

DiXi Group Supervisory Board members have met on September 16, 2022, to identify further immediate steps for ensuring stronger energy security and resilience in the short-term perspective, especially for the winter season, and discuss priorities for Ukraine's recovery in the post-war period.



SUMMARY OF THE DISCUSSION OF DIXI GROUP SUPERVISORY BOARD MEMBERS ON THE PRIORITIES FOR UKRAINE'S POST-WAR RECOVERY



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## Security of supply remains on the top of the agenda, especially in electricity sector

As long as the war continues, there is a constant threat of Russian attacks on critical infrastructure facilities. In the conditions of winter season, effects of such attacks could be even more disastrous in the cities reliant on highly centralized district heating systems. In electricity, system integrity is already tested: on September 11, a series of missile strikes hit Ukraine's energy infrastructure caused mass blackouts across several regions. Zmiyivska TPP, three high-voltage substations were shelled, with 40 substations of different voltage levels, two 750 kV and five 330 kV lines disconnected. Ukraine's ability to promptly restore supply and keep the power system resilient to attacks should remain a priority for immediate support by allies.

In response, the government of Ukraine is <u>creating</u> a stock of modular boiler houses, generators and purifiers for drinking water. To get more help, the government at the national level should make the process more structured and understandable for international donors and partners.

## Ukraine's <u>membership</u> in the EU would be a track that facilitates post-war reforms

Reforms in mid- and long-term perspective should be discussed now, even before the war ends. That is why development and further improvement of the draft Recovery Plan should be endorsed, as it highlights priority reforms and strategic initiatives. Liberalized and decarbonized markets in gas and electricity have proven to be an effective driver of the energy transition. Emergency market interventions in the EU to tackle dramatic price growth and reduce bills have shown that during extraordinary circumstances free market needs some prevention measures but in general it is a sound basis for the sector functioning. Market oriented reforms should remain Ukraine's target. Ukraine has vast potential in the future decarbonized economy. One of them - biomethane projects for local use and exports is particularly promising. , The first projects to connect to distribution networks and the <u>launch</u> of bigger production facilities show how important is to have a sound Legislation, as is the relevant law adopted in October 2021. Hydrogen production and use of pipeline infrastructure for exports (e.g. to Germany) requires a thorough discussion, and same applies to Ukraine's CCS potential which needs a deeper look.



Suspilne



DK-architect, Espreso

The recovery should have cross-cutting climate and environmental goals fully compliant with the European Green Deal.

Corporate governance reform of state-owned enterprises is among critical reform questions still to be addressed. The Cabinet of Ministers of Ukraine continues to <u>perform</u> the functions of Naftogaz's supervisory board, and new independent members of the supervisory board are not elected despite the merit-based open competition should have been conducted. Legitimacy of the CEO appointment was also <u>contested</u>, with a potential conflict of interest indicated by the National Agency on Corruption Prevention. The recent dismissal of the General Director of GTSOU by the parent MGU also <u>raises concerns</u> about success in <u>transition</u> to a single management company.

Ukraine has now a 'window of opportunity' to turn quite promising signals on the government readiness to pursue with reforms (Energoatom corporatization draft law, net billing for small RES draft law, first voting for REMIT implementation – to name a few recent initiatives) into a decisive action. EU membership perspective and change in power structures could be strong enablers in this way. The EU-Ukraine Association Agreement is very specific, including energy chapters, so its intensive implementation taking into account most recent acquis within the Energy Community would best fit in the accession agenda.

## Following the principle of "build back better" would require some specific interventions

Namely, it is advisable to look at the Building Code and think what key elements should be added in view of reconstruction of old (post)Soviet housing stock. So far, Ukraine adopted a law on the mandatory availability of shelters in new buildings that will protect people from attacks. Yet, according to most recent estimates (as of September 5, 2022), the largest shares of the total amount of damages belong to the housing fund and infrastructure, with at least 15,300 apartments damaged or destroyed. Housing represent the largest part of the restoration bill - minimum needs already reach \$75.3 billion of total \$197.8 billion. We believe the restoration should be deregulated to be fast but aimed at significantly improving energy performance characteristics of buildings.

Building up the new economy of Ukraine after the war would require engaging large-scale investments from private investors. In this regard, the initiative to develop <u>critical raw materials potential</u> should be part of the growth strategy. On July 13, 2021, Ukraine and the European Union have <u>signed</u> a Memorandum on Strategic Partnership in the Raw Materials Sector and a corresponding Roadmap. The EU intention of <u>bringing</u> this track to the next level would mean Ukraine could realistically seize the opportunity to gain \$10 billion in investments at the first stage of <u>developing</u> the deposits of 21 out of 30 critical raw materials for the EU. Being a reliable partner for the EU would greatly help Ukraine embed itself in the value chains of Europe's green economy, create new business opportunities and jobs, strengthen energy security.

More far-reaching goals include development of distributed generation and renewables in heating as resilient approach to energy transition. Ramping up low carbon electricity systems including various storage solutions and local RES-based district heating systems would provide for modernization of assets and greatly contribute to general resilience.

To secure the recovered domestic supplies and maintain electricity exports, it would be best to substitute the decommissioned fossil capacities by large wind and solar farms, coupled with maximizing the hydropower potential for peak hours.

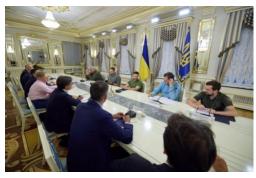
## The discussions on how to organize reconstruction should pursue clarity on institutional setting and management (structure, governance, controls)

There are very different ideas discussed by the Western allies of Ukraine – starting from a special Marshall Plan-like development <u>authority</u>, a <u>council</u> of senior-level coordinators advised by experts, an EU-Ukraine Reconstruction <u>Platform</u>, and ending with simply channeling support via the World Bank Multi-Donor Trust Fund or the IMF Multi-Donor Administered Account.

Yet a meaningful discussion *inside* Ukraine on organizing support flows for the reconstruction plays even more important role. So far, the process looks relatively chaotic, with tools like <u>Ukraine Energy Support Fund</u>, multiple government <u>funds</u>, and the Presidential Office initiative of <u>Ukraine Recovery Fund</u> proposed. Along with the government-led development of Ukraine Recovery Plan and the <u>idea</u> of special development agency those approaches seem to compete with each other.

As Ukraine has already a track record of establishing parallel structures, such situation might fuel the speculations on corruption in Ukraine, which still remains a perception issue in the West. This issue has to be addressed – first, by conditionality of donors support, and second, by setting proper system of checks and balances in the recovery process. An exercise to identify all the post-war reconstruction risks, which may emerge (e.g. cartel in cement production, seaports capacity overload), would be useful to design policies and guide actions. The role of civil society organizations, including think tanks as DiXi Group, as interlocutors and providers of independent assessment should be secured.

The Supervisory Board will continue convening regularly for further discussions on opportunities for swift and effective rebuilding of the energy sector of Ukraine.



Office of the President of Ukraine