

## ENERGY|ELECTRICITY

# There more barriers in Ukraine than in Europe

By Kostis Geropoulos

Ukraine needs to reform its electricity sector, said Yuriy Ryzhenkov, Chief Operating Officer of DTEK, the largest private energy company in Ukraine. The need is two fold: to bring the tariffs to the adequate levels and the reform of the electricity market. "Right now the pool model is outdated and we need to move to more market-based mechanism to pricing of electricity sector," Ryzhenkov said.

In Ukraine there is single buyer for electricity for all generators regardless to where this electricity goes. Companies sell their electricity to the pool which mixes it and sells it to distributors and exporters. "So we don't sell the electricity we produce ourselves. We basically buy electricity from the pool and export it. But because of the low population tariffs we do lose money in Ukraine because it is cross-subsidized. It is subsidized by higher than economically justifiable tariffs than the industry so it hurts the industry. They cannot develop fast enough on one hand and on the other hand it hurts the generators because their tariffs are artificially low," Ryzhenkov said.

He cautioned that such reform should not be pushed too fast at a time of recession so the economy should be on the way up when the reform is introduced. However, the Ukrainian economy seems to be showing signs of revival so it might be time to push the reform through, he said. Also the reform is necessary in the field of electricity distribution. Right now there is no incentive for distributing companies to be more efficient. "We need to introduce



Yuriy Ryzhenkov, Chief Operating Officer of DTEK, the largest private energy company in Ukraine

those incentives, and we need to introduce incentives for the investors to come in to this industry," Ryzhenkov said. Another problem in the distribution sector of Ukraine is the plain field is different for local companies and foreign investors. "The foreign-owned companies operate at cost plus system and make profits and have an incentive to invest and at the same time we have the local players which operate on cost basis and have no incentive to invest," he said.

Ryzhenkov said DTEK is geared towards the EU and integration with the European energy market. "The major market for us is in Europe and the major opportunities are there. We're interested in a relationship with Russia as well, especially being basically located on the border with Russia. The same time our idea is to be a bridge between the resources in Russia and Ukraine and

the consumers in Europe," he said.

Ukraine has signed the EU Energy Charter while Russia has adamantly refused to ratify it. Asked if the company experiences difficulties in its expansion abroad, he said: "There more barriers in Ukraine than in Europe."

Part of the company's strategy is the integration of Ukrainians system and the European system. "Right now we have the right to export electricity to the EU countries. We have won auctions in December last year for the annual capacity of 150MW for this year to Hungary, Romania, Slovakia and Poland and we are planning to establish some trading operations in these countries to trade electricity from Ukraine to the final customers there," Ryzhenkov said.

DTEK is also looking to acquire assets. "We're looking at the available acquisition assets in the neighboring including those countries that I just mentioned also Bulgaria, Turkey, and Russia. We're looking for assets that have a strategic fit with us," he said. "The easiest ones would be power stations that can utilize our coal or Russia it could be the coal mines that can supply the power plants in Ukraine."

All electricity DTEK produces and exports comes from coal blamed for high CO2 emissions. Ryzhenkov said his company is studying the technology of carbon capture. "We're trying to see if it is possible to use this technology in Ukraine. At the same time right now in Ukraine there is huge potential to reduce carbon emissions by at least involving

the proven technologies which already exist. Carbon capture is a very expensive technology it has to be justified by the market; it has to be justified by the existing technologies. At the same time the traditional technologies for reduction of carbon emissions and improvement of consumption of coal in the units it can help reduce substantially carbon emissions themselves," Ryzhenkov said.

He acknowledged that funding is scarce. "Because of the Ukrainian political instability and because of the balance of payments last year we couldn't access the external markets for funding effectively enough. We did work with the financial institutions from EU and from Russia... but that was pretty much it," he said. "To do a major breakthrough in the field of energy especially when talking about ecological aspects you do need some government support in one form or the other. It could be in the form of guarantees, could be in the form grants, but the support is needed and stability is needed for the external investors to feel comfortable with investing into the company for long term because the payback period for all those technologies is long term anyway," Ryzhenkov said.

And the same is the story for connectors. "One issue is funding but that issue can be resolved with the private companies participating. At the same time, we do need the long-term horizon there which can only be achieved with government guarantees or international financial institutions present," he said. "The same issue is the regulating frame-

work because the lines where these interconnectors are located belong to the state-run companies and there should be a mechanism under which they will use these lines or permit the usage of these lines to a private player," he said.

Asked about the investor climate, Ryzhenkov noted that there are very few foreign investors in Ukraine in the energy sector. "Until the privatization takes place of the generating assets I doubt anyone else will appear. At the moment the thing to do is to privatize the Ukrainian energy sector and that will help spark interest for the foreign players. At the moment they might be interested but the privatization has been announced several times over the last few years and it hasn't happened so far so even though I have expressed their interest nothing came out of it so I'm not sure if the interest is still there.

Efficiency is important. "If you look at the Ukrainian electricity generation all of it has been built in the 50s, 60s and 70s so it is very old. It needs to be replaced. Some of the capacities have to be taken offline pretty soon. And because of that the reduction in electricity consumption overall does not mean the reduction of generation for the most efficient producers. So the more efficient you are the more likely you are to stay in the game and to produce this electricity," Ryzhenkov said. "If the pricing is right for the electricity long term then there is an incentive for the companies to put in the new facilities which can be more efficient in itself and more environmentally friendly."

## ENERGY|FUNDING

# EU allocates funds to push energy pipelines

The European Union's executive on 4 March allocated a record-breaking €2.3 billion to fund major international energy connections such as the Nabucco gas pipeline in an attempt to boost its energy security. A year ago, the bloc put €4 billion from its central budget aside to fund diversification of resources. The pay-out by the European Commission is the largest energy investment from central funds in the EU's history.

The top recipient of funding was the electricity connection between France and Spain, which was given €225 million to

end the Iberian peninsula's energy isolation. A further €175 million were allocated to gas connections across the Pyrenees.

The Nabucco gas pipeline, meanwhile - arguably the highest-profile energy project the EU has - was allocated €200 million, while the so-called ITGI gas pipeline from Turkey via Greece to Italy was in line for €100 million.

Other attempts to break the energy isolation of EU member states saw €175 million dedicated to linking the Baltic states to one another's and Sweden's electricity grid, and €100 million to

build an extra submarine cable from Finland to Estonia.

And the EU also put €80 million into "reverse flow" projects, which would allow traditional gas importers in Western Europe to pump gas back up pipelines which normally bring gas in via transit states such as Bulgaria. In each case, the funding is meant to cover up to 50% of the cost of the projects, and therefore encourage private actors to lend whatever else is needed. The EU has already pledged some €1.6 billion to a number of clean-energy projects.

## ENERGY|GAS PIPELINE

# Nabucco Consortium hails ratification of agreement by Turkish Parliament

The Nabucco Consortium hailed the decision by the Turkish parliament to ratify the treaty that will enable construction and operation of the Nabucco gas pipeline in Turkey with a secure legal framework for the gas transit. "No other mooted project in the southern corridor has those secured transit rights. All countries

signing the Intergovernmental Agreement in Ankara on 13 July 2009 have now also ratified the treaty in the national parliaments.

"The Intergovernmental Agreement lays down the political and legal foundation for the project. The ratification in Turkey sets again a clear signal of intent to realize the project. This

strong political backing for an infrastructure project is unique and is required", states Werner Auli, Chairman of the Nabucco Steering Committee.

Reinhard Mitschek, Managing Director of the Nabucco Gas Pipeline GmbH said: "The signing of the Intergovernmental Agreement rep-

resented a significant breakthrough in the realization of the project. No other project of Nabucco dimensions has a treaty in place that guarantees gas transit under equal and transparent conditions for all customers. The ratification in all parliaments is now an important further milestone."