



UKRAINE HEATING SECTOR REFORM

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

2016

HEATING IS THE LARGEST SEGMENT OF UTILITY SERVICES



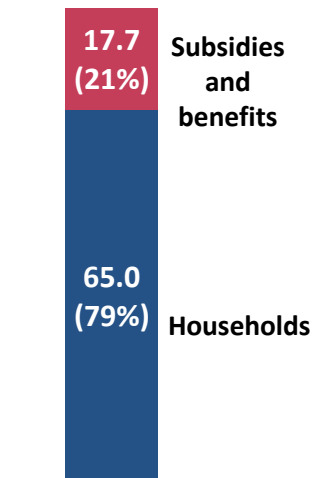
6,5 mln
households in
private homes



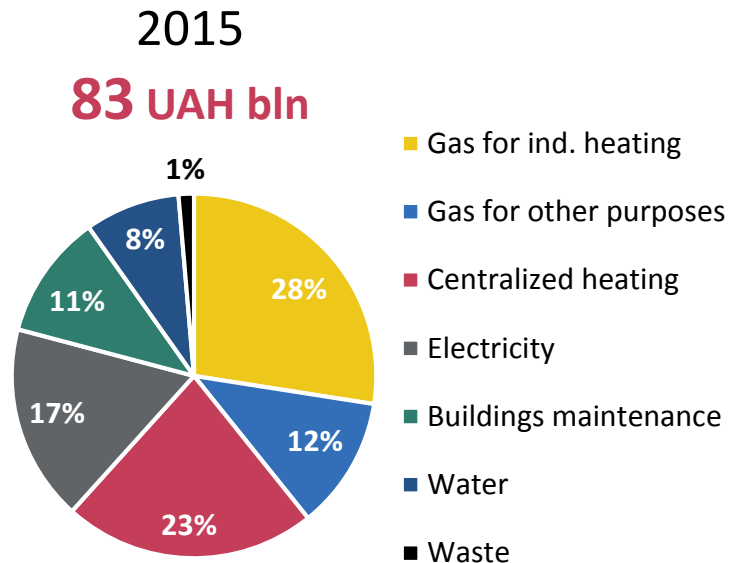
7,8 mln
households in
multistory buildings

240 ths
total number
of multistory buildings

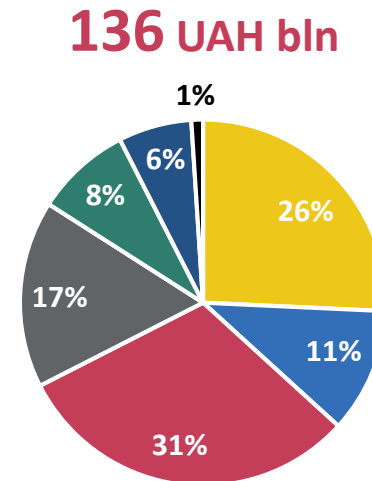
**Source of payment
for HUS in 2015**
(UAH bln)



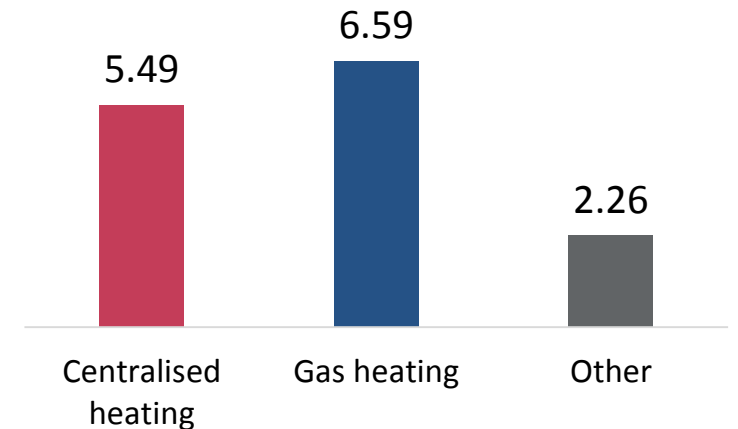
HUS market structure for population



2017



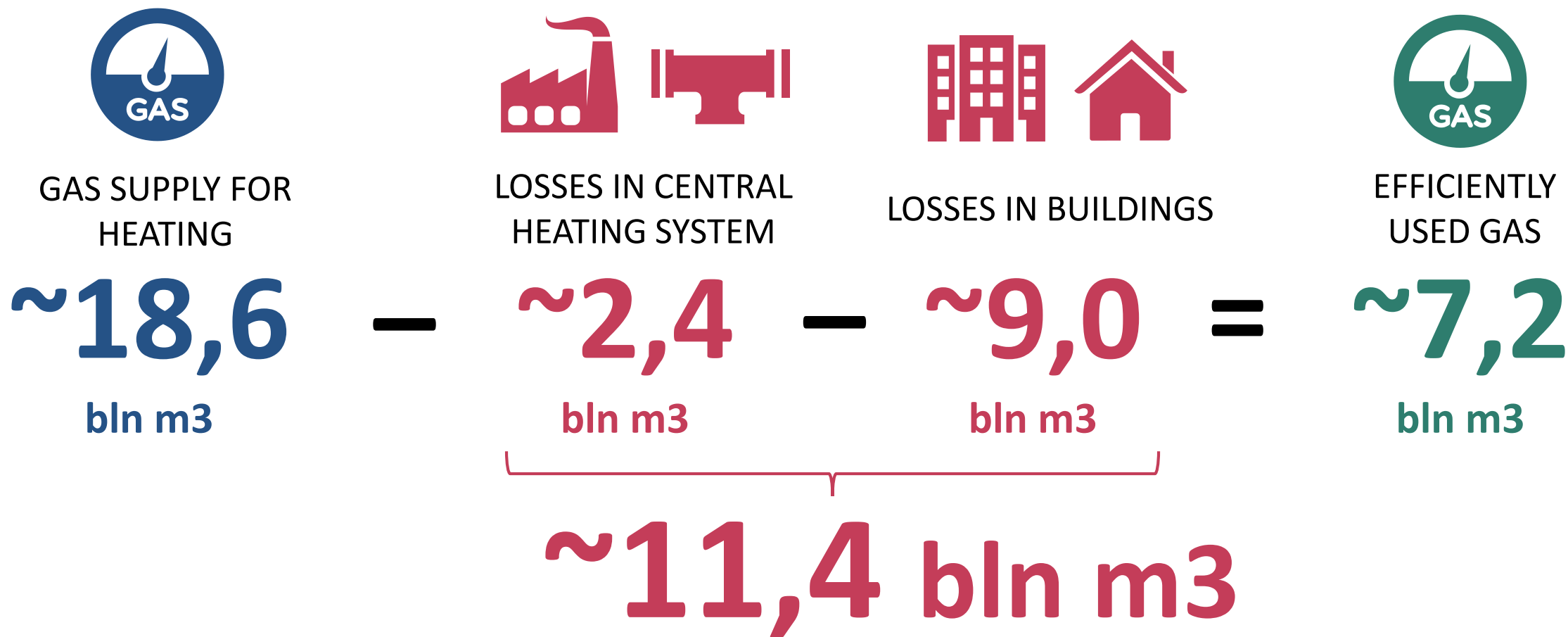
**Number of households by type
of heating**



HEATING ACCOUNTS FOR 45% OF THE TOTAL GAS CONSUMPTION



11 BCM OF GAS IS LOST IN HEATING SECTOR



FAIR PRICING PROVIDES INCENTIVES BUT NOT SOLUTIONS



THE COST OF NO ACTION IS TOO HIGH



> 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



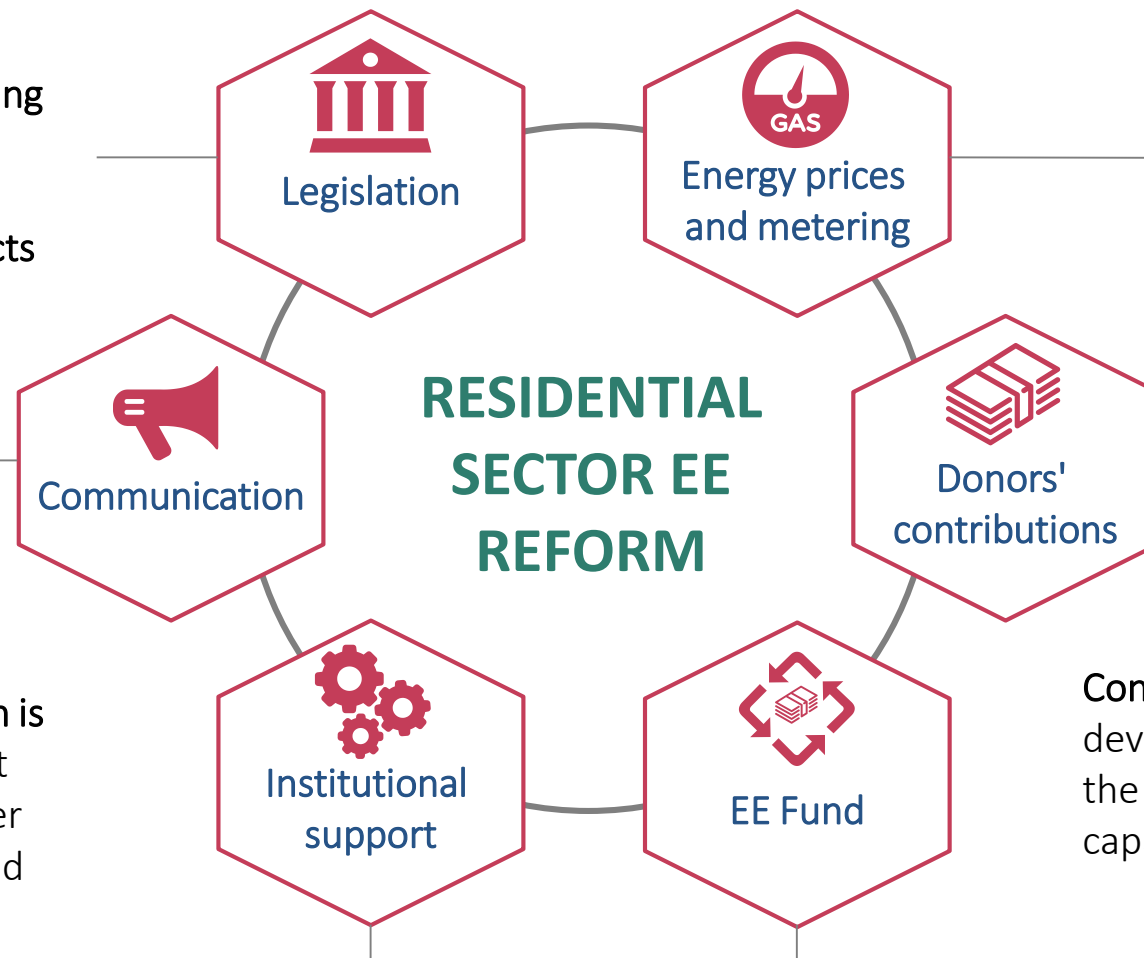
ENERGY EFFICIENCY REFORM IN BUILDINGS (HEAT CONSUMPTION)

ESTABLISHING EE FUND



KEY TERMS OF HOUSING EE REFORM

- 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

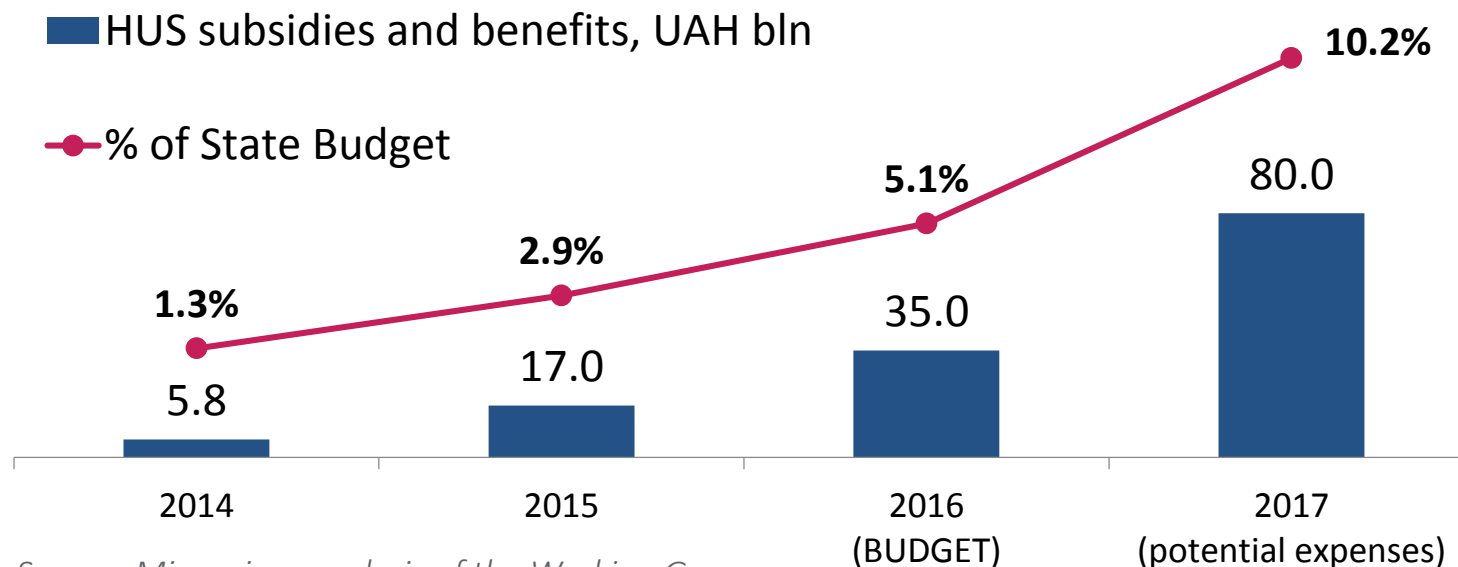


SUBSIDIES CAN BE USED FOR INVESTMENTS

UAH 35 bln

BUDGETED FOR 2016

SUBSIDIES EXPENDITURES

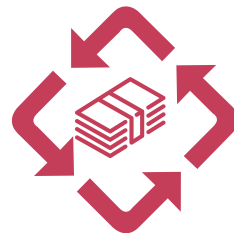


Source: Minregion, analysis of the Working Group

ENERGY EFFICIENCY – THE PATH TO SUSTAINABLE SOLUTION:



SUBSIDIES MONETIZATION
ENERGY EFFICIENCY INCENTIVES



IMPLEMENTATION TOOLS
FUNDING MECHANISM AND TECHNICAL
SUPPORT OF EE PROJECTS



EFFICIENCY OF INVESTMENTS TO EE MEASURES

35 UAH bln

SPENDING ON SUBSIDIES
IN BUDGET FOR 2016

OR IF THE MONEY SPENT ON ENERGY EFFICIENCY

~1 bcm

PERMANENT REDUCTION OF GAS
CONSUMPTION PER YEAR

~6 UAH bln

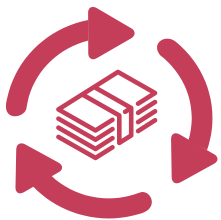
REDUCTION OF ANNUAL NEEDS
FOR SUBSIDIES

~6 UAH bln

THE ANNUAL EFFECT ON THE
BALANCE OF PAYMENTS



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



CENTRAL HEATING SECTOR REFORM (HEAT SUPPLY)

REBOOTING RELATIONS IN THE INDUSTRY



REBOOTING INDUSTRY FOR RECOVERY

DEBT RESTRUCTURING AND ADAPTATION OF INDUSTRY REGULATION TO MARKET CONDITIONS MUST BE HELD IN PARALLEL



OTHERWISE UKRAINE WILL HAVE THE SAME PROBLEM IN 2-3 YEARS



AVAILABLE FINANCING FOR DHC MODERNIZATION

FINANCING BY IFIs AND DONORS



IBRD 360 EUR mln



EBRD 180 EUR mln



EIB 100 EUR mln



E5P 50 EUR mln



KfW 39 EUR mln



NEFCO 20 EUR mln

~ 750 EUR mln



21 ths km of networks

60% requires modernization



31 ths of boiler houses

7-18% energy losses



~6,0 EUR bln of investments

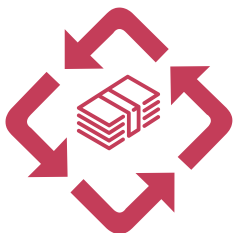
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~2,4 bcm of gas savings annually



REMOVAL OF REGULATORY BARRIERS



ENSURING INVESTMENT COMPONENT IN THE TARIFF (NERC)

ADJUSTING THE PROCEDURES OF PROGRAMS APPROVAL IN ACCORDANCE WITH PROCUREMENT RULES OF THE IFIs

DHC DEBT RESTRUCTURING TO PREVENT ACCOUNTS BLOCKING BY NAFTOGAZ



IMPROVING PAYMENT DISCIPLINE – RESTRUCTURING OF POPULATION DEBTS AND ALLOWING DISCONNECTION FROM GAS AND HEAT FOR NON-PAYMENTS AFTER THE HEATING SEASON\

OPTIMIZATION OF MUNICIPAL GUARANTEES APPROVAL PROCEDURE



AUTHORITIES MUST TAKE RESPONSIBILITY

GOVERNMENT INITIATIVES



REVISAL OF PAYMENT
SETTLEMENT SYSTEM



OPTIMIZATION OF PROCEDURES
AND REGULATIONS

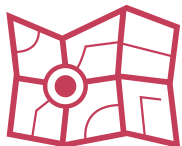


REFORM COORDINATION CENTER
(PROPOSED BY SWEDEN)



FINANCIAL SUPPORT FOR
PROJECT DOCUMENTATION

COMMUNITY DECISION REGARDING HEATING



HEATING TERRITORY
PLANNING



EFFICIENT OWNER OF
DHC