



Ukrainian  
Financial  
**Forum**



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# Ukraine's energy system: reform priorities and political realities

# UKRAINE' S ENERGY SYSTEM: REFORM PRIORITIES AND POLITICAL REALITIES

Ukraine Financial Forum, Odessa, September 19 2018

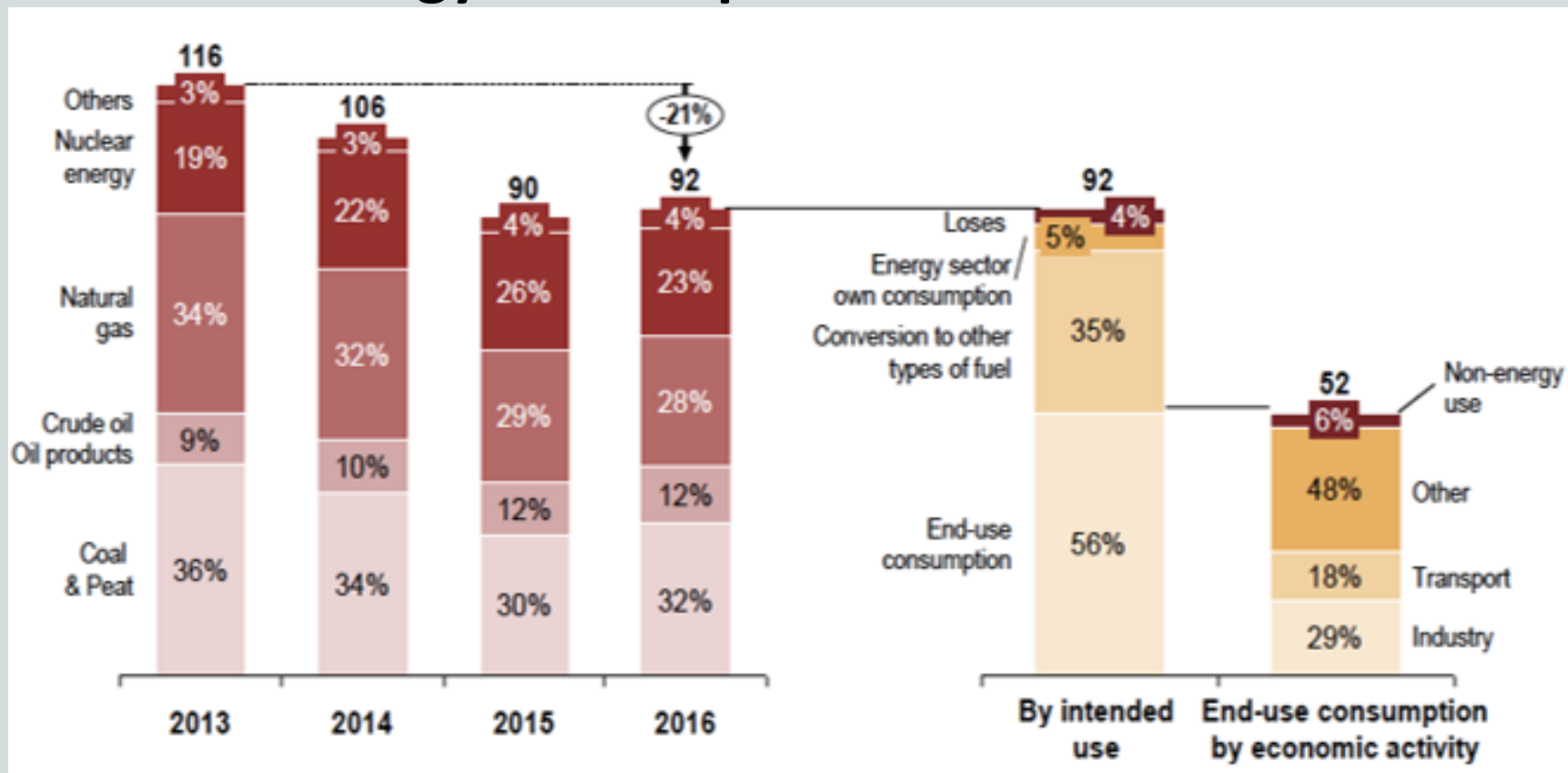
*Edward Lucas*

## Five main challenges

1. Energy security
2. Modernization
3. Rents
4. Decarbonisation
5. Popular support

**Ukraine's primary energy consumption (including ~30% share of natural gas) reduced during the last years...**

## Energy consumption in Ukraine



Ukraine's primary energy consumption (Mtoe, 2013-2016\*)

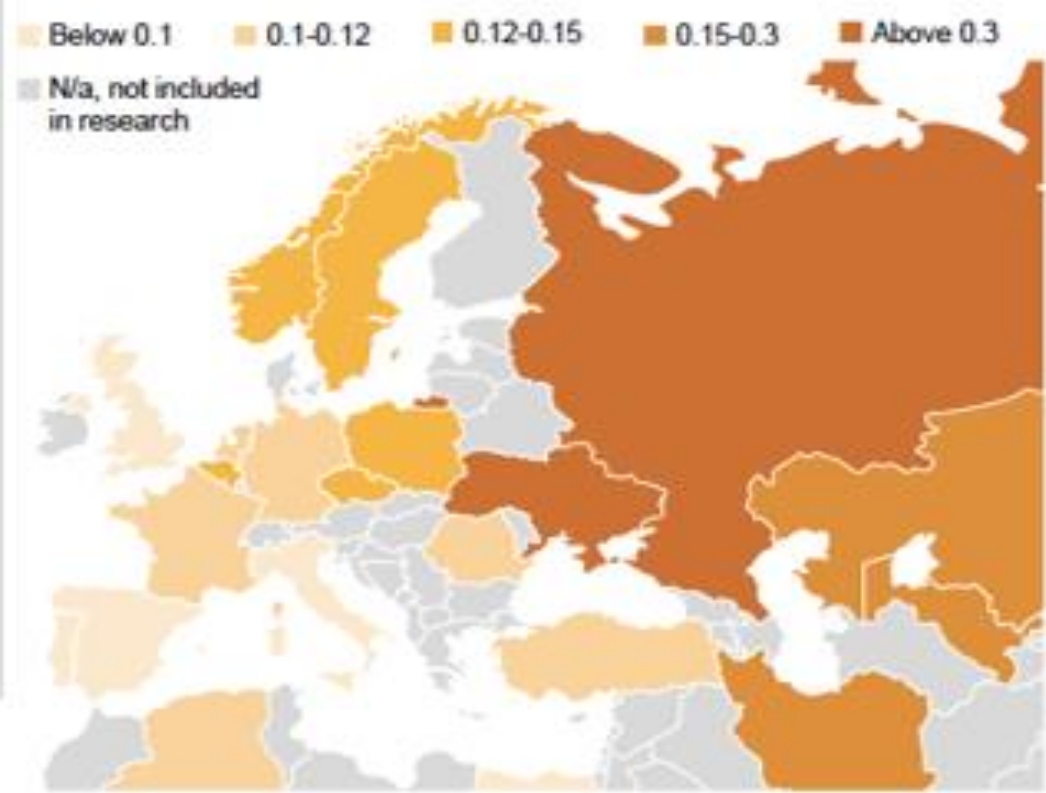
2016 breakdown by intended use and economic activity (Mtoe 2016\*)

Source: State Statistics Service of Ukraine  
\*The latest available source

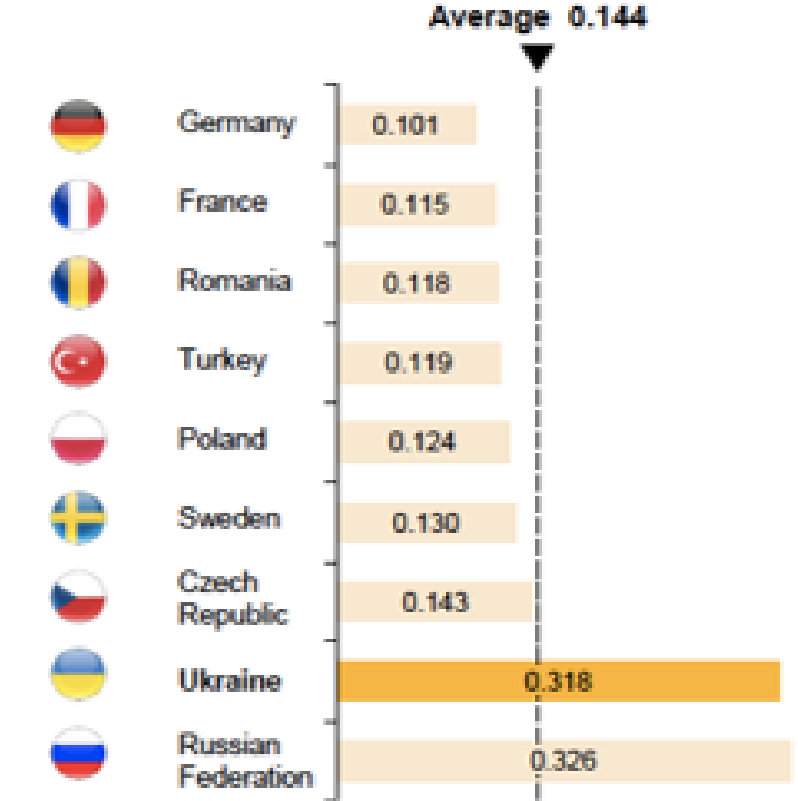
# However, Ukraine is still one of the most energy inefficient countries in the world

## Overview of energy efficiency in selected countries

Energy intensity of GDP at constant purchasing power parities (koe / \$2005p, 2016<sup>1</sup>)



Ukraine's energy intensity of GDP benchmarking (koe / \$2005p, 2016<sup>1</sup>)

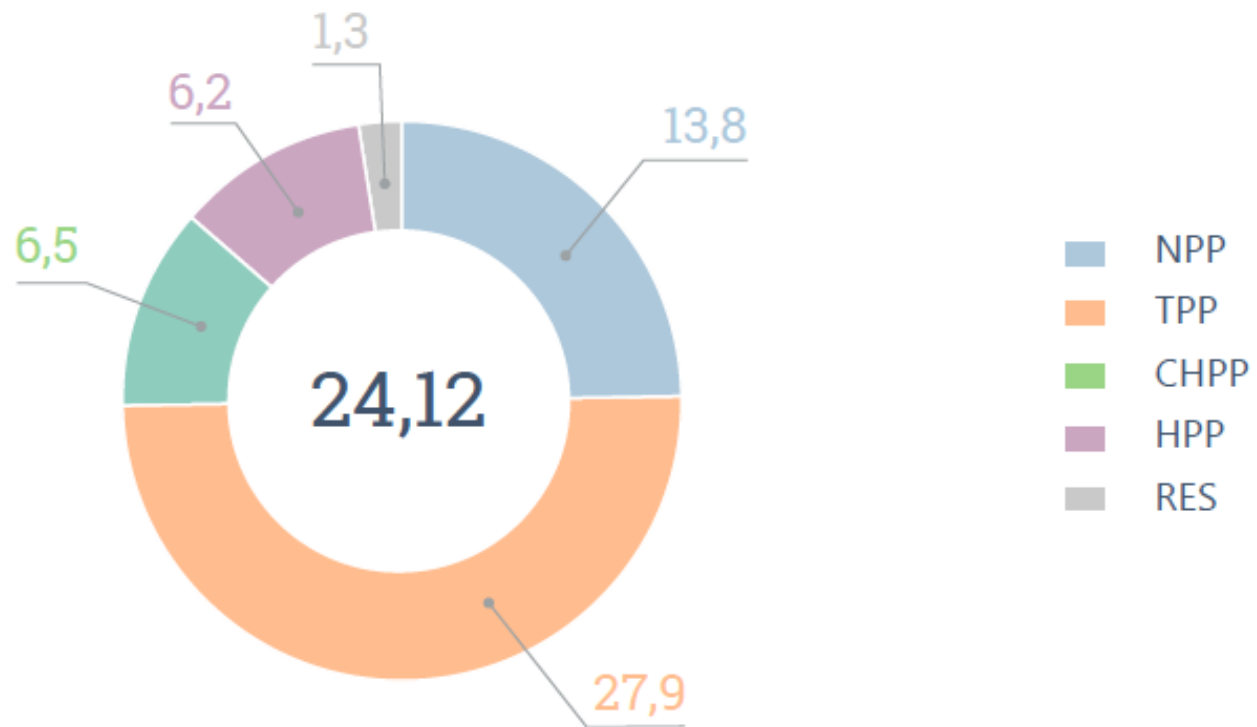


Source: Emerdale Global Energy Statistical Yearbook 2017  
\*The latest available source

## Installed electricity capacity

Period: 2017

Score: GWt



Source: NERC, MinEnergó

## Phase one priorities (by 2020)

- Final stage of the 3EP implementation
- Completion of Ukraine's ENTSO-G integration
- Reform of energy companies
- Increase in natural gas production
- Formation of coal products market
- Gradual reduction of GDP energy intensity to 0.2 toe/ \$000
- Alternative energy usage increase to 8%
- Observance of high ecological standards
- National emission reduction plan (target > 5%)

## Gas – next steps (1)

- 3EP-compliant Gas market law
- Deregulation of commercial market
- Increasing private suppliers' share of non-regulated market independent regulator
- To improve secondary legislation and system of subsidies



## Gas – next steps (2) – efficiency & transparency

- **Profitability** of Naftogaz
- Improved **debt collection and revenues**
- Attract **investment** into energy efficiency and gas production
- Corporate **governance**
- Efficient **Procurement**
- Outside **reputable TSO...**

*... all of which clash with vested interests*

## Theory and practice

- Gas intermediary companies supply gas to households and collect money, but none goes to Naftogaz
- New govt rules in Jan 2018 let distribution companies raise “operating costs” deduction from 2.5% to 12-15% of income
- Debts to Naftogaz now total more than \$2bn with no chance of repayment

## Electricity market – the to-do list

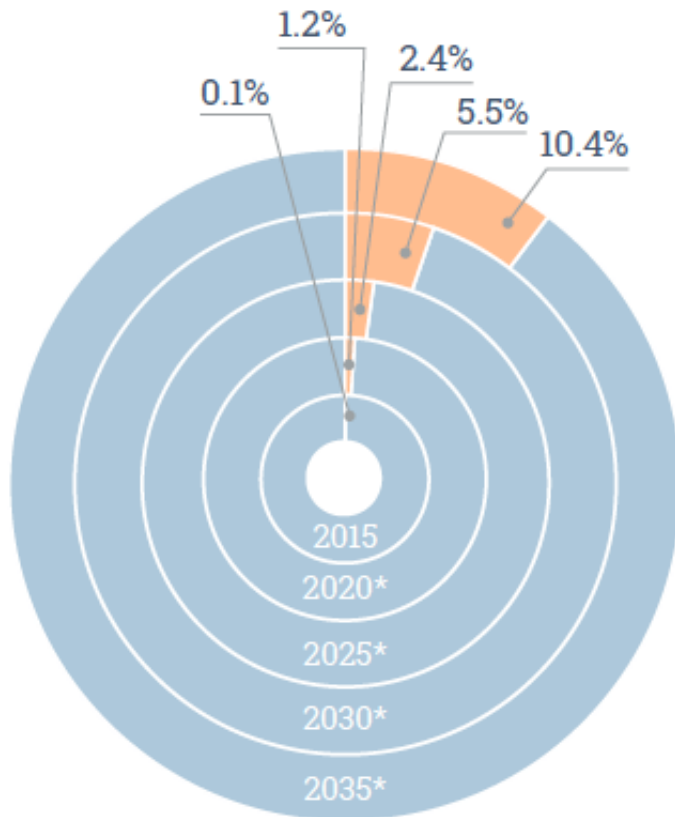
- Presence of unsettled debts / unclear rules on repayment of wholesale market debts
- cross-subsidization between different categories of consumers;
- Uncertainty about unbundling and status/certification of NEC Ukrenergo –
- Delays in software and hardware procurement

## More electricity to-do list

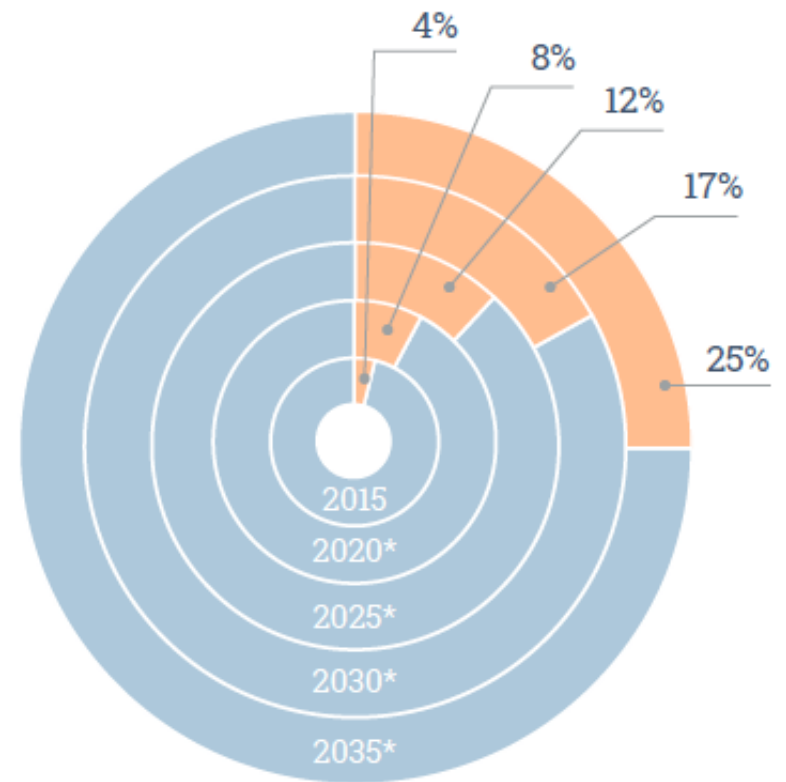
- Stable legal framework
- Reform National Energy and Utilities Regulatory Commission into a professional and independent regulator
- Implement Third Energy Package, unbundling of distribution system operators (DSO) and power companies.
- Modernise transmission and distribution grids

# Key targets for development of RES till 2035

## The share of RES in TPES of Ukraine

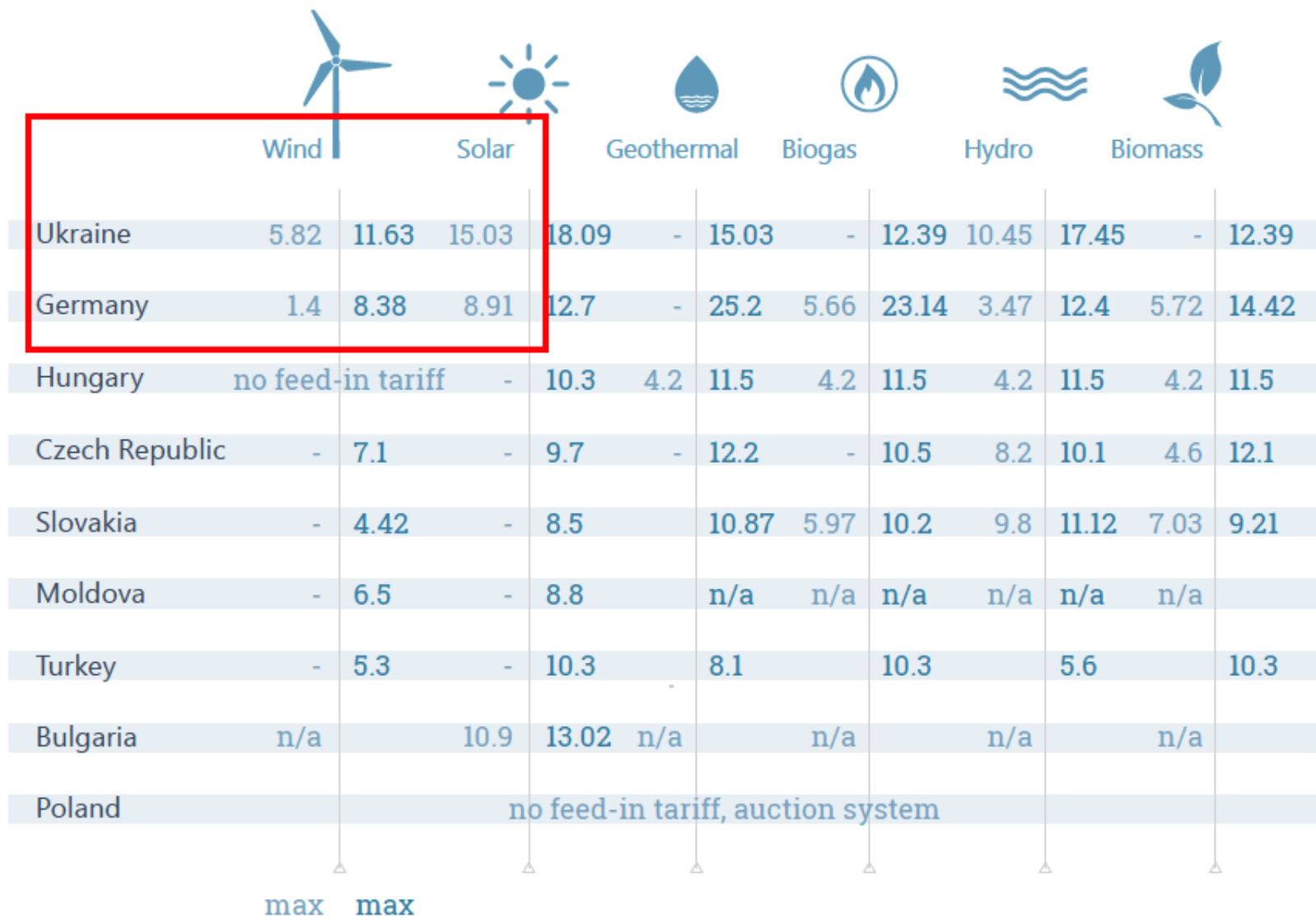


## The share of RES, including hydropower capacities and thermal energy in TPES



\*forecast

Source: MinEnergo, UWEA



Source: State Agency on Energy Efficiency and Energy Saving of Ukraine; RES Legal Europe

***Thank you !***

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