



# Low Carbon Ukraine

Policy advice on low-carbon  
policies for Ukraine

Supported by:



Federal Ministry  
for the Environment, Nature Conservation  
and Nuclear Safety

based on a decision of the German Bundestag

## What to expect after electricity market opening - assessment of latest regulations

Oleksii Mykhailenko

Kyiv, June 26<sup>th</sup> 2019

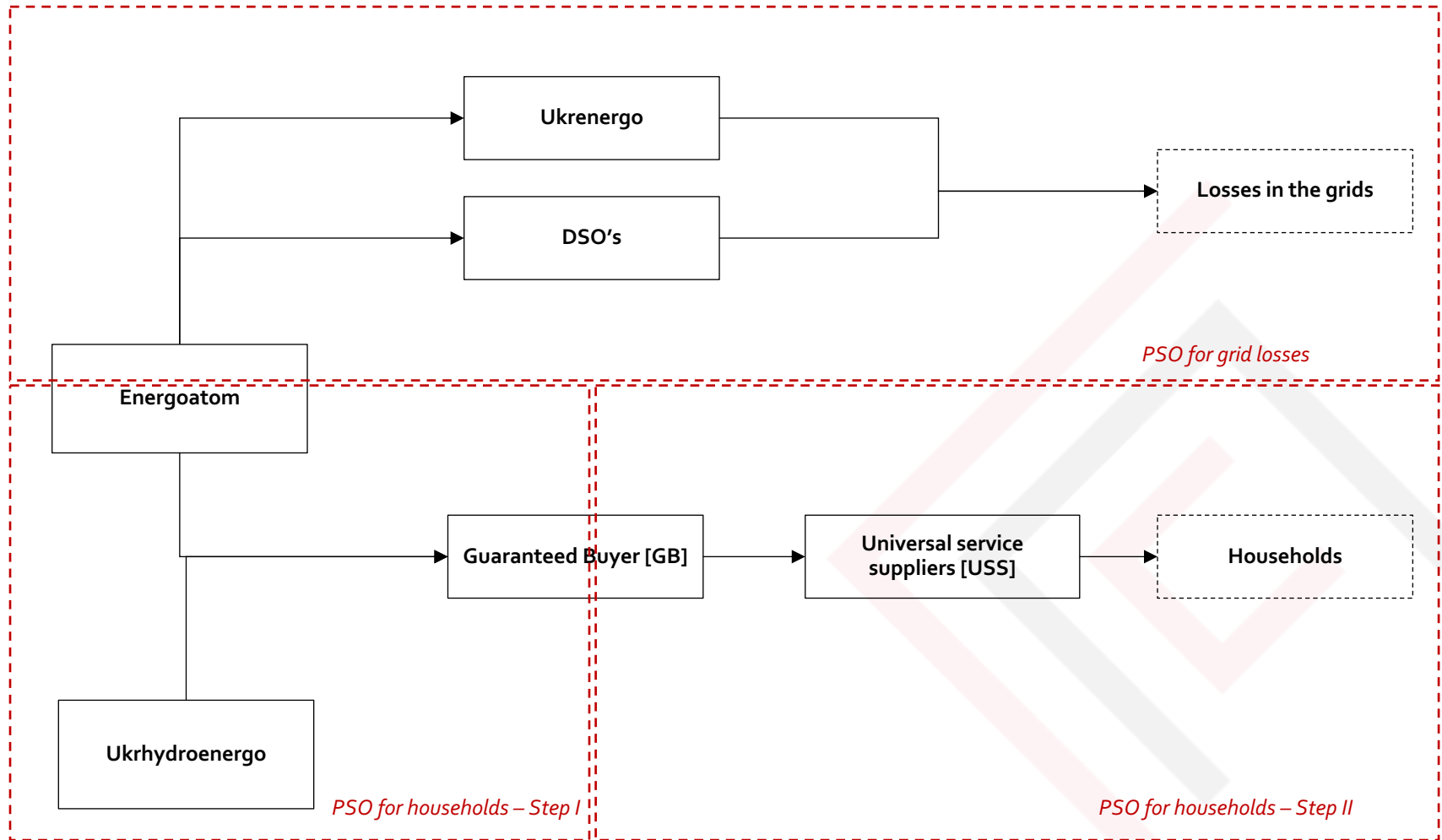


## Status before market opening

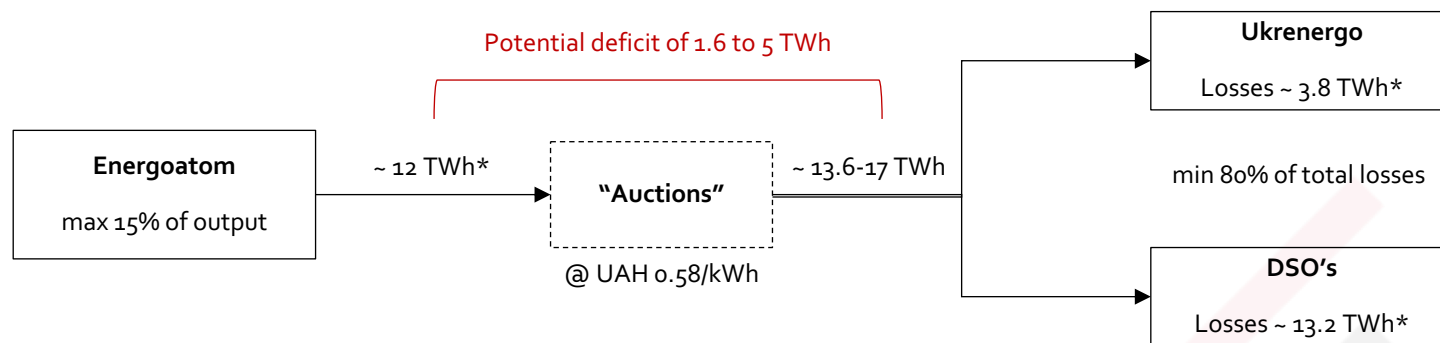
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- Bidding caps for DAM, IDM are established for 9 months – at the level of UAH 2/kWh for peak hours, UAH 0.96/kWh for night hours.
- Bidding caps for balancing market (BM) and auxiliary services market are set until full synchronization with ENTSO-E. BM is limited within a range of  $0.85 - 1.15 \times \text{DAM}$ .
- Market Operator and Guaranteed Buyer received licenses and starts signing agreements.
- Not all metering points are registered, not all market players took part in testing.
- IT platforms were not thoroughly tested.
- PSO adopted to ensure stability of tariffs for households, but the mechanism may not be optimal.

# PSO mechanism scheme and its subjects as adopted on 19-06-2019 and valid until end 2020



## PSO for covering grid losses



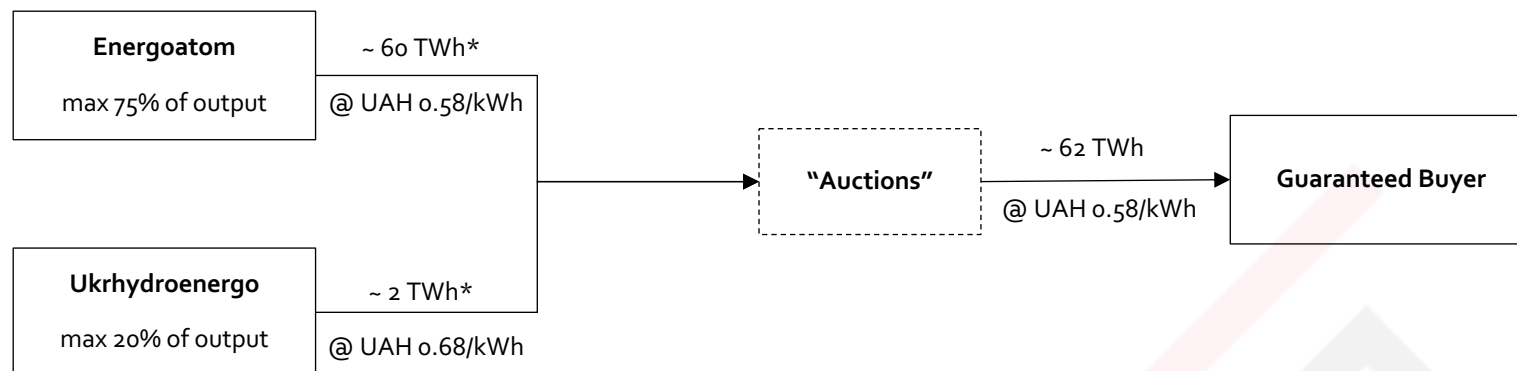
- Not a real “auction” – price ceiling is set, no competition possible
- Relatively low price limit hardly creates incentive for grid operators to decrease losses
- PSO mechanism design flaw creates potential deficit, thus violating the regulation

\*data on losses and production volumes is based on actual for 2018



## PSO for supply to households – Step I

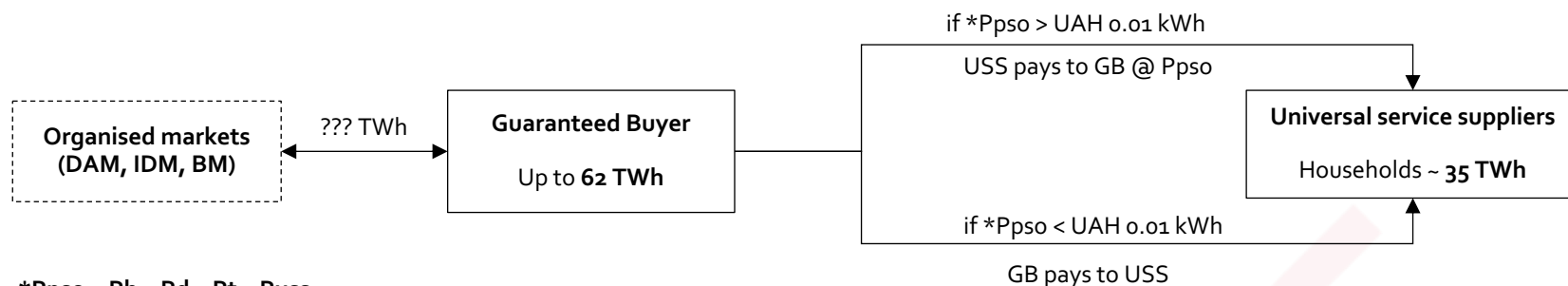
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- Not a real “auction” – price ceiling is set, no competition possible with only one buyer and different products (base and peak power)
- The regulations doesn't provide info on how and by whom PSO volumes are determined and controlled, only maximum amount.
- GB becomes a new “single buyer”, an intermediary with potential access to a lot of cheap electricity and possibility to buy and sell on organized segments

\*data on losses and production volumes is based on actual for 2018

## PSO for supply to households – Step II



$$*P_{pso} = P_h - P_d - P_t - P_{uss},$$

where  $P_h$  – regulated price for households

$P_d$  – distribution tariff

$P_t$  – transmission tariff

$P_{uss}$  – tariff for services of universal services suppliers

- If maximum allowed under PSO volumes are bought by GB from generators in Step I – GB may accumulate significant profits, simply redistributing wealth to it
- Addition of the GB as an intermediary between generators and USS may increase final prices for industrial consumers
- No clear procedure to determine volumes of consumptions by households sold to suppliers – potential benefit for USS in form of cheap electricity

\*data on losses and production volumes is based on actual for 2018

## Issues after July 1<sup>st</sup>, 2019

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- Energorynok debts situation is not resolved.
- Retails prices for households and small consumers are fixed.
- Retails prices for industrial consumers are not regulated or capped, and will depend solely on state of competition between suppliers.
- Clear schedule to eliminate cross-subsidies is not in place. And while retail prices for households are bigger than wholesale price – it de facto exists.
- Adopted PSO as a way to protect households is not optimal for the market functioning. Direct monetization might be a better and more transparent option.
- With a relatively low price cap on balancing market – trading might migrate mostly to BM, undermining liquidity on and development of DAM and IDM.

## Key messages

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- The market will start on July 1<sup>st</sup>, 2019, with certain “safe mode” features in place. Safeguards help to avoid significant shocks in the beginning, but they also restrain development and contain the current structure under control.
- Price caps and PSO are set for a limited duration of time. But there is nothing more permanent in Ukraine as temporary measures. Clear further steps for making market more efficient should be communicated.
- Main focus should be on identifying and dealing with structural problems, which will allow for effective competition and fair and equal access to the market.



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Implemented by:



## Project Leader

Dr. Georg Zachmann

[zachmann@berlin-economics.com](mailto:zachmann@berlin-economics.com)

## Project Manager

Ina Rumiantseva

[rumiantseva@berlin-economics.com](mailto:rumiantseva@berlin-economics.com)

[www.lowcarbonukraine.com](http://www.lowcarbonukraine.com)

Tel.: 030 2064 34 64 – 0