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The WECM is a place of circulation of electricity and capacity within the framework of the Unified Energy System of Russia (the UES of Russia) with the participation of large producers and buyers of electricity and capacity (as well as other persons who have received the status of a wholesale market entity), which is regulated by the Federal Law "On electric power industry."

CFS is an entity of the commercial infrastructure of the WECM, which is established to provide a comprehensive service for calculating the liabilities and obligations of the WECM participants and carrying out financial settlements between them.

Payment discipline in Russia's electricity sector: end consumers' debt is growing

Preliminary data on the dynamics of debt in the wholesale and retail electricity markets for the first four months of 2021

The first four months of 2021 demonstrate both a recovery in electricity consumption and an increase in payment discipline on the part of consumers in the wholesale electricity and capacity market (the WECM). At the same time, against the background of a slowdown in debt growth, the debt of end consumers of electricity is continuing to grow.

According to the Center for Financial Settlements (the CFS), the level of payments in the WECM for supplied electricity in the first four months of 2021 increased by 0.75 p.p. and 0.24 p.p. compared to the same periods in 2020 and 2019, respectively. At the same time, after an almost twofold increase (by RUB 8.1 bln) in the arrears for the supplied electricity in January–April 2020 (by RUB 4.1 bln in January–April 2019), in the same period of 2021, the growth in arrears slowed down by more than three times (*Fig. 1–2*).

Figure 1. Payment level in the WECM in January—April, %

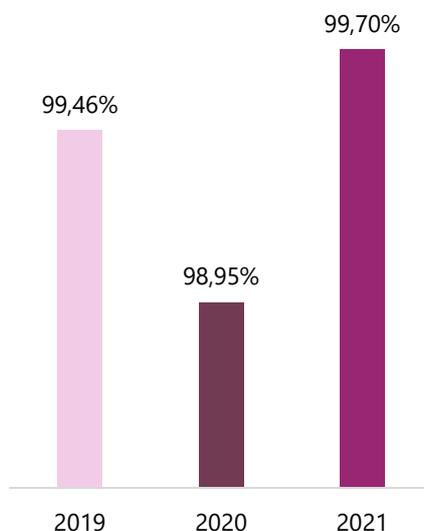
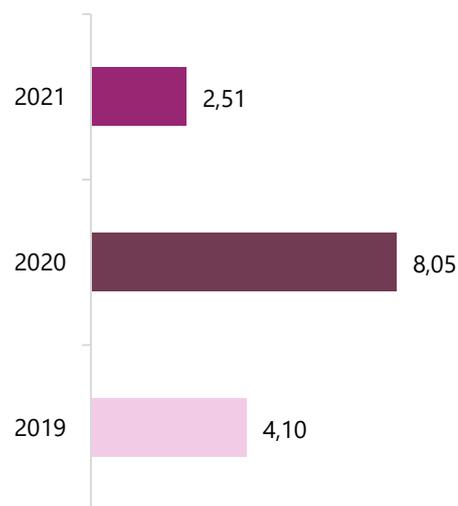


Figure 2. Growth in arrears in the WECM in January—April, RUB bln



Source: CFS, ACRA's calculations

The indicators for 2020 demonstrate a decrease in payment discipline and an increase in debt amid the onset of the COVID-19 pandemic in the Russian Federation, but the results of the first four months of 2021 reflect the recovery of payment discipline to the levels observed before the coronavirus outbreak.

At the same time, according to JSC System Operator of the Unified Energy System (the System Operator), electricity consumption in the UES of Russia in the first four months of this year increased by 4.2% compared to 2020 and by 2.5% compared to 2019. This growth was driven by both colder weather in 2021 and a recovery in the domestic electric power industry on the back of growing demand from the Russian economy (Fig. 3). In 2020, the volume of electricity consumption was negatively impacted by warmer weather and the restrictions associated with the pandemic.

SO UES JSC is an operational dispatch control entity (the term "System Operator" is also used in the regulatory and technical documentation), which carries out centralized operational dispatch control of the UES of Russia. The System Operator is authorized to issue operational dispatch instructions and orders that are binding on the electric power sector companies and electricity consumers, which affect the electric power mode of operation of the entire power system.

Figure 3. Electricity consumption in the UES of Russia, January—April, kWh bln

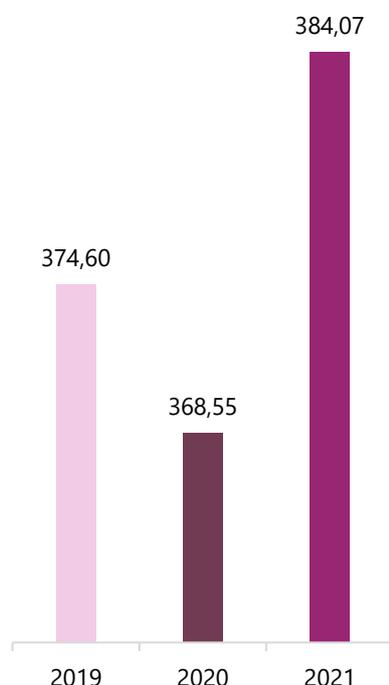
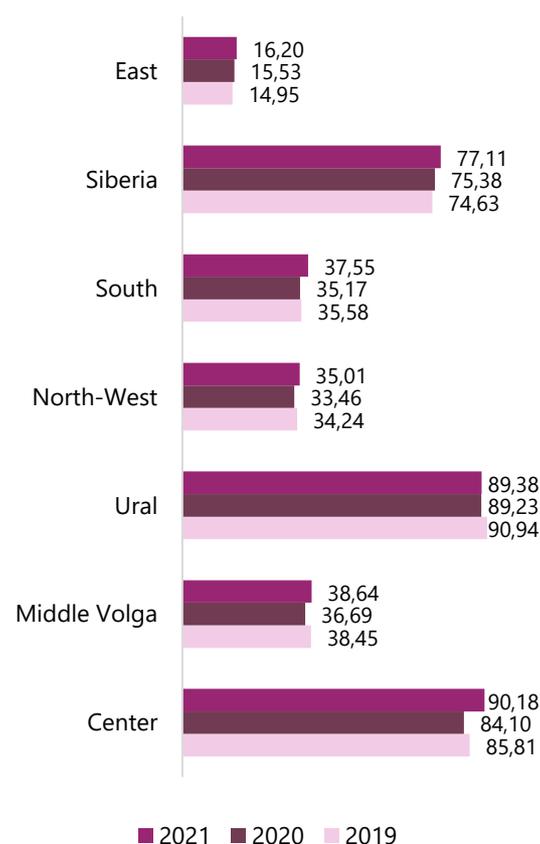


Figure 4. Electricity consumption by IES, January—April, kWh bln



Source: JSC SO of the UES, ACRA's calculations

For all the interconnected energy systems (IES) of Russia in the first four months of 2021, electricity consumption turned out to be higher than in the same period of 2020, and for the majority of IES, the indicators exceeded the results of 2019 (Fig. 4). In ACRA's opinion, such dynamics is associated with weather conditions and the recovery of business activity in the regions.

ACRA's calculations confirm the growth in electricity consumption and WECM prices in January—April 2021 as compared to the same period in 2020 (Table 1).

IES is a set of energy systems, united by a common mode of operation, having a common dispatch room that is superior to the dispatch rooms of the energy systems included in such IES. The UES of Russia includes seven regional IES, one of which, the IES of the East, operates in isolation from the other six.

Table 1. Overdue payments for electricity purchased in the WECM in January–April

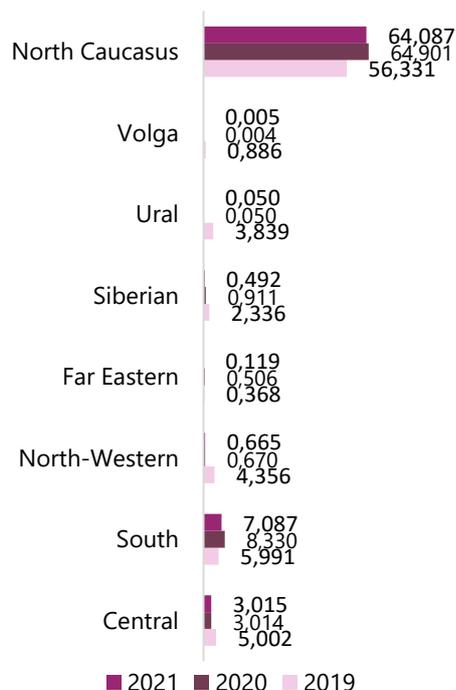
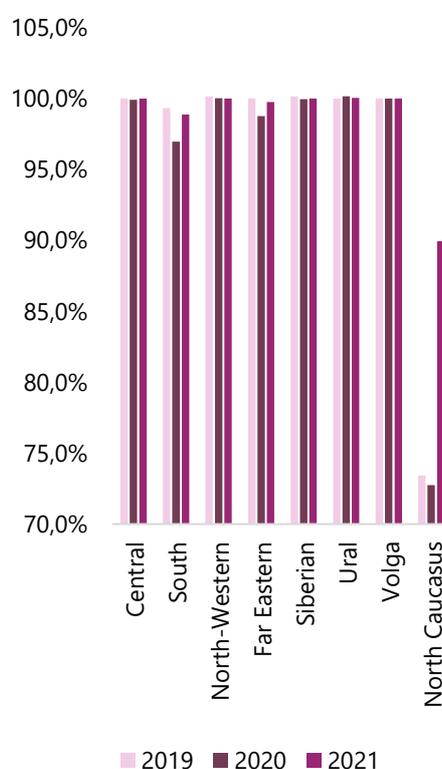
Year	% of payments	Growth in arrears, RUB bln	0.01% of arrears, RUB bln
2020	98.95%	8.05 ¹	0.077
2021	99.70%	2.51	0.084
Yearly variation	Growth by 0.75 p.p.	Decline in 3.2 times	Growth by 9.1%

Source: data from the CFS, ACRA's calculations

The total debt at the WECM in the first four months of 2021 amounted to RUB 75.5 bln, which is lower than at the end of April 2020 and 2019 (RUB 77.2 bln and RUB 104.4 bln, respectively). The improvement in the situation in 2021 is due to the debt restructuring agreement made with subsidiaries and dependent companies of PJSC Rosseti in the North Caucasus, under which the debt of companies to electricity producers was restructured, and the companies themselves increased the percentage of payments at the WECM (Fig. 5–6).

It is also worth noting that a significant reduction in arrears in 2020 was due to two adjustments in liabilities in view of the following factors: (1) deprivation of legal entities of the WECM participant status — RUB 22.5 bln; (2) the effect of the debt restructuring agreement with subsidiaries and dependent companies of PJSC Rosseti in the North Caucasus — RUB 5.3 bln.

At the REM, electricity purchased on the WECM is sold, as well as electricity from generating companies that are not participants in the WECM. The participants of the REM are electricity consumers; utility providers; guaranteeing suppliers; power supply companies and organizations; electric energy producers in retail markets that do not have the status of a WECM entity or for some reason have lost this status; grid companies, owners of power grid facilities; system operator.

Figure 5. Arrears at the WECM by federal district, January—April, RUB bln**Figure 6. Level of payments by federal district, January—April, %**

Source: data from the CFS, ACRA's calculations

¹ Without adjustments in liabilities of legal entities deprived of the WECM participant status, and the debt restructuring agreement of the Rosseti group in the North Caucasus.

The growth rate of the overdue amounts from consumers in the North Caucasus Federal District decreased at the WECM in January–April 2021 compared to the same periods of previous years (Fig. 5–6).

The main volume of arrears at the WECM is formed by energy sales companies that buy electricity in the wholesale market and sell it to end consumers in the retail electricity market (the REM). While the debt continues to decrease at the WECM, the situation is opposite at the REM, where the amount of debt significantly exceeds that at the WECM (Fig. 7).

Such dynamics is mainly reflects the adjustment of liabilities at the WECM (namely, writing off bad debts), as well as compensations paid by energy sales companies for the debts of end consumers.

It should be noted that, according to the CFS, in the first four months of 2021, the growth rate of buyers' debt on the REM has decreased: in January–April 2021, the increase amounted to RUB 13.8 bln, while for the same periods of 2020 and 2019 it was RUB 28.7 bln and RUB 35.8 bln, respectively (Fig. 8). The slowdown in the growth rate of debt on the REM is generally caused by a stricter payment discipline among all categories of consumers.

Market Council ("Non-commercial partnership Market Council for the organization of an efficient system of wholesale and retail trade in electrical energy and capacity") is a company that provides the organization of wholesale and retail trade in electrical energy and capacity (formerly - Non-commercial partnership "Trading System Administrator").

Guaranteed electricity supplier is a commercial organization obliged, in accordance with the Federal Law "On Electric Power Industry", to conclude a contract for the sale and purchase of electric energy with any electric energy consumer who has requested this.

Figure 7. Arrears at the WECM and REM as of April 30, RUB bln

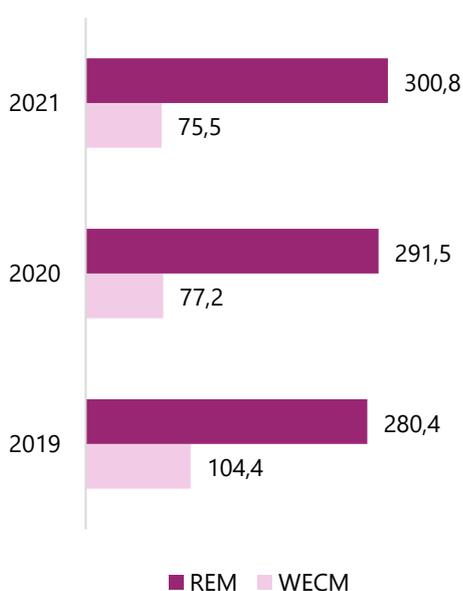
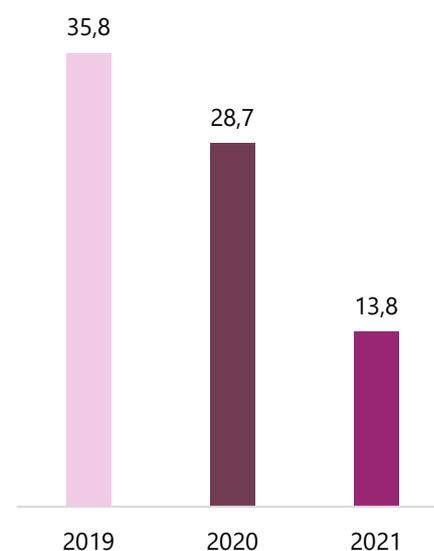


Figure 8. Growth in arrears at the REM, January–April, RUB bln



Source: data from the CFS, ACRA's calculations

In ACRA's opinion, the end consumers' debts for the supplied electricity are primarily borne by the power supply companies. This often leads such companies to bankruptcy and/or deprivation of the WECM entity status due to the breach of obligations to timely pay for electricity / capacity. For example, on June 22, 2021, the Market Council decided to deprive three guaranteed suppliers (JSC Kabbalkenergo, JSC Kalmenergosbyt and JSC Karachaevo-Cherkesskenergo controlled by PJSC Rosseti) their WECM entity status in view of their multibillion-dollar debts to generating companies. In addition, the end consumer debts fall on the grid and generating companies, which can potentially lead to a shortage of funds to cover their operating and capital costs necessary to maintain the reliability of the UES of Russia.

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