

# THE IMPROVEMENTS OF UKRAINE'S TARIFF POLICY IN THE ELECTRIC POWER INDUSTRY FOR THE ACHIEVEMENT OF THE SECTORAL AND MACROECONOMIC BALANCES

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Adam Smith Conferences, Ukrainian Energy Forum, Kyiv, Ukraine

28 February, 2019



Adam Smith  
CONFERENCES



26–28 February 2019 | Intercontinental hotel, Kyiv, Ukraine

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# Tariff's Policy in the Context of Competitive Energy Markets Formation

## Natural Gas

Gas Market Law, 2015

## Electricity

Electricity Market Law, 2017

Progress	Challenges		Progress
<ul style="list-style-type: none"> <li>• Legislation almost in place</li> <li>• Competitive wholesale market</li> <li>• NCG price method</li> <li>• Supply diversity</li> <li>• Incentives for domestic production</li> </ul>	<ul style="list-style-type: none"> <li>• No choice of supplier in retail</li> <li>• Networks wear and tear</li> <li>• Property rights issues</li> <li>• PSO approach</li> <li>• Debt growth</li> <li>• No incentive price for distribution</li> <li>• No D2D balancing</li> </ul>	<ul style="list-style-type: none"> <li>• Price discrepancy</li> <li>• Debt growth</li> <li>• Energy coal shortage, need of import</li> <li>• Need for TPP modernization</li> <li>• Grids wear and tear</li> <li>• No incentive price for distribution</li> <li>• Not meeting eco-standards</li> <li>• RES expanding, no network capability</li> </ul>	<ul style="list-style-type: none"> <li>• Legislation: basic OK, secondary in progress</li> <li>• ARA indicator for coal price</li> <li>• Grids Interconnection Agreement (2017)</li> <li>• Emissions Reduction Plan (2017)</li> </ul>

**There are no easy solutions for Ukraine**



Well-grounded and balanced decisions should be made



Forecasting and optimization instruments should be used



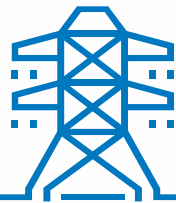
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# Introduction of the Incentive Tariff Policy for the Power Grids Business

## Introduction of incentive-based tariffs

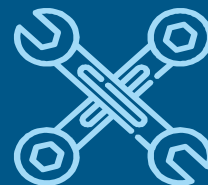
**40 years**



average  
lifetime  
of electricity  
grids

**70%**

the wear  
and tear level



«Cost plus»



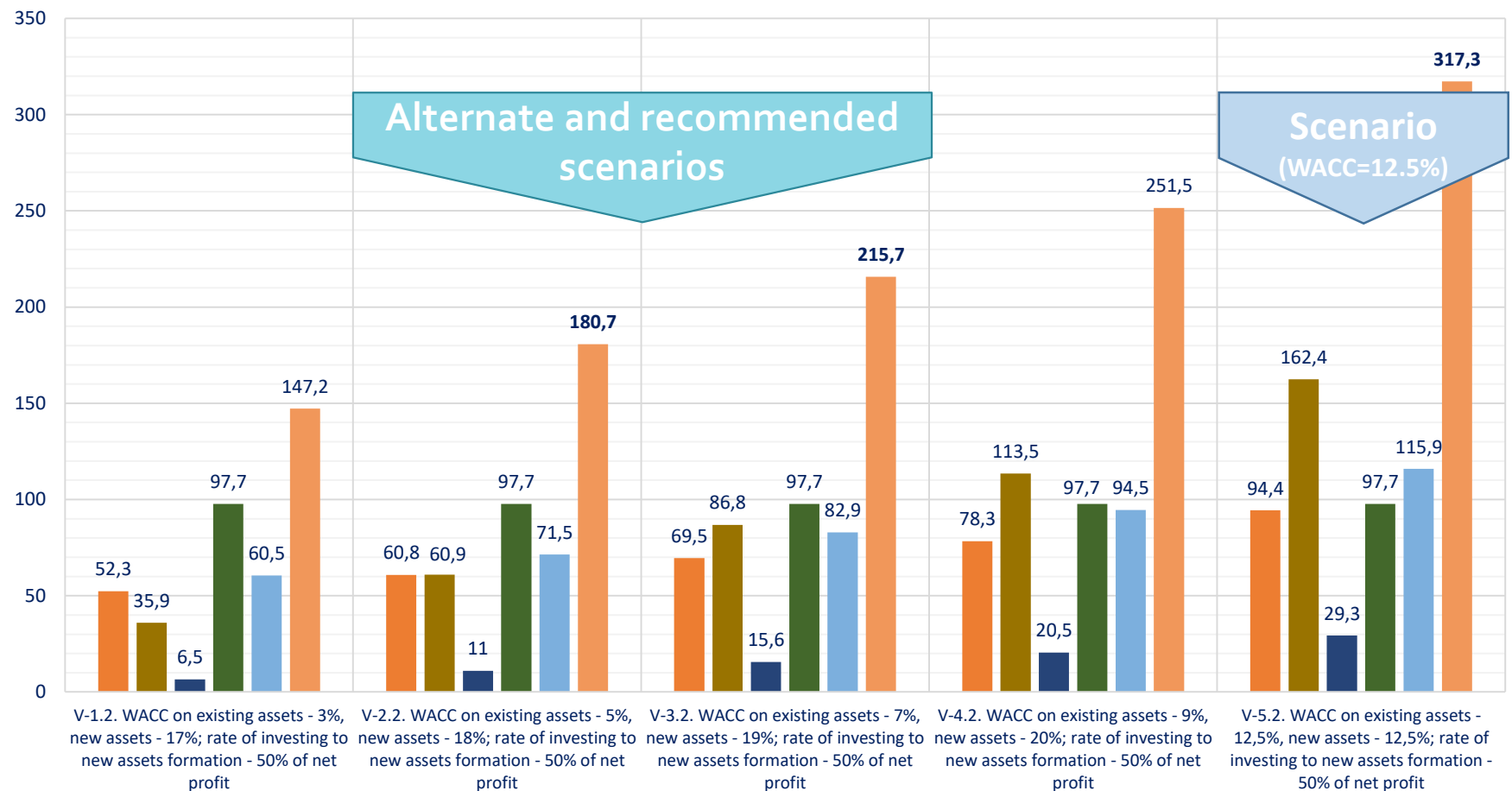
**RAB-  
regulation**  
(2019-2020)



**Investment  
interest**

# Introduction of Incentive-based Pricing for Power Grids: Main Financial Characteristics under Forecasting Scenarios

Comparative Diagram of the Main Financial Characteristics under Incentive Pricing Introduction for Regulatory Period under Forecasting Scenarios, billion UAH

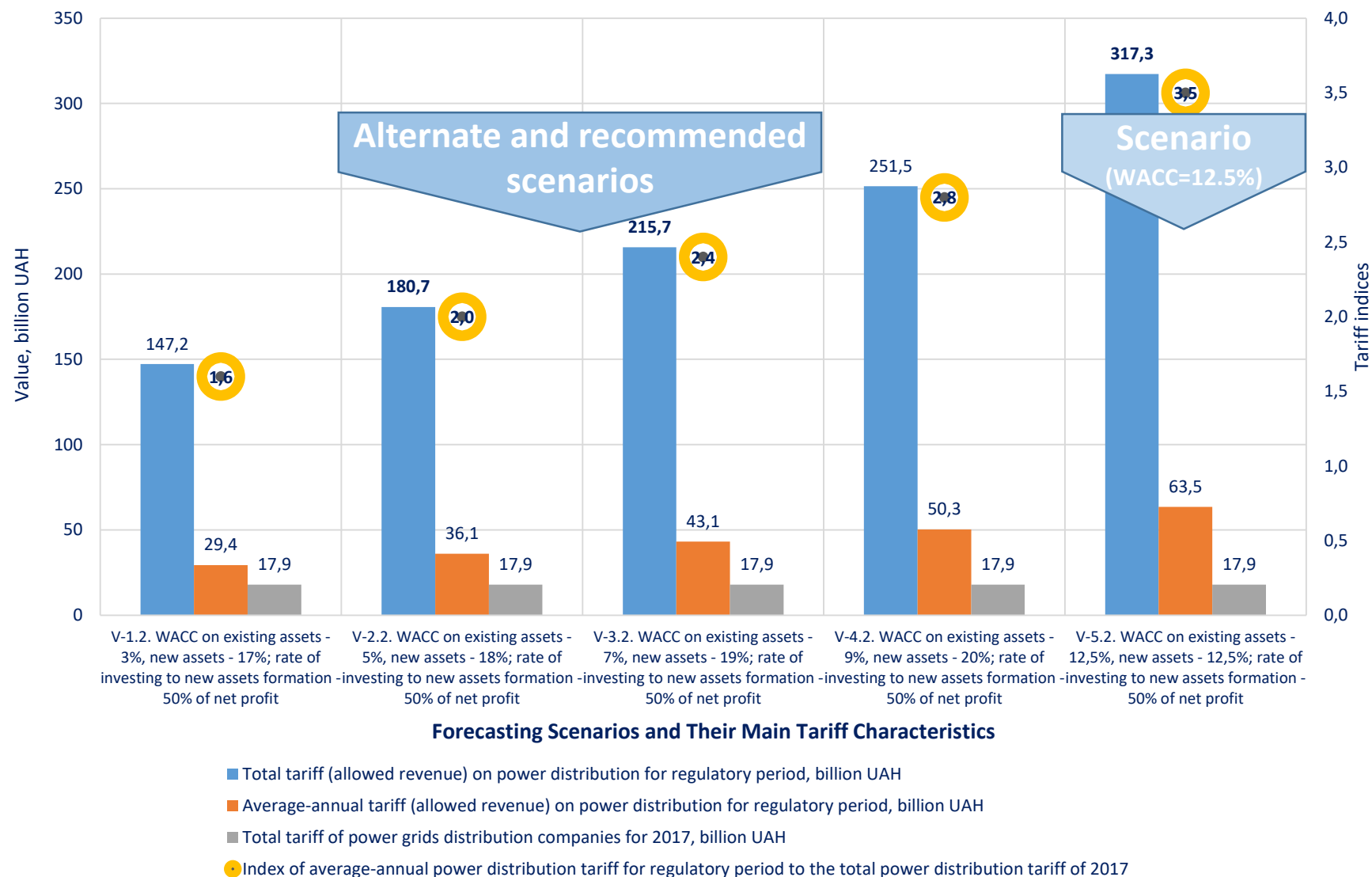


Forecasting Scenarios and Their Main Financial Characteristics

- Growth of the new assets value during regulatory period (5 years), billion UAH
- Total income tax during regulatory period, billion UAH
- Investment program value, billion UAH
- Total profit on the existing and new assets during regulatory period, billion UAH
- Opex (without depreciation) for the regulatory period, billion UAH
- Total tariff (allowed revenue) on power distribution for regulatory period, billion UAH

# RAB Regulation for the Power Grids: the Allowed Revenues under Forecasting Scenarios

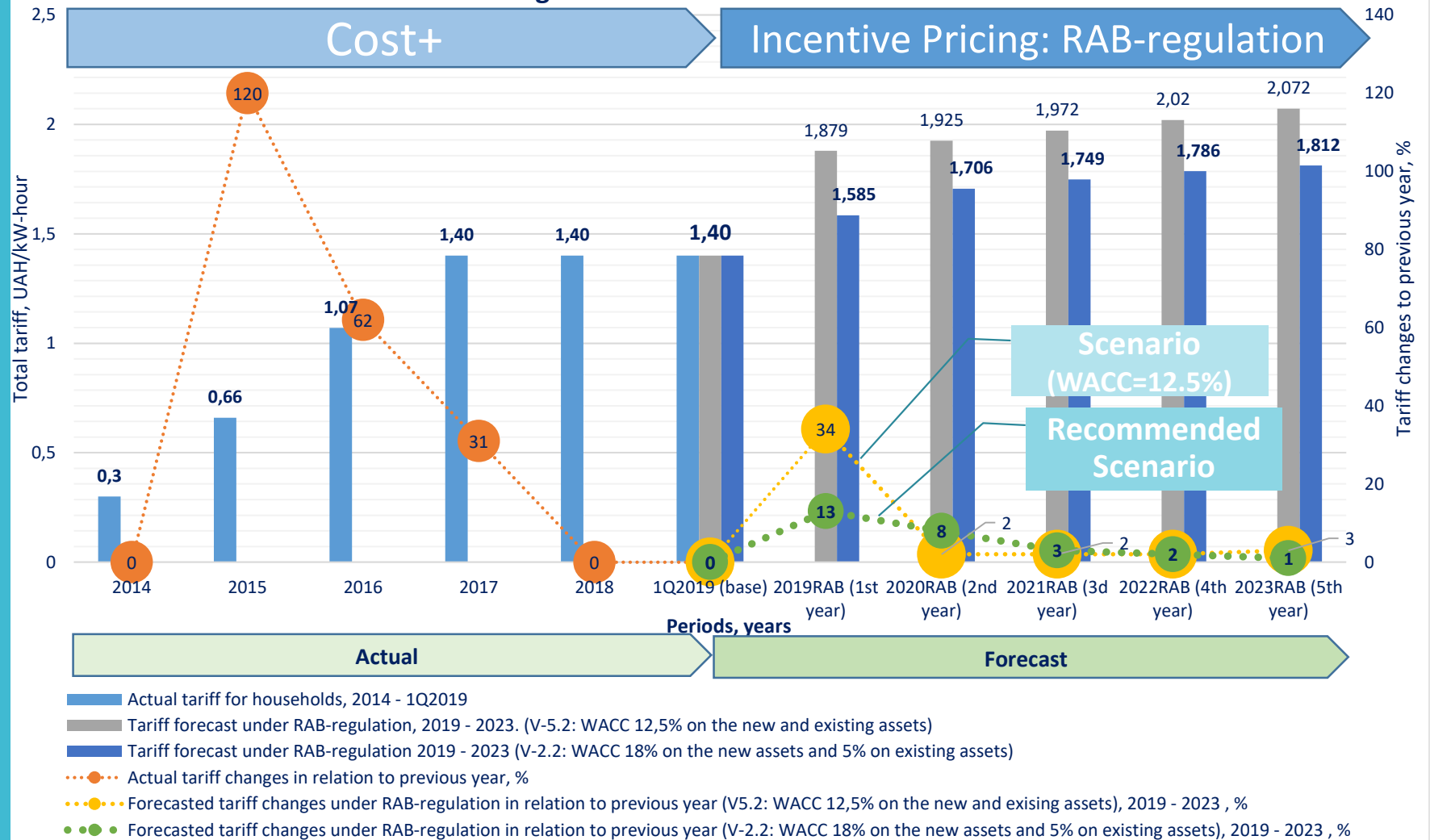
Comparative Diagram of the Total Power Distribution Tariffs (Allowed Revenues) for Regulatory Period under Forecasting Scenarios (without VAT), billion UAH



# Forecast of the Total Tariff for Households under Introduction of RAB Regulation

## Total Electricity and Electricity Delivery Tariff for Ukrainian Households (without VAT), UAH/kW-hour:

- Actual: 2014 - 1Q2019p.;
- Forecast under RAB-regulation: 2019 - 2023



# Advanced Tariff Policy for the RES

## Upgrading the tariff system for RES

### Factors hindering RES development

The highest green tariffs in Europe



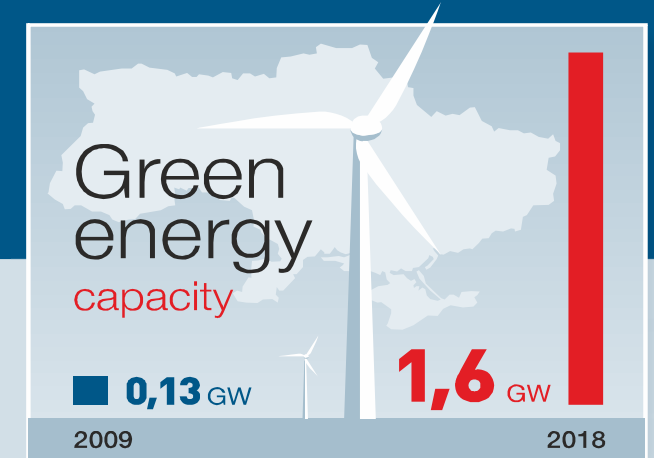
Consumers can reduce demand



Hard to attract investments

#### **SOLUTION:**

**Open tariff auctioning for  
the new projects after 2020**



Shortage of maneuvering capacities



Increasing the proportion of coal  
generation

#### **SOLUTION:**

**2.5 GW of additional capacities  
by 2025**

# Conclusions

- ✓ The current state of payments for energy products and services in Ukraine requires urgent improvement to balance the interests of consumers, energy companies and the state
- ✓ The unsatisfactory technical condition of distribution networks requires the urgent introduction of an incentive pricing over power distribution services
- ✓ It is recommended that the first regulatory period can be reduced from 5 to 3 years using the WACC differentiated rate for new (18 – 19%) and existing (5-7%) assets to balance tariff changes and better power electricity market adaptation

Thank You  
for Your  
Attention!

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