

In 2018, all the constituent entities of the Russian Federation that are within the responsibility zone of IDGC of the South has in place a single-pot tariff setting method for electricity transmission services. This method is distinguished by the fact that for each and every consumer of the same voltage class the electricity is transmitted at a single rate (tariff), regardless of the grids they are connected to.

In pursuance of Decree No. 1178 of the Government of the Russian Federation dated December 29, 2011, the single-pot power transmission tariffs for 2018 were approved for H1 and H2 separately, with the following validity periods:

from January 1 to June 30, 2018;

from July 1 to December 31, 2018.

Primary consumers of the Company's electricity transmission services are as follows:

electricity sales companies — wholesaler and retailers that are dealing with sales of electricity to end consumers connected to the power grids of the Company's branches and grids of other grid organisations;

end consumers;

territorial grid organisations — electricity retailers transiting the electricity to the end consumers over their grids.

## **IDGC of the South's branch — Astrakhanenergo**

The regional single-pot model is "Pot at the top". The pot's holder is IDGC of the South's branch — Astrakhanenergo.

Astrakhanenergo collects all the grid's required gross revenues (RGR) from electricity sales companies (ESCs) in the region, direct

consumers at unified (single-pot) tariffs and pays for the transit over grids of territorial grid organisations (TGOs) at individual rates. Power transmission consumers settle accounts with Astrakhanenergo, both for two-rate and one-rate tariffs.

Unified (single-pot) tariffs for 2018 were approved by Decree No. 216 of the Tariff Service of the Astrakhan Region dated December 28, 2017.

From January 1, 2018, Astrakhanenergo crossed over to a new long-term regulatory period (2018–2022) using the long-term RGR indexation.

## **IDGC of the South's branch — Volgogradenergo**

The region put “mixed pot” computation method into practice. The pot's holder is IDGC of the South's branch — Volgogradenergo. Volgogradenergo collects grid's RGR from regional ESCs, direct consumers at unified (single-pot) tariffs and income-generating TGOs at individual rates and gives a portion of grid's RGR to lower-level TGOs at individual rates. Power transmission consumers settle accounts with Volgogradenergo, both for two-rate and one-rate tariffs.

Unified (single-pot) tariffs for 2018 were approved by Order No. 53/23 of the Tariff Regulation Committee (TRC) of the Volgograd Region dated December 26, 2017.

Individual tariffs for mutual settlements between Volgogradenergo and income-generating TGOs for 2018 were approved by Order No. 53/24 of the TRC of the Volgograd Region dated December 26, 2017. By Order No. 29/1 of the TRC of the Volgograd Region dated

September 19, 2018, individual tariffs were approved for mutual settlements between Volgogradenergo and PJSC Volgograd Interdistrict Power Grids (VMES) by Order No. 31/1 of the TRC of the Volgograd Region dated October 1, 2018, individual tariffs for mutual settlements between Volgogradenergo and Municipal Unitary Production Enterprise VMES (due to the replacement of this company's assets).

The required gross revenues of Volgogradenergo for 2014–2018 was calculated using long-term RGR indexation.

## **IDGC of the South's branch — Kalmenergo**

Due to the consolidation of the power grid assets of OJSC KalmenergoKom (equipment purchase & sale agreement dated December 19, 2016 and the property transfer and acceptance act dated December 31, 2016) as part of IDGC of the South, since 2017 only one TGO has been operating in the region — a branch of IDGC of the South — Kalmenergo.

A branch of IDGC of the South — Kalmenergo generates its revenues at single-pot tariffs for electricity net delivery to PJSC Kalmenergosbyt's consumers, other ESCs and consumers within Elista's coverage area (internal sales). Power transmission consumers settle accounts with Kalmenergo, both for two-rate and one-rate tariffs.

From January 1, 2018, Kalmenergo crossed over to a new long-term regulatory period (2018–2022) using the long-term required gross revenues (RGR) indexation.

Unified (single-pot) tariffs for 2018 were originally approved by Order No. 100-p/e of the Regional Tariff Service (RTS) of the Republic of Kalmykia dated December 26, 2017.

Pursuant to Order No. 1090/18 dated August 3, 2018 of the FAS of Russia on the cancellation of tariffs in the Republic of Kalmykia, from September 1, 2018 unified (single-pot) tariffs were approved by Order No. 63-p/e of the RTS of the Republic of Kalmykia dated August 24, 2018 at the previously set level (unchanged).

In line with Order No. 1139 of the Ministry of Energy of Russia dated November 30, 2017, the branch of IDGC of the South — Kalmenergo in 2018 acted as a guaranteeing supplier in Elista's coverage area.

Sales markups of a guaranteeing supplier of Kalmenergo for 2018 were initially approved by Order No. 101-p/e of the RTS of the Republic of Kalmykia dated December 26, 2017. Pursuant to Order No. 400/18 of the FAS of Russia dated March 29, 2018 on the cancellation of the approved sales markups by Order No. 26-p/e of the RTS of the Republic of Kalmykia dated April 27, 2018, the sales markups of the guaranteeing suppliers were approved at a new level (due to the revision of the schedule for bringing the economically viable RGR of guaranteed suppliers up to the reference one).

## **IDGC of the South's branch - Rostovenergo**

The region put "mixed pot" computation method into practice. There are two large grid companies in the region — the pot's holders: a Rostovenergo (a branch of IDGC of the South) and JSC Donenergo. Rostovenergo collects its portion of grid's RGR from PJSC TNS Energo Rostov-on-Don and other ESCs at single-pot

tariffs and from Donenergo — at individual rates and gives a portion of revenues to lower-level TGOs at individual rates. Donenergo collects its portion of grid's RGR from PJSC TNS Energo Rostov-on-Don and other ESCs at single-pot tariffs and gives a portion of revenues to Rostovenergo and lower-level TGOs at individual rates. Power transmission consumers settle accounts with Rostovenergo, both for two-rate and one-rate tariffs.

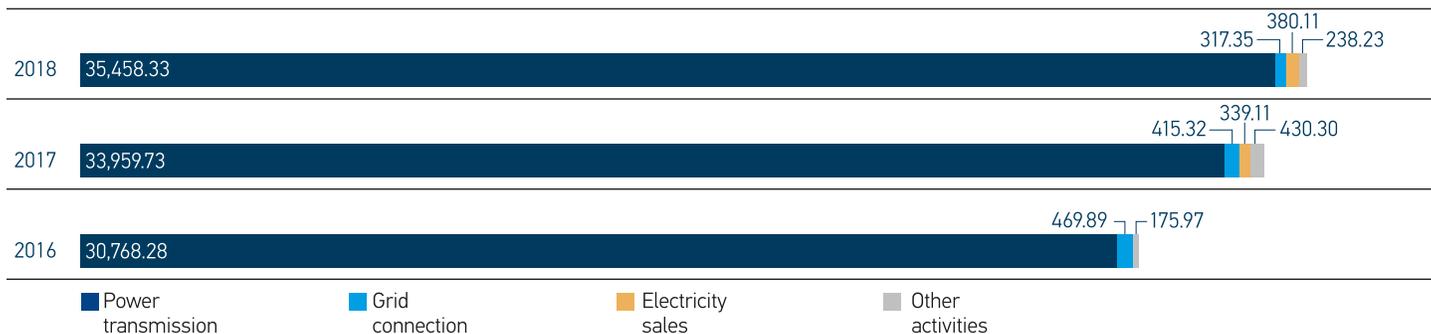
Unified (single-pot) tariffs for 2018 were originally approved by Order No. 86/8 of the Regional Tariff Service (RTS) of the Rostov Region dated December 28, 2017.

Pursuant to Order No. 1013/18 of the FAS of Russia dated July 18, 2018 on the abolition of this resolution of the RTS of the Rostov Region, from August 1, 2018 the unified (single-pot) tariffs were approved by Resolution No. 44/1 of the RTS of the Rostov Region dated August 1, 2018 at the previously established level (unchanged).

Individual tariffs for settlements between Rostovenergo (the branch of IDGC of the South) and Donenergo were approved by Resolution No. 86/7 of the RTS of the Rostov Region dated December 28, 2017.

From January 1, 2018, Rostovenergo crossed over to a new long-term regulatory period (2018–2022) using the long-term RGR indexation.

## **Changes in IDGC of the South' revenues for 2016–2018, RUB mn**



Summarising the performance results of IDGC of the South in 2018, the revenues for power transmission services increased by RUB 1,498.6 mn (up 4.4%) and reached RUB 35,458.33 mn (excl. VAT, with the internal sales) (vs RUB 33,959.73 mn year-on-year). The drivers behind the revenue growth are as follows:

increase in the approved tariffs for power transmission services in 2018 vs 2017;

increase in the net delivery in 2018 vs 2017 (without last mile consumers).

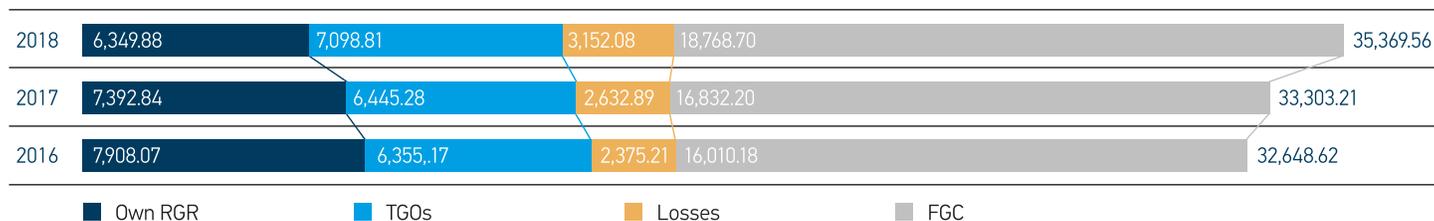
The average power transmission tariff in 2018 was RUB 145.86 per kWh vs RUB 139.41 per kWh in 2017, up RUB 6.45 per kWh, or up 4.6%.

It should be noted that the 2018 actual revenues for power transmission services include the revenues for power transmission services rendered when Kalmenergo (branch of IDGC of the South) was acting as the guaranteeing supplier in Elista's coverage area (so called internal sales in the amount of RUB 529.97 mn).

The power transmission tariffs for 2018 approved by the state tariff regulation executive authorities of the constituent entities of the Russian Federation (hereinafter — regulatory authorities) are posted on the official [website](#) of IDGC of the South in line with

paragraph 11 (a) of the Standards for Information Disclosure by the Power Wholesalers and Retailers (approved by Decree No. 24 of the Government of the Russian Federation dated January 21, 2004).

## Changes in power transmission RGR structure of IDGC of the South, RUB mn



In 2018 power transmission RGR of IDGC of the South in 2018 exceeded the 2017 target by 6.2% due to the following factors:

Own RGR increased by 11.5%.

For Astrakhanenergo branch, own RGR increased by 17.2%, for Volgogradenergo branch — by 4.5%, for Kalmenergo branch — by 60.1%, and for Rostovenergo branch — by 9.5%. Significant growth of Kalmenergo's own RGR is related to the fact that the 2018 Tariff Balance Solutions (TBS) allowed for the consolidation of KalmenergoKom's power grid assets.

The power purchase costs to offset losses increased by 10.1%. For Astrakhanenergo branch, own costs increased by 9.7%, for Volgogradenergo branch — by 9.8%, for Rostovenergo branch — by 6.9%, and for Kalmenergo branch — by 80.7%.

The reasons behind such increase are as follows:

the growth of losses in the grids of Astrakhanenergo, Rostovenergo, and Kalmenergo in the 2018 TBSs vs the 2017 TBSs. In addition, the 2018 TBSs for Kalmenergo branch accounted for the consolidation of KalmenergoKom's power electric grid assets; rise in the weighted average purchase price of power (capacity) in the wholesale market.

The costs of paying for the services of PJSC FGC UES decreased by 14.1%.

The reduction in the costs of paying for FGC UES's services is driven by the mechanism for transition to calculations based on actual capacity.

The costs of paying for the services of territorial grid organisations (TGOs) increased by 19.7%.

For Astrakhanenergo branch, costs decreased by 4%, while for Volgogradenergo branch and Rostovenergo branch, they increased by 28.9% and by 20.7%, respectively.

The change in the costs of paying for the TGOs's services is associated with the following factors:

in the Astrakhan Region: withdrawal of the status of three TGOs (JSC Zheldorremmash, Municipal Unitary Enterprise of Astrakhan Astrvodokanal, OJSC Dorado);

in the Volgograd Region: change in the single-pot scheme with JSC Oboronenergo, increase in the TGOs costs of paying for FGC UES's services (OJSC Russian Railways — + RUB 37 mn, Volgograd TPP-3 (a branch of OJSC Kaustik) — + RUB 6 mn), withdrawal of LLC Gazpromenergo from the mono-consumer status (on account of the lease of CJSC Tander's grids);

in the Rostov Region: increase of FGC UES's costs within RGR of TGOs of the Rostov Region (Russian Railways — + RUB 146 mn, JSC Energia — + RUB 41 mn, LLC Donex — + RUB 13 mn), as well as an increase in power supply equipment accepted by TGOs for leasing or ownership.

### **Changes in RGR for power transmission services by branch, RUB mn**

The increments of own RGR for power electricity transmission services in 2018 vs 2017 were as follows:

for Astrakhanenergo — 17.2% (2018 RGR included a partial return of the accumulated “evening-out” value);  
for Volgogradenergo — 4.5%;  
for Kalmenergo — 60.1% (accounting for the consolidated power grid assets of KalmynergoKom in the tariff regulation of the branch for 2018);  
for Rostovenergo — 9.5% (2018 RGR included a partial return of the accumulated “evening-out” value).  
The increase in the approved average tariff for power transmission services for 2018 vs 2017 for IDGC of the South was:

for Astrakhanenergo — 8.9% (the increase in the average tariff is associated with bringing the 2018 net delivery structure to the actual one);  
for Kalmenergo — 28.1% (a significant increase in the average tariff is associated with the consolidation of the power grid assets of KalmenergoKom in the tariff regulation for 2018);  
for Volgogradenergo — 6.5%;  
for Rostovenergo — 4,9%.

### **Analysis of changes in the average tariff for power transmission services, RUB/KWh**