Comments from the TFC Member from the United States regarding the Ukraine investment plan

General

- We wanted to again highlight the thoughtful contribution of the TFC Observer from WRI and note that her comments can be found posted here: http://siteresources.worldbank.org/INTCC/Resources/review_ctf_fund_investment_plans_cpr1_october2009.pdf

- The plan fails to discuss energy subsidies in a meaningful way. Such analysis would be extremely helpful for planners while considering the sustainability of potential projects and sectors for CTF support, as well as for providing context during TFC discussions.

- While the plan mentions myriad government agencies and institutions that affect the energy sector, the links between them are not well elaborated, and their respective roles and capacities receive limited consideration. It may be helpful to describe these. In particular, there is limited discussion of the systems for energy planning in the Ukraine. There is a brief mention of an EBRD technical assistance to the electricity regulator to support implementation of renewable energy legislation, but it plan could provide much more information on the challenges and opportunities here. Given the discussion of a program to implement the wholesale electricity market in Ukraine as a complement to the proposed CTF programs, the role of the regulator in overseeing this market and promoting sustainability in this context seems key.

- Although corruption in the energy sector is recognized as a major risk, there is no discussion of transparency or public accountability mechanisms to try and balance these risks. In general, there is no discussion of the role of consumers or citizen stakeholders in program design and implementation. It is not clear which, if any, stakeholders have been engaged in the plan development to date.

Gas Network Rehabilitation

- We feel that this project is not appropriate for CTF finance because it is not designed, "to speed up or deepen market penetration of a low carbon technology relative to business as usual... [wherein] strong market transformation will result in economies of scale, enhanced competition and private sector participation, and eventually savings in the unit abatement costs." This project represents a one-time improvement--likely executed in two or three iterations--for which adequate incentives for infrastructure maintenance exist.

- In addition, the plan does not adequately address the question of financial additionality. First, it seems that the energy efficiency components of the proposal would enhance the viability and profitability of the Gas Network upgrades such that the MDB funding would be sufficient. Second. The plan does not attempt to present any premise for needing *concessional* financing.

- Finally, CTF funds for this project could result in the opposite of the intended effect occurring. Rather than affecting future investor behavior in a manner that would catalyze replication, this project would likely crowd-out other sources of viable funding and signal that such endeavourers should only be undertaken when internationally subsidized.

<u>CCGT Cogeneration Project</u>

- We feel that despite significant *potential* scope for avoided emissions in this sector, the case for transformation has not been presented. The plan would need to describe the project as part of, "a strategic effort to stimulate lasting changes in the structure or function of a sub-sector, sector or market. Such transformation should speed up or deepen market penetration of a low carbon technology relative to business as usual. Strong market transformation will result in economies of scale, enhanced competition and private sector participation, and eventually savings in the unit abatement costs." Neither the "signal effect" alluded to in paragraph 51, nor the description on page 63 sufficiently makes this case. The plan mentions the hope that 5 similar plants would be installed by 2020 but does not provide rationale for that estimate and struggles to tie that view to project being proposed.

- Closely related to this, the plan fails to describe the public policies that are in place to support the uptake of this technology in this sector, both in terms of proposed project and subsequent projects. There is no description of the manner in which the enabling environment would be conducive to subsequent, unsubsidized investments.

- As above, we feel that the plan do not adequately address the question of financial additionality. It does not offer a credible premise for why concessional finance--in the amount requested-- is required. The plan would benefit from a better articulation of the rationale then the single sentence found on page 63. Based on the use of CCGT that in the broader region, it appears that CTF financing would not be required as these have been internationally demonstrated to be commercial viable.

- Perhaps, the Ukraine would benefit from a more deliberate and comprehensive approach at this time. For example, a Cogeneration efficiency Study such as is being considered for CTF funding elsewhere could potentially be of tremendous benefit and broader utility.

- Finally, it appears that too little attention has been given to addressing the efficiency gains required by the CTF investments criteria. For example, the criteria state that in order for a natural gas plant to qualify for CTF financing, it must emit *at least* 50% less emissions than a coal fired power plant in the same context and less than 0.398 tC02/MWh (net), whereas the proposed facility would have an efficiency of "around 0.4 tons". The plan does not demonstrate that this requirement will be met. The proposal would benefit from a more technical and concrete discussion of this criteria.

<u>Smartgrid</u>

- This aspect of the proposal seems premature--especially given the nascent state of renewables in Ukraine. Perhaps this component would benefit if the choice of the program to be proposed was more closely derived from an analysis of the barriers that exist to grid improvement and the reduction of efficiency losses during transmission.