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Date: 11/08/2009 12:09 PM
Subject: German comments on Ukraine CTF investment plan

Dear Patricia

Please see attached the Germany's comments on Ukraine's CTF investment plan, as requested at last week's trust fund committee meeting.

Best regards,

Frank

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Comments to the Investment Plan Ukraine from German CTF trust Fund Committee Member

In general Germany is of the view, that Ukraine meets the criteria for being selected for a possible operation with support from the CTF. However, we are not in a position to agree to the further preparation of the proposed investments foreseen in it nor to the proposed envelope of CTF funding. Nevertheless we agree in principle that an envelope in the magnitude proposed might be envisaged for the future.

We have specific concerns on the following aspects or projects.

Energy subsidies.

The plan fails to discuss energy subsidies in a meaningful way. It mentions "historically low energy prices" in a manner which implies that they are an exogenous condition.

Smart Grids:

We would welcome a more precise explanation of the scope of works proposed. The future RE investments in the Ukraine do not necessarily justify grid improvements due to their limited size. The wording "smart grids" has been used excessively in the media in the latest month. In case standard grid rehabilitation measures should be undertaken, we would welcome a transparent and honest description and discussion whether these investments should be supported through CTF funds.

CCGT CHP:

In principle we welcome the idea of the proposed project, but we have doubts with regard to the transformational impact by this project throughout the region, since various CCGT plant are already under construction (see Annex.).

Improving Energy Efficiency:

We would appreciate a more precise justification why the IBRD EE Credit Line (250 mil. USD) and the EBRD Ukraine Building EE Financing Facility (75 mil. USD) require additional CTF funding of 75 mil. USD. The rationale, why additional funding is required and whether these lines of credit depend on CTF co-financing in order to materialize is not clear. The impression should be avoided that CTF funding is simply used as an additional marketing instrument for financially viable energy efficiency projects. Possible Market distortion in the banking sector should be carefully analysed and avoided.

Gas Network Rehabilitation:

Even if we agree that the project might deliver significant emission reductions we fail to see that the project meets the investment criteria for the CTF.

To our reading of the information in the document the project will not speed up or deepen market penetration of a low carbon technology relative to business as usual and can not achieve a strong market transformation which could result in economies of scale, enhanced competition and private sector participation, and eventually savings in the unit abatement costs.

Based on the current information we fail to understand that the replication potential really meets the standards of the CTF with regard to transformational impact. It is also not clear in what respect the MDB project will help to attract additional funding of approximately 8 billion USD to exploit the remaining potential.

To our perception the investment in itself should be economically viable and concessional financing should not be required. Moreover, we do not see that 100 million USD CTF contribution really changes the investment decision of the MDB's which intend to invest 2 billion

EUR. There are no indications what barriers would be overcome by the CTF concessional financing.

Nevertheless, there is also no doubt about a financing problem of Naftogas to undertake this investment currently due to limited access to capital markets. But it is not the objective of the CTF to close these kind of financing problems.

Annex:

Country-by-country breakdown of new capacity under construction (MW)

	Commissioned		Under construction								Total
	2008	2009 to date	Biomass	CCGT	Coal	Gas	Hydro	Nuclear	Wind	Thermal other	
Albania	—	—	—	—	—	97	48	—	—	—	145
Belarus	—	—	—	230	—	—	—	—	—	—	230
Bosnia & Herzegovina	30	—	—	—	—	—	101	—	—	—	101
Bulgaria	35	89	—	—	781	—	121	—	399	—	1,301
Croatia	—	186	—	230	—	—	178	—	—	—	518
Czech Republic	—	20	—	—	1,410	—	—	232	—	—	1,642
Estonia	—	64	23	—	—	—	—	—	26	—	49
Greece	30	334	—	857	—	—	154	—	69	—	1,080
Hungary	47	70	—	1,063	—	—	—	150	47	—	1,260
Latvia	—	420	—	—	23	—	15	—	—	—	38
Lithuania	—	—	—	425	—	47	—	—	20	—	492
Macedonia	—	—	—	280	—	—	36	—	—	—	316
Poland	529	586	—	—	1,958	—	—	—	438	—	2,396
Romania	—	226	—	—	—	14	32	—	635	30	711
Russia	3,349	330	—	10,316	3,105	749	4,825	6,560	—	—	25,555
Serbia	—	—	—	—	—	—	200	—	—	—	200
Slovakia	—	—	—	—	—	—	—	940	—	—	940
Slovenia	—	43	—	—	—	—	242	—	—	—	242
Turkey	129	42	—	920	1,520	439	4,964	—	511	47	8,400
Ukraine	25	—	—	330	582	250	3,424	—	—	61	4,647
Total	4,174	2,410	23	14,761	9,379	1,596	14,340	7,882	2,144	138	50,263

Source: Platts Energy in East Europe