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Position Paper **Wind Sector Development**

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Rationale

The Wind Working Group supports the long-term, sustainable and balanced development of the renewable energy (“RE”) business in Ukraine, from all RE sources. The WWG believes it important to find the right balance for the green electricity tariff rate (the “GTR”) as well as for all related legislation, including local content legislation, such that electricity rates remain affordable and sustainable for the Ukrainian electricity consumers and energy market participants and that current legislation does not act as a barrier to entry into the sector for investors and developers.

At the same time, the WWG believes that the GTR needs to act as a stimulus to the very large investments that are required in renewable electricity generation and electricity grid transmission and distribution system in Ukraine today. The WWG believes that European experience demonstrates that this balance can be found, such that consumers, government, the private sector (both Ukrainian and international investors/developers and Ukrainian and international manufacturers), and the environment all benefit.

While the WWG broadly supports the existing legislation related to the renewable energy sector as a solid basis to begin further development of this sector in Ukraine, there are certain barriers that make it difficult to implement large investment projects for construction of wind farms. Therefore, the WWG proposes the below modifications to existing legislation in order to continue the process of optimizing and refining current legal frameworks, to further increase their efficiency and benefit to the Ukrainian society and to further stimulate private investment into this important business of the future in Ukraine.

Recommendations

1. Local Content (“LC”) Requirement

- a. Link the percent of the LC requirement to the GTR in the following manner:
 - i. LC \geq 30% but less than 50%, GTR of EURO 0.1131/kWh (no change versus current rates envisaged by the Electricity Law)
 - ii. LC <30% but \geq 15%, GTR of EURO 0.1017/kWh (10% decrease versus current rates envisaged by the Electricity Law)
 - iii. LC \geq 50%, GTR of EURO 0.1244/kWh (10% increase versus current rates envisaged by the Electricity Law)

The above rates would apply to all wind power plants (“WPP”) commissioned from January 1, 2014 onwards. The wind power plants commissioned before 01.01.2014 retain the GTR of EURO 0.1131/kWh with the LC \geq 15%, but less than 50%. If the LC for the WPP commissioned before 01.01.2014 is \geq 50% the GTR’s increase for 10% will be applied as described above.

The WWG believes that a “scaled” approach to LC will create a positive incentive for WPP developers to invest into wind farms as opposed to creating a “barrier to entry” as currently happens since the absence of an official procedure explaining calculation and practical application of LCR has already made it impossible for major producers of equipment to act and for most of developers to comply with it.

- b. Approval of the LC calculation procedure by the NERC. When defining the share of local content, the value of project should include all types of components, raw materials, works and services used during construction of the WPP.
- c. We propose to set the clear method of calculating of LC in case of commissioning of the WPP by several launching complexes. During the construction of a large wind farm (for example, 100 MW or more), it is clear that the first launching complex will take the main part of local content (roads, administrative and technical base, power substation, the line of power distribution, etc.). In this case, other launching complexes will be filled almost entirely by foreign components (mainly wind turbines). Therefore, it must be envisaged that, in case of commissioning of wind farm by several launching complexes, the evaluation of LC and the assignment of the appropriate GTR will have to be based on design estimates. After starting the last launching complex the defined earlier LC and GTR will be confirmed (or changed) upon construction of the whole wind farm.

2. Electrical Grid Connection Issues

- a. Allow for an increase in the GTR of 10%, for the lesser of:
 - i. five years from start of operation, or;
 - ii. until all investment costs in a power transmission line (“PTL”) and related grid connection infrastructure are reimbursed,

for any WPP developer/investor that builds its own PTL and/or takes other actions aimed at developing or strengthening grid connection infrastructure using its own capital. The rationale here is to create an incentive for WPP developers to invest into electrical grid line connection/capacity since currently national Transmission System Operator and electricity distribution companies clearly lack funds necessary for connecting RES power plants to the electrical grid except for a few, limited exceptions.

- b. Approve a clear and transparent procedure for connection of WPPs to the electrical grid, valid throughout all of Ukraine, that in particular provides effective mechanism for establishing grid interconnection queue that is transparent and defined on the basis of clear criteria, as well as obligates an electrical grid owner/operator to provide preliminary opinion back to a WPP developer regarding the technical possibilities to connect a proposed WPP to the electrical grid of Ukraine within a reasonable period of time
- c. Allow WPP operators to obtain licenses to maintain PTLs and other grid infrastructure objects, if they take a decision to construct and own them with purpose of connecting WPP to the grid.

3. Taxation

- a. Reduce VAT on LC to 0%. Current legislation creates a dis-incentive, from a tax perspective, for WPP developers to purchase products related to renewable energy power production in Ukraine, as VAT is only refunded later, following commencement of power generation, which dramatically increases required capital prior to commencement of power generation (and revenue generation).

4. Power Purchase Agreement (“PPA”)

- a. Revise the existing format of the standard Power Purchase Agreement approved by the NERC and used by the Wholesale Electricity Market Operator (“**WEM Operator**”) in order to make it a “bankable document” accepted by major international financial institutions
- b. Revise GTR legislation to allow for the signing of a preliminary Power Purchase Agreement between the WEM Operator and a WPP, in an agreed format that is “bankable” according to international standards. The Preliminary PPA would be authorized for execution between the WEM Operator and the WPP, following the WPP’s receipt of a building permit provided that construction commences within twelve (12) months following execution of the Preliminary PPA and receipt of a building permit. The term of the Preliminary PPA would reflect the actual proposed term of construction of the WPP plus an agreed “contingency time allowance” of say, 6 months.

5. Clarification/Simplification/Elaboration of Procedures

- a. Simplify the procedure to qualify for import VAT and customs exemption for import of alternative energy/energy efficiency equipment by removing the requirement to approve the list of respective equipment on the level of the Cabinet of Ministers
- b. Clarify at the level of normative and technical documents the category of construction complexity related to design and construction of a WPP.

6. Green Tariff Rate¹

- a. Connect the GTR to the LC requirement per Point 1 above.
- b. Add annual an inflation indexation to the Green Energy Tariff. The current Green Energy Tariff does not foresee any inflation indexation, which is industry standard in Europe. Given that the useful life of a wind park is twenty (20) years and given that inflation is a constant factor in Ukraine as well as in Europe, the Green Energy Tariff will become significantly depleted and less effective over time without the addition of an inflation indexation mechanism. Inflation indexation mechanisms are standard in Ukraine and are widely-used in various settings, so the application of an inflation indexation mechanism to the Green Energy Tariff has a precedent in Ukraine.

The WWG would be pleased to participate in and support the process of developing the specific legislative amendments needed to properly and legally implement the above recommendations, including the preparation of specific Draft Laws, by agreed deadlines, for consideration and review by the relevant authorities and stakeholders.