



Priority Areas of Development of the Energy Sector Regulation in Ukraine

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Національна комісія
регулювання електроенергетики
України



Relevant regulatory tasks

- Improvement of energy efficiency
- Improvement of the pricing/tariff policy
- Protection of vulnerable consumers
- Reforming electricity and gas markets
- Development of renewable energy
- Development of international trade in energy and integration into the EU energy market





Improvement of the pricing/tariff policy



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Conversion to incentive regulation

- Use of principles of regulation with minimal interference – conversion to long-term incentive methods of regulation
- Motivation of investments into distribution networks – setting a fair rate of return for invested capital
- Taking into consideration indicators of service quality as an incentive for:
 - Improvement of technical conditions of equipment;
 - Improvement of consumer service quality;
 - Introduction of service quality standards





Specifics of the new approach

- Elaboration by companies of multi year forecasts of operating and capital costs for the whole regulatory period
- Revision of prices/costs and setting the size of revenue at the end of each regulatory period
- Length of the regulatory period: the first period - 3 years, subsequent period – 5 years
- Use of combined revenue cap and module approach
- Setting corresponding incentives to reduce inefficient costs
- Use of the concept of the rate of return on invested capital





Plan of implementation (I)

Preparatory period:

- Introduction of corresponding changes in the legislation in the part related to granting authorities to NERC with respect to determining the regulatory asset base and regulatory amortization
- Carrying out evaluation of the fair value of assets of companies that are used in regulated activities – the regulatory asset base





Plan of implementation (II)

The first regulatory period (duration - 3 years)

- Introduction of the rate of return on invested capital
- The base of calculation of profit - the fair value of assets
- Carrying out benchmarking analysis of distribution companies
- Preparation to introduction of the system of financial motivation of service quality improvement

Subsequent regulatory periods (duration 5 years)

- Taking into account service quality indicators in the course of price regulation
- Setting individual tasks on reduction of inefficient costs of the electric distribution company based on results of benchmarking





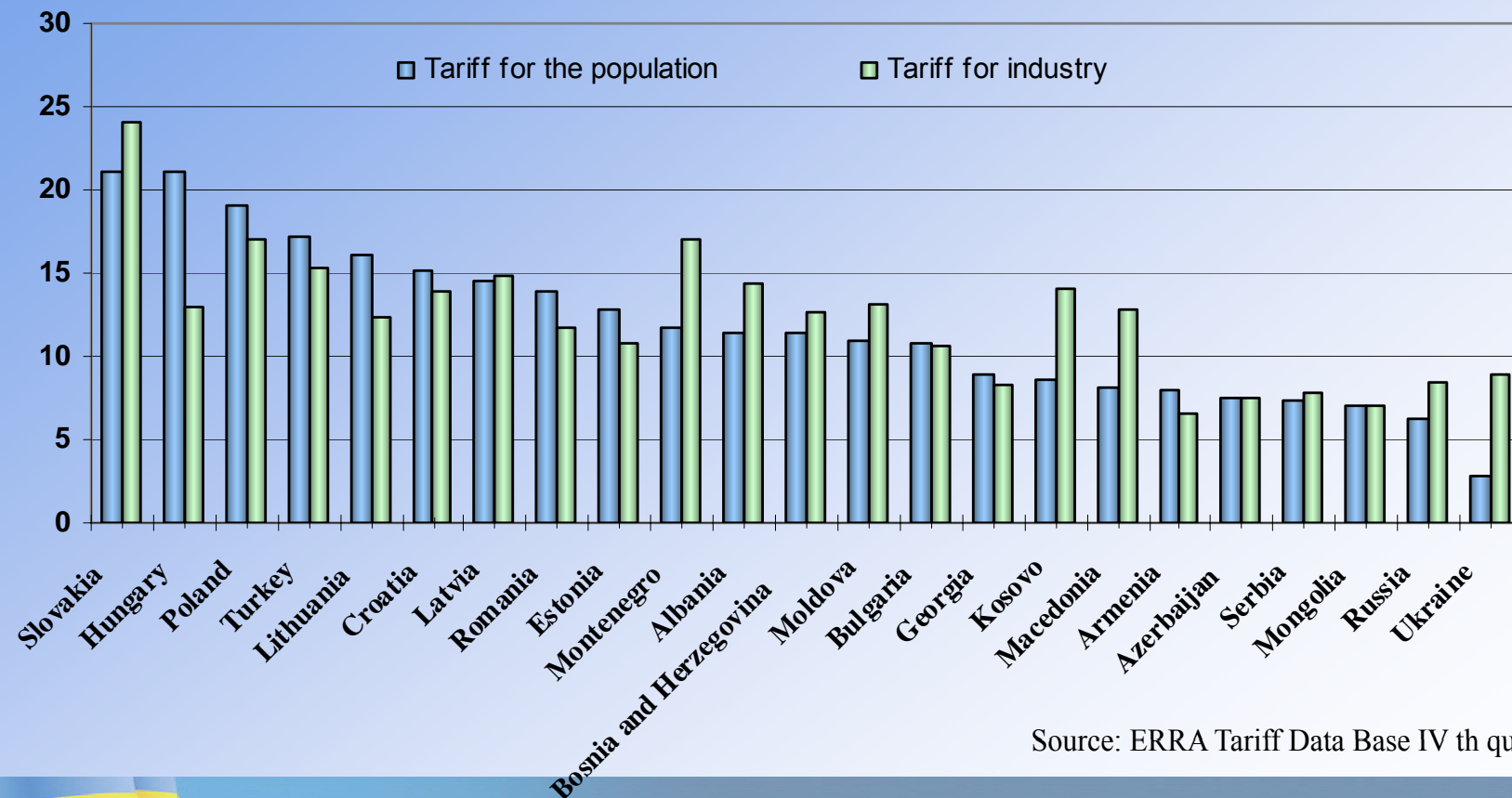
Protection of vulnerable consumers





Correlation and levels of tariffs for residential and non-residential consumers in the countries of South-East and Eastern Europe

USD cents / kW.h



Source: ERRA Tariff Data Base IV th quarter V квартал

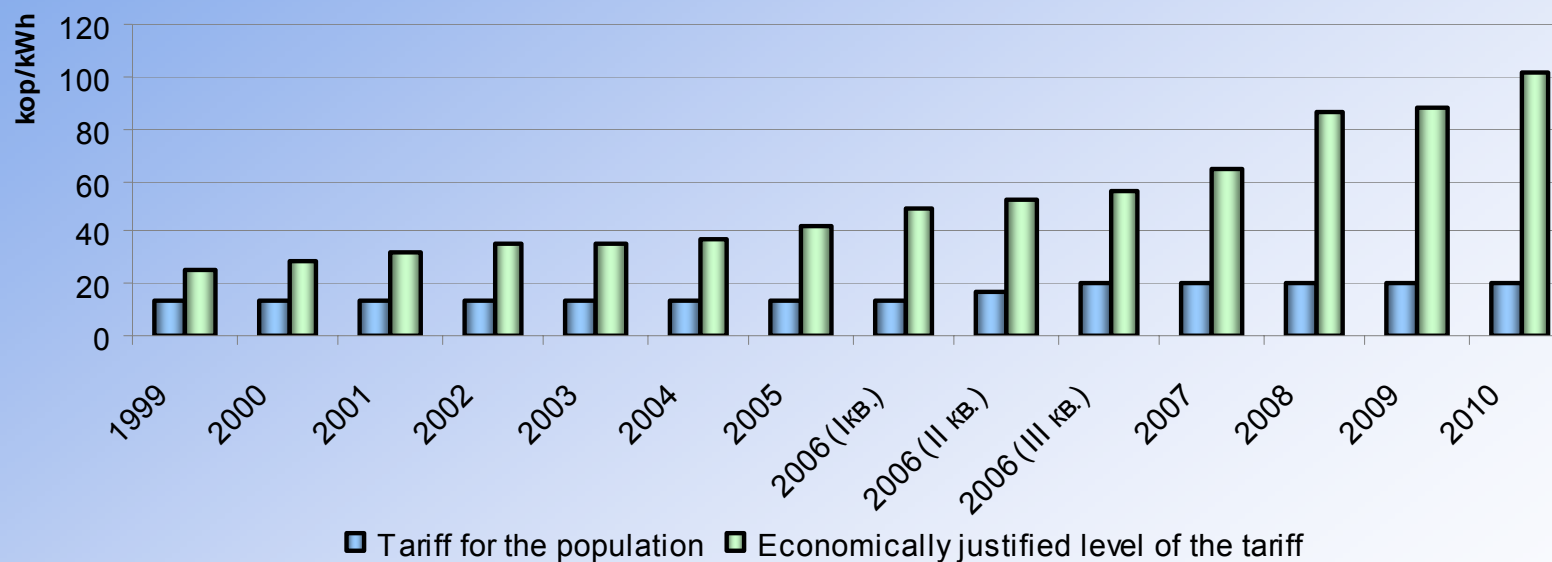


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Social tariffs

- 1999-2006 – tariff for the population was not increased
- In 2006 – two stages of increase:
 - From 1.05.2006 – by 25%
 - From 1.09.2006 – by 25% more
- From 1.09.2006 to 01.02.2011 – the tariff for the population was not increased





Reduction of the level of cross-subsidies

- From February 1, 2011, for the purpose of protecting vulnerable consumer categories, NERC introduced **two-part tariffs**:

	Residential consumers		Residential consumers with electric stoves and/or electric heating devices	
	Volume, consumed	Tariff (kop./kWh)	Volume, consumed	Tariff (kop./kWh)
I block – Social norm	≤ 150 kWh a month	24.36	≤ 250 kWh a month	18.72
II block	> 150 kWh a month	31.68	> 250 kWh a month	24.36

Meanwhile, the tariffs remained on the same level for:

- Families with many children;
 - Foster homes;
 - Family-type children's homes
- From April 1, 2011, tariffs for both blocks were increased by 15%





Reforming the natural gas market





Goals of the reforms

- Enhancement of efficiency of operation of sector companies
- Development of competition
- Increase of the inflow of investments into the energy sector
- Development of international trade in energy and integration into the EU energy market
- Free choice of suppliers of electricity and gas by consumers





Natural gas market

From July 24, 2010, the **Law of Ukraine On Basics of Functioning of the Natural Gas Market** was adopted, this law determines the following:

- NERC's authorities in the field of regulation of activities of participants of the natural gas market
- Principles of free trade in gas, protection of consumer rights and consumer choice of a supplier of natural gas
- Obligations in the part of division of functions related to transportation, distribution and supply of natural gas
- Principles and approaches to ensuring fair and transparent access to the Unified gas transportation system of Ukraine and to underground gas storages
- Responsibility of natural gas market participants for violation of the rules for carrying out activities in the natural gas market and terms and conditions of agreements





Adopted normative-legal acts

Procedures

- design, calculation and approval of prices for domestically produced gas
- setting retail prices for natural gas for the population
- design, examination, approval and execution of investment programs of gas supply, gas distribution and gas transportation enterprises
- state control over compliance with license terms and conditions
- compensation of losses suffered by the consumer because of the fault of the company
- compensation of losses caused to the company by a consumer

Tariff calculation methodologies

- for transportation and supply of gas through distribution pipelines
- for transportation of gas through main pipelines
- for injection, storage and off take of natural gas from underground storages

Model agreements

- for distribution of natural gas
- for purchase and sale of natural gas
- for injection, storage and off take of natural gas

Funds allocation algorithm

- Algorithm of allocation of funds, which are received in current accounts with the special mode of use of gas supply enterprises





Elaborated normative-legal acts

Rules:	<ul style="list-style-type: none">•for access to the Unified gas transportation system of Ukraine•for use of natural gas for legal entities
Model agreements:	<ul style="list-style-type: none">•for transportation of natural gas through main pipelines•for supply of natural gas at the regulated tariff•for storage (injection, storage, off take) of natural gas
Procedures:	<ul style="list-style-type: none">•design of tariffs for transportation, distribution, supply, injection, storage and off take•design, examination, approval and execution of investment programs on storage of gas





The following is being elaborated now:

- Quality indicators for services on gas supply
- Model agreement for connection to gas networks
- Procedure for determining the level of qualification of consumers
- Procedure for determining a supplier of last resort





Development of renewable energy





Currently valid mechanisms of promoting development of alternative energy

- Setting the “green” tariff for electricity generated from alternative sources
- WEM legal obligation to purchase the whole volume of electricity generated from alternative energy sources
- Tax and customs benefits
- Soft lending
- State subsidies

Additional factors for development of alternative energy:

- Possibility to sell under direct agreements (a prototype of “green” certificates) with consumers or at WEM (mandatory purchase)
- Obligation of energy suppliers to connect generators of electricity from alternative sources to networks



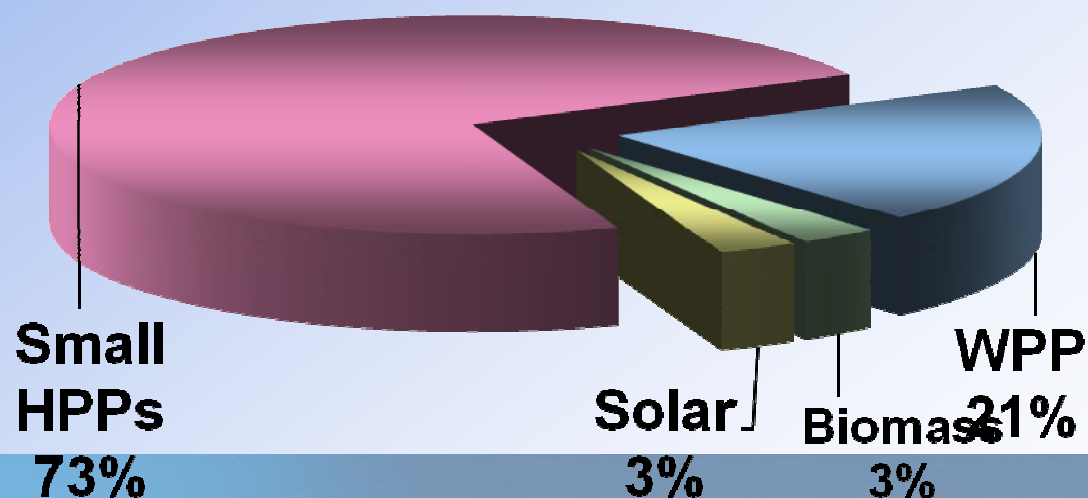


Quantitative indicators of the alternative energy sector

Alternative energy covers 1-3% of the Ukraine's need in energy resources

	HPP	WPP	Solar energy	Biomass	Other:	
					Colliery gas	Energy of waste potential of technological processes
Number of companies	35	8	6	6	1	2

Structure of generation of electricity from alternative sources





Development of international trade in energy and integration into the EU energy market





Benefits of joining the Energy Community Treaty (ECT)

- Creation of the common regional market of energy and materials transported by networks without internal borders
- Coordination of mutual assistance in case of serious disturbances in grid operations
- Creation of the regulatory system that contributes to efficient work of markets of energy and materials, for transportation of which networks are used
- Creation of a unified mechanism for cross-border transmission and/or transportation
- Implementation and expansion of the regulatory-legal base of the European Union in the sphere of:
 - Competition policy
 - environment
 - Renewable energy sources





Ukraine's Obligations Pursuant to ECT

- To introduce certain provisions of the European legislation *acquis communautaire* in terms of electricity, gas and environment according to the set schedule
- To comply with the rules related to competition and state aid stipulated in the Treaty Establishing the European Community
- To approve plans of development and implementation, which envision bringing the energy infrastructure and policy in the sphere of renewable energy into compliance with generally accepted EU standards





Authorities to regulate the housing and utility sector

From September 1, 2010 to August 2011 NERC performed functions related to state regulation in the sphere of heat supply, centralized water supply and sewage.

During this period the tariff setting order and procedures were adopted for:

- Heat, its production, transportation and supply
- Centralized water supply and sewage
- **Reporting forms** were approved for heat supply and centralized water supply and sewage
- National Commission for Regulation of the Utility Service Market of Ukraine was established





Thank you for attention

