

PRICING POLICY AND RATES FOR THE COMPANY'S SERVICES

PRICING POLICY OF THE COMPANY

Prices (rated) for the Company's electricity transmission services and technological connection shall be regulated by the state and set by the orders of REC-DPR KR. The prices (tariffs) that are common for each group of electricity consumers are valid in the territory of Krasnodar Territory and the Republic of Adygea, where the Company operates.

The main regulatory legal acts regulating relations in the sphere of establishing regulated tariffs and the practice of their application:

- Federal law dated March 26, 2003 No. 35-ФЗ "On Electric Power Industry" (as amended);
- Decree of the Government of the Russian Federation dated December 29, 2011, No. 1178 "On pricing in the field of regulated prices (tariffs) in the power industry" (as amended);
- orders of the Federal Tariff Service of Russia:
 - / dated 17.02.2012, No. 98-e "Concerning the Approval of Guidelines for Calculating Tariffs for Electricity Transmission Services, Installed Using the Method of Long-Term Indexation of Required Gross Revenue";
 - / dated 06.08.2004, No. 20-e/2 "Concerning the Approval of Guidelines for the Calculation of Regulated Tariffs and Prices for Electric (Thermal) Energy in the Retail (Consumer) Market";
- Order of the FAS of Russia dated 29.08.2017, No. 1135/17 "Concerning the Approval of Guidelines for Determining the Amount of Payment for Technological Connection to Electric Grids."

Since 2018 Kubanenergo PJSC switched to the next long-term period of tariff regulation for electricity transmission services for five years. Tariffs for Kubanenergo PJSC for electricity transmission services and long-term regulation parameters for 2018–2022 identified REC-DPR KR by the method of long-term indexation of the required gross revenue.

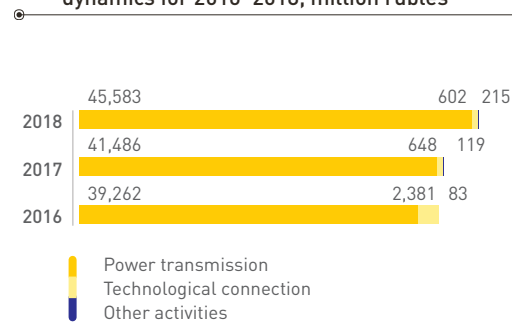
TARIFFS FOR ELECTRICITY TRANSMISSION SERVICES

Following the results of 2018, the actual revenue for the services rendered for the transmission of electricity amounted to 45,583 million rubles (excluding VAT), which is 4,098 million rubles (10%) more than in 2017.

The increase in revenue for the electricity transmission services is due to the application of rates in 2018 for services for the transmission of electricity, approved by order REC-DPR KR dated December 28, 2017, No. 63/2017-e, which are higher than the tariffs of 2017, supported by the order of REC-DPR KR dated December 30, 2016 No. 57/2016-e; the growth of straight-line rates for electricity transmission services in the second half of 2018 relative to the second half of 2017 was 3%. In addition, the increase in revenue in the reporting year is due to:

- an increase in the volume of services rendered by 562 million kWh relative to 2017;
- change in the procedure for reimbursement to the Wholesale market for electricity and power (WMEP) participants of the cost of load losses recorded in the prices on the WMEP, as a result of which, from August 1, 2017, revenue for electricity transmission services is generated without deducting the specified cost¹.

Structure of Kubanenergo PJSC Revenue in dynamics for 2016–2018, million rubles



Since 2007, the region has a single (boiler) method of payment for electricity transmission: For all consumers of power transmission services of the Kuban and the Republic of Adygea, belonging to the same tariff group, there is a single (boiler) tariff, regardless of the network of which grid organization they are connected to.

The main tariff-contractual model, used for calculations, is the "boiler at the top" model.

The status of the backbone network organization – the "boiler holder" was assigned to the Company. According to this model, consumer payments for rendered electricity transmission services (regardless which network organization they are connected to) are received by Kubanenergo PJSC, upon which the Company makes settlements with the subordinate grid organizations (LGCs), to which networks the consumers' power receivers are connected, at individual rates.

From September 22, 2011, an individual "boiler at the bottom" pattern is also valid in the region – in relation to the organization of the network LLC Maykop CHP. Under this pattern, payments for electricity transmission from consumers connected to LLC Maikop CHP, under a single pot tariff are received by this organization, and in turn, it pays for services of Kubanenergo PJSC for transmission of electricity through the Company at an individual rate.

1. Clause 1b of the Decree of the Government of the Russian Federation of 07.07.2017 No. 810 'Concerning the Amendments to Certain Acts of the Government of the Russian Federation Concerning Payment of Electricity Losses on the Wholesale Electricity and Power Market and Retail Electricity Markets, and also Obtaining the Status of a Subject of the Wholesale Electricity Market and power'.