

Open letter

**to the President of Ukraine , the Verkhovna Rada of Ukraine and the Cabinet of Ministers of
Ukraine**

from the renewable energy sector players

29.10.2019

Recently, Ukrainian government officials have made insufficient and manipulative comments on the renewable energy sector in Ukraine in their public statements. Association and its members, which include more than 100 renewable energy licensees, are deeply concerned about the current crisis in the industry and feel that we need to openly communicate our position to you and provide suggestions on how to address it.

Firstly, we would like to emphasize that the manually regulated Ukrainian sector of the traditional generation creates chronic problems for the state.

Secondly, as the private investors and Ukrainian tax payers we would like to focus on the major challenges which the sector and society are currently facing:

- *The energy generating system of Ukraine is one of the most technically and morally obsolete in the world.* The average obsolescence rate of the equipment is 87%. This means that practically all power plants constructed in the Soviet time should be either closed or completely renovated in the next 15 years. Ukraine has an option of investing in modern technology and securing its energy independence or gradually turning into an import-reliant state living in a constant fear of potential accidents similar to the Chernobyl disaster. The renewable energy industry is the only new and reliable type of generation which is not dependent on the fossil and/or imported fuel.
- *The Government does not properly inform Ukrainian citizens about the disastrous technical and financial conditions in the sector.* The society does not realize that the coal and uranium production in Ukraine is one of the most expensive and least efficient in the world. The emission levels of the industrial thermal power plants and combined heat and power generating plants substantially undermine the ability of Ukraine to reach the targets set forth in 4th EU Energy Package. In 2022, the Ukrainian energy system should be disconnected from the energy systems of the Russian Federation and Belarus and in 2023 it should join ENTSO-e that, which will require considerable funding. In the nearest future it is necessary to invest approximately EUR 4 billion only in pumped storage power plants. Without the necessary changes in the development strategy, Ukraine's energy system will go bankrupt, even without the costs of renewable generation.
- *The citizens are completely unaware of the actual costs of the traditional generation.* The price of "cheap" nuclear generation does not take into account the full costs of the generation process (including approximately EUR 15 billion that will be allocated in the next 15 years for the provision for decommissioning NPP generating units). This price will be paid by our children. Billions of hryvnias from the state budget are annually allocated for maintenance of those assets that should have been covered by the corresponding tariffs of the traditional generators. In total, Ukraine spends more on supporting the "cheap" generation by means of taxes than investing into the renewable industry.

- *The civilized world has already made its final decision in favour of the clean energy.* The LCOE for the nuclear or thermal generation is higher than, for example, the wind generation. It is the total cost of generation over the period that the technology is used which should be taken as a basis for comparison purposes. It is manipulative to compare the artificially low and state-subsidised tariffs for the Soviet-era power plants, which have reached the end of their useful life, and tariffs for the present-day renewable generation. It should also be noted that the Ukrainian renewable energy sector is leading in attracting foreign investments (approximately US\$ 8.4 Billion as of the beginning of the 2nd half of 2019, according to BloombergNEF), and the sector has created tens of thousands of working places. Moreover, instead of destroying the renewables industry, the Government should have applied the same incentive mechanisms to other industries. The cash flow paid to the state within the first 10 years of operation of a green generation facility (income tax, VAT, land and water use tax, social security tax, interest to state banks etc.) approximates the cash flow to be received by the investors. The renewable energy industry is a fair tax payer in the energy sector. The focus on the issue of relatively high feed-in tariffs is unjustified. The share of green energy generation in Ukraine is only 4% (exclusive of large state-run HPPs), while in terms of the share of revenues of the sector, including the budget subsidies of conventional generation, it comes to about 7%. Without outside pressure, the industry individually initiated the adoption of the required draft laws by the Verkhovna Rada regarding implementation of an auction system for the support scheme instead of the feed-in tariff system from 2020, which will facilitate further reduction of clean energy prices. Ukraine undertook international commitments to reach the share of green energy of 25% by 2035 and all of us have to work hard to reach this goal.
- *The environmental conditions and ecology in Ukraine are the issues that stand out.* The issue of CO2 emissions in Ukraine is, first and foremost, an issue of the nation's health. The issue with accumulation of industrial and domestic waste remains unresolved. Today it is an issue of extreme importance to include the cost for environmental reclamation after coal/gas production and their combustion into the real price of thermal generation. Otherwise, do we have to leave the moonlit scenes from the waste piles, and abandoned watersealed mines, ash and slag disposal dumps for future generations? The price of the Chornobyl catastrophe alone exceeds all the possible costs of Ukraine for the RE100 strategy.

The renewable energy industry, energy saving, energy efficiency, energy storage systems, decarbonisation, ecologisation and association with ENTSO-e have to become the only priorities for the development of the energy system of Ukraine. We offer the following plan to defuse the tension in the green energy sector in Ukraine:

1. All branches of power have to stop threatening the national and foreign investors with a possible retroactive review of the investment guarantees. This is the only way how we can define the approval of Draft Law No.2236-2 by the Verkhovna Rada of Ukraine's relevant committee and preparation of other legislative initiatives violating the legislatively guaranteed rights of business entities producing electricity from renewable energy sources. Such initiatives violate not only Ukraine's national legislation, but also international commitments undertaken by the state under the Energy Charter Treaty and several dozens of international agreements on reciprocal protection of investments. These actions are also discriminatory and contradict the goal of decarbonisation and provisions which is enshrined in the European Union law. **As investor representatives, we strongly oppose the retroactive review of the state's commitments concerning investments already made.** If Ukraine breaks the commitments it undertook as a state, it will result in reputation damage and negative image for Ukraine among the existing and potential investors. Such actions will give investors grounds to claim their damages in international arbitration. Global experience proves that reckless steps also lead to significant financial losses for the country's budget, which are losses of each Ukrainian citizen.
2. The government has to update the Energy Strategy of Ukraine and clearly set its goals and priorities in developing the energy sector of Ukraine taking into account the Ukraine's international commitments. The priority should be given to the development of renewable energy, pumped hydro and other types of energy storage systems, the development of smart grids and small dispersed generation. The strategy

should include a clear plan for the decommissioning of old capacities in 20-30 years in advance including proposals for their replacement by RES.

3. The situation requires the Government to privatise all coal mines, TPPs and CHPPs urgently. The privatisation delay causes billions of losses relating to the maintenance of these facilities at state expense. The Ukraine's budget should be used for social and national purposes but not for coverage of the companies' costs that are included in the production cost (for example, the costs of fuel production and storage of nuclear waste must be fully included in the tariff).
4. The Verkhovna Rada and the Government should openly admit that the citizens of Ukraine technically consume the cheapest electricity in Europe, but actually pay for it through higher cost of goods and services, deterioration of the country's balance of payments and deferred costs. It is necessary to provide for a transition to the market prices of electricity for households. 3.6% of Ukrainian citizens (wealthier classes) consume about 18.8% of the household electricity consumption at reduced tariffs. It is necessary to set market prices for electricity for such segments of the population, and to ensure provision of subsidies only for the vulnerable categories of consumers. Such subsidies (approximately UAH 5.5 billion) will be financed from the state budget revenues from the excise tax on electricity (approximately UAH 6.8 bln). Although such changes are difficult for the country, they are absolutely inevitable in the medium term. The longer the country delays, the higher the political and economic cost of moving to the market pricing is.
5. We welcome the opportunity for constructive dialogue initiated by the Ministry of Energy and Environmental Protection in the framework of the Working Group with the participation of RES market players and associations, and propose the following comprehensive solution to reach consensus:
 - *Change the conditions of providing state support for the projects having power purchase agreements under the feed-in tariff framework that were concluded before 31 December 2019 between the guaranteed buyer and a business entity that intends to generate electricity from alternative energy sources (pre-PPA). In particular, the government should reduce the period for commissioning of such facilities and allow a voluntary restructuring of the terms of such pre-PPAs by reducing the feed-in-tariff with simultaneous prolongation of the term of such agreements. In addition, the State should launch the auctions that would set substantial quotas providing an opportunity for implementation of the projects that had signed pre-PPAs.*
 - *Revoke the VAT benefit relating to import of RES equipment to the customs territory of Ukraine. Specifically, the government should remove the provisions of the Tax Code of Ukraine relating to tax exemption of the import operations to the customs territory of Ukraine of equipment operating on renewable energy sources. This will substantially increase the tax proceeds to the budget of Ukraine.*
 - *Increase a tax on electricity imported from the countries, which are not members of the Energy Community in order to finance development of the renewable energy sector in Ukraine and energy saving measures.*
 - *Revoke an excise payment benefit from selling electricity generated from the renewable energy sources (3,2%) and provide that the excise collected from electricity sales (including electricity generated from renewable sources) is to be exclusively allocated to the state budget fund intended to monetize the benefits and subsidies for housing and utility services and electricity cost.*
 - *Increase the tax rate for carbon dioxide emissions with a simultaneous obligation to pay tax for carbon dioxide emissions by all subjects irrespective of such emission volumes. In particular, the government should revoke the Tax Code of Ukraine provisions that exempt producers of less than 500 tonnes carbon dioxide emissions a year from such tax payments. In addition, the government should allocate such additional tax receipts to the state budget fund for performance of the state guarantees in a renewable energy sector.*

We would like to highlight again that we highly appreciate the invitation for dialogue, an initiative to set up the working groups that include the Ministry and we are ready to work together with the authorities to reach a mutual understanding. in order to develop Ukraine as an energy self-sufficient, investment-attractive and environmentally friendly county.

We hope that our proposals will contribute to reaching a well-considered and balanced solution acceptable for all interested stakeholders which will ensure sustainable development of the sector and enable further investments in Ukraine.

Sincerely yours,

Chairman of Ukrainian Association of Renewable Energy



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