An Effective Framework for NEURC:

TIME FOR ACTION

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An independent and effective regulator is essential for well-functioning energy markets, more broadly, for effective energy policy. The cost of inaction on NEURC reform is high for the war-torn Ukrainian society, as energy costs will be higher, security of supply will be lower, investments will decline reduced, rules will remain opaque, EU integration will be delayed, and trust in public institutions lost.

The two legislative proposals submitted at the end of 2025 propose different approaches to strengthening NEURC's independence and governance. While both contain limitations discussed further in this paper, they provide a concrete basis for advancing the reform. Importantly, the legislative process has now gained momentum: on 9 September 2026, the Verkhovna Rada Committee on Energy, Housing and Utilities recommended that both drafts be considered by Parliament and that Draft Law No. 14282 be adopted as a basis at first reading and further revised in preparation for the second reading.

While martial law remains in force, the Constitution cannot be amended, limiting the possibility of fundamentally changing NEURC's current institutional status. This should not delay reforms that are possible within the existing constitutional framework: important safeguards for NEURC's independence, governance and institutional continuity can and should be strengthened now.

This paper examines the key aspects of the needed NEURC reform, makes proposals for legislative change and other boundary conditions, and summarises the limits of the two legislative proposals by the Deputies of the Verkhovna Rada, Mr Oleksiy Kucherenko and Mr Andrii Zhupanyn. The authors had several working meetings with NEURC, Rada members, the Ministry of Energy, EU representatives, the Energy Community, and other experts to identify critical areas and to obtain feedback on our paper. A Chatham House event held on the sidelines of the Ukraine Recovery Conference on June 24, 2026, which provided an opportunity to gather further expert input.

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WHY THE CURRENT NEURC LAW NEEDS TO BE REVIEWED

The Ukrainian Regulator, the National Energy and Utilities Regulatory Commission (NEURC), was set up in 1994, with its most extensive reform in 2016, when the Law on the NEURC was adopted. In 2019, amendments were introduced to the Law on the NEURC, whereby the NEURC's legal status was defined as a central executive authority with special status. This legislative change was made following the adoption of a decision by the Constitutional Court of Ukraine[1], in which the Court held that, in the absence of a special legal status established by the Constitution, the NEURC must, in accordance with the constitutional separation of powers, be regarded as a central executive authority subordinate to the Cabinet of Ministers of Ukraine.

While the 2016 law addressed many shortcomings, more updates are needed. They relate to the independent selection process for commissioners, independence from government interference, transparency, and independent funding and budget management. Taken together, these elements will form a powerful safeguard, ensuring the regulator is truly independent and functional. For several reasons that will be explained in our analysis, the update of the existing NEURC Law 1540-VIII of 22 September 2016 is preferable to adopting a new one.

The challenge is not only legislative. Existing legislation and NEURC's internal rules already provide safeguards on integrity, conflicts of interest and the conduct of Commissioners. Their consistent application is as important as strengthening the legal framework. Recent cases, including the identification of a serving NEURC Commissioner in the context of a NABU investigation into alleged corruption in the energy sector, have raised questions about how these safeguards operate in practice. Without prejudging any individual case, this underlines that regulatory independence is not created by legislation alone: it also requires NEURC to apply the safeguards already available to it, alongside effective enforcement, institutional accountability and a strong governance culture.

Ukraine, a contracting party to the Energy Community and an EU candidate country, is obliged to remedy the above shortfalls to ensure compliance with the Energy Community and EU Acquis. Moreover, Ukraine has already missed the Q4 2025 deadline set in the Ukraine Facility Plan 2025/27 to develop a law on the independence and financial autonomy of the regulator[2]. Such delays lead to the withholding of important financial support for the country.

The need for comprehensive NEURC reform has become even more important following the adoption of Law No. 4834, which transposes the Electricity Integration Package (EIP) into Ukrainian legislation. The EIP significantly expands the responsibilities of NEURC, including new functions related to market integration, REMIT implementation, market monitoring, cross-border cooperation, and the implementation of EU electricity market rules. At the same time, the legislative

1. Decision of the Constitutional Court of Ukraine No. 5-r/2019 of 13 June 2019 (case concerning the National Commission for State Regulation of Energy and Public Utilities).

2. In the context of the EU's €50 billion Ukraine Facility, point 10.11 refers to the requirement for Ukraine to define and legislate the special status and guarantee the institutional independence of the NEURC.

framework governing NEURC must be adapted to enable the effective exercise of these new responsibilities and to address regulatory shortcomings that have already become apparent in practice. These include, inter alia, ensuring that NEURC has the necessary authority to establish cost-reflective network tariff methodologies in line with the EU acquis and to exercise its expanded regulatory functions independently.

The urgency of the reform has been further reinforced by commitments under Ukraine's IMF-supported EFF programme. In addition to the commitments under the Ukraine Facility Plan, the July 2026 Memorandum of Economic and Financial Policies includes a proposed structural benchmark for end-October 2026 aimed at strengthening NEURC's independence. The envisaged amendments to the NEURC Law include a six-member Competition Commission with full voting rights, three of whom would be proposed by international partners, as well as measures to increase the transparency of nomination procedures and decisions. The programme also envisages the first external assessment of NEURC's governance and independence within six months of the amended Law entering into force. This additional conditionality further reinforces the need for timely legislative action.

THE REFORMS NEEDED

This section is structured as follows: First, we describe the key principles that should underpin NEURC reform. Second, we present solutions to identified challenges. Third, we examine in greater detail which reforms would require constitutional change, and which could be implemented immediately.

PRINCIPLES

The authors propose the following five principles intended to guide both the design of the legislative reform and its subsequent implementation by NEURC and other relevant institutions.

Principle 1: Act now, move fast. Ukraine should undertake all reforms that are possible within the current constitutional framework without waiting for the end of martial law. A clear timetable should be established, with amendments to the NEURC Law adopted by early 2027. Delays could jeopardise subsequent integration milestones, including electricity market coupling. Given the current constitutional constraints, the preferred approach is therefore to amend and strengthen the 2016 Law rather than replace it with an entirely new law.

Principle 2: Avoid an overly prescriptive approach in primary legislation. The legislative framework should establish the essential institutional safeguards and principles governing NEURC, while avoiding unnecessary prescription of operational procedures. In particular, the law should establish the core principles governing the selection and appointment of Commissioners and the independence and functioning of the Selection Commission, while leaving detailed procedures to appropriate implementing rules.

Principle 3: Embed a transparency and consultation culture within NEURC. Regulators should develop and apply best practices for stakeholder consultation, including engagement with consumers, and ensure transparency by providing information to the public in accessible and appropriate formats. They should explain why proposals from stakeholders and consumers are considered or disregarded.

Principle 4: Develop and retain regulatory expertise. NEURC should continuously strengthen the expertise and professional development of its staff, in particular through cooperation with ACER, exchanges and twinning with EU regulators. Institutions such as the Florence School of Regulation and the Kyiv Energy and Climate Lab could provide additional capacity-building and knowledge-sharing opportunities.

Principle 5: Accelerate integration into the European regulatory community. NEURC should form part of the European community of regulators, learn from and contribute to European regulatory practice, including emerging approaches and regulatory sandboxes. Observer roles, e.g. at ACER, can help NEURC to practice "early accession", very much like Ukrenergo forms part of ENTSO-E[3].

IDENTIFIED CHALLENGES AND SOLUTIONS

The following table provides an overview of the four key reform areas, the state of play, and proposed solutions.

Table 1: Overview NEURC Challenges and Solutions

Key Reform Areas	State of play	Solutions
Appointment, Mandate and Dismissal of Commissioners	Vulnerability to political influence, to delays and insufficiently objective criteria[4].	Establish a permanent Selection Commission with possibly international participation, transparent, merit-based criteria, a ranked shortlist, a deadline, and safeguards against appointment blockage. Introduce safeguards against delays or political blockage at the appointment stage. The law should establish a binding deadline for appointment following completion of the competitive selection and provide for an automatic or otherwise legally predetermined appointment mechanism if the appointing authority fails to act within that deadline. One option, reflected in Draft Law No. 14282-1, is for the highest-ranked candidate to be deemed appointed if the Cabinet of Ministers fails to take a decision within 10 working days.

3. See Kopac, Janez 2025 Accelerated integration of Ukraine into the EU in the energy sector | GDU

4. Energy Community 2026, Ukraine advances electricity market integration reforms while emergency measures continue to shape energy markets - Energy Community Homepage

Mandate, Rotation and dismissal	NEURC members are appointed for a six-year term. Rotation rules are incomplete The Law of Ukraine on NEURC in its current version, does not provide for: • a maximum overall period of service or a limit on the number of terms that a NEURC member may serve; • the circumstances in which the rotation mechanism is to apply. The grounds for early dismissal of NEURC Commissioners are insufficiently precise. The Law allows termination of an individual Commissioner's mandate for violation of sectoral legislation, but the relevant regulatory decisions are adopted collectively.	Fixed terms and staggered rotation; objective and exhaustive dismissal grounds; protection against premature termination. Directive (EU) 2019/944, members of the regulatory authority are appointed for a fixed term of between five and seven years, renewable once. In addition, Member States are required to establish an appropriate rotation scheme for members of the regulatory authority. Limit early dismissal to clearly defined, objective and verifiable grounds consistent with Article 57(5) of Directive (EU) 2019/944. Where an alleged breach arises from a collegial decision of NEURC, the Law should clearly distinguish the responsibility of the regulatory authority from individual misconduct attributable to a Commissioner.
Independence in day-to-day operation	NEURC's definition as a central executive body contradicts EU/ Energy Community requirements.	Strengthen NEURC's institutional independence by ensuring that regulatory decisions and acts are not subject to approval, veto, suspension, or modification by executive authorities. The legal framework should prohibit external influence on NEURC and support independent decision-making. This means that the Cabinet of Ministers has no veto rights and cannot suspend regulatory tariffs, change tariff methodologies, licensing, or market rules.
Financial independence	Despite being financed through regulatory fees paid by market participants, NEURC's financial and administrative autonomy remains limited, as its budget, staffing levels, and resource management are subject to approval or oversight by state authorities.	Strengthen NEURC's financial and administrative autonomy in line with EU requirements for independent energy regulators. The NEURC should have autonomous authority over budget execution, internal resource allocation, staffing structure, and remuneration policies, without ex ante approval or modification by external executive bodies. No government body should be allowed to interfere.

Transparency, accountability, communication	Stakeholder engagement, explanation of decisions and communication require strengthening.	Strengthen transparency and accountability through public disclosure of relevant meetings and communications, clear conflict-of-interest and recusal rules, and systematic stakeholder engagement. Improve public communication by explaining key regulatory decisions and their rationale. Introduce regular independent external assessments of NEURC's governance and effectiveness (e.g. by CEER or the Energy Community).

WHERE THE KUCHERENKO AND ZHUPANYN DRAFTS FALL SHORT

Two draft laws were registered in Parliament in December 2025: the so-called primary draft law No. 14282, initiated by Andriy Zhupanyn, and the alternative proposal No. 14282-1, proposed by Oleksii Kucherenko. Both proposals seek to strengthen NEURC's independence and governance and address Ukraine's commitments under the Ukraine Facility Plan, which require legislative amendments to strengthen NEURC's independence and specify its special status in line with the EU energy acquis. However, both proposals contain several shortcomings, discussed below.

Shortfalls of Zhupanyn's Draft Law (No. 14282)

The proposal by Zhupanyn is criticised mainly for its three-stage mandatory rotation within 12 months, thus putting institutional continuity at risk, as well as the fixed-term protections required by the EU and Energy Community. Such fixed-term mandates protect energy commissioners from arbitrary, politics-driven dismissals.

Shortfalls of Kucherenko's Draft Law (No. 14282-1)

Kucherenko's alternative proposal is unclear on the selection and the criteria for selection of the commissioners. While it seeks to protect commissioners better than the Zhupanyn draft, the unclear selection process introduces risks. The proposal is also said to create functional frictions with other bodies such as the Anti-Monopoly Committee. It also creates a potentially problematic division of institutional responsibility: NEURC remains appointed by the Cabinet of Ministers while being accountable to the Verkhovna Rada, which would also approve or disapprove its annual report. The respective roles of the Government and Parliament, and the consequences of such parliamentary assessment, should be clearly defined.

Must-have requirements before final adoption

Irrespective of which draft law is adopted as the basis at first reading, the text should not proceed to final adoption unless it adequately addresses the following core requirements:

- an independent, transparent and merit-based selection and appointment process, with safeguards against political blockage;
- security and continuity of Commissioners' mandates, including appropriate term limits, rotation and objective grounds for early dismissal;
- operational independence of NEURC, including protection of its regulatory decisions from executive interference;
- financial and administrative autonomy sufficient for NEURC to perform its functions independently; and
- effective transparency, accountability and stakeholder consultation mechanisms.

Under the Rules of Procedure of the Verkhovna Rada, the draft law adopted as the basis at first reading becomes the legislative text for preparation for second reading, and amendments are, as a rule, submitted to that text. The preparation for second reading therefore provides the procedural stage for addressing the shortcomings identified above before final adoption.

Where full implementation requires constitutional amendment, the strongest safeguards possible within the current constitutional framework should be introduced now, with the remaining institutional changes addressed once constitutional amendment becomes possible.

ACTION IS POSSIBLE NOW, UNDER MARTIAL LAW

The measures below are required to strengthen alignment with the EU acquis; the table distinguishes between measures that can be implemented under the current constitutional framework and those requiring future constitutional amendment.

Table 2: Overview of the Legislative amendments required for the proposed solutions

№	Recommendation	Legislative level required	Constitutional amendment required?	Alignment with EU acquis	Priority
1	Strengthen institutional independence by exempting NEURC from incompatible Cabinet powers	Amend Constitution, Law on NEURC + Law on CMU + Law on Central Executive Bodies	Yes (full solution); legislative workaround possible during Martial Law	Mandatory (Electricity Directive, Energy Community)	High
2	Permanent independent selection mechanism	Law on NEURC	No	Mandatory	High
3	Terms of mandates and staggered replacement, dismissal grounds	Law on NEURC	No	Mandatory	High
4	Financial autonomy through direct administration of regulatory fees	Law on NEURC + Budget legislation	Possibly	Mandatory	High

Martial Law prohibits constitutional change for well-understood reasons, such as political interference. The following table outlines possible legal updates to NEURC without a constitutional change.

While this is not ideal, the extraordinary circumstances under which Ukraine must evolve suggest adopting a pragmatic and at once visionary approach: act now, change the constitution later.

While both draft laws contain useful elements and also shortfalls, as we explained above, we do not recommend either text of the draft law in its current form. Consistent with the principle of acting without delay, our preference is to amend the existing NEURC Law rather than develop an entirely new legislative framework. One of the existing draft laws could serve as the legislative vehicle and, if adopted as a basis at first reading, be substantially improved through amendments during preparation for the second reading, within the limits established by the Rules of Procedure of the Verkhovna Rada. The table below sheds light on which of the proposed solutions depend on constitutional change, and which do not.

LOOKING FORWARD

While the extraordinary circumstances of war have led to delays and difficulties in developing and implementing laws, the authors believe that no time should be wasted in fostering NEURC's independence and effectiveness, as Ukraine wants to fast-track its EU accession.

The reforms needed include a new public service and governance culture, as well as a legal framework for the regulator that, together, will act as a safeguard. It should be emphasised that international observers or members cannot replace the safeguard, as mentioned below, but can help enforce it.

ANNEXES

Evolution of Energy Regulation in Ukraine:

Ukraine was an early mover in establishing independent economic regulation of the energy sector. The National Electricity Regulatory Commission (NERC), the institutional predecessor of today's NEURC, was established by Presidential Decree No. 738 of 8 December 1994 as an independent, non-departmental permanent state regulatory body. Ukraine thereby became one of the first European countries to introduce independent economic regulation of natural monopolies in the energy sector: according to NEURC's historical account, it was the third European country to do so, following England and Wales, where OFFER was established in 1989, and Hungary in 1994.

The establishment of NERC formed part of the broader restructuring of Ukraine's electricity sector in the early 1990s. The reform drew substantially on the British electricity-market model and sought to replace the vertically integrated state monopoly with a more competitive market structure, including separation of generation, transmission and distribution activities and the creation of a wholesale electricity market. The newly established NERC was assigned responsibility for licensing and regulatory oversight, including electricity generation, transmission and wholesale-market activities, as well as retail prices and network tariffs.

Over the following two decades, the regulator's remit expanded well beyond electricity. Regulation was extended to oil and gas in 1998, certain heat-tariff matters in 2005, and subsequently to a broader range of energy and utility services. In parallel, the institutional form of the regulator changed several times. In 2011, NERC was reorganised in the context of the presidential administrative reform. Ukraine's accession to the Energy Community in the same year added a new dimension to the evolution of the regulatory framework, requiring progressive alignment with the EU energy acquis and, increasingly, with European requirements concerning the independence and powers of national regulatory authorities. The earlier GDU draft also identifies 2011 as the point from which the Energy Community became an important institutional actor in supporting Ukraine's regulatory development and acquis alignment.

A further institutional restructuring took place in 2014. The then National Energy Regulatory Commission and the National Commission for Regulation of Communal Services were abolished and their functions consolidated in a single regulator, the National Energy and Utilities Regulatory Commission (NEURC). The new Commission was established by Presidential Decree No. 715/2014 and assumed responsibility for regulation of the electricity and gas markets as well as significant parts of the heat and utilities sectors. This is also the point identified in the earlier working paper as the transition from NERC to the unified NEURC structure.

The next major milestone was the adoption of the Law on NEURC No. 1540-VIII of 22 September 2016. The Law established NEURC as an independent collegial state body and introduced substantial reforms to its governance, including the competitive selection of commissioners and institutional arrangements intended to strengthen regulatory independence. The reform was closely linked to Ukraine's obligations under the Energy Community Treaty and the EU Third Energy Package.

A fundamental constitutional problem emerged in 2019. In Decision No. 5-r/2019 of 13 June 2019, the Constitutional Court held that the constitutional framework did not provide for an independent state regulatory body of the type created by the 2016 Law. In the absence of a constitutionally defined special status, a body exercising functions such as those of NEURC had to be situated within the system of executive power. The Court therefore invalidated a number of provisions intended to insulate NEURC from the executive branch, while postponing their invalidation until the end of 2019 to allow the legislature to adapt the legal framework.

Parliament responded by adopting Law No. 394-IX of 19 December 2019, which reclassified NEURC as a central executive body with special status established by the Cabinet of Ministers of Ukraine. At the same time, elements of functional independence introduced by the 2016 framework were retained, including competitive selection and safeguards concerning regulatory decision-making. This 2019 compromise remains at the centre of the present reform debate: NEURC's formal constitutional position within the executive branch sits uneasily with the EU acquis requirement that the national regulatory authority be legally distinct and functionally independent from other public and private entities.

Since then, the European dimension of NEURC's institutional framework has become progressively more important. Directive (EU) 2019/944, incorporated into the Energy Community acquis through the Electricity Integration Package, requires national regulatory authorities to be legally distinct and functionally independent, to take autonomous decisions free from political instructions, and to have sufficient human and financial resources. Ukraine's EU candidate status and the Ukraine Facility have subsequently turned these principles into concrete reform commitments. In particular, the Ukraine Plan requires further legislative measures to clarify NEURC's special status and strengthen its institutional, operational and financial independence.

In December 2025, two alternative legislative proposals, Draft Laws No. 14282 and No. 14282-1, were registered in the Verkhovna Rada. Both seek to strengthen NEURC's institutional framework, although they differ substantially in their approaches to appointments, governance and other safeguards of independence.

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