

Policy Note 2019.7 – Review of the Energy Strategy: Lessons learnt from implementation

Development and adoption

History of the process and lessons learnt

POLITICAL and expert coordination. In 2016, a Steering Committee for coordinating the development of the updated Energy Strategy of Ukraine (ESU) was created first under the Energy Minister (4 persons). Two months later, it was expanded (6 persons) with the Vice Prime Minister as chair. It was not meeting regularly, delegating the role of developing proposals and recommendations to the Expert Council, which consisted of representatives from civil society and IFIs/donors. The draft ESU was developed by the National Institute for Strategic Studies and the Razumkov Centre, discussed at the Expert Council meetings and publicly with stakeholders in order to include relevant proposals.

Wide stakeholder discussions, but last-minute amendments for vested interests led to a low level of trust into the policy documents from internal stakeholders, investors, IFIs and other partners.

No thorough modelling and forecasting. The best global practice of energy policy-making is the development of policy documents that consider the results of comprehensive modelling and impact assessments. Such modelling exercises provide policy-makers with an understanding of a range of possible scenarios within the documents projection horizon and gives them an idea of projected economic, environmental and social outcomes as well as required technologies, investments and other resources. Otherwise, the defined targets, corresponding policies and measures of the action plan could be inconsistent, unachievable and even contradictory – which has been the case for the ESU and its action plan until 2020. With the ESU adopted in 2017, actual modelling exercises were held only in 2019.

The ESU structure is complicated and dominated by sectoral logic. The ESU action plan has 186 different measures and 206 indicators for successful implementation distributed among

several categories and subcategories without a clear hierarchy and structuring. Most categories are sector-related instead of being priority-based – an out-of-date approach that very much complicates linking different groups of measures of the action plan to key priorities and key targets of the ESU.

Recommendations

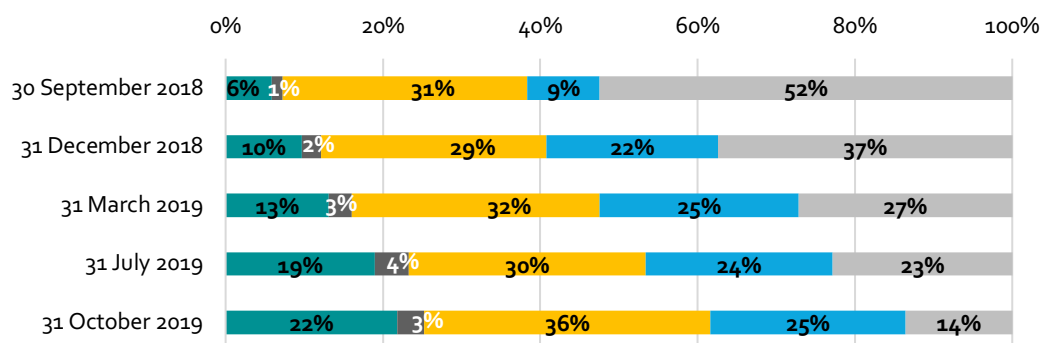
Ensure high-level leadership and organise process. Since the implementation of the ESU can have a considerable impact on the national economy, as well as the environmental and social sphere, the CoM should lead the ESU and action plan development process by setting up a steering committee and strategic working group under the Prime Minister's Office. Also, wide stakeholder discussion and independent reviews from external stakeholders should be ensured to avoid contradictory provisions.

Run modelling exercise first. A scenario-based economic modelling ("business as usual" vs. ESU policy scenarios) of the ESU' impacts should give policy-makers a comprehensive idea of potential long-term economic outcomes.

Improve structuring. A functional, priority-based approach should be applied for structuring the ESU and the action plan. The compatibility of these policy documents with the Energy Union dimensions will ensure a better external understanding and support. The hierarchic composition of the documents implies defining 3-4 main objectives/priorities, which should be further broken down into targets corresponding to each priority, appropriate policies and measures contributing to the achievement of defined targets and objectives.

Ensure the consistency of policy documents. A strong cohesion of the ESU, its action plan and other core policy documents should be ensured, especially with the National Energy and Climate Plan (NECP). The emerging crucial point is a clear understanding of the NECP role and place in the hierarchy of policy documents, since the NECP could even replace the ESU action plan.

Overall implementation progress



■ Completed - serves purpose ■ Completed - does not serve purpose ■ In political process ■ Overdue ■ Scheduled for later

Streamline adoption. Consider options to make the CoM decision-making process faster, ensuring all controversial issues are discussed and settled at the Steering Committee meetings, and thus agreement protocols are clean. Another idea to be considered is the ESU adoption as a law, such as the Law on Fundamental Principles (Strategy) of Environmental Policy of Ukraine by 2030.

Implementation

The first quarterly monitoring – and baseline assessment – of the ESU action plan implementation was finalised on September 30, 2018. After 13 months, the share of successfully completed measures as defined by the relevant indicators increased from 6% to 22%. Although this means certain progress has been made, a full implementation until 2020 seems unlikely. Nearly one-third of the action plan measures constantly remain in political process. At the same time, the share of overdue measures increased from 9% to 25%. Notably, 3% of the action plan measures were completed, but due to different reasons do not serve their purposes.

The most considerable progress has been made in the “New electricity market design” category due to highly consolidated efforts of public authorities and the strong support of international partners and IFIs. At the same time, approx. 14% of the implemented measures do not comply with the intended purposes as their implementation was much accelerated and thus accompanied with mistakes and market distortions. Also, comparatively notable progress was made in the “Natural gas” (31%) and “Renewables & Energy Efficiency” (21%) sectors. Still, this progress will be insufficient for successful timely implementation until 2020. Least progress has been made in the “Electricity Generation & Infrastructure” (11%), “Environmental protection” (13%) and “Fossil fuel & Nuclear” (3%) sectors.

History of the process and lessons learnt

The action plan was developed with delay, mostly with a purpose of collecting data from implementing governmental agencies rather than assigning tasks.

Tasks with passed deadlines were (mostly) not enforced. The CoM and the MEEP did not pay increased attention to the implementation of overdue measures and did not initiate appropriate amendments.

Many measures were formulated vaguely with no clear indicators and deadlines to be reached, e.g.: “Involvement of

international assistance to mitigate the social and environmental consequences of the elimination of coal mines and the social rehabilitation of mine closure regions” (not specific, not achievable in the first ESU stage);

“Appointment of members of the supervisory boards, including representatives of the state and independent members, based on the results of the competitive selection” (not specific, not time-bound);

“Ensuring the conclusion of agreements for the lease of gas distribution systems or their constituents with operators” (not relevant, i.e. not result-based but focused on process);

“Improving the efficiency of the operation of electricity distribution networks by transferring to a higher voltage class; introduction of technical (technological) measures of reactive power compensation” (not measurable, not time-bound); etc.

Sectoral plans and strategies are not aligned with the ESU, often being developed autonomously by different authorities or institutions. Thus, several of these documents are confusing, overlapping, not consistent enough, which much complicates their efficient implementation, overall policy-making and governance.

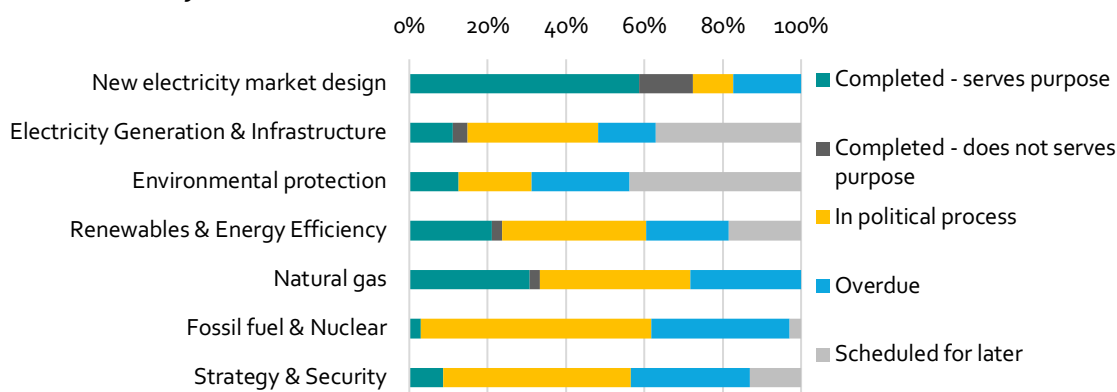
Recommendations

Structure the implementing actions. For the purpose of enforcing the ESU, the CoM should develop comprehensive mid-term (3-5 years) action plans for each sector, preferably by the same strategic working group set up for ESU development. An example of such a document agreed with IFIs and stakeholders is the Gas Sector Reform Implementation Plan adopted in 2015, which – at least until 2017 – was quite effective. This would also imply invalidating any existing policy documents (plans/concepts/programmes) which overlap or duplicate the comprehensive plan. Cross-sectoral plans related to infrastructure development, management issues, energy security are also possible.

Introduce SMART criteria. All measures of the ESU action plan should be sufficiently specific, measurable, achievable, relevant and time-bounded to facilitate monitoring of the implementation and ensure timely interventions and adjustments.

Include regular high-level discussions on the progress and annual revisions (at least, in terms of deadlines) by the Steering Committee and the strategic working group.

Current implementation status by sectors



Monitoring and reporting

History of the process and lessons learnt

Formal and uninformative monitoring mechanism. The benchmarks listed by the ESU include 23 general indicators on energy efficiency, security, reliability, environment, losses (Annex 1), and structures of TPES and electricity generation (Annex 2). The ministry has issued one report on ESU implementation in 2018, focusing mainly on the ministry's activities. Their assessment of benchmarks is based on 2017 data and presented in one of the annexes, as the main part of the report is textual information based on documents developed and actions completed rather than achievement of ESU goals. There are also internal reports on implementing the ESU action plan, which were created by the ministry but were not disclosed.

The status of certain tasks was not (regularly) reported. The ESU benchmarks can be tracked and reported on an annual basis, with no specific statistics available for semi-annual or quarterly monitoring. Based on the experience of our monitoring, certain tasks or even sectors lack updates or any public information on their implementation status. Among those were actions related to the management of gas distribution networks, nuclear industry strategy, issues of waste management in extractive industries, co-generation support, reform of coal SOEs, and development of educational programmes.

The ESU revision decision was not based on a review. The decision announced by the new government to revise the ESU was a political one, it was not based on a review of the actual implementation of the current strategy, significant changes in strategic goals (e.g. faster decarbonisation) or shifts in priorities. This is evidenced by the fact that the new energy policy is still being formed following the adoption of the CoM Programme.

Recommendations

Introduce a more flexible ESU benchmarking framework. The annual reporting for key performance indicators (like balances, energy intensity etc.) should be maintained, but rather as a checklist to track the projected reference scenario. For the purpose of regular monitoring, a more frequent quarterly reporting should be introduced. A framework of indicators being developed by the OECD (to be presented in early 2020) may become a tool for such monitoring.

Improve the structure of performance monitoring. Introduce a third-generation balanced scorecard approach for each of the ESU overarching goals (alternatively – for each of the sectoral action plans) to track specific tasks assigned to responsible authorities, 'customers' perspective, as well as operational issues (coordination, learning).

Create necessary institutional capacity and mechanisms. At least one permanent position should be created at the MEEP and the Steering Committee should meet for regular (quarterly) high-level discussions on the progress and decide on updates to both the action plans and the ESU.