

Ukraine: procedure for calculating local content for feed-in tariffs adopted

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New renewable energy projects affected by the local content ("LC") requirement for benefiting from the Ukrainian feed-in tariff will now be able to assess whether they meet it, following the publication on 19 October of the procedure for calculating the LC share of a renewable energy power plant. Publication of the procedure brings welcome certainty to investors, who will now be able to assess accurately a project's eligibility for the feed-in tariff and therefore its profitability.

Ukrainian law already provides that starting from 1 January 2012, the feed-in tariff is only available to renewable energy power plants constructed using a certain share of goods and services of Ukrainian origin. The LC requirement only affects new projects, where construction has started after 1 January 2012 (as evidenced by the construction permit or declaration of commencement of construction).

The required LC share varies according to the date that construction is certified as complete and compliant with building regulations. Where this occurs before 1 January 2013, a 15% share is applicable; between 1 January 2013 and 1 January 2014 it is 30%; and after 1 January 2014 it is 50%.

With publication of the procedure, investors can determine which of the project costs are likely to contribute to the LC requirement. The procedure identifies and defines which of the goods and services can be included in the calculation.

The process for obtaining the feed-in tariff is also spelled out.

- Once the project construction phase is certified as complete, the project owners request the assistance of expert organisations to calculate the LC share of the project.
- These organisations are experts in the field of construction, and satisfy the criteria of the Ministry of Regional Development, Construction and Housing (a list of the organisations is on the ministry's website).
- The conclusions of the expert organisation form the basis of an application for approval of a fee-in tariff, submitted to the National Commission on State Regulation of the Energy Sector ("NERC").

The formula for calculating the LC share is as follows:

$$\text{LC shares} = \frac{\Sigma \text{UKR Raw Materials} + \Sigma \text{UKR Fixed Assets} + \Sigma \text{UKR Equipment} + \Sigma \text{UKR Works \& Services}}{\Sigma \text{TOTAL VALUE}} \times 100\%$$

WHERE:

(a) **ΣUKR Raw Materials** – the aggregate value of raw materials and consumables of Ukrainian origin that have contributed to the total value of the renewable energy power plant (excluding the value of the main technological equipment of Ukrainian origin), excluding VAT;

(b) **ΣUKR Fixed Assets** – the aggregate value of fixed assets of Ukrainian origin that contribute to the total value of the renewable energy power plant (excluding the value of the main technological equipment of Ukrainian origin), excluding VAT;

(c) **ΣUKR Equipment** – the aggregate value of (i) the main technological equipment (i.e. equipment designated for power generation and transformation) of Ukrainian origin or (ii) raw materials of Ukrainian origin used to produce the main technological equipment, excluding VAT;

(d) **ΣUKR Works & Services** – the aggregate value of works and services of Ukrainian origin that contributed to the total value of the renewable energy power plant (excluding the value of the main technological equipment of Ukrainian origin);

(e) **ΣTOTAL VALUE** – the total primary value of the renewable energy power plant according to the bookkeeping records (as evidenced by the balance sheet, acts of transfer and acceptance of fixed assets, inventory cards relating to fixed assets, etc).

The value of the above goods and services should be evidenced by purchase documentation such as agreements, invoices, acts, etc. The Ukrainian origin of goods should be evidenced by certificates issued in the manner envisaged by the law (currently such certificates are issued by the Ukrainian Chamber of Commerce and Industry or its regional departments).

LAW: the NERC Resolution No. 749 "On Approval of the Procedure for Calculation of the Share of Raw Materials, Materials, Fixed Assets, Works and Services of Ukrainian Origin in the Total Value of Construction of Power Plants that Generate Electricity from Renewable Energy Sources" dated 15 June 2012, published on 19 October 2012.

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