



European-Ukrainian Energy Agency

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From: European-Ukrainian Energy Agency (EUEA)

To: Valeriy Tarasiuk, The Chairman of the NEURC

Date: November 22, 2021

Subject: Regarding suggestions and comments to the draft resolution of the NEURC "On setting the tariff for electricity transmission services of "NPC" "Ukrenergo" for 2022".

Dear Mr. Tarasiuk!

On behalf of the European-Ukrainian Energy Agency (EUEA), which unites well-known international and Ukrainian investors with a total investment of over € 3.5 billion in the renewable energy sector in Ukraine, used to build power plants using the energy from sun, wind and biomass, we present you our compliments, we address you with the following.

On November 24, 2021, an open discussion of the draft resolution on setting the tariff for electricity transmission services of "NPC" "Ukrenergo" for 2022 is planned. The draft tariff structure together with supporting materials was published in order to obtain comments and suggestions by posting on the official website of the NEURC: https://www.nerc.gov.ua/data/filearch/Proekty/2021/pr_300/pr_300-2021.pdf.

Let me thank you for this opportunity to take part in the open discussion of the draft resolution on setting the tariff for electricity transmission services of "NPC" "Ukrenergo" for 2022.

As it is stated in the justification for approving the draft resolution of the NEURC, this project was prepared based on the results of the NEURC Department for Regulation of Energy Relations submitted by "NPC" "Ukrenergo" application articles of the structure of tariffs, as well as the results of the recalculation of the size of the components of the specified tariff. In addition, the substantiation states that "NPC" "Ukrenergo" provided the NEURC with the results of an open discussion of the draft tariff for electricity transmission services for 2022, held by "NPC" "Ukrenergo" on September 28, 2021.

EUEA got acquainted with the content of the **draft resolution of the NEURC "On setting a tariff for electricity transmission services of NEC "Ukrenergo" for 2022" and substantiating materials published by the NEURC and considers RES electricity producers, selling electricity at the Feed-in tariff.** Therefore, we consider it necessary to make such remarks to the specified draft act.

1. Underfunding of the article in the tariff structure of NPC "Ukrenergo" on fulfillment of special obligations to increase the share of electricity from alternative energy sources by reducing by 20% of the forecast marketable products of SE "Guaranteed Buyer" in 2022.

According to the draft resolution proposed by the NEURC, the component of expenditures "to increase the share of electricity production from alternative sources other than private households" has been reduced to "expenditures to provide in the state budget for financial support", in the amount of 20% of their forecast marketable products in 2022, which is UAH 10 829 207 thousand.

Taking into account the decisions of the NEURC on approval of the tariff for electricity transmission services for 2021, it can be seen that this reduction of costs was determined by the NEURC, taking into account that the State Budget for 2022 will provide expenditures for financial support, produced from alternative energy sources, in the amount of 20% of their forecast marketable products in 2022 in accordance with part three of Article 8 of the Law of Ukraine "On Alternative Energy Sources".



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We would like to draw your attention to the fact that on November 2, 2021 the Verkhovna Rada of Ukraine adopted the draft Law of Ukraine "On the State Budget of Ukraine for 2022" (registration №6000 from 15.09.2021) as a basis. According to the third part of the Final Provisions, the third part of Article 8 of the Law of Ukraine "On Alternative Energy Sources" for 2022 will be suspended. Accordingly, the State Budget for 2022 will not provide expenditures for financial support of SE "Guaranteed Buyer" to pay for electricity produced from alternative energy sources in the amount of 20% of their projected marketable products in 2022.

Thus, subject to a reduction in the component of costs "to ensure an increase in the share of electricity production from alternative sources other than private households" for expenditures to provide in the State Budget for financial support of SE "Guaranteed Buyer" to pay for electricity produced from alternative sources 20% of their forecast marketable products in 2022, the deficit of "NPC "Ukrenergo" funds for settlements with the SE "Guaranteed Buyer" in 2022 will amount to at least UAH 10.8 billion.

Given that in accordance with Article 65 of the Law of Ukraine "On Electricity Market" the only source for the SE "Guaranteed Buyer" special responsibilities for the purchase of electricity at the Feed-in tariff are funds from the operator of the transmission system increase the share of electricity production from alternative sources, *please, when approving the tariff for transmission services for 2022, provide for the costs of "NPC "Ukrenergo" "to ensure an increase in the share of electricity production from alternative sources other than private households" without reducing them to State Budget for financial support of the SE "Guaranteed Buyer"*. This will prevent the actual planned NEURC shortfall in 2022 by RES electricity producers at least UAH 10.8 billion for electricity supplied.

2. Inconsistency of forecast indicators of electricity output from renewable sources in 2022, used by the NEURC in calculating the cost component "to increase the share of electricity production from alternative sources other than private households" and the transmission tariff rate.

The calculation of the component of costs "to ensure an increase in the share of electricity production from alternative sources, except for private households", carried out by the NEURC, is based on the projected volume of electricity supply from alternative sources for 2022, which is 14,316.13 MWh.

At the same time, the justification for approving the draft resolution states that for the purposes of calculating the tariff for electricity transmission services (tariff rates), the NEURC takes into account the projected volume of electricity transmission for 2022 at the level proposed by "NPC "Ukrenergo", which is calculated based on the data of the draft Forecast Balance of Electricity of the IPS of Ukraine for 2022. At the same time, according to the draft Forecast Balance, the projected volume of electricity supply from RES is 14,555 MWh (the value of this indicator is the arithmetic sum of projected volumes of electricity supply from RES of 14,360 million kWh and projected volumes of electricity supply by small hydropower plants in the amount of 195 million kWh).

We believe that the calculation of the component of costs "to increase the share of electricity production from alternative sources other than private households", carried out by the NEURC, should be based on the projected volume of electricity supply from alternative sources for 2022, which corresponds to the value in the Forecast Balance electricity of the unified electric power system of Ukraine for 2022.

Use in the calculation of the component of costs "to ensure an increase in the share of electricity production from alternative sources other than private households" underestimated value of the projected volume of electricity supply from alternative sources (14,316.13 MWh compared to expected according to SNPC "Ukrenergo" 14,555 MVTh) creates a risk of corresponding underfunding in 2022 of RES electricity producers.



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Therefore, when calculating the cost component for 2022 "to ensure an increase in the share of electricity production from alternative sources other than private households", until the approval in the prescribed manner of the forecast balance of electricity of the integrated power system of Ukraine for 2022, please use the forecast volume of electricity from RES at the level determined by "NPC Ukrenergo, namely, 14,555 MWh.

3. The difference in the size of the projected weighted average Feed-in tariff for 2022, which was used by NEURC and "NPC "Ukrenergo" in calculating the cost component" to increase the share of electricity production from alternative sources other than private households."

The calculation of the cost component "to ensure an increase in the share of electricity production from alternative sources other than private households" carried out by the NEURC is based on the projected weighted average Feed-in tariff for 2022, which amounts to UAH 3 782.169/MWh.

At the same time, in the materials attached to the draft resolution, it is stated that "NPC "Ukrenergo" calculated the planned compensation of these costs based on the weighted average Feed-in tariff of UAH 4013.15/MWh.

At the same time, the Department of the NEURC agreed with the values of the forecast Feed-in tariffs for SPPs and WPPs (UAH 4 689.26/MWh and UAH 3256.52/MWh, respectively) applied by "NPC "Ukrenergo" in determining the "cost of the service to reduce the load on the producer who sells electricity at the Feed-in tariff or at auction price." Based on the information provided in the materials, "NPC "Ukrenergo" calculated them taking into account the forecast volume of electricity production restrictions for WPPs and SPPs and the actual existing agreements for 2022 for WPPs and SPPs.

Whereas the value of the weighted average "feed-in" tariff is one of the determinants for determining the costs of increasing the share of electricity production from alternative sources other than private households, **we ask you to use the projected Feed-in tariff at the level of 2022, in order to prevent underfunding of electricity producers from RES in 2022, when calculating the component of costs "to ensure an increase in the share of electricity production from alternative sources other than private households", proposed by "NPC "Ukrenergo", namely, UAH 4013.15/MWh.**

4. Unforeseen costs to pay RES electricity producers for the cost of electricity not released as a result of their execution in 2019 and 2020 of the commands of the transmission system operator to reduce the load.

The calculation of the item "Costs for load reduction service by a producer who sells electricity at at the Feed-in tariff or at an auction price" made by the NEURC is based on the projected volume of electricity production restrictions from RES in 2022 and does not take into account the costs of "NPC "Ukrenergo" to pay RES electricity producers for the cost of electricity not released as a result of their execution in 2019 and 2020 of the commands of the transmission system operator to reduce the load.

According to the Law of Ukraine "On Amendments to Certain Laws of Ukraine on Improving the Conditions for Supporting Electricity Production from Alternative Energy Sources" of July 21, 2020 № 810-IX (paragraph 2 of the Final and Transitional Provisions) to the introduction of load reduction services sale of electricity at the Feed-in tariff or at an auction price, the cost of electricity not sold at the Feed-in tariff or at an auction price by a RES electricity producer as a result of the command of the transmission system operator to reduce the load is reimbursed to such producer by the system operator transmission.



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Because today in favor of RES electricity producers:

✓ **no payment was made to pay for the cost of electricity not supplied by such producers as a result of their execution of the command of the transmission system operator to reduce the load in 2019-2020.,**

✓ “NPC “Ukrenergo's” tariff structures for electricity transmission services do not provide for such payments either in 2020 or in 2021, ***we consider it necessary to take into account the relevant costs as part of the tariff for electricity transmission services for 2022.***

5. Uncertainty regarding the reimbursement in 2022 of expenses incurred by “NPC “Ukrenergo” in 2020 and 2021 under the item "Expenses for the performance of special duties to ensure the general interest".

Pursuant to Act № 295 of June 10, 2021, drawn up as a result of the scheduled inspection of compliance with the Licensing Conditions for Electricity Transmission Business “NPC “Ukrenergo”, the NEURC has recognized as justified the overspending of “NPC “Ukrenergo” in 2020 under the item “Expenditures for the performance of special duties to ensure public interests” in the amount of UAH 22 118 434 thousand.

According to the SE "Guaranteed Buyer" as of November 8, 2021, the debt of “NPC "Ukrenergo" to the SE "Guaranteed Buyer" in terms of funds payable to RES electricity producers for electricity supplied in 2020 is UAH 11.6 billion , in 2021 - UAH 15 billion, and in relation to the implementation of SE "Guaranteed Buyer" in 2020 - 2021 special responsibilities to ensure the availability of electricity for household consumers - UAH 7.08 billion.

As far as we know, one of the reasons for “NPC “Ukrenergo's” indebtedness to the SE "Guaranteed Buyer" in 2021 **is the underfunding of the cost item in the tariff structure for electricity transmission services to fulfill special obligations to increase the share of electricity from alternative energy sources.** Such underfunding, in turn, is, among other things, a consequence of the reduction, in the approval of the NEURC tariff of “NPC "Ukrenergo" for 2021, the corresponding costs in the amount of expected expenditures of the State Budget of Ukraine for financial support of SE "Guaranteed Buyer" to pay for electricity from alternative energy sources, in the amount of 20% of their projected marketable products in 2021. However, the State Budget of Ukraine for 2021, approved by the Law of Ukraine of 15.12.2020 №1082-IX, did not provide for expenditures for these purposes. During 2021, during the adjustment of the State budget expenditures for 2021, no funds were allocated for financial support of the SE "Guaranteed Buyer" to pay for electricity produced from alternative energy sources.

At the same time, in November 2021, “NPC “Ukrenergo” placed “green” Eurobonds of Sustainability-linked bonds in the amount of USD 825 million, the proceeds from the sale of which amounted to UAH19.3 billion to SE “Guaranteed Buyer” for further settlements with RES electricity producers. On November 15, 2021, SE “Guaranteed Buyer” transferred funds in favor of RES electricity producers in the amount of UAH 16.27 billion, for which SE “Guaranteed Buyer” partially repaid debts to RES electricity producers for 2020, partially made payments for 2021. In addition, the amount of UAH 3.04 billion was received by SE “Guaranteed Buyer” from “NPC “Ukrenergo” as part of a total payment of UAH 19.3 billion, was not transferred by the bank in favor of RES electricity producers and was returned to the bank account of SE “Guaranteed Buyer”.

As when calculating the tariff for electricity transmission services of “NPC "Ukrenergo" for 2022 is not provided:

- reimbursement of “NPC “Ukrenergo's” debt to the SE “Guaranteed Buyer”, which arose in 2020, is a consequence of reasonable overspending and is outstanding. In particular, regarding to the funds to be further directed by SE “Guaranteed Buyer” to RES electricity



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producers, as well as SE NNEGC "Energoatom" and PJSC "Ukrhydroenergo" (due to the fulfillment of special responsibilities to ensure the availability of electricity for household consumers);

- reimbursement of "NPC "Ukrenergo's debt to the SE "Guaranteed Buyer", which arose in 2021 and is outstanding, in particular, due to the reduction, in approving the "NPC "Ukrenergo" tariff for 2021, of the corresponding expenditures in the amount of expected expenditures of the State Budget of Ukraine support from SE "Guaranteed Buyer" to pay for electricity produced from alternative energy sources in the amount of 20% of their forecast marketable products in 2021,

we ask you, when calculating for 2022 the component of costs "to increase the share of electricity production from alternative sources other than private households", take into account the funds needed to repay in full the debt of "NPC "Ukrenergo" to SE "Guaranteed Buyer", which arose in 2020 and 2021.

Thank you in advance for reviewing our letter and we remain at your disposal to provide any additional comments and clarifications.

Sincerely,
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