



**European Bank**  
for Reconstruction and Development

Mr. Yury Urbansky  
National Ecological of Ukraine/  
CEE Bankwatch

11 October 2010

Dear Mr Urbansky,

Thank you for your letter of 23 September 2010 with respect to the South Ukraine Transmission Project and the ongoing correspondence with regards to this Project. Further to your letter, we have contacted Ukrenergo and obtained additional information with respect to the Project addressing the points you have raised below. Ukrenergo's responses have been included herein.

Let me address the specific questions raised in your letter, each in turn:

1. The Bank's due diligence has confirmed that environmental and social issues have been addressed in line with the Bank's Performance Requirements and the Project complies with the Bank's Environmental and Social Policy (2008).

Ukrenergo has taken into account comments from the consultation process and has altered the design of certain supports (as discussed in the letter sent to EBRD, here attached). It has further confirmed that otherwise there are no material changes to the planned route identified in the ESIA as disclosed; however minor deviations have been necessary during the detailed design phase. Minor deviations are expected on any project covering long distances during detailed design. Ukrenergo has submitted additional information to the authorities and is currently updating the information on their website.

The agreed and disclosed Environmental and Social Management and Monitoring Plan (ESMMP) has not been changed as the Bank deems it fit for the purpose. The Bank and Ukrenergo have agreed additional commitments to the ESIA to be reflected in the loan agreement and the corporate Environmental and Social Action Plan (ESAP).

The Bank recognizes the need to monitor the Project's implementation, and an independent Lenders' advisor is to be appointed to monitor the implementation of the EMMP and ESAP and confirm that the Project complies with national laws and regulations as well as the Bank's Performance Requirements.

2. As part of the Bank's due diligence, an additional bird survey has been undertaken and a summary of it was provided during the public consultations.



The report has been disclosed on Ukrenergo's web site. The web-site addresses for the English and Ukrainian versions:

English:

[http://ukrenergo.energy.gov.ua/ukrenergo/control/en/publish/article?art\\_id=84611&cat\\_id=36968](http://ukrenergo.energy.gov.ua/ukrenergo/control/en/publish/article?art_id=84611&cat_id=36968),

Ukrainian:

[http://ukrenergo.energy.gov.ua/ukrenergo/control/uk/publish/article?article?showHidden=1&art\\_id=84597&cat\\_id=23226&ctime=1285762789546](http://ukrenergo.energy.gov.ua/ukrenergo/control/uk/publish/article?article?showHidden=1&art_id=84597&cat_id=23226&ctime=1285762789546)

3. Although we acknowledge the need of urgent investment in the Ukrainian distribution network, in particular in South Ukraine and Crimea, the Project will significantly enhance the operational parameters of local substations and re-balance the load on lower voltage networks. This will thus reduce their losses and the risk of local electricity disruption to end-users due to the high voltage network operation.
4. The technical and economic due diligence of the Project have been performed by the Spanish consultancy firm Mercados EMI supported by RED Electrica's and ERM's international experts. Due diligence reports are normally confidential and privileged, but we are happy to provide a summary of the consultant's conclusions on the main economic benefits of the Project. Please note the consultant performed its load analysis of the Ukrainian grid on its own software, using its independent expertise. The conclusion is that the Project:
  - Optimises the generation dispatch process resulting in a:
    - reduction of the yearly Ukrainian generation costs by 2%;
    - reduction of the network losses by 6% in 2015;
  - Reduces CO2 emissions by up to 2.1 million tons per annum, by decreasing the dispatch of outdated conventional thermal power plants;
  - Increases the regional power system security level and the transmission network reliability in specific areas (Crimea and southern region of Mikolayiv/Kherson).

Mercados EMI has estimated the economic IRR of the Project is approximately 22%.

5. Contracts for the Odessa project have been completed. Contracting for the Rivne-Kyiv project is advancing at a reasonable pace. At times there have been delays as the procurement process is complex. However, Ukrenergo's project implementation capacity has been improving. Nevertheless, to further increase Ukrenergo's efficiency and capacity, the Bank has commissioned an international consultant to assist Ukrenergo with its commercialization efforts and to effect improvements in corporate governance. This work also includes specific tasks on strengthening Ukrenergo's environmental, health and safety standards.
6. Ukrenergo has made significant progress in its approach to environmental and social issues, and has made substantial efforts to address the problems identified



in Usatove and Nerubayske. The Bank's leverage played a role in this. Such leverage will not be diluted by the signing of the South Ukraine Transmission Line project as the relationship between the Bank and Ukrenergo is ongoing and long term. The Bank has the ability to step in based on the terms of signed projects, the relevant loan agreements being binding legal commitments, and is not solely dependent on the management of its pipeline for its leverage. The Bank maintains an active dialogue on these and other issues with both Ukrenergo and the Ministry of Fuel and Energy, which controls Ukrenergo.

7. The Project aims first and foremost at improving the safety of the regional network operation in South Ukraine and the de-bottlenecking of the Crimean network.

The project will partially mitigate the lack of base-load power capacity in the Crimean peninsula, increasing by 400MW the import capacity from the national grid. This will avoid the environmental and social impact that may be engendered if the deficit is made up by the construction of new thermal generation capacity in the region.

Upon the completion of the Project, the Crimean energy system will be able to operate safely under normal and emergency situations, avoiding any risk of load shedding in the short term. However, the Project will also enhance the conditions for interconnecting new renewable projects in Crimea. To further capacitate renewable projects in the region, the Bank is also currently providing TC funds to study the development of a master plan for transmission lines in South Ukraine to increase the potential for the integration of solar and wind projects there.

We look forward to your continuing interest in this project and hearing your views on the developments in the power sector in Ukraine in general.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nandita Parshad', is written over a horizontal line.

Nandita Parshad  
Director, Power & Energy Utilities