

To address these issues, new pipeline projects have risen up the energy agenda of Turkey. One of the main projects to be announced is the TANAP (Trans-Anatolian) pipeline, which will increase annual gas supply by 6 Bcm by no later than 2018. The other pipeline project, which aims to increase supply capacity by 0.7 Bcm by 2014 and eventually 3.3 Bcm, seems to have fallen off the agenda at least for now, due to the recent developments in Iraq but considering the importance of Iraqi gas fields it is expected that Turkey will prioritize this project in near future.

Another project to have made solid progress over recent years is the planned increase in LNG gasification capacity yet the expected commissioning date is still unclear. The project has been pre-qualified to apply to construct and operate an LNG terminal on a site at Izmir Aliaga. An environmental impact study is being currently carried out.

In addition, there are some other on-going investment plans in order to strengthen the Turkish gas transport network and provide some flexibility to manage daily peak demands, including increasing the daily withdrawal capacity of the Silivri-Degirmenkoy storage facility by 32 million cubic metres to 50 mcm by 2016, and construction of a new underground storage facility with 1 Bcm capacity to be located at Tuz Golu by 2018 and a new storage tank at the existing Marmara LNG terminal.

Whether the planned developments will meet surging gas demand in time is debatable. What is more likely is the government going through with its aim to limit the development of natural gas-fired installed capacity in forthcoming years. According to the Minister of Energy and Natural Resources Taner Yıldız, starting from 2014, prospective power producers will need to provide a supply guarantee if they would like to develop a natural gas-fired power plant project. In other words private investors will be forced to supply their own gas.

This may see power plant investors consider utilizing LNG options more frequently, trying to secure volume through existing contracts or searching for ways to secure off-take agreements through new pipeline projects such as TANAP or the prospective pipeline from Iraq. The second option looks the likeliest given that the first option seems commercially tough as long as LNG prices remain relatively high in global markets, while future pipeline projects are still at very early stages of development, even if the likelihood of them should not be underestimated. Under these circumstances it can be stated that starting from 2014 the development of gas-fired power plants may slow down. Investors, which are able to nail down gas supply contracts, will gain a competitive edge over the others.

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Opportunities for international investors

Ukraine's renewable sector remains largely unexplored territory for foreign investors, but this can be expected to change in the course of 2013 with significant progress anticipated on the development of large wind farm projects by a number of international developers.

Monaco-based EuroCape New Energy is close to full permitting of a 500-MW wind farm in Zaporizhya, while the consortium of Turkey's Guris and Belgian Greenworx is finalizing the necessary documents for its 250-MW Western Crimean wind power plant.

The size of these projects potentially makes them an interesting acquisition target for international utility giants, while the country's two largest wind developers – DTEK and Wind Parks of Ukraine – which have a pipeline of close to 1,000 MW each, may try to secure foreign partners or sell part of their portfolios to international investors.

Local and small foreign developers have already proven that it is possible to complete projects and secure green tariffs, which remain among the highest in Europe. Most of the renewable capacity added last year was commissioned by developers associated with Ukrainian business groups. Activ Solar currently has 313 MW of commissioned solar capacity, while Wind Parks of Ukraine

has 95 MW of wind capacity in operation, and the largest Ukrainian energy holding DTEK is finalizing the first 90-MW stage of its Botievo wind farm.

Smaller developers also completed several sub-10 MW projects by choosing to go smaller and benefit from faster permitting procedures and less challenges with grid connection.

Legislation governing the green tariff subsidy system was changed in December 2012 introducing new rules for "local content" requirement and adjusting some green tariff rates.

While the Electricity Law has been subject to constant changes over the last few years with regard to renewables, making the regulatory framework rather unstable, we expect that no further major changes will be made in the coming one-two years that will create a stable legal environment and allow more renewable projects to reach financial closure.

Loans from Russian banks or their Ukrainian subsidiaries have been the most common source of debt financing for renewables, though DTEK managed to arrange export financing for its first project and the EBRD provided loans to a 4.5-MW solar project and 12.5-MW wind project in

2012 via the USELF program opening the door for financing larger projects in the coming years.

The success of renewable project development in the next few years will mostly depend on the ability of developers to comply with new “local content” (LC) rules that will come in force starting April 1, 2013. We believe that there will be more interest in small hydro projects as a result of combination of exclusion of such projects from the LC requirement and a recent increase in green tariff rates. Biogas and biomass projects should also receive more attention with the long-awaited introduction of the green tariff for electricity produced from biogas and less efforts needed to meet new LC requirements.

Wind and solar developers will face more challenges as starting July 1, 2013 they will not only have to meet 30% local content requirement (50% starting July 1, 2014), but also will have to comply with newly introduced “fixed share” rules explaining how it should be done. Recent legislative amendments provide for certain weights or scores for using certain types of locally produced equipment or parts effectively pushing developers to use more Ukrainian equipment.

While local players are working actively on establishing or expanding local production of respective equipment/parts, skepticism remains that it will be considered bankable by international financial institutions.

Thus, the success of large-scale wind and solar development will depend, to a large extent, on the ability and desire of international equipment manufacturers and/or EPC contractors to find ways of complying with new LC rules by establishing joint ventures or alliances with Ukrainian partners.

At the same time, there are still some windows of opportunities for developers of smaller wind and solar projects who can act quickly and apply some innovative solutions to take advantage of the legislation, which is still not very clear in explaining LC requirement specifics, or use more local equipment.

As there is still no clear picture with regard to the volume of installed renewable capacity that can be connected to the grid without causing disruption for the TSO, Ukrenergo, we believe that it will be quite difficult for developers to secure grid connection permits (so-called “technical conditions”) for any new medium- or large-scale projects.

It is worth noting that there is a quite substantial number of solar and wind projects totaling several thousand MWs, which have already received such permits, but have not moved forward with construction due to either a lack of equity and/or debt financing.

Therefore, we expect that 2013 will be a year of consolidation when some projects will find new owners and some will be simply abandoned (especially, those at early development stages).

This will clear the landscape for projects that have secured (or are close to securing) all major permits and can be taken to financial closing. In general, we expect another 200-300 MW of installed renewable capacity to be added to the country’s energy balance in the course of 2013. The scale and pace of further development in the years 2014-2015 will largely depend on availability of international financing.

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Ukraine: green tariff rates effective from April 2013

Forms of renewable energy entitled to green tariffs	Green tariffs for commissioned capacity, € per MWh				
	up to and including Mar 31 2013	April 1 2013 through Dec 31 2014	Jan 1 2015, through Dec 31 2019	Jan 1 2020 through Dec 31 2024	Jan 1 2025 through Dec 31 2029
Wind power with installed capacity below 600 kW	-	64.6	58.2	51.7	45.2
Wind power with installed capacity 600 kW-2,000 kW	-	75.4	67.9	60.3	52.8
Wind power with installed capacity exceeding 2,000 kW	-	113.1	101.8	90.5	79.2
Biomass	123.9	123.9	111.5	99.1	86.7
Biogas	-	123.9	111.5	99.1	86.7
Ground-mounted solar facilities	465.3	339.3	305.3	271.4	237.5
Solar capacity mounted on roofs or facades of buildings with installed capacity exceeding 100 kW	445.9	348.9	314.1	279.2	244.3
Solar capacity mounted on roofs or facades of buildings with installed capacity not exceeding 100 kW	426.5	358.6	322.8	286.9	251.0
Solar capacity mounted on roofs or on facades of private households with installed capacity not exceeding 10 kW	-	358.6	322.8	286.9	251.0
Micro hydropower plants	116.3	193.9	174.5	155.1	135.7
Mini hydropower plants	116.3	155.1	139.6	124.1	108.6
Small hydropower plants	116.3	116.3	104.7	93.1	81.4

Source: IMEPOWER