



STAKEHOLDER PANEL AND WORKSHOP

on ensuring integrity and transparency of Ukraine's new wholesale markets in electricity and gas in compliance with the EU acquis

Challenges & Solutions of the energy markets development in Ukraine

Energy Security Project (ESP)

October 22, 2020

INTEGRITY AND TRANSPARENCY OF UKRAINIAN ENERGY MARKETS

THE EUROPEAN CONTEXT

The integration of the energy markets is the corner stone of a genuine economic association of Ukraine and the EU.

- The development of the Ukrainian energy markets is well ahead of the markets in the energy community countries. Size-wise the Ukrainian markets are several times bigger than the total markets of the energy community countries and rank among the largest European markets. That is why the next step for Ukraine is market coupling with the EU.
- Market coupling with neighboring EU countries following the interconnection with ENTSO-E requires that the integrity and transparency of the Ukrainian energy markets is on par with those of the European energy markets.

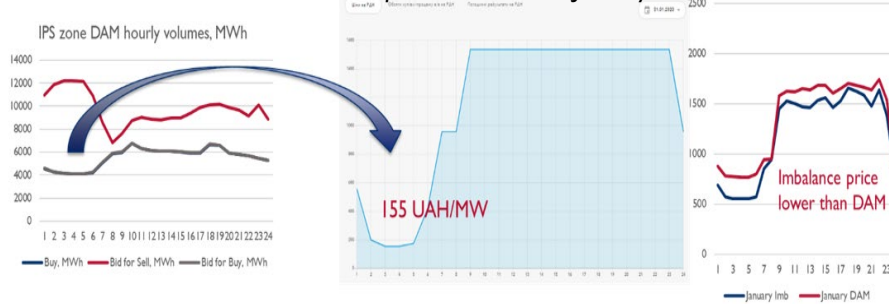
INTEGRITY AND TRANSPARENCY OF UKRAINIAN ENERGY MARKETS

THE NATIONAL CONTEXT

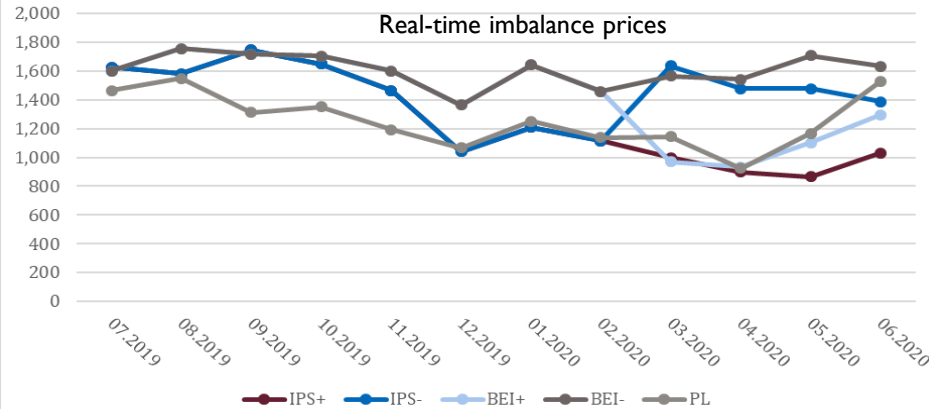
- The wholesale energy markets in Ukraine operate in an extremely complicated environment characterized by high concentration of market power, high level of penetration of wind and solar RES under FIT in a power system dominated by nuclear generation, suboptimal legacy infrastructure, etc.
- That is why the Ukrainian markets are more prone to manipulation and abuse including, collusion and price-positioning, wash trades, placing orders with no intention of executing them, withholding generation and demand, capacity hoarding, pre-arranged trading, etc.
- Different forms of market manipulation are already happening in Ukraine and threatening to cause market crashes and financial instability of the energy sector.

UKRAINIAN ELECTRICITY MARKETS - PRICING DISTORTIONS

Market price distortions in January 2020



Real-time imbalance prices

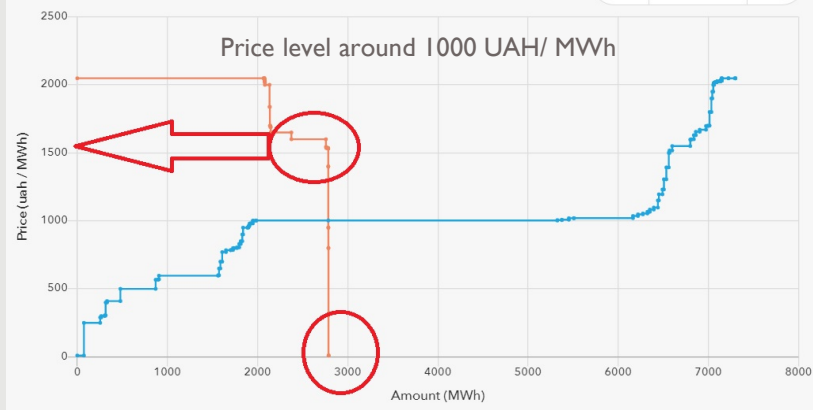
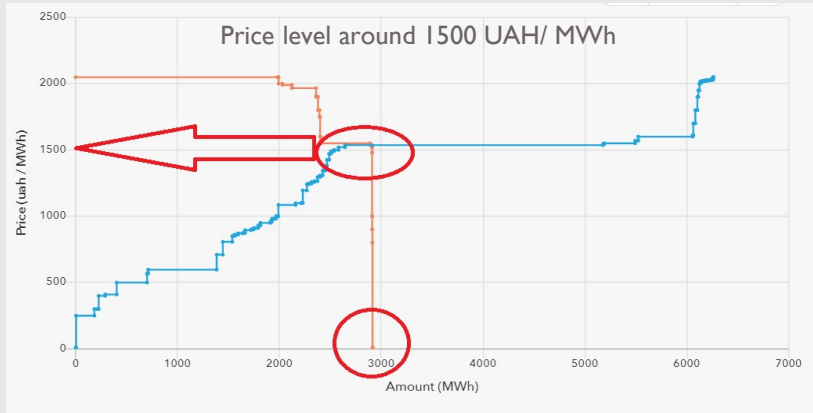


Market environment fosters participants' abusive behavior and market price manipulation.

Examples:

- Artificially reduced imbalances manipulate imbalance prices. Cost of balancing < DAM prices!
- Single-component imbalance prices additionally enabled this to occur. Overall, these transactions led not only to windfall profits, but also artificial plummeting of DAM prices, financially damaging state-owned operators.

UKRAINIAN ELECTRICITY MARKETS - MARKET MANIPULATION



- Lack of transparency and monitoring of the bilateral contracts, notwithstanding the demand levels, DAM pricing might get wildly different (damaging the key state-owned MPs obliged to operate the RES support mechanism and PSO).
- Energy surplus (due to excess nuclear and renewable generation), combined with Spring 2020 low DAM prices caused TPPs outselling the increased volumes through bilateral contracts, resulting in further price decreases.
- Ex-post monitoring and mitigative actions may address the problem, but will not eliminate the harmful negative financial impacts, affecting the stability of WEM.

UKRAINIAN GAS MARKET MANIPULATION

1. Gas Market is highly concentrated → customers need protection from potential manipulation → system has rules to prevent, however requires monitoring for adherence
2. 90% of trades are bilateral → lack of ability to interpret for analysis, or relevance to determine fair pricing/potential manipulation
3. Gas Monitoring Reports available only on quarterly basis → lack of timely information for MPs → NEURC needs capacity to monitor more frequent information

Efficient monitoring should allow for:

- Enhanced transparency and integrity of the market
- Speedy identification of potential abuse with simple process to address
- Improve enforceability through the provision of evidence based analysis and support

ENERGY MARKET INTEGRITY AND TRANSPARENCY: LEGAL FRAMEWORK

EU

- Regulation (EU) **No 1227/2011** on wholesale energy market integrity and transparency (REMIT)
- Commission Implementing Regulation (EU) **No 1348/2014** on data reporting implementing Article 8(2) and Article 8(6) of Regulation (EU) No 1227/2011 and ACER REMIT RRM requirements
- Regulation (EU) **No 543/2013** on submission and publication of data in electricity markets and amending Annex I to Regulation (EC) **No 714/2009**
- Regulation (EC) **No 715/2009** on conditions for access to the natural gas transmission networks

Energy Community

- “Light REMIT”

ENERGY MARKET INTEGRITY AND TRANSPARENCY: LEGAL FRAMEWORK

Ukraine

- According to the Energy Community Regulations Ukraine has to implement “Light REMIT”

However

- According to Annex XXVII – B of the Association Agreement, as modified by Council Decision (EU) 2019/466 of 18 March 2019 Ukraine has to implement Regulation (EU) No 1227/2011, Regulation (EU) No 543/2013 and Regulation (EC) No 715/2009.

and

- According to Article 103 of the Treaty establishing the Energy Community, “any obligations under an agreement between the European Community and its Member States on the one hand, and a Contracting Party on the other hand shall not be affected by this Treaty. Any commitment taken in the context of negotiations for accession to the European Union shall not be affected by this Treaty”.

Therefore

- Ukraine has to transpose the entire EU energy markets integrity and transparency legal framework.

REMIT PRACTICAL IMPLEMENTATION – INITIAL STEPS

- Urgently adopt amendments to the relevant primary and secondary legislation.
- Create the conditions for operation of Registered Reporting Mechanisms and Insider Information Platform.
- Establish Market Data/Transparency Platform providing transparency about operation of all market segments, especially BPM and BCM.
- NEURC to assume the role of ACER under REMIT and upgrade its market monitoring activities to bring them in full compliance with the requirements of REMIT and Commission Implementing Regulation No 1348.
- NEURC to organize data reporting through RRM including reporting of market transactions and orders to trade, fundamental data and inside information and build internal capacity for market data analysis to uncover all instances of market manipulation.
- NEURC to exchange information and cooperate closely with NSSMC, AMCU.

REMIT: USAID ESP SUPPORT FOR THE PRACTICAL IMPLEMENTATION

- Support for the development of REMIT related primary and secondary legislation.
- Human and Institutional capacity building related to the implementation of REMIT at NEURC and the major market players.
- Support for the development and implementation of IT systems supporting market data collection and analysis to uncover market manipulation.
- Supporting the operation and work of any relevant working groups.

— Thank you!

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