

BRIEF ON KEY BUSINESS ISSUES

№7/2018 08.05.2018 Kyiv

Coal stocks at power plants

	08.05.2017	01.05.2018	08.05.2018	2018/2017, % increase	08.05.2018/ 01.05.2018, % increase	min level of stocks*	2018/min stocks, %	coal reserves for 1 month of work**	Work without supply, days
DTEK TPPs	1 690	971	1 029	-39%	6%	1 302	79%	1 214	26
G+DG grade:	1 432	865	940	-34%	9%	1 094	86%	987	30
<i>Zaporiz'ka</i>	288	166	179	-38%	8%	226	79%	156	35
<i>Ladyzhins'ka</i>	291	165	178	-39%	8%	187	96%	158	35
<i>Burshtyns'ka</i>	401	80	99	-75%	25%	186	53%	355	9
<i>Dobrotvirs'ka</i>	98	61	63	-36%	4%	43	147%	107	18
<i>Kurahivs'ka</i>	353	309	324	-8%	5%	362	90%	134	75
<i>Prydniprovs'ka</i>	-	85	97	-	14%	91	106%	77	39
A+T grade:	258	106	90	-65%	-16%	208	43%	227	12
<i>Kryvoriz'ka</i>	60	41	36	-41%	-12%	123	29%	137	8
<i>Prydniprovs'ka</i>	55	13	13	-77%	0%	20	64%	-	-
<i>Luhans'ka</i>	142	53	41	-71%	-23%	64	64%	91	14
Other Ukrainian TPPs	365	455	467	28%	3%	666	70%	272	53
G+DG grade	212	256	283	34%	11%	302	94%	272	32
A+T grade	154	199	184	20%	-8%	365	50%	0	-
All Ukrainian TPPs	2 055	1 426	1 496	-27%	5%	1 968	76%	1 487	31
G+DG grade	1 644	1 121	1 223	-26%	9%	1 396	88%	1 259	30
A+T grade	411	305	273	-34%	-10%	572	48%	227	37

* - level of coal stocks for 01.06.2018 according to the Stockpile schedule by Ministry (dated 07.03.18)

** - on the basis of coal reserves for 1 month of work in the mode of the Stockpile schedule by Ministry (dated 07.03.18) on May 2018

Heating season completed

Electricity consumption in Ukraine decreased by 1.7% in the 2017/18 heating season due to warmer average temperature (1.5 C higher). Total electricity output by GenCos decreased by 2.3% (or by 1.8 TWh) to 76.1 TWh. TPPs' output decreased by 11.2% (or by 2.9 TWh), which resulted in decreased coal consumption (by 8.4%, or 1.2 Mt).

Loss of anthracite mines in the temporarily occupied territories of Donbas in March 2017 led to increased consumption and production of G-grade coal. Ukrainian TPPs have been reengineering their units from anthracite to G-grade coal. As of today, *Centrenergo* and DTEK have re-engineered five units (three units – *Centrenergo* and two units – DTEK); DTEK Myronivs'ka TPP was completely re-engineered to G-grade coal, too. This year GenCos will continue conversion to G-grade coal. In autumn 2017, to facilitate this process, the Council of the Wholesale Electricity Market (WEM) proposed changes to the WEM rules, according to which TPPs using Ukrainian coal will be get priority allocation of load in comparison to units working on imported anthracite. These changes are awaiting the Government's and the Regulator's approval; while Mr. Terentyev, Chairman of the Antimonopoly Committee of Ukraine, wrote on Facebook that the AMCU banned introduction of corresponding changes to the

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WEM rules. However, the priority load of units working on the Ukrainian G-grade coal corresponds to the requirement of the National Security and Defense Council to neutralize threats to energy security (Decision No. 37/2017).

New electricity market model: status of reforms

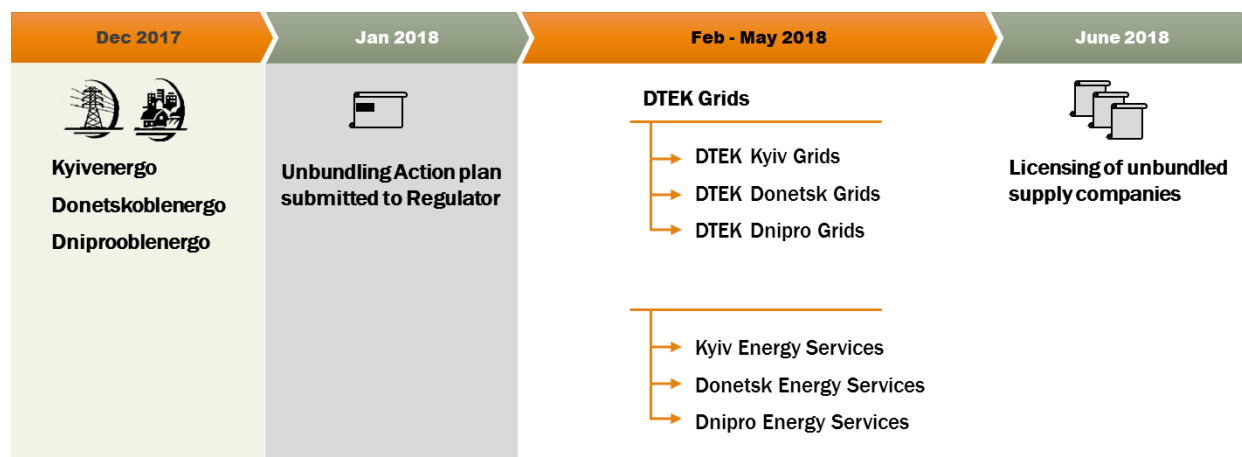
According to the Law on the Electricity Market, Ukraine has to introduce new electricity market model by July 1st, 2019. Its timely implementation urges taking the following immediate steps:

- resolving current absence of decision making quorum with the Regulator and appointment of the new Commissioners;
- timely procurement of software and hardware for the Market Operator and the TSO;
- launching reform awareness campaign for population;
- implementing unbundling and certification of NEC *Ukrenergo*; corporatization of NEC *Ukrenergo* is still on the agenda;
- approval of draft law on debt settlement on the wholesale electricity market;
- establishing a mechanism for elimination of consumer cross-subsidies;
- implementing incentive-based tariff-setting.

Key impediments of timely unbundling: major issues and responsible bodies:

Issue	Responsible
tender procedures for selection of Universal Service Supplier (USS) and Supplier of Last Resort (SoLR)	Cabinet of Ministers
procedures for supply to protected and vulnerable customers	Cabinet of Ministers
key tariff decisions/methodologies: DSO (distribution system operator), USS, SoLR tariff methodologies, policies decision on residential tariffs levels, etc.	NEURC

In order comply with unbundling requirements, last year DTEK started to transform its corporate structure. Electricity distribution business was set up and it will be managed by separate holding company *DTEK Grids*; and electricity sale business will be managed by separate holding company *DTEK Customer Solutions*. These two businesses (electricity distribution and sale) are thus being separated from DTEK's conventional business (currently managed by the existing holding company *DTEK Energy*).



Absence of the Regulator's quorum undermines operation of the Ukrainian energy system. Pending appointment of the new Commissioners by the President of Ukraine, the Regulator is dysfunctional since March, 26th. Such predicament can put on hold operation of the power and gas sectors, as NEURC is the only

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authority empowered to make decisions on a considerable number of matters. For instance, *Zaporizhzhyaoblenergo* PJSC urgently requires decision of the NEURC to repay salary arrears to its employees.

Moreover, urgent decisions of NEURC are required to deal with loans for *Energorynok* SE. In the absence of the Regulator's quorum, generating companies cannot receive financing from existing loan facilities while loan repayments are made automatically each month. As a result, the generating companies suffer from shortage of funds, which, in turn, undermines preparation for the next winter season. The decisions of NEURC would have allowed finding a temporary solution in debt financing. In order to ensure financial stabilization of the companies and their preparedness for the new electricity market, a draft law (reg. no. 8253) was submitted to the Verkhovna Rada. The draft law suggests ways for settling of existing debts on the wholesale electricity market.

AMCU Chairman believes that “the Rotterdam+ formula allows breaking away from administrative price regulation on the energy market”

Yuriy Terentyev, Chairman of the Antimonopoly Committee of Ukraine, noted during the round table on competition in the new market, held on April 24th, that pricing based on indexes (so-called Dusseldorf+, Rotterdam+ formulas) provides civilized rules for price setting and allows avoiding manual regulation of prices for energy resources. Formulas use average indicators for a given period, instead of spot prices; therefore, they can be advantageous or disadvantageous for main market players. Mr. Terentyev said that vivid discussions of the formula-based pricing helped increase transparency of the decision-making in the regulatory bodies. He also stressed that every market should be competitive and free from administrative pressures in matters of pricing. Head of AMCU also stated that none of actors has market power in energy market today.

Installation of chargers for e-vehicles is not subject to licensing

On April 17th NEURC stated that relations between producers or suppliers and consumers of electricity are guided by the Rules for the Use of Electricity, approved by NEURC in July, 1996 (with amendments). According to the Rules, the owner or user of the building or land where the charging station is installed is a consumer of electricity (not a producer/supplier). Thus, service of charging electric vehicles is not subject to licensing.

DTEK has launched a pilot project to develop a network of charging stations for e-vehicles. At the first stage, it is planned to install 10 fast chargers in Kyiv in 2018. The second stage will be to connect big cities – Kyiv, Lviv, Odesa, Dnipro.

Philipp Leckebusch appointed CEO of DTEK Renewables

[Philipp Leckebusch](#) will be responsible for the accomplishment of DTEK's strategic objectives for the development of renewable energy projects and to increase the installed capacity to 1 GW in the next 3 years. Mr. Leckebusch has decades of experience in senior management positions in the electrical power and utility industry, as well as renewable energy sector. During last 10 years, he had led numerous projects in the areas of geothermal, wind, solar and biogas renewable energy at *Ferrostaal* and *MVV Energy* (Germany). Previously, he held managerial positions in the companies *Alstom* and *ABB*.

DTEK Academy conducts trainings on electricity market reform for Ukrainian companies

DTEK Academy launched a series of training sessions for 200 large consumers aiming to prepare them for electricity market transformation. DTEK experts who are actively involved in the process of secondary legislation drafting will take part as speakers and coaches. Among participants are industrial companies, shopping malls, entertainment and business centres, etc. Trainees will learn about upcoming changes for consumers, new market segments, opportunities for customers, experience of other countries, etc.