

4/17/2014

## Comments from the United Kingdom-- Approval by Mail: CTF Ukraine: District Heating Modernisation (EBRD)

Dear Patricia,

The UK has a number of queries we would like to raise with the project team related to the above project.

- How does the project fit with the IBRD's DH project? Will the EBRD use evidence from the IBRD's project to inform policy discussions on tariff reform with GoU? Moreover, EBRD has a DH project in Kazakhstan co-financed by the CTF. Have any lessons been learned from that project, if so, how has it influenced the development of this project?
- Will CTF finance support the installation of gas-fired power/heat generating technology?
- What is the status of the regulatory reform roll out? The project document is a little out of date and states that this is going to happen in 2013.
- On the **affordability concerns** for the lower income deciles. Has the EBRD discussed the political implications of this issue with the GoU? Does this cause a reputational risk for the project?
- Please could you provide some information on the evaluation activities that will be supported with grant available for advisory services, evaluation and knowledge management activities?
- If the sponsor is a public entity, why is this CTF project not treated as a public sector project (rather than a private sector project as set out in the CTF cover page)? There doesn't appear to be any private leverage associated with the project.
- The proposal does not provide details on how the CO2 reductions of 350,000tCO2/yr were calculated. Could EBRD clarify the calculations including project boundaries, baselines, lifetime of technology or investment, energy savings, type of GHGs included, and emissions conversion factors?
- We would like to see some more detail related to how the project meets the CTF investment criteria.
- Regarding the emission conversion factor: The estimated magnitude of energy savings of 350 GWh/yr equivalent suggests that EBRD relied on an emission conversion factor of 1t of CO2/MWh, the current operating margin emission factor in Ukraine based on the coal-fired marginal technology. For energy savings related to decreased electricity use the counterfactual of coal-based base-load electricity generation seems appropriate. However, the conversion of energy savings from improved efficiency of heat generation, decreased network losses and decreased residential heat consumption should be based on avoided gas-based heat generation instead.

- The evaluation of the political risks seems inadequate in terms of the current dynamics in Ukraine. Many of the projects are based in eastern Ukraine, where there is much uncertainty. We would like to see a more up-to-date assessment of the political risks.

We would be grateful if you could pass these onto the project team.

Kind regards

Simon

**Simon Ratcliffe** | Energy Advisor | Department for International Development |  
22 Whitehall, London, SW1A 2EG | Tel: 020 7023 1626 | Email: [S-Ratcliffe@dfid.gov.uk](mailto:S-Ratcliffe@dfid.gov.uk)

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