

**Alliance to Save Energy
Municipal Network for Energy Efficiency**

**MUNEE NEWS
SUMMER 2005**

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I. News from MUNEE Programs

Spotlight on New MUNEE Urban Heating & Energy Affordability Studies

Alliance to Save Energy with USAID Launches Research for Heating & Affordability Studies at Experts Advisory Working Group Meeting: On July 1st in Geneva, the Alliance to Save Energy and USAID officially presented their research agenda for two major studies: *The Energy Efficiency and Urban Residential Utility Affordability Study* and the *Urban Heating Sector in Europe and Eurasia: Experience from the Transition and Future Directions*. The purpose of the meeting was to gather the key regional experts on heat and energy efficiency policy, financing, and related social assistance programs who will contribute to the studies and provide peer review. Participating experts representing International Energy Agency/BRE, Euro Heat & Power, UNECE, energy efficiency centers, and others discussed their views on the research questions and methods with the Alliance and USAID.

The former study aims to 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. The latter study aims to identify key policies to improve urban heating systems and services, while evaluating financing requirements for rehabilitation and modernization of the heating systems, and the commercial viability of projects within the heating sector. This will be done through documentation of energy efficiency experience in case studies, white papers, a workshop and a conference. Both studies will be completed and disseminated in 2006 and will strive to fill the existing gaps in knowledge of energy efficiency's role in heat sector reform and sustainability and affordability of basic utility services in urban households.

Check www.munee.org for updated information on the studies.

ARMENIA

Alliance Team Working with Armenian Energy Ministry on Groundbreaking EE Program: In its effort to promote energy-efficiency policies that are sustainable, the Alliance's local team in Yerevan has revised the draft outline of Armenia's National Program to reflect the Energy Charter guidelines for National Energy Efficiency (EE) & Renewable Energy (RE) Programs. The team has already drafted the Program's first and second chapters, which describe the main objectives and priorities to be addressed by the Program, and a policy analysis, respectively. The policy analysis provides a review of socio-economic indicators, analyzing trends and issues of Armenia's energy sector. A pressing matter currently on the agenda appears to be the feasibility of preparing and passing a Government Ordinance for the ES&RE Law.

Some of the ordinances to be developed for the implementation of the ES&RE Law and the ES&RE National Program will address energy audits, building energy codes, EE standards, building certification, etc. These will require approval by the Government and stakeholder ministries. Moreover, the Alliance is working closely with the Ministry of Energy and the Energy Institute to identify the best approach for enforcing these regulations - through

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building codes, or mandatory construction norms and standards (CNAS), through existing certification procedures or through new ordinances/bylaws. The new ordinances/bylaws would need to pass all of the necessary channels before approval, as was the case with the ES&RE Law in 2004.

If this strategic decision is made, it will affect the possibility of adoption, timeframes or new ordinances, as well as their enforcement. For example, the building CNAS would allow some of the building EE measures to be mandatory for enforcement, while the rest - in compliance with the voluntary scope of the ES&RE.

MOLDOVA

Alliance Advocates Energy Efficiency through Mass Media Outreach: The Alliance's Moldova team has been working intensively to promote energy efficiency through editorials in Moldovan newspapers. Two articles by Ion Batrinu were published recently in a leading nationwide newspaper Moldova Suverana: *Authoritarianism is not Advised when Dealing with Energy Consumption and Projects are Being Implemented, but Not at Word of Command.*

The author of the former article exemplifies Armenia as a case study which other countries can use to model improved policy strategies. The latter article addresses the actions necessary within the policy and economic sphere in order to facilitate Moldova's rapid advancement in its laws and policies towards EU standards. Both articles emphasize the need for incentive-based measures which would encourage behavioral change through the economic aspects, rather than through a top-down approach which might stifle and anger businesses and consumers. The articles can be found in the Library of www.munee.org.

OTHER

Renewable Energy & Energy Efficiency Partnership (REEEP) Grant Awarded: The MUNEE Program of the Alliance to Save Energy won a REEEP grant to support its proposal for "Removing Barriers to Residential Energy Efficiency in Central and Eastern Europe." This project will complement the Alliance's MUNEE work supported by USAID on a regional study to examine the role of energy efficiency in improving affordability of electricity, heat and water services in multifamily households. The main activity of the Alliance's new REEEP project will be a workshop addressing barriers to energy efficiency of residential end-users, focusing on Moldova, Armenia, Ukraine, Russia, Bosnia & Herzegovina, Serbia & Montenegro. The Alliance was one of 18 recipients to receive a REEEP grant in the first round of 2005.

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II. News from MUNEE Region

ARMENIA

World Bank Supports Implementation of Government's Urban Heating Strategy: On July 12th, 2005 the World Bank approved a US\$15 million Urban Heating Project for Armenia. Co-financed by UNDP/GEF in the sum of US\$2.9 million, this project will aid in the implementation of the country's Urban Heating Strategy for multi-unit apartment buildings and schools. The goals of the project are to increase the use of clean, efficient, safe, and affordable heating technologies. The project will remove barriers and will nourish market conditions for commercial provision of heating services through technical assistance, capacity-building, investment and financing, as well as installation or rehabilitation of gas-based local heating systems for schools.

AZERBAIJAN

New Power Sector Project Approved: In May, the World Bank approved a US\$48 million Power Transmission Project in Azerbaijan - the first loan made to Azerbaijan. The goal of the project is to improve the reliability, quality and cost-effectiveness of the electricity supply in the country through investments that would improve management and performance of the high-voltage transmission network. Azerbaijan's power sector is in severe need of assistance. It is not meeting the current demand, and supply to many areas of the country is limited, accompanied by outages and system failures. The sector lacks funding and financial viability has not yet been reached as tariff levels do not cover costs, and payment collections are low for what service is provided.

There are three stages in the project. The first stage will include an upgrade of the country's electricity dispatch system; the second component will cover priority investments in rehabilitation of high voltage transmission lines and selected high-voltage substations; the third part will provide technical assistance to improve the management systems of Azerenerji, the state energy company, and prepare the company for a future restructured energy sector. Based on energy efficiency potential observed in other CIS countries, this investment should help with identifying energy efficiency needs and opportunities.

BULGARIA

First European Bank for Reconstruction and Development (EBRD) Energy Efficiency Project in Bulgaria for Households: On July 4th, Harold Doan and Associates Ltd. announced that Bulgarians will be able to decrease their energy costs due to EBRD's €20.1 million loan to three Bulgarian banks – United Bulgaria Bank, Postbank and RZB Bulgaria. The funds will also be made available to other small banks. The banks will utilize these loans to provide on-lending which would help finance private individuals' efforts to promote energy efficiency and renewable-energy projects. This is the first step in EBRD's efforts to reach out

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to residential customers in terms of energy efficiency, supplementing an existing facility set-up for energy efficiency and renewable energy in the corporate sector.

MOLDOVA

Moldovan Energy Regulatory Agency (ANRE) Not Intending to Modify Electricity Tariffs by late 2005: On June 30, 2005, BASA-economic reported that ANRE has promised that the electricity tariffs for final consumers will remain unchanged until late in 2005. According to BASA-economic, Anatol Burlacov stated that the tariffs in effect allow an efficient functioning of power distribution grids (REDs) because they cover the costs of energy purchases and real spending for supply and distribution of electricity. The Power Distribution Grids (REDs) have even earned a profit last year, which has allowed them to operate steadily in 2005. This decision serves as a positive indication of an improving economic climate and enhanced energy affordability, utility payments and steady supply.

95 Percent of Moldovan Housing Stock was Private Early this Year: On June 27, 2005 the Moldovan news agency BASA-economic reported that the housing fund of Moldova comprised 76.8 million square meters on January 1, of which 37 percent of residences were located in urban areas and another 63 percent in villages, according to data of the National Bureau for Statistics (BNS).

If one assumes that increased privatization will stimulate creation of Home Owners Associations, this is positive news as it foresees a more stable and widespread influence of Homeowner's Associations, and subsequently improved opportunities for management of energy efficiency within the privatized buildings.

Termocom Shows First Recovery Signs: On June 28th, 2005, BASA-economic reported that Termocom, the heating operator currently undergoing reorganization, has reduced the cost of producing one gigacalorie from 215 to 180 lei. This 35 lei decrease was possible due to a reduction of losses throughout the network accomplished by renovating its networks – changing approximately 30 kilometers of thermal networks a year by using new technologies, modernizing 120 heating plants and 9 stations. As a result, Termocom registered a profit in the 1st trimester of 2005, while the inflow of payments for the services has also increased. These actions are aimed to improve economic indicators for Moldova, but this might be difficult to sustain as the thermal networks are quite old, with 70 percent of more of the equipment outliving its productive lifecycle.

However, the process of upgrading the heating networks is far from complete. Dionisie Antocel, Director of Termocom noted that approximately 70 percent of the equipment is antiquated and beyond repair and has been so for some time. Nonetheless, Termocom's efforts serve as a good and important example of the benefits energy efficiency improvements – that they can reduce operation costs and improve consumers' demand satisfaction.

Government Resumes Intention to Amalgamate Moldovan Energy Regulatory Agency (ANRE) and Regulatory Agency for Telecommunication and Informatics (ANRTI): On June 13th, BASA-economic news service reported that the Moldovan government was

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pursuing its plan to create a new central public regulatory authority through amalgamation of ANRE and ANRTI. ANRE representatives stated that the Agency was not consulted or notified about the decision to merge. The decision also "contravenes the legislation in effect, endangers the normal functioning of the energy system, and will gravely affect Moldova's relations with international financial organizations." It has been said that this is the government's attempt to control the tariffs. When the Government wanted to amalgamate ANRE in 2003, the U.S. Agency for International Development (USAID) withdrew a 1.86 million dollar package of grant assistance for Moldova's energy sector.

In spite of international pressure, the government announced in early July that it will continue with the planned merger, according to a July 7th report from BASA-economic. The only large scale international aid left for Moldova's energy sector is the World Bank's Energy Project II. This project started in 2004 and has sought to evaluate national energy legislation and harmonize it with European norms.

ROMANIA

PLENTY Program Makes Progress in Low-Income Energy Consumer Studies: The USAID Romania Mission's program "Protection of Low Income Energy Consumers During the Transition of the Energy Market" (PLENTY) aims to address the growing concerns about residential consumers' – esp. the poorest consumers' – ability to afford basic energy services. Under supervision of the U.S. Energy Association, PLENTY is a partnership program focusing on Romania but also including research of energy affordability issues in Moldova. Through 3 regional workshops, the program shares information about ways – esp. through energy efficiency improvements – to assist low-income consumers.

A recent PLENTY report prepared by MUNEE partner and former Romanian Energy Policy Association (APER) director Honoriu Pitaru reports that 40-65% of the residents in Moldovan municipalities experience poverty and have trouble paying their utility bills. The report documents efforts and some progress with creating homeowner associations and improving energy efficiency in heating networks. It also suggests specific energy efficiency policies and measures that could improve the situation in Moldova, Romania and other countries. See www.plenty-romania.org for more information.

RUSSIA

IFC Initiates a 5 year Program to Promote Investment in Energy Efficiency and Renewable Energy in Russia: At the moment, there is a financing gap amounting to \$300 billion for the entire energy sector, and to \$9 billion specifically within the industrial energy efficiency sector. According to IFC, investment needed from the private sector to fill this gap amounts to 92 percent. This gap can be explained by the lack in long-term financing, lack of awareness of energy efficiency by the financial intermediaries as well as by companies.

In an attempt to fill this gap, a new International Finance Corporation (IFC) technical assistance program, co-financed by the Global Environmental Facility (GEF), Denmark,

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Finland and IFC's Sustainable Financial Markets Facility, will promote investments in Russia's energy efficiency technologies. The program will be carried out in Moscow, St. Petersburg and Ekaterinburg.

The program hopes to stimulate energy-saving investments which would be directly supported and indirectly stimulated; support equipment suppliers through vendor agreement with banks and local companies; build interest and capacity in local financial institutions. IFC will provide credit lines to several Russian financial institutions to build local financial capacity, while GEF will provide credit guarantees. It is expected that this program will increase the energy efficiency of Russian companies, provide availability of longer-term capital for investment by small and medium enterprises, as well as raise awareness of financial viability of energy efficiency projects.

UKRAINE

Ukraine Energy Officials Outline Policies to Decrease Ukraine's Dependence on Gas, Oil Imports via Renewable Energy (RE) and Energy Efficiency (EE): On May 16th, 2005 the Ukrainian-American Environmental Association (UAEA) reported that Ukrainian energy policy makers have outlined their ideas on policies to reduce the nation's dependence on natural gas imports by harnessing the country's potential for renewable energy and energy efficiency. This development is in response to recommendations which UAEA had proposed to the Ukrainian officials. A draft law on "Support from the State Budget for the Energy Conservation in Public Buildings" includes several recommendations for EE/RE improvements and is pending approval in the Ukrainian Parliament.

Some EE/RE measures are already being implemented in residential and public buildings in Kiev. Despite continuing lack of initiative on the part of Ukrainian businesses and the public, the State Department on Energy Efficiency and Energy Conservation of Ukraine prioritizes energy efficiency as the key for economic success and attainment of world standards. Further dialogue between UAES and the Ukrainian government and ministries will continue. For more information, contact Taras Lychuk (Ukraine) +38.067.750.5192; Ken Bossong (USA): +1.301.588.4741.

REGIONAL, EUROPEAN UNION (EU), & OTHER DEVELOPMENTS

Conference on Municipal Infrastructure Finance in Belgrade: The conference, held with support from the Stability Pact, the Council of Europe, and the Network of Associations of Local Authorities in South East Europe (NALAS), addressed the needs and opportunities infrastructure financing within the context of municipal development. It emphasized the importance of institutional reform, and at the same time captured the procedural problems of infrastructure finance within municipalities.

Follow-up activities of the conference are to enhance capacity, provide identification sequences for viable investment projects, and identify gaps and bottlenecks preventing municipalities from financing projects. A case-study book of municipal infrastructure finance

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will be compiled as a source of information on current loan application procedures, and is to become a “good local practice collection” throughout the South East Europe region. A longer-term objective is to improve infrastructure financing, encompassing upgrades to heating and electricity generation capital, to create a more stable and business-friendly climate for dealing with energy efficiency issues. More on NALAS and the conference at www.nalas-see.org.

The Czech Republic Graduates from World Bank’s Financial Assistance: In April 2005, the World Bank announced that it is gradually releasing the Czech Republic from its status of a borrower. After 15 years of economic, social and political transitions, the Czech Republic is ready to become the Bank’s useful partner as well as a source of assistance for development.

In parallel with this transition, trust funds are being established in the Czech Republic, Slovakia, and Hungary, among other countries. The trust funds will facilitate transfer of successful first-hand experiences and enlarged multilateral cooperation, facilitating a stronger effort for meeting the Millennium Development Goals. As far as energy efficiency is concerned, this trend in recipient-to-donor transformations could eventually open up new opportunities for sharing EE/RE experience and financing EE/RE investments.

Final EU Green Paper on Energy Efficiency Emerges: On June 22, 2005, the European Commission adopted a Green Paper on Energy Efficiency that will raise the profile of energy efficiency in Europe. The Green Paper calls for reduction of energy consumption to 1990 levels, focusing on the transport and housing sectors. It presents several options for saving 20 percent of energy consumption by 2020, decreasing energy consumption by 360 million tons of oil equivalent (mtoe), which will produce savings of approximately €60 billion.

The Green Paper on Energy Efficiency recommends that the Member States should aim to reach the above savings through full implementation of already adopted legislation on buildings, domestic appliances or energy services, in addition to financial incentives, regulations, setting of objectives, information and training. Examples of actions include: establishing Annual Energy Efficiency Action Plans at national level; improving energy pricing and taxation to ensure that the polluter really pays; using public procurement to kick-start new technologies; extending the scope of the European Directive on buildings and finding new and improved way of financing.

All sectors are called to participate: production, end-use, industrial, services, households, buildings, and transport, involving individual consumers, decision-makers of all levels, banks and international institutions. http://europa.eu.int/comm/energy/efficiency/index_en

European Commission Holds Energy Efficiency Workshop, July 8th 2005, Tallinn: At the EC Energy Efficiency financing workshop, the World Bank made a presentation on its various programs in Europe and Central Asia. The presentation revealed IBRD’s several financial tools such as partial risk guarantees, loan loss reserve funds, special purpose energy efficiency funds/loans, and investment grants used for the energy efficiency projects. Currently, there are 6 ongoing projects in the CEE region: in Lithuania, Poland, Croatia, Romania, Bulgaria, and an ESMAP project in Poland. The projects aim to facilitate ESCO

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development, market transformation, supply-side upgrades; aide with complementary activities and enable technical assistance.

Thus far, it has been difficult to implement programs in a ‘subsidy-addicted’ environment. It has become evident that many clients prefer open book pricing; audit costs serve as barriers to energy efficiency, although though revolving audit fund concept has been rejected by the market. In addition, public procurement regulations can be serious impediments for ESCO operations. Therefore, the advice to come away with from these experiences is that it is necessary to build the pipeline early on in the project, and to continually monitor the program throughout its operation.

RETScreen International Releases Combined Heat & Power (CHP) Project Analysis

Model: The new release of the CHP Project Analysis Model can be used world-wide to easily evaluate the energy production, life-cycle costs and greenhouse gas emissions reduction for combined heat & power projects. RETScreen was designed for use in evaluating multiple applications including: power; heating; cooling; single buildings or multiple buildings; industrial processes; communities; district heating and district cooling. The model allows for analysis of both renewable and non-renewable fuels. It is available in 21 languages, taking into account the CDM and JI mechanisms of the Kyoto Protocol. It also includes a product database which has data on 5,880 power, heating and cooling systems from throughout the world. This model is complementary and can be downloaded at the RETScreen Website: www.retscreen.net

NEW PUBLICATIONS

The Energy Charter Secretariat has released three new documents this year:

- A draft report titled “*Azerbaijan: An In-Depth Report on Investment Climate and Market Structure in the Energy Sector*”
This document devotes a chapter to discussion of energy legislation of Azerbaijan, market structure and privatization, encompassing a detailed discussion on the electricity sector. It provides useful statistics on useful capacity of power plants, thermal-electric generating plants, electricity production and consumption.
<http://www.encharter.org/upload/9/408441343206222226830018529519198351831667888952f2687v2.pdf>
- A report titled “*Carbon Trading and Energy Efficiency*,” which addresses opportunities and challenges for energy efficiency projects in the carbon trading market. It also analyses the role of energy efficiency projects in the Joint Implementation and the Clean Development Mechanisms of the Kyoto Protocol.
<http://www.encharter.org/upload/9/6227610883662307422601790142022764085383707160f2650v1.pdf>
- A report titled “*Investing in Energy Efficiency – Removing the Barriers*” addresses the untapped opportunities for energy efficiency resulting from barriers created by

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insufficient legal, administrative, institutional or financial structures.

<http://www.encharter.org/upload/9/1235533939125580591013593613246610729131524453313f2649v1.pdf>

FORTHCOMING ENERGY EFFICIENCY EVENTS

7-9 September 2005

Green Power Central & Eastern Europe
2005
Prague, Czech Republic
www.greenpowerconferences.com/events/CEE05.htm

7-9 September 2005

5th Balkan Power Conference
Sofia, Bulgaria
www.balkanpower.org

20-23 September 2005

Metering, Billing & CRM/CIS sessions
Barcelona, Spain
www3.synergy-events.com/meteor2005

22-23 September 2005

European Energy – Conflicts and
Synergies Conference
St. Johns College, Oxford, England
www.eci.ox.ac.uk/lowercf/ukerc/event3

3-5 October 2005

Energy Week, Including Electricity Forum
Belgrade, Serbia & Montenegro
www.seerecon.org/infrastructure/sectors/energy/events

26-28 October 2005

2nd European BISE Forum
Sofia, Bulgaria
www.energie-cites.org

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To include your materials on energy efficiency in Eastern Europe and CIS, please email Olga Chistyakova at ochistyakova@ase.org. The MUNEE Newsletter is issued bimonthly.

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