



# ENERGY EFFICIENCY FUND

**The Ministry of Regional Development, Construction,  
Housing and Communal Services of Ukraine**

2016

# HEATING IS THE LARGEST SEGMENT OF UTILITY SERVICES



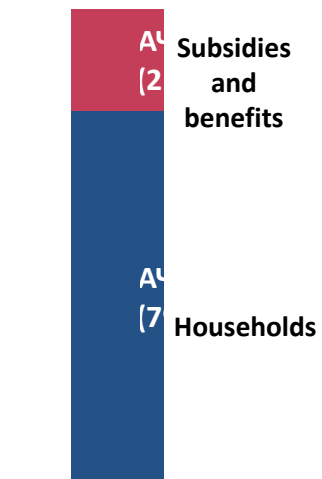
**6,5 mln**  
households in  
private homes



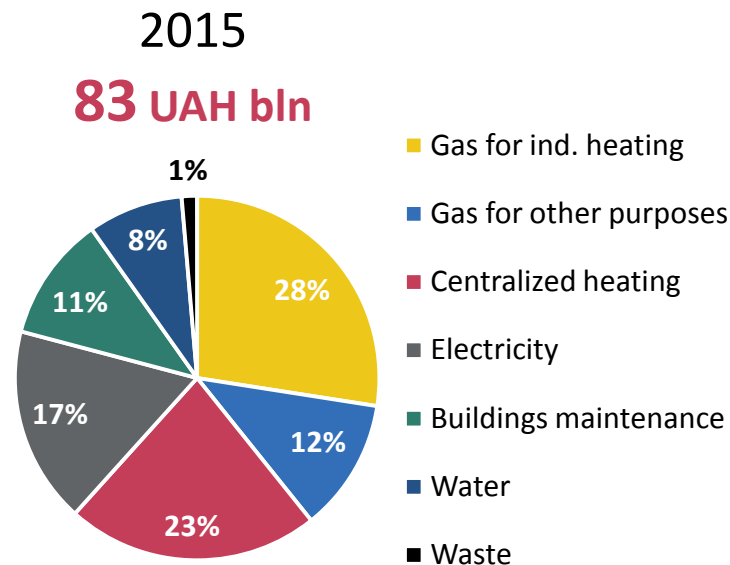
**7,8 mln**  
households in  
multistory buildings

**240 ths**  
total number  
of multistory buildings

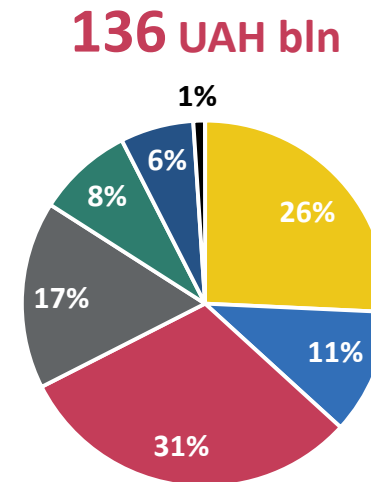
Source of payment  
for HUS in 2015  
(UAH bln)



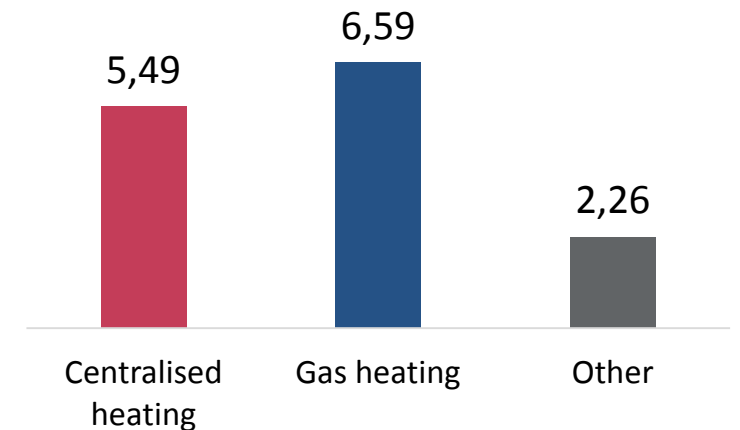
HUS market structure for population



2017



Number of households by type  
of heating



**HEATING ACCOUNTS FOR 45% OF THE TOTAL GAS CONSUMPTION**



# 18 BCM OF GAS CONSUMED FOR HEATING PURPOSES

## Scheme of gas supply for homes heating



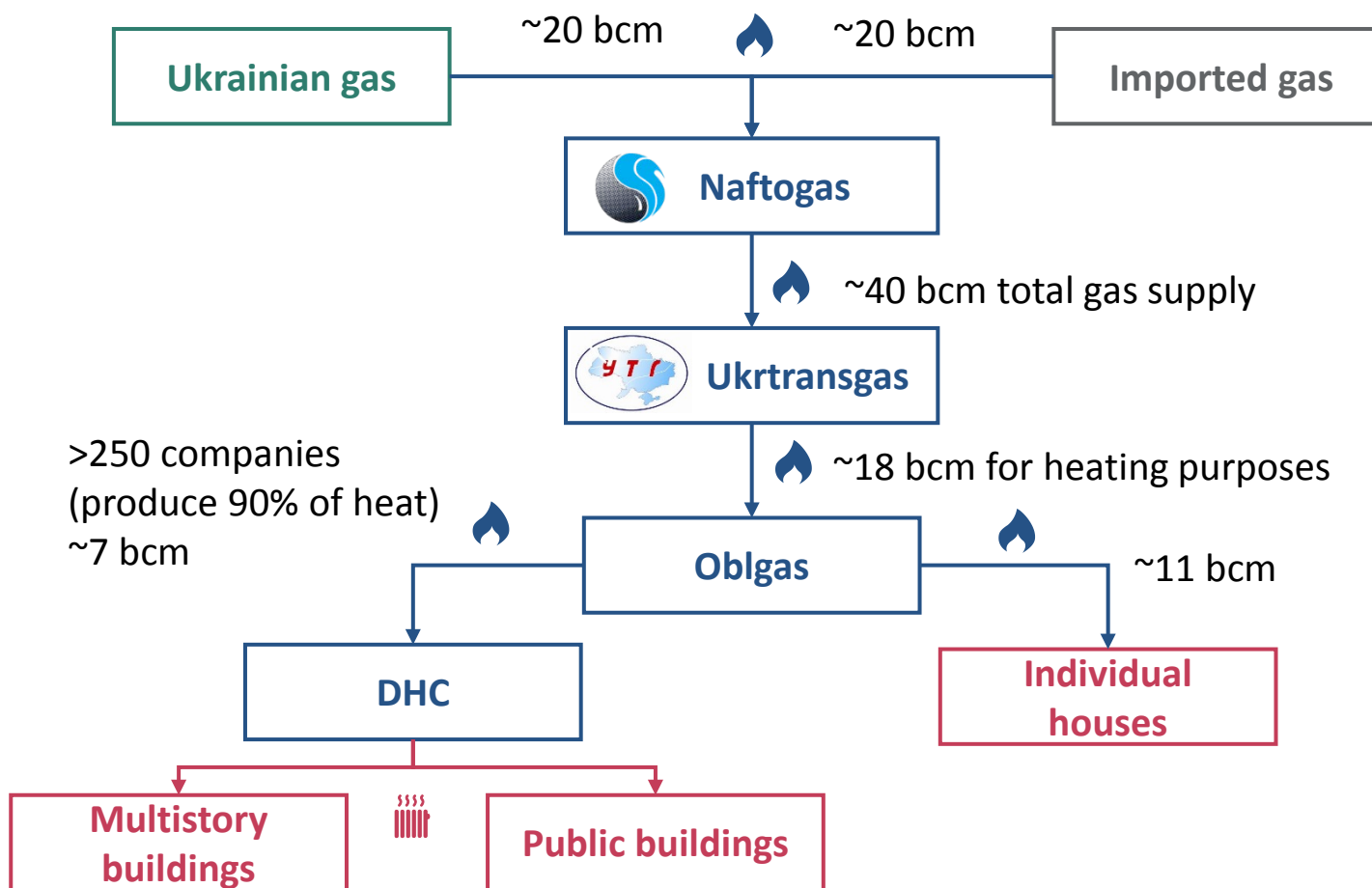
~50%  
imported gas



~45%  
of gas consumed for  
heating



~80%  
heat generated from  
gas



*\*Estimate of the annual gas consumption is made based on regular temperature in the heating season and moderate recovery of the industry*

*Source: analysis of the Working Group*



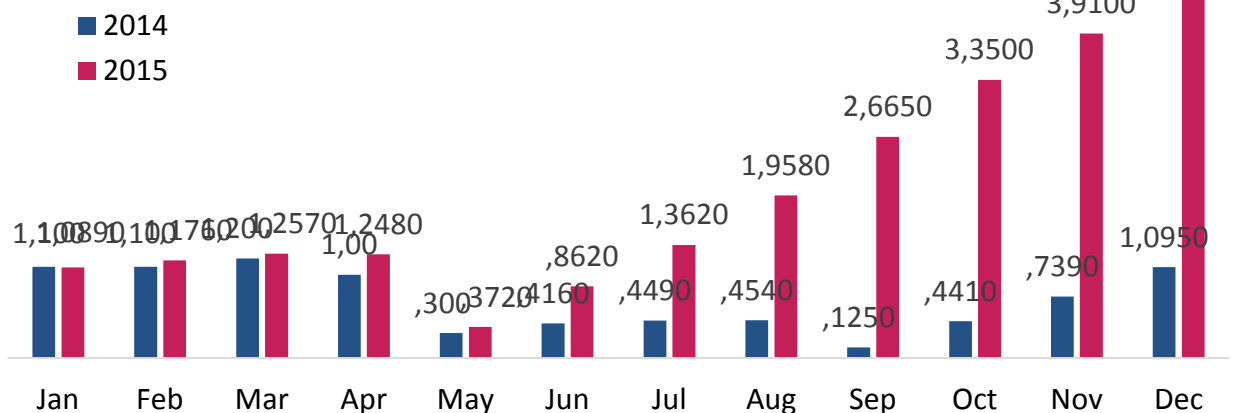
# HOW POPULATION "PAYS" FOR HEAT

## TWO SOURCES OF SETTLEMENTS BETWEEN POPULATION AND DHCs:



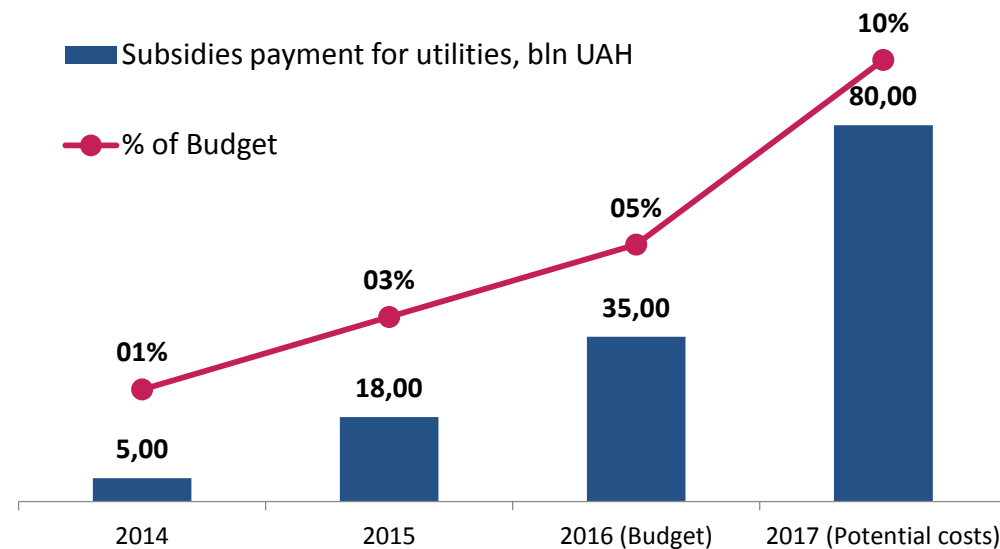
Payments of population (cash)

NUMBER OF SUBSIDY RECEIVERS, MLN



Subsidies for utility services (clearing)

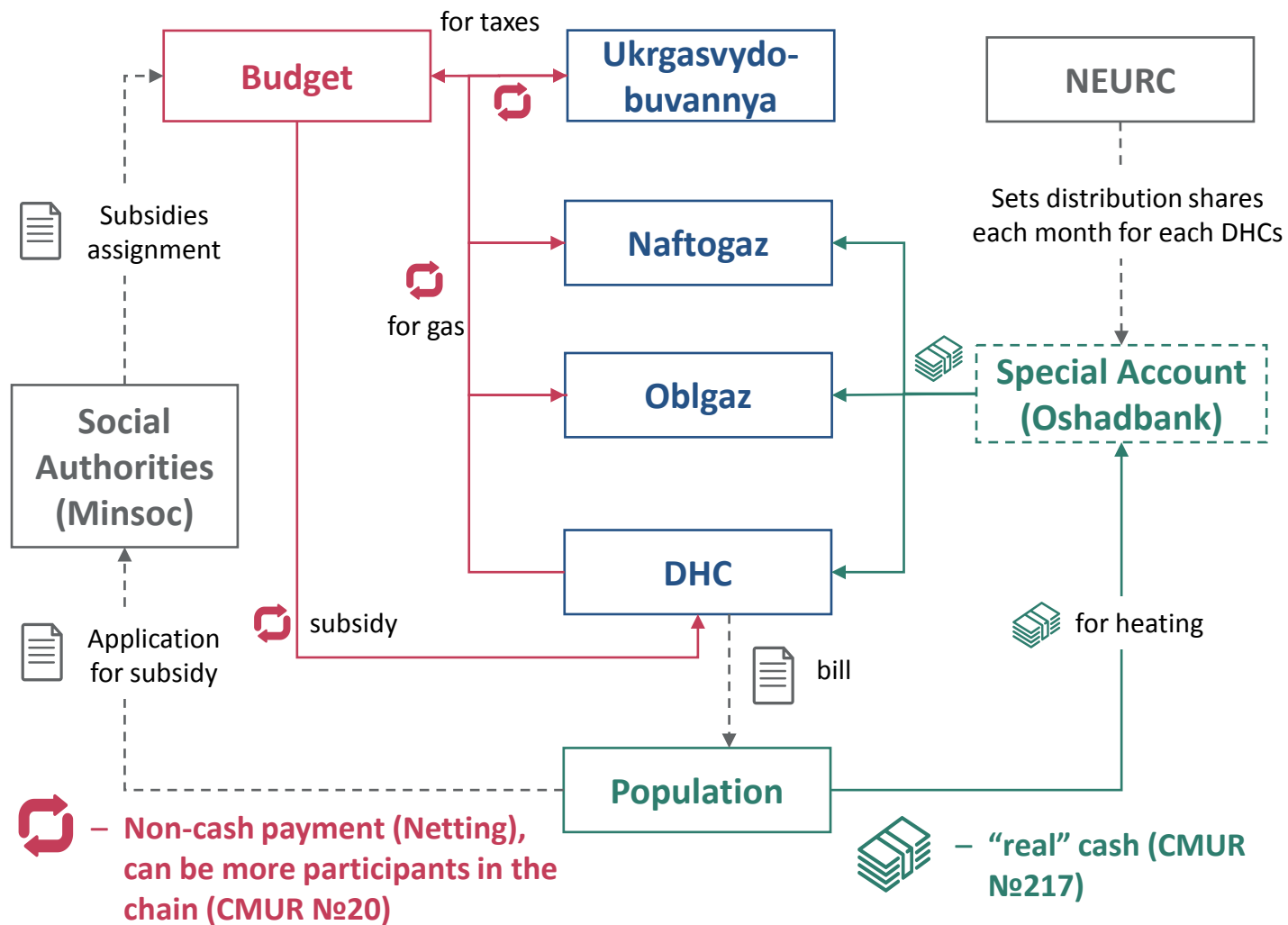
INCREASING OF SUBSIDIES SPENDING, BLN





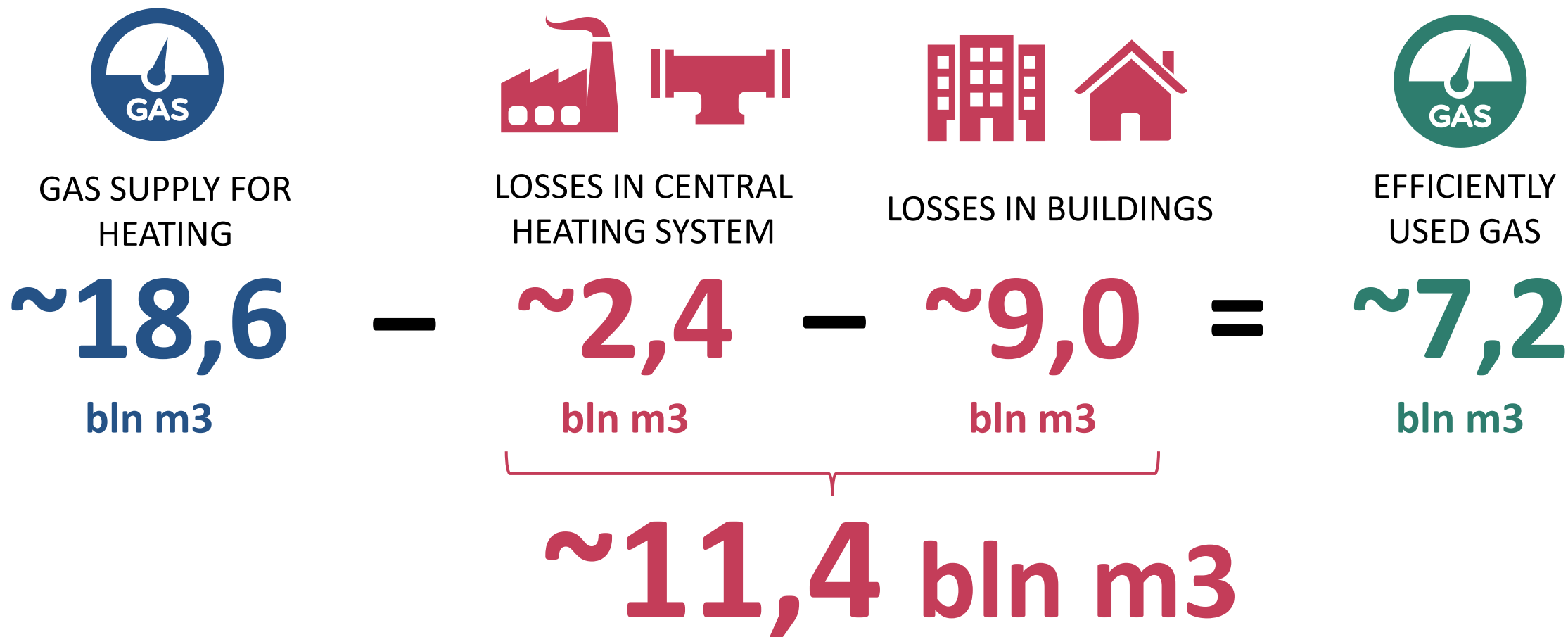
# DHCs – NAFTOGAZ SETTLEMENTS (CMUR №20)

## Scheme of payments to DHC for heat and gas





# 11 BCM OF GAS IS LOST IN HEATING SECTOR



**FAIR PRICING PROVIDES INCENTIVES BUT NOT SOLUTIONS**



# THE COST OF NO ACTION IS TOO HIGH

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**> 2% GDP**

OF EXCESS SPENDING FOR  
GAS IMPORTS WITH NO  
ECONOMIC EFFECT



**> UAH 30 bln**

OF EXCESSIVE BUDGET  
EXPENDITURES FOR  
ENERGY SUBSIDIES



**> EUR 2 bln**

OF TRADE BALANCE  
OUTFLOW PUTTING  
PRESSURE ON UAH  
EXCHANGE RATE AND NBU  
RESERVES

# CONDISITONS FOR EFFICIENT FUNCTIONING OF EE FUND

$$\text{TRANSPARENT SUPPLIES (PRODUCTION)} + \text{EFFICIENT DEMAND (CONSUMPTION)} = \text{EE REFORM SUCCESS}$$

	Precondition	Status
1	Market prices for energy	done
2	Payments discipline in sector	in process
3	Establishment of proper legal environment	in process
4	Strong communication	in process

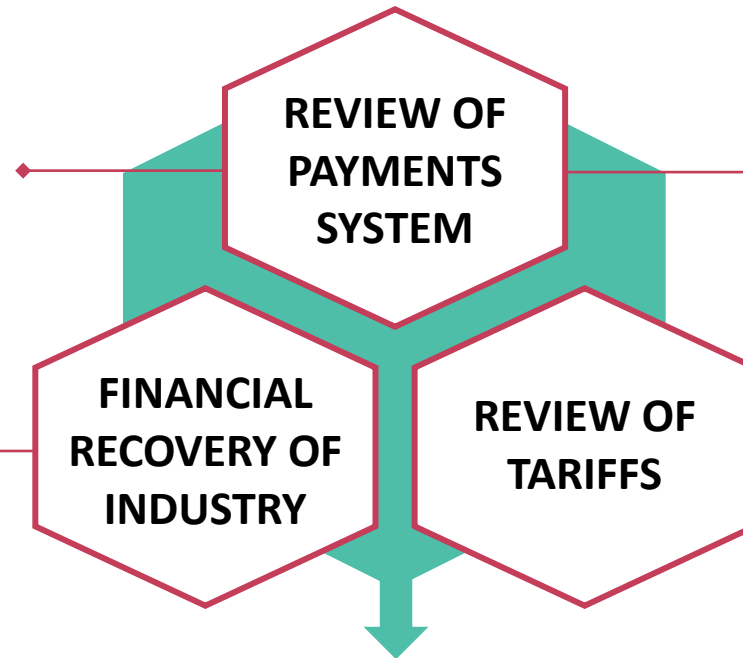




# DISTRICT HEATING REFORM STRUCTURE

## SECTOR REFORM

- Minimization of non-cash settlements (monetization of payments)
- Transition to normal economic relations between the industry participants



- Improvements on financing of budget liabilities to DHC
- Establishment of debt collection tools for DHC (introduction of fines, restriction of heat supply)

- Debt restructuring in the sector
- Improvement of enterprises operational management (planning of heating areas)

***Strategy of Sector reform and supporting materials***  
*(Report, drafts of legal acts, financial model, etc)*

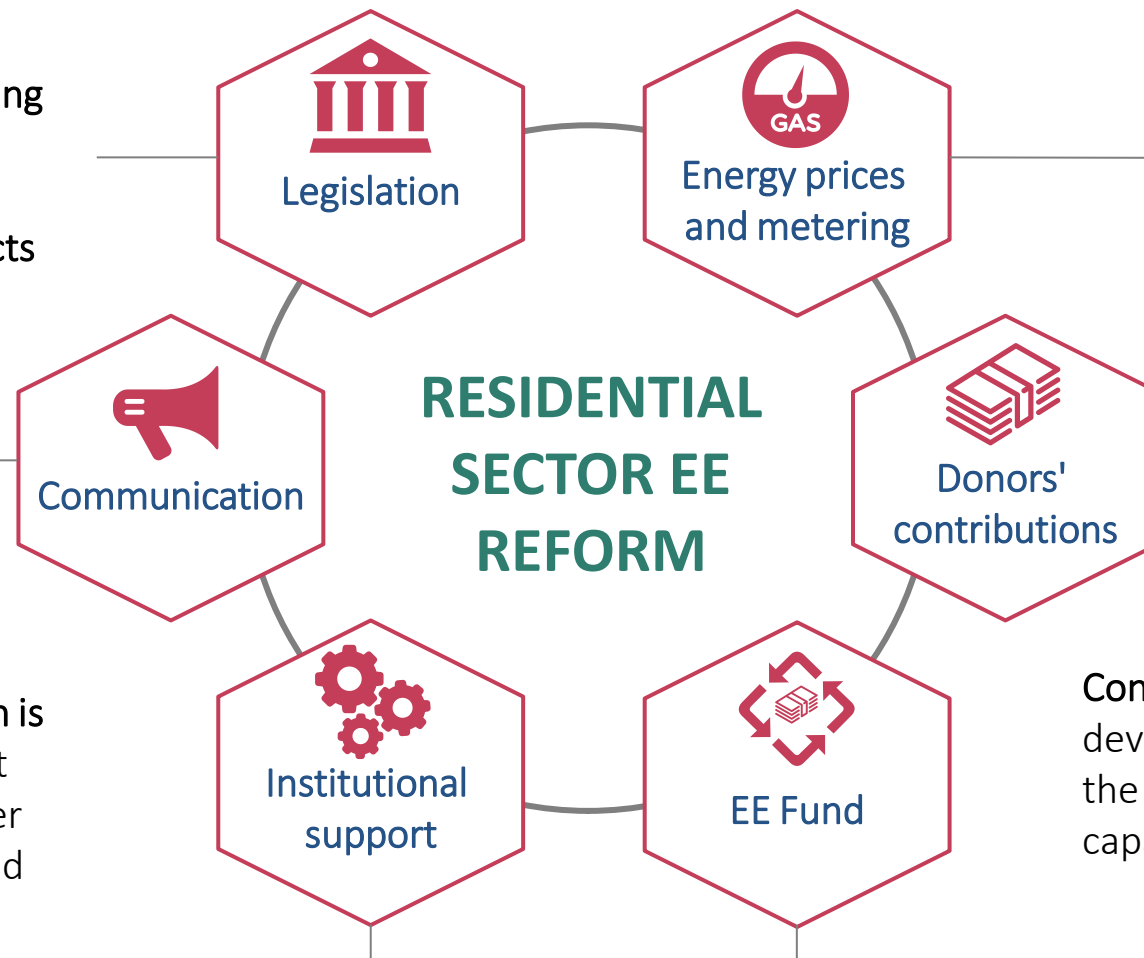
Review of tariff setting system:

- covering the real operating costs of enterprises
- stimulating investments in asset base modernization



# HOUSING EE REFORM STRUCTURE

- Law on EE of buildings
- Law on Commercial metering
- Law on HUS
- Law on Energy efficiency
- and ~30 secondary legal acts to be adopted in 2016-2017



The market tariffs for gas and heat will provide EE incentives (since April 2017 based on obligations to the IMF)  
**80% of buildings** shall have heat meters installed till the end of 2016

A large-scale communication campaign is needed. Nowadays about 83% of Ukrainian consider the tariffs to be unfair and non-transparent.

Contributions of Donors and IFO in the development and implementation of the financial mechanism, institutional capacity and co-financing of projects

Capable institutions for program administration and project development assistance

Sustainable financial mechanism provides affordable projects financing and motivates population to invest in energy efficiency



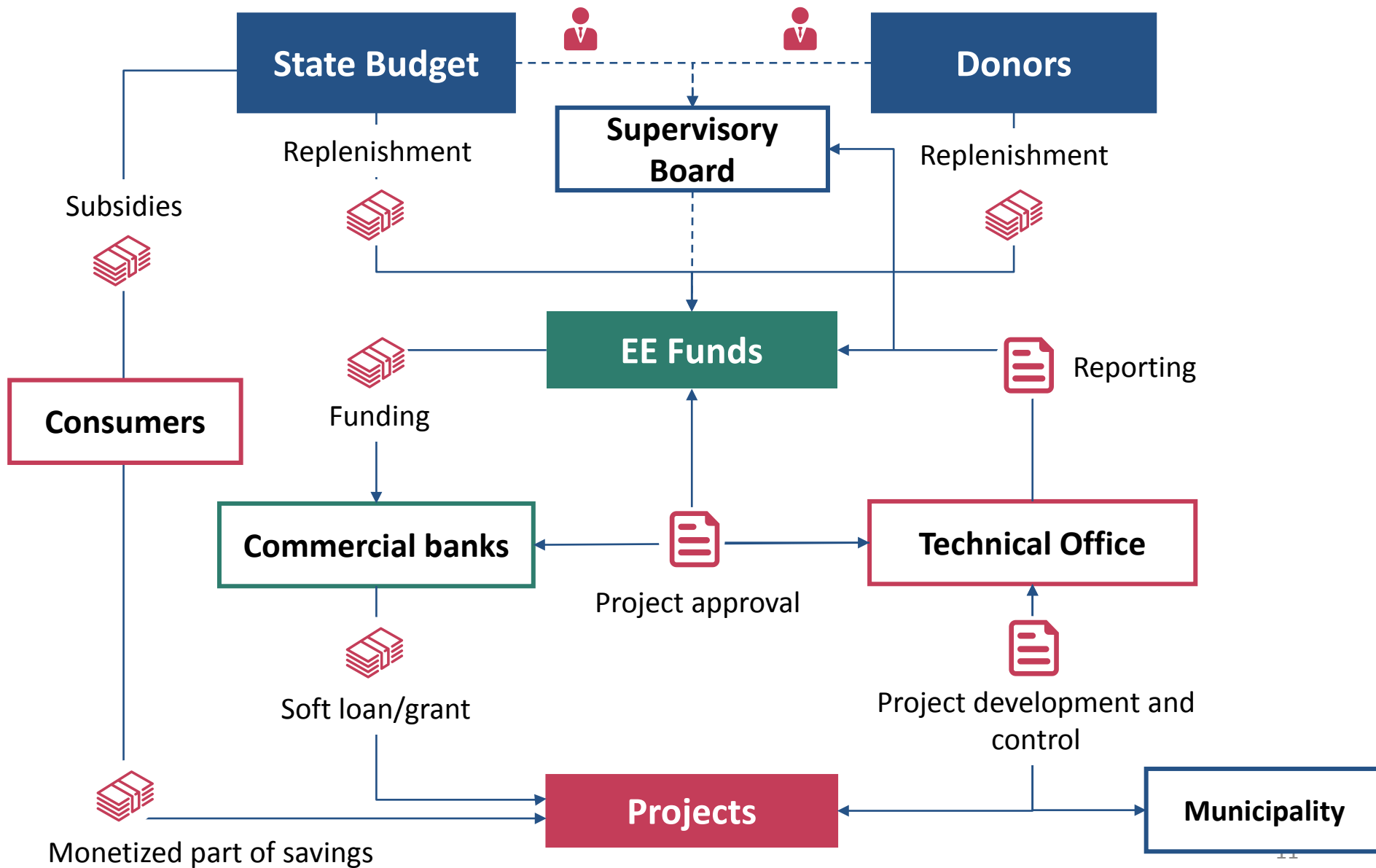
# CONCEPT OF EE FUND

INVESTMENT  
NEEDS:

>40

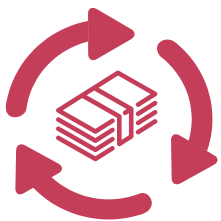
bIn EUR

HUS SUBSIDIES IS  
ONE OF THE KEY  
SOURCES OF  
PROJECTS  
FINANCING





# POTENTIAL IMPACT OF THE REFORM



up to **60 UAH bln**

ANNUAL CAPACITY OF NEW MARKET



up to **10 bcm**

POTENTIAL REDUCTION IN  
CONSUMPTION AND GAS IMPORTS



up to **2,0 EUR bln**

ANNUAL EFFECT ON THE BALANCE  
OF PAYMENTS



up to **100 ths**

NEW JOBS



up to **30 UAH bln**

POTENTIAL REDUCTION IN ANNUAL  
SPENDING ON SUBSIDIES



up to **15 UAH bln**

OF NEW TAX INCOME



# MISSION AND KEY FEATURES OF THE FUND

**Mission of the Fund – improve housing conditions, decrease gas consumption and heating bills of households, thus making important step to Energy Independency of Ukraine**

**Professional and trusted**



**Solid Ukraine-EU-Germany institution**

**Transparent and corruption free**



**Energy Efficiency Fund**



**Customer friendly**



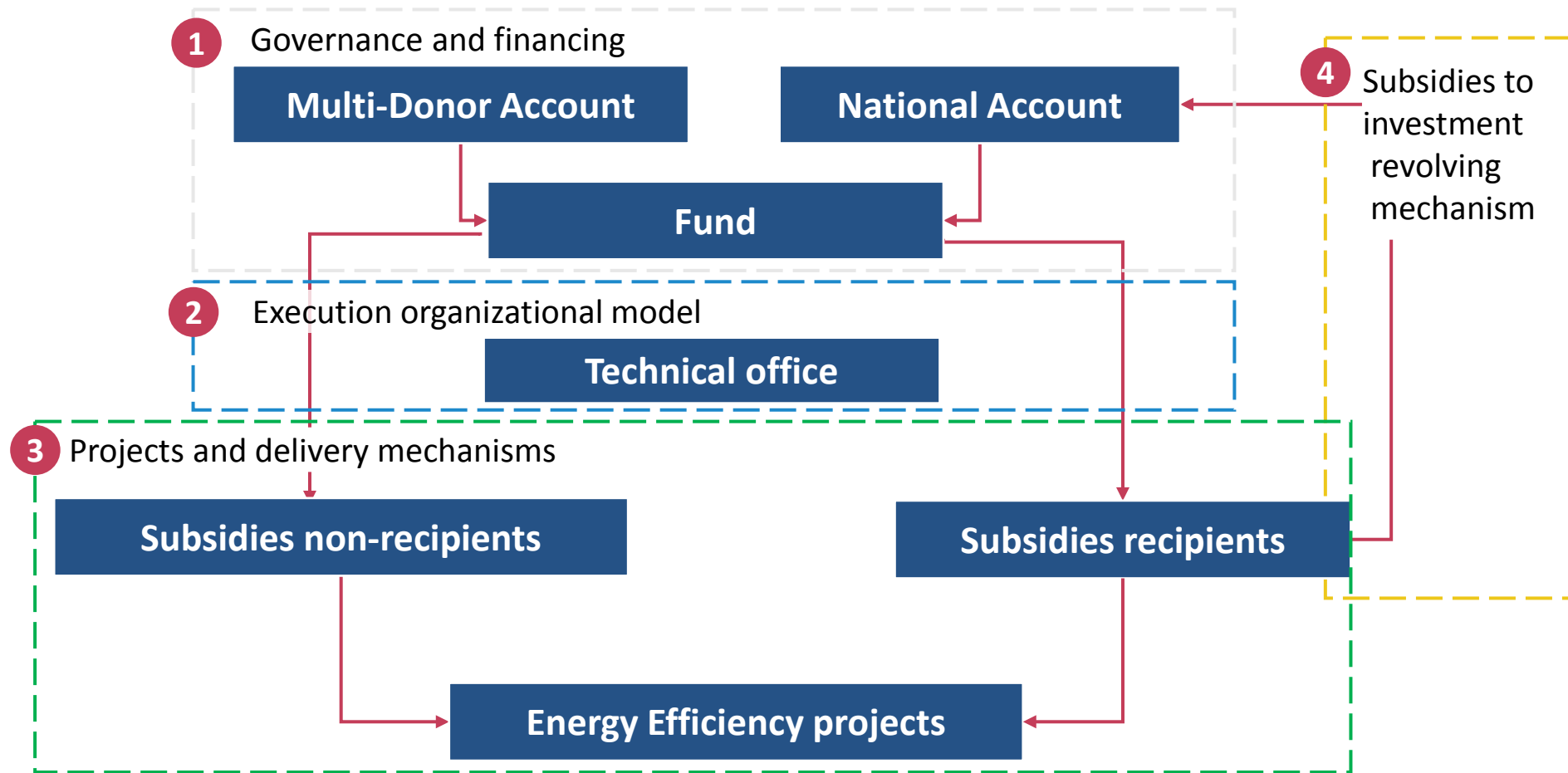
**Fast and modern**



**Results oriented**



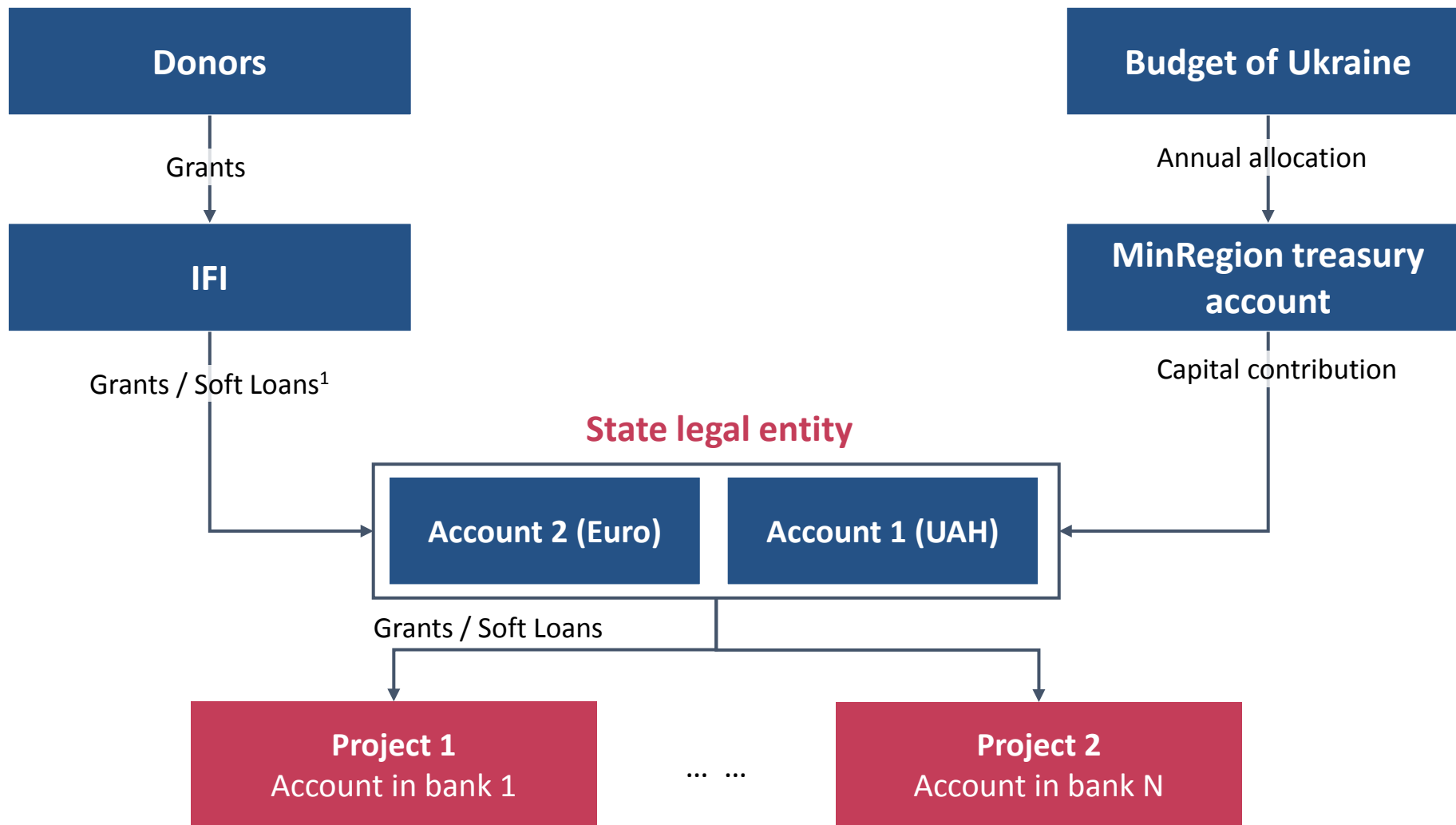
# THE FUND MODEL CONSISTS OF 4 BLOCKS



EE FUND CREATION – IMPLEMENTATION OF THE ARTICLE 20 OF THE EU DIRECTIVE 2012/27 (LIABILITY OF EU ASSOCIATION AGREEMENT)



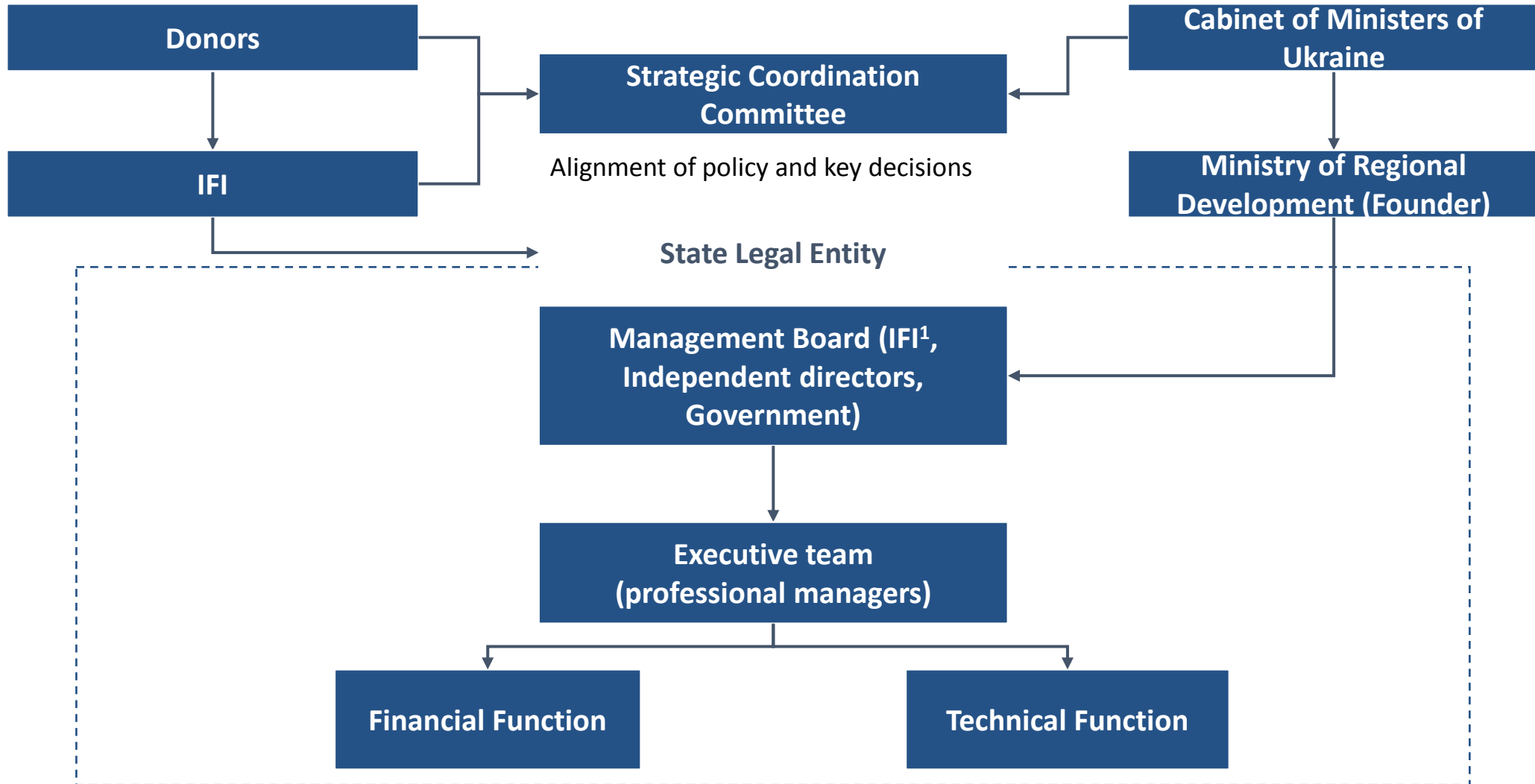
# CASH FLOW SCHEME



*1 Alternatively, IFI is able to transfer financing directly to the bank account.*



# GOVERNANCE STRUCTURE

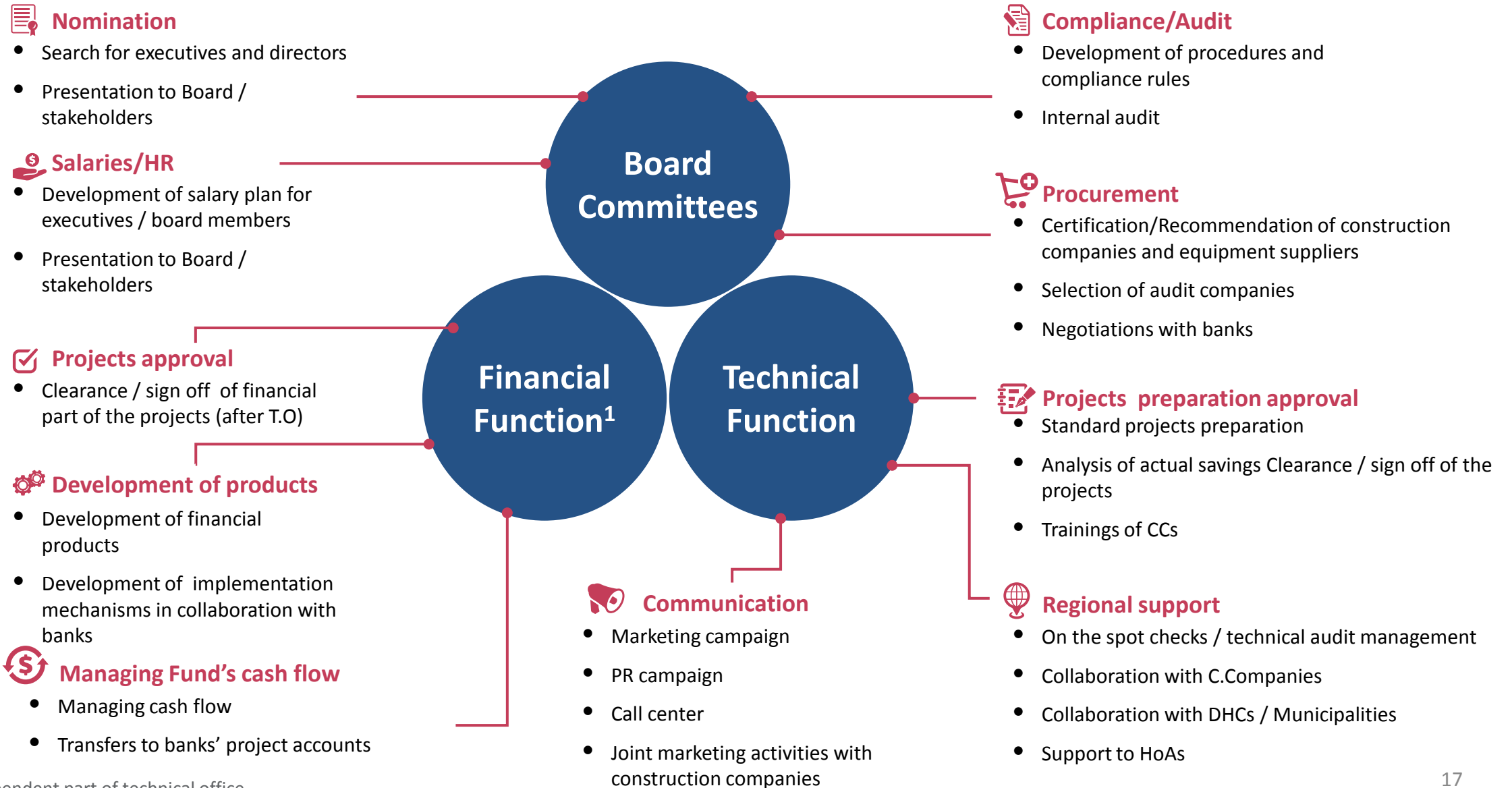


<sup>1</sup> IFI – optionally





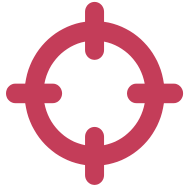
# FUNCTIONS OF THE FUND WILL BE FULFILLED BY THREE BODIES





# KEY GOALS AND LIMITATIONS

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## Key goals

- Sustainable mechanism for reducing energy consumption and households bills
- Visible quick results
- Large scale
- Budget savings
- Creating market for EE measures



## Key limitations

- Focus on the residential sector
- Limited financing
- Large group of stakeholders
- Legal limitations
- Still pre-mature level of development of HOA in Ukraine



# LEGISLATION ADOPTION PLAN

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## Decision

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- 1 Approve the concept and action plan for the EE Fund establishment

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- 2 Adopt the Law of Ukraine "On Housing and Utility Services"

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- 3 Adopt the resolution and approve the procedure for monetization (or partial monetization) of utility subsidies

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- 4 Develop the draft of the Law of Ukraine "On the EE Fund" and submit it to the VRU

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- 5 Adopt the Law of Ukraine "On the EE Fund"

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- 6 Adopt the Law of Ukraine "On EE of Buildings" and the Law of Ukraine "On Commercial Metering"

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- 7 Establish the new state entity, the "Energy Efficiency Fund"

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# PLAN FOR THE FUND CREATION

