



Energy
Security
Project

Analysis and Proposals for Amendment of the NEURC Resolution # 766

Kyiv, Ukraine
December 10, 2020

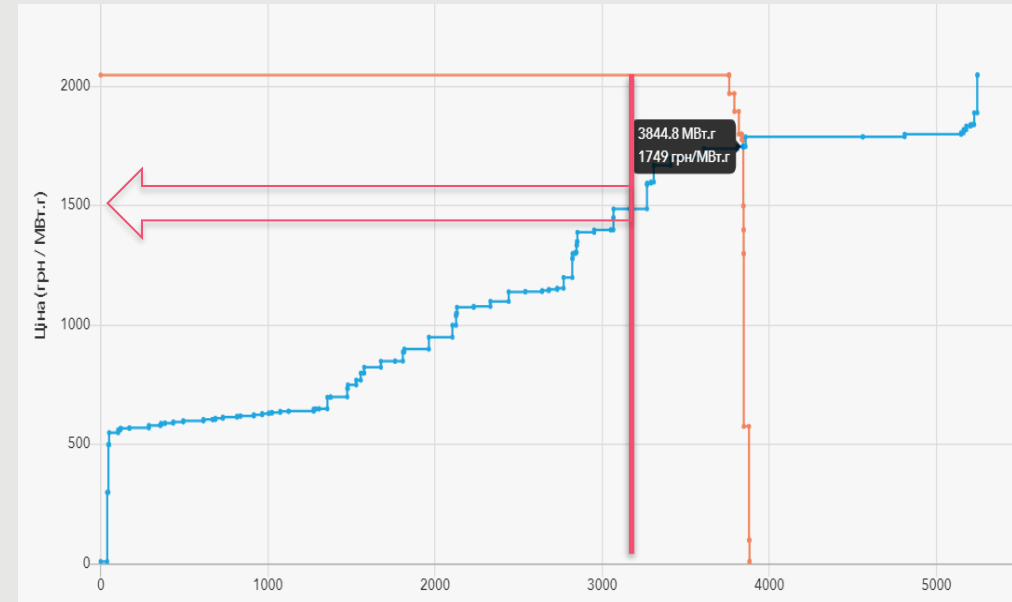
Draft Resolution for Decree # 766

Highlights

- DAM purchase obligation for network losses of TSO and DSOs reduces from 50 % to 20 %.
- The bidding cap of the Guaranteed Buyer for selling renewable energy under PPAs decreases.
- Night zone bidding cap for DAM & IDM reverts to its original level, 959.12 UAH/MWh.

DAM Purchase Obligation for Network Losses TSO and DSOs

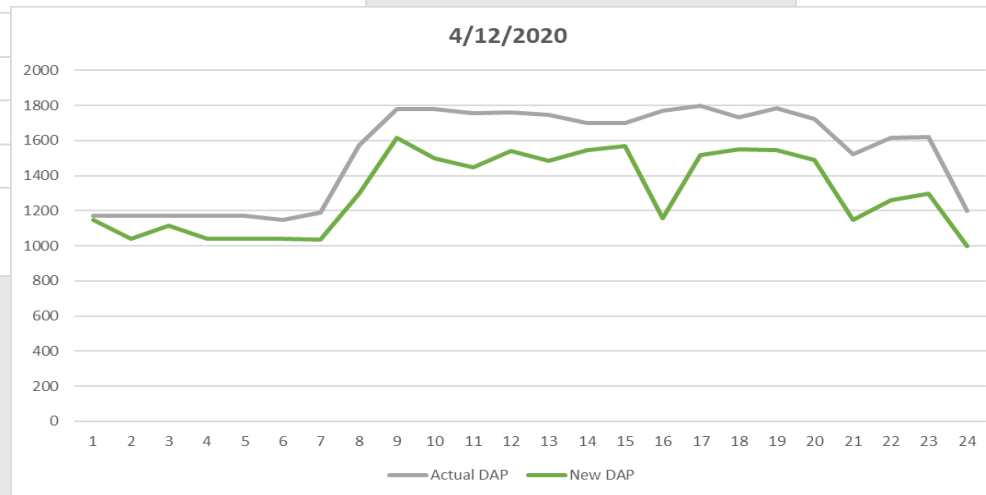
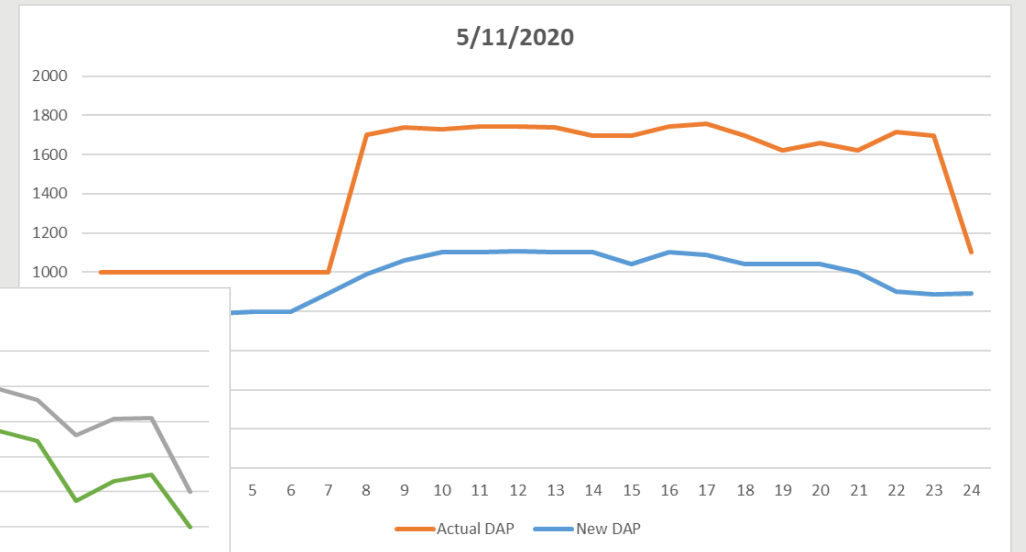
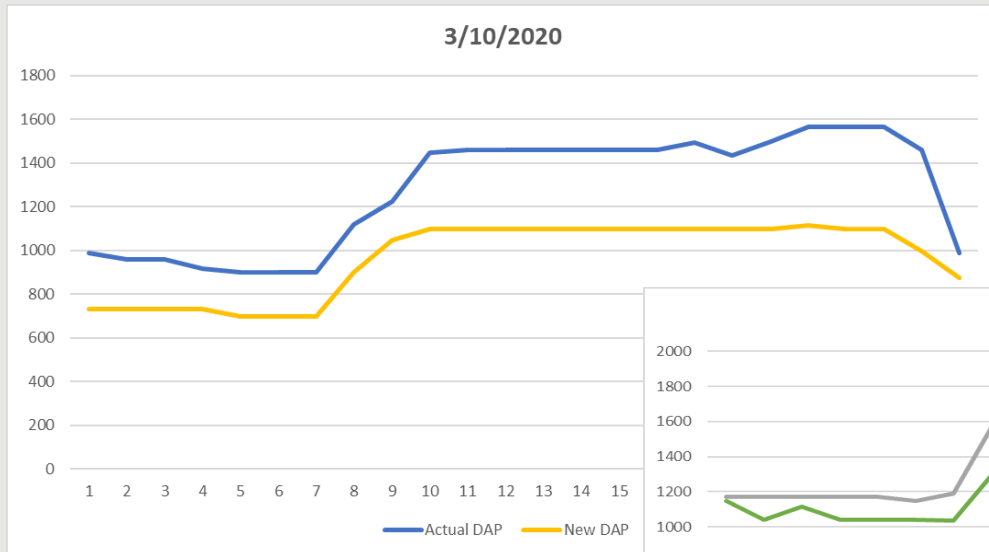
- DAM purchase obligation for losses was 80 % and decreased to 50 % (ESP recommendations dated 09/22/2020 supported the initiative but suggested a gradual decrease as opposed to the draft decision on 20 % directly)
- Recent draft resolution intends to reduce the obligations from 50 % to 20 %. In order to assess the impact on DAM analysis was made based on the assumptions below:
 - Average network losses in the transmission and distribution is 12,68 % (from NEURC 2019 Annual Report)
 - Supply-demand curves of 3 representative days taken (daily weighted average price close to monthly)
- The impact simulated by re-creating the supply-demand curves for DAM price (DAP) for several days.



Impact of Decreasing the DAM Obligation for Network Losses

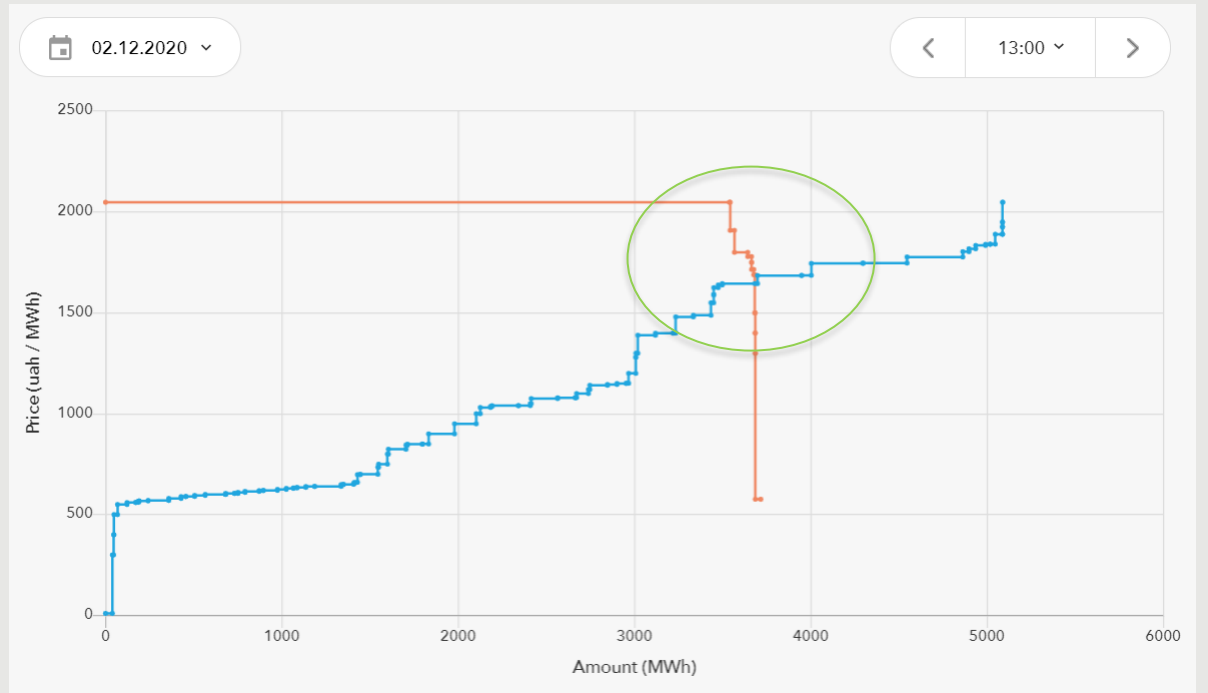
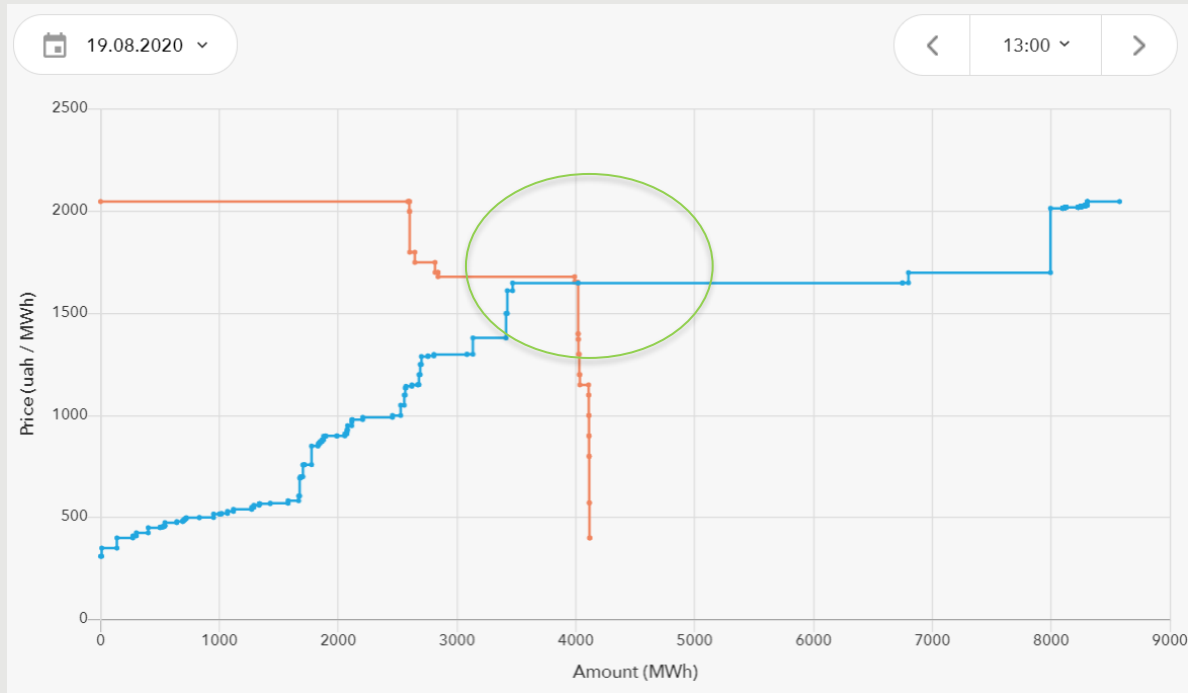
- As a result of the purchase obligation decrease (from 50 % to 20%), DAP likely to decrease
 - Decrease on 04.12.2020 at 13:00 would be around 250 UAH/MWh, assuming that demand curve is shifted while supply remains stable, implying part of existing surplus in the system is streamlined to TSO and DSOs via bilateral contracts. **Actual decrease likely to be less.**
- The decrease in weighted average DAP to **reach up to 35%**, relieving the price pressure on **consumers** while possibly increasing the stress on **generators** at DAM.

Price		10/3/2020	11/5/2020	12/4/2020
DAP actual	UAH/MWh	1295.35	1514.37	1554.37
DAP 20%	UAH/MWh	974.73	984.48	1317.72
DAP Δ	UAH/MWh	-320.62	-529.89	-236.65
DAP Δ	%	-25%	-35%	-15%



Decreasing the Bidding Cap for the Guaranteed Buyer

- The proposal intends to decrease the bidding cap for the Guaranteed Buyer (GB) and guide its sales towards bilateral contracts
- During **summer months**, GB's deliberate strategy to keep DAP high was quite evident and allowed to maximize the revenues by being the **price setter** although imbalance volumes were significant (reaching up to 4 times of the volume sold at DAM&IDM). This might have looked permissible **since average DAM price was still low**.
- The situation is not like that anymore as renewable generation decreased and DAM prices are high. Yet, if bidding cap for GB is reverted to 10 UAH/MWh, this can **affect the DAM price levels very negatively** (e.g., 1-1.5 GW offered at 10 UAH/MWh) while a bidding cap between 1500-1600 UAH/MWh is likely to have limited effects considering current status of the market.



Decreasing the DAM/IDM Bidding Cap for the Night Zone

- The bidding caps for night zone was increased from 959.12 UAH/MWh to 1228.94 UAH/MWh (i.e., 60 % of the day zone cap) in July 2020. USAID ESP analysis and recommendations dated June 1, 2020 had stated that “...pricing is not entirely market-driven during night hours (compared to daytime hours with similar demand levels) and *is constrained through an artificially imposed restriction.*”
- This step improved the pricing during night hours and helped market participants (especially **the Guaranteed Buyer and balancing service providers**) to reach a financially sustainable level. More importantly, market price signal improved.
- Decreased night zone caps might lead to **undesired price regulation** and **distort price formation** in the market. Table below shows the significant improvement in price signals comparing old and current night zone bidding caps

Price cap	# of Hours when DAP = Bidding Cap	# of Total Night Hours for this Bidding Cap	Percentage
959.12	118	1825	6.5%
1228.94	0	1247	0.0%

- To eliminate the attractiveness of the Balancing Market (BPM) and avoid possible abuses, **day zone upregulation bidding caps should be linked to actual DAM prices** while night zone upregulation caps might stay linked to DAM bidding caps. Also, increasing the downregulation bidding cap up to 80-90% of actual DAM prices during the quarantine could be considered.

THANK YOU!

USAID ESP CONTACT

For this Analysis and Proposals and to get more information, please contact esi.kyiv.electricity@tetrattech.com

USAID UKRAINE CONTACT

To get more information, please contact Senior Energy Advisor Sukru Bogut, sbogut@usaid.gov



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