

The Law of Ukraine On the Electricity Market enters into force

On 11 June 2017, the Law of Ukraine On the Electricity Market entered into force. The law is aimed at complying with Ukraine's obligations under the Treaty establishing the Energy Community and the Association Agreement between Ukraine, of the one part, and the European Union, the European Atomic Energy Community and their Member States, of the other part, and focuses on the implementation of legislative acts of the Energy Community in the energy sphere.

The Law provides for the legal and organizational separation of distribution and transmission of electricity from other activities in compliance with the requirements of the Third Energy Package, which is a prerequisite for economic competition on the electricity market.

In accordance with the recommendations of the Energy Community Secretariat, the Law provides for replacing the Cost Imbalance Allocation Fund with a new mechanism to support feed-in tariff electricity producers.

The Law provides that the entire amount of electricity generated from renewable energy sources shall be procured by a guaranteed buyer. The expenses of the guaranteed buyer associated with such a procurement shall be reimbursed by the transmission system operator. The obligations of the guaranteed buyer may be assigned by the Cabinet of Ministers of Ukraine to any market participant.

Moreover, the Law introduces the liability of the feed-in tariff electricity producers for imbalances (the deviation of the actual volume of delivered electricity from the daily charts of electricity delivery for the following day) and establishes a special procedure for imbalances compensation.

Electricity market organization

The main aim of the Law is to ensure the reliable and safe supply of electricity to consumers, taking into account their interests, minimizing the electricity supply costs by defining the organizational structure and principles of functioning of the electricity market and the basic foundations and prerequisites for its reform at the legislative level.

The Law provides that the electricity market shall consist of the following parts:

bilateral contracts are contracts between two market participants outside the organized market segment, except for contracts for electricity

supply to consumers;

day-ahead market is an electricity market segment where the electricity is traded for the delivery on the day following the day of trading;

intraday market is a market segment where the electricity trading takes place around the clock after closing of the day-ahead-market and during the day of real time delivery of electricity;

balancing market is a market organized by the electricity transmission system operator for the purpose of ensuring sufficient electricity supply capacity necessary for real-time balancing of generation volumes and electricity import and consumption and electricity export, regulation of system restrictions in the united energy system of Ukraine as well as financial regulation of electricity imbalances;

market of ancillary services is a system of relations arising in connection with the purchase of ancillary services by the transmission system operator from the providers of ancillary services;

retail market is a system of relations arising between electricity consumers and electricity suppliers in the process of electricity supply, as well as relations with other market participants who provide electricity supply related services.

The Law adds a new player – traders – to the list of market participants. According to the Law, a trader is defined as any entity that buys electricity exclusively for the purpose of reselling it, except for selling to consumers. Traders shall sell and purchase electricity under bilateral (direct) contracts on the day-ahead or intraday market. The presence of traders on the electricity market should have a positive effect on the market liquidity and contribute to limiting significant price fluctuations on the market.

The Law also provides for a transition period (up to 24 months from the date of the Law entry into force) during which the necessary technical, organizational, economic and regulatory preconditions for the establishment and smooth functioning of the Ukrainian electricity market shall be created.

System of special obligations

The Law introduces a system of special obligations to ensure the public interest protection in the functioning of the electricity market.

Special obligations include, inter alia:

- purchase of electricity at the feed-in tariff;
- provision of universal services – supply of electricity to residential and small non-residential consumers which ensures their rights to be supplied with electricity of certain quality;

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- serving as "last hope" supplier – assigned electricity supplier who, in certain circumstances, may not refuse to enter into a contract for electricity supply for a limited period of time with a consumer;
- payment of compensatory payments;
- provision of ancillary services at the price set by the National Commission for State Regulation of Energy and Public Utilities (Regulatory Body).

Special obligations to be imposed by the Cabinet of Ministers of Ukraine or the Regulatory Body on the market participants shall be clearly defined, transparent, non-discriminatory and temporary.

Support of reconstruction of several combined heat and power (CHP) plants

The final provisions provide that the Cabinet of Ministers of Ukraine shall pass a resolution on the temporary support of reconstruction of several combined heat and power (CHP) plants. However, the decision on the support for each individual CHP plant shall be made subject to the following conditions:

- the cost of electricity generated by the CHP plant without reconstruction and/or modernization must be higher than the market price;
- absence of alternative sources of thermal energy in the heat supply area of the CHP plant;
- availability of feasibility study based on the results of the CHP plant technical condition audit regarding the feasibility of the CHP plant reconstruction and/or modernization in comparison with the construction of new alternative thermal energy sources;
- availability of feasibility study regarding the reconstruction feasibility in comparison with the construction of new alternative thermal energy sources.