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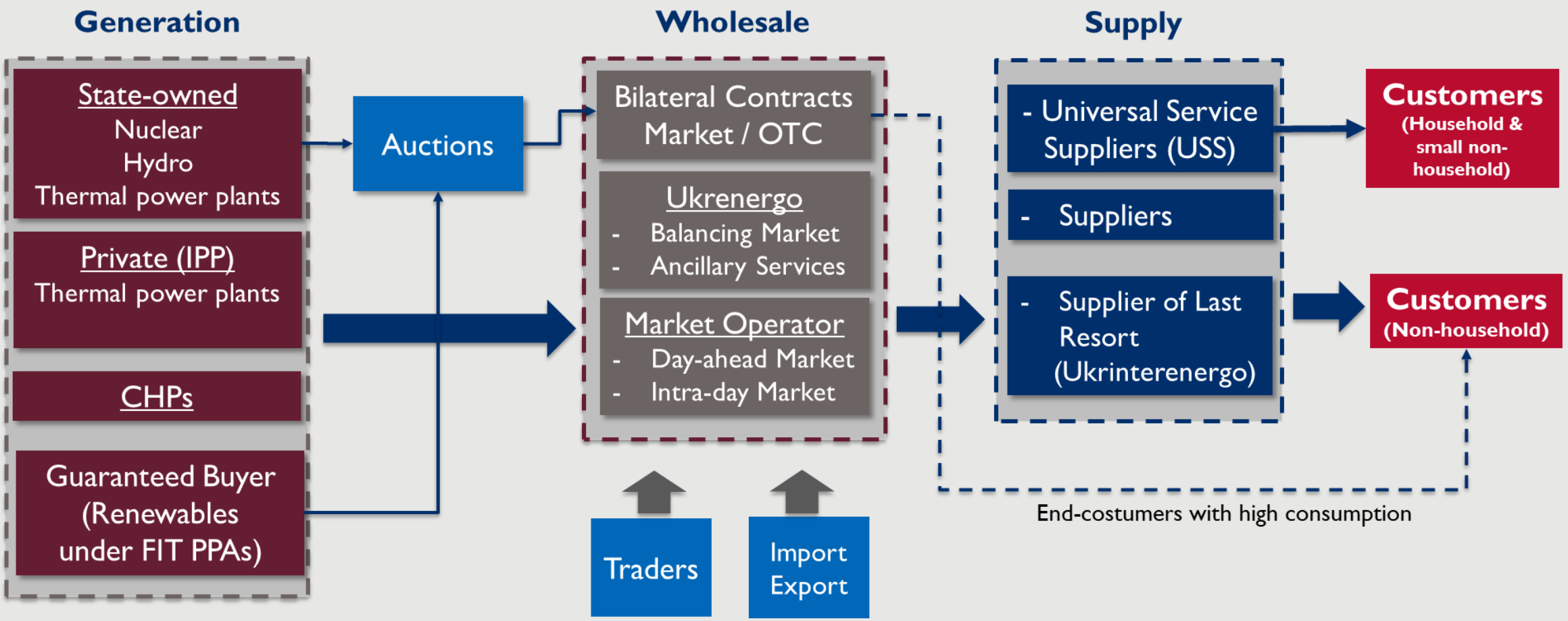
Challenges and Recommendations for Electricity Trade in WEM

Kyiv, Ukraine
September 23, 2021

Market Outlook Two Years After the Launch



Target market model mostly achieved, and all segments are operational as planned, but …

Day-Ahead, Intra-Day and Balancing Markets
I. Price Formation

	OBSERVATION		RECOMMENDATIONS
1	**Market based Bidding Caps**	• "Bidding caps" were designed as a safe-guard for WEM opening and avoid price regulation. Therefore, **bidding caps should aim "market-based" price formation for reliable signals.**	**Bidding caps on balancing market** • Introduce **bidding caps for "only" the Balancing Market (BM).** This will practically ensure protection for price spikes in DAM and IDM segments while allowing "market-based" price formation
2	**Cost reflective approach**	• While mitigating price spikes and sinks in WEM, cost recovery for producers and other players must be ensured as well. **Balanced, consistent and fair approach by all players and decision makers is a must.**	**Single bidding caps** • Introduce **single bidding caps** (min and max) for 24 hours based the most expensive and the cheapest generation available in the system. The root causes of price collapse in late spring/early summer must be carefully analyzed
2	**Market concentration**	• Market power in different segments distorts the price formation (both upwards and downwards)	**Effective surveillance** • Analyze market concentration/power using best practices and take regulatory action. • Expedite the process for REMIT implementation

Day-Ahead, Intra-Day and Balancing Markets
II. Financial Settlement and Reconciliations at BM

To improve the settlement process and results, shift from the 10-day based invoicing period (for imbalances and balancing energy) to monthly-based period could be considered

10 days based invoicing period

— more administrative burden
— not accurate metering data, especially for the first and second decades
— more transaction costs
— current financial guarantee does not even cover all risks
+ more frequent payments for the generators

Monthly invoicing period

+ ease of administration
+ more accurate metering data, thus less needs and differences in the reconciliation
+ less transaction costs, MP work capital release
+ Risks for SA can be addressed via improvements in the financial guarantee mechanism
— less frequent payments for the generators

Monthly-settlement requires **closer monitoring** of the settlement process and results

For the reconciliation process, it is recommended to have one reconciliation on M+3, and one additional, on-demand calculation on M+6 depending on the justified decision by the Settlement Administrator and Commercial Metering Administrator.

Day-Ahead, Intra-Day and Balancing Markets
III. Artificial Volumes in Trading

OBSERVATION

NEURC's COVID decree (№766) was updated on August 08, 2021, implementing several measures

- Checking the net trading position of Market Participants (except Producers and the Guaranteed Buyer) and allowing Settlement Administrator to penalize Market Participants with negative trading position;
- Updating the maximum sellable volumes calculation for DAM, which is now defined as difference between sold and bought energy at the bilateral segment for all market players (except Producers and Guaranteed Buyer)

RECOMMENDATIONS

Monitor the trends and continue limitations as necessary, but avoid unproportionate measures

1. **Prolong the measure** until stability in the market is fully confirmed
2. **Amend the Market Rules to continue limiting the selling offers** on DAM, IDM and the bilateral segment by verified volumes (generated/purchased)
3. **Address root causes** of possible irresponsible behavior by Suppliers/Traders and avoid unproportionate measures to ban selling at DAM/IDM despite having the energy available through bilateral contracts with producers or imports

Forward/Bilateral Contracts Segment

	OBSERAVITON AND IMPACT	RECOMMENDATIONS
BILATERAL SEGMENT	• **Not organized.** The bilateral contracts market segment, which amounts up **to 65%** is not regulated by NEURC (with the exception under PSO for electricity residential consumers) and lacks standardized financial guarantees and appropriate monitoring tools • These factors restrain the **growth of liquidity** and do not allow for **reliable price discovery**	1 **Consensus on the areas of regulatory oversight** between regulatory authorities to have a unified approach on forward trading with physical delivery for state-owned and private players 2 **Introduction of the regulatory framework for standardized forward contracts with physical delivery** to be approved by energy and financial regulators as per the relevant Laws
PRICING ON BCM	• **Sales prices** on are not indicative, because few contracts are concluded on commercial sessions • **MPs conclude bilateral contracts often based on DAM prices** that further is reflected in retail market price policy of suppliers, allocating most of financial risks on final customer	3 **Establishment of additional price indicators based on standard forward products.** In addition to increasing liquidity in the segment, this will provide tariff making improvement for TSO, DSOs and USSs
PLATFORMS	• **Market Operator** is yet to be corporatized, registered and licensed as a commodity exchange to offer forward trading besides DAM/IDM • **UEEX** is registered and licensed as commodity exchange and organizes bilateral auctions • **The lack of standardized products in the platforms** creates significant challenges and hinders the liquidity in trading and market development in general	4 **Introduction of standardized forwards products** at electricity trading venues (e.g., MO and UEEX) under regulatory approved trading rules, netting/ settlement/ clearing procedures, standardized contracts, etc.)

Challenges in the Supplier Switching Mechanism

	OBSERVATION	IMPACT	RECOMMENDATIONS
Administration of Supplier Switching	System Operators are temporarily appointed to administer the Switching Supplier Mechanism until DATAHUB launch. Successful transfer of this functions require close coordination	The Supplier Switching function is decentralized and not smooth/optimized in each region, impeding the retail market development	• Data exchange should be duly tested, and timely receipt and processing of data/information should be ensured.
Over regulation	Recent amendments to Retail Market Rules require the customer to provide documents for supplier switching that duplicate data available to System Operators	Such requirements create additional barriers in Supplier switching mechanism	• Differentiate responsibilities between Market Participants according to their roles. Consider removing the role for customers based on available good practices in other countries. • Avoid duplication of information or documents within Supplier Switching procedure.
Realization of a customers right on Switching Supplier	Household (HH) customers are supplied at fixed prices below market level due to PSO mechanism.	HH customers have no benefits to exercise their right for supplier switching	• Approve a gradual plan for HH tariff increase up to the market level • Introduce the category of vulnerable customers • Implement monetary subsidies to vulnerable customers

THANK YOU!

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