the market, unfavorable investment climate;



Simplified Target Electricity Market Model According to Proposal to Draft Law «On Principles of Functioning of Electricity Market of Ukraine»





It is Additionally Envisaged by the Proposals to Draft Law:

- To provide non discriminatory access to electricity network;
 - To strengthen protection of rights and information support of the consumers;
 - To regulate the procedure of providing permits for construction of generating capacities and conducting tenders for construction of new generating capacities;
 - To organize monitoring of energy supply security
- As a whole the project is directed at adaptation of European legislation in the sphere of organizing internal electricity markets and cross border trade



Reform of Natural Gas Market



The Goal of Reforming

- **Improve operation efficiency of the companies in the sector**
- **Develop competition**
- **Increase attraction of investments into the sector**
- **Provide free selection of suppliers by the customers**



Changes at Natural Gas Market

From July 24, 2010 the law of Ukraine «*On the principles of natural gas market functioning*», came into force, that defined:

- **NERC authority in the sphere of regulation of the subjects of natural gas market activity**
- **Principles of free gas trade, protection of consumers rights and selection by them of natural gas supplier**
- **Obligations as for unbundling transportation, distribution and supply of natural gas**
- **Principles and approaches to provide non discriminatory and transparent access to Unified gas transportation system of Ukraine and underground gas storage**
- **Responsibility of natural gas market participants for violation of rules of providing activity at the natural gas market and agreement conditions**



Adopted Regulatory Legal Acts

Order of Procedure

Methodology of calculating rates

Standard agreements

Algorithm of Funds distribution

- The method of setting natural gas prices for households;
- The method of forming, calculation and setting prices for natural gas for the subjects of economic activity, that provide its production;
- Access and connection arrangement to Unified gas transportation system of Ukraine;
- The method of tariff setting for services on transportation, distribution, supply, storage and withdrawal of natural gas;
- The procedure of setting and revision of rates for transportation, distribution, supply, injection, storage and withdrawal of natural gas
- Methodology of calculation of tariffs for natural gas transportation and supply for supply and gasification companies;
- Methodology of calculation of tariffs for services on natural gas transportation by the main pipelines;
- Methodology of calculation of tariffs for provided services for natural gas injection, storage and withdrawal from underground storage facilities
- Standard agreement for natural gas transportation by the main pipelines;
- Standard agreement for natural gas supply on regulated tariff ;
- Standard agreement for natural gas storage (injection, storage, withdrawal);
- Standard agreement for natural gas distribution (natural gas transportation by distribution pipelines);
- Standard agreement for natural gas purchase-sale (between the owners and suppliers)
- The rules of usage of natural gas by legal persons
- Algorithm of distribution of funds that come to current accounts with special regime of using last resort suppliers of natural gas
- On defining the rate of qualification of natural gas consumers



«Naftogas of Ukraine» Company Reform

Reform of «Naftogas of Ukraine» company started. It is the largest vertically integrated oil and gas company of Ukraine, that provides production fields development, oil and gas production and transportation, natural gas transit, and also sale of petroleum products via their own gas filling stations system. The enterprises produce more than 97% of gas and oil in the country

In May 2012 amendments were made in the Law of Ukraine “On transportation by pipeline” regarding oil and gas complex reform in Ukraine

According to the decree of the Government of Ukraine affiliated companies of NSC “Naftogas of Ukraine” are transformed into Public stock holding companies:

- **«Ukrtransgas»**
 - Natural gas transportation;
 - Natural gas transit;
 - Natural gas storage;
- **«Ukrghasdobycha»**
 - Natural gas production;

Another company is in the process of reorganization:

- **« Gas of Ukraine»**
 - Independent natural gas supplier (reorganization should be completed by the end of 2013)

Restructuring of NSC “Naftogas of Ukraine” is provided according to the requirements of the EU Directive 2003/55/EC



Thank you for your attention!