

**MANAGEMENT RESPONSE TO THE PROJECT PERFORMANCE EVALUATION REPORT
FOR THE ENERGY CONSERVATION PROJECT
(Loan 1492-MON[SF])**

On 26 January 2006, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

A. Overall Assessment

1. Management notes that the PPER considers the overall project partly successful, although the project completion report (PCR) rated it as successful, and suggests the following views.

2. The report is critical of the design of the project as sufficient technical diagnostic work was not carried out, and less than-satisfactory performance of some project facilities. The Operations Evaluation Mission (OEM) also recognizes that this project was conceived as the first of a series of intervention to rehabilitate a district heating system with over 400 km of old pipe network and a 1950 vintage constant-heat design. The project's design, therefore, was driven more by the urgency to restore part of the network with the available funds, rather than a comprehensive design to rectify all problems. As can be seen, changes were also incorporated during project implementation from constant to variable-speed pumps that have higher front-end cost, but lower energy cost for operations.

3. The PPER estimates a negative financial internal rate of return for the project. Comparison with the Report and Recommendation of the President (RRP) and PCR shows that the PPER has not included benefits from electricity loss reduction in the estimates for incremental revenue, which is related to the installation of energy meters. The link between installation of energy meters and reduction of losses is supported in many ADB projects, and the fact that if you cannot measure, you cannot save. The energy meters were installed at the power plant and key points in the distribution network to guide the operators. Unfortunately, the actual impact is difficult to measure because of the aggregate consumer demand and, consequently, the substation energy balance changes for various reasons. Energy specialists are generally required to make a best estimate instead of totally disregarding the benefits from improved and accurate metering.

B. Lessons Learned and Follow-Up Actions

4. Other issues and lessons identified are duly noted and will be considered in the preparation of future ADB projects.