

# BRIEF ON KEY BUSINESS ISSUES

№16/2017 10.11.2017 Kyiv

## Coal stocks at power plants and import of anthracite and G-grade coal

**Anthracite shortage.** The coal stocks of Ukrainian TPPs remain at the level of 1.1 mln tonnes (46% is anthracite). *Centrenerg* re-engineered one unit on Zmiivs'ka TPP from anthracite to G-grade coal in September, and DTEK switched one unit of Prydniprov's'ka TPP to run on G-grade at the end of October. In November, one more unit will be running on G-grade coal at Prydniprov's'ka TPP. Re-engineering of two units at Prydniprov's'ka TPP to G-grade coal will help saving 90 k/mts of anthracite per month.

**Anthracite import.** During 10 months of 2017, DTEK imported anthracite from its Russia-based mine Obukhovskaya and from South Africa. To date 7 vessels with South African anthracite have been supplied by *Glencore* to Yuzhniy port (525 k/mts in total). Next vessel with South African anthracite is expected in December.

The state-owned *Centrenerg* received two vessels of US anthracite during September-October, 122 k/mts in total. The company plans to import 700 k/mts of anthracite till end 2017.

**G-grade coal import.** The first vessel with 75 k/mts of coal from the US arrived at the end of October: the second is expected in mid-November. The US coal is supplied by *XCoal Energy & Resources* to DTEK Ladyzhyns'ka TPP and DTEK Zaporiz'ka TPP.

	09.11.2016	01.11.2017	09.11.2017	2017/2016, % increase	09.11.2017/01.11.2017, % increase	min level of stocks*	2017/min stocks, %	coal reserves for 1 month of work**	Work without supply, days
<b>DTEK TPPs</b>	<b>1 093</b>	<b>768</b>	<b>521</b>	<b>-42%</b>	<b>-32%</b>	<b>2 168</b>	<b>24%</b>	<b>1 871</b>	<b>9</b>
G+DG grade:	705	548	348	-38%	-37%	1 454	24%	1 496	7
<i>Zaporiz'ka</i>	183	117	56	-55%	-52%	239	23%	260	7
<i>Ladyzhins'ka</i>	113	98	45	-42%	-54%	251	18%	286	5
<i>Burshtyns'ka</i>	137	113	84	-41%	-26%	412	20%	397	7
<i>Dobrotvirs'ka</i>	61	49	40	-17%	-18%	172	23%	96	13
<i>Kurahivs'ka</i>	210	172	114	-32%	-34%	330	35%	391	9
<i>Prydniprov's'ka</i>	0	0	10	-	-	50	19%	67	4
A+T grade:	388	220	174	-50%	-21%	714	24%	374	14
<i>Kryvoriz'ka</i>	175	101	80	-52%	-22%	266	30%	233	11
<i>Prydniprov's'ka</i>	107	48	30	-68%	-38%	254	12%	48	19
<i>Luhans'ka</i>	107	71	65	-27%	-9%	195	33%	93	22
<b>Other Ukrainian TPPs</b>	<b>649</b>	<b>544</b>	<b>603</b>	<b>-3%</b>	<b>11%</b>	<b>1 141</b>	<b>53%</b>	<b>530</b>	<b>35</b>
G+DG grade	259	205	254	-10%	24%	308	83%	376	21
A+T grade	390	339	348	2%	3%	833	42%	154	70
<b>All Ukrainian TPPs</b>	<b>1 742</b>	<b>1 312</b>	<b>1 124</b>	<b>-26%</b>	<b>-14%</b>	<b>3 309</b>	<b>34%</b>	<b>2 400</b>	<b>15</b>
G+DG grade	964	753	602	-28%	-20%	1 762	34%	1 872	10
A+T grade	778	559	522	-24%	-7%	1 547	34%	528	31

\* - level of coal stocks for 01.12.2017 according to the ministerial forecast balance (dated 23.05.17)

\*\* - on the basis of coal reserves for 1 month of work in the mode of the ministerial forecast (dated 23.05.17) balance on November 2017

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## Polish Foreign Ministry condemns supply of anthracite from the occupied territories of Ukraine to Poland

"The Foreign Ministry condemns the purchase of anthracite from the occupied territories of Ukraine, which are under control of pro-Russian separatists. I would like to underline that the Polish policy regarding the "separatist republics" remains unchanged and based on their non-recognition, which shows Poland's support for the territorial integrity of Ukraine," said Deputy Foreign Minister Jan Dziejczak.

According to Deputy Minister, any activity or cooperation with individuals or entities from the ORDLO should take place with the consent and with the knowledge of the Ukrainian state, which, in accordance with international law, owns this territory. "Therefore, any form of cooperation between Polish business entities, including the import of goods from the territory of Ukraine, which is under control of separatists, should take place in accordance with Ukrainian legislation," said Deputy Foreign Minister.

## The National Emissions Reduction Plan is adopted, albeit without financing

On November 8<sup>th</sup>, the National Emission Reduction Plan (NERP) was finally adopted by the Cabinet of Ministers of Ukraine.

It is definitely a positive sign for both the citizens (to know how and when the ecological problems will be solved) and for business (as a proof that the state realizes that it is impossible to reduce the emissions immediately). However, the NERP was approved without indication of the sources of financing. So it's unclear how the NERP should be implemented, i.e. where to get about € 3 bln for modernization of existing units and more than € 20 bln for construction of the new ones (including DeSOx and DeNOx installations).

Up to 2014, a mechanism for financing environmental projects of TPPs existed – it was called "investment component of the electricity tariff". Currently this investment component is suspended, and no alternative is offered. The Ministry of Energy and Coal Industry, the Ministry of Ecology and Natural Resources of Ukraine, state-owned and private companies should find this alternative in order to implement the NERP.

In the short run, one of the most logical options for the NERP financing could be partial redirection of the environmental tax paid by large enterprises for the installation of gas cleaning systems. According to the MinEcology data, in 2016 the state budget received UAH 4.2 bln of environmental tax revenues. When the new model of the electricity market is introduced in mid-2019, the costs for the implementation of the NERP may then be included in the tariff of the transmission system operator as a part of PSO (public service obligations).

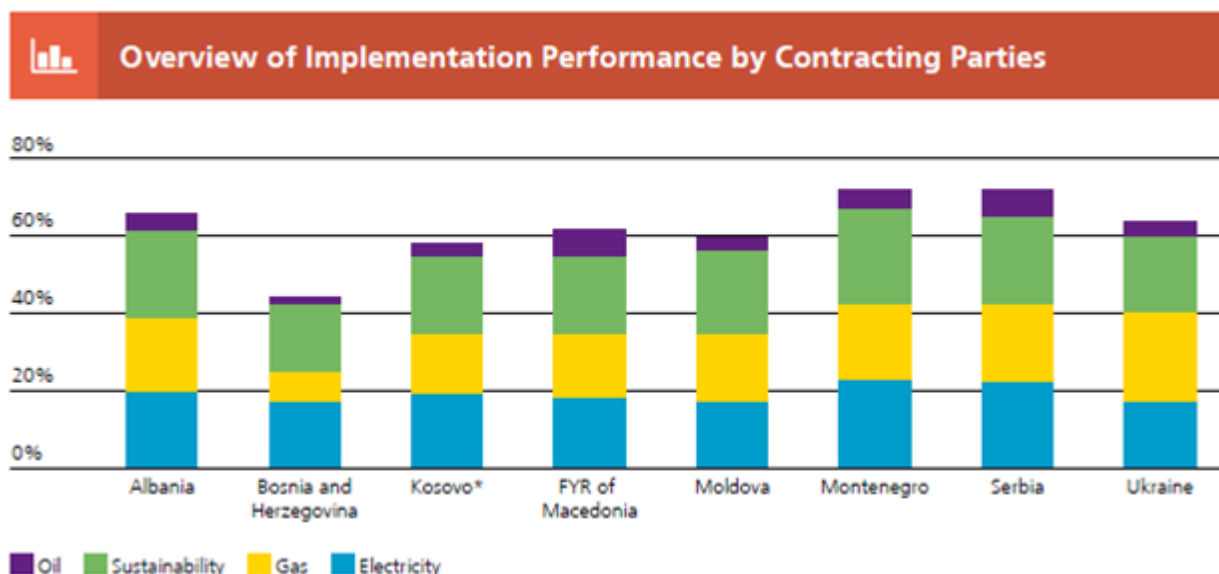
The financing options mentioned above are not the only possible solution. It is important to start the discussion soonest at the level of business-society-government in order to find the best decision for the benefit of Ukraine and the Ukrainian people. According to Janez Kopač, Director of Energy Community Secretariat, some countries do co-finance the National Plans in the framework of the state aid (as stated on November 8<sup>th</sup> in Kyiv, at the presentation of the Energy Community Implementation Report).

## Energy Community Secretariat published its Annual Implementation Report for 2017

The Energy Community Secretariat published its [Annual Implementation Report](#), which provides a comprehensive overview of the progress achieved by the Energy Community Contracting Parties in implementing the *acquis communautaire* under the Energy Community Treaty. Presentation of the Report took place on November 08<sup>th</sup> in the Verkhovna Rada. Janez Kopač, Director of Energy Community Secretariat, complimented Ukraine's achievements over the last few years, especially given the challenges in faced (military conflict in Eastern Ukraine, annexation of Crimea).

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Janez Kopač also highlighted the following key findings of the Report:

- Third Energy Package for electricity and gas now transposed, but implementation (unbundling of *Naftogaz* and *Ukrenergo*, retail market opening, de-monopolization etc.) not taking place at the required pace or not at all;
- Legislation transposing partly the Energy Performance of Buildings Directive, transposition of the Environmental Impact Assessment Directive and the adoption of the National Emission Reduction Plan were adopted, but much more needs to be done in the area of energy efficiency;
- Four dispute settlement cases currently opened against Ukraine (non-compliance with capacity allocation rules on electricity interconnectors and for the purpose of transit electricity interconnectors and for the purpose of transit of electricity; non-compliance with Sulphur in Fuels Directive; and lack of state aid legislation).

## Synchronization with ENTSO-E: key market players signed a Memorandum

On November 8<sup>th</sup>, *NEC Ukrenergo*, *NNGC Energoatom*, *PJCS Ukrhydroenergo*, *DTEK Energo LLC*, *PJCS Centrenergo* and *PJCS Donbasenergo* signed a Memorandum to jointly work on the achievement of the future synchronization of Ukraine's power grid with ENTSO-E.

The Memorandum envisages creation of a joint coordination council headed by *Ukrenergo*. The purpose of the council's activities is to provide professional consultations on technical issues, to facilitate Ukraine's speedy implementation of the requirements of the catalog of measures, which is a part of the agreement on the conditions for the future integration of the power grids of Ukraine and Moldova with the power grid of the continental Europe.

## DTEK joined Climate Bonds Initiative

DTEK and Climate Bonds Initiative signed a cooperation agreement. DTEK's initiative supports Ukraine's goal to increase the share of renewables in the energy mix and opens opportunities for attraction of capital at the international markets. According to the Ukraine's Energy Strategy, electricity generation from renewables will increase in 2020 to 9 bln kWh per annum.

## DTEK's TPPs can save 1.7 mln tonnes of coal per year through energy efficiency

External audit was conducted at DTEK's TPPs as the first step of implementing energy efficiency system. The consultants of *DTEK ESCO* and *TÜV SÜD* have praised high quality of professional training. They have prepared 90

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recommendations for TPPs that should be followed while implementing the ISO 50001 energy management standard.

If energy efficiency is improved at all DTEK's TPPs by 10%, the Company will be able to save 1.7 mln tonnes of coal per year. This compares to the volumes of the fuel used by all DTEK's TPPs in October 2017.

## The World Bank and DTEK launch cooperation in greenhouse gas emissions

The project aims to develop a plan of monitoring and reporting on greenhouse gas emissions to prepare TPPs for participation in national emissions trading system. After the EU-Ukraine Association Agreement was signed in June 2014, Ukraine committed to implement a number of EU environmental directives which include the Directive No.2003/87/EC establishing a scheme for greenhouse gas emission allowances trading. Efficient carbon market in Ukraine and its further integration with EU market will allow achieving the goals of the national and global climate policy and will bring about economic benefits. With technical support of the World Bank, DTEK initiates preparation for participation in the system of monitoring, reporting and verifying of greenhouse gas emissions. Zaporiz'ka TPP was selected as pilot project site.