

Energy in East Europe

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Ukraine wind market opens up

A joint venture of Belgium's Greenwrx Holding NV and Turkey's Guris Insaat ve Muhendislik are set to be among the first foreign investors to build a large-scale wind park in Ukraine after acquiring the rights to a 250-MW project known as the West-Crimea WES Wind Park, Tom Hanson, director of Greenwrx Holding NV, told Platts January 9.

The Belgian-Turkish consortium acquired the rights to a fully-permitted 250-MW project from Ukr Wind Investment, a Cyprus-registered company, in a deal finalized last November, Hanson said. The deal includes an option for a further 125-MW expansion.

The development of the project, however, is now pending the outcome of a court hearing to be held later this month over the project's grid connection. Days after completing the acquisition, the developers were notified by the regional electricity distributor Krymenergo that the grid contract had been cancelled owing to the fact that its technical conditions were no longer valid.

Intensive discussions are continuing with the authorities regarding the court case, said Hanson, and the developers are confident they will receive support from the regional government of Crimea, the transmission system operator Ukrenergo and the Ministries of Foreign Affairs and Energy as the developers are

one of the first foreign investors intending to invest in Ukraine's renewable energy sector.

Although Hanson disapproves of Krymenergo's methods (court case was launched without previous discussions), he said he understands Krymenergo is trying to separate the real investors from the opportunist developers as the total demand for grid connection in Crimea is triple to quadruple the size the Crimean grid can handle.

Despite the current legal concerns, Hanson remains confident that the project will proceed as planned. "The equity is available and we expect to have all licenses in place by April or May of this year and to have arranged debt financing by July 2012. Talks have been held with both the EBRD and the International Finance Corporation and both have expressed interest in supporting the project," he said.

The construction timetable will be very closely related to the debt financing, he added. "We hope to start building in Q4 2012 and expect to have the first 125-MW of capacity online and grid connected before January 1, 2014," he explained. Capacity commissioned before the start of 2014 will receive a higher feed-in tariff of €113.1 per MWh. Capacity installed thereafter will be paid €101.7/MWh.

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Czech Coal unveils plant plans

Czech Coal, one of the Czech Republic's leading coal producers and traders, is to proceed with the development of a 660-MW lignite-fired thermal power plant in the northwest of the country, after receiving grid connection approval for the project from the country's transmission system operator, CEPS, company spokeswoman Gabriela Sarickova Benesova confirmed to Platts January 12.

"I can confirm the Czech Coal Group's plan to build its own power plant. We have an agreement in place with CEPS to the effect that CEPS will prepare its facilities so that we will be able to connect our 660-MW coal-fired power station to the grid in 2021," she said.

The planned project to be sited at an as yet unspecified site near the

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Ukraine wind market opens up

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The project will use Wind Class 2 turbines, he said, though which supplier will depend on commercial proposals from manufacturers and, as importantly, on the local content of the turbines to be able to comply with new regulations coming into force this year. Capacity installed this year must source 15% of its equipment from local producers, with the share of local equipment in any renewable project to rise to 30% in 2013 and to 50% by 2014.

The local product content regulations creates further headaches for renewable energy developers, said Hanson, as due to their complexity they can be open to interpretation in Ukraine. In addition, developers only receive confirmation of their feed-in tariffs after completing construction and receiving confirmation that they have complied with the local product regulations, he stated.

Greenworx, which is the green energy arm of Saffelberg Investments, a private equity fund with €250 million of assets, also has interests in a series of renewable projects in Serbia. It is currently building a rendering plant in Indija in the northern province of Vojvodina in a joint venture with compatriots Electrawinds. The €22 million project known as Energo Zelena will produce steam, high calorific biomass and fats from the treatment of slaughterhouse waste. The high calorific biomass will be used as a co-combustion fuel while the fats will ultimately be used to generate electricity. Greenworx is also planning three more projects in Nis and along with Turkish partner Guris it is also looking at exploiting Serbia's geothermal resources.

Guris, a large family owned, Turkish-based but internationally operating general contractor is increasingly active in the energy market. Guris owns and operates several renewable energy projects (mainly wind and hydro) including Turkey's largest geothermal plant with capacity of 47.5 MW that is actually being doubled in capacity.

Czech Coal unveils plant plans

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company's Vrsany surface coal mine is expected to cost in the region of Koruna 30 billion (\$1.54 billion), she added.

The latest plans are a considerable scale down from its original ambitions to construct a 1,300-MW plant. "The capacity of Czech Coal's new power station has been designed taking into account coal availability throughout its service life, specifically only brown coal with lower calorific value from the Vrsany surface mine".

The plant would be carbon capture and storage ready and would be fitted with state of the art flue gas desulphurization technology, she said, adding that it would have a efficiency of around 45% which would be superior to all existing and planned coal-fired plant in the Czech Republic. "In the Czech Republic, none of the currently operated coal-fired power stations, and none of those being built now, can achieve this level of efficiency," she declared.

"We are now preparing an Environmental Impact Assessment, an application for state authorization, and a proposal for a change in the regional development plan. Only then will it be possible to start with actual construction. The experiences of our neighbours in Germany and Poland, where brown coal-fired power stations are currently being built, indicate that it may take some eight to ten years between the plan and the commissioning. It is therefore too early now to talk about a specific commissioning date," she said.

If realized, the project would bring some welcome competition to the country's electricity market with the entry of the first new operator of a large-scale power plant since the UK's International Power sold in 2009 its 363-MW Opatovice CHP plant to the precursor of the Czech-Slovak group, Energeticky a Prumyslovy Holding.

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Challenges for renewable developers in Ukraine

With domestic investors dominating fossil fuel-fired electricity generation and distribution in Ukraine, renewables remain the most dynamic segment of the country's power sector in terms of growth potential and ability of new players to enter the market. Since the latest version of the Green Tariff Law came in to force in April 2009, many local and foreign developers have started developing renewable projects, most notably wind and solar.

Experience from the last few years shows that Ukrainian developers have been more successful in navigating the complicated procedures and regulations and securing permits. Activ Solar commissioned three solar PV power plants with total capacity of 185 MW in 2011 with several hundred MWs more to follow.

Wind Parks of Ukraine commissioned 50 MW of capacity at the Novoazovskiy and Ochakovskiy wind farms last year and has projects exceeding 500 MW under development. DTEK, the largest Ukrainian private energy holding, is set to begin construction this year of its first wind farm – the 200-MW Botievo project – and will follow up with the 150-MW Berdyansk project. The total size of DTEK's portfolio of wind projects is close to 1,200 MW.

It is reasonable to assume that these three developers, with their knowledge of the permitting process and high level political connections, will continue to lead the market in the nearest future and will jointly contribute at least 300 MW of new renewable capacity per year in the coming three-four years.

There is, however, also room for new players. Vindkraft Ukraine, a company owned by a group of foreign developers, installed the first 3-MW wind turbine at the end of 2011 proving that foreign players can also succeed in the Ukrainian market. Greenworx from Belgium jointly with Guris from Turkey have just completed acquisition of a 250-MW wind project making it the first large renewable project purchased by international investors.

German wind turbine producer Fuhrlander and Denmark's Vestas are currently undisputed leaders of the market with most developers planning to install their wind turbines. Local production of Fuhrlander 2.5-MW turbines is due to start this year, while Vestas is also considering steps to ensure compliance with the local content requirement that comes in to force in 2012 and will rise to 50% (of the value of renewable project) in 2014.

There is also interest in the Ukrainian renewables market from large international EPC contractors. Even if no major deals have yet been concluded, we believe it is only a matter of time as local developers start understanding the benefits of working with these EPC contractors instead of trying to put all the pieces together on their own causing significant delays and higher project costs.

Notwithstanding Ukraine's high country risk, there is still stable interest from international developers, most notably in small and medium-sized wind and solar projects. The general mistake of most domestic wind developers, focused mostly on re-selling developed projects, has been targeting large (100-400 MW) projects that proved to be difficult to develop in the view of complicated permitting procedures.

Many are now restructuring their projects with the aim of breaking them up, thus, facilitating potential joint ventures with foreign partners. We anticipate that at least several such wind and solar projects with capacity of 10-50 MW will be commissioned in the next two to three years. Such medium-sized projects also have more chances of securing financing from the EBRD and IFC or Russian banks, which remain the main sources of debt financing for renewable projects in Ukraine.

The number of biomass and pellet projects is also rising though the absence of an organized market and logistics cause long-term fuel supply uncertainty making it harder to finance such projects. Small hydro plants are mostly developed by local companies as the green tariff paid is significantly lower than that for solar, wind or biomass. We believe that it will be possible to expect commissioning of 10-30 MW of biomass and small hydro capacity on an annual basis. If the green tariff is expanded to cover landfill gas and biogas projects, a similar capacity can come from these sources.

We envisage that Ukraine can commission around 1,300-1,700 MW of various renewable capacity in the next four-five years taking total renewable capacity to 2,000 MW including already operational plants. Once this level is reached, further growth of renewables remains questionable in terms of grid stability factor and affordability for electricity customers.

Since green tariffs for various types of solar PV plants exceed average feed-in tariffs for similar plants in Europe by 40%, the long-term sustainability of solar projects is an issue. No studies have been performed to assess the level of renewable capacity that can be absorbed by the Ukrainian energy market without causing significant price hikes for customers.

Since all green tariffs are fixed in Euro, the very likely future devaluation of the local currency against the Euro could impact on wholesale and retail electricity prices. In such a situation, the sustainability of the whole incentive system for renewables could become an issue. A system of quotas with clear and transparent rules for their allocation would be welcome to make sure that all developers have equal chances to take their projects through to successful completion without preference given to well-connected local developers.

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