

FINANCIAL CAPITAL BUILD-UP

DESCRIPTION OF TARIFF POLICY

Electricity transmission tariffs

In 2018, the regulators applied the return on invested capital method (RAB) to Sverdlovenenergo and method of long-term indexation of gross revenue requirement (INDEX) to Permenergo and Chelyabenergo.

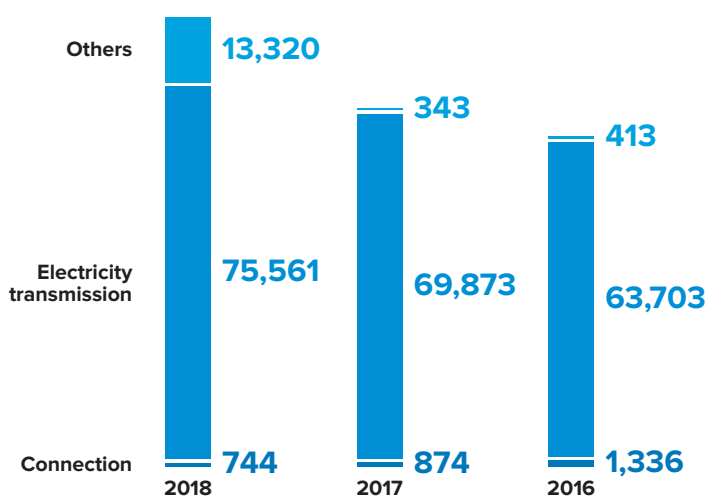
2018 was the first year of new long-term regulation applied to Permenergo and Chelyabenergo. Bearing in mind the start of a new long-term regulation period, the regulators have set new long-term regulation parameters for the branches⁴⁰⁻⁴³.

Uniform (“pie”) tariffs comprise expenses of all grid companies operating in the region to be annually prescribed for the next year during the long-term regulation period. Pursuant to existing tariff regulation laws, a gross revenue requirement is subject to annual fine-tuning, adjusted for changed real and target calculations, executed investment program and achieved indicators of service reliability and quality.

Electricity transmission tariffs are adopted by regional executive instrumentalities, liable for tariff regulation, on relevant territories of the Company’s service area. Uniform (“pie”) electricity transmission tariffs to be enforced in 2018 were approved by the tariff decisions of the relevant regional regulators⁴⁴⁻⁴⁶. Uniform (“pie”) electricity transmission tariffs for 2018 were set by the regulators in line with the FAS-approved minimum and maximum ceiling levels of tariffs.

Permenergo	INDEX	5 years (2018-2022)
Sverdlovenenergo	RAB	10 years (2011-2020)
Chelyabenergo	INDEX	5 years (2018-2022)

Structure and dynamics of the Company’s revenues in 2016–2018*



* Revenues from electricity transmission in 2018 include internal turnover.

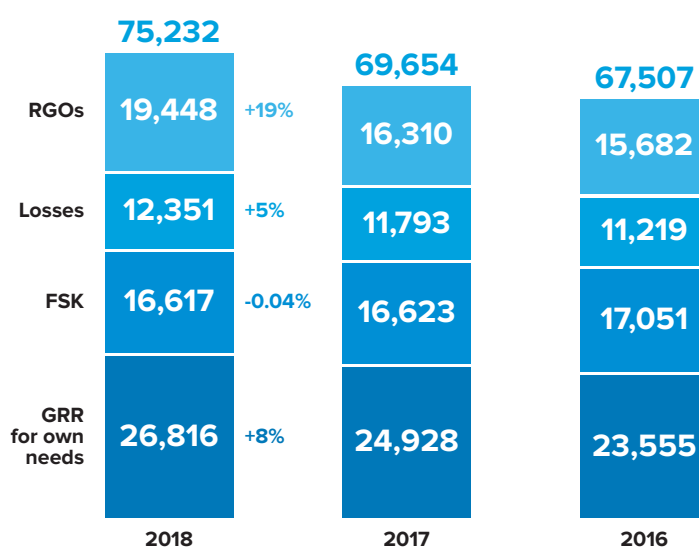
FY2018 revenues from electricity sales (execution of the PoLR function) totaled RUB 12,873 million. FY2018 connection fees totaled RUB 744 million (-14.9% YoY), decrease being impacted by reduction in the number of filers requesting connection and increase of a privilege for filers requesting 0-150 kW from 01.11.2017.

A significant increase of the GRR to be paid to other RGOs in 2018 was impacted by changes in the settlement scheme of the Chelyabinsk regional retail market, under which our Chelyabenergo branch executes the “sole pieholder of the region” function from 01.07.2018 (Chelyabenergo’s GRR to be paid to other RGOs increased by RUB 2,036 million or 113.1%).

Electricity transmission revenues contribute most to the overall revenues of the Company. FY2018 transmission fees totaled RUB 75,561 million (84.3% of the total revenues). In absolute terms, transmission revenues gained RUB 5,688 million (+8.1%) due to the grown uniform (“pie”) electricity transmission tariffs and “pie” net supply, exercise of the “sole pieholder of the region” function in the Chelyabinsk region since 01.07.2018 and absence of load losses factored in electricity prices on the wholesale electricity market. The growth of revenues from other operations was accounted for by the Russian Ministry of Energy’s assignment of the PoLR status to OAO IDGC of Urals for operations in:

- the city of Nizhny Tagil, Nevyansk Municipal District and Gornouralsk Municipal District, the Sverdlovsk region (from 01.04.2018);
- the Chelyabinsk region (from 01.07.2018);
- the Novouralsk Municipal District, the Sverdlovsk region (from 01.08.2018).

The structure of the gross revenue requirement (in terms of electricity transmission)



** Information hereof complies with the 2016-2018 tariff model, used by the regulators in setting of the 2016-2018 tariffs for electricity transmission.

The dynamics of the GRR for electricity transmission services in our branches, RUB million*

Branch	2016		2017		2018	
	GRR total	GRR for own needs	GRR total	GRR for own needs	GRR total	GRR for own needs
Permenergo	17,627	7,338	18,922	8,235	19,798	8,872
Sverdlovenergo	32,069	9,064	32,540	9,343	35,381	10,382
Chelyabenergo	17,811	7,153	18,192	7,350	20,053	7,562
IDGC of Urals	67,507	23,555	69,654	24,928	75,232	26,816

* Information hereof complies with the 2016-2018 tariff model, used by the regulators in setting of the 2016-2018 tariffs for electricity transmission; GRR for own needs is the GRR of the branch minus payments to FSK, purchase of losses and payments to other RGOs.

Key factors that changed the “pie” gross revenue requirement in 2018 are:

Permenergo — a 4.6% boost of the “pie” GRR (RUB 876 million)

1. A 1.8% (RUB 52 million) decrease of payments to RGOs due to non-compliance of some RGOs with the RGO-qualification criteria, stated in Russian Government Decree No.184 dated as of 28.02.2015.
2. A 4.6% (RUB 143 million) increase of payments to PAO FSK UES, impacted by the grown UNES maintenance rate (+5.5% from 01.07.2018) and UNES losses compensation rate (+3.6%).
3. As for expenses on compensation of electricity losses, the regulator envisaged a 3.1% (RUB 148 million) rise in the tariff, based on a 22.3% boost of the loss purchase price and a 15.7% (349.5 million kWh) decline of normative losses in the branch networks. Normative losses are reduced due to the start of a new long-term regulation period and consequent revision of the loss level with the use of the benchmarking method.

The GRR for own needs of the branch totaled 7.7% (RUB 637 million).

Sverdlovenergo — a 8.7% boost of the “pie” GRR (RUB 2,841 million)

1. A 9.9% (RUB 1,154 million) increase of payments to RGOs, influenced by the escalation of individual tariffs of RGOs. With this, it should be noted that the GRR of AO EESK grew by RUB 534 million.
2. A 3.9% (RUB 303 million) hike of payments to PAO FSK UES, impacted by the grown UNES maintenance rate (+5.5% from 01.07.2018) and UNES losses compensation rate (+3.0%).
3. As for expenses on compensation of electricity losses, the regulator envisaged a 9.3% (RUB 345 million), rise in the tariff, based on a 5.7% hike of the loss purchase price, grown supply and consequent rise of normative losses in the branch networks.

The GRR for own needs of the branch totaled 11.1% (RUB 1,039 million).

Chelyabenergo — a 10.2% boost of the “pie” GRR (RUB 1,861 million)

1. A 113.1% (RUB 2,036 million) boost of payments to RGOs, impacted by changes in the settlement scheme of the Chelyabinsk regional retail market, under which our Chelyabenergo branch executes the sole pieholder of the region function.
2. A 7.9% (RUB 452 million) decrease of payments to PAO FSK UES, affected by the migration of HV-1 customers to direct contracts with PAO FSK UES from 01.07.2017.
3. As for expenses on compensation of electricity losses, the regulator envisaged a 1.9% (RUB 65 million) increase in the tariff, based on a 13.3% hike of the loss purchase price and a 10.0% (168.9 million kWh) decline of normative losses in the branch networks. Normative losses are reduced due to the start of a new long-term regulation period and consequent revision of the loss level with the use of the benchmarking method.

The GRR for own needs of the branch totaled 2.9% (RUB 212 million).

Analysis of revisions of the average electricity transmission tariff (adjusted for net supply on generator voltage level), RUB/kWh*

Branch	2016	2017	2018
Permenergo	1.169	1.268	1.302
Sverdlovenergo	1.155	1.220	1.253
Chelyabenergo	1.086	1.240	1.408
IDGC of Urals	1.139	1.238	1.304
Rise, %	8.6%	8.7%	5.4%

Analysis of average 2018 electricity transmission tariff progression shows that:

- A 2.7% rise of the Permenergo’s average tariff resulted from a 4.6% boost of the “pie” gross revenue requirement and a 1.9% growth of the “pie” net supply;
- A 2.7% rise of the Sverdlovenergo’s average tariff resulted from a 8.7% boost of the “pie” gross revenue requirement and a 5.9% growth of the “pie” net supply;
- A 13.5% hike of the Chelyabenergo’s average tariff, mainly, resulted from changes in the settlement scheme of the Chelyabinsk regional retail market, under which our Chelyabenergo branch executes the sole pieholder of the region” function (a 10.2% boost of the GRR).

* Information hereof complies with the 2016-2018 tariff model, used by the regulators in setting of the 2016-2018 tariffs for electricity transmission.

Technological connection fee

Pursuant to the Guidelines⁴⁷ the regulators of the Perm, Sverdlovsk and Chelyabinsk regions have set the 2018 standardized tariff rates, maximum capacity unit rates and connection fee formulas.

The regulators have set a RUB 550.0 (plus VAT) connection fee for all Company's branches to be applied to filers, requesting connection of grid equipment with capacity of 0-15 kW inclusive (incl. previously connected capacity at the point), when facilities, referred to the 3rd reliability category (from one source of electricity supply), are connected, provided that the distance between the boundaries of a filer's land plot and Company's facilities at 20 kV inclusive does not exceed 300 m in urban areas (cities and small towns) and 500 m in rural areas.



For regional grid operators of the Perm region the regulator has affirmed the following 2018 rates and fees⁴⁸:

- C₁ standardized tariff rate, fractioned into activities from clause 16 (except for subclause b) of the Guidelines;
- C₂ standardized tariff rate (construction of aerial power lines), C₃ standardized tariff rate (construction of cable power lines) and C₄ standardized tariff rate (construction of sectionalization points: reclosers, distribution and switching points), C₅ standardized tariff rate (construction of 0-35 kV transformer substations, except for distribution transformer substations), C₆ standardized tariff rate (construction of 0-35 kV distribution transformer substations).
- Connection fee (for maximum capacity unit) for activities from clause 16 (except for subclause b) of the Guidelines. The fee was differentiated for filers requesting connection of grid equipment with capacity of 0-15 kW inclusive and with capacity of 15+ kW.
- Connection fee (for maximum capacity unit), fractioned into "last-mile" activities (construction of aerial and cable power lines, sectionalization points, transformers) and differentiated by voltage class;
- connection fee formulas.

For regional grid operators of the Sverdlovsk region the regulator has affirmed the following 2018 rates and fees⁴⁹:

- C₁ standardized tariff rate, fractioned into activities from clause 16 (except subclauses b) of the Guidelines;
- C₂ standardized tariff rate (construction of aerial power lines), C₃ standardized tariff rate (construction of cable power lines) and C₄ standardized tariff rate (construction of sectionalization points: reclosers, distribution and switching points), C₅ standardized tariff rate (construction of 0-35 kV transformer substations, except for distribution transformer substations), C₆ standardized tariff rate (construction of 0-35 kV distribution transformer substations), C₇ standardized tariff rate (construction of 35+ kV substations).
- Connection fee (for maximum capacity unit) for activities from clause 16 (except for subclause b) of the Guidelines.
- Connection fee (for maximum capacity unit), fractioned into "last-mile" activities (construction of aerial and cable power lines, sectionalization points, transformers) and differentiated by voltage class;
- connection fee formulas.

All rates (standardized tariff rates and fees for maximum capacity unit) for construction of grid facilities and for technical activities are differentiated for urban and non-urban settlements.

For regional grid operators of the Chelyabinsk region the regulator has affirmed the following 2018 rates and fees⁵⁰:

- C₁ standardized tariff rate, fractioned into activities from clause 16 (except subclauses b) of the Guidelines;
- C₂ standardized tariff rate (construction of aerial power lines), C₃ standardized tariff rate (construction of cable power lines) and C₄ standardized tariff rate (construction of sectionalization points: reclosers, distribution and switching points), C₅ standardized tariff rate (construction of 0-35 kV transformer substations, except for distribution transformer substations), C₆ standardized tariff rate (construction of 0-35 kV distribution transformer substations), C₇ standardized tariff rate (construction of 35+ kV substations).
- Connection fee (for maximum capacity unit) for activities from clause 16 (except for subclause b) of the Guidelines.
- Connection fee (for maximum capacity unit), fractioned into “last-mile” activities (construction of aerial and cable power lines, sectionalization points, transformers) and differentiated by voltage class;
- connection fee formulas.

All rates (standardized tariff rates and fees for maximum capacity unit) for construction of grid facilities and for technical activities are differentiated for urban and non-urban settlements. Besides, the regulator affirmed zero standardized tariff rates and fees for maximum capacity unit for “last-mile” activities for filers requesting connection of grid equipment with capacity 0-150 kW.



Reduction of connection fee for maximum capacity unit was due to increase in requested capacity and changes in the connection pricing guidelines. Thus, the new guidelines stipulate that information on facility construction expenditures (connection and other activities envisaged by the investment program) is used in calculation of connection rates, information on requested 0-8,900 kW (below 35 kV voltage class) capacity (plus privileged filers) is used in calculation of fees for maximum capacity unit.

Dynamics of the Company’s average capacity unit rates, RUB/kW

