



European Federation
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EFET¹ concerns regarding the planned introduction of export fees

6 February 2020

Dear Mr. Tarasiuk, dear Mr. Kovalchuk

The European Federation of Energy Traders (EFET) wholeheartedly opposes the introduction of export fees on electricity as foreseen by Ukrainian legislation. Ukraine incurs the risk of losing its electricity exports after the adoption of amendments to the Transmission System Code initiated by the National Energy and Utility Regulatory Commission of Ukraine (NEURC).

EFET members active in the Ukrainian market are highly concerned about a complete cessation of export of electricity from Ukraine in case the proposed amendments to the Transmission System Code as regards the imposition of transfer fees and dispatching (operational and technological) management on exporters will be adopted. The amendments were foreseen in the new version of the Transmission System Code proposed by the NEURC; the approval of the amendments was originally scheduled for 31 January 2020 but has been delayed due to concerns by stakeholders.

Ukraine's electricity market participants are convinced that the Transmission System Code must comply with EU and Energy Community standards. Pursuant to EU Directive 2003/54 and to the decision of the Court of Justice in the case C-305/17 FENS vs Slovak Republic of 6 December 2018, the imposition of a tariff on export transactions is prohibited as the tariff is equivalent to a customs duty. The proposed amendments to the Transmission System Code directly contradict the Association Agreement between Ukraine and the EU, which provides for a ban on the establishment of export fees equivalent to duties. Bulgaria was the last EU country to abolish all additional duties on electricity exports with the full support of the European Commission. Moreover, it should be noted that exports from countries that are not members of the Energy Community - such as Russia and Belarus - to Ukraine are exempt from extra payments.

NEURC's proposal would impose an additional transmission tariff up to 155.40 UAH / MWh and dispatching tariff up to 10.23 UAH / MWh. It means that in total additional fee of 165.63 UAH / MWh (~ 6 €/MWh) shall be paid by exporters. This will increase the cost of Ukrainian electricity, which is intended for export by 8-10%, which will make it uncompetitive outside Ukraine. In such circumstances, it is likely that new export contracts will not be concluded in 2020, spot operations will almost cease and existing long-term contracts will be executed through electricity purchased in foreign markets.

This decision will not only distorts competition by putting the Ukrainian resource at a disadvantage with the rest of European countries, but will also deter international companies from investing in Ukraine; the liberalization process that began with the launch of the electricity market in July 2019 will be reversed.

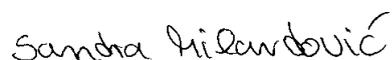
It should be noted that, according to the Ukrainian State Statistics Service foreign exchange earnings from electricity exports amounted to \$ 379 million in 2019. In 2020, there is still potential to increase this figure

¹ The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and a competitive economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

through further market liberalization. By introducing an export fee, Ukraine would put at risk this relevant income stream for the Ukrainian economy.

EFET supports the further development of the Ukrainian electricity market, its liberalization and integration into the EU Internal Electricity Market. Against this background, EFET urges all public authorities responsible for energy, economic policy, international trade and the European integration process to prevent the adoption of the discriminatory norms in the Transmission System Code that may hinder the export of Ukrainian electricity. EFET considers regulatory stability is paramount for the further development of the UKR energy markets, both electricity and gas.

Yours sincerely,
On behalf of the European Federation of Energy Traders

A handwritten signature in black ink that reads "Sandra Milardovic". The signature is written in a cursive, slightly slanted style.

Sandra Milardovic,
EFET TF Eastern Europe Electricity