

## How much could be earned through "green" energy?

Starting from April 2009 Ukraine makes efforts to financially stimulate generation of electricity from alternative sources of energy. Such stimulation results in, first of all, legislative provision for feed-in tariff, i.e. the guaranteed obligation of the state to purchase generated "green" energy from producers, and also in establishment of a significant number of tax benefits for producers of alternative energy.

For several years feed-in tariffs in Ukraine for electricity produced by the ground-mounted solar power plants were the highest in the world, which had not always been economically justified. Following significant changes in the procedure for calculation of feed-in tariff (which were introduced in June 2015), there are prospects that the amount of state aid and conditions of such aid will not be changed in at least next few years.

Until 2015 the producers of "green" energy enjoyed more tax benefits than now. Amendments made to the Tax Code of Ukraine in late 2014 cancelled tax privileges for producers of electricity from alternative energy sources concerning income and land taxation.

As of today, the alternative energy sector remains to be attractive for investors despite certain peculiarities of financing such projects in Ukraine, cancellation of some tax benefits and decrease of the amount of feed-in tariff. There is also interest in this sector on the part of communal enterprises, which aim to sort out problems with landfills and wastewater treatment plants or optimize street lighting in the cities. So how much could be earned through "green" energy?

### Feed-in tariff

As of 16 July 2015, there is a new procedure for calculation of feed-in tariff, i.e. the special tariff for purchase of electricity generated from alternative energy sources (except for blast furnace and coke gas, and for hydro plants with capacity of up to 10 MW). In addition, a possibility to make money out of production of electricity from alternative energy sources might be employed both by legal entities (industrial plants) and households. The households may now be equipped not only with solar power plants, but also with wind turbines with capacity of up to 30 kW (not exceeding capacity allowed under the agreement on electricity use).

The new procedure for calculation of feed-in tariff is established by the Law of Ukraine "On changes to certain acts of Ukraine in relation to provision of competitive conditions of electricity generation from alternative energy sources" dated 4 June 2015, which amended the Law of Ukraine "On electricity". It is worth mentioning that feed-in tariff for electricity generated at plants, which have been commissioned during previous years, will continue to be applicable in the amount, which was specified for each type of energy object.

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The feed-in tariff is fixed in euro until 2030, and its amount is specified by multiplication of the retail tariff for consumers of the second voltage type as of January 2009 (UAH 0.5846, at that time EUR 0.05385) by the feed-in tariff coefficient for the relevant type of alternative energy. However, now the National Commission for State Energy and Public Utilities Regulation will quarterly (used to be monthly) convert the feed-in tariff into national currency on the basis of the average official currency rate of the National Bank of Ukraine. All generated electricity, except for volumes for personal needs, will be paid under the feed-in tariff.

Another new development was introduction of the feed-in tariff for electricity generated from geothermal energy.

Wholesale electricity market of Ukraine is obliged to purchase such "green" energy under feed-in tariff and make full payment for the cost of electricity, regardless of the installed capacity or volume of supply.

### **Amount of feed-in tariff**

The amount of feed-in tariff depends on the commission date of the electricity generation object, including phase of construction of the electricity station (launching complex), that produces electricity from alternative energy sources. The certificate issued by the authorized state construction body, which certifies compliance of the constructed object with the project documentation and its operational readiness (for objects of categories IV and V of difficulty), or the registered declaration on operational readiness of the constructed object (for objects of categories I-III of difficulty) serve as confirmation of the fact and date of commission.

Starting from July 2015, the amount of feed-in tariff for solar plants of industrial purpose was decreased. Such decrease took place due to cancellation of tariff coefficient (1.8) applied to the peak period.

The feed-in tariff for electricity generated from wind power remained unchanged and depends on single unit capacity of the wind turbine.

The feed-in tariff for electricity generated from biogas and biomass was increased. In addition, biomass was legally defined as non-excavated biologically renewable substance of organic origin, which is capable of biological decomposition, such as products, waste, fishery, forest and agriculture (crop and livestock) residue and residue from the technologically connected industry areas, as well as components of industrial or domestic waste capable of biological decomposition.

As the feed-in tariff coefficient has increased, the feed-in tariff for electricity generated by hydro plants is now significantly higher.

The feed-in tariff is as follows (EUR):

Type	Capacity (kW)	Commission 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

If within the electricity object (including at the commissioned electric power stations, launching complexes) that uses alternative sources of energy there are several coefficients (and, respectively, different amounts) of feed-in tariff applied, special commercial accounting for each phase of construction (launching complex) and/or station shall be established.

### Premium to feed-in tariff

The mandatory local content requirement (share of components of the electricity object of Ukrainian origin used during construction of the electricity object) was cancelled. As of now, the use of equipment of Ukrainian origin by the investors will be stimulated by the relevant premium to the feed-in tariff (throughout all term of its validity), if the electricity objects (phases of construction, launching complexes) are commissioned between 1 July 2015 and 31 December 2024. However, such premium to the feed-in tariff is not applicable to electricity objects of private households.

If equipment of Ukrainian origin is used at least on the level of 30%, the premium to the feed-in tariff will be 5%. If equipment of Ukrainian origin is used at least on the level of 50%, the premium to the feed-in tariff will be 10%.

On 26 February 2016, the Procedure for determining the level of use of Ukrainian-made equipment on electricity objects that produce electricity from alternative sources of energy and establishment of the relevant premium to feed-in tariffs became effective. Ukrainian origin of equipment shall be confirmed by the appropriate certificate on Ukrainian origin issued by the Ukrainian Chamber of Commerce.

The level of use of equipment of Ukrainian origin at the power plants that generate electricity from alternative energy sources is defined as the sum of respective percentages of specific items of equipment. Thus, for blades and towers such indicator is established at the rate of 30%, for gondolas and main frames at 20%. By using solar power photovoltaic modules of Ukrainian origin one may expect a premium to feed-in tariff of 5%, as the specific percentage for photovoltaic modules is 40%; for mounting systems for photovoltaic modules, inverter equipment, energy accumulation and tracking such specific percentage is 15%. The Law provides a list of equipment for each type of alternative energy source that qualifies for the feed-in tariff premium.

### **Tax benefits – money as well?**

“Import” VAT and import/export duty

Pursuant to Article 197.16 of the Tax Code of Ukraine, no VAT is applicable to transactions on import to the territory of Ukraine of:

- equipment which is functioning on the basis of alternative energy sources, energy saving equipment and materials, means of measuring, control and management of energy resources, equipment and materials for production of alternative types of fuels or electricity from renewable energy sources;
- materials, equipment, components for manufacturing equipment, which is functioning on the basis of renewable energy sources; raw materials, equipment and components for production of alternative types of fuels or electricity from renewable energy sources; energy saving equipment and materials, products whose operation provides saving and rational use of energy resources; means of measuring, control and management of energy resources.

Pursuant to Article 282 of the Customs Code of Ukraine, the abovementioned goods are exempt from import and export duties. However, such goods are exempt from “import” VAT and import/export duty only if the taxpayer uses them for own production and if no identical goods with the same qualities are produced in Ukraine.

It is worth mentioning that the list of such goods with specification of codes under the Ukrainian Classification of Foreign Economic Activity Products should be established by the Cabinet of Ministers of Ukraine. However, as of today such list is not approved and, as a result, it is impossible to apply this tax benefit until adoption of the relevant resolution by the Cabinet of Ministers of Ukraine.

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### Excise tax

Transactions concerning sale of electricity generated by qualified cogeneration units and/or from renewable energy sources are not subject to excise tax pursuant to Article 213.2.8 of the Tax Code of Ukraine.