



TOWARDS A NATIONAL STRATEGY FOR DISTRICT HEATING

FIC recommendations

Preamble

District heating (DH) represents a significant part of the energy sector in Romania and in the European Union. At the European level, DH provides 9% of the EU's heating and in several countries from North and Eastern Europe the technology is widely spread.

While it has been neglected until now within the European energy policy, the district heating sector has lately gained significant attention at EU level with significant emphasis regarding the sector in the “Clean Energy for all Europeans” package published by the Commission on 30 November last year. This paradigm shift will not only influence the sector’s shape within the Member States but it is also an opportunity for the Romanian authorities to seize the momentum and to adopt a comprehensive approach in order to rethink the district heating field by taking into account the specificities of this sector in Romania.

The Foreign Investors Council (FIC) has always advocated for reforms that would have a significant impact on the Romanian economy at large and on the welfare of citizens and consumers. In the context of increased EU focus on district heating FIC would like to point out that in Romania, this sector has reached a critical point where it is barely functional and in some major cities it is constantly on the verge of systemic collapse:

1. The sector has been often neglected in terms of policy development
2. Low support for investments has led to chronic under-financing of the system
3. Regulatory framework and support mechanisms have been badly designed
4. Poorly designed subsidy schemes to final consumers; the main purpose of subsidies should be to support vulnerable consumers
5. Subsidies which are not always paid on time and unrecognized losses on heat networks have led to massive arrears which destroy the cash-flow of operating companies along the value chain.

A change is needed to the Romanian public policy towards district heating

FIC supports the drafting of a new National Strategy for District Heating whose purpose should be to lay down the foundations of a transparent, coherent and predictable regulatory framework. The strategy should tackle long lasting issues:

- (1) half of the Romanian population does not have access to any modern heating solution (e.g. the wood biomass consumption has increased by about 25% between 2000-2011);



- (2) decentralization of district heating ownership in the context of scarce resources at municipal level led to chronic lack of investments in modernization or in greenfield assets (e.g. heat transmission and distribution networks losses are of 30% due to obsolete assets);
- (3) support scheme mechanism lacked efficiency until now (e.g. the cogeneration bonus led to the construction of less than 200 MW greenfield units in 3 years);
- (4) comprehensive approach of the whole chain was missing – e.g. the rehabilitation of buildings referred only to the thermal rehabilitation, not including the internal installations, buildings were rehabilitated at random

The district heating strategy should be fully embedded in the European and Romanian energy policy framework, including the Romanian Energy Strategy in order to ensure coherence and predictability for the investors. At national level, the strategy should clarify the institutional structure in charge with the decision-making process and the implementation of the heating policy, while at the local level, the municipal authorities should issue medium to long term strategies about maintaining/rehabilitating/re-engineering/developing the district heating systems.

1. The strategy should present a credible plan to identify the investment needs as well as to propose optimal solutions and financing sources in order to upgrade the existing district heating systems (on the whole chain – from end clients, heating networks to production units) and to offer a long-term vision regarding the centralized district heating role.
2. The strategy should aim at ensuring technological neutrality of public policy in the heat markets, stimulating the solutions which are efficient from a technological and economic point of view. This does not mean that the use of renewable energy sources should not be stimulated in the heat sector, but economic efficiency and reasonability should prevail. District heating can have as energy source multiple inputs; therefore, any incentive scheme should be designed in such a way that it recognizes the cost of each input based on technology (conventional, renewable), and fuel (not limited to fossil fuels).
3. The strategy should review the subsidies mechanism to avoid wasting resources and to gradually switch to a sustainable system. Subsidies should be limited to vulnerable consumers thus enabling the authorities to tackle the energy poverty issue.
4. Different financing mechanisms should be identified and made consistent whilst taking into account the nature of the investment projects: e.g. European Funds to modernize/re-engineer the existing district heating networks, promotion of Public-Private Partnerships for greenfield projects or rehabilitation of small networks, review of the tariff regulation for transport and distribution heating networks etc.
5. For old and less efficient plants grandfathering rules should apply until 2023 as provided by current legislation. A new support scheme incentivizing investments in new cogeneration units and new technologies should be designed.



6. The use of renewable energy sources, heat recovery resulting from industrial processes as well as waste to energy projects should be encouraged in district heating networks.
7. The district heating strategy should be aligned with the waste management strategy and incentivize resource efficiency (conventional fuels partial replacement by waste with energy content) in industrial heating and thermal processes.
8. New investments should be designed and implemented only based on an integrated vision, meaning by observing the entire chain, from production units to network refurbishment and buildings insulation.
9. Reduction of heat demand through thermal rehabilitation of buildings should be defined as one of the main axes of the Romanian Energy roadmap. Production of renewable energy in situ, often of electricity, will be welcome but cannot replace or compensate for poor energy efficiency of the building, particularly in terms of heating.
10. The strategy should aim to offer a long-term plan to help non-urban population have access to efficient and modern heating solutions.
11. District heating and cogeneration should be eligible for funding under the Modernisation Fund and Innovation Fund, with an access supervised by the Ministry of Regional Development, who ensures advice and support in accessing financing programs, and monitoring of implementation.

FIC supports the opinion that the development of the district heating system is a strategic option for Romania given the fact that it results from efficient use of primary energy resources. The modernization of the district heating sector needs huge investments in new infrastructure in heat production and distribution, that requires a legal and regulatory framework sufficiently predictable and fair, that is a prerequisite for any investor.

