

QUARTERLY MONITORING ENERGY EFFICIENCY MEASURES IN UKRAINE

3rd QUARTER 2016

Actions taken by the Verkhovna Rada of Ukraine during the third quarter of 2016

On July 6, 2016 the draft Law of Ukraine on [commercial accounting of utility services \(reg. No. 4901\)](#) was registered with the Verkhovna Rada. This law stipulates 100 per cent accounting of utility services and will help to reduce water consumption (hot and cold) by three-fourths, establish market pricing for utility services and restrict the potential for service providers to charge end consumers for wasted resources.

On July 12, 2016 the Verkhovna Rada approved the draft [Law of Ukraine on environmental impact assessment \(reg. No. 2009 a-d\)](#) following the first reading. This law is in line with Directive 2011/92/EU but does not fully correspond to Ukrainian legislation on the environment and construction and energy sectors. The new permitting procedure will extend the timeframe for project assessments, whilst ensuring that ecological, energy efficiency and construction requirements are all streamlined, thereby reducing energy consumption, CO₂ emissions and operational costs.

On July 12, 2016 the Verkhovna Rada approved the draft [Law of Ukraine on strategic environmental assessment \(reg. No. 3259\)](#) following the first reading. This law provides for the strategic environmental assessment of draft public planning documents, complementary procedures for preparation and the adoption of public planning documents in line with requirements of Directive 2001/42/EC and the Protocol on Strategic Environmental Assessment (entered into force on July 11, 2010). In particular, it holds that a state energy efficiency policy is a precondition to the sustainable and eco-friendly development of the national economy and urban/rural space.

On July 14, 2016 the Verkhovna Rada ratified the [Paris Agreement](#) through [Law No. 1469-VIII](#).

According to the law's provisions, Ukraine, like all other signatory countries, will determine its own commitments on greenhouse gas emissions and is obliged to revise them every five years. In October 2015, Ukraine set itself the goal of not exceeding 60 per cent of the 1990 level of greenhouse gas emissions by 2030.

Under this agreement Ukraine has no financial obligations so far, excepting future financial contributions to the Convention budget and expenses relating to the preparation of reports.

Moreover, it is considering whether to obtain financial assistance from developed states for reforms aimed at the prevention of climate change.

Once the agreement is in force, Ukraine will have to regularly provide information relating to the national inventory of anthropogenic emissions by source and greenhouse gas reductions, the information required to track progress on the implementation and achievement of its stated commitment on greenhouse gas emissions, and data on the effects of climate change.

Ukraine is becoming aware that this agreement will introduce new conditions for attracting foreign investment, including special funds for climate change projects and facilitating global emission trading systems.

On July 22nd the Verkhovna Rada Committee for the Fuel and Energy Complex, Nuclear Policy and Nuclear Safety held a round table, “[Ratification of the Paris Climate Agreement: what comes next?](#)”. Participants developed recommendations on how this new agreement could be supported by the introduction of innovative solutions for the supply of energy, promotion of energy efficiency and renewables and to contribute to climate protection.

On September 22, 2016 a draft Law on Ukraine’s electricity market ([Reg. No. 4493](#)) passed its first reading in the Verkhovna Rada. The Parliamentary Committee for the Fuel and Energy Complex, Nuclear Policy and Nuclear Safety will further amend this draft law in preparation for the second reading. In general this draft law is in line with the provisions of Directive 2009/72/EC and Regulation (EC) 714/2009. However, it is only the first step to reforming the electricity market and will be followed by the development of secondary legislation compliant with European regulations on unbundling, certification of the transmission system operator and the implementation of structural reforms on distribution and market operation.

The structural reforms will establish conditions to enable the implementation of renewable energy projects, while ensuring equal rights for feed-in, participation in the day-ahead and intraday trading and settlement, and laying down conditions for gaining end consumers and competing with traditional energy producers.

On September 22, 2016 a draft Law amending the Law of Ukraine on the heat supply to promote heat production from alternative energy sources ([Reg. No. 4334](#)) passed its first reading in the Verkhovna Rada. The Verkhovna Rada Committee for the Fuel and Energy Complex, Nuclear Policy and Nuclear Safety will amend the draft law to take account of remarks and proposals in preparation for the second reading.

The purpose of the draft law is to stimulate the production of heat from alternative sources and to provide investors with a guaranteed return on investment in the production of heat from non-gas sources.

The draft law provides for:

- tariffs for heat produced from renewable energy sources equivalent to at least 90 per cent of the existing tariff for heat from gas for organizations, funded from state budget and public need;
- the transfer of rights to local authorities for tariffs and licensing, and permits for the production and transportation of heat from alternative sources.

On September 22, 2016 the Verkhovna Rada approved a draft law amending Article 8 of the Law on alternative fuels ([Reg. No. 4618](#)) during the first reading. The Verkhovna Rada Committee for the Fuel and Energy Complex, Nuclear Policy and Nuclear Safety will amend the draft law to take account of remarks and proposals in preparation for the second reading.

The draft law abolishes the requirement that entities producing or storing liquid biofuels and biogas are listed in the state register. The bureaucracy will be less onerous for companies producing liquid biofuels, biodiesel, bioethanol, butanol fuel, pure oils and other synthetic fuels made from biomass. This will encourage local businesses to use the sources available to produce alternative fuels and will contribute to the deregulation of commercial activities, and make access to the market non-discriminatory and grow local employment.

On September 22, 2016 the Verkhovna Rada approved a draft [Law on national energy and utilities regulatory commission of Ukraine \(reg. No. 2966-d\)](#). The Law has not yet been signed by the president of Ukraine. It regulates the following:

Functions:

- issuing of resolutions, orders and regulatory acts;
- setting the licensing conditions and granting licenses for electricity and gas market activities (including natural gas supply licenses) and the public utilities sector;
- establishing of tariffs; and
- supervising, monitoring and controlling the behavior of market players.

The commission's activities will be funded out of regulation fees, and this will be the sole source of financing. The regulation fee rate will be set annually by the commission annually by dividing the estimated amount of financing required for the next year by the licensees' net income from the regulated types of activities for the previous year; however, the rate may not exceed 0.1% of the payer's quarterly income generated from licensed operations. The provisions will become effective on 1 January 2017.

Actions taken by the Cabinet of Ministers of Ukraine during the third quarter of 2016

On July 6, 2016 the Cabinet of Ministers approved a [draft Law on energy efficiency in buildings](#), thus approving the provisions of the Directive 2010/31/EU at government level.

The draft law sets out:

- basic guidelines for government policy on energy efficiency in buildings;
- procedures and conditions for determining the energy efficiency of buildings and for establishing minimum requirements;
- the mechanisms to attract funds for energy efficiency projects and instruments to secure financing for energy efficiency in buildings;
- a requirement to develop national plans to increase the number of buildings with close to zero energy consumption. Moreover, the draft law includes provisions for the creation of databases of the certificates and the contractors who certify the energy efficiency of buildings as well as reports on the findings of inspections of heating, hot water supply and conditioning systems.

On July 13, 2016 the Cabinet of Ministers adopted [Resolution No. 489-p](#) on the establishment of the Energy Efficiency Fund. On September 26, 2016 [DLA Piper](#) was appointed as an advisor to help draft the law alongside a working group consisting of representatives from the European Commission, Energy Community Secretariat, World Bank, International Finance Corporation, as well as GFA Consulting Group, McKinsey & Company, and Ukrainian governmental institutions, including the Ministry of Regional Development, the Construction and Housing Sector and the Ukrainian State Agency for Energy Efficiency and Energy Saving.

The law will lay down conditions for the establishment of a financial instrument to replace the state energy efficiency “Warm loans” program and enable assistance for the renovation of residential buildings, including preliminary assessments, energy audits, the development of the terms of reference for projects, technical and financial assistance, and the monitoring and evaluation of results.

On July 14, 2016 the Cabinet of Ministers adopted a resolution on approving the Ukrainian program of hydro energy development until 2026. The resolution will further increase the maneuver capacities of hydro and hydro accumulating power stations by up to 15.5 per cent. It will lead to:

- improvements in electricity quality;
- a decrease in CO2 emissions and consumption of fossil fuels;
- a decrease in the frequency of accidents at thermal power stations;
- an increase in local employment;
- improve the ecological situation and living conditions of citizens.

On July 19, 2016 Prime Minister [Volodymyr Groysman met with Vice President of the European Commission Maroš Šefčovič](#) in Brussels to discuss support for energy efficiency in Ukraine. Mr Šefčovič said that the EU was ready to consider providing financial support to the Ukrainian energy efficiency fund, contingent on certain laws being adopted and the work of the fund being launched. The support could amount to 100 million euros, including a contribution from the EU budget and member states.

On July 27, 2016, the Cabinet of Ministers of Ukraine (CMU) adopted a Resolution [on amendments to the Resolutions of the CMU of March 1, 2010 Reg. No. 243 and October 17, 2011, Reg. No. 1056](#) which will provide an additional 100 million UAH for the reimbursement of the interest on loans to citizens purchasing energy efficient materials and equipment. The resolution also made changes to the reimbursement ratio, setting a single 35 per cent rate instead of the previous system that distinguished between subsidized and non-subsidized categories of citizens.

On August 4, 2016 Vice Prime Minister Hennadiy Zubko stated at a press-conference on [Decentralization and energy efficiency: situation regarding the implementation of key reforms in the country](#) that energy efficiency reform in Ukraine would be based on three pillars:

- reform of housing sector management (introduction of associations of owners of apartment houses and condominiums, to replace the housing and public utility authorities);
- creation of an energy efficiency fund for the modernization of the housing stock;
- reform of heat supply sector by introducing a decentralized heat supply, using local energy sources, including biomass and renewables, competition between producers, equal access to transportation capacities etc.

On August 10, 2016 [Vice Prime Minister of Ukraine Volodymyr Kistiur met Diana Korsakaite, project manager for municipal energy reform in Ukraine.](#)

One of the main issues discussed during the meeting was involving project team experts in producing updates on the Ukrainian Energy Strategy until 2035. The experts will report on energy efficiency and renewable energy development, improvement of technical and professional capacities and the promotion of the decarbonization of Ukraine's economy.

On August 23, 2016 the Cabinet of Ministers adopted [Resolution No. 591 with amendments to Resolution No. 1357 of the Cabinet of Ministers of Ukraine of July 26, 1999](#). The resolution sets out the simplification procedures for obtaining zonal electric power counters. The resolution will:

- make it possibility for citizens to buy zonal counters out of their own resources and to register a request for installation, which will be executed within three working days in cities and within five working days in rural areas;

- reduce peak loads for the Ukrainian United Energy System, reduce fossil fuel consumption and provide reserve/maneuver capacities;
- reduce CO2 emissions, decarbonize the economy. End consumers can learn about the procedures via a [video-clip](#) on ways to reduce spending on electricity.

On September 13, 2016 Minister of Ecology and Natural Resources [Ostap Semerak met with representatives from the European Business Association to discuss issues relating to the future utilization of the Chernobyl zone for construction and the production of electricity from PV stations.](#)

As of September 2016 around 10 companies are being considered as potential solar energy developers in the Chernobyl zone, subject to the need for regulations on land parceling, safety standards and secure environment protection.

Back in July 2016 the Verkhovna Rada adopted a Law on the regulation of several issues on the legal regime concerning territories contaminated by radiation during the Chernobyl catastrophe (Reg. No. [4437](#)), which will enable these territories to be utilized for renewable energy projects.

On September 14, 2016 the CMU adopted a Resolution [on amendments to point 6 of the Order on controlling the fulfillment of investment programmes for heat supply, centralized water supply and water disposal](#). These amendments oblige local authorities to ensure free and equal access to data and progress on the implementation of these investment programmes.

On September 16, 2016 [Vice Prime Minister Hennadiy Zubko announced that in 2017 the Ukrainian state budget will allocate around 800 million UAH for supporting energy efficiency and savings](#). Moreover, given the expected adoption of laws on the commercial accounting of utility services and energy efficiency in buildings, Ukraine expects to obtain additional financial sources for energy efficiency projects from the EU and Germany which will go into the Energy Efficiency Fund.

On September 21, 2016 [Vice Prime Minister Hennadiy Zubko met with Country Director for Belarus, Moldova and Ukraine Satu Kahkonen](#). According to Mr Zubko the World Bank is ready to provide technical and financial support for reforms to Ukraine's heat supply sector, contingent on the adoption of laws on energy efficiency in buildings, commercial accounting, the Energy Efficiency Fund and the debt restructuring of communal utilities supplying heat energy.

On September 30, 2016 Vice Prime Minister Hennadiy Zubko announced that approximately [21 thousand out of around 100,000 multi-apartment houses have been registered as condominiums](#), a form of owner self-organization for the management and renovation of these houses. The CMU has extended the timeframe for transferring responsibility for the management of multi-

apartment houses from communal utility enterprises to condominiums to one year in order to ensure sufficient decision-making time for flat owners.

Actions taken by the State Agency for Energy Efficiency and Energy Savings during the third quarter of 2016

On June 30, 2016 a seminar on [Prospects for producing energy crops in Ukraine](#) was hosted by the SAEE in cooperation with Kyiv Regional State Administration, Ukrteplo and the Bioenergy Association of Ukraine. Around 4 million hectares of low grade agriculture land could be used to grow energy crops. Altogether this would replace up to 20 billion cubic meters of natural gas and cover national energy needs for the production of heat. This potential is, however, still far from being used, with many regions needing to conduct awareness raising campaigns and develop supporting programs to facilitate the utilization of unused land for biomass.

On July 5, 2016 a round table on [Problems encountered in ensuring the financing of energy efficiency and renewable energy projects in Ukraine](#) was organized by the SAEE in conjunction with the Verkhovna Rada, the Verkhovna Rada Committee for the Fuel and Energy Complex, Nuclear Policy and Nuclear Safety and the European–Ukrainian Energy Agency. It was pointed out that legislative changes and high interest rates on loans are the main challenges hindering the development of renewable energy projects in Ukraine. In particular there is growing interest from Ukrainian banks in this sector, with [Ukrgazbank being the first to sign a cooperation agreement with the International Financial Institution](#) in support of Ukrainian entrepreneurs which will launch energy efficiency and renewable projects.

In July the SAEE continued to conduct seminars for local authorities to ensure they are acquainted with the energy service practices for public buildings. On July 15, 2016 the SAEE held a [seminar for Chernivtsi city council](#), regional state council and district authorities. Roman Maretsky, SAEE expert for energy service contracts, informed the audience of new aspects of the ESCO laws and encouraged them to launch tenders for services.

On July 13, 2016 Savran district authorities in Odessa region launched their [first tender for energy service contracts](#) for the modernization of two public buildings – a secondary school and institution for education of handicapped children. Prior to the launch, the district authorities conducted an energy audit and determined baseline energy consumption. Subsequently, during the third quarter of 2016, around 20 ESCO tenders were launched across Ukraine.

On July 19, the SAEE hosted an [expert discussion on reforming Ukraine's heat supply](#) and the conditions required to create a competitive market in this area. Ukraine considers the Lithuanian experience to be the most valuable in terms of developing a national heat market. One of the main goals is to provide incentives for heat produced from alternative/renewable energy sources to make competition with traditional suppliers effective. The second goal is to develop a code of

conduct for network operators of the heat and water supply in order to ensure equal access rights for all interested parties, based on open data for free capacities and standard contracts.

In the third quarter of 2016 the [SAEE continued to collaborate with local authorities and through memorandum of understanding supported the introduction of 178 local energy efficiency programs](#) for the remuneration of thermomodernization loans taken out by private consumers and multi-apartment house associations. On September 1, 2016 the SAEE launched an [interactive map of local authority programs](#) to facilitate the Warm loans program through additional interest rate payments.

On September 14–15, 2016 the SAEE had its [first meeting of the Technical consulting group and Intergovernmental group on developing legislation for the eco-design of transformers, electric engines and industrial ventilators](#). The drafting of the relevant Ukrainian legislation is being supported by the European Bank for Reconstruction and Development and FINTECC program to help with the implementation of framework Directive 2009/125/EU and the technical regulations for each product type (industrial ventilators, water pumps, power transformers, electric engines, lamps and circulating pumps).

On [September 18-23, 2016 representatives from the SAEE, Ukraine's Ministry for Regional Development, Building and Housing, Ministry of Economic Development and Trade and Ministry of Energy and Coal Industry visited the Slovak Republic](#) with the aim of enhancing knowledge and skills to improve energy efficiency in buildings and the use of local energy resources for the supply of heat and electricity.

[Demand for Warm Loans from private households and condominiums](#)



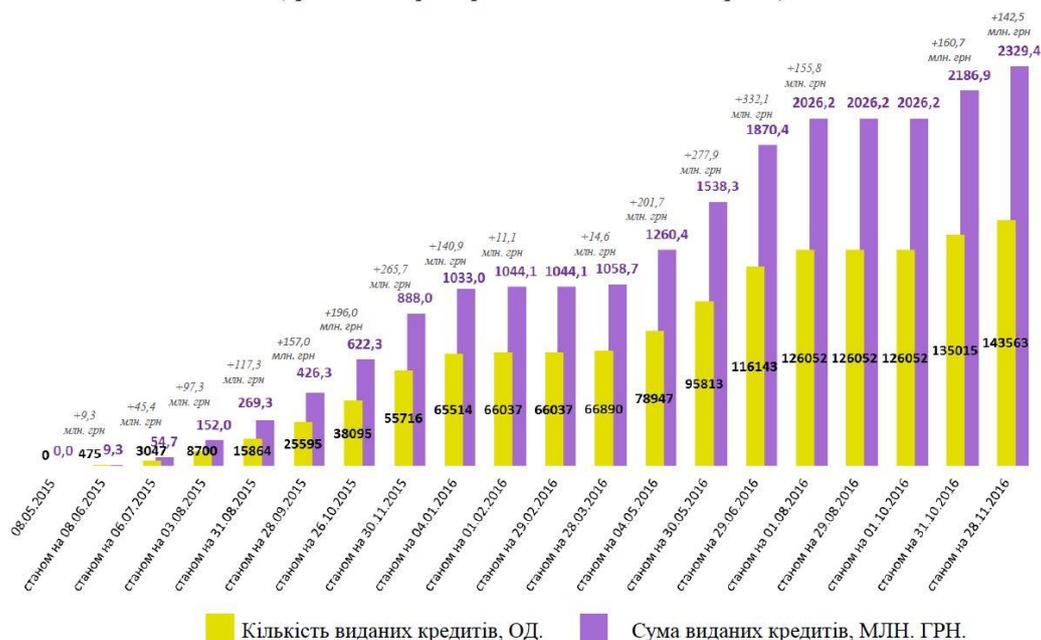
Financial aspects

The following GRAPH shows changes in demand from ordinary consumers and condominiums for state support programs (for the exchange of gas boilers and the purchase of energy efficient equipment/materials)



ДЕРЖЕНЕРГОЕФЕКТИВНОСТІ

Попит на державну підтримку з боку населення* (придбання енергозберігаючого обладнання/матеріалів)



* За даними уповноважених банків

Bank statistics on the number and value of loans in millions of UAH

SAEE representatives together with colleagues from Ministry of Energy and Coal Industry, Ministry of Economic Development and Trade, Ministry of Regional Development participated at the [study tour to Slovakia](#), where they were made acquainted with specific experience in spheres of thermal modernization, insulation, utilization of local energy resources etc.