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**MUNICIPAL ENERGY  
REFORM IN UKRAINE**

# MUNICIPAL ENERGY REFORM PROJECT (MER)

INFORMATION  
DESCRIPTION

MATERIALS

WITH

MERP

**January 2014**

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## INFORMATION MATERIALS WITH MERP DESCRIPTION

AWARD NO: IDIQ# AID-OAA-I-13-00015  
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# UKRAINE MUNICIPAL ENERGY REFORM PROJECT

The primary purpose of the Municipal Energy Reform Project (MERP) is to enhance Ukraine's energy security. Increased end-use energy efficiency (EE) combined with increased production of clean energy (CE) in large towns and cities will reduce the consumption of conventional energy in Ukraine and, cutting greenhouse gas (GHG) emissions and energy expenditures and imports.

Project's Goals:

- *Improved Energy Policies*
- *Increased Energy Efficiency*
- More Investment in Energy Sector

MERP will make a valuable contribution to USAID's overall energy projects in Ukraine. MERP will also support on-going energy activities in achieving the overall aims and goals of the energy sector in Ukraine, including its integration and compliance with the energy legislation of European Union (EU). In addition, the MERP will reduce and mitigate GHG emissions resulting from the poor use of energy resources at the local level.

MERP is implemented by the US company International Resources Group and its international and national partners.

Budget of the Project is USD 13.5 million and it is a four-year Project.

The Project includes four major activity directions:

1. Improve Regulatory and Legislative Enabling Environment for Energy Efficiency and Clean Energy;
2. Promote Energy Planning, Investments in Energy Saving Technologies and Use of Renewable Energy Sources;
3. Capacity Building for Government and Non-Government Organizations with Respect to Energy Efficiency, Renewable Sources and Emission Reduction;
4. Enhance Capacity for the Government of Ukraine (GOU) in Development and Introduction of Low Emission Development Strategies.

## DESCRIPTION OF MERP ACTIVITY DIRECTIONS:

### **I. IMPROVE CLEAN ENERGY REGULATORY AND LEGISLATIVE ENABLING ENVIRONMENT FOR CLEAN ENERGY POTENTIAL**

Improved tariff regulation and an enabling policy environment will ensure financial sustainability of public and private investments into municipal EE. This will trigger market mechanisms to stimulate more investment in the energy sector. It will also encourage utilities to implement demand side management and motivate both suppliers and consumers to invest in end-use EE.

Within this Activity, the MERP team will improve regulatory and legislative environments necessary for reforming municipal EE in order to attract financing and investment for clean energy improvements. To achieve this, the MERP will work with relevant GOU ministries and agencies, Parliamentary committees, and other private and public partners with a stake in the process.

At a minimum, the Contractor will work on the following legislation: modification of the Building

Code; Draft Laws on: Energy Efficiency in Buildings, ESCO/EPC, Commercial Metering, Improvement of Social Safety Nets, Home Owner Associations, among others.

***MERP will work on the national and municipal levels.***

***On the national level, the Project will focus on the following tasks:***

***Developing Enabling Legislative and Policy Environment:***

Within this task frame, the MERP will revise legislation, resolutions, and regulations, necessary for the development, enactment and enforcement of laws and regulations identified in the National Action Plan for Energy Efficiency in Municipal Sector. MERP specialists will develop an Action Plan for modification of the Building Code, along with any documents that are necessary for reforming municipal EE and their ability to attract financing and investment for CE improvements. MERP will provide expert analysis and conduct research on best international practices for EE and CE.

MERP specialists will participate in GOU working groups and committee meetings, and lobby the GOU, Parliament and other stakeholders on critical legislations identified above.

***Supporting Energy Efficiency Standards:***

***MERP*** will introduce and promote international level EE technical standards (e.g., energy audits and municipal energy plans, and international standards (e.g., ISO 50001)). This will be conducted in cooperation with the municipalities, think tank or NGO, with the Ministry of Regional Development, Construction and Housing and Communal Services (Minregion), Ministry of Economic Development and Trade, and State Agency for Energy Efficiency and Energy Saving of Ukraine (SAEE) or an alternate relevant agency.

***Improving Tariff Setting:***

MERP team will continue and finalize transition to an incentive-based regulation model by developing and implementing cost-reflective heat tariff methodologies allowing for full cost recovery and reflective of capital investment requirements. This will include the following: tariff incentive model RAB (Regulatory Asset Base); best practices on two-tier tariffs; technical assistance in methodology of accounting for foreign exchange risks (price of natural gas); piloting the new tariff model at selected utilities; quality assurance in the new tariff model including identification of key quality indicators, implementation of a system of quality monitoring, and development and incorporation of social standards of service provision.

***Improving Social Safety Net Policies:***

MERP experts will ensure social safety net policy factors are part of the development of tariff structures through coordination on national level safety net reforms. In addition, MERP experts will analyze best practices and case studies, provide expert advice in drafting of the relevant documents, and providing specific recommendations for the Government and municipalities. Recommendations should include targeted subsidies to vulnerable households and EE incentives. Such policies should encourage cost-effective EE improvements in addition to targeted tariff subsidies and monetization of subsidies.

***Regulatory Information System Development:***

MERP experts will contribute into the development of an integrated information system for reporting of utilities in a single format and will promote creation of a unified database for all reporting indicators and data. The reporting system will shorten the process by which utilities report to the National Communal Services Regulatory Commission (NCSRC) and streamline NCSRC's review of the submitted information and tariff approval process.

MERP will focus on development of the technical specifications for software and hardware for rendering of the automated regulatory services, and will train NCSRC specialists to use the software.

### **Developing Utility Benchmarking:**

MERP will support NCSRC on monitoring/benchmarking the quality of heat services provided by district heating companies, and associated penalties and bonuses based on the quality provided. This task will include preparing standard heat supply and water supply public contracts between consumers and suppliers.

### **Capacity Building:**

MERP will create proper conditions to build capacity of Minregion and NCSRC. The Project will conduct relevant trainings for the specialists of Minregion to ensure coordination of IFI-financed municipal EE/CE projects by utilities.

For NCSRC specialists, MERP will conduct proper trainings on tariff setting and benchmarking issues, will expose them to the best international practices in this area.

## **2. PROMOTE INVESTMENT IN CLEAN ENERGY TECHNOLOGIES AND APPLICATIONS**

### **Work with partner cities:**

Activity 2 is intended to overcome the barriers to municipalities in developing and implementing nonconventional energy/clean energy activities. The key barriers are not related to lack of financing sources; IFIs have made financing available, but it is not utilized due to lack of municipal capacity and lack of well-prepared projects.

### **Assisting Municipalities with Planning, Preparing and Financing for Clean Energy Projects:**

MERP will assist up to 15 selected cities with: preparation of strategic energy plans to cover all important energy consuming sectors and integrate them with Sustainable Energy Action Plans (SEAPs) pursuant to the Covenant of Mayors methodology. In doing so, MERP will develop methodologies for monitoring and verifying energy and GHG reductions, and their cost-effectiveness for activities implemented under SEAPs. The plans should address baseline energy consumption and emissions; measured savings in energy consumption and energy bills; GHG reductions; and how the municipalities are using the savings. MERP will also prepare templates for SEAP reporting of results on quarterly and annual bases.

MERP will assist partner municipalities with conducting feasibility studies and other project preparation activities as agreed upon with an IFI and approved by USAID.

MERP assistance may include project identification through conducting energy audits; preparation of technical pre-feasibility studies (indicating cost, energy and bill savings and GHG reductions); preparation of business plans indicating cost-effectiveness, financial benefits and cash flows. MERP will assist the municipalities in making applications to financing sources.

Financing for investment projects can come from one or more of the following sources: the municipal budget; loans from commercial banks; municipal bonds on the domestic capital market; and concessionary lending support from IFIs (e.g., NEFCO, World Bank, IFC, EIB, and EBRD). Where it is appropriate and technically possible, commercial lending should be supported by a USAID DCA credit guarantee. MERP will assist in developing or supporting Project Implementation Units in promoting the involvement and performance of loans.

### **Introduction of Energy Management System:**

**MERP** will assist selected municipalities to develop energy management systems under the framework of the ISO 50001 standard. ISO 50001 provides for measuring and monitoring of energy consumption. Such information provides a basis for identifying EE opportunities and executive decisions on possible savings. The Project will assist partner cities in training and establishment of the energy management system.

### **Development Credit Authority Loan Guarantee:**

USAID/Ukraine will work with commercial banks or other financial institutions to provide partial guarantees to unlock financing for EE improvements in participating municipalities. Partial guarantees will support lending for investment activities within the framework of MERP.

MERP will also provide portfolio monitoring support for any financed EE projects, give technical support to the partner banks, provide for match-making between borrowers and lenders to encourage lending utilization, ensure timely reporting requirements, and assist with a performance evaluation.

In addition, MERP will provide the lender(s) with training on appraisal of EE loans. MERP will provide assistance to partner financial institutions in project evaluation, underwriting, and risk management. MERP team will work with the financial institutions and other donors to ensure prudent lending practices and regulations are in place to encourage commercial investment in EE sector.

MERP will provide technical assistance and capacity building activities for commercial banks' lending for EE loans to municipalities, public utilities, associations of apartment owners, and private sector entities implementing EE projects in the housing or public sectors (such as ESCOs).

### **Support Mechanisms that Mobilize Private Sector Investment:**

MERP will support mechanisms that mobilize private sector investment and engage local organizations (such as ESCOs and engineering firms) to share in investment risks for municipal EE projects.

MERP will assist the municipalities to build institutional capacity to develop PPPs to implement projects. PPPs may take several forms including vendor financing or developing contracts with ESCOs to implement the projects at no initial cost to the municipality, with repayment over the life of the service contract. MERP will assist municipalities to negotiate with PPP partners and to prepare appropriate procurement mechanisms. PPPs and/or ESCO arrangements are particularly suitable for financing by IFC and EBRD.

### **Preparation of Project Information Activities and Development of Related Materials:**

MERP will carry out active information activities in its partner cities to increase public awareness of EE and renewable energy, to support public investments and encourage EE in multi-apartment buildings. Information activities will include conducting public events, dissemination of public awareness materials: brochures, billboards, newsletters; information campaign in social networks.

## **3. CAPACITY BUILDING AND DISSEMINATION**

Efficient implementation and replication of MERP best practices require capacity building among Ukrainian institutions and municipalities, as training of the specialists and local capacity building will ensure sustainability of results, and dissemination of the Project's accomplishments on the municipal and national levels. This will allow to create an enabling environment for implementing EE activities using market conditions. In addition, capacity building activities are needed to introduce standardized professional services such as energy audit procedures and certification of auditors. Capacity building of ESCO and improved EPC practices are needed due to the novelty and complexity of the associated legal and financial instruments.

In cooperation with the Project, local communities, governments and NGOs will learn new practices and methodologies, and will be able to assume ownership of both activities and results of implementation of the new projects and technologies.

By the end of year two of MERP activities, MERP will complete its capacity building activities on the national and local levels, in order to select further at least one local organization and at least one GOU institution or three local governments for direct grants from USAID.

**Target Groups may include (but are not limited to):** NGOs, think tanks, local communities, professional associations, NCSRC, SAEE, other GOU institutions, local governments, and mass

media.

***During the realization of this activity, MERP will focus on the following tasks:***

**Preparing a local non-governmental organization for a direct award from USAID:**

During the first two years of MERP implementation, its experts will assist in conducting trainings and relevant work with the professional NGOs, which due to proper training will become eligible for a direct grant from USAID. For this purpose, MERP will develop a Selection and Capacity Building Plan (SCBP) that will be presented for approval to USAID. This SCBP will contain the following information:

- ✓ Description of the agenda that will be implemented by the local organization as part of MERP scope of work (SOW) initially under a sub-grant awarded by MERP and later under a direct award from USAID.
- ✓ Analysis of existing local organizations and substantiation for USAID on selecting a local partner from the pool of existing local partners, or establishing a new organization.
- ✓ Comprehensive list of capacities and qualities that the local partner should possess in order to qualify for receiving USAID award; list of criteria by which USAID and MERP will jointly verify the recipient's readiness by the end of year two of the task order. All the documents will be prepared in close cooperation of MERP and USAID experts.
- ✓ Plan and description of capacity building activities for the members of local organization.

After implementation of SCBP approved by USAID, MERP experts together with USAID will select a local partner or make a decision on establishment of a new organization.

By the end of year two, MERP will prepare a capacity building report that will summarize the implemented capacity building activities, performance of the local partner as a sub-grantee, and will prepare one organization for a direct award from USAID. MERP will propose to USAID a plan for transiting the local partner from a sub-grant under the task order to a direct award by USAID and will work with relevant USAID offices to implement this plan.

Illustrative activities to be implemented by a local partner:

- Institutionalize and standardize energy audits and municipal energy plans in cooperation with SAEE or other relevant agency.
- Build capacity at the SAEE and related stakeholders (e.g., Association of ESCOs) to develop standards for the following practices: municipal energy planning process; energy management and monitoring (using ISO 50001); Energy Performance Contracting; energy audits; etc. If necessary, the assistance may be extended to include preparation and conducting of trainings on the legal framework for implementation by ESCOs using Energy Performance Contracting.
- Assist SAEE and related stakeholders to build capacity to assess and analyze the opportunities for economically viable application of biomass heating from locally available crop waste, forest and sawmill waste, and/or municipal solid waste. Should their economic and environmental feasibility be proved, these projects will be considered under Activity 2 (*Promote Investment in Clean Energy Technologies and Applications*).
- Support organization of forums and other public awareness events for exchange of experience and feedback on MERP activities from the participants such as SAEE, municipalities, local and regional associations. This approach will allow to integrate best practices into activities under SAEE's National Energy Efficiency Action Plan (NEEAP).
- Conduct targeted information/public awareness campaigns promoting USAID's CE energy activities.

#### **4. ENHANCE CAPACITY FOR THE GOU IN LOW EMISSION DEVELOPMENT STRATEGIES (EC LEDS)**

EC-LEDS is a United States Government (USG) program to support partner countries' efforts to pursue long-term, transformative development and accelerate sustainable, climate-resilient economic growth while slowing the growth of GHG emissions.

Activity 4 is an integral part of USG program to address climate change. It is designed to: (1) build capacities in partner countries; (2) provide targeted technical assistance; and (3) develop a shared global knowledge base on low emission development.

EC-LEDS supports and enhances country-led development programs, plans, and policies and complements efforts of other international donors and organizations to support LEDS. The USG has identified Ukraine as a priority country for engagement through the EC-LEDS program.

On March 1, 2013, USAID and the Ministry of Economic Development and Trade (MEDT) signed a Memorandum of Understanding (MOU) and Statement of Cooperation on EC LEDS-REDS (Resource Efficient Development Strategy).

The MOU identifies three areas for cooperation between USAID and MEDT to promote LEDS-REDS in Ukraine:

- A.** Strengthening institutional capacity in planning LEDS-REDS, the goals of which include:
  - 1. To improve Ukraine's National System of Inventory and Assessment of Efficient Use of Resources, the monitoring systems for GHG emissions and GHG mitigation actions, and the planning, reporting and assessing of LEDS-REDS levels;
  - 2. To incorporate LEDS-REDS into existing government planning systems for social and economic development, strengthen capacity of national and local authorities to incorporate low-emission and primary resource use approaches within existing national and local development planning processes, and improve LEDS-REDS coordination across government sectors and with relevant stakeholders; and,
  - 3. To improve national capacity to use strategic planning tools in support of LEDS-REDS, strengthen capacity to use analytical models and tools to develop national, local, and regional low emissions mitigation options, and increase the efficient use of resources within development planning for sectors such as industry, agriculture, transport and waste disposal.
  
- B.** Implementing LEDS-REDS through support in developing and introducing clean energy technologies and energy services, the goals of which include:
  - 1. To strengthen legislative and political support for LEDS-REDS, including support for compliance with legislation, regulations, and procedures and mechanisms that encourage the development and implementation of energy efficient and renewable energy technologies; and,
  - 2. To develop CE and institutional development projects that promote cleaner energy production methodologies and strategies and increase EE in the housing and utilities sectors.
  
- C.** Developing a uniform database on LEDS-REDS and exchanging experiences and best practices with other countries participating in EC-LEDS.

USAID and MEDT agreed that a detailed work plan should be jointly developed by the participants that will outline specific activities to be implemented, based on the areas stated above, after the signing of the MOU.



Target Groups may include (but not limited to): GOU institutions responsible for GCC initiatives and strategic planning and economic development, such as MEDT, the National Agency for Ecological Investments, the National Agency for Investments and Management of National Projects, the National Agency for Energy Efficiency and Energy Saving, the Ministry of Ecology and Natural Resources, and other GOU stakeholders; civil society engaged in GCC issues, and the public and private sector.