



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

Making Ukraine's Electricity Market work for Ukrainians

Dr. Georg Zachmann

Berlin/Kyiv – 2019

Implemented by

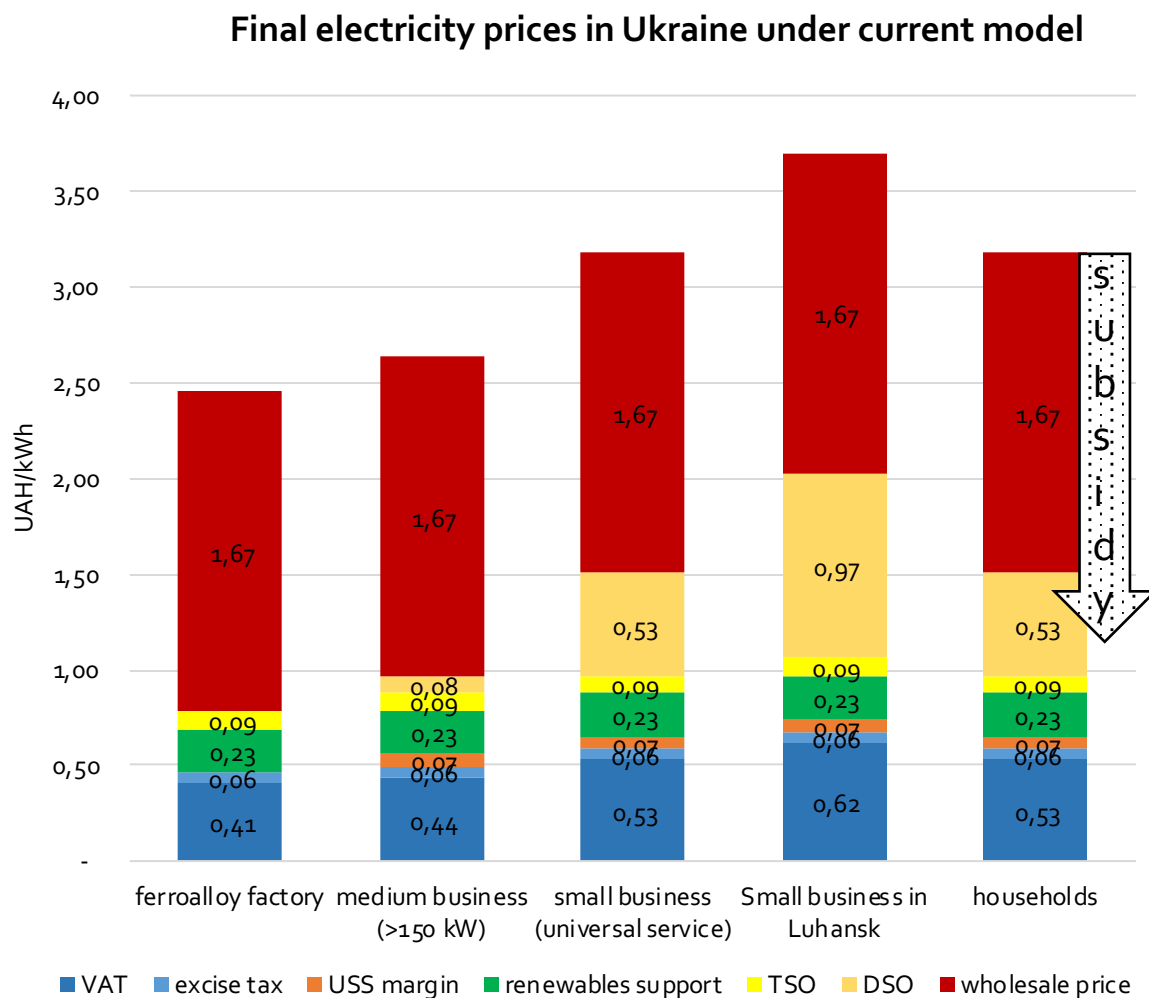


Berlin
Economics

Key Messages

- Wholesale prices are high compared to other countries and relative to generation cost
- There are no easy fixes – as issues (lack of competition, isolation, cross-subsidisation) are structural
- Short-term
 - Monetise PSO
 - Ensure competitive imports
 - Strong monitoring and enforcement of anti-competition rules
- Long-term
 - Encourage incumbents to divest some assets
 - ENTSO-e integration
 - Competitive RES-deployment
 - Privatised Centrenergy to contestant

Final prices dominated by wholesale prices

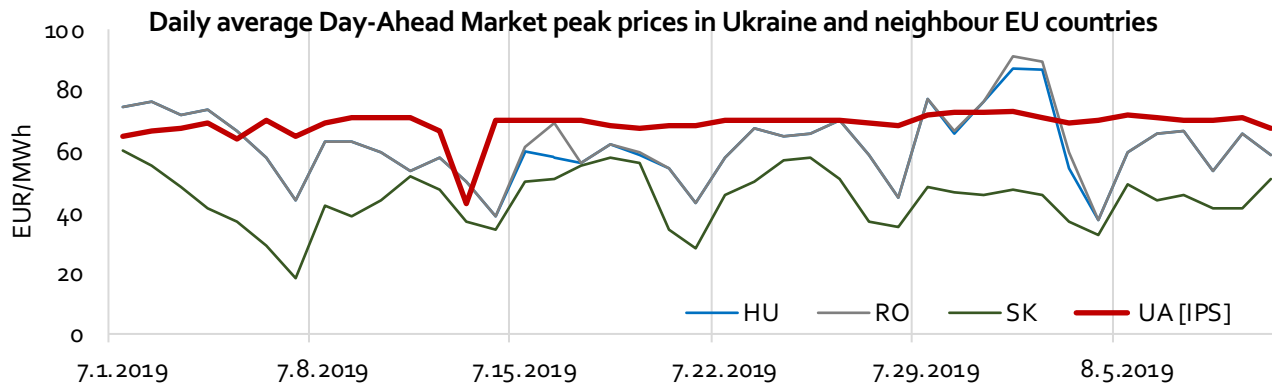


- Wholesale prices 10-25% higher than EU average
- TSO tariffs 65% lower than EU average (0.26)
- RES cost (0.23) on par with EU (0.21)* – but for much less power

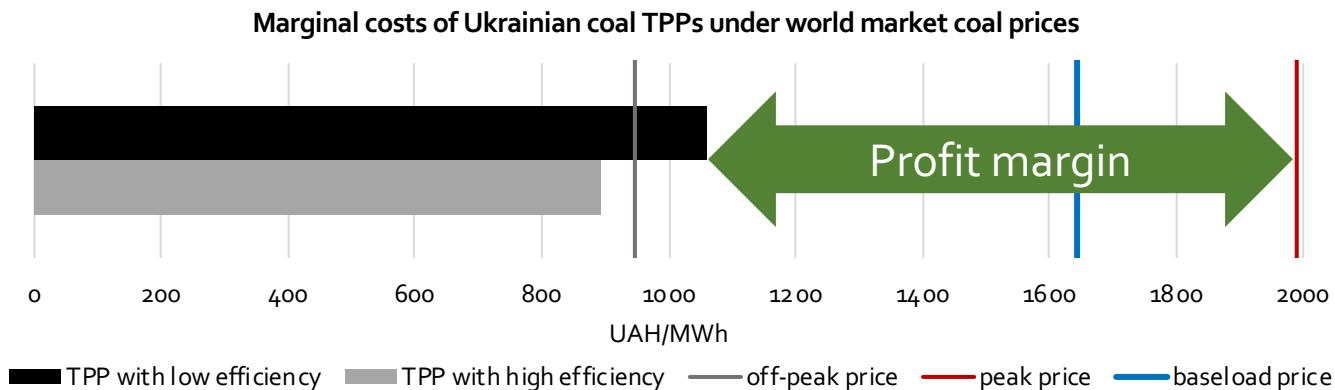
* For 11 countries that finance RES partly via TSO-tariff

Price comparison with EU and generation cost

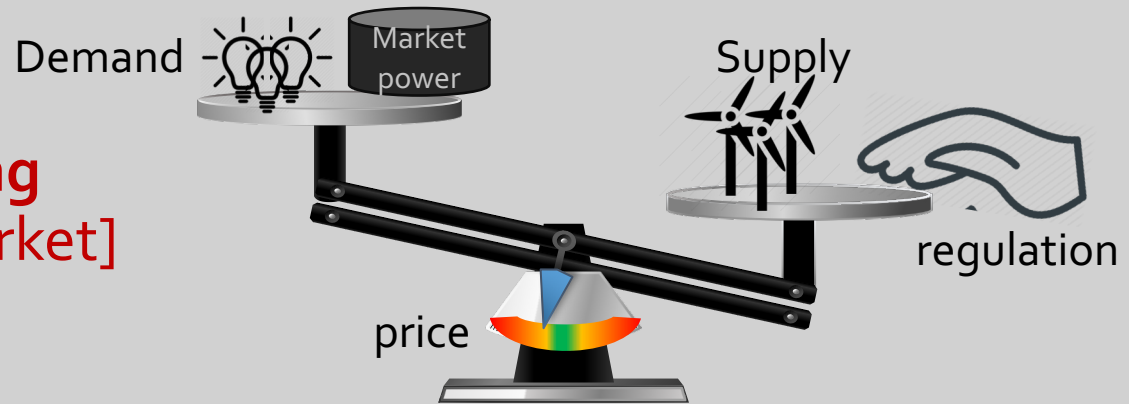
Ukrainian peak prices are higher than those of European neighbours



Operators of Ukrainian TPPs are making big profits under current peak prices



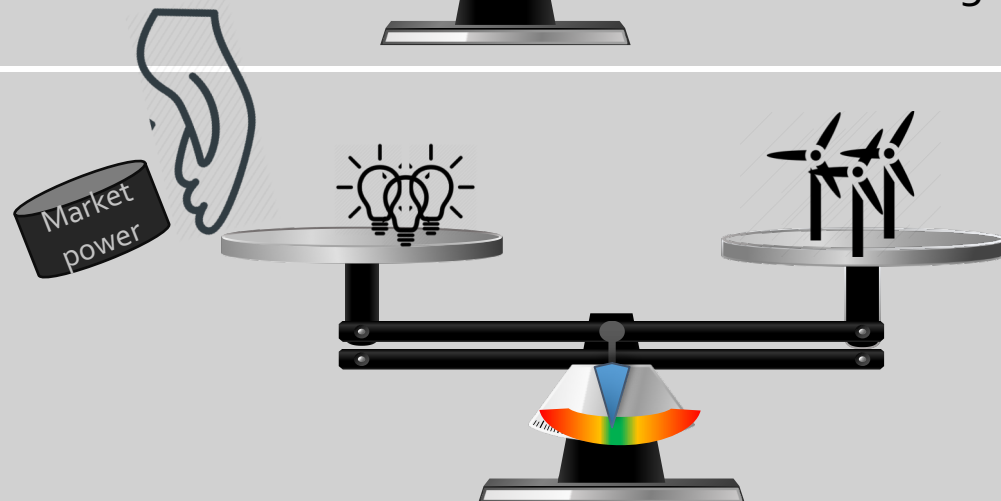
Before Market Opening
[current night time market]
-> too low investments



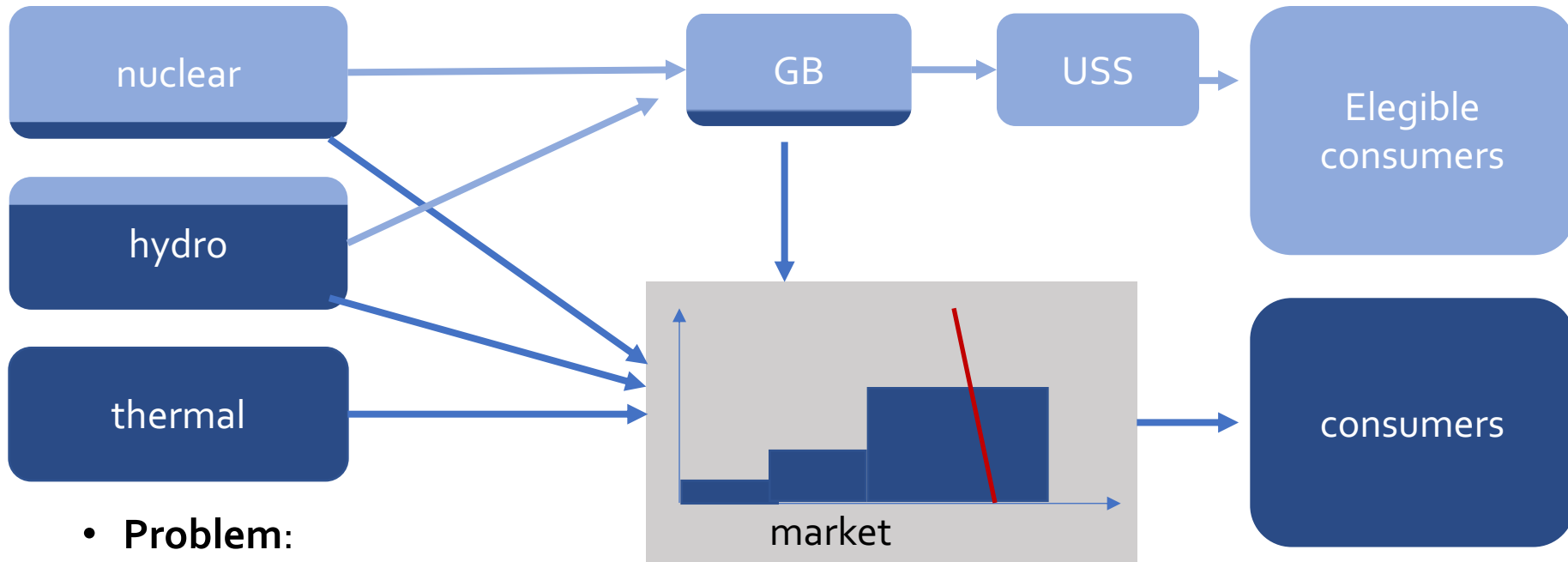
After Market Opening
[current day time market]
-> too high prices



Functioning market
-> fair prices
-> right investment



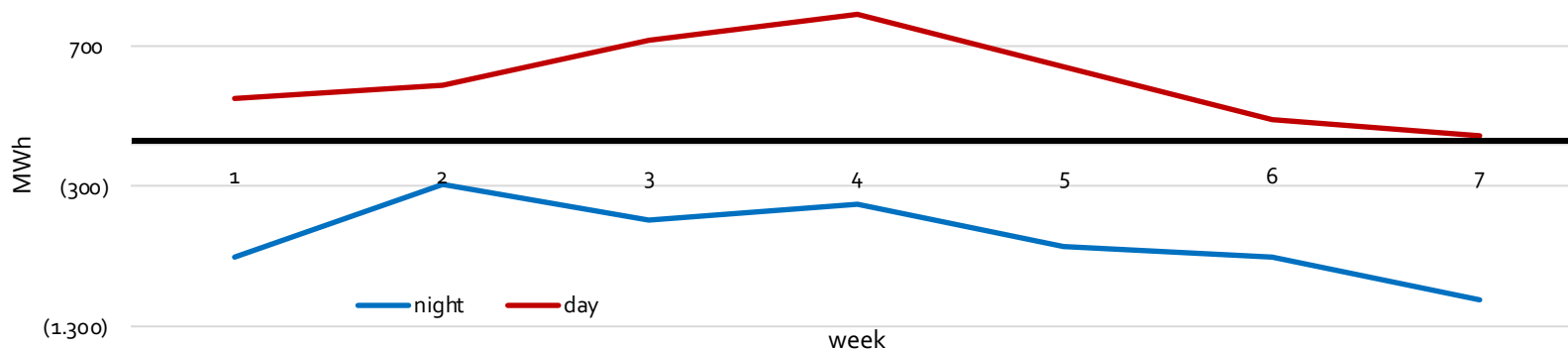
PSO



- **Problem:**
 - unnecessary intermediaries [GB&USS]
 - keeps more than half out of the market – possibly higher wholesale prices
 - current prices for households don't create incentives for electricity saving
- **Solution:**
 - Move to financial instruments to support vulnerable consumers that do not distort market outcomes

Market Power – a root cause for high wholesale prices in UA

Deficit on the DAM increases (avg. bid-ask spread)



- Only two companies own coal plants that always set the prices at DAM/IDM
- Most of bilateral trading is DTEK

Solution:

- Next month: Independent agency to monitor all transactions and enforce rules against anticompetitive behaviour
- Next year: (1) enforce fair cross-border trading; (2) privatise Centrenergy to contestant
- Next five years: (1) ENTSO-E integration; (2) deployment of competitive RES

Revise price caps

Problem:

- Threat of blackout
- Agreement with DTEK might reduce room for future reforms
- Difficult to get it right -> might deter investment, locking in position of DTEK

Solution:

- Make clear to market participants, that tight price caps can only be abolished, when concentration in the sector is substantially reduced



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Implemented by:



Project Leader

Dr. Georg Zachmann

zachmann@berlin-economics.com

Project Manager

Ina Rumiantseva

rumiantseva@berlin-economics.com

www.lowcarbonukraine.com

Tel.: 030 2064 34 64 – 0

The analysis and recommendations in these slides solely represent the view of the author. Comments and feedback would be appreciated.