

Executive summary

This competition market study describes and analyses Ukraine's electricity sector from a competition perspective.

Russia's large-scale aggression against Ukraine has upended the lives of Ukrainian people and the country's economy and has severely impacted its electricity industry. Questions relating to the competition in electricity markets have been superseded by the urgent need to ensure electricity supply to public institutions, households and businesses. Despite this, crucial parts of the power sector continue to function as competitive markets. Therefore, competition and competition enforcement have a role to play even in a time of the war. Many economic activities can and should continue based on market principles and adherence to the principles and laws governing competition.

Recognising the drastically changed situation in Ukraine, the scope and focus of this study was adjusted, in agreement with the Ukrainian authorities and the EU Delegation. An in-depth analysis of market dynamics became no longer appropriate, or possible, due to continuing changes in the market situation and the unavailability of verifiable, up-to-date information.

The study provides a detailed description and assessment of the regulatory framework within which Ukraine's electricity markets operate. The focus is therefore on issues that will likely remain relevant when Ukraine can begin to rebuild following the war.

The overall design of Ukraine's electricity market closely resembles power markets in the European Union, which make a clear distinction between competitive and non-competitive activities. Electricity transmission and distribution fall into the latter category, which is justifiable by their natural monopoly characteristics and in line with international practice. The laws governing electricity markets recognise generation, wholesale and retail supply of electricity as competitive activities. However, specific legislation and regulatory interventions significantly reduce the scope for competition in all parts of the electricity market.

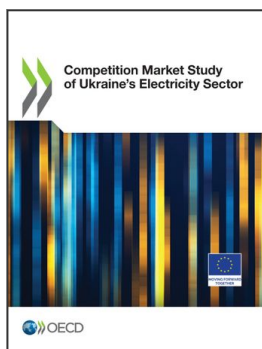
In parts of the wholesale market, prices are constrained by limits that restrict market-based price formation and distort price signals. Prices that reflect supply and demand are crucial for the competitive generation of electricity and are a major factor affecting investment decisions relating to new generation capacity. Price caps also represent a hurdle to deeper integration with the EU electricity market because they are incompatible with market coupling (of the day-ahead and intraday markets).

In the retail market, regulated prices for households prevent the emergence of competition for a significant section of consumers. A phase-out of regulated prices, combined with support for vulnerable households, would enable competition in this market segment and represent a better use of limited financial resources. It would also provide appropriate incentives to use electricity in an economically efficient way.

Electricity infrastructure in Ukraine has suffered great damage as a result of Russia's large-scale aggression. Repairing the electricity network and power plants will require significant investment. New power plants will most likely be needed to replace those damaged beyond repair, and in the longer-term to cover expected increases in consumption. Electricity generation from renewable energy sources offers a sustainable and increasingly cost-effective alternative to fossil-fuel plants. While the objective should be

to mobilise market-based investments, support by the state and the international community will be necessary – at least during the initial stages of reconstruction.

Finally, integration with EU energy markets has been a political priority for Ukraine. Synchronisation with the Continental European Power System represents a major step in this direction. Increasing import and export capacity benefits security of supply and has the potential to greatly enhance electricity market competition. To reap the full benefits of synchronisation, Ukraine needs to adopt the necessary EU market rules and work towards market coupling.



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