Sequencing Ukraine’s energy market reforms:

A coherent pathway towards investment, resilience and EU market integration

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Key argument

Ukraine’s energy market reforms are highly interdependent. Measures affecting wholesale price formation, retail subsidies, balancing markets, carbon pricing and social protection need to be sequenced as one coherent package.

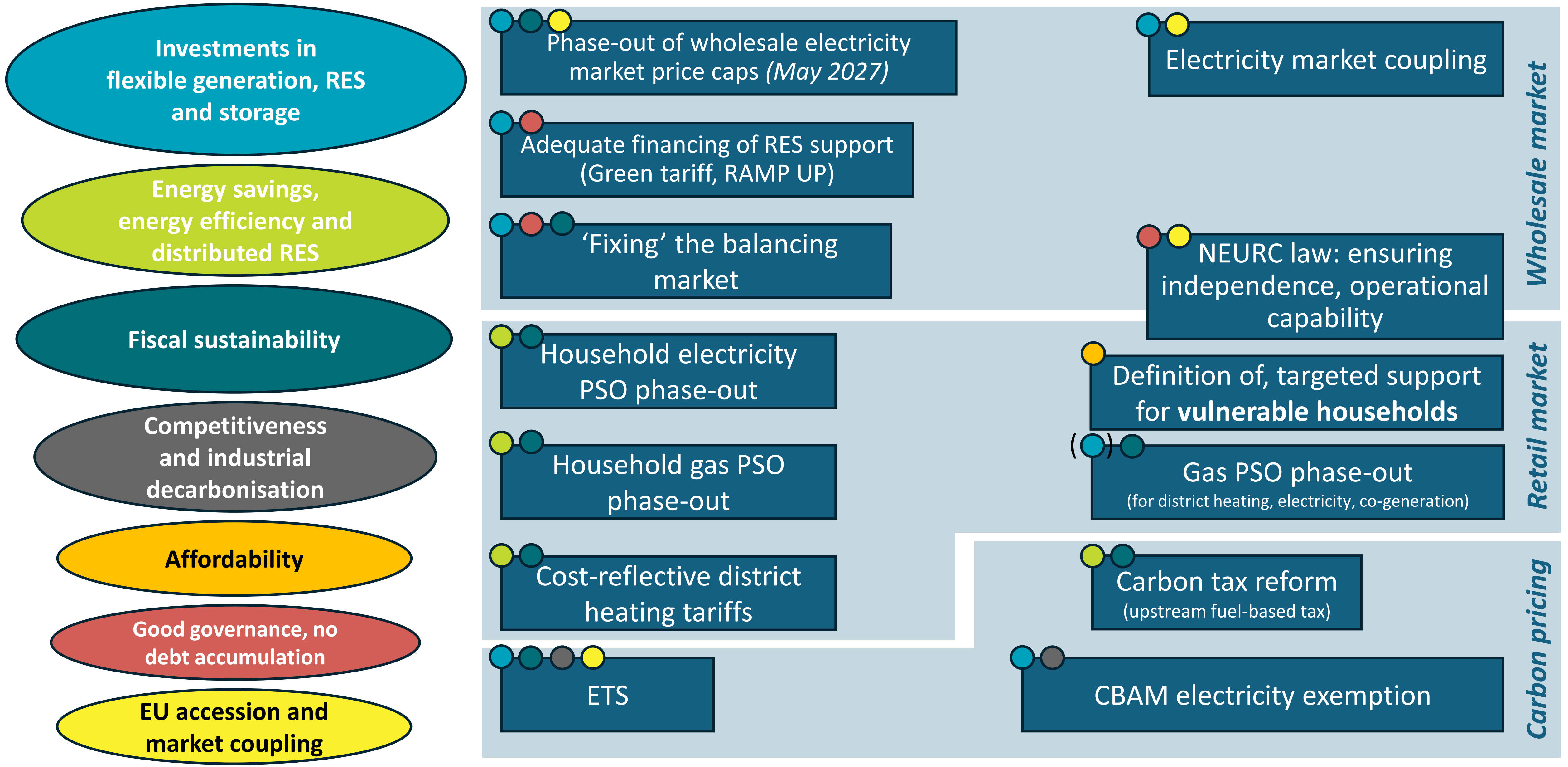
- **Wartime resilience:** stronger investment and demand-reduction signals are urgently needed.
- **Market functioning:** liberalisation requires credible price formation, liquidity and independent institutions.
- **EU integration:** electricity market coupling can provide an anchor and catalyst for structural reforms.

Energy market reform must balance investment, resilience, affordability and EU integration

- **Investments in flexible generation**, RES, storage (+ efficient cross-border flows)
- **Energy savings, energy efficiency**, distributed RES
- **Fiscal sustainability** (more revenues, lower expenditures)
- **Competitiveness** and industrial decarbonisation
- **Affordability** and social acceptability
- **Good governance**, well functioning institutions, avoiding debt accumulation
- **EU accession**, EU-Ukraine electricity market coupling

Investment and demand reduction are urgently needed to strengthen resilience in winter 2026/27 and beyond.

Achieving these objectives requires a broad package of reforms



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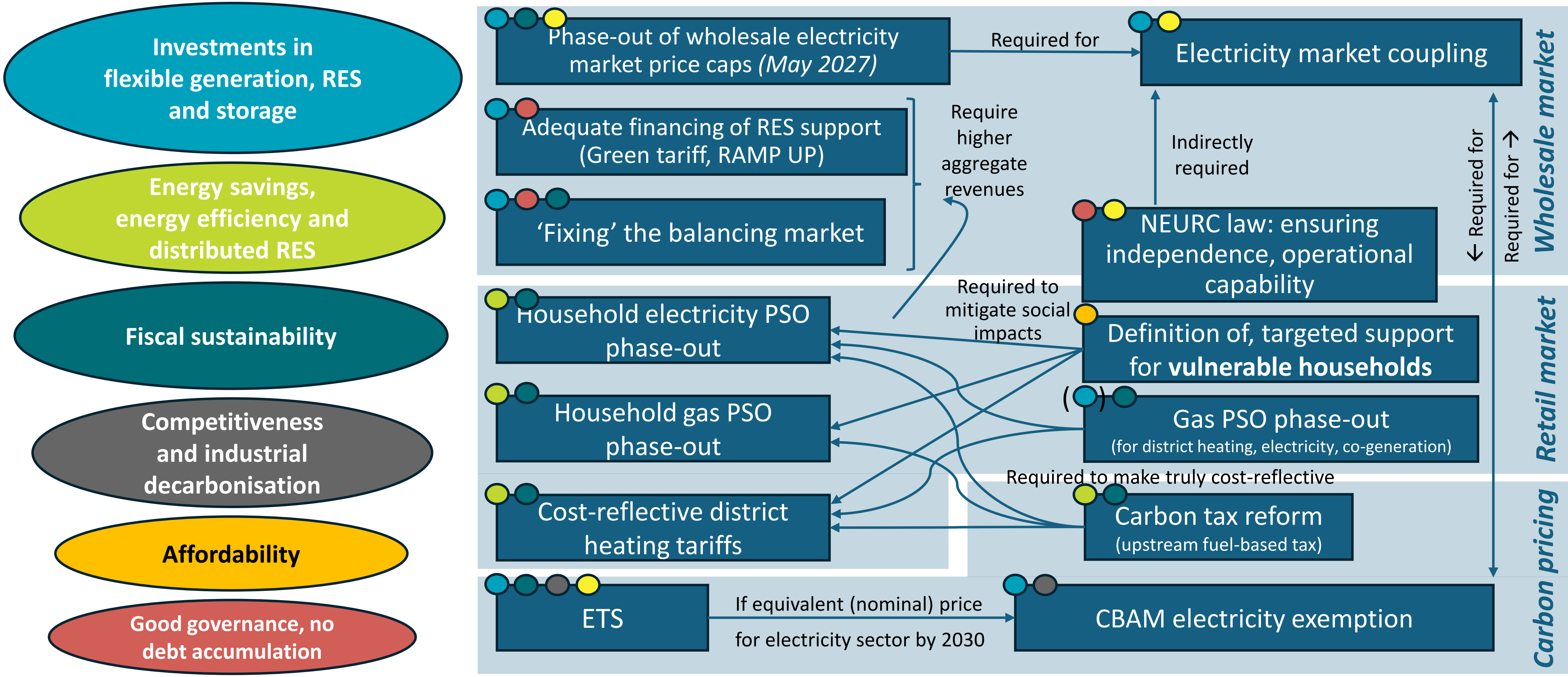
Reform measures are interdependent – sequencing is critical



Implication: Liberalising one segment in isolation can shift costs, create new debts or undermine social acceptance. Reform sequencing therefore needs to account explicitly for institutional, fiscal and distributional dependencies.

Electricity market coupling can serve as a 'litmus test' for credible reform

Requires…

- **Truly independent** and operationally **capable regulator**, robust market monitoring
- Credible price formation: **phase-out of DAM/IDM/balancing price caps**
- **Transparent, predictable rules on PSOs** and non-market interventions
- **Reliable publication of** non-sensitive market and system **data**
- **Sufficient market liquidity** and effective competition
- NEMO designation and full Electricity Integration Package **(EIP) implementation**

Meeting the conditions for **market coupling** would not only enable more efficient cross-border trade — it would also signal a liquid, transparent and **investable electricity market.**

→ Due to the **political priority**, market coupling could **catalyse** other structural market reforms

Pathway towards Ukraine-EU electricity market coupling

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01. Legal Transposition & Verification

Complete remaining EIP transposition and implementation

Market and system operation acquis:

CACM · FCA · EB GL · SO GL · ER NC

→

Formal Notification

Energy Community Secretariat + European Commission

→

Verification

3a. Energy Community verification
≈ 3 months

↓

3b. European Commission verification
≈ 5 months

≈ 8 months total

02. Other Preconditions

- ✓ NEMO designated
- ✓ EE CCR approved by ACER and operationalised through TCMs
- ✓ MCO IP resubmitted and approved by ACER
- ✓ UP established by Ukrainian NEMO(s), Ukrenergo and neighbouring NEMOs/TSOs

→

03. Go-Live Window

All accession requirements fulfilled

To join a go-live window (GLW), all requirements must be fulfilled at least 18 months before the start of the GLW.

→

04. Operational Implementation

18-month operational implementation period

- Contractual arrangements
- implementation design alignment
- integration and simulation testing
- systems and algorithms adaptation
- operator training
- joint readiness confirmation

Joint NEMO-TSO go-live decision

via the MCSC under DAOA

→

05. Go-Live

Go-live in SDAC

Earliest realistic date:

Q1 2029

Oct/Nov '26 → realistic? ** | **Nov '26 to Jun '27** | **Jun '27** | **~Jul '27 to Dec '28** | **Q1 2029 ?**

➔ Ukraine should **prioritise** the **remaining EIP transposition** and practical implementation,

➔ EU TSOs, NEMOs, Regulators, the European Commission and ACER should **allocate sufficient resources to support** the process

EIP= Electricity Integration Package; NEMO = Nominated Electricity Market Operator; EE CCR = Eastern European Capacity Calculation Region; TCMs = terms, conditions and methodologies; MCO IP = Market Coupling Operator Integration Plan; LIP = Local Implementation Project; MCSC = Market Coupling Steering Committee: DAOA= Day-Ahead Coupling Operations Agreement

**** indicative timeline, otherwise earliest realistic go-live window in Q1 2030**

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Conclusions and Policy Recommendations

- **Treat liberalisation as one reform package:** align wholesale price reform, balancing-market reform, RES financing, retail subsidy reform, carbon pricing and vulnerable-consumer support.
- **Sequence reforms around their dependencies:** social protection, institutional capacity and credible financing mechanisms need to be in place as market interventions are removed.
- **Prioritise investment and demand-reduction signals:** functioning price formation is essential to mobilise flexible generation, storage, efficiency and distributed renewables.
- **Strengthen institutions and market fundamentals:** an independent and operationally capable regulator, robust monitoring, transparent data, liquidity and competition are prerequisites for a functioning market.
- **Use electricity market coupling as a reform anchor:** the conditions for EU market integration can help catalyse broader structural reforms.
- **Keep affordability targeted, not distortive:** protect vulnerable consumers while gradually shifting away from broad price interventions that weaken market signals and generate fiscal or quasi-fiscal costs.