


Renewable Energy in Ukraine

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Renewable energy continues its astonishing growth in Ukraine, making it one of the most attractive industries for investment. In particular, Ukraine has huge potential in electricity production from solar, wind, biogas and other renewable energy sources, allowing it to implement large-scale projects.

Due to the favorable legal framework brought into line with global trends, the renewable energy sector is gradually becoming more investor-friendly. Over the past year support from international organizations, financing by foreign banks and successful development of the renewable energy industry have been playing a key role in attracting foreign investment into Ukraine.

The feed-in tariff has been one of the major drivers of the massive growth shown in recent years. The feed-in tariff contributed to creating a competitive market in Ukraine, with foreign investors having a strong presence. The existing feed-in tariff scheme is now expected to be partially replaced by renewable energy auctions, a support scheme that provides optimal promotion for renewable generation. The respective bill is currently being finalized, and will most likely take effect on 1 January 2020.

CURRENT STATE OF PLAY IN THE INDUSTRY

The number of commissioned renewable energy projects has grown spectacularly over the last 2-3 years, and particu-

larly over the past year. In 2018, the total installed renewable energy capacity rose to 2,100 MW — almost a threefold increase (without taking into account installations in Crimea). Moreover, in 2018, about 200 newly-completed projects were connected to the grid and qualified for the feed-in tariff.

The total capacity of projects installed in 2018, primarily in the field of solar, wind and biogas, totalled around 745 MW. It should be noted that a pivotal role in financing renewables in Ukraine is played by international banks as most of the projects completed in 2018 were carried out

by foreign investors or with their participation.

2019 is expected to be the turning point in the number of investments and construction of alternative energy facilities. This can already be seen in the first quarter of 2019 by the fact that a lot of facilities were commissioned and investors announced their plans to complete their projects in 2019.

FEED-IN TARIFF RATES: MAIN ATTRACTION FOR INVESTORS

To stimulate the operation and development of renewable energy sources in Ukraine, a special feed-in tariff was introduced in 2009. The feed-in tariff for renewable energy projects in Ukraine is one of the highest in the world, making investment into this sector especially attractive.

The feed-in tariff is fixed in EUR until 2030. However, it is paid in the national currency, i.e. in UAH. All generated power, except for electricity for personal use, shall be paid for at the feed-in tariff rates.

In Ukraine, renewable power producers sell their electricity to the so-called “guaranteed buyer”, who is obliged to off-take “green” electricity generated under the feed-in tariff, regardless of the installed capacity.

Type	Capacity(kW)	Commissioning date				
		01.07. – 31.12.2015	2016	2017 – 2019	2020 – 2024	2025 – 2029
Ground-mounted solar power plant		0.1696	0.1599	0.1502	0.1352	0.1201
Rooftop solar power plant		0.1804	0.1723	0.1637	0.1475	0.1309
Wind turbine	≤600		0.0582		0.0517	0.0452
	>600 – ≤2000		0.0679		0.0603	0.0528
	>2000		0.1018		0.0905	0.0792
Biomass			0.1239		0.1115	0.0991
Biogas			0.1239		0.1115	0.0991
Hydro plant	≤200		0.1745		0.1572	0.1395
	>200 – ≤1000		0.1395		0.1255	0.1115
	>1000 – ≤10000		0.1045		0.0942	0.0835
Geothermal energy			0.1502		0.1352	0.1201
Solar power for private household	<30	0.2003	0.1901	0.1809	0.1626	0.1449
Wind turbine for private household	<30		0.1163		0.1045	0.0932

DLF ATTORNEYS-AT-LAW

DLF Attorneys-at-Law is a Ukrainian law firm that provides consultancy services to mainly English and German speaking clients on various matters on doing business in Ukraine. We have vast expertise in corporate, M&A, insolvency, antitrust, labour, competition, IP, renewable energy law, advertising law, privatization, agriculture, real estate and tax law as well as in litigation and dispute resolution.

Our core customers are SMEs from various fields. We offer them tailor-made and economically viable solutions. We are also a reli-

able business partner for a number of listed corporations and their subsidiaries in Ukraine. We represent our clients in a wide range of industries: IT, engineering, agriculture, life sciences and healthcare, renewable energy, foodstuffs, pharmaceuticals and chemicals, management consulting as well as home appliances.

Our team is multilingual and led by two partners, Igor Dykunsky, LL.M. and Andriy Navrotskiy, LL.M. Most of our lawyers graduated from Ukrainian law universities and successfully

continued their studies abroad, particularly in England and Germany. Our experts are held in high esteem in professional circles thanks to their expertise on special features of doing business in Ukraine.

Our attorneys not only understand the needs of clients, but also their business philosophy and the specific needs of their respective business models.

We have a close working relationship with various business associations in Ukraine. We also come recommended by a number of foreign embassies operating in Ukraine.

The size of the feed-in tariff depends on the date on which the electricity generating facility was commissioned. The feed-in tariffs applicable to different renewable energy sources are shown in the table represented above (in EUR).

The government encourages investors to use Ukrainian origin equipment by adding a relevant premium to the feed-in tariff throughout the entire period of feed-in tariff provided that the electricity generating facilities are commissioned by 31 December 2024. If at least 30% of Ukrainian origin equipment is used, the premium to the feed-in tariff will be 5%. If at least 50% of Ukrainian origin equipment is used, the premium to the feed-in tariff will be 10%. However, it should be noted that the premium to the feed-in tariff does not apply to renewable energy installations set up by private households.

Renewable energy installations with a capacity of up to 30 kW can be set up by private households for the purpose of producing and selling excess solar or wind generated electricity to the grid at the feed-in tariff rates.

WHAT TRENDS ARE EXPECTED IN 2019?

In December 2018, a law, providing for temporary VAT exemption on the importing of equipment used to construct renewable energy facilities, was passed by the Ukrainian Parliament. The law is applicable to certain imports according to the subcategories of goods under the Ukrainian Classification of Goods for Foreign Economic Activity. VAT on importation of principal equipment, imported to build wind and solar power facilities, is not payable until 31 December 2022.

The said law also provides for substantial simplification of land alloca-

tion for the placement of renewable energy facilities. It is now sufficient if existing land plot falls under the category of “lands of industry, transport, communications, energy, defense and other purposes”. This will considerably simplify the building of renewable energy plants by reducing unnecessary bureaucratic procedures. This, in turn, will significantly shorten the time required for starting construction of renewable energy facilities. These amendments facilitate the timely construction and commissioning of the “ready to build” solar projects in Ukraine by the end of 2019, as well as securing the feed-in tariff.

2019 is expected to be a year of change for support of the renewable energy sector. In particular, state support to clean power producers shall be provided on a competitive basis, namely through auctions and introduction of tenders. The respective bill was passed in the first reading by Parliament in December 2018. Providing the bill is adopted in its final reading, with effect from 1 January 2020, the support of green electricity producers constructing renewable energy projects with a certain capacity will only be possible subject to their participation in auctions for the allocation of quotas. The advantage of “green” auctions over the current feed-in tariff scheme consists in a longer support period (20 years after the commissioning of facilities) and in guaranteed off-take of all renewable-generated electricity at the auction price.

Thus, in 2020, the capacity requirements for renewable energy installations to take part in auctions will be as follows: wind energy installations with a capacity exceeding 20 MW and installations producing electricity from other renewable energy sources with a capacity of over 10 MW.

The existing system of support for “clean” energy producers through the feed-in tariff scheme is guaranteed until 2030, and applies to the energy producers who will commission renewable energy facilities or sign a pre-PPA before 1 January 2020 even if the installed capacity exceeds the capacity for which “green” auctions are mandatory.

Starting from 2020, feed-in tariff rates will be cut further (compared to the current decrease; currently, the law provides for a 10% reduction in 2020 (see the table). Pursuant to the bill on green auctions, expected to be passed later this year, the feed-in tariff for solar power plants will be reduced by 25% with a further decrease of 2.5% annually for 3 years. For wind energy facilities, the reduction will be 10% and 1.5%, respectively.

It is noteworthy that the tariff reduction applies only to the main sources of renewable energy — solar and wind. For biogas, biomass and small hydropower, the incentives will remain unchanged. Moreover, discussions are under way on the need to increase incentives for these energy sources so as to improve their investment attractiveness.

In order to ensure competition at “green” auctions, the annual quota, which can be purchased by one auction participant, will be fixed. The auction winner will be the company that offers the lowest price for electricity supply. At the same time, the starting price will be the price according to the rate of the corresponding feed-in tariff.

Furthermore, the bill on “green” auctions provides other novelties of significant importance that most likely will be introduced before the passing of the bill, and which should certainly be considered by foreign investors when they plan their projects.