

Reduction of Feed-in Tariffs in Ukraine

1. New law on renewable energy
2. Feed-in tariff rates
3. Feed-in tariff term
4. Liability for imbalances of RES producers
5. State guarantees regarding the legislation invariability
6. Procedure for feed-in auctions has been clarified
7. Conclusion

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1. New law on renewable energy in Ukraine

The Law of Ukraine "On Amendments to Certain Laws of Ukraine on Improvement of Conditions of Support of Electricity Production from Alternative Energy Sources" became effective on 1 August 2020. This Law is the result of agreements reached between the Government of Ukraine and the Ukrainian associations of alternative energy producers to overcome the recent crisis in the sector.

Related article: Legal Due Diligence of renewable energy projects in Ukraine

The main amendments made by the Law:

- Reduced feed-in tariffs;
- Introduced liability for imbalances for RES producers;
- Provided possibility of financial support of the guaranteed buyer from the state budget in the amount of no less than 20% of the projected electricity generation from renewable sources for a respective year;

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- Clarified procedure for feed-in auctions;
- Determined the transmission system operator responsible for compensation for electricity lost due to the execution of operator commands to reduce and / or limit the load;
- Provided the state guarantee regarding the invariability of the legislation in force on the day of the Law adoption for electricity producers under the feed-in tariff.

2. Feed-in tariff rates

Feed-in tariff rates have been reduced since 1 August 2020. Feed-in tariff has been reduced only for solar and wind power plants.

Currently, the feed-in tariff rates (in EUR) are as follows:

(Click on the image for full view)

Moreover, the universal service provider is obliged to purchase electricity generated by generating installations of private households (the capacity of which does not exceed 50 kW) at feed-in tariff and to make priority payment for its cost in each billing period. Electricity generated by private households is purchased in the volume in excess of the monthly electricity consumption by such private households,

Note! The tariff limit has not been set for biogas / biomass. However, Part 3 of the Final and Transitional Provisions of the Law "On Amendments to Certain Laws of Ukraine on Improvement of Conditions of Support of Electricity Production from Alternative Energy Sources" stipulates that the feed-in tariff for producers of electricity from biomass and / or biogas is set exclusively for electricity generated by facilities commissioned before 1 January 2023.

3. Feed-in tariff term

The feed-in tariff support system will operate until 31 December 2029.

4. Liability for imbalances of RES producers

Balance liability is the obligation of market participants to report and follow hourly schedules of electricity in accordance with the volumes of purchased and sold electricity and to bear financial liability for settling imbalances.

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Producers now compensate a share of the cost of settling the guaranteed buyer's electricity imbalance for the deviation of actual hourly volumes of electricity supply from their hourly electricity supply schedules. This applies both to electricity producers under feed-in tariff, and producers which have acquired the right for support as a result of the auction, and which are part of the balancing group of the guaranteed buyer. Compensation is made in accordance with the Law and the operation rules of the balancing group of the Guaranteed Buyer.

It should be noted that the inclusion of a producer of electricity from renewable energy sources in the balancing group of producers under feed-in tariff (balancing group of the Guaranteed Buyer) is a prerequisite for sale of such energy to the Guaranteed Buyer.

For different types of electricity producers, different deadlines for introducing full liability for imbalances have been set.

5. State guarantees regarding the legislation invariability

The law guarantees the invariability of legislation and tariffs for the entire feed-in term. It should be noted, however, that the obligation on legislation invariability was also provided for in previous regulations, but this did not affect the adoption of the Law.

6. Procedure for feed-in auctions has been clarified

All wind power producers with an installed capacity of over 5 MW shall participate in auctions. Previously, facilities with three wind turbines, regardless of the installed capacity of such wind turbines, were not obliged to participate in feed-in auctions.

The Government of Ukraine sets the annual quota and the schedule of auctions for each following year (previously the quota was set for 5 years).

The annual quota can now:

- define separate areas (regions) for construction of renewable energy facilities;
- define the maximum values of the capacity of the electricity facility or the order of its construction (start-up complex), in respect of which the electricity producer can acquire the right for support at the relevant auction;
- propose land plots for construction of renewable energy facilities with certain technical parameters and technical conditions for connection to the electricity grid;
- propose roofs and/or facades of buildings and other capital structures that can be leased for the construction of renewable energy facilities that produce electricity from solar power with certain technical parameters and technical conditions for connection to the grid.

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The minimum share of the annual support quota for solar and wind power plants, as well as for other types of renewable energy sources has been reduced from 15% to 10%.

There is also a clear starting price for feed-in auctions. Previously, the starting price was the price at the level of a respective feed-in tariff. From now on, the starting price is as follows:

- for wind and solar power plants for feed-in auctions, held by 31 December 2024 – not more than 9 eurocents per 1 kW/h;
- for wind and solar power plants for feed-in auctions held from 1 January 2025 – not more than 8 eurocents per 1 kW/h;
- other types of renewable energy sources – not more than 12 eurocents per 1 kW/h.

7. Conclusion

In terms of the energy market, the Law has positive and negative consequences. The introduction of liability for imbalances is a positive change that balances the legal position of electricity producers from renewable sources in relation to other market participants.

However, the introduction of reduction factors, in particular, the retrospective reduction of feed-in tariffs and violation of obligations to investors by the state raises many questions. In the long term, the Law may lead to a series of lawsuits against the state of Ukraine.

In addition, the unilateral change of feed-in tariffs by the state is likely to cause doubts among investors in the reliability of investing in Ukraine and, as a consequence – a decrease in investment or return of investments.

This Law will not resolve the renewable energy crisis in Ukraine, as it was brought about not solely by the unreasonably high feed-in tariffs, but a whole range of problems in the industry.