

MUNEE NEWSLETTER # 12

The Newsletter of the Municipal Network for Energy Efficiency (MUNEE)
Sponsored by the United States Agency for International Development (USAID)
Managed by the Alliance to Save Energy
1200 18th Street, NW, Suite 900
Washington, DC 20036 USA

TABLE OF CONTENTS

- [Russia's New Communal Services Company: Savior or Another Monopolist?](#)
- [News from the MUNEE Program](#)
- [Events, Opportunities and Resources](#)

RUSSIA'S NEW COMMUNAL SERVICES COMPANY: SAVIOR OR ANOTHER MONOPOLIST?

By all accounts, Russia's municipal heat and water sectors are on the verge of collapse. According to the Moscow Times, a recent study by the presidential administration's auditing directorate revealed that 73 percent of boilers and two-thirds of all pipe networks in apartment blocks are "depleted," resulting in as much as 60 percent of all residential heat supplies being wasted. For every 100 kilometers in the heating network there were on average 200 ruptures or other incidents requiring repairs last year. The national heating network suffered more than 1,500 failures last winter alone, a 20 percent increase from the previous year, resulting in 75 "major" crises in 38 regions.

With this situation, two of Russia's most famous monopolies, United Energy Systems (the largest electricity company in the world), and GasProm have created a new company that will take over, operate and invest in cities' aging infrastructure. Led by UES head Anatoly Chubais, the consortium includes Gazprom (through Gazprombank), Interros, Renova, Evrofinance Bank, YevrazHolding and Kuzbassrazrezugol. UES and Gazprombank each own a 25 percent stake.

RCS is now working in twelve regions, including Kaluga, Nizhny Novgorod, Perm, Rostov, Saratov and Tver. The company is hoping to establish wholly-owned regional subsidiaries that will take over all local housing-service functions, ensuring supplies of water, power, heat and gas, garbage collection, sewage service, general building maintenance - and even television and radio access.

On July 8, Vladivostok became the twelfth city in Russia to sign an agreement with the new company. The city will lease out its heating pipes and other infrastructure to RCS, which will run the city's housing services for 11 months. The goal will be to reform billing practices and customer service. If the first phase goes well RCS will start investing in the city's struggling sector in 2006, totaling perhaps 2 billion rubles (\$66 million).

RCS's eventual goal is to convince local mayors to turn over their infrastructure for 10 years in exchange for a promise to provide stable heat/water supplies and modernize the infrastructure. Because heating prices are generally very low, RCS will have to convince regional energy commissions to set tariffs at a level to its liking. (It is important to point out that municipal heat utilities owe about \$9 billion to energy suppliers, mainly UES, Gazprom and the coal companies.)

Some think RCS is just what is needed in Russia's communal service sector - a private-sector firm willing to make the accounting, management and other reforms needed to get municipal heat companies to operate on a more commercial basis, thereby generating much-needed investment. Because private-sector participation in heat and water supplies is now relatively common-place in Eastern Europe, it is logical this model would spread to Russia.

However, the huge size of the companies involved in RCS and their monopoly positions concern others. The Russian Ministry for Anti-Monopoly Policy and Business Support stated it would not allow RCS to monopolize housing-service markets. Said one official: "In each individual case the ministry and its regional branches will examine the issue of allowing companies into the housing-services markets to ensure that competition and consumer-rights requirements are met." And the government recently said it would not give any federal money to cities in which RCS is operating. An official at the State Construction Committee is urging the government to allocate 13.47 billion rubles (\$440 million) in additional support for the coming winter, but none of the cities where RCS is active will see any of that money.

=====

NEWS FROM THE MUNEE PROGRAM

=====

ARMENIA: *Vanadzor Project:* Last year, the Alliance organized a training seminar for Armenian city officials on how to identify, implement and monitor energy efficiency projects in public buildings. As a result of this training, the City of Vanadzor in Northern Armenia carried out a heat supply rehabilitation project in the city's medical center. The boiler replacement resulted in a reduction of heat losses by 41% and heating expenses by almost half. Even in extremely difficult financial conditions - as is the case in most Armenian municipalities - investments in energy efficiency can still take place. For more information, contact Astghine Pasoyan at apasoyan@ase.org.

BULGARIA: *World Bank approves Sofia District Heating Project:* The World Bank's Board of Executive Directors recently approved a \$27 million energy-efficiency loan to Sofia's district heating company *Toplofikacia Sofia*. Through the installation of new sub-stations and the other institutional and policy measures, the project will allow district heating services to become more demand driven. Unlike in the past, customers will have the ability to control the consumption that is expected to lead to energy savings of around 15 percent per household. The project will also support critical rehabilitation needs in *Toplofikacia* that will lead to a reduction in energy and water losses.

Nexant and the Alliance provided assistance on this project by exploring options for bringing in private investment. As a result, the heating company will issue a management contract for a private firm to help manage the utility - with support from the international financial community. The total cost of the project is estimated at US\$132.7 million. The European Bank for Reconstruction and Development and the European Union are also helping to finance the effort. The World Bank loan has a 17-year maturity, with a

5-year grace period.

BULGARIA: *New Contract in Dobrich:* Innovative financing is continuing to spread in Bulgaria as another one of the projects developed under the USAID/UNECE training program will be implemented. With assistance from MUNEE partner EnEffect (Center for Energy Efficiency), the City of Dobrich just signed an agreement with the Sofia-based Technoterm Engineering Ltd to retrofit 42 municipal buildings. Much of the equipment will be provided on a lease-basis, making it easier on the city's budget. The buildings include city offices, 17 schools and 16 kindergartens. The project will improve weatherization and install new gas-fired boilers, automatic heat-control systems, roof insulation and energy-efficient lights. It is another sign that the market for municipal energy efficiency is accelerating in Bulgaria. For more information, please contact Pavel Manchev at EnEffect: pmanchev@eneffect.bg.

LATVIA: *Innovative Way to Finance Housing Improvements:* One of MUNEE's goals has been to develop a system whereby housing associations can implement energy efficiency investments through small increases in condominium or housing fees. It has finally worked in the City of Valmiera, where MUNEE partner Ekodoma reports that two of the three buildings audited by the MUNEE team have each received a loan of 5000 Ls (approximately 8,500 USD). The loan will be paid back by increasing the condo fee from 16 Latvian santimi to 20 per square meter (\$.27-\$.34). In addition to door and window replacement, one building will have new insulation for the basement pipes. The other building, which will also see slightly higher fees, will get wall insulation, new stairwell heaters, and training for the building's energy managers. For more information, please contact Angela Morin at amorin@ase.org.

ROMANIA: *Municipal Bonds Continue:* After the City of Mangalia broke new ground by issuing a bond, other cities are getting on the bandwagon. Azuga, Alba-Iulia, Bacau, Oradea, Cluj-Napoca and Zalau and Timisoara have all decided to finance their own infrastructure projects by issuing municipal bonds. The mayor of Timisoara, known for his results in modernizing the thermal energy distribution system, told MUNEE partner APER that the *bonds* method has certain advantages and is convenient to the municipalities. APER is now working to assist cities in issuing bonds for energy efficiency/district heating upgrades. Through various training events in the country, MUNEE has been pushing municipal bonds as another financial option for cities looking to upgrade their infrastructure. For more information, please contact Laura Radulescu at aper@bx.logicnet.ro.

SERBIA: *Green Schools "The Environment and My Community" Award Ceremony.* The Alliance completed its "Environment and My Community" year-end poster competition for all 100 CHF schools on June 6th, with an award ceremony in Belgrade hosted by the Minister of Education and by Dr. Lynn Montgomery - the wife of the U.S. Ambassador to Serbia. The ceremony brought the twelve finalists, their parents and teachers to Belgrade for two days of sightseeing and the award presentation. The ceremony was held at Belgrade's Dom Omladine, or student center, and included representatives of the Serbian Ministry of Energy, the national utility and members of the media. The original Green Schools competition was held in all 100 schools, with each school choosing the winning poster and sending it to Belgrade where a panel of judges selected the top twelve. The top posters can be seen on www.ase.org.yu/english under Green Schools.

UKRAINE: *An Innovative Experiment:* For many years, donors and innovative city officials have worked to create a system of privatized housing maintenance services and have the market work to improve the housing stock in Eastern Europe and the Soviet Union. When it does happen, companies compete for

contracts with housing associations and local governments to maintain residential buildings, and the result is better service.

One of the new companies in this emerging market, MZhK, is based in the Ukrainian City of Lutsk. MZhK has maintenance contracts with 90 high-rise buildings where 40,000 people live. With the Alliance's help, MZhK is now undertaking an experiment, which if successful could be a model for other cities. The project now being implemented is installing real-time, remote monitoring equipment, measuring and controlling the flow of heat and water into and within the building. Most residents in the city - and the country - pay for heat and water regardless of the quality of service. This system will measure heat and water around the clock, identifying both spikes in consumption and areas within the building where heat and water are being lost. When a leak or other problem occurs, MZhK will see it right away and be able to repair the damage quickly, reducing utility costs for the residents. This effort will help give the company an edge over its competition and provide better service. Perhaps most important, it will be almost impossible for the heat and water suppliers to charge for service they are not providing - which is fairly common. For example, if the temperature in a building is too low, the residents are entitled to discounts under Ukrainian law, but this is difficult to measure and prove. MZhK will use this project as an opportunity to change that, measuring indoor temperature and ensuring that residents pay for what they get.

Valeriy Kovalyuk, President of MZhK, is also the President of the Association of Ukrainian Housing Servicing Companies. The association organizes annual conferences for their members (more than 400 members took part in the last conference). For more information, please contact Yuri Havrylyuk at yhavrylyuk@ase.org.

UKRAINE: *Heat Meter Installation vs. Subsidy Payments:* The Alliance team and Lviv city officials recently finished a report analyzing the influence of heat meter installation on subsidy payments for residents in Lviv. The analysis shows that when a heat meter is installed, heating costs go down significantly and thus, so do subsidies for low-income people that are paid by the state. A heat meter reduced subsidies on average by 23% per building. The key reason is not energy efficiency, although that plays some role; the chief reason is that residents are no longer charged for the distribution losses that are incorporated in the old rates. When there is no heat meter - as is still the case in most Ukrainian residential buildings - residents are charged based on size of apartments.

Because the central government pays the heat subsidies to the cities, and because the city district heating company ends up paying for the line losses when there is a meter, installing a heat meter effectively shifts the burden from the State to the municipalities. Metering reduces revenue to the heating companies - both from heat sales and from subsidies - although it does generally improve payment collection. Eventually, the volumetric rate will have to increase, but in the meantime, the analysis shows that the State has an incentive to install heat meters because subsidies are reduced.

The total subsidies saved in this small survey saved 146,350 hryvna or about \$26,500 per heating season. That is not a huge amount, but this money could be channeled into one-time investments for meters (as opposed to paying the same level of subsidy year after year). The Alliance believes that state funds originally assigned for residential energy subsidies could be a potential financing source for heat meter installation throughout Ukraine. The Alliance staff in Ukraine is already proposing to the central government to transfer some subsidy money to pay for heat meters. And interestingly, the City of Lviv is not objecting because although their burden will rise, laws already on the books require residential buildings have at least a master-level meter. For more information, contact Anatoliy Kopets at

akopets@ase.org.

=====
EVENTS, OPPORTUNITIES & RESOURCES
=====

Energy Efficiency in Economies in Transition: In a report published by the International Energy Agency, energy efficiency is targeted as a policy priority for economies in transition. According to the IEA, increasing energy efficiency to potentials exceeding 30-50% will assist EITs in increasing competitiveness for business and welfare for consumers (especially in the context of energy price increases). The IEA notes that while many countries in the region have developed ambitious programs to address inefficient energy consumption, the resources allocated to the programs is largely insufficient. To support these economies, the IEA has developed an energy co-operation program for economies in transition. The work is designed to help countries in achieving market-oriented, energy-efficient policies while increasing energy security. A copy of this report is available on <http://www.munee.org/>.

Best Practices in Local Energy Policy: Energie Cités published a report on sustainable local energy policy in 50 municipalities in Europe. This CD-ROM was co-financed by the French Agency for Environment and Energy Management (ADEME) with the support of the European Commission under the Altener Programme. For more information, contact balcaraz@energie-cites.org.

GERMANY: *Private Meets Public:* A conference on public-private partnerships for energy efficiency will be held in Berlin, Germany, September 8-9, 2003. The topic will be accessibility to private sector efficiency for public services, leveraging additional sources of capital and increasing quality of services to the public. Participation is free of charge, but registration is necessary. For further information go to www.berliner-agentur.de.

GERMANY: The European Investment Bank organized a conference in Berlin in April -- "Public Private Partnerships for Public Infrastructure Projects: Objectives and Experiences in Germany and Europe" - to discuss such partnerships for planning, building, financing, managing and operating infrastructure projects. The pan-European experience presented at this conference demonstrated that potential savings from PPPs in the order of 10-20% can be achieved, compared with the cost of infrastructure set up and operated under state auspices. For more information, visit <http://www.eib.org/news/events/>.

UKRAINE: A joint conference between Ukraine, Russia and Belarus called "The Complex Solution of Energy and Ecology Problems of Enterprises and Municipalities" took place in Yalta in early June. About 400 representatives of cities, manufacturers and energy officials attended the conference to discuss energy policy and experience with energy efficiency projects. The event aimed to bring together closer cooperation between the three countries. The Alliance presented its municipal experience in Ukraine while the Association of Ukrainian Cities (AUC) also stressed the importance of better energy management for its members. By bringing Belarus more involved in international meetings, the hope is that its municipalities can benefit from the experience that Russian and Ukrainian cities have been able to develop on how to reduce energy waste. For more information, please contact Artem Kharchenko at akharchenko@ase.org.

Sarah E. Meyer
Alliance to Save Energy
1200 18th Street, NW, Suite 900
Washington, DC 20036
Tel: (202) 530-4343
Fax: (202) 530-4355
Website: www.munee.org