

## Regulatory and Legal Capacity Strengthening of Energy Regulation in NERC, Twinning Project



**Project Budget:**  
€1.1 million

**Duration:**  
May 2007 – April 2009

**Funded by:**  
European Union

**Country of Implementation:**  
Ukraine

**Project implementing partner:**  
Regulatory Authority for Electricity and Gas,  
Austria

**Key Project Partner and Beneficiary:**  
National Electricity Regulatory Commission  
of Ukraine (NERC)

### Project's Objectives and Tasks:

#### Overall objective:

To promote the institutional strengthening of the National Electricity Regulatory Commission of Ukraine (NERC) and assist in the longer term development and implementation of international best practice of regulation in the energy sector consistent with progress in, and development of, the EU Internal Energy Market.

#### Project Purpose:

To contribute significantly to NERC's capacity to ensure the proper development and implementation of legislation, regulations and adaptive decision-taking in the field of energy regulation in line with the development of the EU Internal Energy Market (IEM) and corresponding requirements for regulatory authorities and best practices of some regulatory authorities in the EU IEM.

#### Expected Results:

- Adoption of the draft Law on Public Regulator and the draft Regulation of NERC's activities, along with enforcement of the best practice of decision-making.
- Electricity Directive will be transposed, and a new legal approximation procedure will be set up in the NERC.
- Improvement of staff's capacity to execute regulatory powers in compliance with EU standards.
- A database library with access to translated EU documents for all members of NERC's staff is to be established.
- Permanent transition from cost-plus to incentive-based regulation of three regional energy transmission companies (Oblenergos) within the pilot study project is to be carried out, and, after its completion, recommendations to implement Incentive-Based Regulation and Benchmarking as well as Quality Regulation Standards for these Oblenergos are to be endorsed by the NERC Commissioners.
- Changes to the job descriptions of the Market Monitoring Department to accommodate the future requirements to market monitoring in WEM are to be made, along with the agreement to start the unbundling of transmission and supply activities of the Oblenergos with a timetable to implement the Guidelines and implement regulatory procedures and assessment system.

#### Project's Achievements:

- An efficient social scheme of tariffs for electricity consumption by population is developed;
- Strengthened capacity of NERC employees in the development of legal frameworks of energy market regulation;
- A draft Law On Electricity is prepared in compliance with the European legislation;
- A draft Law on NCRE is developed;
- Recommendations on establishment of social tariff scheme are prepared;
- A monitoring system to assess quality of services provided by Oblenergos is developed;
- A library of European energy legislation is compiled in Ukrainian;
- A series of training for NCRE employees is conducted.

**More information about Twinning in Ukraine:** <http://twinning.com.ua>

*"I think we have managed to break the mould, meaning that before us there was no Twinning as a partnership instrument in Ukraine, in fact nowhere in the CIS. We have tested and implemented a new instrument that nobody knew about before. It was difficult in the beginning and the biggest result is the awareness of it. I think even other institutions apart from NERC are beginning to understand the value of this instrument. . . By now, the profile of Twinning has been raised high enough to be noticed by all the Ukrainian Institutions."*

*Lemlem Said Issa, Resident Twinning Adviser (interview for Twinning in Ukraine Newsletter)*

### ENPI - European Neighbourhood and Partnership Instrument

The European Union is the largest donor to Ukraine. EU assistance to Ukraine over 2007-2013 will principally be provided under the new European Neighbourhood and Partnership Instrument (ENPI) which is being established to promote the development of an area of prosperity and good neighbourliness between the EU and the partner countries covered by the European Neighbourhood Policy.

ENPI envelope for Ukraine will focus on the following three priority areas:

#### Support for Democratic Development and Good Governance

- Public administration reform and public finance management
- Rule of law and judicial reform
- Human rights, civil society development and local government
- Education, science and people-to-people contacts/exchanges

#### Support for Regulatory Reform and Administrative Capacity Building

- Promoting mutual trade, improving the investment climate and strengthening social reform
- Sector-specific regulatory aspects

#### Support for Infrastructure Development

- Energy
- Transport
- Environment
- Border management and migration including re-admission related issues

Indicative budget for Ukraine for the period 2007-2010 is €494 million:

**Support for Democratic Development and Good Governance:** €148.2 million (30%)

**Support for Regulatory Reform and Administrative Capacity Building:** €148.2 million (30%)

**Support for Infrastructure Development:** €197.6 million (40%)



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Cooperation in the energy sector has always been a significant part of EU-Ukraine relations, especially taking into account that the energy security needs of the EU and Ukraine are intrinsically linked. In December 2005, a Memorandum of Understanding (MoU) on energy was signed that establishes a joint strategy towards progressive integration of the Ukrainian energy market with that of the EU and consists of road maps covering 4 specific areas: nuclear safety; integration of electricity and gas markets; enhancing security of energy supplies and transit of hydrocarbons; improving effectiveness, safety and environmental standards in the coal sector. The MoU also envisaged a fifth roadmap which was agreed in March 2008 aiming at increasing cooperation in energy efficiency and promotion of renewable energies. So far, a significant progress has been achieved in implementing the MoU objectives.

On nuclear safety, the EU has cooperated extensively with Ukraine to improve the safety of its nuclear power plants. The comprehensive assistance provided under the Tacis Programme included design safety, operational safety and waste management, off-site emergency preparedness, and support of regulatory authorities. Since 2007, this effort has been continued under the EC Instrument for Nuclear Safety Cooperation. The EU is also the largest contributor to the Chernobyl projects related to the conversion of the site to make it environmentally safe.

Significant progress is also being made in the integration of Ukraine's electricity and gas markets with those of the EU, including strengthening of the National Energy Regulatory Commission (NERC). The recently completed Twinning project on Regulatory and Legal Capacity Strengthening of Energy Regulation in NERC aimed at promoting NERC's institutional strengthening and assisting in development and implementation of international best practice of regulation in the energy sector.

The MoU is also focused on the coal sector, which plays a crucial role in the Ukrainian economy, in particular, in electricity generation and consumption. This cooperation is channelled through the Coal Sector Policy Support Programme, which aims to support Ukraine's stakeholders in reforming and restructuring the coal-mining industry in a socially-responsible and cost-effective manner.

International energy cooperation between the EU, the littoral states of the Black & Caspian Seas and their neighbouring countries is widely supported through the INOGATE Programme covering the areas of oil and gas, electricity, renewable energy, and energy efficiency. One of the INOGATE projects currently implemented is a €2.9 million project on harmonisation of gas and oil technical standards and practices in Eastern Europe and Caucasus aiming at supporting the partner countries' adoption of international standards, rules and practices.