

**IMEPOWER View**

There has been major step taken by the Regulator to close existing gap related to calculation of the local content requirement – respective procedure was approved last week, while it still needs to be registered by the Ministry of Justice and published before it comes into force. Unfortunately, it is our understanding that the NERC has not taken into account comments provided by the stakeholders to the Draft Procedure published in March 2012. Thus, if approved in that previous version (or with minor changes), the Procedure will not be able to provide all answers required and serve as clear guidelines for developers and equipment suppliers. Before making final conclusions, we suggest to wait for the official version that should be published in the nearest weeks.

We are happy to observe that the EBRD has provided debt financing to the first renewable project in Ukraine in the framework of USELF program (EUR 13.3M loan to Eco-Optima wind project). It is an important milestone as it shows that quality renewable projects in Ukraine can receive international bank financing. We believe that more renewable projects will be financed by the EBRD this year, both under USELF program (where the number of applications for financing exceeds 60 projects) and directly as the EBRD has been in talks with Wind Parks of Ukraine to provide them with the loan of EUR 48.8 (jointly with the Clean Technology Fund) for the expansion of already operational Novoazovskiy Wind Park.

In general, we have observed during recent months a shift of focus from investors and developers towards solar projects as EPC prices for PV solar power plants are going down with more and more international EPC contractors looking at the Ukrainian market to enter due to overall negative situation in this industry around globe. So far the local content requirement has been the major deal breaker as it did not allow all project stakeholders to plan their steps. Hopefully, this area will be clarified soon by the NERC that will boost number of solar and other renewable projects getting from development to construction stages in Ukraine.

**In This Issue****I. Legal and Regulatory Developments**

- 1.1. The Parliament approved in the first reading the Draft Law regulating certain renewable issues
- 1.2. The NERC approved the procedure for local content calculation for renewable energy facilities
- 1.3. Crimean Council of Ministers allocated land for solar and wind projects
- 1.4. The Court of Appeal confirmed technical conditions for grid connection of the Western-Crimean WPP
- 1.5. The NERC refused to establish the green tariff for new power generating capacity of Wind Park Ochakivsky
- 1.6. The NERC adjusted the green tariff for renewable energy producers for June 2012

**II. Investment News**

- 2.1. EBRD finances the first wind project in Ukraine
- 2.2. DTEK orders 30 V112-3.0 MW wind turbines from Vestas for their Botievo project
- 2.3. Fuhrlander launched manufacturing of wind turbines in Ukraine
- 2.4. Wind Parks of Ukraine started wind measurements at WPP construction site in Lugansk oblast
- 2.5. Danish wind turbines to be installed in Kherson oblast
- 2.6. Tokmak Solar Energy to launch the first stage of solar power plant before 2013
- 2.7. Ukraine to increase the capacity of renewable energy sources in 2012

**III. Commercial and Economic Developments**

- 3.1. Ukrainian interest rates
- 3.2. Ukrainian exchange rates

**Legal and  
Regulatory  
Developments****THE PARLIAMENT APPROVED IN THE FIRST READING THE DRAFT LAW REGULATING CERTAIN RENEWABLE ISSUES**

On 22 May 2012, the Parliament adopted in the first reading the Draft Law № 8455 introducing changes to certain legislative acts of Ukraine regarding renewable energy sources. One of the novelties of the Draft Law is expanding the term "biomass" to wastes of animal origin and organic part of municipal solid wastes, which allows for the electricity produced from these sources to be eligible for the "green tariff" coefficient of 2.3 that is currently applied only for vegetative origin wastes.

Also the Draft Law envisages that the entity producing electricity from renewable energy sources must provide a consumer with a guarantee of electricity's origin. The procedure for issuing such guarantee shall be approved by the Cabinet of Ministers.

**THE NERC APPROVED THE PROCEDURE FOR LOCAL CONTENT CALCULATION FOR RENEWABLE ENERGY FACILITIES**

The National Electricity Regulatory Commission (NERC) has approved the Procedure for the share of raw materials, capital assets, works and services of the Ukrainian origin (local content) in the construction cost for renewable energy facilities.

Corresponding decision was taken on June 14 at the NERC's meeting. The NERC will send the Procedure for registration to the Ministry of Justice shortly, after which it will be published and come into force.

As of now, the text of the Procedure that was approved by the NERC is not available to public, while, according to unofficial information, it is the same or not much different from the draft that was published in March 2012.

We will provide detailed analysis of the Procedure after it is officially published and comes into force.

**CRIMEAN COUNCIL OF MINISTERS ALLOCATED LAND FOR WIND AND SOLAR PROJECTS**

The Council of Ministers of Crimea (CMC) permitted 17 companies to develop land designs on allocation of 538.8 ha on the territory of Belogorsky, Nizhnegorsky, Chernomorsky, Pervomaisky, Dzhankoi, Bakhchisarai, Razdolnensky, Krasnoperekopsky and Simferopol regions for the construction of solar power plants (SPP). Earlier the CMC leased 336 ha of land in the territory of Simferopol and Kirov regions to 8 companies for 49 years for SPP construction. As we understand, all these companies belong to Activ Solar, the largest solar developer in Ukraine.

Approx. 2 ha of land is required for the construction of 1 MW of SPP installed capacity. The Land Code of Ukraine envisages allocation of land plots for construction and operation of any power facilities without tender or auction holding. The procedure of land plots allocation for power facilities is prescribed in the Law "On Lands of Power Sector and Legal Regime of Special Zones of Power Objects".

The CMC also permitted 3 companies, subsidiaries of the developer Wind Parks of Ukraine, to develop land design on allocation of 107 ha in the territory of Pervomaisky, Saki and Leninsky regions for the construction of wind power plants (WPP). Wind Parks of Ukraine plan to build several WPPs with total installed capacity of 250-300 MW on these land plots that will be leased for 49 years.

**THE COURT OF APPEAL CONFIRMED TECHNICAL CONDITIONS FOR GRID CONNECTION OF THE WESTERN-CRIMEAN WPP**

Kyiv Economic Court of Appeal rejected the claim of power distribution company Krymenergo (Crimea) and confirmed the validity of the technical conditions for grid connection of the Western-Crimean WPP with design capacity of 250 MW planned to be constructed in Saki and Chernomorsky regions of Crimea. As a result, WPP's grid

connection agreement remains effective.

Krymenergo attempted to prove that technical conditions were designed under the old rules and their validity period, which was limited by two years, expired on October 15, 2010. At the same time, it was stated in technical conditions that they were valid up to and including 2012.

At the end of last year, the consortium of Greenworx Holding NV (Belgium) and Guris Construction and Engineering Co. (Turkey) purchased this project from local developer EuroUkrWind.

#### **THE NERC REFUSED TO ESTABLISH THE GREEN TARIFF FOR NEW POWER GENERATING CAPACITY OF WIND PARK OCHAKIVSKY**

The NERC refused to establish the green tariff for new power generating capacity of Wind Park Ochakivsky (part of Wind Parks of Ukraine) because of the absence of effective Procedure for the local content calculation. Calculation of the tariff was made using usual NERC's methodology that resulted in approval of the tariff being two times lower than the green tariff established for WPPs. The company will repeat its application for the green tariff once the NERC's Procedure for the local content calculation (see above) is published.

Wind Park Ochakivsky has assembled five wind turbines with total capacity of 12.5 MW at a new site near Tuzla village (Berezan region, Mykolaiv oblast). The equipment has been installed, at present its connection and commissioning is being performed. Wind Park Ochakivsky performs construction of the WPP using wind turbines produced by German Fuhrlander AG. At present, the total capacity of the wind park is 37.5 MW.

In order to obtain the green tariff, renewable energy facilities have to use at least 15% of raw materials, equipment, works and services of the Ukrainian origin if commissioning in 2012, at least 30% - in 2013 and at least 50% - in 2014 and later.

#### **THE NERC ADJUSTED THE GREEN TARIFF FOR RENEWABLE ENERGY PRODUCERS FOR JUNE 2012**

In June 2012, tariffs for the electricity produced using renewable energy sources stayed at the same level as in December 2011 - May 2012, i.e. at their minimum fixed level: for wind plants with installed capacity of more than 2 MW – 1 227.7 UAH/MWh, for small hydro power plants – 841.8 UAH/MWh, for biomass plants – 1 344.6 UAH/MWh, for ground objects of solar power – 5 050.9 UAH/MWh and for solar power objects mounted (up to 100 kW) and on facades (regardless of capacity) – 4 630.0 UAH/MWh.

The green tariffs are revised on a monthly basis based on the exchange rate of EUR against UAH.

#### **Investment News**

#### **EBRD FINANCES THE FIRST WIND PROJECT IN UKRAINE**

The European Bank for Reconstruction and Development has provided financing for its first renewable energy generation project in Ukraine. EBRD has organized EUR 13.3 million financing package for Eco-Optima, a Ukrainian-Italian joint venture company, which will operate a wind farm in Staryy Sambir (Lviv region). The loan will consist of two parallel tranches: a 10-year EBRD loan of EUR 9.5 million and a 15-year loan of EUR 3.8 million from the Clean Technology Fund (CTF).

The loan will be used to construct and operate a wind farm with a total capacity of 12.5 MW (5 turbines of 2.5 MW capacity produced by German company Fuhrlander) that is expected to generate at least 25.5 GWh on annual basis. The wind farm should be commissioned before the end 2012. Eco-Optima's equity contribution amounted to EUR 7.2 million.

This is the first project to receive funding under the EBRD's Ukraine Sustainable

Energy Lending Facility (USELF), an investment facility of EUR 70 million (EUR 50 million from the EBRD and EUR 20 million from the CTF) designed to provide financing to private developers implementing renewable energy projects in Ukraine.

#### **DTEK ORDERS 30 V112-3.0 MW WIND TURBINES FROM VESTAS FOR THEIR BOTIEVO PROJECT**

Vestas and DTEK made official announcements confirming that DTEK has ordered 30 V112-3.0 MW turbines. These turbines constitute the first part of the Botievo project, which will have a total capacity of 195 MW when completed. The Botievo project is located in the coastal area of the Zaporizhia region, near the village of Botievo.

The order includes supply, installation and commissioning of wind turbines along with a VestasOnline Business SCADA system. A service agreement is under negotiation. Installation of turbines is scheduled to be completed in the fourth quarter of 2012.

DTEK is the largest privately owned, vertically integrated energy company in Ukraine with a portfolio of coal and electricity generation and sales. DTEK develops a portfolio of 1,200 MW wind projects in Zaporizhya and Donetsk regions via its subsidiary DTEK Wind Power.

#### **FUHLANDER LAUNCHED MANUFACTURING OF WIND TURBINES IN UKRAINE**

Fuhrlander AG (Germany) started manufacturing wind turbines with the unit capacity of 2.5 MW on the basis of previously acquired capacities of OJSC Kramatorsk Heavy Machine Tool Building Plant (Donetsk Oblast). A new production to date has created more than 100 new jobs for highly qualified personnel, with continued recruitment.

Until recently, Fuhrlander supplied to Ukraine the wind turbines manufactured abroad. Wind turbines of this manufacturer are used for the construction of power plants by a group of companies Wind Parks in Ukraine. In particular, in 2011-2012, in Donetsk and Mykolaiv oblasts 38 turbines FL 2500-100 of 2.5 MW each were installed for the construction of wind parks Novoazovskiy and Ochakivsky.

#### **WIND PARKS OF UKRAINE STARTED WIND MEASUREMENTS AT WPP CONSTRUCTION SITE IN LUGANSK OBLAST**

Wind Parks of Ukraine started wind measurement for the WPP construction in Krasnodon region of Lugansk oblast. Wind measurements are performed by German company WindGuard.

The initiator of the WPP construction is Wind Park Novoazovskiy, which is a part of Wind Parks of Ukraine. A new enterprise Krasnodonsky Wind Park was registered for this project. The WPP's planned capacity is 400 MW (160 wind turbines with unit capacity of 2.5 MW). Launching the first 10 units is scheduled for the first half of 2013.

The project value is about 700 million Euros with planned payback period of approximately five years. The developer is ready to reconstruct networks and to repair 400 km of access roads.

#### **DANISH WIND TURBINES TO BE INSTALLED IN KHERSON OBLAST**

Vindkraft Ukraine Ltd. plans by the end of this year to put into operation two wind turbines of Danish company Vestas with capacity of 3 MW each in Skadovsk region Kherson oblast in addition to one 3 MW that was put into operation earlier this year at Novorosiykiy site (area between Novorosiyiske village and Lazurne settlement in Kherson region). Also in 2012 the company plans to obtain permission to install 9 MW of capacity in Tarasivka village and similar capacity in Stavky village.

By 2014, the company plans developing another wind power project in Kalanchatsky

region Kherson oblast of 300 MW, which will be constructed in stages of 30 MW each.

**TOKMAK SOLAR ENERGY TO LAUNCH THE FIRST STAGE OF SOLAR POWER PLANT BEFORE 2013**

Tokmak Solar Energy Ltd. (Zaporizhia oblast) intends to launch the 1<sup>st</sup> stage of SPP of 1.5 MW till the end of 2012. Total power plant generating capacity will be of 22-23 MW.

License for electric power supply at non-regulated tariff was issued to the company by the NERC for a period of five years.

**UKRAINE TO INCREASE THE CAPACITY OF RENEWABLE ENERGY SOURCES IN 2012**

The State Agency for Energy Efficiency and Energy Saving forecasted that the capacity of renewable energy sources (RES) will be increased by 2.3 times up to 1 GW in 2012.

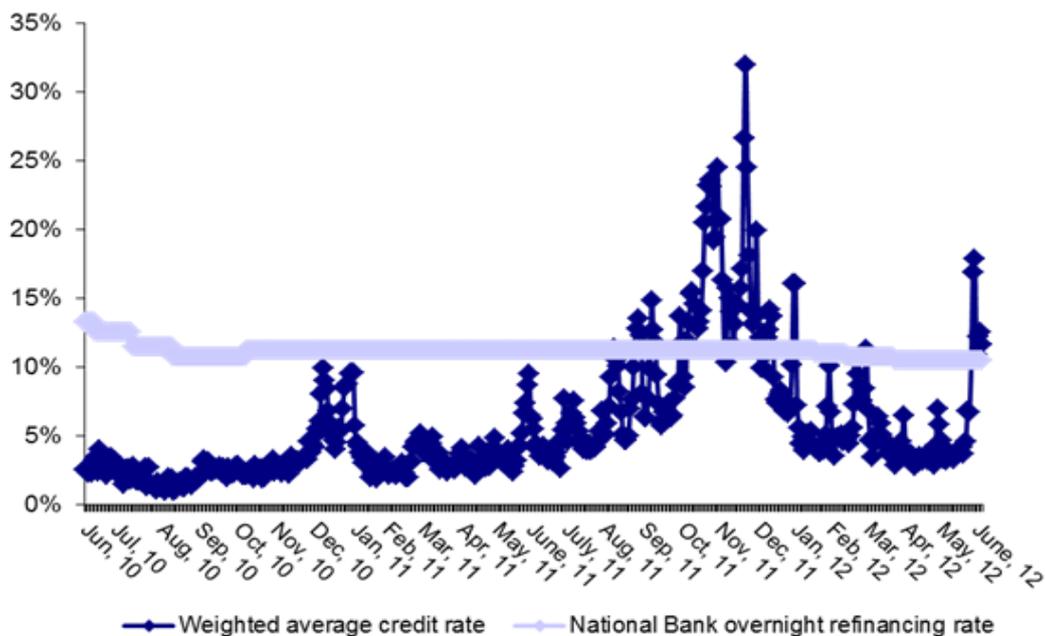
According to the Agency, the total installed capacity of renewable energy facilities in Ukraine is 411 MW (107 operating facilities - 76 hydropower plants, 18 solar power plants, 11 wind farms and two bio-energy facilities) or 0.8% of power generating capacity of the country.

257 MW of renewable energy facilities were commissioned in 2011 and it is expected that in 2012 wind farms with a total capacity of 252 megawatts and solar power plants with the total capacity of 290 megawatts will be launched.

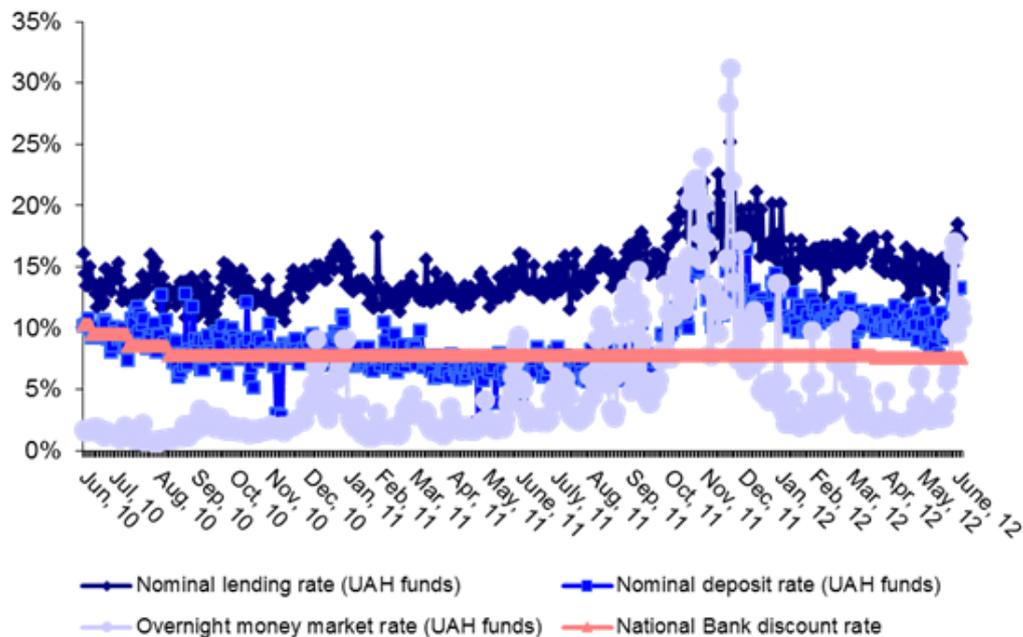
With regard to solar PV sector, Czech company Ekotechnik Praha is expected to finish the construction of 42 MW solar power plant in Kyiv oblast (Bohuslav) and will start construction of 50 MW facility in Dnipropetrovsk oblast. Rentechno will complete the construction of 1.8 MW solar power plant in Vinnytsia oblast and will start the construction of 11 MW facilities in Kherson oblast. Rengy Development will construct six SPPs with combined capacity of 50 MW in Vinnytsia oblast. Israeli SunElectra intends to construct 10 SPPs of 25-30 MW. Tokmak Solar Energy plans to launch a 9 MW SPP and Ukgelios will launch a 15 MW SPP in Zaporizhia oblast. French Helios Strategia plans to construct several roof solar power plants in total of 7 MW in Ukraine.

**Commercial and Economic Developments**

**Weighted average interbank rate (for last 2 years)**

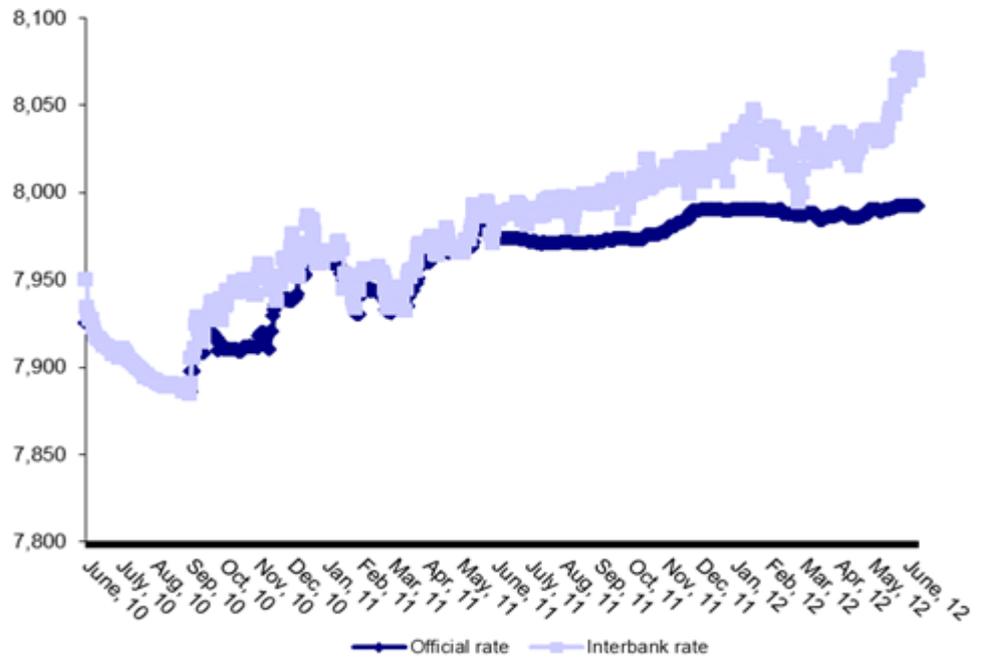


**Nominal interest rates (for last 2 years)**

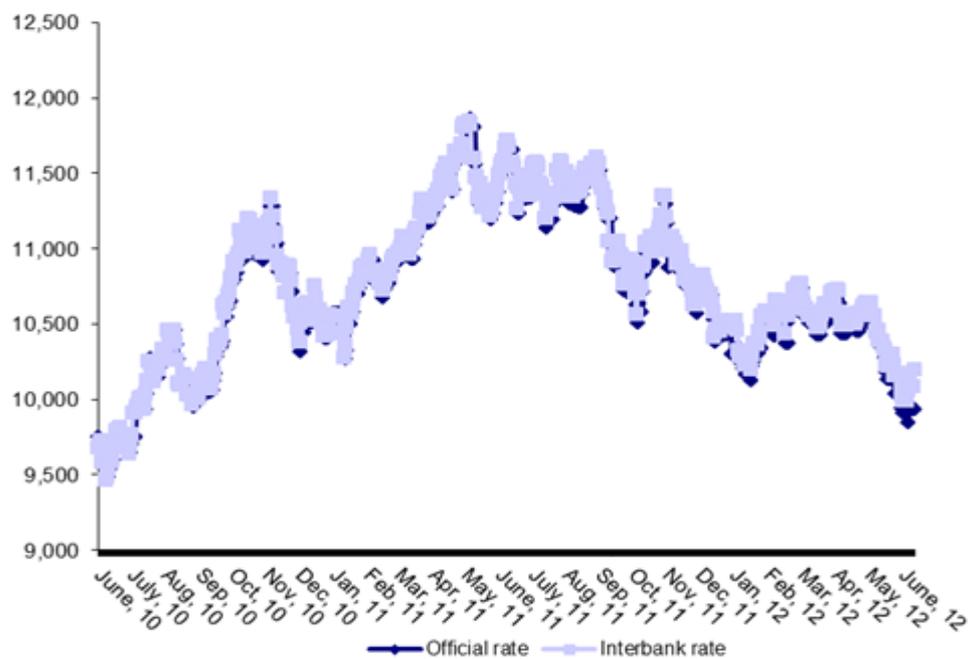


Source: National Bank of Ukraine

Daily UAH/USD exchange rates (for last 2 years)



Daily UAH/EUR exchange rates (for last 2 years)



Source: National Bank of Ukraine