

October 2, 2015

**Approval by mail: Ukraine: District Heating Modernization Project (Revised Document) (EBRD) (CTF) –
Comments from Germany**

Dear Mafalda und EBRD-Team,

Thank you for submitting the revised proposal. We understand that EBRD intends to substantially amend the project to include an ESCO-type of approach for the implementation of EE in public school buildings. That given and the fact that 2/3 of the funds will now be allocated for energy-efficiency should, on my opinion, have resulted in a more detailed project proposal.

Generally speaking, we support EE in school buildings of course. Before agreeing on the way ahead, allow us to seek clarification on a number of issues:

1. General macroeconomic environment and institutional reforms

In the past, the lack of institutional reform and specifically the absence of cost-covering tariffs was a serious issue in the Ukrainian power sector. Could you provide an update on progress made with respect to the reform progress and in particular the planned tariff increases?

2. Consistency with CTF investment criteria

Is the revised project consistent with CTF investment criteria? Especially, pls. provide information on the proposed risk mitigation measures, the cost effectiveness and the energy savings to be expected.

3. District heating program

It seems that now only 1/3 of the funds will be used for the district heating program. Can you please explain why a substantial part of the DH program doesn't seem to materialize?

4. ESCO

Do we understand correctly that now 2/3 of the loan should go to an ESCO for EE in school buildings? - Is the ESCO a public or private sector company? If so, pls provide further information on this ESCO and how it was selected?

5. EE in public schools

Can you pls. provide more information on the measures planned to make public schools more energy-efficient?

What technologies will be applied?

How are the schools being selected (pls. provide more details on the specific selection criteria)?

Does the project also cover structural measures or only energy efficiency measures?

What would be the payback period for the envisioned measures?

6. Pricing of the CTF contribution

Under the assumptions the ESCO is a private sector company – how would that impact the pricing on the loans you intend to provide?

7. Replication potential

Could you please line out in more detail how you assess the replication potential for other school building beyond the current projects?

To what extend will subsidized funding be required to rehabilitate additional school buildings?

We look forward to hearing from you.

Best regards

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