



[Translation from Ukrainian to English]

The President of Ukraine
Mr. Volodymyr Zelenskyy

Prime Minister of Ukraine
Mr. Denys Shmyhal

Minister of Energy of Ukraine
Mr. Herman Galushchenko

copy: **Chairman of the National Energy and
Utilities Regulatory Commission of Ukraine**
Mr. Kostiantyn Uschapovskyy

August 11, 2022

*Regarding the threat of bankruptcy of the
RES sector - the most transparent and
attractive for investments sector in the energy
industry of Ukraine*

Dear Volodymyr Oleksandrovych!

Dear Denys Anatoliiovych!

Dear Herman Valeriovych!

Ukrainian Wind Energy Association (UWEA), Ukrainian Association of Renewable Energy (UARE), European-Ukrainian Energy Agency (EUEA), and the Solar Energy Association of Ukraine (ASEU), together uniting more than 90% of the renewable energy market of Ukraine express their deep respect and gratitude to you for the possible and impossible efforts you are making to save Ukraine. During this time, difficult and extremely challenging for all sectors of the economy, please allow us to address you with a number of issues due to which the national sector of renewable energy sources (RES) is on the verge of survival and the solution of which requires your involvement.

The total capacity of all “green” energy facilities at the beginning of 2022 reached 9.6 GW, including industrial SPPs – 6.4 GW, WPPs – 1.7 GW. The majority of industrial RES power plants (namely about 60% SPPs and more than 85% WPPs) are concentrated in the southern and south-eastern regions of Ukraine - location of active hostilities due to which about 75% (1.3 GW) WPPs and about 15 % (1 GW) SPPs are destroyed, damaged or under occupation. In this situation, RES producers were left alone with the consequences of a full-scale war, without counting on state support.

Therefore, in 2022, the energy system of Ukraine will be supplied only with 7.6 billion kWh instead of 13.6 billion kWh of “green” electricity, i.e., the drop in RES electricity production will be about 45%.

Settlements with RES sector

Starting from March 2022, the Ministry of Energy of Ukraine **artificially limited the level of settlements with RES producers** by its Order No. 140 dated March 28, 2022. In particular, until the beginning of July 2022, the level of settlements with SPP producers was reduced to 15%, and with

WPP producers - to 16%. SE Guaranteed Buyer allocated the remaining part of the funds from the sold electricity from RES producers to settlements with SE NNEGC Energoatom and NPC Ukrenergo.

In this regard, the **industry found itself on the verge of default**, but had a sympathetic attitude to the decision of the Ministry of Energy of Ukraine, because considered it temporary and necessary for the sustainable functioning of the energy sector in the first months of the war.

With its next Order No. 206 dated June 15, 2022, which entered into force on July 5, 2022, the Ministry of Energy of Ukraine set an extremely low level of payments to the RES producers, namely 18%, but, on the other hand, it obliged SE Guaranteed Buyer to allocate all funds to settlements with “green” generation exclusively. As of August 1, 2022, the level of settlements with the renewable energy sector since March 2022 did not exceed 30%, with possible level of 50–60%.

Since the beginning of March 2022, NPC Ukrenergo has not made any payment for the service of ensuring an increase in the share of electricity production from RES to the address of SE Guaranteed Buyer. At the same time, the assessment of the ability of NPC Ukrenergo to make settlements with the RES is about UAH 16-18 billion, incl. UAH 8-10 billion at the cost of revenues for the electricity transmission and UAH 6-8 billion - from additional sources (loans from international financial institutions, in particular, the EBRD, the EIB, as in case for the settlements for auxiliary services, funds from the cross-border capacity allocation, etc.). **This would allow almost 100% settlement with RES based on the results of 2022.**

In addition, NPC Ukrenergo started settlement with RES producers only in June 2022 for curtailment in the current year, but the level of settlements is only 21%, i.e., at the level of obligations of RES producers to pay value added tax and profit tax. However, curtailment is applied to the RES producers quite often, sometimes on a daily basis.

In addition to the illegal orders of the Ministry of Energy of Ukraine, there is another set of discriminatory and illegal decisions that actually artificially bring the RES industry to bankruptcy:

- 1) With its decision **to stop the adjustment of the feed-in tariff in 2022 in accordance with changes in the EUR exchange rate**, the NEURC violated Article 9-1 of the Law “On Alternative Energy Sources”, which obliges the Regulator to adjust tariffs on a quarterly basis according to the average official exchange rate of the NBU. Thus, as of the end of 2021, the feed-in tariff was calculated at the exchange rate of UAH 30.77/EUR, and as of August 10, 2022, the exchange rate was already 37.38 UAH/EUR. This means that after a significant devaluation of hryvnia, the RES sector will not receive about 21% of the funds necessary to repay foreign currency loans.
- 2) The NEURC, as a Regulator, created such conditions under which the feed-in tariff was actually reduced **by cost of unprecedented fines for imbalances, which in some months of 2022 reached 50% of the cost of supplied electricity** and significantly exceeded the cost of imbalances created by RES producers themselves. To a large extent, the reason for such fines is the actions of other market participants, over which RES producers have no leverage, in particular, the fact that the SE Guaranteed Buyer does not sell the entire volume of electricity in organized market segments and under bilateral contracts, as well as **significant volumes of RES curtailment by NPC Ukrenergo**, which, in accordance with the current laws, should not in any way impact the size of the imbalances of RES producers.

Thus, conditions have been created under which the national RES sector has no chance of survival, as it does not receive funds for settlements with creditors and full financing of its operational activities; therefore, we insist on an immediate review of the said discriminatory decisions.

Feed-in tariff

In addition to the crisis of non-payments in the RES sector, the need to restore destroyed and damaged renewable energy facilities, and the direct threat of bankruptcy, since March 2022, state authorities have repeatedly started discussing the issue of cancelling the feed-in tariff on the ground

of the war and shortage of funds in the electricity market. According to publicly announced information, such negotiations are already ongoing even at a high level with the Energy Community, in particular, on the part of the NEURC.

It is worth emphasizing that in the conditions of a competitive energy market, which is publicly declared at the level of the state authorities, the current level of the feed-in tariff set until 2030 (EUR 88 per MWh for WPP and EUR 110 per MWh for SPP) is a very competitive alternative compared to electricity prices in the EU. For comparison, the average cost of electricity in the EU in July 2022 is: EUR 320 per MWh - Germany, EUR 370 per MWh - Hungary, EUR 400 per MWh - France, EUR 310 per MWh - the Netherlands.

Taking into account the decrease in RES generation after the temporary occupation of some territories of Ukraine and according to preliminary estimates, the total amount of support for “green” generation due to special obligations (PSO) in the electricity market may amount to about UAH 23 billion. But it should be taken into account that the price of electricity in Ukraine is EUR 70 per MWh exclusively due to administrative regulation, because the market price of electricity in neighbouring European countries is currently almost 4-5 times higher. That is, the amount of RES support is an artificial calculation that does not correspond to the real level of industry support under the PSO mechanism. Real support for the RES sector in a competitive environment, as evidenced by the example of European countries, could be minimal.

If a decision is made to cancel the terms of the agreements on the feed-in tariff for RES producers and to stop the payments, even temporarily, Ukraine may lose about 8 GW of RES power plant capacity due to the bankruptcy of the industry. It will definitely lead to the deterioration of Ukraine's energy security and the **loss of its own energy independence. In addition, it will define the framework of further cooperation with international donors in the process of rebuilding of Ukraine.** Also, this, in turn, will lead to a reduction in the amount of electricity available for export, which is extremely necessary for the entire energy export system, which provided about UAH 1 billion in July 2022 of profit for the state operator Ukrenergo, as well as to meet the needs of the population and industry. We also offer to support the position of RES producers regarding involvement of SE Guaranteed Buyer in electricity trade with European countries.

With the start of commercial electricity exports to Europe and the gradual increase in generation volumes, Ukraine can ensure 100% of settlements with RES producers. **Therefore, we believe that the problem of incomplete payment of the feed-in tariff is of artificial origin, and, therefore, should be solved urgently.**

Investments in the industry development

At the Ukraine Recovery Conference 2022 in Lugano, Ukraine declared its intentions to develop RES in front of the whole world. In particular, the Government of Ukraine has set a goal of building new 5-10 GW of wind and solar power plants, and an additional 30+ GW of RES power plants that will be used to produce renewable hydrogen.

In the last 10 years, leading international and Ukrainian RES investors have brought to Ukraine about USD 12 billion of direct foreign investment in the Ukrainian economy. The largest international investors and creditors are the EBRD, US International Development Finance Corporation, BayernLB, Black Sea Trade & Development Bank, Kingdom of Netherlands Ministry of Finance, Investment Fund for Developing Countries, NEFCO, Landesbank Berlin, Bayerische Landesbank, KfW IPEX-Bank, ODDO BHF, VR Capital and others, while the national institutions that finance the RES sector include JSC Ukrgasbank, JSC Oschadbank, and JSC Ukreximbank.

Having a significant potential of renewable energy sources, the export of Ukrainian “green” electricity to EU countries can not only bring significant profits to the state's economy, but also reduce the use of a significant part of Russian energy carriers in Europe. However, the above-mentioned separate initiatives of state authorities contradict the provisions of the European plan REPowerEU and the Recovery Plan of Ukraine and make it impossible to fully implement the energy transition to renewable energy sources.

Moreover, such decisions at the state level endanger the recovery of Ukraine, undermine the confidence of investors and certainly worsen the investment climate of Ukraine, the country in which you, Mr. President, repeatedly called for investment both before and during the war.

The renewable energy sector of Ukraine is an integral component of Ukrainian energy independence and security. The stability of its operation has a direct impact on the extremely difficult autumn-winter period of 2022-2023, the receipt of income from the export of electricity, and the subsequent post-war period of economic recovery and reconstruction of the energy sector of our country.

Taking into account the above, on behalf of the entire RES sector, in order to prevent the bankruptcy of enterprises, we appeal to ensure the continuity of the legally provided guarantees for RES investors, to recommend to the state authorities refraining from any retrospective changes to the current laws, as well as to promote the elimination of the above-mentioned artificial obstacles for activities and settlements with the RES producers.

We emphasize that the RES sector does not need additional financial support or subventions from the state, but strives to receive those funds for the supplied electricity, which are specified by current agreements and current laws of Ukraine.

We thank you in advance for your time on this issue and remain open to dialogue at any time.

Glory to Ukraine! Glory to the heroes!

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