INTEGRATED SAFEGUARDS DATA SHEET  
CONCEPT STAGE

Date ISDS  
Prepared/Updated:  
09/17/2013

I. BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country:</th>
<th>Ukraine</th>
<th>Project ID:</th>
<th>P147651</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Name:</td>
<td>Assistance to the National Commission for Regulation of Communal Services: District Heating Regulatory Reform Support Program</td>
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<tr>
<td>Task Team Leader:</td>
<td>Yadviga Semikolenova</td>
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<tr>
<td>Estimated Appraisal Date:</td>
<td>October 2013</td>
<td></td>
<td></td>
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<tr>
<td>Managing Unit:</td>
<td>ECSSD</td>
<td></td>
<td></td>
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<tr>
<td>Sector:</td>
<td>Energy</td>
<td></td>
<td></td>
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<tr>
<td>Theme:</td>
<td>Energy efficiency, district heating</td>
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</table>

Borrower SIDA Trust Fund | Amount EURO 1,638,600 |
Total | EURO 1,638,600

Environmental Category | C |
Is this a Repeater project? | No |

B. Project Objectives

The objective of the activity is to assist the Ukrainian Utilities Regulator with transitioning from “cost plus” to “incentive-based” district heating regulation.

C. Project Description

The proposed activity would be implemented over two years, through a recipient-executed trust fund, financed by the Swedish International Development Cooperation Agency (SIDA), to the Government of Ukraine, in the total amount of EURO 1,638,600. The implementing agency of the activity will be the National Commission for Regulation of Communal Services (Utilities Regulator).

The activity will provide support to the Utilities Regulator in:

a. developing transitional methodologies, regulatory accounting forms and auditing principles in order to improve its capacity for setting cost recovery tariffs, issuing licenses and controlling the licensees and promote a regulatory regime enabling long
term efficiency;
b. broadening reform of the district heating utilities with the ultimate goal of turning them from a social service into companies that seek to cover costs, generate a profit, and focus and deliver cost effective services;
c. introducing a sector-wide benchmarking exercise based on a standardized performance reporting template and possibly more advanced statistical methods of benchmarking that will enable Regulator to assess district heating utilities' performance over time and incentivize them to improve their performance; and
d. applying the new district heating tariff methodologies in pilot municipalities.

The proposed activity will consist of the following components (costs are net of the Central and Managing Unit fees):

**Component 1:** Support with development of secondary legislation documents covering transformation of the communal services sector to long-term (3-5 years) full operating and investment cost-recovery tariffs, with creation of incentives for reduction of operation expenses. This component will:

- update of existing heat tariff methodology;
- review of existing tariff setting practices;
- support in applying recommended transitional methodology;
- update of existing methodology for hot water tariff calculation;
- update of regulatory accounting and reporting forms;
- introduce new procedures and regulations;
- introduce guidelines for regulatory auditors;
- develop draft standard heat and hot water supply public contracts;
- deploy cost-reflective tariff setting methodology; and
- provide training that will assisting the Utilities Regulator with the application of the new methodology, regulations and procedure to pilot district heating companies. The companies will be agreed with the Utilities Regulator, the Bank and other IFIs. The Bank is currently conducting an impact assessment of district heating tariffs increases on Ukrainian households; the pilot municipalities will be selected taking into account the results of the impact assessment in order to mitigate the potential negative social impact on the most vulnerable households. Organizing trainings and workshops for the Utilities Regulator and the selected licensee companies covering the practical use of the developed methodological recommendations.

**Component 2:** Introduction of a sector-wide benchmarking exercise. Benchmarking is a useful way of measuring performance in order to identify companies that demonstrate better performance most likely as a result of better management and organization. Benefits of benchmarking include an understanding of how to achieve an improved performance and how to show it to other companies in a mature way. The benchmarking results can be used not only for the comparative analysis of efficiency of different companies but as a replacement of the existing system of norms used in tariff setting.

**Component 3:** Capacity building of the Utilities Regulator. This component will finance an expert working full time in Kyiv and inside the Utilities Regulator. The expert will provide in-house training for the Utilities Regulator staff on every item of the Component 1 and 2 and also organize wider
trainings for licensees on the application, accounting, and reporting under the new methodologies, regulation and procedures. This consists of the training of the concrete responsible persons who are carrying a certain specific function at the Utilities Regulator with hands-on consultation and answering ad-hoc questions. In addition, the expert will provide seminars and workshops for the broader audience. In some cases representatives of the licensed companies should be invited to take part at such seminars and workshops.

**Component 4**: Miscellaneous regulation tools. This component will finance process tools, including tailor-made software, that are necessary for the implementation of the Component 1 and 2 above.

**Component 5**: Project implementation assistance and annual audit.

The implementation of the proposed activity will be supervised by the Bank team. There also will be Steering committee including the Utilities Regulator, the Bank, other IFIs that are implementing investment projects in the sector (EBRD and EIB) and USAID, that has been supporting the Utilities Regulator over the past several years thought its Municipal Heating Reform project (closed in 2013) and is planning to continue its support through its energy project (expected to start in October 2013). Other interested parties can participate in the Steering committee meetings and will be invited as necessary. Steering committee meetings will be held quarterly.

**D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

The project will be located in Kiev.

**E. Borrowers Institutional Capacity for Safeguard Policies**

**F. Environmental and Social Safeguards Specialists on the Team**

Dmytro Glazkov, Operations Officer

**II. SAFEGUARD POLICIES THAT MIGHT APPLY**

<table>
<thead>
<tr>
<th>Safeguard Policies</th>
<th>Triggered ?</th>
<th>Explanation (Optional)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td>N</td>
<td>The purpose of the activity is supporting development of the new regulatory methodologies and tools and to pilot those in selected municipalities. In order to mitigate potential negative social impact on the most vulnerable households in the selected pilot municipalities, they will be selected taking into account the results of the district heating tariff impact assessment currently under preparation by the Bank.</td>
</tr>
<tr>
<td>Natural Habitats OP/BP 4.04</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Forests OP/BP 4.36</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Pest Management OP 4.09</td>
<td>N</td>
<td></td>
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<tr>
<td>Physical Cultural Resources OP/BP</td>
<td>N</td>
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III. SAFEGUARD PREPARATION PLAN

A. Tentative target date for preparing the PAD Stage ISDS:

B. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the PAD-stage ISDS.

IV. APPROVALS

<table>
<thead>
<tr>
<th>Task Team Leader:</th>
<th>Name: Yadviga Semikolenova</th>
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<tbody>
<tr>
<td>Approved By:</td>
<td></td>
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<tr>
<td>Acting Regional Safeguards Coordinator:</td>
<td>Name: John Butler</td>
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<tr>
<td>Sector Manager:</td>
<td>Name: Ranjit Lamech</td>
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</tbody>
</table>

Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.