



Survey of Management System in the Sphere of social protection for vulnerable customers of Ukraine



September 2011, Kiev

**National Energy Regulation Commission of
Ukraine**

Structure of the Presentation

- Description of social protection schemes in energy sector of Ukraine
- NERC authority in the sphere of vulnerable consumers protection
- Particularities of development and electricity tariff setting for households
- Particularities of development and natural gas price setting for various types of consumers



Description of Social Protection Schemes used in Energy Sector of Ukraine

Central Executive Body Authorized to Implement State Policy of Population Social Support

- **Ministry of Labor and Social Policy:**
 - Implementation of state policy of social protection of the population
 - Supervision over implementation of legislation on providing of pensions and social services for the population;
 - Organization and coordination of work dealing with provision of subsidies to compensate payments for utility services;
 - It is authorized to provide control over implementation of legislation in the sphere of benefits for the citizens of Ukraine.

General Schemes of Economic Support in Ukraine which are used in Energy Sector of Ukraine

- Targeted assistance
- Benefits
- Additional measures
- “Social” tariffs

Targeted assistance (subsidies)

- ***Recipients***
 - Consumers that pay for utility services more than 20% of their income;
 - Disabled consumers that pay for utility services more than 15 % of their income have a right to get compensation as targeted assistance in monetary and nonmonetary form from that state budget of Ukraine.
- ***Description of the mechanism of receiving subsidies:***
 - With the goal of covering costs between income percentage that is spent on utility services payment and maximum level of costs in the amount of 20% or 25%, consumers receive assistance in nonmonetary form;
 - According to article 6 of Cabinet of Ministers of Ukraine Resolution of 10. 21.95 #848 and of 01.11.2005 #20, the State budget of Ukraine subsidizes consumers, enumerating corresponding payments to energy suppliers;
 - If the consumer is not connected to network resources of electricity, natural gas, and district heating, then he receives targeted assistance in monetary value to buy solid or liquid fuel in the amount that corresponds to standard consumption.

Benefits

- *Recipients*

Certain categories of consumers have a right to get benefits to pay the bills for the consumed utility services:

- 100% discount for Soviet Union Heroes, Socialist Labor Heroes, Heroes of Ukraine, Disabled veterans and other categories – 0,4 mln of population;
- 75% discount for the participants of military activities – 0,3 mln of population;
- 50% discount for war veterans, veterans of military service, citizens that suffered because of Chernobyl catastrophe and underwent rehabilitation, retired- former policemen, investigators, prosecutors – 2,6 mln of population;
- 25% discount for persons born in time of war – 4,2 mln. of population.

- **Description of mechanism of receiving subsidies:**

These categories of consumers do not refer directly to the category of socially vulnerable, as far as benefits are provided for them not because of health problems or their economic situation. The state provides them with the right to get compensation of costs for consumed energy resources, because of hard living conditions or for meritorious services.

These benefits are funded from the State budget of Ukraine, the corresponding amounts are transferred to energy suppliers.

Additional Measures

- Local authorities can take decision and fund other programs on social protection of population from their budget, have additional measures to support consumers, providing housing conditions, utility services and so on.

“Social” Tariffs

- *“Social” tariff*
- is a form of subsidy when households are guaranteed minimum volume of electricity, heat or natural gas at a lower price.
- *The recipients of “social” tariff*
- are all the households. Their category of consumption is taken into consideration and economic situation is not.
- *Description of mechanism of receiving subsidy:*
as a result of **cross subsidies** industrial consumers cover the costs of electricity supply to households, who do not cover these costs



NERC Authority in protection of vulnerable groups of population

NERC Authority in Formation of Pricing Policy of Energy Sector of Ukraine

- **NERC authority in price and tariffs regulation for energy resources is defined in:**
 - Decree of the President of Ukraine # 213 of 03.14.95 “On measures of providing activity of National energy regulation commission of Ukraine”
 - Resolution of the Cabinet of Ministers of Ukraine of 12.25.96 #1548 “On defining authority of executive bodies and executive city councils in the sphere of price (tariffs) regulation”

The Main NERC Objectives in Tariffs and Price Formation

Commission:

- Implements measures to provide equal rights of access to transportation systems for the participants of electricity, gas, oil and oil products markets of all types of ownership;
- In the framework of its authority it protects the interests of consumers in questions concerning prices for electricity, gas, oil and oil products and also reliability of their supply and quality of services of suppliers;
- Forms state policy in the framework of its competence in setting prices for electricity, gas, oil and oil products, tariffs for their transportation, storage, delivery and distribution and also transportation of other materials through the pipelines

NERC Regulates and Sets

- Tariffs for electricity delivered to population for daily needs, settlements and outdoor lighting;
- In agreeing with the Ministry of Economy of Ukraine retail prices for natural gas for households daily needs, taking into consideration the ceiling of prices defined by the Cabinet of Ministers of Ukraine;
- Tariffs for transportation of natural gas, oil and oil products, ammonia and ethanol products through the main gas pipelines to the consumers of Ukraine;
- Tariffs for natural gas injection, storage and offtake
- Tariffs for natural gas distribution and supply.



Particularities of formation and setting tariffs for electricity for households

Tariffs for electricity for households (I)

The level of electricity tariffs for households are approved by the resolution of National Energy Regulation Commission (NERC)

when setting electricity tariffs the following categories of household consumers are taken into account:

- households in the cities;
- households in rural area;
- households with electric stoves and electric heaters;
- households that pay according to common meter (hostels, garage cooperatives, gardeners' partnership)

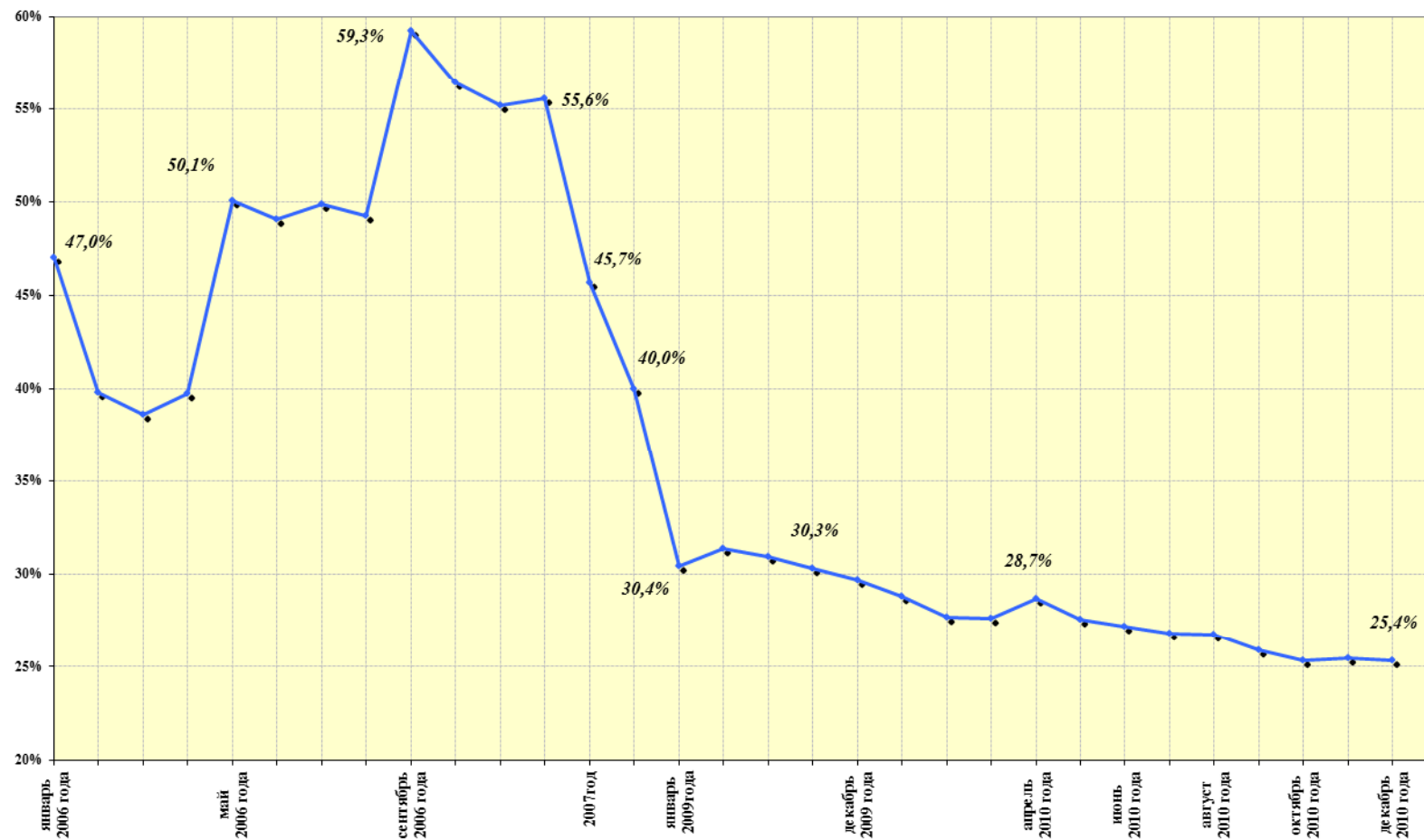
Electricity tariffs for households (II)

- In 1999 market tariff for electricity was set for households
- From 1999 till 2006 tariffs for households were not changed:

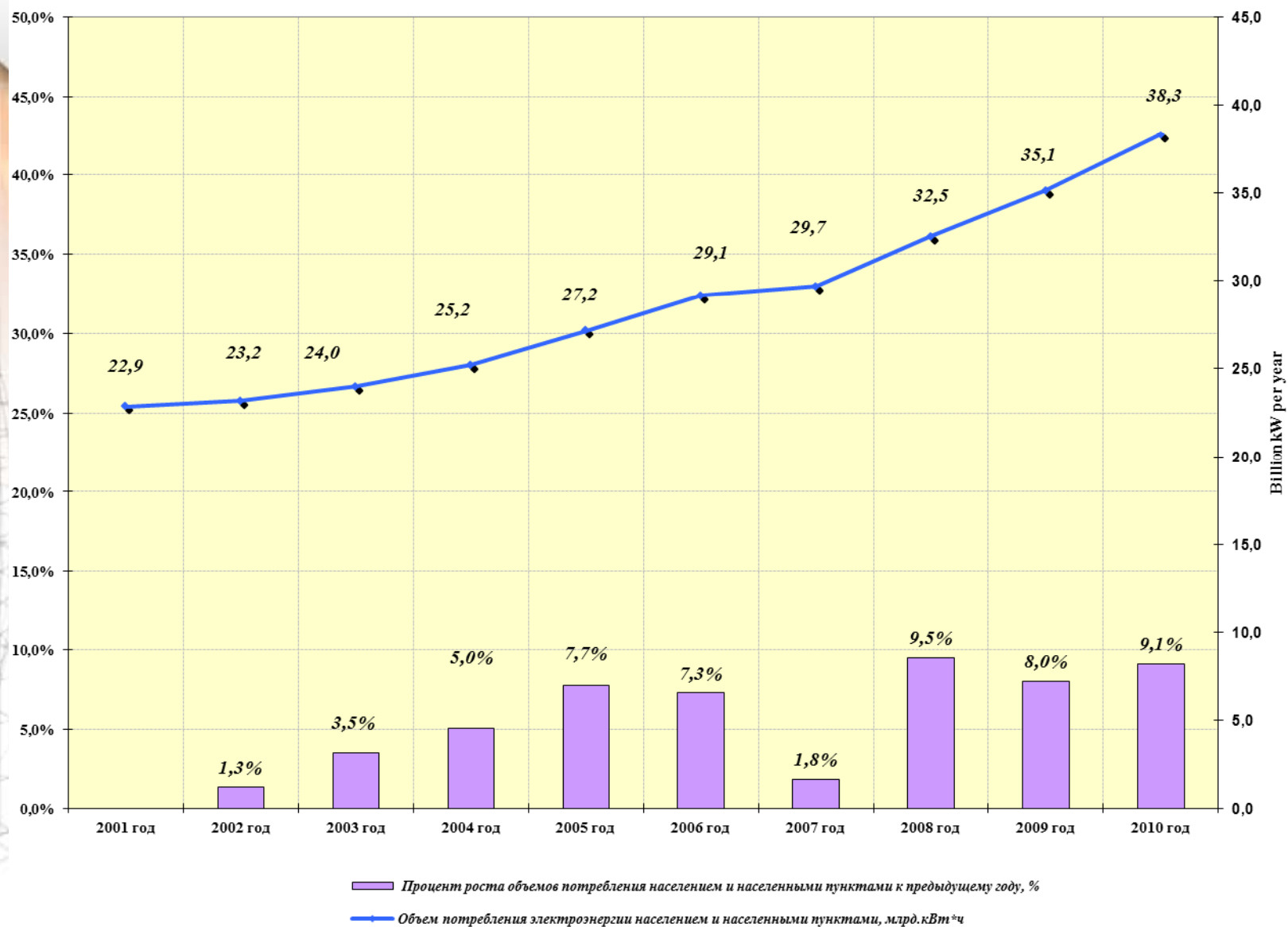
By April 2006 households were paying around 36% of real costs for generation, transmission and supply of electricity, thus increasing the volumes of cross subsidies at expense of other consumers in particular industry

- In 2006 Commission implemented two stages of bringing tariffs for households to the economically viable level for generation, transmission and supply of electricity, as a result of which household tariffs could cover the economically justified costs by 60%
- From 2006 till 2011 household tariffs remained unchanged: ***as of 01.01.2011 electricity price for households covered 24,4% of economically justified costs***

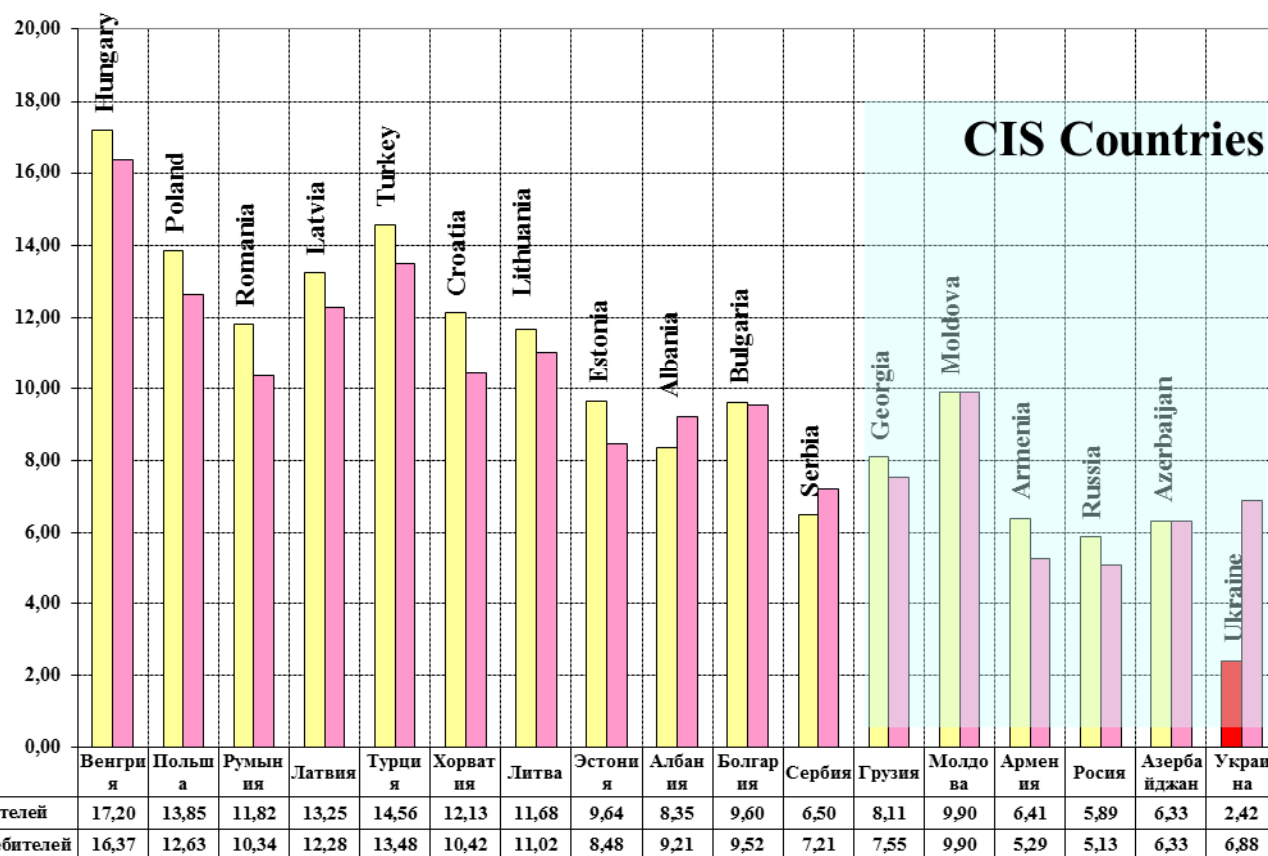
Percentage of coverage of economically justified costs for generation, transmission and supply by households



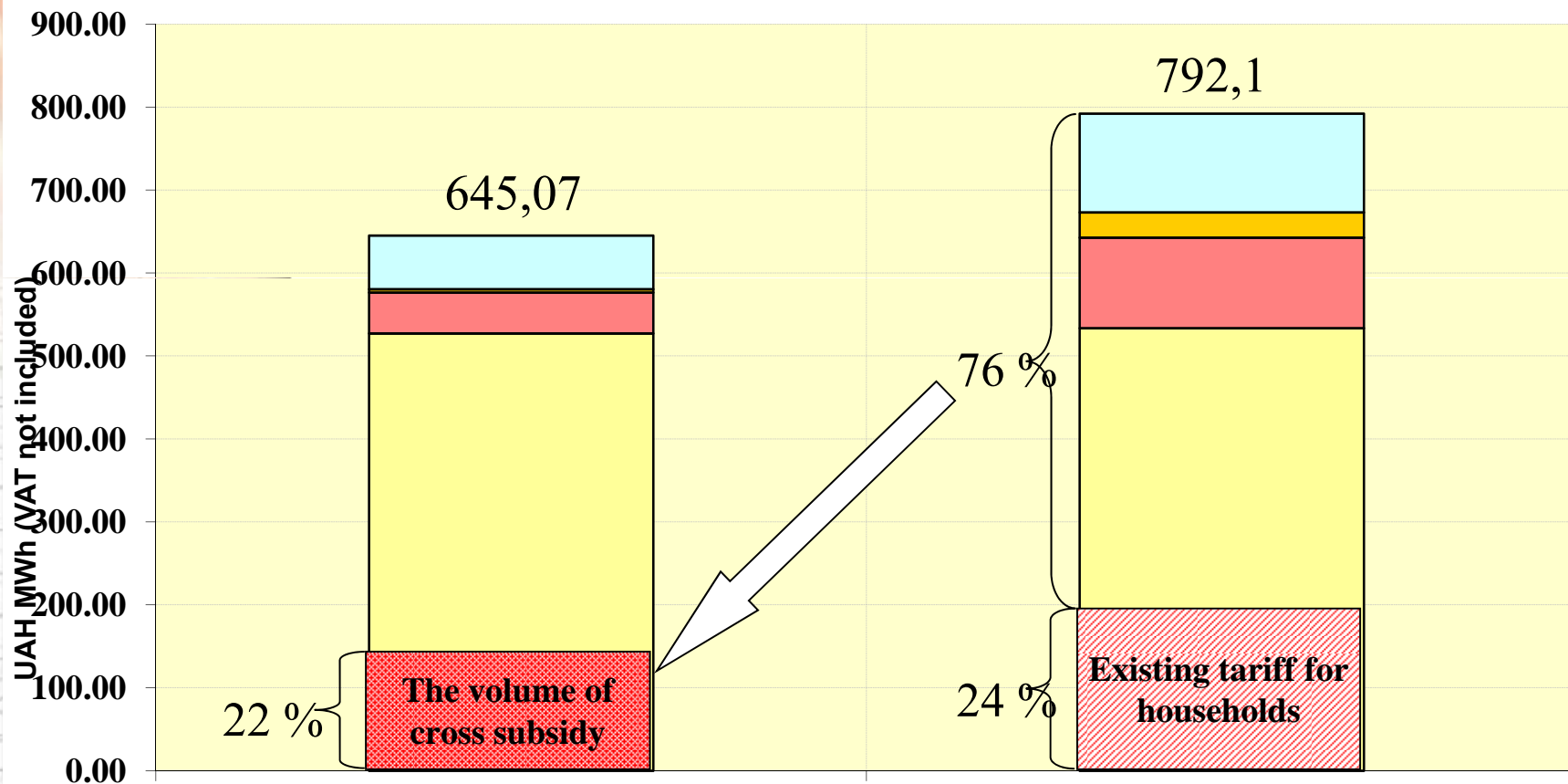
Dynamics of electricity consumption by households and settlements



Correlation and levels of tariffs for electricity for residential and non-residential (industry, transport, commercial enterprises and others) consumers of the countries of northern –Eastern Europe and CIS countries in 2009 US cents/kWh.



The structure of retail tariffs for residential and non-residential consumers in January 2011



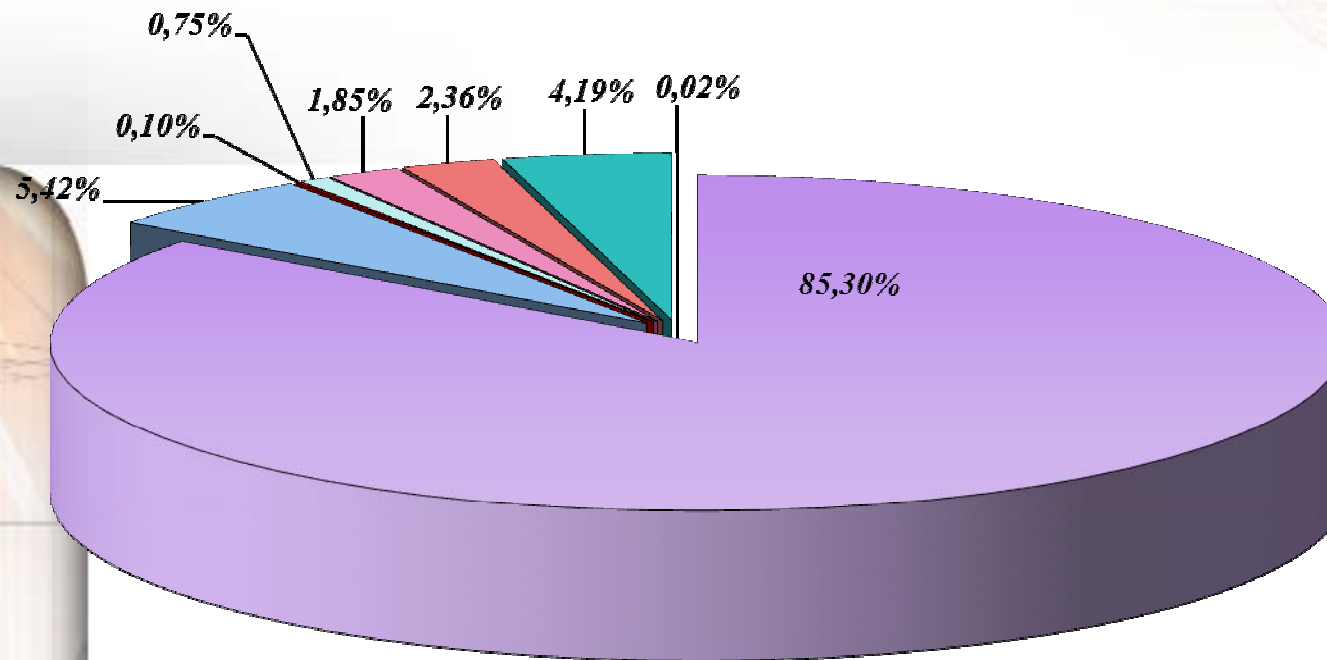
Экономически обоснованный тариф на электрическую энергию для небытовых потребителей в январе 2011 года

■ Оптовая рыночная цена

Экономически обоснованный тариф на электрическую энергию для бытовых потребителей в январе 2011 года

■ Тариф на передачу

Structure of subsidies in 2010



- Сумма дотаций на поставку э/э населению и населенным пунктам
- Сумма дотаций на поставку э/э потребителям, которые рассчитываются по дифференцированным тарифам
- Сумма дотаций на поставку э/э бытовым потребителям, которые рассчитываются по дифференцированным тарифам
- Сумма дотаций на поставку э/э, которая используется для внешнего освещения населенных пунктов
- Сумма дотаций на поставку э/э городскому электротранспорту
- Сумма дотаций на поставку э/э угольным предприятиям
- Сумма компенсации потерь от осуществления поставок э/э горно-металлургическим и химическим предприятиям
- Сумма дотаций на поставку э/э субъектам хозяйственной деятельности, которые реализуют инновационные проекты
- Сумма дотаций от осуществления поставок э/э КП "Запорожский титано-магнитный комбинат"
- Сумма дотаций на поставку э/э детским центрам "Артек" и "Молодая гвардия"

From February 1, 2011 NERC has set block tariffs for electricity for households, in this regard:

- For subscribers that consume up to 150 kWh per month (250 kWh for houses with electric stoves and electric heaters) tariffs remained at the previous level;
- for subscribers, that consume above 150 kWh per month (250 kWh for houses with electric stoves and electric heaters) tariffs increased by 30 %. In this respect only the volume of electricity above 150 kWh is paid for according to this increased tariff (250 kWh) per month (*the share of these consumers is about 35 % of the total volume of consumption*);
- For large families (more than three children), for foster families and family-type children's homes (parents that adopted children) tariffs remain at the previous level not depending on electricity consumption.

Thus in February 2011 electricity tariffs for households average were USD 0,032 kWh



Particularities of formation and setting tariffs for natural gas for households

Tariffs for natural gas for households (I)

The level of prices for natural gas for households is also approved by the NERC Resolution.

When setting the level of prices for natural gas **categories of households** are the following:

- subscribers with consumption up to 2500 m³ of gas per year (the lowest price for natural gas);
- subscribers with consumption from 2500 to 6000 m³ of gas per year;
- subscribers with consumption from 6000 to 12000 m³ of gas per year;
- subscribers with consumption above 12000 m³ of gas per year.

As of today average gas price for households is USD 0,124 per 1 m³ including tax.

Tariffs for natural gas for households (II)

- From 1999 until May, 1 2006 the maximum level of price for natural gas for households was not changed and it was UAH 185 per 1000 m³.
- To bring the price to economically justified level and taking into consideration the need to minimize the influence of price increase for natural gas on households the Commission developed **the scheme of gradual increase of natural gas price for households to economically justified level**, that is:
 - From May, 1 2006 the prices were increased by 25% (from the level of prices existing before 01.05.2006) and they were set at the level of UAH 231 per 1000 m³;
 - From July, 1 2006 the prices were increased by 80% (from the level of prices existing before 01.07.2006) and they were set at the level of UAH 414 per 1000 m³

Tariffs for natural gas for households (III)

- To improve the mechanism of providing natural gas for households, to increase social protection of vulnerable households several **mechanisms of price differentiation for natural gas for households depending on consumption volume** were developed.
- As of today there is a mechanism of price differentiation for natural gas for households, defined by the Resolution of Cabinet of Ministers of Ukraine of 29.04.2006 #605

Price differentiation for natural gas for households

Quantity of households differentiated according to the volume of natural gas consumption

The first price group:



Up to 2500 m³ per year
10080 thousand subscribers

The second price group:



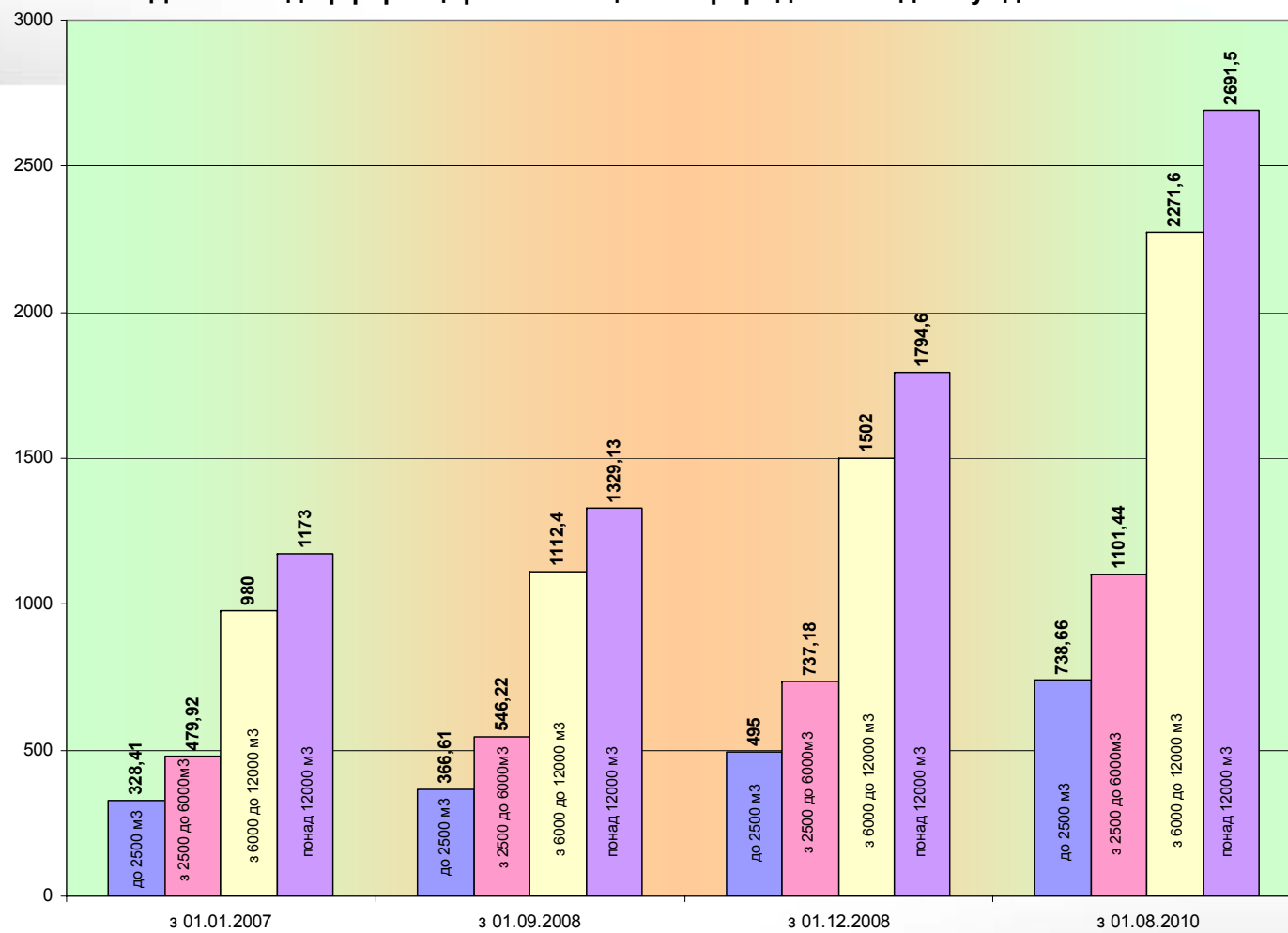
Up to 6000 m³ per year
2441 thousand subscribers

The third and fourth groups



Up to 12000 m³ per year
111 thousand subscribers

Динамика дифференцированных цен на природный газ для нужд населения



Analysis of implementation of the system of differentiated prices for natural gas for households from 2007 to 2009

ADVANTAGES

- Support of the system of social protection of vulnerable citizens by setting lower “social” price for 80% of households (the first price group);
- Reduction of natural gas consumption by households, its saving;
- Introduction of energy saving systems by households

DISADVANTAGES

- Transfer of consumers of one price group to another leads to natural gas unbalance;
- Not enough financial provision of the cost balance of purchase and sale of natural gas, as a result of which NAK “Neftegaz of Ukraine” does not get the tariff receipts and carries losses



Thank you for your attention