

Alliance to Save Energy
Municipal Network for Energy Efficiency
MUNEE NEWS
Spring 2005*

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SPOTLIGHT on New Studies

New MUNEE Studies Underway in 2005: Currently, the Alliance is leading research and preparation of two major studies that will examine and analyze the experience with heat-sector reforms and the potential for energy-efficiency solutions to address the challenges of transitioning from a subsidized to a market-based energy economy. *The Urban Heating Sector in Europe and Eurasia: Experience from the Transition and Future Directions* will examine and analyze the policies and programs of the past 15 years aimed at enabling private investment and commercial viability in the E & E region's heating sector, while addressing social and economic needs of consumers. *Assessing Affordability of Utility Services in Urban Housing: Energy and Water Efficiency Solutions* will analyze the policies, projects, and programs affecting utility services in multifamily buildings, making recommendations on whether and how energy efficiency can improve the affordability of those services - heat, electricity, water, and wastewater. Both studies will focus on multifamily buildings and heating systems serving those buildings in urban areas. A working bibliography & concurrent updates are available in the library on the [MUNEE website](#).

1st Advisory Group Meeting: The Alliance to Save Energy will hold the First meeting of the MUNEE Urban Heating and Energy Affordability Advisory Panel as a side event of the upcoming UNECE Committee Meetings on Sustainable Energy & Energy Efficiency 21. The Advisory Panel Meeting is to take place on July 1st.

ARMENIA

New Residential Energy Efficiency Heating Guide Completed: As a follow-up to the 70-page report on [Decentralizing Residential Heating in Armenia: Review of Pilot Projects](#) (2004), the Alliance has finalized a simplified version of the report applicable for a broader audience and fit for dissemination to multi-apartment building residents. The brief version of the report will serve as a step-by-step guide for residents and condominium managers on starting end-use heating improvement projects and increasing demand-side heat energy efficiency in multi-apartment buildings. It will also include a variety of best-practices from the legal and administrative standpoint which have enabled condominiums to improve energy efficiency.

Assistance to Energy Ministry with the Secondary Legislation for the Law on Energy Saving & Renewable Energy: The Alliance helped the Armenian Ministry of Energy develop a Scope of Work for the development of secondary legislation to the landmark Law on Energy Saving and Renewable Energy (ES&RE) which was ratified in December 2004. As part of the USAID energy program in Armenia, the Alliance is integrally involved with this policy development. Stay tuned for updates in the upcoming news reports.

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LITHUANIA

Heat Plans Prepared with Danish Co-Financing Need More Efficiency Analysis: Over the past year, the Danish government has been co-funding the preparation of municipal heat plans as is required by the Heat Law. From a total of 60 municipalities, 29 prepared heat plans with 50% Danish financing. The Alliance and its local experts are working to ensure that those heat plans include sufficient analysis of the demand-side energy efficiency opportunities, and not only consideration of supply-side modernization and investment options.

A review of the 29 plans revealed a bias toward keeping district heating, even when the mathematical calculations indicated in a number of cases that decentralized, natural gas applications would be cheaper. Among the reasons for keeping district heating is a growing awareness that district heating will help the new EU Member States better adapt to requirements for increasing renewable energy technologies (e.g. use boilers that can operate on straw or wood waste as well as fossil fuels). None of the plans suggested that the district heating systems be dismantled and replaced with decentralized systems, although there are tremendous inefficiencies within these old heat networks.

MOLDOVA

Alliance Editorials: Educating Public about Energy Efficiency Improvement Mechanisms: Since the fall of 2004, The Alliance contributed substantially to several news articles and opinion columns about energy, which were published in *Moldova Suverana* (circulation ~61,320). The article “As Sharp as a Blade” published in October 2004 provides numerous reasons for consumers in multifamily buildings to support, and stay connected to district heating. In Chisinau, there are some 8,000 flats which are disconnected from district heating, resulting in an oversized network that cannot sustain itself. More and more, consumers are opting for autonomous boilers instead of district heating without considering the consequences of abandoning important infrastructure that in the long term, if repaired and maintained through wiser policies, would be much more affordable and sustainable. This article describes some of the financial, environmental and energy security consequences related to the trend toward autonomous heating. It urges readers to consider these realities before determining whether they should disconnect from district heating.

Another article, “Not Flirting, Rather Performing Well,” discussed what has happened to the heat tariffs during the last 5 years. Thermocom’s tariffs remain among the lowest for district heating in the former Soviet bloc countries, barring Russia, and the tariffs still do not cover operational costs. The article explains how heat prices are determined and what influences those prices, mentioning what some other countries are doing to compensate consumers who cannot pay for heat at market prices.

In February 2005, *Nezavisimaya Moldova* published the Alliance’s editorial about the problem with building heat meters in reply to the article “Ivan Nods to Peter, Peter Nods

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Back to Ivan”, which voiced the complaint of a residential building about its poor relationship with the heating company. The editorial, titled “Common Property: Belongs to Everybody but is Owned by Nobody” points out that it was possible to address, and even prevent many problems related to heat metering and the relationship between the heating company and the residential building. The editorial suggests that problems can be avoided if the residents assume responsibility for improving end-use energy efficiency, and empower a well-functioning HOA to manage these improvements on behalf of all residents.

English translations of articles and editorials are available upon request.

Electricity Security Education Week Planned: Moldovan Ministry of Energy invited the Alliance to participate in the “Electricity Security Education Week” which is to take place in Moldovan schools in May. This electricity security outreach is being supported by Canadian donor resources and managed by Manitoba Hydro Power Smart. The education week will encompass education on energy-efficiency, and will aim to raise awareness of the simple methodologies which can be used to conserve energy.

UKRAINE

Municipal Energy Network “UNEEC” Becomes a Nation-Wide Organization: Earlier in 2005, the Ukrainian Network for Energy Efficiency Cities (UNEEC) held a Constituent Assembly and took a unanimous decision to transform UNEEC into nation-wide organization. Previously, the geographic scope of UNEEC was limited to Western Ukraine. The Alliance played an integral role in creating UNEEC and building its capacity as a young organization over the last several years. More recently, the Ukrainian network has received a small grant and technical assistance from its sister organization “Energie Cités”, headquartered in France and active throughout the European Union. The expanded geographic scope of UNEEC renders this organization as a key partner in the research and analysis of heat policy, and utility affordability issues that are central to the Alliance’s current regional work plan for MUNEE funded by USAID’s Europe & Eurasia Bureau.

Energy Efficiency in District Heating on Priority List for GHG Mitigation Projects: This spring, Ukrainian officials met with representatives of Japanese Government. The discussion centered around opportunities for Japan to invest in Joint Implementation (JI) projects in Ukraine. In a separate meeting, the Ministry of Environment convened partners in Ukraine to discuss the country’s official procedures for submission and approval of JI projects. Participants in the latter meeting drafted a list of top priority projects, and energy efficiency in district heating was included on that list. Implementation of JI projects in Ukraine can facilitate increased efficiencies from manufacturing and transportation sectors resulting from cleaner technologies.

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News from MUNEE Region

ARMENIA

ArmRusGasProm CJSC Suggests Toughening Control of Gas Supply in Houses:

According to ARKA-News of April 5, 2005, the director-in-chief of Armenia's largest gas company ArmRusGasprom CJSC[†] expressed critical concerns about the safety and security of gas supply to households. At a roundtable meeting including government officials and NGOs, he urged the government to impose stricter controls on licensing of gas sector contractors, and to require that imported gas equipment undergo standardization and certification procedures. This requirement is a progressive step as it will contribute to uniformity of equipment and allow for better management and gas distribution practices, as well as contribute to transparency, decreasing corruption. In turn, these will contribute to increasing energy efficiency as better management and oversight practices are integral components to elimination of inefficiencies.

Fund for Alternative Energy to be Created in Armenia: ARMINFO reported on April 5, 2005 that "a fund of crediting of alternative energy with the share of the European Bank of Reconstruction and Development (EBRD) is to be established in Armenia by the end of 2005." EBRD considers many opportunities are to be derived from the Armenian market and plans to implement a portfolio of energy efficiency and alternative energy projects. ARMINFO reports that "the fund worth a total of \$10-12mln was to be established in the first quarter of 2005." Financing is to be split between EBRD and the World Bank.

BULGARIA

Bulgaria Energy Efficiency Fund Created: The World Bank, which approved an energy efficiency financing project on March 22nd, aims to develop and finance bankable energy efficiency projects in Bulgaria. It is a fund, termed briefly as "BEEF," and is supported by the Global Environmental Facility with USD\$10 million. Overall, the financial support is projected to amount to USD\$18 million, with funds from the Government of Bulgaria, international donors and Bulgarian private companies. Meanwhile, USD \$34 million is expected to come from co-financing by commercial banks and project sponsors over the next five years.

The project is to consist of three components: (1) partial credit guarantees to share in the credit risk of energy efficiency projects; (2) loans to co-finance energy efficiency projects on a commercial basis; and (3) technical assistance grant to cover a portion of project development and operating costs of BEEF in the early years. In the long term, it is foreseeable that BEEF will gather USD \$200 million in energy efficiency financing over the next fifteen years. This will allow for sustainability of the energy efficiency concept in Bulgaria. The Bulgarian Centre for Energy Efficiency (EnEffect), Alliance's MUNEE

[†] Closed Joint Stock Company

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partner and a partner of USAID, is part of the consortium that won a very competitive bid to manage the BEEF.

LITHUANIA

Government to Offer Financing for Modernization of Multifamily Buildings: The new financing program that the Lithuanian government announced last autumn will most likely amount to 3 million LTL in state-level support. The Ministry of Environment is preparing the guidelines now and the program should be operational in June 2005. Though still subject to change before the program is finalized, the anticipated provisions are: only home owner associations in buildings constructed prior to 1992 will be eligible; state co-financing will be 10-15% of project costs for projects that will yield energy cost savings up to 30%; state co-financing will be 20-30% for projects with energy cost savings over 30%; home owners need to contribute at least 10% of projected total project cost; low-income families will receive additional assistance. The Alliance and its local partners are working in three municipalities to prepare eligible projects and raise awareness about end-use efficiency, especially in the residential sector, as part of local heat planning.

MOLDOVA

World Bank to Help Moldova Adjust Energy Legislation to European Standards: It was announced on April 26, 2005 that the World Bank (WB) is to provide assistance to the National Agency for Regulation of Energy (ANRE) with the adjustment of Moldovan energy regulation framework to the European standards, as per the Energy II Project. ANRE director Anatol Burlacov highlighted that increasing the speed of the process will stimulate Moldova to integrate its energy market into that of South East Europe.

The Energy II Project was launched in March 2004 and sees the modernization of the Moldovan electric energy and thermal energy sectors. The World Bank provided Moldova with a USD \$35 million 40-year credit to implement the project.

Parliament Votes New Cabinet of Ministers: According to BASA-general, the Moldovan parliament approved 56 to 21 the new cabinet of Vasile Tarlev and its governing program on April 19. The Communists, who make up the largest faction, supported Tarlev for a second term. Alliance Moldova cast its vote of opposition, while the Christian Democratic People's Party and the Democratic Party, plus the few Social-Liberals abstained. The program of the new executive focuses on modernizing the country and improving the social welfare, which can have positive implications for energy efficiency, although it is too early to say which of the goals will be put to practice.

Integration in Europe Presupposes Involvement of Governments in Ensuring Energy Security: Ion Batrinu, writing for *Moldova Suverana* on March 2, 2005, aims to highlight in this article that thermal energy consumption is a major issue for the Moldova under

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transition, especially because it lacks indigenous energy resources. After the IEA released its book [*Coming in From the Cold: Improving District Heating Policy in Transition Economies*](#) (2004), the Alliance met with representatives of the Ministry of Energy, Ministry of Economy, Technical University of Moldova, “Termocom” Company, among others, to consider how to apply recommendations made in the book to the reality of the situation in Moldova.

It is difficult to adjust Moldova’s heating sector to the IEA suggestions as “all the components – cold and hot water, fuel consumption, transmission through the networks, metering – are interconnected.” Batrinu continues to explain that the energy sector is conservative and that thermal energy is expensive. These two reasons can contribute negatively to the speed of adaptation of the recommendations. However, co-generation, which can later lead to tri-generation are feasible for Moldova as well as other SEE countries, can help create a more hospitable atmosphere for more effective energy-efficiency planning. Nonetheless, the current situation in Moldova still espouses antagonism between supporters of centralized and individualized heating mechanisms. Batrinu concludes with a warning: “...given the conservatism of the heating sector, if a wrong decision (formula) is adopted, the disastrous consequences will be faced not only by us, but also by our descendants, who are not guilty for our distorted thinking.”

RUSSIA

EBRD to Invest 30 Mln Euros in Heating Supply System in Irkutsk : Prime-Tass Business News Agency reported on March 1, 2005 that The European Bank for Reconstruction and Development (EBRD) has planned an investment of Euro €30 million for a project which will upgrade the heating supply system in Irkutsk region of the Russian Federation. This will largely improve stability of heat supply, and increase energy efficiency as new energy saving technologies will be introduced. It will also prevent inadvertent leakages quite common with the outdated infrastructure.

SERBIA & MONTENEGRO

First Combined Heat and Power (CHP) Project in Sarajevo: With resources provided by the municipal government of Sarajevo, the district heating company “Toplane” developed a study to assess the feasibility of CHP in one of the existing boiler stations in Dobrinja, a settlement within city of Sarajevo. Toplane is the biggest company for production and distribution of the heat in Bosnia & Herzegovina (BiH) and the greatest consumer of natural gas in the country, and yet it does not have a CHP facility. The estimated total investment of the potential project is around Euro €4 million and the pay-back period was calculated to be less than 5 years.

The goal is to increase to increase energy efficiency through better use of natural gas as primary fuel (up to 80%); electricity generation for own needs; decreasing losses in the distribution network; and increasing reliability of energy supply. Another goal is to improve management and organizational aspects through the introduction of an efficient information system and better monitoring, and reduction of the operational and marginal

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costs. A local expert that has been part of the Alliance to Save Energy's work and capacity building efforts in Bosnia was part of the expert team of consultants who prepared the study.

GTZ Planning Energy Program in Serbia: The German Development Agency (GTZ) is taking steps to create an energy program in Serbia. The local GTZ representative has called upon the Alliance's Nebojsa Arsenijevic for his local expertise. Over the past couple of years, the GTZ has supported programs to improve the situation in the Waterworks and Waste sectors, and the target audience for this assistance has been small and medium-sized municipalities (<50 000 residents). The GTZ plans to present the details of the energy program and its other work in Serbia on the web at www.gtz.co.yu (the site is under construction).

UKRAINE

Ukrainian Deputy Prime Minister Says Industry Energy Efficiency Needed to Cope with Rising Gas Prices: As the *Ukrainian Journal* reported in March, Ukraine will have to focus on making its industry more energy efficient to cope with growing natural gas prices. This became crucial after Turkmenistan, which had recently increased its gas prices from \$44/1,000 m³ to \$58/1,000 m³. It is estimated that Ukraine will import approximately 36 billion m³ of gas per year from Turkmenistan in years 2005 and 2006.

REGIONAL

New "Energy Community" Established by the EU and Countries of South East Europe: In March, ministers and representatives from the 25 EU Member States and 11 countries of South East Europe including Turkey developed the components of a Treaty to formally establish an Energy Community. Formal signing of the Treaty is anticipated next summer. The objective is to create a single regulatory space for energy in this geographic space and to reinforce security of supply.

Another key objective of the Energy Community, of particular interest to MUNEE, is to help South East European countries to address energy poverty issues so as to provide power supply to all citizens at affordable prices. In the coming months, the Alliance will explore the role that energy efficiency is expected to play in the agenda of the Energy Community. The two MUNEE studies on the benefits of energy efficiency in urban heating policy and utility affordability in the residential sector could be critical resources for the strategy of the Energy Community.

New WADE 2005 Report: World Alliance for Decentralized Energy (WADE) has published a new report (2005) on Decentralized Energy. The report addresses fifteen countries within the context of Key Market Drivers, Electricity Supply Security and Reliability, Long Term Carbon Emission Reduction, among others.

IEA Book "Coming in from the Cold: Improving District Heating Policy in Transition Economies" available in Russian: The book addresses issues of regulation, competition,

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investment needs and financing options, ownership and management structures as related to district heating. The publication addresses policy recommendations for increasing energy efficiency - research and development, benchmarking, best practice programs - on the level of generation and transmission, as well at the level of the end-user.

EBRD Annual Meeting & Municipal Infrastructure Finance in SEE[‡]: The [2005 EBRD Annual Meeting and Business Forum](#) will take place May 22-23 in Belgrade. This event is of interest to MUNEE as the following energy-related topics will be discussed, among others:

- Romania: Energy sector privatization, competition and opportunities
- Croatia: Energy restructuring in Croatia and future privatization & foreign investments
- Bulgaria: Energy efficiency from enterprises to households
- Bosnia & Herzegovina: Infrastructure investment – local and regional developments, projects and needs.

Municipal Infrastructure Finance in SEE, to take place May 20-21st in Belgrade. Organized by Stability Pact for South Eastern Europe, Network of Associations of Local Authorities in Southeastern Europe (NALAS), German and Swiss development agencies, Standing Conference of Towns and Municipalities in Serbia, and several others, it will be an opportunity for local governments to meet international finance institutions. Because IFIs[§] are now prepared to support municipal infrastructure, there is a need for intensified interaction between the IFIs and national governments so as to assure proper institutional frameworks in handling loans. Thus, the aim of the conference is to assure that the topic of “Municipal Infrastructure Finance” becomes a theme in the future for municipalities in SEE.

EBRD Country Strategies Available for Bosnia & Herzegovina and Croatia. Strategies for Moldova and Uzbekistan in Progress and Open for Comment: Country Strategies for BiH and Croatia are now available [online](#). One of the priorities of the BiH strategy is investment in infrastructure and effective implementation of existing energy projects, as well as the continuation of the policy dialogue on the reforms in the sector. In BiH, EBRD is seeking to penetrate the municipal infrastructure sector, where it will concentrate on the operating companies by supporting sector reform and institutional strengthening. Croatia’s strategy also emphasizes infrastructure investment on the municipal level, targeting the smaller municipalities through local banks. The current strategy (2003) for Moldova includes financial and SME sector support, utilities reform, policy dialogue. As energy reform is crucial during transitional restructuring, it is likely that it will be included as part of the new strategy for Moldova. The strategy for Uzbekistan (2003) emphasized democratization and market liberalization, private investment support, strengthening of financial institutions and critical infrastructure. It is also likely that this mix will be carried into the newly revised strategy of 2005.

[‡] South Eastern Europe

[§] International Finance Institutions

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Selected Events in Ukraine Focus on Communal Enterprises: The International Seminar: Solutions for Energy and Ecology Problems of Enterprises and Municipalities will take place in Big Yalta City, May 23-27, 2005. Among the topics are energy efficiency measures, the use of renewable energy and waste, and the introduction of energy efficient technologies. Another aim of the event is to initiate projects and to attract investments. Organizers include several Ukrainian state committees and enterprises as well as the Energy Service Company "UkrESCO." Further info is available at <http://www.necin.com.ua/engl/index.htm>. The 5th International Congress "Ecology, Technology, Economy, Water Supply and Sanitation" will take place in Yalta, Crimea from May 24-27 and is expected to attract representatives from water utilities all over the NIS.

ERRA Annual Conference: A member of the Alliance staff attended the Annual Energy Regulators Regional Association (ERRA) Conference in Budapest, Hungary in April 2005. Many of the presentations addressed national energy policies around the region, including tariff reforms and the impacts of those reforms.

Independent Status of State Committee for Housing and the Communal Economy Saved under New Government of Ukraine: Thanks to support from the Alliance and other organizations who value the work of the State Committee for Housing and the Communal Economy, the Committee will retain its status as an independent governmental body. In February, the Hromadska Rada (Public Council) held an extraordinary meeting to discuss an urgent letter of support for the Committee that argued fervently against the proposed subordination of the Committee to one of the state ministries. All members of the Hromadska Rada unanimously supported the initiative and stated so in a letter that they signed and submitted to Prime Minister Tymoshenko. This is an important implication for less arduous utilities' management, allowing better opportunity than the alternative for more effective and timely energy efficiency improvements.