Russia

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1 Policy and law

What is the government policy and legislative framework for the electricity sector?

Policy
The Russian power sector is liberalised to a significant degree. In many parts of the country there is full ownership unbundling as between natural monopoly and contestable activities. There is also diversity of ownership and competition in generation and (to a lesser extent) supply, with wholesale power prices largely determined by the market.

However, the sector remains heavily regulated in a number of respects. Electricity is supplied to domestic consumers at fixed tariffs and there is limited competition at the retail level. The current regulations provide for a number of forms of cross-subsidy for the benefit of certain regions and groups, although government policy is progressively to eliminate cross-subsidies by transitioning to economically justified prices and, where necessary, the use of federal budget funds.

The government has also sought to promote investment in the sector, most notably through long-term capacity supply agreements for the construction of new thermal, nuclear and renewable generation plants and regulated investment programmes for the transmission and distribution networks.

Legislative framework
The legislative structure of the power sector is complex and comprises a large body of primary and secondary legislation, as well as a number of agreements, entry into which is mandatory for market participants. The main primary legislation is contained in Federal Law No. 35-FZ 'On the Electrical Power Industry' dated 26 March 2003. The basic rules for the wholesale power and capacity market are contained in Resolution of the Government of the Russian Federation No. 1172 'On the Establishment of the Rules of the Wholesale Market for Electrical Power and Capacity and the amendment of certain acts of the Government of the Russian Federation concerning the organisation of the functioning of the Wholesale Market for Electrical Power and Capacity' dated 27 December 2010, and the rules for the retail market in Resolution of the Government of the Russian Federation No. 442 'On the functioning of retail markets for electrical power and the full and/or partial restriction of use of electrical power' dated 4 May 2012.

2 Organisation of the market

What is the organisational structure for the generation, transmission, distribution and sale of power?

The generation sector is dominated by six wholesale thermal generation companies (OGKs) and 14 regional thermal generation companies (TGKs), the nuclear generator Rosenergoatom and the hydroelectric generation company PJSC 'RusHydro'. A single high-voltage transmission grid operated by the Federal Grid Company 'FGC UES', PJSC (FGC) covers much of the country. There are 14 interregional and regional distribution companies partly owned by the state holding vehicle, PJSC 'Rosseti' that represent the majority of the distribution market, but also a very large number of smaller local network operators. The supply sector is geographically fragmented and dominated by multiple local suppliers of last resort, referred to as 'guaranteeing suppliers'.

Geography and the wholesale and retail markets
Russia's size and disparate levels of population density are reflected in the significant regional variations in the regulatory regime. A single interconnected power system, known as the Unified Power System or UPS, covers most of the more populous parts of the country, stretching from the western borders to the Pacific Ocean. In addition, there are seven isolated regional power systems that are not connected to the UPS, as well as a number of smaller isolated networks. Within the area covered by the UPS, the market is formally divided for regulatory purposes into wholesale and retail levels. Outside of the area covered by the UPS, including within the territories of the isolated systems, there is a single-tier retail market.

The territory of the wholesale market is further subdivided into zones, categorised as either pricing zones or non-pricing zones. For the most part, the policy of power market liberalisation applies only to the pricing zones of the wholesale market. In other areas (including the non-pricing zones and the isolated systems) the power market is subject to tariff regulation for most purposes.

There are two pricing zones. Zone 1 comprises most of European Russia and the Urals region, while Zone 2 covers the southern parts of Siberia (including most major centres of population). The non-pricing zones include the Kaliningrad region, the Komi Republic, the Arkhangelsk region and a large area comprising the parts of the Russian Far East covered by the UPS. In 2016, Crimea and Sevastopol joined pricing Zone 1.

Power market
Within the pricing zones most power is traded through the day-ahead market, which is a bilateral hourly spot market. It is also possible for market participants within a given pricing zone to conclude bilateral agreements with each other for the sale and purchase of power at freely negotiated prices. Bids are submitted in the day-ahead system both for the purposes of buying and selling power in the spot market and for procuring the dispatch and offtake of power in fulfilment of bilateral agreements.

The day-ahead market is based on locational marginal pricing, with a separate equilibrium price being determined for each system node for each hour of the day. As of 1 January 2017, there were 9,070 nodes. Price-taking bids are possible, and mandatory for a certain minimum output, including quantities of power required to be generated by CHP stations in conjunction with the production of heat. Priority of dispatch is given to price-taking bids for certain nuclear and hydroelectric power, CHP and generation fuelled by associated petroleum gas.

After the 'must-run' generation, priority is given to quantities bid for the purposes of fulfilling bilateral agreements. Additionally, there is a balancing market through which power is traded to reflect any deviations of a generator's or buyer's actual real-time output/consumption in a given hour from its planned output/consumption, as derived from the day-ahead market.

Capacity market
The wholesale market includes a capacity market intended to ensure sufficiency of capacity to meet future demand and to allow generators the opportunity to recover a proportion of their fixed costs through capacity payments. The basis of the capacity market is a regulatory

obligation imposed on buyers of power on the wholesale market to buy capacity in amounts determined with reference to their peak-hour power consumption. In order to fulfil a contractual obligation to supply capacity, a generator must maintain its equipment in readiness to generate, as defined by the regulations.

The centrepiece of the capacity market is a system of rolling annual tenders for the procurement of capacity on a four-year lead time, referred to as the competitive selection of capacity or CSC. Bids can be submitted for CSC in respect of both existing capacity and planned capacity for future construction. Since 2015, the tenders have been performed with reference to an artificial elastic demand curve designed to incentivise the withdrawal of inefficient excess capacity from the market. The CSC generates a single equilibrium price for capacity within each pricing zone.

The rules also enable the Russian government to designate generating facilities that are not selected in CSC but whose capacity is nevertheless needed for system reasons (including CHP capacity needed for the production of heat) as being subject to a compulsory regime of capacity provision. Up to 10GW of capacity is expected to be supplied under this system in 2018 (down from 12.8GW in 2017).

The CSC system exists in parallel with a number of types of statutory long-term capacity agreements for new generation projects, including the capacity supply agreements for thermal generation. These agreements impose an obligation on the generator to deliver newly constructed or upgraded capacity by a given date in return for guaranteed capacity payments calculated under a formula and paid over a fixed pay-back period. The cost is spread across all wholesale market buyers of power in the relevant pricing zone.

Ancillary services

There is a system for ancillary services to be procured on the market by the system operator. This includes certain primary and secondary frequency regulation services and services for the management of reactive power.

Regulation of electricity utilities – power generation

3 Authorisation to construct and operate generation facilities

What authorisations are required to construct and operate generation facilities?

Construction, operating and environmental permits

Construction of generation facilities is subject to generally applicable Russian construction law, in particular the Urban Development Code. In most cases, the principal authorisations needed for construction works are a land plot development plan (an extract from the relevant urban planning regulations), approval of the design documents following expert review, a construction permit and an operating permit. Depending on the type and location of the facility, the developer may also need other permits, including an expert ecological review.

Generation facilities may be hazardous industrial facilities under Russian law, meaning that the operator requires a special operating licence and must carry mandatory liability insurance.

Russian environmental law operates on a principle of 'pay-to-pollute', and certain activities ancillary to power generation, such as emissions to air and discharge of pollutants into water bodies, require a relevant permit and quota to be obtained from the competent authorities. New legislation has recently been passed which imposes an obligation to develop and comply with environmental technological standards based on best available applicable technology, and which is expected to come into force in 2019. The law also provides for state support for the implementation of such technological standards, including tax preferences and beneficial terms for payments for negative environmental impact. Using best available technology to comply with environmental standards will be mandatory for legal entities involved in activities that cause material negative impacts on the environment, including power generation.

Admission to the power market

In principle, power generation can operate on either the wholesale or retail market. For a station to be on the wholesale market it must have a minimum capacity of 5MW. Subject to limited exceptions, stations with a capacity of 25MW or more connected to the UPS can only operate on the wholesale market. Outside of the wholesale market area, all power generation is subject to the retail market rules.

In order to be registered as a participant in the wholesale market and admitted to the trading system, the generator must fulfil a number of technical requirements, including installing the required metering systems and system for communication with the system operator. In addition, all market participants must enter into an accession agreement with the regulatory authorities called the 'Agreement on Accession to the Trading System of the Wholesale Market' (Accession Agreement), which documents the detailed rules of the market. They must also enter into a number of standard form agreements, including agreements for transmission and dispatch and a number of compulsory agreements relating to power and capacity trading.

In order for a generator to receive capacity payments, the maximum available capacity of its plant must have been confirmed by a process of attestation by the system operator, which must be performed at least once every five years.

4 Grid connection policies

What are the policies with respect to connection of generation to the transmission grid?

The FGC must offer connection to the grid on a non-discriminatory basis, meaning that any entity that fulfils the applicable criteria must be allowed to connect to the grid where technically possible. There is a set procedure for the connection process, which includes the conclusion of a connection agreement and implementation of the relevant measures to effect the connection. Such measures include agreeing the technical conditions for the connection (which, for generating plants with a capacity over 5MW, require the approval of the system operator) and preparing project documentation in compliance with the technical conditions.

Where the connection would require expansion of the network that is not provided for in the FGC's investment programme, connection is possible on the basis of an individual project, meaning that an application must be submitted to the tariff-setting authority (supported by relevant technical and other information) to determine a price for the connection, including the relevant works. In 2016, a measure was introduced for payment of the technical connection costs of new nuclear and hydroelectric generation to be deferred.

5 Alternative energy sources

Does government policy or legislation encourage power generation based on alternative energy sources such as renewable energies or combined heat and power?

There is a system of support for renewable generation on the wholesale market in the form of a specific category of long-term capacity agreement, eligibility for which is determined by an annual tender. The system is open to solar, wind and small-scale hydroelectric projects within the pricing zones, and has recently been extended to include waste incineration projects in certain regions. Projects of each type are selected up to a target quantity for each year. The extensive readiness requirements applicable to conventional generation capacity are largely disapplied in respect of most renewables.

Separately, on the retail market, operators of distribution networks are subject to a regulatory obligation to buy power for the purposes of compensating for network losses from renewable generators in the first instance. To this end, new renewable generation projects on the retail market are included in regional generation plans on a tender basis. There are also various tax incentives, including deferral of payment of tax, accelerated depreciation rates and a temporary property tax exemption, for certain renewable projects, and state subsidies are available for network connection costs of smaller renewable projects.

The state also encourages the development of large-scale hydroelectric generation through the investment programme of RusHydro (which is subject to approval by the Ministry of Energy) and long-term capacity agreements for certain of its projects.

In addition, Russia has very extensive installed CHP capacity which is used for the provision of district heating, and the programme of agreements for delivery of capacity includes projects at a number of CHP stations.

6 Climate change

What impact will government policy on climate change have on the types of resources that are used to meet electricity demand and on the cost and amount of power that is consumed?

As noted above, Russia has implemented renewable support mechanisms, the cost of which is borne by power consumers, but their impact is likely to be relatively small – the government's target is to achieve 4.5 per cent of power generation using renewables by 2024. The renewables support mechanisms are part of Russia's broader energy efficiency programme, which includes rules requiring network operators to develop and implement energy efficiency measures as part of the tariff-setting process.

The Ministry of Natural Resources and Ecology is currently working on measures for the reduction of greenhouse gas emissions to implement the 2015 Paris Agreement.

7 Storage

Does the regulatory framework support electricity storage including research and development of storage solutions?

It was reported in June 2016 that the Ministry of Energy and Rusnano, the state nanotechnology investment vehicle, have been tasked by the government with developing a system of state support for research and development of industrial power storage technologies.

The capacity market rules were amended in 2016 to allow power consumers to offer price-dependent consumption as a capacity product.

8 Government policy

Does government policy encourage or discourage development of new nuclear power plants? How?

Russia's energy strategy to 2030 includes plans to decrease dependence on fossil fuel generation by increasing the use of nuclear and renewable generation. The investment programmes for nuclear generators are subject to state approval, and nuclear generation is supported in the power market by long-term capacity agreements for designated projects.

Regulation of electricity utilities – transmission

9 Authorisations to construct and operate transmission networks

What authorisations are required to construct and operate transmission networks?

The UPS is served by a single high-voltage transmission network referred to as the Unified National Electrical Grid. All transmission infrastructure meeting certain criteria, including all lines of 330kV and above and certain lines of 100kV and above, is allocated to the grid by law irrespective of ownership, and the management of all infrastructure comprised in the grid is conferred by law on the FGC. The FGC exercises the rights of other owners of infrastructure allocated to the grid on their behalf and is the sole entity that contracts with third parties for the provision of transmission services.

In general, construction and operation of transmission networks is subject to the same construction and planning regime as described in question 3. Instead of a land plot development plan, the developer must provide details of certain territorial planning documents for the relevant area. The developer also needs to obtain the necessary rights to each of the land plots underlying the network. It is possible for easements (as opposed to leases) to be granted over public land for the purposes of constructing power networks, and there is an exemption for facilities designated for power supply from the general rule that leases of public land may only be awarded by tender. A draft law has recently been drawn up by the Russian government which, if passed, would significantly simplify the procedure for obtaining necessary land rights.

10 Eligibility to obtain transmission services

Who is eligible to obtain transmission services and what requirements must be met to obtain access?

Transmission services are in principle available to the owners of load and any third-party networks duly connected to the high-voltage grid, suppliers representing such load and power exporters/importers. As with generation, connection of load to the grid must be offered on a non-discriminatory basis. As a general rule, load is only permitted to be connected directly to the transmission grid if the voltage of the connection is 110kV or more. Depending on the nature of the load, the technical conditions can include fitting certain equipment, including equipment to regulate consumption of reactive power. For larger connections, the system operator must approve the technical conditions and the associated project documentation. In order to receive transmission services through the grid, the relevant entity must have an agreement in respect of the provision of dispatch services in place with the system operator.

Certain regions have been permitted to retain on a transitional basis the so-called 'last-mile' arrangements, whereby parts of the high-voltage grid to which industrial load is directly connected are leased to local distribution companies, so forcing the industrial consumer to contract with the distribution company for transmission, and thereby subsidise smaller consumers. Such arrangements are due to be phased out by 2029, and the tariff rules provide for progressive elimination of the associated cross-subsidy, which will be partly compensated for by a system of state support.

11 Government transmission policy

Are there any government measures to encourage or otherwise require the expansion of the transmission grid?

The Russian government has a policy objective of expanding and improving the transmission grid in order to reduce transmission constraints and to connect currently isolated power systems. For this purpose, the FGC is required to develop an investment programme which is subject to state approval. Works performed in accordance with the investment programme are included in 'the FGC's regulated asset base for tariff setting purposes and therefore attract the regulated return on capital.

12 Rates and terms for transmission services

Who determines the rates and terms for the provision of transmission services and what legal standard does that entity apply?

Transmission tariffs are set by the Federal Anti-Monopoly Service (FAS) using the regulated asset base (RAB) method. Tariffs are set on the basis of long-term parameters (fixed for a period of five years) including a base level of operating costs, an index of efficiency of operating costs (currently 3 per cent), a fixed payback period (35 years), and fixed numerical measures of reliability and quality. The RAB method provides for a given level of return on the regulated asset base, which is adjusted annually to include the cost of works performed pursuant to the FGC's approved investment programme (capped where relevant at the applicable normative level for the cost of such works set by the Ministry of Energy). Permitted operating costs in a given year are calculated by applying an indexation formula to the base cost level that takes into account any changes in the asset base, inflation and the efficiency index. The tariff also compensates for network losses up to a normative level set for the grid by the Ministry of Energy.

Transmission tariffs are set in a two-part form, with separate elements for network development and maintenance (charged with reference to consumption of capacity) and network losses (charged with reference to consumption of power). A differentiated (lower) tariff is set for certain regions in the North Caucasus.

The terms of connection and transmission agreements are regulated by the rules on non-discriminatory access to connection and transmission services.

13 Entities responsible for grid reliability

Which entities are responsible for the reliability of the transmission grid and what are their powers and responsibilities?

For each power system an operational dispatch management organisation is responsible for system reliability, including frequency management and dispatch. In the case of the UPS, this is the system operator ('SO UPS', JSC).

As part of the process for setting transmission tariffs, target measures for quality and reliability are set for the transmission grid, and the tariff received by the FGC is subject to adjustment by reference to its performance against those measures.

Regulation of electricity utilities – distribution

14 Authorisation to construct and operate distribution networks

What authorisations are required to construct and operate distribution networks?

The construction and planning requirements applicable to distribution networks are in principle the same as those applicable to transmission networks (see question 9), save for legislation at the Federation Subject level may provide for an exemption from the requirement to obtain most construction approvals for networks with a voltage below 20kV.

With the aim of reducing Russia's exceptionally large number of small network operators and the associated inefficiencies, new rules were introduced in 2015 which provide that network owners only qualify as a 'territorial network organisation' entitled to charge for distribution services if their network satisfies certain criteria regarding size, quality and reliability and customer service facilities. These rules were subsequently tightened in 2016.

15 Access to the distribution grid

Who is eligible to obtain access to the distribution network and what requirements must be met to obtain access?

The system for connection and access to the distribution networks is broadly similar to that for transmission networks (described in question 10), as a single set of rules for non-discriminatory access covers both. The Russian government has a policy objective of improving the country's position in the World Bank rankings for ease of connection to power, and a number of changes have been made to the connection rules in order to streamline the process for smaller connections and reduce the associated costs. These include a requirement to allow smaller applications to be processed online, the introduction of fixed-fee scales and stage payments for implementation of the connection. The conclusion of the connection agreement and subsequent connection process are subject to statutory time limits.

16 Government distribution network policy

Are there any governmental measures to encourage or otherwise require the expansion of the distribution network?

As for the transmission grid, any works performed by a distribution company in accordance with an approved investment programme are taken into account for tariff setting purposes.

17 Rates and terms for distribution services

Who determines the rates or terms for the provision of distribution services and what legal standard does that entity apply?

Distribution tariffs are set at the Federation Subject level within minimum and maximum limits determined by FAS. The tariffs of most network operators are set using either the RAB method (under a system similar to that described in relation to transmission services above) or the method of long-term indexation. Recent amendments to the tariff-setting rules aim to impose limits on the relevant asset base of network operators by excluding infrastructure ancillary to power stations and low-voltage equipment within apartment blocks.

Distribution tariffs payable by customers are determined on the 'common-pot' basis, meaning that the tariff for all customers of a given category within a given Federation Subject must be the same, irrespective of the network to which they are connected. Resulting mismatches between the tariff due to each network operator and the revenue stream from its customers are corrected by way of payments as between the network operators. In order to reduce the burden on the market of so-called 'mono-networks' servicing predominantly one user, such users are required to pay the tariff of the mono-network in addition to the common-pot tariff.

Regulation of electricity utilities – sales of power

18 Approval to sell power

What authorisations are required for the sale of power to customers and which authorities grant such approvals?

Currently no authorisation as such is required to sell power on the retail market. Certain regulatory requirements apply with respect to guaranteeing suppliers, including that each guaranteeing supplier must have been admitted to the wholesale market. In the event that a guaranteeing supplier is expelled from the wholesale market or becomes insolvent, a replacement supplier for the relevant territory is appointed by tender. Participation in the tender requires the bidder to demonstrate compliance with certain minimum financial criteria.

In order to be able to sell power to a given customer, a non-guaranteeing supplier must either be a wholesale market participant registered as a buyer in respect of the delivery point of the customer or have an existing power purchase agreement on the retail market in respect of the delivery point with a generator or another supplier. A non-guaranteeing supplier can only be admitted to the wholesale market if it represents aggregate connected customer load of at least 20MVA and a load of at least 750kVA at each group of supply points at which it proposes to supply power.

19 Power sales tariffs

Is there any tariff or other regulation regarding power sales?

Within the pricing zones the general principle is that power and capacity are sold at unregulated market prices. The main exceptions to this are in relation to supply to domestic consumers and all domestic and commercial supply in certain designated regions, primarily in the North Caucasus. These are subject to tariff regulation at the retail level, and regulated tariffs apply at the wholesale market level with respect to quantities of power and capacity bought by suppliers from generators for onward domestic supply and supply to these regions. For this purpose, most generators on the wholesale market are required to enter into 'regulated agreements' with selected suppliers in respect of a proportion of their output (capped at 35 per cent by law). There is also regulation providing for temporary price smoothing to be introduced on the wholesale market in the event of exceptional price volatility, and temporary tariff regulation in the event of a power deficit or temporary isolation of part of the power system.

Additionally, the price of power sold by guaranteeing suppliers to commercial consumers is regulated in the sense that a price cap (referred to as the maximum level of unregulated prices) applies. The maximum level of unregulated prices is calculated as the sum of the guaranteeing supplier's relevant input costs (including a weighted average market price of power and capacity on the wholesale market) and a maximum supplier's margin. The regulations have recently been amended to introduce a system of benchmarking for determination of the supplier's margin and a requirement that, with effect from 2018, to the extent a guaranteeing supplier's cost base exceeds a model level, it must be reduced to the model level over a maximum period of three years.

Outside of the pricing zones, most power and capacity sales are subject to tariff regulation, although there is limited scope for negotiated bilateral agreements in the non-pricing zones of the wholesale market. The Electricity Law and associated regulations were amended in 2016 to provide for a form of cross-subsidy of power tariffs in the Russian Far East, funded by an uplift added to the capacity payments payable to RusHydro within the pricing zones.

20 Rates for wholesale of power

Who determines the rates for sales of wholesale power and what standard does that entity apply?

Regulated tariffs for power and capacity on the wholesale market, where applicable, are set at the federal level by FAS. Tariffs for generators on the retail markets, where applicable, are set at the Federation Subject level.

Tariffs under regulated agreements are set on an individual basis for each generator applying the method of indexation of tariffs, whereby an indexation formula is applied annually to a tariff initially set by reference to the generator's economically justified costs. The

Update and trends

Generation
The last of the projects being constructed under the capacity supply agreement programme is due to be completed in 2018, meaning that the cost to the market of the associated capacity payments will now taper off over the period until 2028. As the rollout of new capacity under this programme exceeded growth in the demand for power, the government has in recent years focused its attention on removing excess generation capacity from the market, including through reforms of the CSC and compulsory regime systems. However, it is recognised that, in the longer term, major investment will be needed to upgrade Russia's old thermal generation stock. The government's draft energy strategy to 2035 notes that the forthcoming decrease in the cost of the capacity supply agreement programme provides an opportunity for the introduction of new mechanisms to stimulate investment in the modernisation of other thermal generation, but no such mechanisms have yet been implemented.

Transmission and distribution
The transmission and distribution sectors also continue to be a focus of legislative activity, including measures intended to (i) curb tariff growth by excluding more small networks and elements of network infrastructure from the tariff system and tightening up the rules for quality and reliability (including use of benchmarking), (ii) require network operators to bear the full cost of network losses and (iii) further simplify the process of technical connections to networks.

Retail market
Further measures have been introduced to improve payment discipline, including a requirement to provide security for certain organisations that have defaulted on payments to guaranteeing suppliers or network operators. A draft law is also currently before the Russian Parliament that would introduce a system of licensing for power suppliers, the objectives of which include improved payment discipline.

In addition, the Ministry of Energy has been working on a model for reform of the retail market that would allow larger customers to procure power directly from generators on the wholesale market and encourage competition in the supply sector.

indexation formula takes into account, among other things, changes in fuel costs and the cost of regulated services and the application of an index to remaining, fixed costs.

21 Public service obligations

To what extent are electricity utilities that sell power subject to public service obligations?

As noted above, Russia has a system of suppliers of last resort referred to as guaranteeing suppliers. Guaranteeing suppliers are appointed on a geographical basis, with each one having an exclusive territory (which may represent all or part of a Federation Subject), and have a statutory obligation to accept all customers that request supply from them. They are also subject to a number of obligations in respect of customer service, including maintaining representative offices and having a website containing up-to-date information on their tariffs and forms of agreement.

Regulatory authorities

22 Policy setting

Which authorities determine regulatory policy with respect to the electricity sector?

The Ministry of Energy is designated as the executive authority responsible for developing energy policy. The Russian government has extensive powers to make delegated legislation under the Electricity Law, including adopting the wholesale and retail market rules and formal policy regarding energy efficiency and use of renewables. The rules in turn delegate a number of legislative powers to the Ministry of Energy.

23 Scope of authority

What is the scope of each regulator's authority?

The Market Council is responsible for drawing up, and periodic amendment of, the Accession Agreement (and therefore the detailed regulation of the wholesale market), controlling admission to the wholesale market and exercising the power to sanction or expel defaulting market participants. It also certifies and maintains the register of renewable generators. The day-to-day commercial operation of the power market (including the day-ahead market) is undertaken by the Commercial Operator, JSC 'TSA', a subsidiary of the Market Council. A further subsidiary, JSC 'FSC', acts as an intermediary between market participants for the purposes of concluding power and capacity agreements and performing settlements.

The FAS is responsible for merger-control decisions and policing anti-competitive behaviour, as well as compliance with the rules on non-discriminatory access to the services of natural monopolies. It also sets tariffs in the power sector at the federal level.

In addition to its responsibilities for dispatch and system stability, the system operator is responsible for operating the balancing market, agreeing maintenance schedules, conducting the CSC capacity tenders and monitoring compliance with obligations to construct and deliver capacity.

Safety and environmental regulations are the responsibility of the Federal Environmental, Industrial and Nuclear Supervision Service, 'Rostekhnadzor'.

24 Establishment of regulators

How is each regulator established and to what extent is it considered to be independent of the regulated business and of governmental officials?

The Market Council is designated as a self-regulatory body and the Electricity Law specifies that its supervisory board should include, in addition to government appointees, representatives from the generation sector (thermal, nuclear and hydroelectric), suppliers, major power consumers and market infrastructure organisations. The Russian government has an ultimate power of veto over decisions of the Market Council.

FAS is a federal executive authority subordinate to the Russian government. The head of FAS and his deputies are appointed by the government for an indefinite term and can, in principle, be dismissed by the government at any time.

25 Challenge and appeal of decisions

To what extent can decisions of the regulator be challenged or appealed, and to whom? What are the grounds and procedures for appeal?

Anti-monopoly decisions of FAS's regional subdivisions can be appealed to the collegiate bodies of the central office of FAS. Such an appeal must be filed within one month following the decision, and is then subject to a period of review by FAS of up to three months. FAS also has jurisdiction to resolve disputes between market participants and the tariff setting authorities at the Federation Subject level. The dispute must be referred to FAS within 30 business days of the relevant decision, and FAS's decision should be made within 60 business days. Decisions and actions of FAS itself can be challenged on the basis that they are unlawful in the commercial (*arbitrazh*) courts of the Russian Federation.

Acquisition and merger control – competition

26 Responsible bodies

Which bodies have the authority to approve or block mergers or other changes in control over businesses in the sector or acquisition of utility assets?

Acquisitions and certain other transactions involving changes in control meeting the applicable value thresholds require the prior approval

of FAS under the anti-monopoly law. Separately, the law on natural monopolies requires the approval of FAS for certain transactions in respect of entities operating natural monopolies (which include transmission and distribution) and natural monopoly assets.

27 Review of transfers of control

What criteria and procedures apply with respect to the review of mergers, acquisitions and other transfers of control? How long does it typically take to obtain a decision approving or blocking the transaction?

In order to obtain merger control consent, the relevant party must submit an application to FAS supported by the transaction documents and certain other information with respect to the applicant, the target and their respective groups. FAS has 30 days to consider the application, but may extend this period by up to two months if it concludes that the transaction may lead to a restriction on competition. There is no concept of consent being deemed given by default after a period of time. In determining whether to grant its consent, FAS considers whether the proposed transaction will result in the applicant obtaining a dominant position or result in a restriction on competition in the market.

28 Prevention and prosecution of anti-competitive practices

Which authorities have the power to prevent or prosecute anti-competitive or manipulative practices in the electricity sector?

This is the responsibility of FAS.

29 Determination of anti-competitive conduct

What substantive standards are applied to determine whether conduct is anti-competitive or manipulative?

Certain sector-specific legislation applies in respect of anti-competitive conduct on the power market in addition to generally applicable anti-monopoly law. On the wholesale market, price manipulation is defined (in broad terms) as the taking of technologically or economically unjustified steps leading to significant changes in the price of power or capacity by way of submitting unjustifiably low or high bids, withholding capacity from the market or submitting bids that do not meet the test of economic justification. On the retail market, price manipulation is confined to abuse of a dominant position. The law establishes a *prima facie* rule that a generator owning more than 20 per cent of generating capacity or representing more than 20 per cent of power generated in a given region holds a dominant position. A methodology adopted by FAS is applied to determine whether a capacity bid meets the criteria to be considered economically justified.

30 Preclusion and remedy of anti-competitive practices

What authority does the regulator (or regulators) have to preclude or remedy anti-competitive or manipulative practices?

FAS has authority to monitor the power and capacity markets for instances of anti-competitive behaviour and to impose prescriptions where it identifies anti-competitive behaviour, including in conjunction with the approval of a merger. Such prescriptions can include requirements that an entity submits only price-taking bids or that it bids its entire available capacity. FAS has the power to apply to the courts for an order for the compulsory break-up of an entity guilty of multiple instances of abuse of dominant position.

FAS also has specific powers in relation to the conduct of the annual capacity tenders, including the power to impose restrictions on participants holding a dominant position in relation to their bidding behaviour and to make a recommendation that the results of a tender be annulled if it detects anti-competitive behaviour.

International

31 Acquisitions by foreign companies

Are there any special requirements or limitations on acquisitions of interests in the electricity sector by foreign companies?

Under Russia's 2008 strategic industries law, the prior consent of a governmental commission is required for the acquisition by a foreign entity of control over certain companies engaged in activities of strategic importance for state defence and security. In the power sector, these include transmission (but not distribution), dispatch and nuclear activities.

There are also overlapping minimum state ownership requirements in relation to certain strategic entities. The FGC is required to be majority state owned, and nuclear generation facilities may only be owned by the state or Russian entities approved by the President of the Russian Federation.

32 Authorisation to construct and operate interconnectors

What authorisations are required to construct and operate interconnectors?

The power systems of a number of former Soviet countries are synchronised with the Russian UPS, and Russia has DC interconnectors with China and Finland. All cross-border power lines (irrespective of voltage) are allocated to the transmission grid and are therefore required to be under the exclusive control of the FGC.

33 Interconnector access and cross-border electricity supply

What rules apply to access to interconnectors and to cross-border electricity supply, especially interconnection issues?

Russia engages in extensive power trading with its neighbours and has agreements with a number of countries in respect of the parallel operation of power systems. Power export and import are governed by general rules on cross-border trade and customs legislation, subject to specific provisions for retroactive customs clearance. Wholesale market participants engaged in power export or import enjoy non-discriminatory access to the transmission grid. In order to be registered as an exporter or importer on the wholesale market, the relevant entity must have a registered group of supply points on the border, for which purpose it must provide a copy of its export or import agreement and have the approval of the FGC and the system operator. In line with the general geographical arrangement of the wholesale market, exported power generated in the pricing zones is bought at market prices and power generated in the non-pricing zones is subject to tariff regulation. The FGC,

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in its capacity as 'holder of the agreements for parallel operation', has certain obligations in respect of contracting with its counterparties in neighbouring countries for the purposes of parallel operation of power systems. The principal exporter of power is PJSC 'Inter RAO'.

Transactions between affiliates

34 Restrictions

What restrictions exist on transactions between electricity utilities and their affiliates?

As noted above, there is a requirement for full ownership unbundling as between contestable and natural monopoly activities, and the operators of the natural monopolies are subject to non-discriminatory access and tariff regulation. As such, there is no specific regulation in this area.

35 Enforcement and sanctions

Who enforces the restrictions on utilities dealing with affiliates and what are the sanctions for non-compliance?

FAS has the power to instigate the break-up of entities that infringe the unbundling requirement.