
Opportunities for Export and Trade Development: Electricity Export Expansion to Europe

Joint EFET & DTEK Legal Workshop

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Electricity export: history and nowadays

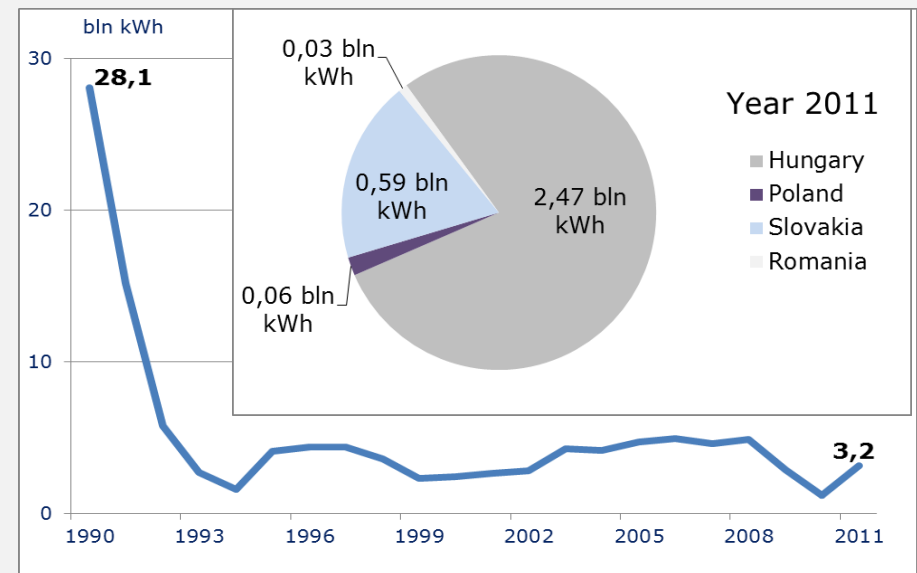
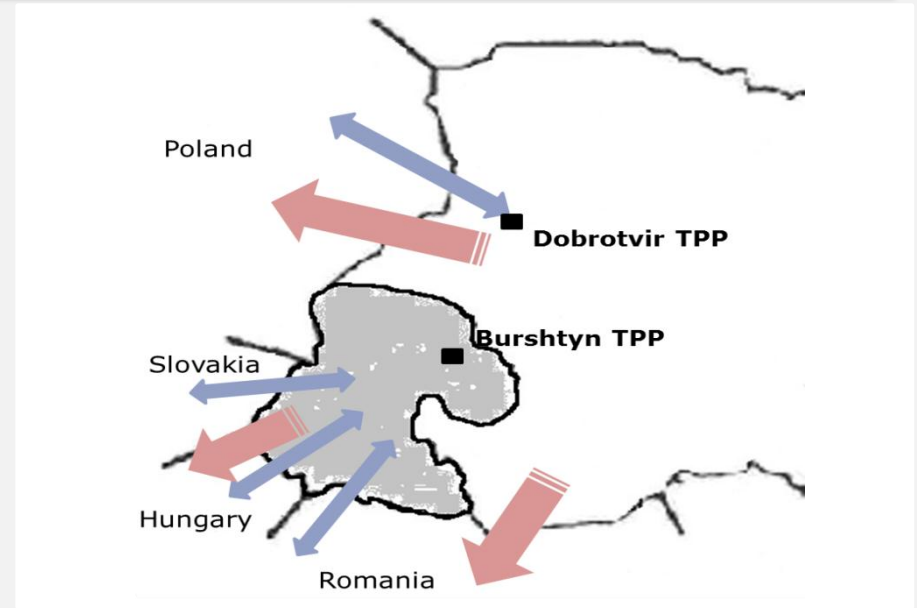
Ukraine provides electricity to the European countries through "Burshtyn island" to Hungarian, Romanian and Slovak energy systems and in the "radial" mode from Dobrotvir TPP to Polish energy system

Before 1990 total capacity of interstate connections 'Western grid of Ukrainian UES – CENTREL/UCTE' allowed to export excessive power output from former USSR to the neighboring European systems

Decrease in electricity export from Ukraine over the last decades is explained by:

- technical constraints related to asynchronous operation of the Ukrainian UES and energy systems of the Eastern European countries
- changes in electricity demand in the importing countries.

At the moment, electricity export from Ukraine to CEE countries is mainly limited by the "Burshtyn island" capacity



Electricity export – opportunities and requirements

- Removal of technical constraints is the major pre-condition for expansion of electricity export from Ukraine
- Major aspects to be taken into consideration:

Institutional arrangements

1. Synchronous connection of Ukraine's UES with ENTSO-E grid as one of priorities in international energy cooperation, has been declared
2. Ukrainian WEM is under reforming. Transition to new liberalized market model is expected
3. Ukraine is a full-fledged member of Energy Community

Technical aspects

There are two technical options for electricity export expansion:

- "Burshtyn island" extension: **1**
- construction of new generating facilities within the "island"
 - grid construction within the "island"
 - adding other generating facilities and networks to the "island"

B2B construction and increase in electricity supplies through the "island".

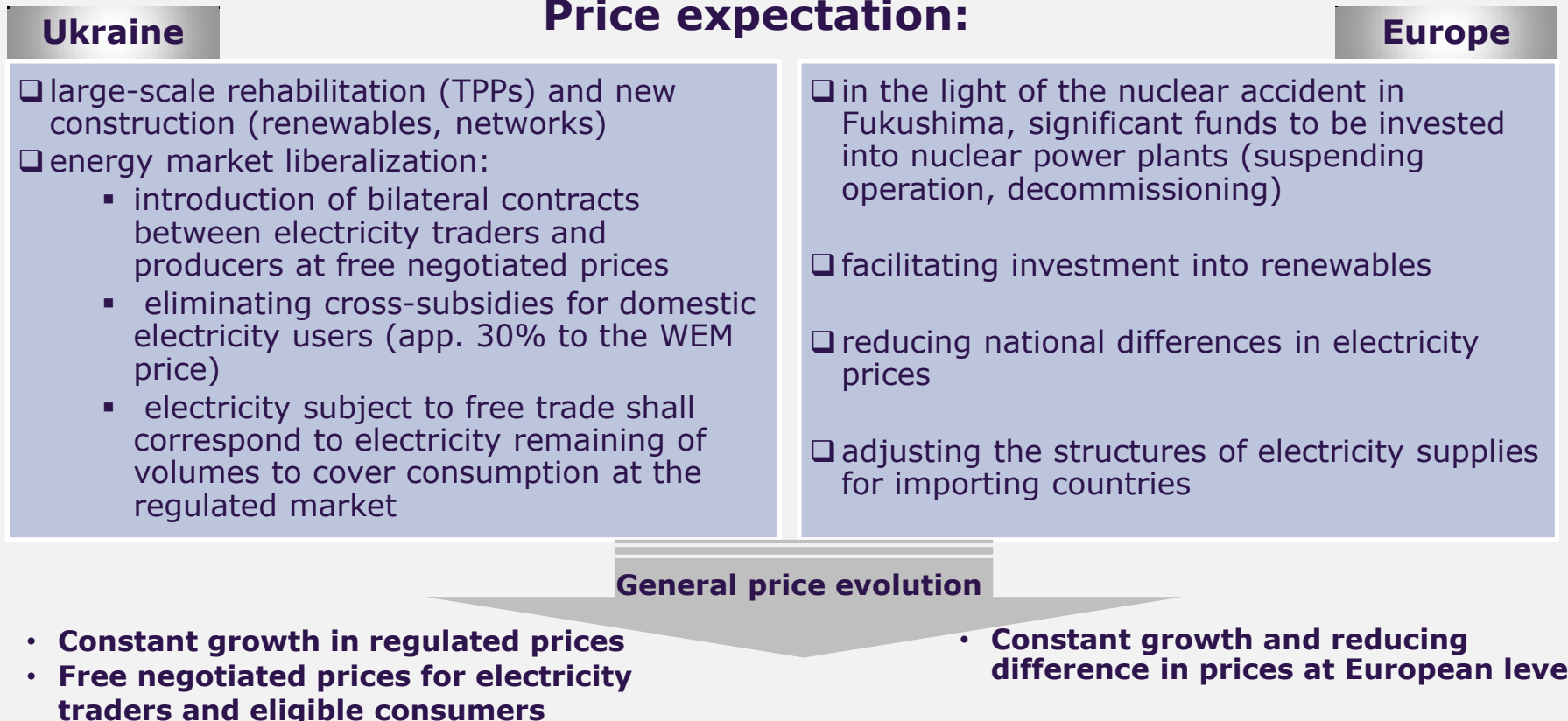
- Asynchronous connection of Ukraine's UES and ENTSO-E grid (B2B construction). **2**

Legal and investment environment

1. Activities in energy sector are subject to the state regulation (NERC)
2. Auctions for cross-border capacity allocation
3. Export operations shall comply with main principles and procedures applied in EU countries
4. Scope of investment projects shall be considered together by Ukrainian and ENTSO-E parties
5. Importance of transparent and sustainable regulatory framework and investment climate.

Electricity prices – current and expectation

- Commercial aspect **is** and **will be** dominant factor encouraging the increase in electricity export from Ukraine to the European countries
- At the moment Ukrainian traders are able to offer electricity at competitive prices (except for Romanian market). Special pricing is applied for export prices.



Investment projects for electricity export expansion

- ❑ Existing Ukrainian laws don't comply with EU legislation in electricity sector
- ❑ Strategic objective of Ukraine is to harmonize national legislation with *acquis communautaire* ('the Third Electricity Package')
- ❑ Ukrainian law provides certain investment incentives for projects implemented for existing power facilities
- ❑ There are a number of aspects to be regulated with regard to investment projects:
 - unified authorization procedure both for state and private investors
 - non-discriminatory procedure for obtaining necessary state approvals, permits,
 - ensuring return on investments

Generation

❑ Investment procedures for construction / reconstruction are partially regulated for

- existing TPP and CHP,
- renewables

through approval of feed-in tariff system for renewables and investment surcharge to electricity tariffs for thermal producers

Transmission

❑ Procedure for transmission project implementation with participation of private investors is not clear

❑ Until now the only state company which is a monopolist – licensee on electricity transmission via main and interstate networks, provides reconstruction, construction of transmitting infrastructure

❑ State monopoly over transmission assets practically excludes obtaining commercial financing

❑ No merchant model is applied

Investment projects for export expansion – challenges and solutions

Challenges

Uncertainty for commercial investment into transmission infrastructure

Perspectives

Liberalization of Ukrainian electricity market

Ukraine's commitments on harmonization of national legislation to EU *acquis communautaire*

Solutions

Amendment to Ukrainian laws:

- ten-year network development plan to be published

- upon the TSO's initiative – attraction of private investors to transmission projects (new construction) through open tender

- provide opportunities for non-governmental investors to enter into infrastructure projects, establish transparent and non-discriminatory procedure for getting necessary permits

- transparent procedure for operation of facilities constructed by private investors

- investment incentives and investor guarantees - new direct current interconnector or an existing interconnector with significantly increased capacity can be exempted from existing regulated regimes

Conclusions

The best solutions for electricity export expansion will be achieved through:

- ❑ establishing transparent and sustainable rules for electricity export and import operations
- ❑ cooperation between ENTSO-E Committees, Ukrainian TSO, systems operators of neighboring countries
- ❑ cooperation between Ukrainian state authorities (NERC, Ministry of Energy and Coal Industry), EFET, electricity traders and private investors within new-created Working Group.

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