

Monitoring of implementation of Ukraine's commitments under the Energy Community Treaty

Issue No. 17 (January – March 2015)

On 12 January 2015, the President of Ukraine signed Decree No. 5/2015 to approve the [Strategy for Sustainable Development of Ukraine until 2020](#) providing for the implementation of 62 reforms and development programs, including the energy reform, energy independence and energy efficiency programs, environmental protection programs, participation in cross-European networks. On 04 March, the Government [approved the action plan](#) for the implementation of the Action Program of the Cabinet of Minister of Ukraine and Strategy for Sustainable Development of Ukraine until 2020 in 2015 (Ordinance [No. 213-r](#)), setting the indicators and objectives to be achieved under both documents.

On 15 January, the European Parliament in its [Resolution on the Situation in Ukraine](#) highlighted the need to reform the energy sector pursuant to Ukraine's commitments within the framework of the Energy Community Treaty. On the same day, the Ministry of Energy and Coal Industry of Ukraine published the [Action Plan for the implementation of the Action Program of the Cabinet of Ministers of Ukraine and the Coalition Agreement in 2015](#). Also, [roadmaps for reforming](#) energy sectors were disseminated, including in relation to *Naftogaz*, coal industry, integration in the EU energy system, construction of Khmelnytskyi Nuclear Power Plant 3.

On 02 and 17 February, and on 30 March, the National Reform Council held meetings that resulted in passing a number of resolutions. [Minister Volodymyr Demchyshyn was appointed coordinator](#) of the energy independence program and the energy reform (including reform of *Naftogaz*), and he has already [presented his progress report](#).

The Government's Office for European Integration of the Secretariat of the Cabinet of Ministers of Ukraine published an interim [Report on the Implementation of the Association Agreement between the EU and Ukraine](#), according to which preparation and approval of [plans for the implementation of EU legislation](#) had not yet even started (progress in the energy sector). Progress in the sphere of environmental protection reached 3 %, according to the evaluations.

However, the key factor that boosted the reforms was measures on the implementation of the [Memorandum of Economic and Financial Policies of Ukraine](#) aimed at receiving financing under a new program of the International Monetary Fund, in particular, achieving balance of *Naftogaz's* financial assets and implementation of the tariff reform.

Meetings held [in February](#) and [March](#) between top officials of the Ministry of Energy and Coal Industry and representatives of the Secretariat of the Energy Community and the European Commission's Support Group were important. The parties discussed the implementation of reforms in the power and gas sectors, as well as [expert support](#) on the part of the European partners.

On 12 March, [the Government of Ukraine presented its report](#) on the first 100 days of its work. Implementation of comprehensive reforms in compliance with the Third Energy Package and in the context of the European integration, attracting investments to rehabilitate infrastructure, introduction of energy efficiency initiatives and restructuring of *Naftogaz of Ukraine NJSC* were mentioned as key priorities.

In March, the Government also [approved recommendations](#) of the Ukraine-EU Association Council regarding the implementation of the Association Agenda, and Ministries and other central executive bodies were instructed to ensure the implementation thereof.



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Generally speaking, Ukraine's progress in the implementation of its commitments within the framework of the Energy Community Treaty in January – March 2015 appeared to be as follows:

Security of supply

Diversification of gas supplies turned out to be an effective instrument to increase energy security.

According to Andriy Kobolyev, CEO of *Naftogaz*, the share of Russian gas in Ukraine's gas import structure in 2015 will be 40 %, though the EU countries could supply 90 % of gas Ukraine needs. Slovak operator Eustream and Ukrainian Ukrtransgaz declared their readiness to increase reverse gas supplies up to 40 million cubic meters per day. Since 01 March, annual throughput on Vojany-Uzhgorod pipeline will increase from 11.5 to 14.5 billion cubic meters of gas. Slovak operator *Eustream* has terminated the Open Season procedures for additional supplies.

Gas import from Hungary was fully resumed, and Poland now supplies gas to Ukraine within the framework of the new reverse contract. Ukraine and Poland agreed on construction of an interconnector with the capacity of 10 billion cubic meters, which will allow access to LNG terminals in Lithuania and Poland, as well as to Germany's gas market. *Ukrtransgaz* and *Gaz-System* are now in the process of preparing the launch of the feasibility study of the interconnector. *Ukrtransgaz* had consultations with Hungary regarding a possibility to increase transport capacity.

In Q1 2015, Russian gas cost Ukraine USD 329 per 1,000 cubic meters. Ukraine has fully repaid its debt to Russia in the amount of USD 3.1 billion. At the same time, Russia still doubts the reliability of transit and denies joint monitoring of gas off-take from underground storage facilities. Moreover, Russia is planning on dropping gas transit through Ukraine since 2019.

Gazprom repeatedly claimed that Ukraine owned Russia a debt under gas contracts in the amount of USD 2.44 billion, however, *Naftogaz* presented no comments as it waited for the Court of Arbitration in Stockholm to settle a USD 6.2 billion claim in connection with Gazprom's alleged breach of the transit agreement. In response to *Gazprom's* claims, Prime-Minister Arsenii Yatseniuk stated that Russia may lose the Ukrainian market, and President Petro Poroshenko announced that it would take Ukraine only two years to gain independence from Russian gas.

In February, Ukraine allowed continuous access of observers from the European Commission to gas infrastructure and daily reporting on the relevant indicators. Meanwhile, *Naftogaz* announced the lawyers to represent its interests in the Court of Arbitration in Stockholm in the case against *Gazprom* — those would be *Wikborg, Rein & Co. Advokatfirma DA*, Norway.

Pursuant to the action plan for the implementation of the Action Program of the Cabinet of Minister of Ukraine and Strategy for Sustainable Development of Ukraine until 2020 in 2015 (Ordinance No. 213-r), the Ministry of Energy and Coal Industry, the Ministry of Justice and the Ministry of Foreign Affairs were entrusted with the development and approval, by 20 March, of the schedule of proceedings in the case *Naftogaz vs Gazprom* to be considered by Court of Arbitration in Stockholm to settle the dispute regarding the terms and conditions of gas supply and transit contracts.

Also, the Ministry of Energy and Coal Industry and the Ministry of Justice were instructed to develop partnership with Turkey in order to arrange for LNG tankers transit through the Bosphorus, and the Ministry of Energy and Coal Industry in cooperation with the Ministry of Economic Development and Trade must develop a draft Ordinance of the Cabinet of Ministers of Ukraine to approve the Concept of LNG terminal construction project by 15 December. The plans also include prolongation of direct gas supply contracts with European companies and increase of gas import from the EU through building capacity of the North-South gas corridor.

On 19 March, joint consultations on energy issues between representatives of Ukraine and Turkey were held in the Ministry of Energy and Coal Industry of Ukraine, particularly, regarding the importance of the Ukraine's gas infrastructure as one of the key factors of energy security in Europe, as well as Ukraine's chances for participation in international gas projects. Presidents of both countries continue negotiations on the LNG terminal project.

Despite provocations on the part of Gazprom, Ukraine, with the EU support, prolonged the so much favourable ‘winter package’.

On 19 February, terrorists from the so called Luhansk People’s Republic and Donetsk People’s Republic [stated that Ukraine had fully terminated any gas supplies](#), however, *Naftogaz of Ukraine* *NJSC* [disproved this statement](#) and explained that gas supply had been suspended due to [serious damage to the gas infrastructure](#). According to *Naftogaz*, transport of Russian gas through gas metering stations Platovo and Prokhorivka where [no Ukrainian experts have access to](#) for authorizing supplies, is a breach of the contract.

The issue was further escalated when President of the Russian Federation Vladimir Putin made a statement about [the breach](#) of the Minsk Agreements. *Gazprom* [launched direct supplies](#) to terrorists, but still invoiced *Naftogaz*. In response, *Naftogaz* [immediately sent a letter](#) to *Gazprom*, the Cabinet of Ministers, the European Commission, the Secretariat of the Energy Community to report on the breach of the Brussels Protocol. Threats to stop gas supplied to Ukraine were voiced out by both President of the RF [Vladimir Putin](#), and Minister [Aleksandr Novak](#). *Naftogaz* [refused to make any advance payments](#) under such circumstances, [and rated Gazprom’s behaviour](#) as extortion, [without excluding the possibility](#) of a lawsuit.

The European Commission declared its [readiness to participate](#) in the trilateral negotiations at any time. [Maroš Šefčovič suggested](#) to discuss a possibility of metering gas supplies to Ukraine and to the occupied territories separately [as monitoring in the ATO zone](#) is significantly complicated. At first, Russia [was reluctant](#) to enter into negotiations, but [give in in the long run](#).

On 2 March, [trilateral gas consultations took place](#) in Brussels between Ukraine, the EU and the RF, where the parties assessed compliance with the agreements on gas supplies during the winter season, and *Naftogaz* presented evidence proving the breach of the ‘winter package’ by Russia. Also, the parties discussed the issue of gas supplies to the occupied territories in Donetsk and Luhansk oblasts.

They agreed on complete [fulfilment of obligations under the ‘winter package’](#) under control of the European Commission, and release of *Naftogaz* from payments for the gas supplied to the occupied territories bypassing the approved check points. The Government expects [maximum gas imports](#) during the summer period.

20 March saw [another round of consultations](#) during which the parties discussed the principles to underlie regulation of gas supplies after the expiry of the ‘winter package’, i.e. after 01 April. The parties [approved](#) the ‘summer package’, and decided on negotiating supplies to the occupied territories beyond the framework of the ‘winter package’. According to Minister Volodymyr Demchyshyn, Ukraine is hoping to pay USD 250 per 1,000 cubic meters in Q2 2015.

Following the meeting, the parties made [a joint statement](#) declaring their intention to commence preparations for gas supplies for the next winter period; in particular, Russia will consider a quarterly discount, Ukraine — a possibility of procuring sufficient volumes to fill up the storage facilities, and the European Commission — a possibility of providing assistance to Ukraine in finding financial support to pay for the procured gas.

In his interview for the *Wall Street Journal*, Minister Volodymyr Demchyshyn [suggested that the EU co-fund filling up the gas storage facilities](#), and assumed that 14–15 billion cubic meters of gas in storage would suffice. Back on 16 February, Prime Minister Arsenii Yatseniuk announced the Government’s decision to borrow USD 1 billion [to create gas and mazut reserve fund](#), following which *Naftogaz* launched [negotiations on fundraising with international organizations](#) to purchase fuel in Europe in summer.

Meanwhile, the Government implemented a series of comprehensive measures to enhance energy security.

With the purpose to gradually introduce the 30 % threshold for purchasing gas, oil/oil products and coal from one source, the Ministry of Energy and Coal Industry, the State Statistics Committee and the Ministry of Finance were instructed to set up a system of monitoring import of gas, oil/oil products and coal, and submit respective draft regulatory documents to the Government by the end of this year ([Action Plan](#) for the implementation of the Action Program of the Cabinet of Minister of Ukraine and Strategy for Sustainable Development of Ukraine until 2020 in 2015).

On 31 March, [the Ministry of Energy and Coal Industry issued the Order No. 192](#) to appoint Deputy Minister Ihor Didenko coordinator of the process of introduction of the Early Warning Mechanism established between Ukraine and the EU, and approve the list of the authorized persons. This step was made pursuant to the [Report on the Implementation of the Association Agreement between the EU and Ukraine](#). It should be noted that the Ministry of Energy and Coal Industry and *Naftogaz* should have done this in November 2014 pursuant to the action plan for the implementation of the Association Agreement ([Ordinance of 17 September 2014 No. 847-r](#)).

Moreover, the Parliament considered the draft Law “On Natural Gas Market” [No. 2250](#) providing for broadening the powers of the Ministry of Energy and Coal Industry in terms of ensuring gas supply security: by 31 July each year, the Ministry must prepare a report for the previous year on the results of monitoring, measures taken and planned. The Ministry of Energy and Coal Industry will also develop and approve the anti-crisis National Action Plan to be binding for all gas market players, and prescribe measures for each crisis level.

Anthracite deficit was still one of the key factors of supply security.

In 2014, Ukraine [imported gas](#) for USD 1.773 billion, resumed [import from Russia](#) since the beginning of the year, and now buys coal in the occupied territories, but only from companies that were [re-registered in the territory of Ukraine](#). At the same time, Russian companies [terminated coal supplies to Ukraine and waives all the contracts](#). Under public pressure, Minister Demchyshyn addressed top managers of *Ukrinterenergo* with the proposal to [disclose the key commercial provisions of coal supply contract with the SAR](#).

Pursuant to the Instruction of the Prime Minister of Ukraine of 28 January 2015 No. 30, the Ministry of Energy and Coal Industry by virtue of its [Order No. 43](#) created a working group to settle the issues in the coal industry. This working group included the Minister of Finance, the Minister of Economic Development and Trade, the Minister of Social Policy, heads of local administrations, members of the Parliament.

This is why Ukraine is [planning on partial re-equipment of thermal power plants](#) to enable use of G class coal, as well as on developing a plan [for transporting coal from the Donbas](#). In this context, it is important to mention orders of the Ministry of Energy and Coal Industry, namely the [Order No. 69](#) on establishing a working group for burning gas coal and the [Order No. 92](#) on adjusting the schedule of reconstruction of power blocks at thermal power plants in 2014 and in Q1 2017.

Power supply contract with the Russian Federation that was signed as an anti-crisis measure was disputed in the Government.

On 30 December, a direct contract was signed between *Ukrinterenergo* and *Inter RAO* regarding power import of up to 1,500 MW. [Photocopies of this contract](#) in which the annexed Crimea was referred to as a federal district of the Russian Federation were published in media. Minister Demchyshyn [denied that such wording was used](#) in the original document. Prime Minister Arsenii Yatseniuk issued an instruction to [investigate the circumstances of signing the contracts](#) within a 10-day period. The Minister of Energy and Coal Industry assumed [a possibility of terminating the notorious contract](#).

At the same time, the Board of the Wholesale Electricity Market and *Ukrinterenergo* are not satisfied with the cost of electricity of which the formula includes the volume and schedule components of supply. Moreover, [certain market players complained about having to reduce load at thermal power blocks during night time](#) as supply schedule requires balanced daily load distribution.

Minister Demchyshyn said that Ukraine was negotiating [amendments to the document](#) with Russia, meanwhile the document, in fact, is [commercially reasonable](#) since it allows procurement within the scope actually needed only. In this context, [the Prosecutor General’s Office of Ukraine initiated a criminal proceeding regarding electricity supply to Crimea occupied by Russia](#). Meanwhile, the Ministry of Energy and Coal Industry is planning on reducing import already in March in 7.5 times — to 200 MW, and on [complete termination of procurement](#) in September. According to [Deputy Minister Oleksandr Sviatielik](#), the Government is planning to reduce procurement of electricity from Russia each month.

In order to mitigate the problem, the Government prepared to cut relations with the occupied territories in the electricity market.

In February, [Prime Minister Arsenii Yatseniuk](#) said that the Government would stop payments for the electricity produced in the occupied territory. The Ministry of Energy, by virtue of its [Order No. 100](#) of 18 February 2015, approved the list of electricity producers whose production facilities were located in the occupied territory. Moreover, the [Ministry of Energy](#) declared its intention to support state-owned company *Tsentrenergo* with the purpose to create competition in the electricity market, and [was expecting the cost of electricity](#) produced by thermal power plants to not exceed UAH 0.7 per kW.

Meanwhile, in order to resume uninterrupted gas and power supply, the Cabinet of Ministers decided on [imposing the state of emergency in the ATO zone](#) ([Ordinance of 26 January 2015 No. 47-r](#)) and restricting access to border areas ([Resolution of 30 January 2015 No. 38](#)). On 20 February, the Parliament registered a draft law on special aspects of regulating relations in the energy sector in the territories where public authorities are temporarily incapable of fulfilling their duties or fulfilling them properly ([draft law No. 2182](#)). This draft law would authorize the Cabinet of Minister of Ukraine to set the principles of regulating legal, economic and organizational relations in connection with the sale of electricity in the wholesale electricity market of Ukraine to the occupied territories.

At the same time, despite the fact that the situation has improved to an extent, the Government by its [Ordinance No. 280-r](#) of 31 March prolonged the period of temporary emergency measures in the electricity market. Also, on 27 March, the Ministry of Energy and Coal Industry [approved the Program for securing](#) reliable operation of power grids and instructed managers of power supply companies, *Ukrenergo* and representatives of the Ministry to submit respective progress reports on a monthly basis.

Gas market reform

Strategic documents and tactical plans pursue similar priorities.

The Decree of the President No. 5/2015 approved the [Strategy for Sustainable Development of Ukraine until 2020](#) which provides for, *inter alia*, reorganization of *Naftogaz of Ukraine NJSC* pursuant to the Third Energy Package, comprehensive reform of the system of establishing prices and tariffs for power and fuel, abolishing cross-subsidies and subventions, raising investments to upgrade gas infrastructure.

On 15 January, the Ministry of Energy and Coal Industry of Ukraine published the [Action Plan for the implementation of the Action Program of the Cabinet of Ministers of Ukraine and the Coalition Agreement in 2015](#) which set similar priorities. In addition, the Ministry published the [Timetable of reforming Naftogaz of Ukraine NJSC](#).

The key document in the context of market liberalization was the [action plan for reforming the gas sector](#) coordinated by the World Bank and the Secretariat of the Energy Community and approved by the Ordinance of the Cabinet of Ministers of Ukraine of 25 March 2015 [No. 375-r](#). The key priorities set by that action plan were arrangements with IMF and adoption of the Law “On Natural Gas Market”, to be followed by increasing gas prices for households and thermal power producers, as well as procurement prices for state-owned producing companies (to cover operating costs, ensure return on equity, as well as implementation of the investment program; the first two criteria should be assessed with well-known international companies involved).

Further steps include submission of draft laws on promoting independence of the National Commission for State Energy and Public Utilities Regulation, on the introduction of amendments to laws to create a separate regulatory framework for gas transportation sector as such. The Ministry of Social Policy was instructed to develop, during March – August 2015, a draft act of the Cabinet of Ministers of Ukraine on approval of the procedure of granting subsidies and other targeted aid for compensating costs to disadvantaged consumers (pursuant to the Law “On Natural Gas Market”).

The Ministry of Energy and Coal Industry must always secure the right of consumer to free choice of natural gas supplier and prevent restriction of such right, as well as to develop, in cooperation with the National Commission for State Energy and Public Utilities Regulation, and approve regulatory

documents pursuant to the law on gas market, namely, the Code of gas transportation system, guidelines for establishing entry/exit natural gas tariffs (during April – July 2016).

By October this year, the parties are supposed to develop and submit to the Secretariat of the Energy Community the draft plan of restructuring *Naftogaz*, as well as to develop the action plan for preventing risks related to such reorganization.

The Parliament proceeded with considering the framework law on gas market.

In January, the Secretariat of the Energy Community [presented a draft law](#) on gas market for the Government's consideration with the view to transpose Directive 2009/73/EC and Regulation 715/2009, and comply with the Third Energy Package. This draft law was developed by the working group established by the Ministry of Energy and Coal Industry. It lays down legal, economic and organizational principles of gas market functioning, provides for ensuring non-discriminating access of operators and consumers to the market, creation of a fully operational market based on the principles of free competition and ensuring sufficient consumer protection and security of supplies. It provides for, *inter alia*, the introduction of ownership unbundling models or ISO, however, does not require change of the form of ownership (from state-owned to private or communal) of the gas transportation system. Compliance with the requirements to legal and functional unbundling would be sufficient for operators of gas distribution systems, gas storage facilities and LNG facilities.

The draft law provides for transposing the concept of public service obligations as special obligations to ensure that general public interests are met in the process of natural gas market operation. It is important to note that adoption of this law was among the key conditions identified under the [new IMF's financing program](#) for granting further tranches.

On 23 February, [a round table meeting was held in Kyiv to discuss the draft law](#), the participants being members of the Parliament, representatives of the Government, the European Commission and the Secretariat of the Energy Community, as well as market players, experts and other stakeholders. This event was organized by DiXi Group think tank with the support of the European Union and International Renaissance Foundation. On 26 February, the Cabinet of Ministers registered the draft law in the Verkhovna Rada ([under the No. 2250](#)), and it was approved as a basis for further improvements on 05 March.

The most significant change in the gas market was the increase of tariffs.

Early this year, a dispute arose around the cost of gas production for state-owned company *Ukrgezvydobuvannia*. Thus, *Naftogaz* insists that it must be [UAH 5,430 \(USD 319.4\) per 1,000 cubic meters](#), while mass media think it [overrated](#) and suggest that the reasonable average ultimate price should be [UAH 2,222 \(USD 130.7\)](#). Experts, in their turn, refer to the average expenditures of international gas production companies which amount to [USD 252 per 1,000 cubic meters](#) under most favourable conditions.

On 27 January, the Procedure of assessment, calculation and establishing of natural gas prices for economic operators - natural gas producers was approved by virtue of the [Resolution of the National Commission for State Energy and Public Utilities Regulation No. 763 of 11 December 2014](#). According to that document, pricing is based on the annual plans for marketable products production, economically feasible planned expenditures in compliance with the national standards, feasibility study and estimates, rates of taxes and duties, as well as prices in the planned period.

On 26 February, the National Commission for State Energy and Public Utilities Regulation established new gas prices for state-financed institutions and organizations ([Resolution No. 226](#)) and industries ([Resolution No. 227](#)) with the 56 % increase, as well as for religious organizations ([Resolution No. 228](#)) with the 1/3 increase. As for the prices for households, [the Memorandum of Economic and Financial Policies of Ukraine](#) provides for the increase up to UAH 3,600 in 2015 for households consuming up to 200 cubic meters per month, and in 2016, the gas price for the population is going to reach 75 % of the market level, to eventually reach the market level in 2017.

These figures are mentioned in the Letter of Intent of the Government and the National Bank of Ukraine to the International Monetary Fund, and in the draft Memorandum of Economic and Financial Policies with the latter, as approved by the [Ordinance of the Cabinet of Ministers of Ukraine of 27](#)

[February 2015 No. 129-r](#). Also, in late February, the Government adopted the [Resolution No. 66](#) to revoke the previous decisions regarding the gas and heat price increase schedule.

While development of Naftogaz reform plan has not yet been completed, the Government continues sanation of the holding.

Within the framework of the [new financing program of IMF](#), the Government is planning on reduction of *Naftogaz*'s deficit to 3.1 % of GDP and [help the holding reach break-even](#) before 2017.

Within the framework of a large legislative initiative of the Cabinet of Minister of Ukraine aimed at receiving a loan from IMF, on 23 February, a draft law was registered with the Verkhovna Rada on the introduction of amendments to certain laws of Ukraine regarding stabilization of financial standing of *Naftogaz of Ukraine NJSC* ([registry No. 2214](#)). The document establishes strict requirements to payment discipline in the gas supply sector, particularly, in respect to heat production and heat supply organization, and provides for advance payments to a guaranteed supplier, a possibility to terminate supplies in case of payment delays or gas off-take above the threshold limits, to assign claims to third parties, etc. On 02 March, this draft law was approved as a basis for further improvements.

Pursuant to the agreement with IMF that approved a new loan program for Ukraine, [direct currency quotas for Naftogaz were established](#) that amount to USD 3.172 billion in the current month. Capital of *Naftogaz* itself, pursuant to the Government's decision, will be increased through another issue of domestic government bonds for UAH 31.5 billion ([Resolution of 23 January 2015 No. 13](#)).

The National Commission for State Energy and Public Utilities Regulation [published the financial plan and cash flows report](#) with the view to increase transparency. Also, *Naftogaz* is now regulated by the [Law of 11 February 2015 No. 183-VIII](#) "On Transparency of Spending Public Funds" to come into force in September 2015. This law, among other, will require publication of financial statements of state-owned companies.

On 27 March, *Naftogaz* [published](#) the consolidated financial statements of its group for 2012–2013 (in compliance with the International Financial Reporting Standards). *Deloitte* conducted the audit (the audit report is available on [Naftogaz's website](#)).

On 30 March, [the National Reform Council held a meeting](#) and approved the progress report for the energy sector's reform, as well as supported publication of the consolidated audited financial statements of *Naftogaz* for 2014. Information was presented on [the gas sector report plan](#) and [Naftogaz's strategic plan](#), the key element of the latter being analysis of the added value chain.

Under the above-mentioned circumstances, the Government dismissed the Inter-department working group for the development of the draft program of reforming *Naftogaz of Ukraine NJSC* (Resolution of 04 March [No. 77](#)). Instead, the Ministry of Energy and Coal Industry made a rotation in the working group for reviewing the Concept of *Naftogaz* restructuring and instructed this group to analyse reports on performance of relevant works ([Order of 02 March 2015 No. 128](#)).

New rules seek to enhance control of compliance with the requirements to allocation of duties among oblast gas administrations.

On 12 January, the National Commission for State Energy and Public Utilities Regulation by its the Resolution No. 9 [approved the new License Provisions](#) on business activity in the sphere of gas supply brought in compliance with the Law of Ukraine "On Principles of Natural Gas Market Operation", in particular, in terms of separating supply and distribution functions.

[The Resolution of the National Commission for State Energy and Public Utilities Regulation No. 20](#) of 15 January introduced amendments to the License Provisions on business activity in the sphere of gas supply, namely, supplemented them with a standard form of report on condition of material and technical resources required for the purposes of such business activity.

On 22 January, [by the Resolutions No. 33 and 35, the National Commission for State Energy and Public Utilities Regulation](#) approved the Standard agreement on natural gas distribution and Standard agreement on natural gas supply at a regulated tariff. This was made pursuant to the Law "On Principles of Natural Gas Market Operation". According to [the National Commission for State Energy and Public Utilities Regulation](#), these standard agreements came into force on 17 March and allow legal separation of market operators within the structure of a vertically integrated company. For this

purpose, the regulator developed [the draft Resolution “On approval of amendments to the Procedure of establishing retail natural gas prices for households”](#).

[Pursuant to the Order of the Ministry of Energy and Coal Industry No. 150 of 17 March 2015](#), a working group was created to review the provisions of the Guidelines for calculating specific production and engineering expenditures in the sphere of natural gas production in relation with the pipeline transportation thereof.

Electricity market reform

A regulatory framework is being prepared to enable integration with the EU energy system.

In January, representatives of the National Commission for State Energy and Public Utilities Regulation has a series of important meetings, particularly, with [the IMF Technical Assistance Mission](#), associations and [businesses in the field of alternative energy](#), representatives of [the USAID Municipal Energy Reform Project](#), as well as [representatives of the Energy Community](#). The parties discussed approximation of conditions of access to the cross-border electricity transmission network to the Third Energy Package.

On 10 February, Ukraine and the World Bank [signed a loan agreement](#) with the total value of USD 378.4 million to support power sector upgrades and electricity market reform. Financing is expected to target introduction of retail electricity market mechanisms, as well as enhancing competitiveness of the electricity market through the integration of Ukraine's and the EU's networks.

31 March through 02 April, [consultations were held](#) in the Secretariat of the Energy Community with representatives of the Ministry of Energy and Coal Industry to discuss a possibility of introduction of amendments to the laws of Ukraine “On Principles of Electricity Market Operation” and “On Power Sector” in order to bring them into compliance with the requirements under the Third Energy Package. Before that, the Ministry issued the Order No. 175 of 24 March 2015 to approve [members of the working group](#) to participate in the consultations which, however, did not include representatives of the expert community.

The Ministry of Energy and Coal Industry made [a rotation in the working group](#) in charge of the implementation of the project of synchronous interconnection of Ukrainian and Moldovan power systems to ENTSO-E. According to *Ukrenergo* state enterprise, Ukraine is planning on completing the feasibility study of synchronous interconnection of Ukrainian power system with ENTSO-E countries [by the end of 2015](#). Representatives of the enterprise said that today, apart from Burshtyn Thermal Power Plant, 9 power blocks of Ukrainian energy companies comply with the EU requirements to power regulation.

The regulator is attempting to adapt the tariff policy to the needs of the electricity market in difficulty.

[The Ordinance of the Cabinet of Ministers](#) of 14 January “On temporary emergency measures in the electricity market” provided for adjusting the tariffs for power transmission and production, changing the algorithm of funds allocation in the wholesale electricity market, as well as imposing temporary restrictions for ‘green’ generation.

In view of the difficult situation in the energy sector, particularly, coal deficit and increase of coal prices as a result of coal import from other countries, [on 01 January](#) this year, the [Resolution of the National Commission for State Energy and Public Utilities Regulation No. 765](#) came into force, aiming at harmonizing the approaches to tariff regulation and prevention of further increase of tariffs for power transmission and supply.

The Commission also adopted the [Resolution No. 37 “On the introduction of amendments to the Resolution of the National Commission for State Energy and Public Utilities Regulation of 20 December 2001 No. 1241”](#) to optimize tariff coefficients for consumers other than households for the power consumed during peak and night hours.

In late February, the National Commission for State Energy and Public Utilities Regulation [established new power tariffs for households](#). The Commission decided on a five-stage increase of power tariffs during a two-year period. The first stage began on 01 April this year. Moreover, with the purpose to

encourage households to install meters allowing night electricity readings and reduce load on the power system during peak hours, the National Commission for State Energy and Public Utilities Regulation [decided on decreasing the night electricity tariff](#). This novelty was also supposed to be introduced in April.

On 18 March, the National Commission for State Energy and Public Utilities Regulation [published the updated draft Resolution](#) “On approval of amendments to the Procedure of applying power tariffs” classifying households (houses equipped with electric cookers and/or electric heaters) as a separate category of consumers.

At the same time, the regulator is seeking to increase financial transparency of licensees.

For this purpose, the National Commission for State Energy and Public Utilities Regulation [decided on establishing working groups](#) for the improvement of methods of tariff-based incentives for power supply and power transmission companies, and the introduction of two-rate tariffs for power consumers. [A permanent advisory body was established](#) in charge of changing and regulation of tariffs for households.

On 12 March, the National Commission for State Energy and Public Utilities Regulation [published the updated draft Resolution](#) “On the introduction of amendments to the Procedure of development of investment programs for licensees in the power transmission and supply sector” aiming at breaking down activities by planned and actual expenditures for the purposes of development of investment programs, as well as simplifying the system of reporting. Moreover, later that month, the National Commission for State Energy and Public Utilities Regulation [published a draft regulatory document](#) to approve the new procedure of development of investment programs for licensees in the sectors of power transmission through the bulk power system and international power grids, and heat and/or power generation by nuclear power plants, hydropower plants and pumped-storage plants.

Meanwhile, the Parliament registered [a draft Law No. 1821](#) suggesting to classify power companies using qualified cogeneration facilities and/or renewable sources as such that may be subject to a special tax regime, a unified tax, in particular.

Nuclear power security remains one of the key priorities.

The Government approved the plans for the implementation of certain EU Directives relating to ensuring security in the nuclear power sector at the national level. On 18 February, the Cabinet of Ministers issued the [Ordinance No. 110-r](#) to approve the plans for the implementation of certain EU legislative acts developed by the State Nuclear Regulatory Inspectorate, particularly, those relating to transportation of spent nuclear fuel and security of NPP power units.

Electricity export auctions keep low competition among the market players.

On 22 January, the National Commission for State Energy and Public Utilities Regulation [published the updated draft Resolution](#) “On approval of Standard agreement on access to throughput capacity of international power grids of Ukraine”. Adoption of this regulatory document is expected to enable Ukraine to accelerate integration with the European electricity market through improvement of the e-auction procedure.

On 12 February, the regulator [approved](#) the new Procedure of e-auctions for the distribution of throughput capacity of international power grids.

At the same time, during the [January auction](#), the lot *Burshtyn TPP Island — power systems of Slovakia, Hungary, Romania (620 MW)* was awarded to DTEK, and another 20 MB — to Donbasenergo. The lot *United Energy Systems of Ukraine — Energy System of Slovakia (10 MW)* was awarded to Zakarpattiaoblenergo PJSC. Results of the [February](#) and [March](#) auctions turned out to be similar: DTEK (545 and 500 MW, respectively), Donbasenergo (50 and 45 MW), Zakarpattiaoblenergo (10 MW).

State regulation of the energy sector

In the absence of legal framework to ensure the regulator's independence, the status thereof still remains subject to political decisions.

The action plan of the National Commission for State Energy and Public Utilities Regulation for preparing draft regulatory documents in 2015 approved by the [Resolution of the National Commission for State Energy and Public Utilities Regulation of 11 December 2014 No. 762](#) provides for the adoption of the Law “On State Regulation of the Energy Sector” in QII 2015. In January, top managers of the National Commission for State Energy and Public Utilities Regulation held meetings with [representatives of the Secretariat of the Energy Community](#) and [representatives of the USAID project](#), during which the parties discussed proposals regarding institutional capacity building in general, and development of the draft law, in particular.

According to the [action plan for the gas sector reform](#) (Ordinance of the Cabinet of Ministers of 25 March 2015 [No. 375-r](#)), a draft law on enhancing independence of the National Commission for State Energy and Public Utilities Regulation must be developed in April – May 2015 to authorize the Cabinet of Ministers to request recommendations and explanations regarding pricing in the natural gas market from the National Commission for State Energy and Public Utilities Regulation, where necessary.

The Cabinet of Ministers passed another decision authorizing the National Commission for State Energy and Public Utilities Regulation to check economic operators included in the list attached during February – June 2015 ([Ordinance No. 85-r](#)). At the same time, the Government referred to the [Law No. 76-VIII](#) prohibiting any checks of businesses other than those permitted by supreme competent authorities.

Meanwhile, on 10 February, the Verkhovna Rada approved the draft Law “On the Introduction of Amendments to Certain Laws of Ukraine on Pricing (Establishing Tariffs)” ([registry No. 0919](#)) providing for approval of regulated prices by the Cabinet of Ministers where these prices are lower than the economically viable threshold, provided the Cabinet of Ministers passes a relevant decision identifying the sources of compensation of difference between the regulated and economically viable prices. In March, President Petro Poroshenko vetoed that document and granted the independent status to the regulator.

Renewable energy

A series of roadmaps for the development of renewable energy was presented.

The Board of the State Agency on Energy Efficiency and Energy Saving of Ukraine [approved the roadmap](#) for the priority measures to create an effective legal and regulatory framework for the implementation of reforms in the spheres of energy efficiency and renewable energy. This roadmap provides for the development of 11 documents to regulate the renewable energy sector: 5 draft laws and 6 draft regulatory documents. The presented roadmap, *inter alia*, provides for the development of regulatory acts on abolishing compulsory local component, increasing the ‘green’ tariff for biomass and biogas, access of biogas to the unified gas transportation system, setting sustainability criteria for biofuel, tariff-based incentives for producers of thermal power from alternative fuels, expansion of the resource base for replacing natural gas, etc.

On 12 March, the draft Roadmap for the development of renewable energy in Ukraine until 2030 (REMAP–2030) was presented. In the opinion of [experts of the International Renewable Energy Agency IRENA](#), consumption of renewable energy in Ukraine, until 2030, may reach 21.5 % in the overall energy consumption structure.

Legislative initiatives in renewable energy sector

On 22 January, the Verkhovna Rada registered the [draft Law “On the Introduction of Amendments to the Tax Code of Ukraine \(to encourage the use of alternative sources of electric power\)”](#). This draft Law provides for the introduction of amendments to the tax legislation, *inter alia*, authorizing a special tax regime, namely the unified tax, for alternative power producers.

On 03 February, [the draft Law “On the Introduction of Amendments to Certain Laws of Ukraine Regarding Competitive Conditions of Production of Power from Alternative Sources”](#) was registered under the No. 2010. This draft Law suggests a common ‘green’ tariff formula for all renewables; abolishing compulsory local component for all types of alternative power production; introduction of a special bonus in addition to the ‘green’ tariff for the use of equipment produced in Ukraine in the process of construction of alternative electric power facilities; bringing the term ‘biomass’ into compliance with Directive 2009/28/EC. This document was also [discussed in the National Commission for State Energy and Public Utilities Regulation](#).

On 19 February, [the draft Law “On the Introduction of Amendments to Certain Laws of Ukraine to Support the Development of Geothermal Electric Sector and Renewable Energy Sector”](#) was registered under the No. 2179. It provides for bringing the ‘green’ tariff more in line with the average global figure; settling the issue of over-stimulation of the solar power sector, under-stimulation of the bioenergy sector and lack of any stimulation of the geothermal energy sector, etc. Under such circumstances, Iceland and Ukraine signed a memorandum of cooperation in the sphere of geothermal power development. According to the [State Agency on Energy Efficiency and Energy Saving of Ukraine](#), the annual feasible thermal capacity of geothermal energy in Ukraine equals to about 90,000 million kWh. Provided Ukraine uses this potential, it could save about 10 billion cubic meters of gas.

‘Green’ tariffs

On 31 January, the National Commission for State Energy and Public Utilities Regulation adopted the [Resolution No. 105](#) to establish ‘green’ tariffs, but immediately afterwards passed a [decision](#) to reduce the established ‘green’ tariffs for the period of the emergency situation in the energy sector pursuant to the [Ordinance of the Cabinet of Ministers of Ukraine of 14 January 2015 No. 36-r](#) and the Letter of the Ministry of Energy and Coal Industry of 31 January 2015 No. 01/13-0216: by 20 % for solar power plants put into operation before 31 March 2013, and by 10 % for other alternative power operators.

This decision was [harshly criticized](#) by experts and international donors. The EBRD that opened a new EUR 140 million credit facility to [support renewable energy projects in Ukraine](#), has also [expressed concerns about stability and prospects of the investment climate in Ukraine](#).

On 06 February, the National Commission for State Energy and Public Utilities Regulation published [the draft Resolution changing the procedure of establishing, review and termination of the ‘green’ tariff](#). This document suggested that alternative energy operators whose capacity exceeds 5 MW and who entered into agreements on connecting to the network after 01 July 2014 would be allowed the ‘green’ tariff only against the expert opinion of the system operator proving compliance with the unified power systems of Ukraine development plan for the following decade.

On 27 February, the National Commission for State Energy and Public Utilities Regulation adopted the [Resolution No. 492](#) to establish the ‘green’ tariffs, but immediately reduced them for the period of the emergency situation in the electricity market by its [Resolution No. 493](#). Therewith, tariffs for solar power plants have been reduced by 55 %, and by 50 % for other green energy producers. According to the [official statement](#) of the market players, this would mean technical bankruptcy for many companies, and question the National Renewable Energy Action Plan until 2020. A number of production companies and investors, [DTEK](#) and [Hydroinvest](#), in particular, are going to file a lawsuit in the international court.

On 25 March, the state of emergency ended, hence, the above-mentioned discounts were no longer applicable. On 27 March, the National Commission for State Energy and Public Utilities Regulation held a [meeting](#) at which new ‘green’ tariff rates were established. [Adjustment of tariffs against UAH/EUR exchange rate](#) has actually reduced them. In March, the applicable tariffs were calculated based on the exchange rate of UAH 32–34/EUR 1, the April tariff had UAH 25.82/EUR 1 as a basis.

Environmental protection

Sustainable development strategy and the action plan for the implementation thereof were approved.

The Government approved [the action plan for the implementation of the Action Program of the Cabinet of Minister of Ukraine and Strategy for Sustainable Development of Ukraine until 2020 in 2015](#) (Ordinance of 03 April 2015 No. 213-r). Environmental protection measures include, among others, harmonization of the national legislation with EU Directives indicated in Annex XXX to the Association Agreement, particularly, development of draft laws on ozone layer protection, strategic environmental assessment, environmental impact assessment.

Within the framework of these activities, [the draft report on the assessment of the implementation of the Strategy of the National Environmental Policy of Ukraine until 2020 and the National Action Plan for Environmental Protection for 2011–2015](#) were published.

Development of the draft law on environmental impact assessment is still in progress.

On 20 January, the Ministry of Ecology and Natural Resources issued the Order No. 7 [to approve the Action plan for drafting regulatory documents in 2015](#) providing for the development of 26 legal and regulatory acts, particularly, draft laws setting clear requirements to the EIA procedure, including where transboundary impact is concerned, draft laws on the introduction of amendments to the legislation in force, and the draft Resolution of the Cabinet of Ministers “On approval of the List of activities and operators subject to EIA”.

For the purpose of implementing point 236 of the action plan for the implementation of the [Association Agreement between Ukraine and the EU](#) approved by the Ordinance of the Cabinet of Ministers of 17 September 2014 No. 847-p, on 30 January, [the working group](#) for the implementation of Directive 2011/92/EU of the European Parliament and of the Council of 13 December 2011 on the assessment of the effects of certain public and private projects on the environment held its first meeting. The working group discussed the concept of the EIA procedure and presented the draft Law “On Environmental Impact Assessment”.

In March, the Ministry of Ecology and Natural Resources [published the draft Law “On Environmental Impact Assessment”](#) for public discussion. That draft Law, *inter alia*, provides for the introduction of a new permit for activities that may have a significant environmental impact.

Plan for the implementation of Directive 1999/32/EC was approved.

On 04 March, the Cabinet of Ministers issued the Ordinances No. 162-r and No. 164-r [to approve the plan for the implementation of Directive 1999/32/EC](#) of 26 April 1999 relating to a reduction in the sulphur content of certain liquid fuels and amending Directive 93/12/EEC. This plan, *inter alia*, provides for the implementation of regulatory and organizational measures aiming to implement that Directive.

A series of legislative initiatives was introduced relating to the nature reserve fund and environmental impact assessment.

The Verkhovna Rada registered the draft Law [“On the Introduction of Amendments to Certain Legislative Acts of Ukraine \(to enhance ecological network protection\)”](#) under the No. 1769 providing for including of wild territories in the ecological network of Ukraine, prohibit selective killing of animals within the nature reserves, and bringing the list of authorized executive bodies with the laws in force.

Also, [the draft Law “On the Introduction of Amendments to Certain Legislative Acts of Ukraine \(to improve legislation on protection of the nature reserve fund of Ukraine\)”](#) was registered under the No. 2311 prohibiting change of the intended purpose of land plots in which respect a decision was taken to create or declare territories and sites as part of the nature reserve fund, forfeiture thereof, alienation or lease thereof, or authorizing use thereof.

The Committee for Environmental Policy, Use of Natural Resources and Liquidation of Consequences of the Chernobyl Disaster at its meeting on 14 January 2015 considered the draft Law [“On the Introduction of Amendments to the Law of Ukraine “On the Nature Reserve Fund of Ukraine” \(to](#)

[improve certain provisions thereof](#))” (registry No. 1427) suggesting to authorize hunting within man-made landscapes of biosphere reserves and within regulated recreational areas of the national nature parks for the purposes of selective control, veterinary and sanitary control and regulation of game reserve. Following the first reading, the Committee recommended to [reject](#) the document.

It is also worth mentioning the [draft Law “On the Introduction of Amendments to Certain Legislative Acts of Ukraine”](#) (pursuant to the Convention on the Conservation of European Wildlife and Natural Habitats signed in 1979) registered under the No. 2023 suggesting to bring the national legislation in line with the international commitments of Ukraine relating to excluding certain species from the list of hunted animals that are subject to protection under the Convention.

On 16 March, [the Ministry of Ecology and Natural Resources approved the Order No. 80 “On additional measures to protect territories and sites of the nature reserve fund”](#) providing for the implementation of certain measures to prevent, within the regulated recreational areas, movement of ground vehicles, river motor boats and holding competitions, races, rallies, trophy raids with the use of such vehicles.

Energy efficiency

Replacement of gas vs energy efficiency.

According to the Head of the State Agency on Energy Efficiency and Energy Saving of Ukraine, reduction of gas consumption was achieved, among other, due to the introduction of incentives for replacing gas with other fuels. In 2015, [UAH 340 million](#) of EU funds granted with the purpose to finance the implementation of the Energy Strategy of Ukraine may be allocated to enable this mechanism. [UAH 500 million](#) are allocated in the 2015 State Budget to compensate the difference if tariffs for thermal power generation for households with the use of any fuels and sources of energy other than natural gas.

The Head of the State Agency on Energy Efficiency and Energy Saving of Ukraine also pointed out the [mechanisms of attracting private investments](#) in 2015: thus, the Agency is expecting to raise UAH 245 million to replace boilers in households, UAH 948 million to purchase energy efficient equipment and materials for households, UAH 320 million to implement condominium mechanisms. The Agency also reported on the approval of the [Roadmap for the implementation of measures to reduce natural gas consumption until 2017](#).

Moreover, [the Roadmap for ensuring regulatory and legal support to the development of energy efficiency and renewable energy sectors](#) was published. This Roadmap, among other, provides for ensuring a favourable pay-back period for natural gas replacement projects; reduction of natural gas consumption by households, state-financed institutions and organizations and communal thermal power supply enterprises by 3.66 billion cubic meters by 2020; thermal modernization of 33 % of multi-family and single-family houses by 2020; 100 % metering of thermal power and water consumption; building strong institutional capacity for energy certification of houses in compliance with the EU standards; setting up national system of energy efficiency and energy balance monitoring; fulfilment of Ukraine’s commitments under the Energy Community Treaty, etc.

Vice Prime Minister and Minister of Regional Development Hennadii Zubko instructed the State Agency on Energy Efficiency and Energy Saving of Ukraine to finalize and present draft laws and draft resolutions on new incentives [for gas consumption reduction](#). Such incentive-based mechanisms, according to the Ministry, include ESCO initiatives and the draft law on energy efficiency of buildings. Minister Zubko also insists that interests of co-owners of multi-family houses, owners of private houses, as well as interests of state-financed organizations be taken into account in each legislative or regulatory act.

The Ministry of Regional Development published [the draft Resolution of the Cabinet of Ministers “On the Introduction of Amendments to the Resolutions of the Cabinet of Minister of Ukraine of 09 July 2014 No. 293 and of 10 September 2014 No. 453” to be discussed](#). This draft Resolution provides for replacing the thermal power generation tariff with the thermal power tariff, which, [according to the authors of this initiative](#), will result in more settlements enjoying incentives for replacing natural gas in

the heat supply sector. One of the performance indicators under that draft Resolution is [replacement of 1 billion cubic meters by 2016 and 5 billion cubic meters by 2020](#).

Energy service.

The draft Law “On the Introduction of New Investment Opportunities, Securing Rights and Legitimate Interests of Economic Operators for the Purposes of Large-scale Energy Modernization” registered under the No. 1313 [was adopted following the first reading](#). According to the [estimations](#) of the State Agency on Energy Efficiency and Energy Saving of Ukraine, investments in ESCO could potentially reach UAH 225 billion, and savings in the heat supply sector could reach 2.25 billion cubic meter of gas in the long-term perspective. The Parliament also [adopted the draft Law “On the Introduction of Amendments to the Budget Code of Ukraine \(to introduce new investment opportunities, secure rights and legitimate interests of economic operators for the purposes of large-scale energy modernization\)”](#) following the first reading (registry No. 1409). The improved versions of both documents [were approved](#) by the Parliament’s Budget Committee and the Committee for Industrial Policy and Entrepreneurship (under the No. 1409) for the second reading.

Energy Efficiency Fund

The State Agency on Energy Efficiency and Energy Saving of Ukraine published [the draft Resolution of the Cabinet of Ministers “On State Special Financial Institution — Energy Efficiency Fund”](#) to provide for allocation of the funds from the State Budget saved as a result of implementation of projects, as well as funds granted by international organizations to finance energy efficiency measures. The draft Charter of the Fund was published, according to which its founder was the State represented by the Cabinet of Ministers; its authorized capital was UAH 100 million; its objectives included: 1) replacement (reductions) of natural gas consumption by households, state-financed institutions and organizations and operators in the heat supply sector; 2) increasing energy efficiency of residential houses, buildings of state-financed institutions and organizations and operators in the heat supply sector; 3) reduction of greenhouse gas emissions; 4) achieving indicators of energy efficiency pursuant to Ukraine’s commitments within the framework of the Energy Community Treaty.

Moreover, the draft Procedure of estimation of funds to be allocated for the purposes of achieving the Fund’s statutory objectives was published. The [explanatory note](#) to the draft Resolution clarifies that it was developed for the purpose of implementation of Directive 2006/32/EC. The State Agency on Energy Efficiency and Energy Saving of Ukraine is also [negotiating](#) with its international partners on the sources of and way to ensure financing of the Fund.

The National Energy Efficiency Action Plan.

The State Agency on Energy Efficiency and Energy Saving of Ukraine published [the updated draft Resolution “On approval of the National Energy Efficiency Action Plan until 2020”](#), as well as supporting documents — the Explanatory Note and [the Action plan for the implementation of the National Energy Efficiency Action Plan](#). According to the Explanatory Note, Ukraine was the only member of the Energy Community without the National Action Plan in place. The State Agency on Energy Efficiency and Energy Saving of Ukraine is still working on that document, for which purpose it engaged representatives of the Institute for Economics and Forecasting of the National Academy of Sciences of Ukraine to bring the draft Resolution in compliance with the [template](#) established by the Secretariat of the Energy Community.

Energy efficiency of buildings.

The Verkhovna Rada [returned](#) the draft Law “On Energy Efficiency of Buildings” No. 1566 to be further improved. On 20 February, the State Agency on Energy Efficiency and Energy Saving of Ukraine [published](#) the updated version of that draft Law developed in cooperation with members of the Parliament, representatives of the Ministry of Regional Development, Ministry of Economic Development, EBRD, USAID and experts. The Agency emphasized that their priority was to ensure transparent relations and compliance with the relevant EU directives.

According to this draft Law, state support may be granted only if Building Energy Efficiency Certificate was obtained and a higher class of energy efficiency was achieved, not lower than Class C

anyway. Certification is compulsory if economically feasible which is to be decided on by the beneficiary, as well as if technically feasible and if the budget allows support to energy efficiency measures (for state-financed institutions).

Database of certificates and the list of certified energy auditors will be kept by the State Agency on Energy Efficiency and Energy Saving of Ukraine and published on its website. The Agency pointed out that they relied on best practices of the EU countries and initiated the creation of the Energy Efficiency Fund. According to the Agency's estimates, implementation of building energy efficiency projects could potentially save up to [0.8 cubic meters of natural gas](#) annually due to [reduction of heat loss by up to 50 %](#).

In this context, the [draft Law on specific aspects of exercising the right of ownership in multi-family buildings](#) was adopted following the first reading. It provides for creating an effective mechanism of decision-making by co-owners of buildings with regard to the maintenance and management of joint property, including with regard to modernization of buildings to achieve energy efficiency. Also, the national standard [ДСТУ-Н Б В.3.2-3:2014 Guidelines for thermal modernization of residential buildings](#) which has already been adopted will come into force on 01 October. This standard sets out the requirements to the procedure of performing works, executing documents, assisting architects, designers, contractors, requirements to contracting organizations, rules of building maintenance. The standard also complies with the current regulatory framework.

On 05 March, [the Government's committee approved](#) the draft Resolution of the Cabinet of Ministers "On the introduction of amendments to the Resolutions of the Cabinet of Ministers of Ukraine of 01 March 2010 No. 243 and of 17 October 2011 No 1056" to encourage the population to increase energy efficiency of their buildings. This draft Resolution provides for the introduction of a mechanism of partial compensation by the State of loans taken to purchase energy efficient equipment and materials to be used in multi-family and single-family buildings, allowing the following options:

- 20 % (up to UAH 5,000) — existing mechanism of gas boilers replacement;
- 30 % (up to UAH 10,000) — for individuals to implement energy efficiency measures in single-family buildings (and apartments in multi-family buildings);
- 40 % — for condominiums (housing cooperatives) to implement energy efficiency measures in multi-family buildings.

The Ministry of Regional Development hopes that such mechanisms will facilitate reduction of energy consumption in buildings by up to 50 %, and is planning on financing such measures in 2015 from the funds remaining available under the EU-funded program Support to the Implementation of Ukraine's Energy Strategy in the Area of Energy Efficiency and Renewable Sources of Energy'. EBRD offered a USD 100 million credit facility, and this initiative was welcomed by the State Agency on Energy Efficiency and Energy Saving of Ukraine. Competent authorities are going to allocate these funds to finance [thermal modernization of buildings](#) and invite the stakeholders to adopt a relevant law as soon as possible.

[The State Agency on Energy Efficiency and Energy Saving of Ukraine allocated](#) UAH 343.5 million to finance the large-scale thermal modernization (particularly, through partial compensation of the relevant loans) in 2015, thus covering 134,000 families. Moreover, the Agency's plan is to [expand activities](#) to support households in installing insulated glazing and meters, purchasing energy saving materials, for which purpose they are going to allocate UAH 198 million. A decision was made to create [a permanent working group for improving the legal and regulatory framework for better introduction of energy saving LED-based lighting](#) attached to the State Agency on Energy Efficiency and Energy Saving of Ukraine, to provide state support to households, condominiums, housing cooperatives, and implement measure to upgrade lighting systems at public places.

The Board of the State Agency on Energy Efficiency and Energy Saving of Ukraine [approved a roadmap](#) for the development and enforcement of 42 legal and regulatory acts to provide for, *inter alia*, mechanisms of state support to increasing energy efficiency, stimulating development of renewable energy, energy service market and related markets, implementation of EU *acquis* in the above-mentioned sectors.

Metering devices.

On 17 February, the State Agency on Energy Efficiency and Energy Saving of Ukraine published the [draft Law “On Commercial Metering in the Sectors of Heat Supply, District Water Supply and Discharge, Utility Services”](#) setting the terms and conditions of the introduction of commercial metering, and specifying the sources of financing of installation, maintenance and replacement of metering units.

Meanwhile, the Ministry of Regional Development published [the draft Resolution of the Cabinet of Ministers “On approval of the Procedure of submission of metering devices](#) (of which the readings are used to calculate consumption of electricity, heat, gas and water by households) owned by individuals for regular calibration, maintenance and repair”.

The Ministry of Regional Development [invited people to install meters](#) in their apartments, emphasizing that the cost of housing and utility services would be much higher with no meters in place. The Ministry explained that this has to do with the difference between the actual energy consumption and the norms which, where no meters are used, apply to calculate the cost of such services.

As for calibration of water and heat meters, according to the Ministry of Regional Development, the cost of this service is included in the tariff, that is why calibration services must be provided [at the expense of the companies and organizations providing heat and water supply services](#). Meanwhile, [the Antimonopoly Committee recommended](#) the National Commission for State Energy and Public Utilities Regulation to advise such companies and organizations of their liability for non-fulfilment of their obligations, and identified the sources of financing of calibration services where their cost is not included in the tariff applicable to certain economic operators.

Imposing new commitments.

The new Directive 2012/27/EU on energy efficiency provides for the development of broader national action plans which are going to be the third such plans approved by members of the Energy Community (except Ukraine and Moldova that acceded later), while Ukraine has not yet approved a single one. The Secretariat of the Energy Community paid close attention to this fact: in February, [2015–2016 Work Program of the Energy Efficiency Coordination Group](#) was published, in March, this issue was discussed during the 36th meeting of the Permanent High Level Group (in which [representatives of Ukraine](#) participated), where [the Working Document Guidance Note on Directive 2012/27/EU](#) was discussed: particularly, the official proposal is expected to be considered in June, and the Directive will be included in the EU *acquis* in October (for the Council of Ministers).

The European Commission [suggests](#) that the Energy Community sets a general energy efficiency goal as the EU did, to create a basis for establishing national indicative objectives as a quotient of the initial energy consumption and the ultimate energy consumption in 2020. Several countries (including Ukraine) has already expressed their concerns about setting binding objectives without sufficient financial support available. The Secretariat of the Energy Community held a workshop on energy efficiency financing. Thus, [the estimated annual cost of reconstruction](#) of 2 % of state-owned buildings in Ukraine is EUR 77 million, 3 % — EUR 115.5 million.

Oil and oil products

Implementation of Directive 2009/119/EC has not progressed, and public authorities were focused on resuming control over the State assets.

On 21 January, the Cabinet of Ministers approved the [Resolution No. 16 “On changing the Procedure of organization and holding of exchange auctions”](#), thus changing the method of calculation of the starting price for crude oil based on 15-day indicators published by *Crude Oil Marketwire* and *Platts* (where Urals (up to 50,000 tons) and Azeri oil has not entered the customs territory).

Also, the Government by its [Resolution of 23 January 2015 No. 65](#) introduced amendments to the Technical regulation on requirements to motor petrol, diesel, marine and boiler fuels, by authorizing sale of off-spec petrol and diesel fuels produced by *Ukrgezvydobuvannia* before 31 December 2015. It is important to mention that on 22 January, [the Ministry of Energy and Coal Industry issued the Order](#)

[No. 29](#) that approved the temporary criteria of qualifying testing laboratories to check petrols and fuels quality.

On 21 January, [the Ministry of Economic Development and Trade and the Ministry of Energy and Coal Industry signed the Order No. 39/27](#) to change members of the auction committee for selling crude oil, domestic gas condensate and LNG. Thus, representative of *Naftogaz* Petro Stoliar came to replace Mr. Kushch who is associated with the *Privat Group*. The body is now chaired by Minister of Economic Development and Trade Aivaras Abromavičius.

On 31 January, *Ukrnafta* sent a letter to the auction committee requesting to clarify the price formula [since the company thought it not fair](#). [According to Naftogaz](#), *Ukrnafta PJSC*, *Ukrtransnafta PJSC*, *Ukratnafta PJSC* controlled by the *Privat Group* sabotaged provision of technical information on possibilities of storage, transportation and processing of Ukrainian oil. On 23 February, *Ukrnafta* [filed a claim in court](#) requesting to cancel the starting price formula for oil in view of the fact that the committee applies 7.35 instead of 7.23 ratio when converting oil barrels in tons.

During the meeting of the Special Control Committee for Privatization, [Ihor Kolomoiskyi admitted](#) paying USD 5 million monthly in 2004 to oligarch Viktor Pinchuk and then President Leonid Kuchma as a ‘royalty’ for being authorized to manage *Ukrnafta*. According to his statement, the State [will never receive dividends from Ukrnafta](#) as *Naftogaz* owed it payment for 10 billion cubic meters of gas. On 27 March, *Naftogaz of Ukraine NJSC* published its audited financial statements for 2012–2013, according to which [its liabilities to Ukrnafta amounted to UAH 3.753 billion](#) for 10.1 billion cubic meters of gas consumed by households in 2006–2011 payable at the regulated prices.

On 19 March, the Verkhovna Rada approved amendments to the law on joint stock companies to reduce the quorum for holding general meetings to 50 % + 1 shares in 2015. [The Law No. 272-VIII](#) potentially could allow the Government to replace top managers of *Ukrnafta* in which the State’s share was 50 % + 1, against *Privat*’s 42 %. That same day the [Supervisory Board of Ukrtransnafta suspended Chairman of Board Oleksandr Lazorok from office](#) which caused a conflict involving Ihor Kolomoiskyi himself and [armed men](#). The situation was settled when President Poroshenko intervened and dismissed Kolomoiskyi from the post of Head of Dnipropetrovsk Oblast State Administration. Prime Minister Arsenii Yatseniuk, in his turn, said that *Ukrnafta* and *Ukrtransnafta* [would be managed by top-quality foreign specialists](#).

In March, the Parliament [registered the draft Resolution No. 2479](#) to establish a temporary investigation commission to check the facts about corruption in *Ukrnafta* and *Ukrtransnafta* revealed by Head of the State Financial Inspection Mykola Hordiienko.

Statistics

[The Cabinet of Ministers by its Ordinance of 23 January 2015 No. 53-r](#) approved the plan of state statistic surveys for 2014–2015. The [plan](#) included, among other, measures to implement the Strategy of State Statistics Development until 2017 in 2014–2015, which, in its turn, provides for harmonization of legislation on state statistics with relevant international standards and EU legislation.

Competition

Ukraine has commenced the process of fulfilling the state aid requirements.

On 13 January, the Antimonopoly Committee of Ukraine [approved](#) the Action Plan for the implementation of the Action Program of the Cabinet of Ministers of Ukraine and the Coalition Agreement in 2015. The document, *inter alia*, provides for the introduction of amendments to the Law “On Protection of Economic Competition”, development of a document to lay down the principles of calculation of penalties (December 2015), etc. In its turn, the Government approved the plans for the implementation of the EU *acquis* developed by the Antimonopoly Committee of Ukraine (Ordinance of 04 March 2015 [No. 167-r](#)).

On 22 January, a [meeting at the Antimonopoly Committee of Ukraine was held, initiated by the EU Delegation to Ukraine, to discuss support to the implementation of the Third Energy Package](#).

Participants of the meeting discussed AMCU's activity in the area of economic competition protection in gas and power markets of Ukraine, the AMCU's role in regulation of fair competition in these markets, as well as the identified ways of further cooperation of AMCU and the Energy Community.

On 05 March, AMCU held a [roundtable meeting to discuss a complex of measures to ensure fulfilment of Ukraine's commitments in the sphere of state aid](#) arising out of the Treaty establishing the Energy Community. Representatives of AMCU, EU-funded technical assistance project "Harmonisation of Public Procurement System in Ukraine with EU Standards", the Ministry of Energy and Coal Industry, the Ministry of Economic Development and Trade, the Ministry of Finance and the National Commission for State Energy and Public Utilities Regulation discussed proposals for the pilot project of state aid inventory in the energy sector pursuant to Ukraine's commitments within the framework of the Energy Community Treaty and the Law of Ukraine "On State Aid to Undertakings".

Within the framework of the above-mentioned EU-funded technical assistance project, Ukrainian state aid experts (representatives of AMCU, the Ministry of Finance, the Ministry of Economic Development and Trade, the Ministry of Energy and Coal Industry) [undertook a study visit to the Competition Council of Moldova on 16–17 March to learn best practices of their colleagues in the sphere of state aid](#). During that visit, the parties discussed practical aspects of organizing the work of the authorized body for state aid, development and implementation of information and awareness-raising campaigns at the initial state of operation of the state aid monitoring and control system, as well as approaches to state aid inventory, particularly, in the energy sector.

On 25 March, representatives of the above-mentioned project presented [the first study on state support to undertakings in Ukraine](#). The results of this study show that in recent years Ukraine used a lot of instruments of state support, including direct budgetary subsidies, loans, tax benefits and tax deferrals, writing-off debts, state guarantees and additional financing of state-owned companies through the increase of shareholding. Before 2013, budgetary subsidies (including in the coal and power supply sectors) amounted to as much as 3 % of GDP, while regional development programs were mostly under-financed. The statistics mostly include subsidies granted to households to partially compensate gas tariffs (through *Naftogaz of Ukraine NJSC*). Representatives of the Presidential Administration, the Cabinet of Ministers, the Parliament and line ministries participated in the [workshop](#).

Another important step was presentation of the draft law on securing transparency of the work of the Antimonopoly Committee of Ukraine ([registered under the No. 2102](#)). Member of the Parliament, the authors of that draft law, propose compulsory publication of AMCU's decisions in respect to applications and cases relating to concentration and concerted actions, in cases of violation of competition law and unfair competition. Those decisions are supposed to be published on AMCU's official website within 30 days of their adoption, however, allowing for concealing information that may affect the parties or third persons if disclosed.

Social policy

Social dialogue.

On 21 January, the Cabinet of Ministers issued the Ordinance No. 34-r "[On approval of plans for the implementation of certain EU legislative acts developed by the Ministry of Social Policy](#)", however, the document does not cover the implementation of the Memorandum of Understanding on social issues in the context of the Energy Community, nor the development and implementation of the social action plan. At the same time, the President [appointed](#) Minister of Social Policy Pavlo Rozenko as Chairman of the National Trilateral Social and Economic Council.

A [permanent trilateral advisory body](#) was created on the basis of the National Commission for State Energy and Public Utilities Regulation to discuss draft decisions on the change and regulation of electricity tariffs and gas prices for households. Members of this advisory body include representatives of the Common representative body of all-Ukrainian associations of trade unions at the national level, and representatives of the Common representative body of employers at the national level. Meanwhile, the Ministry of Social Policy invites welfare services to closer cooperation with [voluntary and non-government organizations](#).

According to the Ministry of Regional Development, housing and utility fees in certain regions depend on [community policing](#). Thus, the Kyiv fees are quite low as compared to other regions. Also, the Ministry published [recommendations for consumers](#) on how to respond to non-provision or partial provision of housing and utility services.

Subsidies

The Ministry of Social Policy [invited people](#) to apply for subsidies, emphasizing that amounts payable would be automatically recalculated when tariffs change, so that repeated procedure of applying to welfare services would be unnecessary. According to officials, about 4,700 families were granted subsidies to pay for housing and utility services, and Minister Pavlo Rozenko instructed to identify [existing but never-financed allowances](#) to abolish such and introduce targeted payments. He also said that since 01 July, allowances for housing and utility services would be available to low-income individuals only, and could be granted in addition to subsidies. The Minister also supported the idea of [granting subventions to users of services instead of their suppliers](#).

In February, the Ministry of Social Policy [presented](#) the plan of reforming the housing subsidies system to allow granting of subsidies upon provision of two documents only (application and property declaration to be [checked by public authorities under a simplified procedure](#) already after the subsidy was granted). Consumers will receive the relevant forms to be filled in enclosed with the electricity bills in April and October 2015, which may be sent by post when completed. In addition, property limitations will be cancelled for applicants, unless they declare a one-time purchase for the amount exceeding UAH 50,000 in a year. The Ministry of Social Policy added a [subsidy calculation module](#) on its website.

Subsidies will be granted for 12 months, not for the heating season, and the Ministry promises to automatically prolong them for a new period provided beneficiary's incomes did not change. Provision of incomplete or false data will result in cancelling the subsidy and having to return of the double amount of the unauthorized subsidies. Subsidies will automatically be granted to 1.1 million families that received them during the 2014–2015 heating season.

The Government proposed to [allocate additional UAH 12.5 billion](#) to pay subsidies, thus increasing the subsidy fund to UAH 24 billion. The Minister of Social Policy assumed that [3.5 million families](#), qualified as low-income according to the results of the survey, were supposed to apply for subsidies. If more people turn out to be in need of support from the State, the Government [is ready to allocate more funds to finance the subsidies](#). Minister Rozenko [invites people to apply for subsidies already in May](#) without waiting until the next heating season starts.

According to the Ministry of Social Policy, welfare services [contact persons](#) who would like to apply to a subsidy of which the amount may be calculated [by applicants themselves](#). The Ministry of Social Policy [developed a form of notice to consumers](#) to inform them of a possibility to apply for a subsidy, as well as the guidelines for filling in blank forms and declarations which have already been forwarded to the Ministry of Energy and Coal Industry, the National Commission for State Energy and Public Utilities Regulation and *Naftogaz of Ukraine* NJSC. Moreover, a public discussion is expected to be held [to identify ways to improve the software](#), and [e-submission](#) for applying for a subsidy is going to be introduced.

Tariff policy.

Working groups of the National Commission for State Energy and Public Utilities Regulation held meetings with representatives of power distribution and power supply companies to discuss [an incentive-based tariff policy](#). Following those meetings, the Commission established [new electricity tariffs for households](#) stating that the previous rates had covered only 21.3 % of the actual expenditures relating to production, transmission and supply of electric power. A decision was made to increase the tariffs gradually, the first increase to take effect on 01 April 2015. The regulator also reduced the night ratio to 0.5 to encourage consumption of electricity during night hours (where [dual-rate meters](#) are installed).

Following the [discussion](#) of district water supply and discharge tariffs and [upon request of](#) undertakings, the National Commission for State Energy and Public Utilities Regulation also approved

[the procedure of establishing district cold water supply and district water discharge tariffs](#) to apply when establishing tariffs for these services.

In March, the regulator approved the [procedure of applying electricity tariffs](#) to the category of consumers residing in residential houses equipped with electric cookers and/or electric heating devices compliant with the set requirements. The National Commission for State Energy and Public Utilities Regulation also approved the changed procedure of establishing [retail natural gas prices for households](#).

In March, the regulator also published [the retail pricing structure](#) for natural gas for households and other [tariff \(pricing\) structures](#), as well as the [Recommendations for consumers](#) on how to reduce gas and heat bills.

According to the Ministry of Regional Development, review of housing and utility tariffs [is a reasonable necessity](#), and the National Commission for State Energy and Public Utilities Regulation emphasized that the new tariffs would [stimulate the energy sector development](#). Households will be able to save on housing and utility services due to the [introduction of energy efficiency measures](#) and [installation of residential meters](#).

At the same time, the Verkhovna Rada registered a series of draft laws to impose a standstill period for increasing prices and tariffs, or delay the increase, or make certain categories of the population immune to such increase (registered under the Nos. [2342](#), [2347](#), [2483](#)).